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To: Members of the Executive Board
From: The Secretary
Subject: A Review of the CFA Franc Arrangements

The attached paper is tentatively scheduled for discussion in an Executive Board Seminar on Wednesday, July 25, 1990. Issues for discussion and concluding remarks appear on pages 38-40.

Mr. Aghevli (ext. 7177), Mr. Dhonte (ext. 4540), or Mr. Wickham (ext. 4792) is available to answer technical or factual questions relating to this paper prior to the discussion.

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A Review of the CFA Franc Arrangements

Prepared by the African Department and the Research Department

(In consultation with the Exchange and Trade Relations
and the Fiscal Affairs Departments)

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July 5, 1990

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I. Introduction

The CFA franc zone consists of two regional groupings or blocs, each with its own central bank and each issuing its own currency. ^{1/} For the seven member countries of the West African Monetary Union (WAMU), the central bank is the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), the headquarters of which is in Dakar, Senegal; the common currency of the Union is the "franc de la Communauté Financière Africaine." For the six member countries of the Central African Monetary Area (CAMA), the central bank is the Banque des Etats de l'Afrique Centrale (BEAC), with main offices in Yaounde, Cameroon; the common currency is the "franc de la Coopération Financière en Afrique Centrale." ^{2/} Each currency circulates freely within its own bloc and both are known as the CFA franc. Each currency is fully convertible into French francs under separate but essentially similar monetary agreements with France. The parity of the CFA franc vis-à-vis the French franc has remained unchanged since 1948 at CFAF 50 = F 1.

The economies of the CFA franc zone countries are quite diverse. Four countries--namely, Cameroon, Congo, Côte d'Ivoire, and Gabon--are middle-income, while the other nine are low-income countries eligible for IDA financing and SAF and ESAF resources. Nevertheless, these economies share certain common characteristics: they all are small open economies, highly dependent on the export of a limited number of primary commodities; agriculture is the dominant activity and employs a large share of the population; and the industrial sector is relatively small and underdeveloped (with the exception of Cameroon and Côte d'Ivoire). Côte d'Ivoire in the WAMU and Cameroon in the CAMA each account for approximately half the aggregate GDP of their respective currency areas (Table 1). Thus, both countries bear a major systemic responsibility in the zone.

The participation of the CFA franc zone countries in regional monetary and exchange rate arrangements gives rise to particularly interesting issues for the Fund, in the context of its relations with

^{1/} This paper considers only the member countries of the two regional groupings or blocs in Africa with a CFA franc as their currency. For convenience, those countries are referred to as constituting the CFA franc zone, but the latter is not an officially recognized designation. The Franc Zone, a formal entity, covers a larger group of countries, including those of the CFA franc zone (Appendix I).

^{2/} The WAMU member countries are Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo; the countries served by the BEAC are Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, and Gabon.

Table 1. CFA Franc Zone: Basic Data

Country <u>1/</u>	Region <u>2/</u>	Population, 1988 (Millions)	GDP, 1988		Quota (Millions of SDRs)	Use of Fund resources Apr. 1990 (Percent of quota)
			(Billions of CFAF)	(Percent of total)		
Benin	BCEAO	4.45	525	3.9	31.3	23
Burkina Faso	BCEAO	8.80	582	4.4	31.6	--
Cameroon	BEAC	10.67	3,697	27.7	92.7	92
Central African Republic	BEAC	2.77	331	2.5	30.4	79
Chad	BEAC	5.40	313	2.3	30.6	56
Congo	BEAC	1.89	661	5.0	37.3	19
Cote d'Ivoire	BCEAO	11.61	3,038	22.8	165.5	147
Equatorial Guinea <u>3/</u>	BEAC	0.42	42	0.3	18.4	33
Gabon	BEAC	1.09	983	7.4	73.1	146
Mali <u>4/</u>	BCEAO	8.92	578	4.3	50.8	111
Niger	BCEAO	6.69	694	5.2	33.7	179
Senegal	BCEAO	7.11	1483	11.1	85.1	295
Togo	BCEAO	3.25	406	3.0	38.4	129

Sources: IFS; and data provided by the authorities.

1/ Members of the CFA franc zone since December 26, 1945, except as noted.

2/ BCEAO: Banque Centrale des Etats de l'Afrique de l'Ouest.

BEAC: Banque des Etats de l'Afrique Centrale.

3/ Joined in 1985.

4/ Left in 1962; rejoined in 1984.

its members. 1/ In policy discussions with any given member country of the CFA franc zone, due account must be taken of the monetary and exchange arrangements in place. Membership in a monetary union or currency area that maintains a fixed peg against a foreign currency imposes particular constraints on the conduct of economic policy in all member countries of the currency area. Thus, the member governments of each currency area have a collective interest in, and responsibility for, mutual surveillance and coordination of economic policies and performance. For its part, the Fund, in dialogue with member countries and more generally in the discharge of its surveillance responsibilities, examines periodically how the monetary and exchange arrangements have worked, from both a national and a broader perspective.

The paper discusses the conditions for success of the CFA franc arrangements, that is, policies and measures that make it possible for a large and diverse group of countries to maintain a common fixed peg over an extended period of time and to maintain the convertibility of their currency. 2/ Section II elaborates on these conditions and explains how the design of the CFA franc arrangements fits into such a broad policy framework. It addresses the central role of monetary discipline, including the limitations on the monetary financing of budget deficits, as a condition for sustaining the fixed parity and the convertibility of the currency. While Section II discusses the design of the arrangements, Section III looks at the record of implementation. The main finding is that, while the monetary provisions of the arrangement have, by and large, been enforced, fiscal and other policies have not been sufficiently rigorous in recent years to prevent the emergence of serious external and internal imbalances. In a number of countries, public sector imbalances have been unsustainably large and have resulted in an overhang of external debt and domestic payments arrears. Section IV discusses current policies and reform efforts in the CFA franc countries. Section V presents some conclusions and issues for Executive Board discussion.

II. Analytical and Institutional Background

The core of the CFA franc zone consists of a political commitment to financial stability and to regional solidarity. This commitment is

1/ There are other similar arrangements in place elsewhere. In the eastern Caribbean, several countries use a common currency issued by the Eastern Caribbean Central Bank. The East Caribbean dollar is pegged to the U.S. dollar, but the United States, unlike France in the CFA franc zone, is not a cooperative party to the arrangement. In southern Africa, Lesotho and Swaziland are party to an agreement with South Africa whereby their currencies are issued at a one-for-one parity with the rand. The rand remains legal tender in Lesotho (but not vice versa).

2/ A previous review of the CFA franc arrangements, together with those of other monetary unions, was prepared in 1982 (SM/82/183, August 31, 1982). The present review focuses on developments since 1980.

embodied in participation in common monetary arrangements; its institutional expression is the convertibility of the currency, based on the pooling of external reserves in an "operations account" and on the specific rules of monetary management.

1. The common monetary arrangements

From an analytical perspective, the monetary arrangements of countries in the CFA franc zone can be viewed as a combination of a common currency area (the use of a single currency by several countries), and a "fixed" or pegged exchange rate regime (vis-à-vis the French franc). In terms of the formal agreements with France, these two elements are firmly locked together; nevertheless, some useful insights into the workings of the arrangements can be gleaned through a separate consideration of each element.

a. A common currency

The first major element of the CFA franc zone is that member countries have banded together in two groups and have adopted, in effect, a single domestic currency standard. Rather than being based on such characteristics as strong mutual trade bonds or high intra-regional factor mobility, this element reflects the view that there will be real resource savings from having one common currency serving as the medium of exchange, the unit of account, and a store of value.

One approach to common monetary areas examines whether there are certain characteristics of member countries which influence how they are able to discharge their mutual responsibilities. The literature on optimal currency areas provides some insights in this respect, but the difficulties of finding empirical counterparts and measures of the theoretical concepts advanced greatly hinders their operational application. 1/ Nevertheless, one structural characteristic considered is that countries that do most of their trade with each other are good candidates for a common currency area. This argument has been used, for example, in favor of European monetary integration. To the extent that most trade is intra-area, the impact of external disturbances from outside the area would, other things being equal, be reduced. In addition, removing monetary policy in individual countries as a source of external imbalances within the area should enhance regional stability, and the effect of most relative price shifts between types of traded goods would tend to be internalized within the area.

It has also been suggested that the effects of relative price shifts, which differ between countries in a common currency area, may be easier to adjust to if factors of production, in particular labor, are mobile between countries. 2/ Thus, for example, if a particular country faces a shock to its export prices, external adjustment for the currency

1/ For brief surveys of the literature supportive of this argument, see Niehans (1984) and Genb. g (1989).

2/ See Mundell (1961).

area could be facilitated and nascent unemployment owing to wage rigidities in the affected country avoided if workers could move relatively freely between countries.

Such arguments seem to have limited applicability to the CFA franc countries, however. Despite the CFA franc zone arrangements and the activities of the west and central African trade organizations (CEDEAO, CEAO, and UDEAC), ^{1/} formal trade within the CFA franc zone is relatively minor (Appendix IV, Table II). The small amount of intra-regional trade can be explained in large part by the limited internal market for the kinds of tradable goods in which the countries of the zone have tended to specialize. In particular, the export structure of zone members is heavily oriented toward primary products--such as cocoa, coffee, crude oil, and phosphates--that are sold in world markets and the demand for which emanates predominantly from the industrialized countries. Consequently, the direction of trade tends to be heavily tilted toward the industrialized countries, particularly those in Europe, which both absorb the bulk of exportable production and, given the limited opportunities for efficient import substitution, provide a large percentage of the zone's imported goods.

With respect to regional labor market integration, member countries of the zone have not moved to deliberately encourage labor mobility. Some labor transfers have taken place, notably inflows of workers from Burkina Faso and Mali to Côte d'Ivoire, but in the formal sectors the labor markets may be characterized as segmented, with different employment regulations and practices applying within each country.

It is therefore apparent that the basis for the existence of the zone is the benefit to each member from participating in regional monetary arrangements. The two central banks are supranational organizations that exercise surveillance over economic developments and policies in their member states, and bear a collective responsibility for how effectively the common currency arrangement is managed (a description of their institutional arrangements is given in Appendix II). Each member country has representation on the governing body (the Executive Board of the BEAC and the Council of Ministers of the BCEAO), and the Governor of the Central Bank is appointed by the governing body. France, which is a cooperative party to the arrangements in the zone, is represented on the Boards of the two institutions. The central banks, although not immune to political and other pressures, enjoy a measure of independence that is not present in many other developing countries. Moreover, the fact that monetary policy is conducted at the regional and national levels by the zone's two central banks serves to enhance discipline and credibility, particularly by providing a buffer for resisting pressures for increased monetary financing of fiscal deficits.

^{1/} CEDEAO (or ECOWAS), Communauté Economique des Etats de l'Afrique de l'Ouest; CEAO (or WAEC), Communauté Economique de l'Afrique de l'Ouest; UDEAC, Union Douanière des Etats de l'Afrique Centrale.

To the extent that terms of trade or other real shocks are different in timing or in magnitude between member countries of the WAMU and the CAMA, members of each bloc will reap benefits from the pooling of reserves. However, a potential weakness of the regional arrangements is that delays may arise in agreeing to and implementing some of the necessary policy adjustments. Furthermore, if member countries are subjected to different real shocks, the requirements for adjustment would vary considerably between countries. There is a danger that such differences in the required adjustment may cause strains and lack of cohesiveness within the common currency area. Thus, if a particular country faces a large burden of adjustment, it could face chronic underemployment and retarded growth if prices and wages are inflexible downward (given that the exchange rate is fixed for the group).

b. A pegged exchange rate regime

While the two groups within the zone use a different currency, both currencies are fully convertible into French francs at the same parity. Thus, the two groups of countries adhere to a common external monetary standard. One of the principal benefits of a fixed exchange rate regime for small open economies is that it provides a convenient nominal anchor around which a consistent set of macroeconomic policies can be formulated. The decision to maintain the fixed rate requires that strong discipline be exercised by the monetary and fiscal authorities. If such discipline is instilled, then the credibility of the policymakers with other agents in the economy will be enhanced. If the major currency center--France--manages to establish financial stability, the CFA franc zone members will succeed in importing the center's prudent monetary policy and low inflation rate. As long as the implicit rules of the system are followed, then members of the CFA franc zone should benefit by gaining price and, more generally, macroeconomic stability. The common external anchor inherently imparts stability to the exchange arrangements over time, as there must be a great reluctance to adjust the peg to deal with changing circumstances affecting any one single member.

The maintenance of a pegged exchange rate that is unchanged over time requires that the authorities of the pegging countries place certain constraints on the conduct of their macroeconomic policies. In particular, demand management policies must be such as to keep the net foreign assets position of the banking system at a sustainable level and ensure that domestic rates of inflation are aligned, on a secular basis, with that of the external standard. Attaining these objectives requires the application of a consistent monetary and fiscal policy mix, with monetary policy in particular maintaining control over credit extended to the countries in the regions served by each central bank. In this setting, expansionary financial policies and the consequent excess demand would result in a deterioration in the banking system's net foreign assets position and a loss of external competitiveness owing to upward pressure on domestic prices and costs.

Consequently, a pegged exchange rate regime places distinct limitations on the conduct of monetary policy, and in particular on the expansion of net domestic credit. Over the long term, keeping the net foreign assets position at a sustainable level means that net domestic credit must expand at a rate comparable to the growth in the demand for money. To the extent that credit to government is a major component of net domestic credit, the limit on credit expansion constrains the conduct of fiscal policy by placing a ceiling on the seigniorage revenue available to the fiscal authorities.

In the event of a real shock, such as an adverse movement in the terms of trade, foreign reserves can be drawn down and foreign borrowing can be undertaken to finance the external deficit and to soften the local or regional impact of the shock. If the disturbance is of a transitory or cyclical nature, then the regime can provide sufficient flexibility for efficient stabilization. However, real shocks of a less transient nature cannot be offset or sterilized indefinitely without running into limits on the central bank's net foreign assets position. External adjustment requires restoration of balance between aggregate demand and supply and the alteration of relative price signals to bring about changes in sectoral demand and supply. If exchange rate adjustment is ruled out from assisting in this process, relative price adjustment must, in the absence of productivity gains, be brought about through downward flexibility in nominal prices and wages. If such flexibility is not present, a substantial cost in terms of lost output and unemployment may be incurred. However, the degree of price and cost flexibility required within each country can be influenced by factor mobility between zone members as well as by government policy and regulation.

The "cost" of adhering to a common external standard is that members of the zone give up long-run autonomy over monetary policy--that is, they cannot choose a secular rate of inflation different from that of the currency center. Seigniorage considerations--that is, the yield of the inflation tax on money balances--might be used to argue for retaining monetary independence, but there are substantial costs associated with resorting to the inflation tax. For small developing countries, it is more likely that the potential problems of credibility, preserving discipline, and maintaining control over inflation tilt the argument in favor of surrendering long-run monetary autonomy.

As long as the rules of the system are followed in the zone, no large shifts in external competitiveness should emerge because of inflation differentials. Competitiveness can, of course, change for other reasons, including technological progress and transfer, changes in the quality of inputs, adjustments in taxes, or protracted real shocks. However, the discipline imposed on demand management policies, and particularly on monetary policy, should ensure that changes in real effective exchange rates arising from resort to inflationary finance are avoided.

It should be noted, however, that with relatively open current and capital accounts, discretionary adjustments in a pegged exchange rate are likely to be effective only if they are relatively rare events. Recurrent parity changes tend to undermine the credibility of the peg, generate speculative capital outflows, and endanger the convertibility of the domestic currency. Such considerations reinforce the necessity of disciplined and consistent macroeconomic policies and suggest that, if exchange rate adjustment is to be considered, it should be reserved only for cases in which deep and intransient real shocks hit an economy or a currency area.

An important issue in the design of a common "fixed" exchange rate regime is the choice of the peg currency. It is generally accepted that, apart from the desire to choose an appropriate nominal anchor, the intensity of trade and other relations is an important consideration in addressing this issue. A summary indicator of the CFA franc countries' structure of trade is given by the weights that are used to derive the standard indices of competitiveness for each of the countries (Appendix IV, Table I). 1/

The weight for France as a trade partner varies substantially, ranging from 7 percent in Equatorial Guinea up to 62 percent in the Congo. If, however, the member countries of the European Monetary System (EMS) are viewed together, with Austria added on the grounds that the shilling is quite closely linked to the deutsche mark, then the pattern is more even across countries. For 10 of the 13 countries, the aggregate weight for this group of European countries is 60 percent or higher. For Equatorial Guinea, Spain has a very high weight, 2/ while the indices for Chad and Côte d'Ivoire have relatively large non-European weights but still have augmented EMS weights above 50 percent.

If a single currency peg is chosen, then on the basis of trade and the traditional links with France, the choice of the French franc can be considered appropriate. However, the United States (and countries with currencies linked to the U.S. dollar) and Japan also have not inconsiderable weights in the indicators. To the extent that nominal exchange

1/ These weights are based on 1980-82 data for the direction of trade, but they differ from trade weights in that they also take into account certain aspects of the structure of trade and third-party (indirect) competition in trade. For five countries--Burkina Faso, Chad, Mali, Niger, and Senegal--the indices are based purely on trade weights, reflecting staff judgments regarding the quality of the additional data required for the computation of more sophisticated competitiveness weights. In a few cases, the pattern of weights reflects factors that were unique to the period that they cover. The most notable example is Benin, for which Austria has the largest weight; although Austria traditionally has been an important supplier for Benin, its weight in recent years has been much smaller than that shown in the table.

2/ Equatorial Guinea joined the CFA franc zone only in 1985.

rates between the United States, Japan, and France (along with the EMS) have fluctuated significantly and unpredictably in recent years, then some form of basket peg would have lessened the swings in both the nominal and real effective exchange rates for countries in the zone. The variability in such indicators is one of the costs borne by pegging to the French franc, which must be weighed against the benefits of single currency pegging. For example, with a single currency peg it may be easier for transactors to cover forward or otherwise hedge exchange rate risk on trade or other contracts. With a basket peg, there is generally no actual asset that represents the basket or that can be effectively traded. In addition, a single currency peg has a transparency (and hence credibility) that a basket peg may lack. 1/ Thus, while swings in effective exchange rates caused by third-country currency movements are a source of concern and may well have complicated macro-economic management in zone countries, it does not seem plausible to argue that concerns on this score have been significant enough to warrant a shift from the peg to the French franc to a broader-based basket of major currencies. 2/

2. The convertibility of the CFA franc

An important advantage of the CFA franc zone is that its members, unlike many other developing countries, enjoy the benefits of a convertible currency. Under separate but quite similar monetary agreements with each bloc, France stands ready to support the convertibility of the CFA franc into French francs at the parity of CFAF 50 = F 1.

a. The operations account

The convertibility of the CFA franc is supported by an operations account maintained by each of the zone's two central banks with the French Treasury. Under the agreements with France, at least 65 percent of each central bank's foreign currency reserves are held in this account in French francs. France pays interest on such balances and offers an exchange rate guarantee in SDR terms. At the same time, the French Treasury supports the parity and convertibility of the CFA franc by making available overdraft facilities to the two central banks at a cost linked to the French rediscount rate and subject to the conditions governing the conduct of monetary policy that are embodied in the agreements. Thus, the operations accounts serve as pools for foreign

1/ For a further discussion of the pros and cons of a basket peg versus a single currency peg, see Frenkel (1983) and Wickham (1985).

2/ While broader-based currency baskets can be expected ex ante to reduce the variability of effective exchange rates, the benefits of so doing are difficult to identify and measure empirically.

reserves and overdrafts for the member countries of the two blocs; each country's contribution to the pooled account is monitored. 1/

A central feature of the operations account arrangements is that the overdraft privileges are made available to the central banks of the two blocs, but not directly to the fiscal authorities of member countries. 2/ The accounts should thus be seen principally as the means of facilitating the workings of a common monetary arrangement. In general, the operations accounts can be seen as lending credibility to the maintenance of the parity; and the overdraft privileges allow the two central banks to borrow foreign reserves readily on a temporary or cyclical basis.

b. Rules of monetary management

In the two currency unions, the conduct of monetary policy is geared toward protecting the net foreign assets of the central bank through limits on government bank borrowing and on credit to the private sector. Indeed, as detailed in Appendix II, the arrangements explicitly provide for a policy reaction in the event that pooled external reserves of a bloc fall below 20 percent of the central bank's sight liabilities. In such a case, the bank's governing body must meet to decide on appropriate monetary measures to be taken, including, in particular, changes in the rediscount rate and in rediscount ceilings.

Moreover, a key rule, which is of critical importance to the sustainability of the arrangements, limits monetary financing of the governments. Under this rule, credit made available by the central banks to the fiscal authorities of each member state is limited to a percentage of the member's fiscal receipts (excluding proceeds from foreign borrowing) in the previous complete fiscal year; this limit has been set at 20 percent since 1973.

It should be noted that the limit on government financing applies only to credit to central government, and not to credit to other government bodies such as nonfinancial public enterprises. Moreover, the monetary agreements are much less explicit on how central bank credit other than that to the central government is to be managed. The central banks may exercise discretion, rather than following rules, basing their decisions on such factors as the level and rate of growth of economic activity and price developments in member countries, as well as on movements in the foreign reserves of the bloc.

1/ Although there is only one operations account for each central bank, statistical procedures are used to determine each member's contribution to the central bank's operations account position. These procedures leave a large unallocated and positive residual, notably as a counterpart of the central bank's net worth.

2/ Of course, insofar as the central banks are acting as agents for the member governments, the state treasuries do incur foreign liabilities when the overdraft facilities are utilized.

Under the above procedures, if the reserve position of a central bank comes under pressure, the growth in central bank credit to member countries will be reduced. In part, this reduction would be achieved by the rationing of central bank credit to the nongovernment sectors in member countries through rediscount rate increases and other means. The lack of a domestic market for government paper precludes open market operations. Consequently, rediscount policy is the principal means available to the central banks for influencing the reserve holdings of commercial banks. Another factor that has limited the effectiveness of the available instruments is that crop credit has been excluded from the rediscount ceilings because of its seasonal nature. To supplement the influence of rediscount policy on commercial bank behavior, the arrangements allow the central banks to set credit ceilings for banks and issue credit directives, to exercise control over the interest rate structure, and, in the WAMU, to control transactions in the interbank money market.

The rules and use of rediscounting procedures would appear to be adequate to guard against inflationary growth in central bank credit. More problematic is whether they are sufficiently flexible to effectively influence money and credit aggregates and domestic demand in the shorter term. As a result, the central banks have also relied on direct controls over commercial bank credit and interest rates. However, the effectiveness of direct controls themselves will clearly depend on how strictly they are enforced and on the scope for the private sector to avail itself of the arbitrage and portfolio diversification opportunities made possible by the access to international capital markets. Moreover, the use of direct controls is not without cost and could, over time, lead to disintermediation and to banking inefficiencies.

Given the relative importance of credit to governments in the central banks' operations and the role of government expenditures in determining domestic demand, a major share of the burden for maintaining external balance would have to be carried by fiscal policy. For example, with the growth in government revenue likely to slacken under the impact of an adverse real shock (such as a deterioration in the terms of trade) and with a predetermined limit on central bank credit to each member government, the level and structure of government expenditures and/or tax rates would have to be altered to assist monetary policy in adjusting domestic demand in the required direction. The adjustment must be sufficient to stem reserve losses, directly through the reduction of domestic absorption, and indirectly through changes in relative prices, which serve to improve competitiveness.

While the arrangements limit members' recourse to bank credit, there are no explicit constraints concerning foreign borrowing by the fiscal authorities of zone members. To some extent, the absence of such constraints may have reflected the initial expectation that most foreign assistance would consist of low interest loans and grants from official creditors, and that the limits on central bank credit to member governments would (given the lack of domestic markets for government paper)

operate effectively as a constraint on member countries' conduct of fiscal policy. However, as will be developed more fully below, a number of countries in the zone have had access to international capital markets and have borrowed quite extensively on commercial terms to finance government expenditures. While such access was maintained, fiscal policy was not tightly constrained by the limits on domestic bank financing. With the advent of credit rationing in international capital markets after 1982, foreign borrowing on commercial terms was severely curtailed. However, the debt service obligations incurred by member governments in earlier years were to add considerably to the difficulties of fiscal adjustment and, consequently, to problems with the control of domestic credit.

As to the influence of fiscal policy on aggregate demand, the monetary rules will not constrain general government expenditures when the economy is buoyant (and tax revenues are rising), when the fiscal authorities can borrow abroad, or when credit to the nonfinancial public enterprises (NFPEs) can be substituted for central government transfers. Absent these factors, and in order to avoid domestic and foreign payments arrears, the permissible fiscal stance becomes much more tightly linked to credit available from the central bank. Thus, to engineer a slowdown or decrease in credit (or more generally, in aggregate demand), the central bank must not only rely on monetary instruments--including rediscount ceilings and other credit measures affecting the private sector, as well as limits on financing of the governments--but must also obtain the cooperation of the fiscal authorities in further tightening their fiscal stance.

III. Policy Implementation and Economic Performance

The arrangements designed to maintain the convertibility of the CFA franc and its fixed peg to the French franc have been put to a severe test during the late 1980s, owing to the lagged consequences of overly expansionary fiscal policies and to strongly adverse terms of trade movements. They have passed the test rather well in terms of their immediate purpose, allowing member countries to reap the benefits of continued convertibility and a commendable inflation performance. However, despite the limitations on monetary financing, public sector deficits have not, on the whole, been reduced to sustainable levels. As a result, the zone has achieved limited adjustment--financially and in terms of competitiveness--to the severe terms of trade shock experienced during that period.

1. Exogenous shocks

Four important shocks affected the member countries in the 1980s. These include a substantial deterioration in the terms of trade; a drought affecting the Sahel countries; the sharp rise in international interest rates; and a significant depreciation of the currencies of some

large neighboring countries. The impact of these shocks after 1985 has been cumulative and uneven.

a. Terms of trade deterioration

The concentration of member countries' exports on a few primary commodities (which account for over two thirds of exports in each country) exposed them to large and differentiated terms of trade shocks in the 1980s. The structure of exports of goods for the CFA franc zone in 1983-85 is presented in Table 2. The main differences between the WAMU and the CAMA countries are that cocoa and coffee are much more important for the former group, while petroleum is much more important for the latter group. For Cameroon, the Congo, and Gabon, petroleum is the most important export; no other commodity accounts for as much as 20 percent of exports in those countries. Other major exporters of mineral products include Niger (which derives 80 percent of export revenues from uranium), Togo (43 percent from phosphates), and the Central African Republic (26 percent from diamonds). Côte d'Ivoire and Equatorial Guinea each derive more than 50 percent of revenues from coffee and cocoa, and the Central African Republic also is a major coffee exporter. Cotton is the dominant export in two countries: Burkina Faso and Mali. Chad derives virtually all of its export revenues from two products: livestock and cotton. For Senegal, fish and groundnut oil exports dominate. Wood products are the second-largest export for Equatorial Guinea, accounting for 32 percent of revenues.

Developments in the terms of trade of the CFA franc zone as a whole are shown in Chart 1. There was a notable improvement in the zone's terms of trade over the period 1971-77. Thereafter, there was a period of modest decline until a brief revival occurred in 1984-85. The terms of trade then plummeted by 40 percent in 1986-88 and are now at a level below that prevailing at the start of the 1970s. The zone aggregate can mask great diversity in the experience of individual countries. Over the 1985-88 period, for example, the terms of trade of Chad and Mali changed little, while in Cameroon, Côte d'Ivoire, Congo, Gabon, and Niger, they dropped by approximately 50 percent. ^{1/} This diversity of experience with respect to terms of trade shifts comes primarily from the export price side, as import unit values for each country indicates quite similar movements overall. The developments in prices for selected export products are shown in Chart 2. As export prices for particular commodities diverge, the terms of trade shocks become quite country-specific.

^{1/} The incidence of terms of trade shocks on real income (i.e., real GDP adjusted for the terms of trade) for the CFA franc countries is shown in Appendix IV, Chart I. In Côte d'Ivoire, for example, the drop in real income from 1985-88 was equivalent to 15 percent of real GDP.

Table 2. Structure of Exports by Commodity, 1983-85

(In percent)

	WAMU								CAMA						Total, CPA zone	
	Benin	Burkina Faso	Côte d'Ivoire	Mali	Niger	Senegal	Togo	Total	Cameroon	Central Afr. Rep.	Chad	Congo	Cabon	Equatorial Guinea		Total
Vegetable oils	$\frac{8}{6}$	$\frac{19}{6}$	$\frac{2}{2}$	$\frac{3}{1}$	$\frac{1}{1}$	$\frac{30}{1}$	$\frac{2}{1}$	$\frac{6}{1}$	$\frac{1}{1}$	—	—	—	—	—	—	$\frac{3}{1}$
Palm oil	$\frac{8}{6}$	$\frac{19}{6}$	$\frac{2}{2}$	$\frac{3}{1}$	$\frac{1}{1}$	$\frac{30}{1}$	$\frac{2}{1}$	$\frac{6}{1}$	$\frac{1}{1}$	—	—	—	—	—	—	$\frac{3}{1}$
Groundnuts and oil				1		24	2	2								1
Oil seeds and fruits		17						3								2
Oilcake	2	2		2		6		1								—
Beverages	$\frac{22}{7}$	—	$\frac{54}{24}$	—	—	—	$\frac{20}{7}$	$\frac{38}{17}$	$\frac{24}{11}$	$\frac{31}{31}$	—	—	—	$\frac{59}{5}$	$\frac{9}{4}$	$\frac{22}{10}$
Coffee	$\frac{22}{7}$	—	$\frac{54}{24}$	—	—	—	$\frac{20}{7}$	$\frac{38}{17}$	$\frac{24}{11}$	$\frac{31}{31}$	—	—	—	$\frac{59}{5}$	$\frac{9}{4}$	$\frac{22}{10}$
Cocoa	15		30				13	21	13					54	5	12
Other food products	$\frac{1}{1}$	$\frac{3}{3}$	$\frac{4}{1}$	$\frac{4}{4}$	$\frac{6}{6}$	$\frac{31}{1}$	—	$\frac{8}{1}$	$\frac{1}{1}$	—	$\frac{51}{51}$	$\frac{1}{1}$	—	$\frac{3}{3}$	$\frac{3}{3}$	$\frac{5}{2}$
Live animals	$\frac{1}{1}$	$\frac{3}{3}$	$\frac{4}{1}$	$\frac{4}{4}$	$\frac{6}{6}$	$\frac{31}{1}$	—	$\frac{8}{1}$	$\frac{1}{1}$	—	$\frac{51}{51}$	$\frac{1}{1}$	—	$\frac{3}{3}$	$\frac{3}{3}$	$\frac{5}{2}$
Fish	1		2			31		6						1	—	3
Bananas			1					1	1					2	—	—
Sugar			1					1				1		—	—	—
Agricultural materials	$\frac{17}{17}$	$\frac{49}{41}$	$\frac{16}{3}$	$\frac{65}{62}$	$\frac{1}{1}$	$\frac{4}{3}$	$\frac{9}{9}$	$\frac{15}{6}$	$\frac{13}{6}$	$\frac{23}{8}$	$\frac{49}{49}$	$\frac{2}{2}$	$\frac{7}{7}$	$\frac{33}{32}$	$\frac{10}{5}$	$\frac{12}{7}$
Wood	$\frac{17}{17}$	$\frac{49}{41}$	$\frac{16}{3}$	$\frac{65}{62}$	$\frac{1}{1}$	$\frac{4}{3}$	$\frac{9}{9}$	$\frac{15}{6}$	$\frac{13}{6}$	$\frac{23}{8}$	$\frac{49}{49}$	$\frac{2}{2}$	$\frac{7}{7}$	$\frac{33}{32}$	$\frac{10}{5}$	$\frac{12}{7}$
Cotton	17	41	3	62		3	9	6	5	11	49				5	5
Tobacco								—	1	3				1	—	—
Hides and skins		7		3	1	1		—		1					—	—
Rubber		1	1					1	1						—	—
Minerals	$\frac{40}{40}$	—	$\frac{9}{9}$	—	$\frac{80}{80}$	$\frac{14}{14}$	$\frac{45}{45}$	$\frac{16}{5}$	$\frac{46}{43}$	—	—	$\frac{91}{91}$	$\frac{92}{83}$	—	$\frac{70}{1}$	$\frac{46}{3}$
Uranium	$\frac{40}{40}$	—	$\frac{9}{9}$	—	$\frac{80}{80}$	$\frac{14}{14}$	$\frac{45}{45}$	$\frac{16}{5}$	$\frac{46}{43}$	—	—	$\frac{91}{91}$	$\frac{92}{83}$	—	$\frac{70}{1}$	$\frac{46}{3}$
Petroleum	40		9				2	7	43			91	83		65	39
Aluminum								—	3						1	1
Calcium phosphates						14	43	4								2
Manganese								—				6			2	1
Total of above	88	71	85	72	88	79	76	83	85	54	100	94	99	95	92	88
Other exports	12	29	15	28	12	21	24	17	15	46 ^{1/}	—	6	1	5	8	12
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

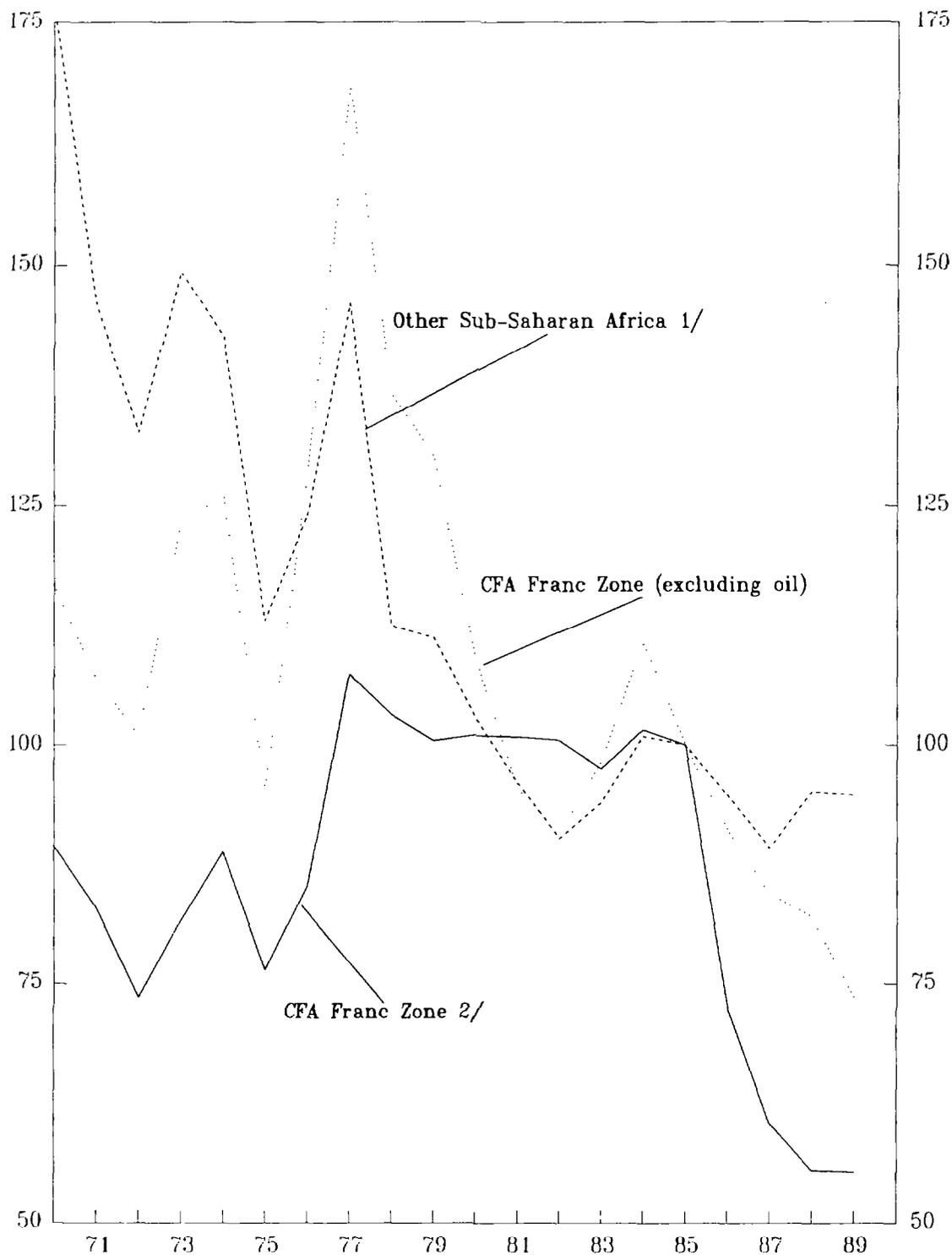
Source: United Nations Trade Systems Data Base.

^{1/} Of which 26 percent is diamonds.

Chart 1

CFA Franc Zone: Aggregate Terms of Trade, 1970-89

(1985=100)



Source: World Economic Outlook Database.

1/ Unweighted average excludes Nigeria.

2/ Calculated from export and import unit values for individual countries and aggregated across countries using export and import shares in the trade of the CFA Franc Zone as a whole.

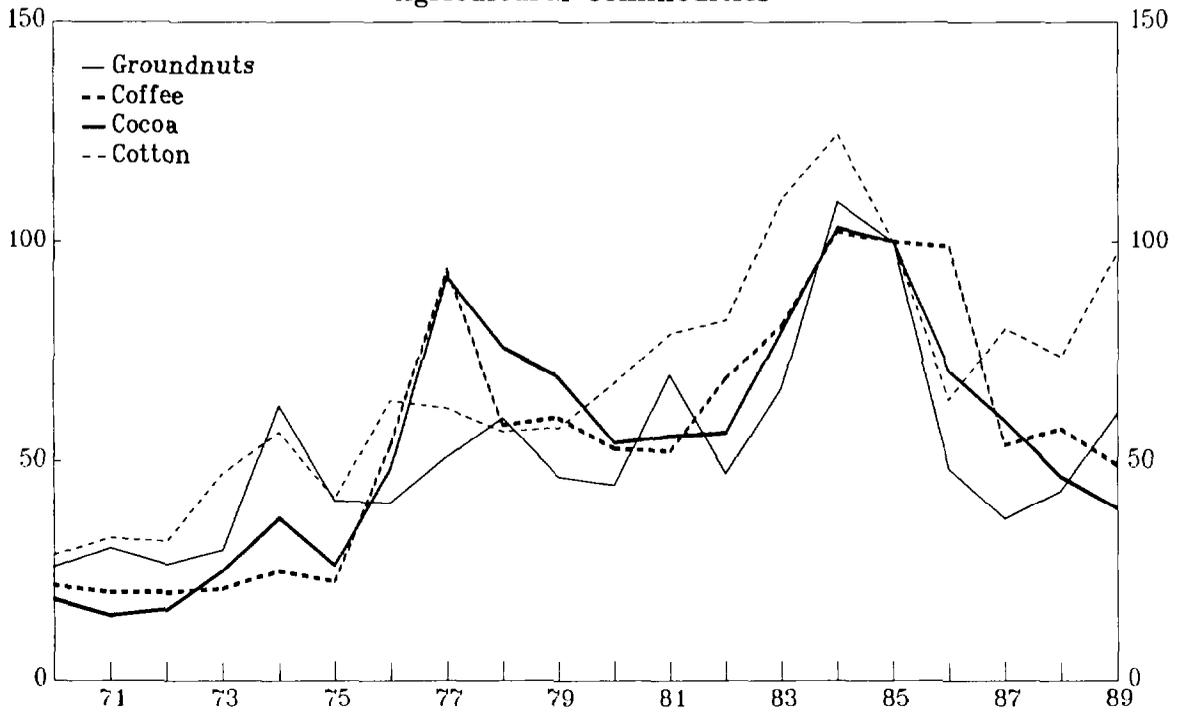


Chart 2

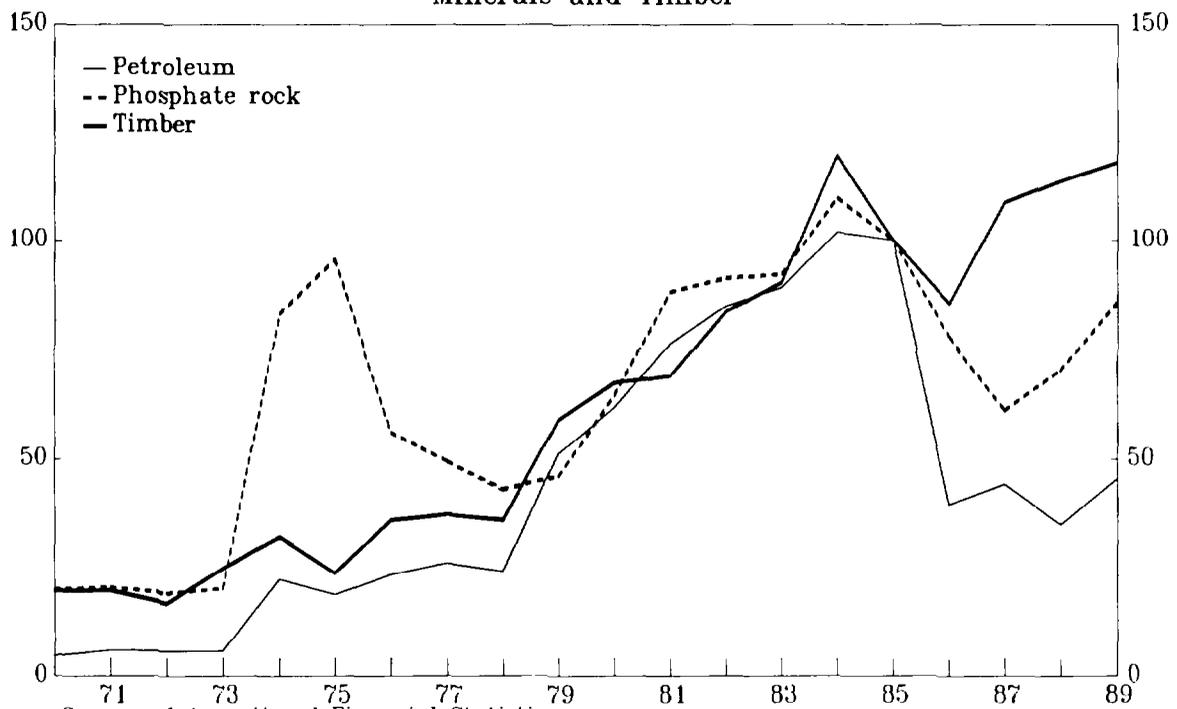
Prices of Selected Primary Commodities 1/

(1985=100)

Agricultural Commodities



Minerals and Timber



Source: International Financial Statistics.

1/ Measured in CFA Francs.



b. Other exogenous shocks

Another exogenous shock that affected the CFA franc zone countries was the drought during 1982-84, which caused a fall in real output in Burkina Faso, the Central African Republic, Côte d'Ivoire, Mali, and Niger.

A third shock was the sharp increase in real international interest rates in the early 1980s. The interest on government bonds in France jumped from an average rate of 8.5 percent in 1970-79 to 13.5 percent on average in the first half of the 1980s, while increases in regional prices for exports and imports showed a marked deceleration. The interest increase affected countries differently according to their foreign debt outstanding. Debt/GDP ratios ranged from more than 70 percent in Côte d'Ivoire and Congo to less than 30 percent in the Central African Republic, Chad, and Gabon in the early 1980s. In addition, the average interest rate on debt was not equally affected in each country, because of varying degrees of concessionality.

The fourth exogenous development was a depreciation in the real exchange rates of neighboring countries--especially of the Nigerian naira and the Ghanaian cedi vis-à-vis the CFA franc after 1984--as these countries adjusted to past slippages and changes in their terms of trade. Trade between neighboring African states is recorded incompletely by official statistics. According to these statistics, such trade is small and has lost in relative importance in most countries, apart from Senegal and Côte d'Ivoire. However, there is a consensus among country officials that unrecorded trade has been gaining in importance in recent years with neighboring countries, notably Ghana, Nigeria, and Zaire. Consequently, the real depreciation of the currencies of neighboring countries vis-à-vis the CFA franc is expected to have contributed to the deterioration in the external position of zone members.

While these shocks have been diverse and uneven among countries, their impact after 1985 was cumulative. First, in that period, the fall in world market prices of the region's most important products (oil, coffee, and cocoa) coincided with reduced market access, worldwide, to external financing and with the depreciation of the currencies of the larger neighboring countries. The recovery from the drought in the Sahel countries provided the only mitigating factor. Against this background, 1985 provides a convenient time benchmark to examine the economic policies and performance of the zone. Second, these shocks have been unevenly distributed, with a greater adverse impact on Côte d'Ivoire and on the oil producers. As noted earlier, such a pattern requires that monetary policy be geared toward curbing the expansion of domestic credit and that incomes and price formation be flexible if the fixed peg is to be maintained and strains within the currency areas are to be avoided.

2. Financial policies

Monetary policy in the two CFA franc areas ^{1/} has generally been successful in containing inflationary growth in domestic credit. However, the commitment to financial discipline has not been equally strong as regards fiscal management and the operations of public enterprises, leading to a rapid buildup of external debt. These trends were exacerbated by the sharp terms of trade deterioration after 1985. With problems of loan repayments from the cash crop sector and inadequate controls, commercial banks came to be faced with a weak loan portfolio. Thus, the broader goals of financial stability were not achieved, and the continuing convertibility of the currency was tempered by a large buildup of domestic and external payments arrears and a much deteriorated liquidity position of the banking system.

a. Fiscal policy

Fiscal developments differed between the WAMU and the CAMA during the first half of the 1980s, but by the late 1980s countries in both currency areas faced the need to take strong fiscal measures (Chart 3).

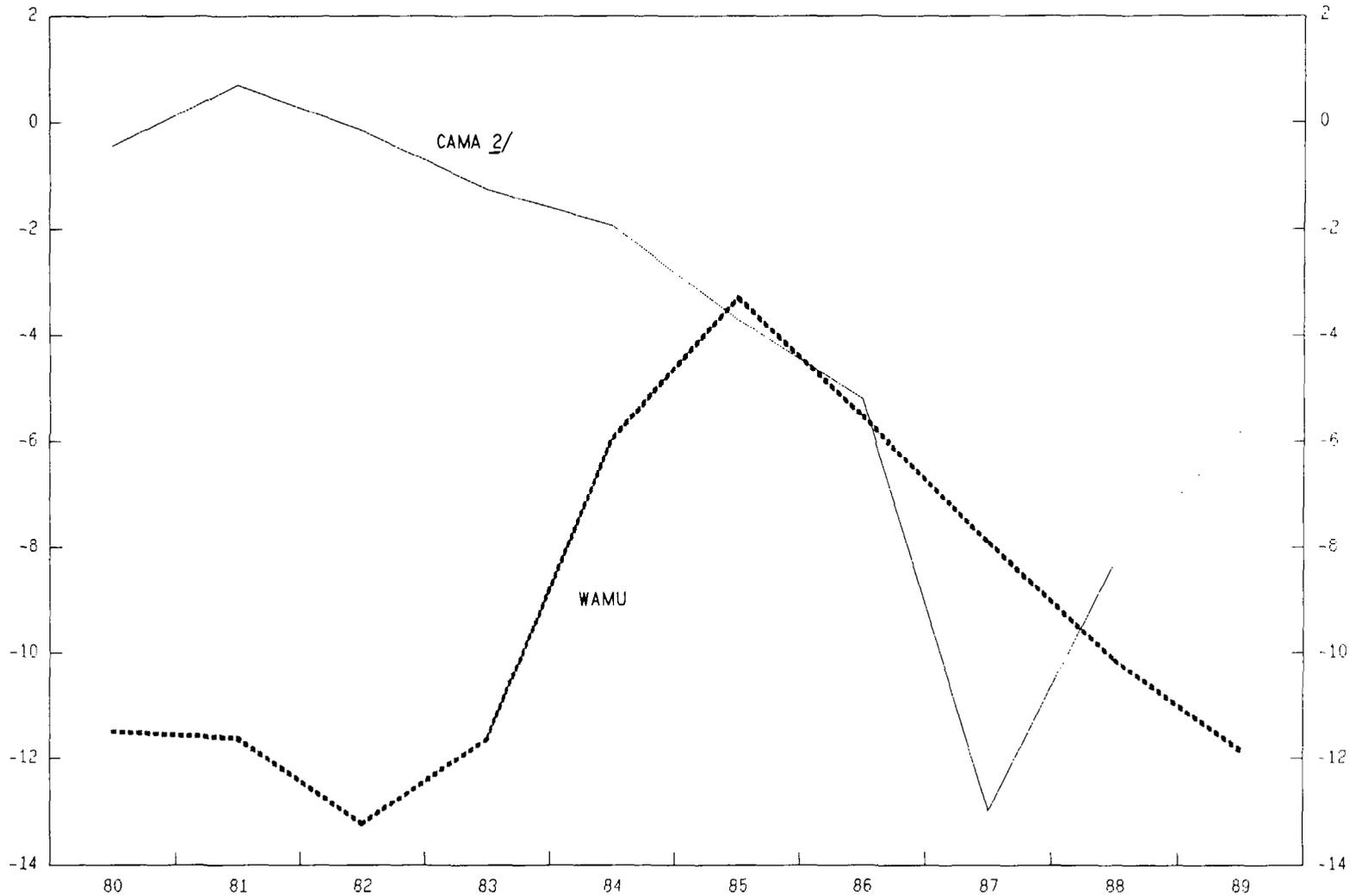
In the WAMU, most countries pursued expansionary fiscal policies in the early 1980s (Chart 4). Despite the weakening of their terms of trade, these countries implemented ambitious investment programs which yielded low rates of economic and financial return. Inefficiency in the public enterprise sector became increasingly evident but was tolerated, as recourse was made to widespread marketing and pricing controls. Output growth slowed, inflation picked up, and public sector deficits widened through 1983. Some respite was experienced in the 1984-85 period. The terms of trade improved marginally and, with a sharp cut in capital outlays, the overall public sector deficit narrowed, allowing a decline in outstanding payments arrears. Thereafter, however, the sharp decline in commodity prices, coupled with adverse weather conditions, resulted again in large fiscal deficits, which for the WAMU as a whole averaged 10 ½ percent of GDP (on a commitment basis and before grants) in 1988-89.

In the CAMA, government expenditures, which were influenced by developments in oil output and prices, did not peak until 1987. Cameroon's oil production and export capacity came on stream during the early 1980s, while export earnings of the other oil exporters did not decline until the sharp fall in oil prices took place in late 1985. However, owing to the inertia of capital expenditure commitments, fiscal deficits in CAMA countries rose strongly in 1986-87, but were reduced over the following two years.

^{1/} The discussion of fiscal and monetary policies in this section is conducted on a GDP-weighted basis in order to highlight its implications for the external position of the zone as a whole.

CHART 3

CFA Franc Zone: Government Financial Balances, 1/ 1980-89
(In percent of GDP)



Sources: Data provided by authorities; and staff estimates.

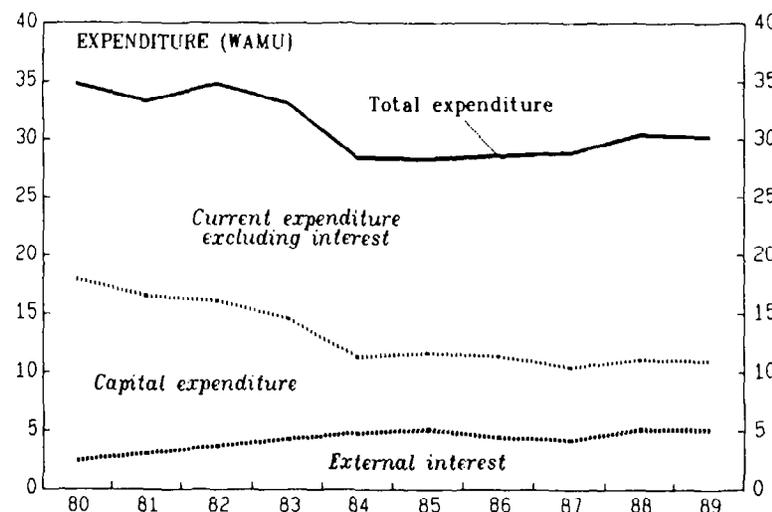
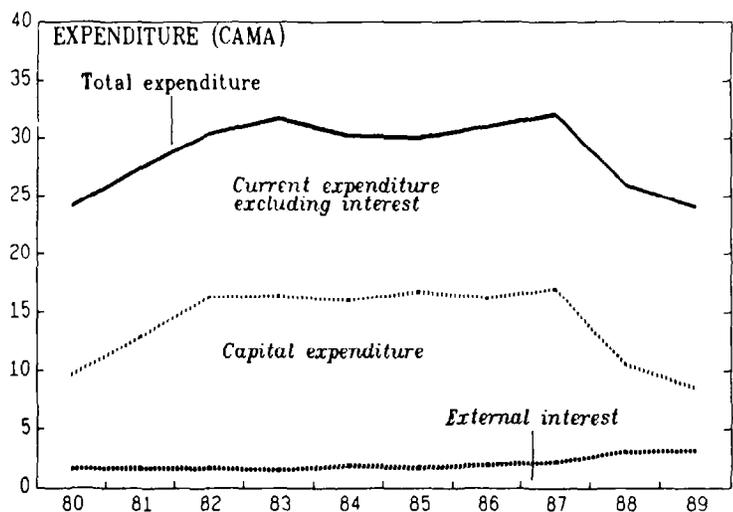
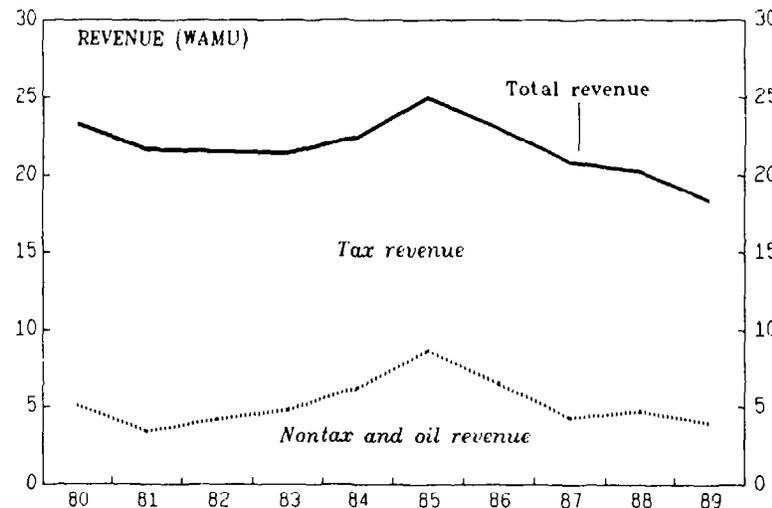
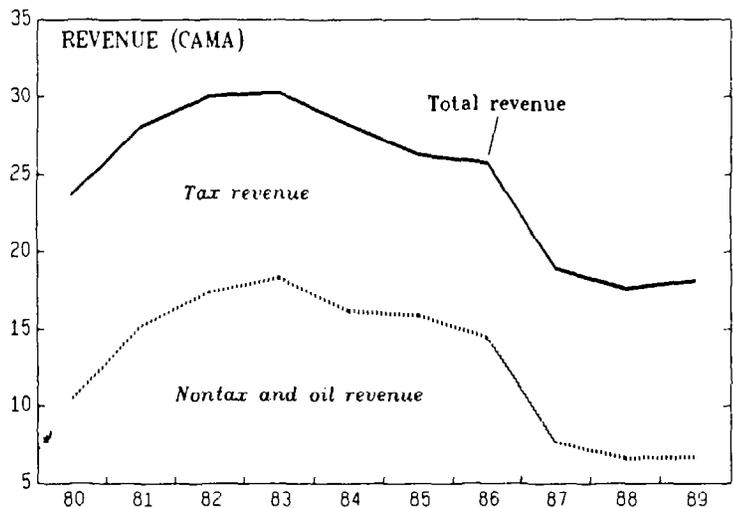
1/ Overall fiscal balances on commitment basis, excluding grants; weighted averages.

2/ Excluding Chad and Equatorial Guinea.

CHART 4

CFA Franc Zone: Government Revenue and Expenditure, 1980-89

(In percent of GDP)



Sources: Data provided by authorities; and staff estimates.

The difficulties in fiscal adjustment faced by the CFA franc zone countries have been partly related to declines in revenue to GDP ratios. Several factors combined to erode non-oil tax yields during the 1980s. These include declining profitability of the export and import-substituting sectors; the growth of the informal sector in response to excessive regulation; and a tightening of liquidity, which hampered taxpayers from settling their obligations. The ratio of non-oil tax revenues to GDP for the region as a whole declined from 16 percent in 1980 to 13 percent in 1989. In addition, nontax and oil revenues declined relative to GDP. In particular, delays in adjusting producer prices led to large deficits for official marketing agencies and stabilization boards. All in all, total revenues fell by 7 percentage points of GDP between 1985 and 1989.

In the face of revenue declines, countries in both the WAMU and the CAMA have been attempting to increase tax yields by broadening the tax base, reducing exemptions, and improving tax administration. However, these reform efforts have yet to bear substantive fruit, taking place as they have against a background of income and demand reductions.

Fiscal adjustment has also proved difficult on the expenditure side. Member governments of the zone have encountered serious problems in reducing their expenditure commitments. While they have found some leeway (with a lag) to alter capital expenditure, success has proved much more elusive with respect to current expenditures. The ratio of current expenditure (excluding interest on foreign debt) to GDP averaged about 17 percent in the WAMU and about 15 percent in the CAMA during the 1980s. The inability to reduce current expenditure ratios was notably evident in the case of expenditures on wages and salaries, reflecting inter alia the difficulties encountered in ending automatic recruitment programs for graduates or in abrogating other employment contracts. Adding to the problems of expenditure control were contractual interest payments due on external debt, which roughly doubled (as a percent of GDP) in both the WAMU and the CAMA between 1980 and 1989.

Financing of fiscal deficits in the two regions was strongly affected by the rule limiting access of governments to monetary financing (Chart 5). The central bank statutory advances have been heavily used in the WAMU since 1979 and in the CAMA since 1986, so that after these dates additional access to credit from the central banks covered only a modest portion of the fiscal deficits. However, with temporary exceptions (notably in order to allow prompt servicing of obligations to the Fund by WAMU countries), the statutory ceilings were respected, prompting governments to resort to external financing and to exceptional financing. 1/

1/ Overshooting of the ceilings in the BEAC oil producing countries reflects the downward revision of these ceilings following (with a lag) the decline in revenues.

For the zone as a whole, total external financing of the overall budgetary deficit increased from 6 percent of GDP in 1980 to 8 percent in 1989. Moreover, its structure underwent a considerable change. While the net disbursements of nonexceptional foreign financing (both official and commercial) amounted to 5 percent of the zone's GDP in 1980, such financing had fallen to 1 ½ percent of GDP by 1989. This decline in nonexceptional foreign financing, together with the limit on access to domestic financing, led to successive debt reschedulings as well as the accumulation of payments arrears, which together amounted to 7 percent of GDP in 1989.

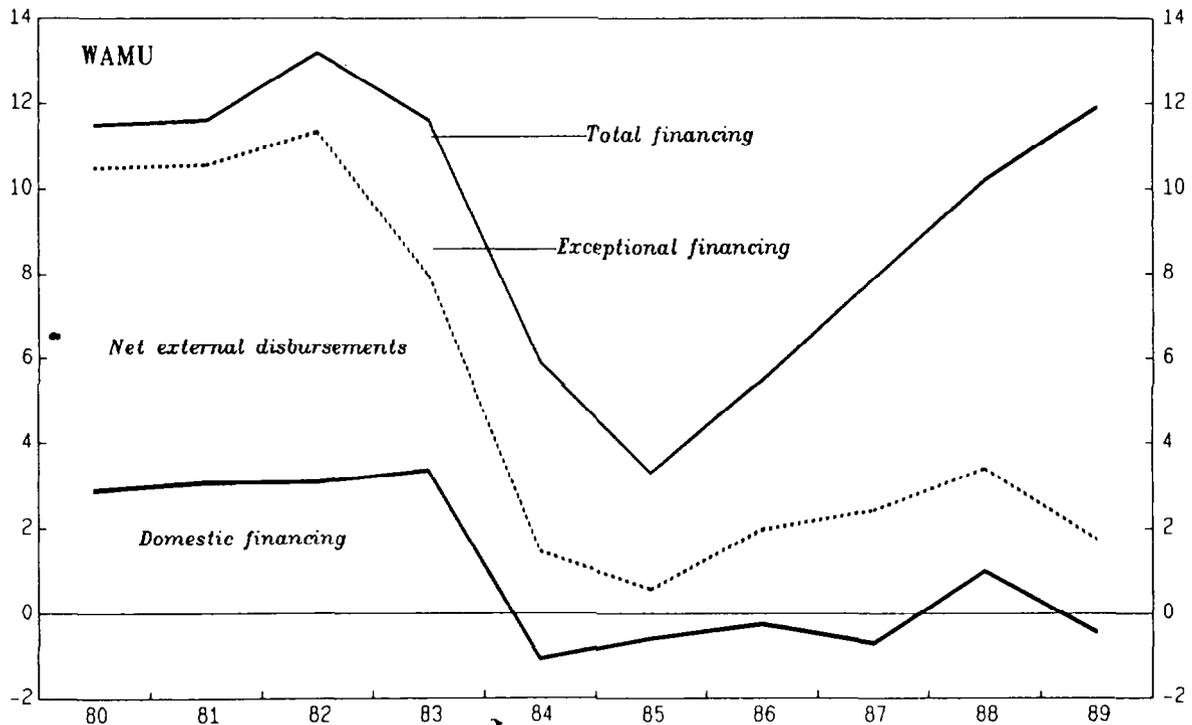
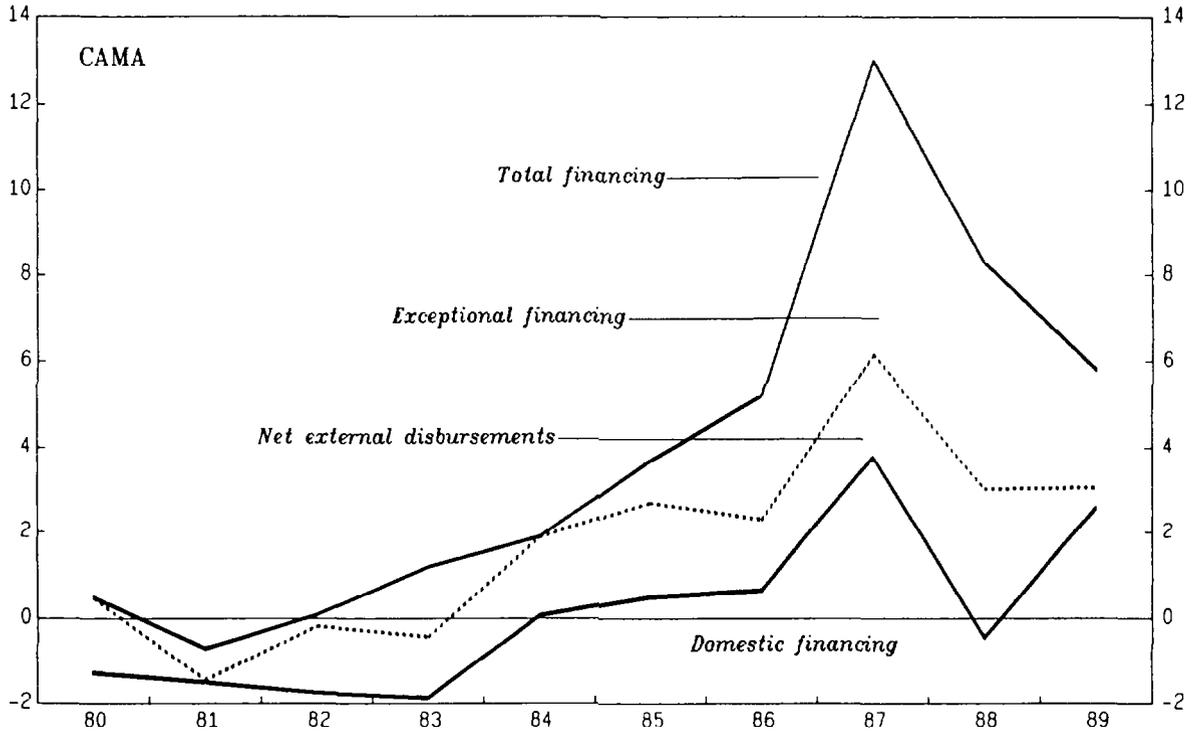
Domestic financing represented on average 1 to 2 percent of GDP a year for the zone as a whole, with the exception of two notable episodes. First, during 1980-83, monetary financing was large, exceeding 3 percent of GDP a year, in WAMU countries. Such financing was made possible, despite the constraining character of the statutory rules on credit to governments, by the on-lending of drawings on the IMF and, in some cases, by the consolidation of crop credit in arrears. However, such monetary financing leveled off after 1983, in part because of the lower deficits of 1984-85 and in part because the credit ceilings became binding. Second, there was a brief but sharp increase in nonmonetary financing in the oil producing countries in 1987, as governments received advances from public enterprises and accumulated domestic arrears. A strong accumulation of domestic arrears also occurred in the WAMU in 1988 and 1989. In both instances, government agencies and public and private enterprises responded to the accumulation of government arrears by reducing their deposits with the banking system, increasing their borrowing from domestic banks, or delaying the servicing of loans. Public enterprises delayed the servicing of external loans on-lent to them by the government and withheld tax payments, thereby compounding the financing problems of the public sector.

b. Monetary policy

The conduct of monetary policy in the CFA franc zone is predicated on a set of specific rules designed to control the expansion of domestic credit to the government and to the private sector. These monetary rules, which have been generally adhered to, have been effective in protecting the external reserve positions of the central banks over the longer term. More recently, however, these rules have limited the flexibility of the central banks in acting as lenders of last resort to arrest the deterioration in the portfolios of commercial banks. While these considerations apply to both currency areas, the two groups of

CHART 5

CFA Franc Zone
Financing of Government Operations, 1980-89
(In percent of GDP)



Sources: Data provided by authorities; and staff estimates.

countries differ in the degree to which they have pursued the coordination of their monetary policies. 1/

In the BCEAO, the determination of credit guidelines is the object of annual programming procedures. These procedures involve the setting of targets for net foreign assets for the region as a whole and for each member country. Credit guidelines are then derived consistent with these targets and each member's economic outlook. This procedure, which was initially devised to provide a projection of the accounts of the central bank, was later extended to encompass the banking system aggregates. After 1980, direct credit ceilings, which are set in most countries on a bank by bank basis, replaced rediscount policy as the main instrument of control. In 1989, however, the WAMU initiated a reform aiming at a more market-oriented approach to the determination of credit expansion. This reform capitalizes on the regional money market that has been operating in the area and is open to commercial banks, while the money market, which is centrally administered, provides a conduit to deepen financial intermediation within the zone.

In the CAMA, the operating procedures have been designed primarily to control the quality of the central bank's portfolio. Accordingly, rules of eligibility for central bank refinancing, as well as prudential ratios applicable to the commercial banks, have been the primary instrument of policy. In addition, the BEAC has determined separate short- and medium-term rediscount ceilings. These ceilings have been set mainly on the basis of common quality standards for rediscount eligibility, rather than on an explicit reference to macroeconomic aggregates. Until the onset of the present liquidity crisis, ceilings exceeded actual use by a wide margin. Recently, however, ceilings have been fully used as they have been lowered in response to the deterioration in the BEAC's net foreign assets position.

The formulation of credit policy in both areas has traditionally involved a certain degree of selectivity. Preferential credit is generally provided through low rate rediscount facilities to government and for crop financing. Moreover, each central bank has provided unrestricted access to its rediscount facility for crop financing, in consideration of the short-term and self-liquidating nature of such financing. However, with the fall in commodity prices in the late 1980s and attendant losses of the marketing boards, crop financing has no longer been self-liquidating, and the unrestricted access to credit for such financing has tended to undermine central bank credit controls. In response to this development, BCEAO rates for credit to the private sector were unified, and eligibility conditions for crop credit refinancing were sharply tightened by both central banks in 1989.

1/ The very names of the currencies suggest that the emphasis on coordination is greater in the WAMU than in the CAMA. Currency notes issued by the BCEAO are undifferentiated by country, except for a letter coding for statistical purposes, whereas BEAC issues distinctly differentiated notes in each member country.

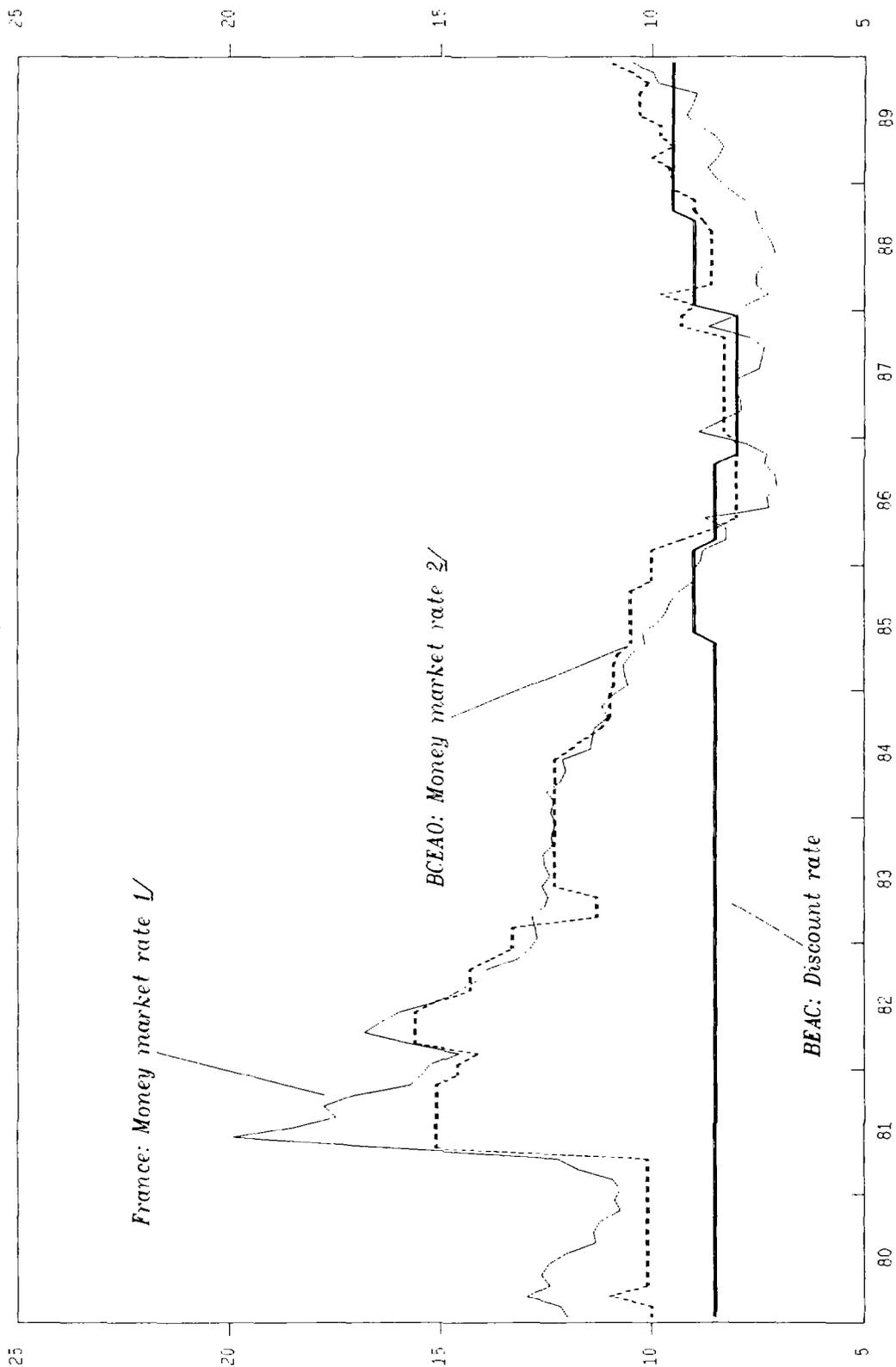
In formulating interest rate policy, the two central banks of the zone have been constrained by various factors inherent in a monetary union and by the exchange arrangements of the zone (Chart 6). The BEAC and the BCEAO need to maintain a uniform interest rate policy within each monetary union (although commercial bank rates in the CAMA are set at the national level and vary among countries) which is also consistent with external rates, especially those in France. Another practical constraint for both blocs has been the cumbersome decision-making process for setting interest rates, resulting in part from the inclination of member countries to favor selective credit policies. Given these constraints, the BEAC and BCEAO have not made active use of interest rates as a monetary policy instrument. Interest rates have been adjusted very infrequently, although both central banks have tended to pursue somewhat more flexible interest rate policies since 1988.

In both monetary areas, the quality of the commercial banks' loan portfolios declined in the late 1980s, owing to deteriorating business conditions resulting from repeated droughts, deficiencies in bank management, the nonobservance of normal banking procedures (such as inadequate provisioning for loan losses, nonpayment of accrued interest payments, and excessive off-balance-sheet risks) and extension of credit without proper collateral. These factors were compounded by the accumulation of domestic payments arrears by governments and the deficits of crop marketing boards, which prevented the timely unwinding of crop credit (in particular in Côte d'Ivoire and Cameroon).

One consequence of the deterioration of bank portfolios was to increase the demand for central bank refinancing, forcing the central banks to choose between their commitment to financial stability and their responsibilities as lenders of last resort. In the effort to preserve financial stability, a liquidity squeeze has developed in several countries of the zone. In the CAMA, the demand for refinancing was reinforced by the withdrawal of deposits by the public enterprises; as a result, BEAC refinancing of the private sector rose rapidly after 1985 (Chart 7). The usually wide margin under ceilings on commercial bank refinancing was used up and the ceilings became binding, causing a major liquidity crisis to develop, notably in Cameroon. In the WAMU, in view of the already high level of refinancing and the large negative foreign assets position, there was less leeway to accommodate the needs of the commercial banks, and an acute liquidity shortage was experienced in Côte d'Ivoire at the end of 1989.

Trends in the main monetary aggregates since 1980 are shown in Chart 8. Prior to 1983, domestic credit expanded rapidly in the BCEAO area, leading to a decline in the net foreign assets position. After 1983, however, domestic credit expansion leveled off, and the external position stabilized. The turning point in CAMA occurred later, but similarly, credit expansion was brought under control by the end of the period.

CHART 6
CFA Franc Zone: Interest Rates, 1980-89
(In percent)



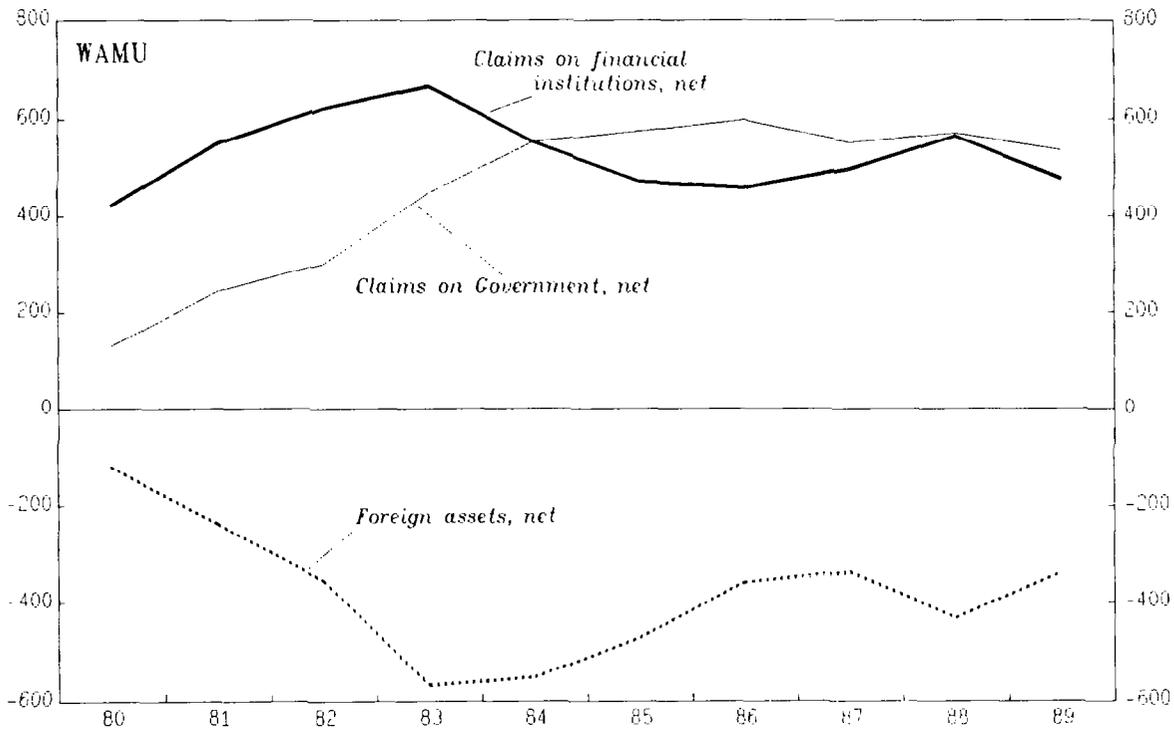
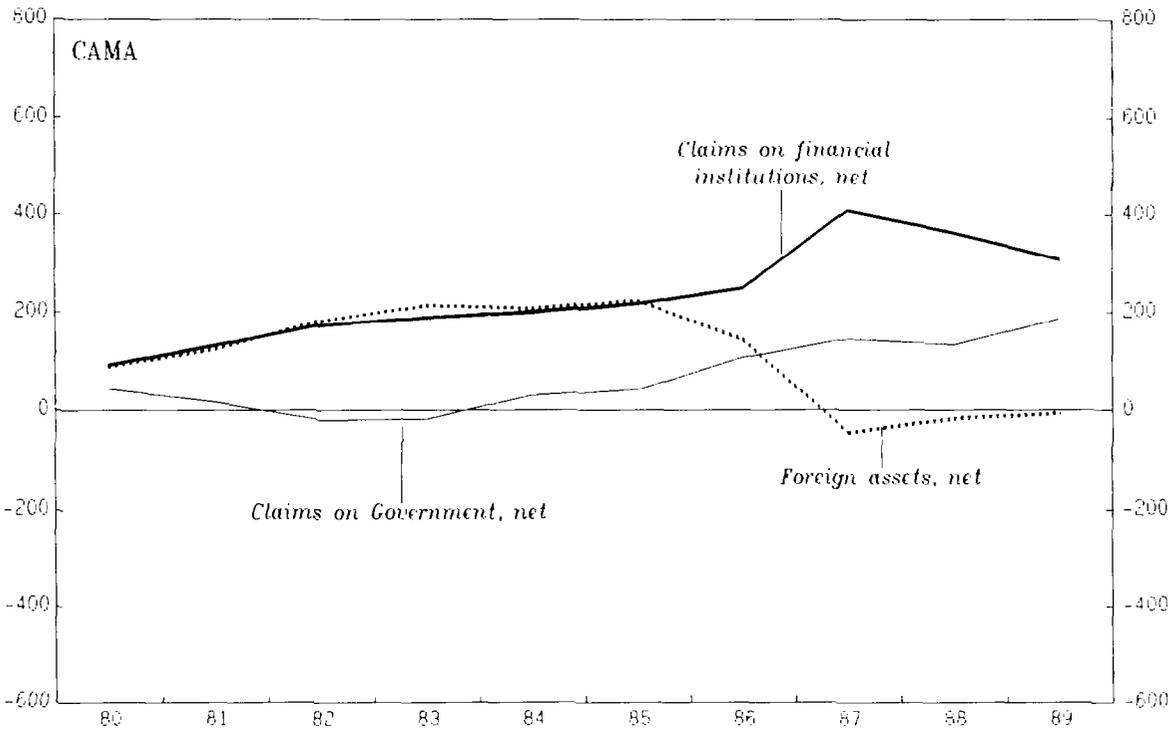
Sources: IMF, International Financial Statistics and staff estimates.

1/ Overnight rate.

2/ Rate paid on overnight interbank advances.

CHART 7

CFA Franc Zone: Balance Sheets of Central Banks, 1980-89
(In billions of CFA francs; end of period)

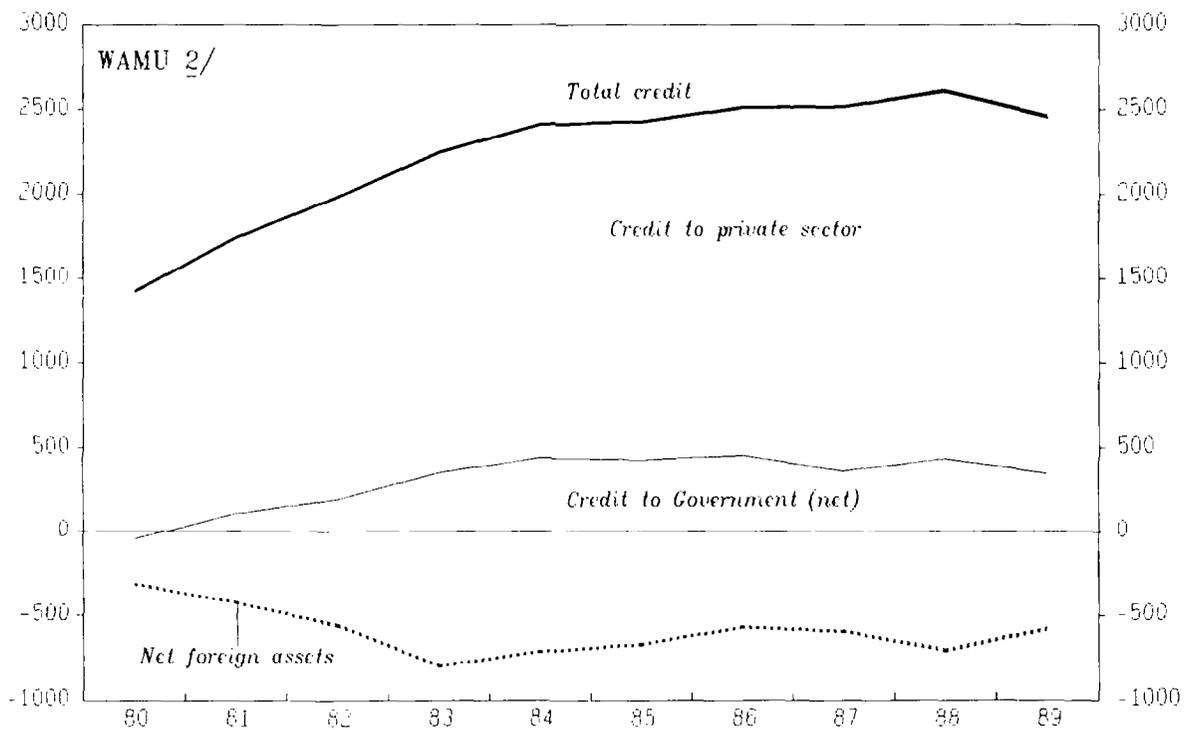
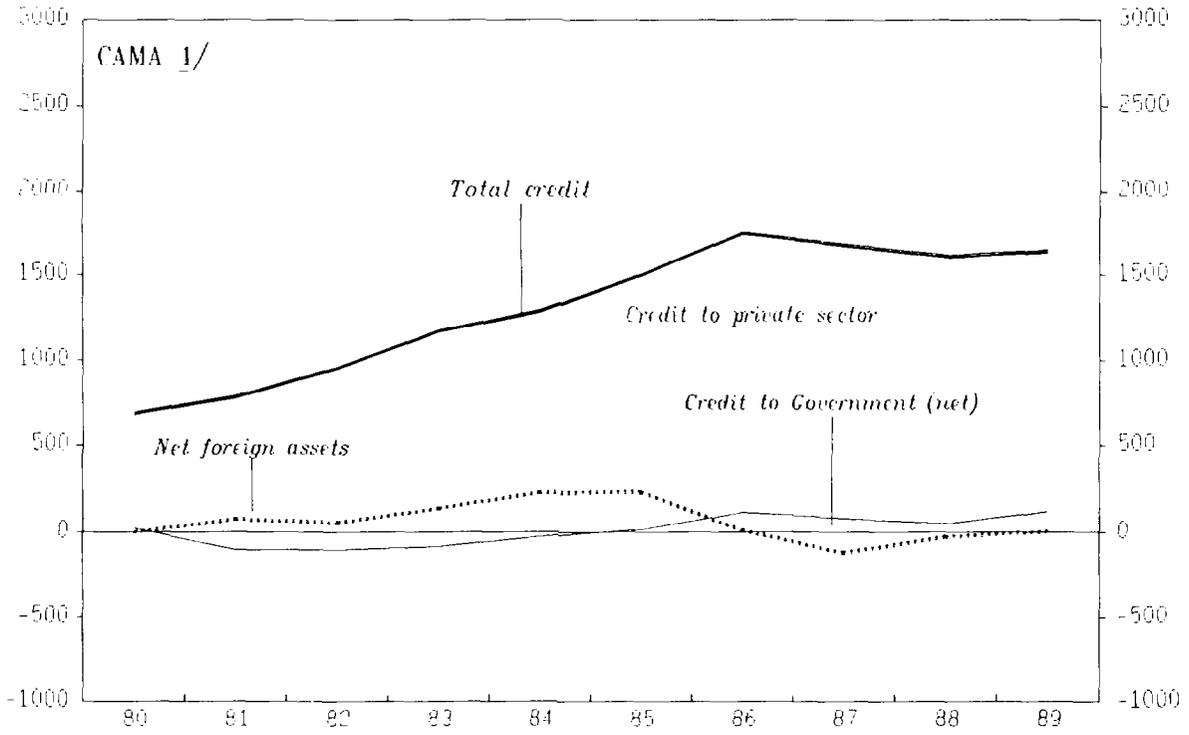


Sources: Data provided by BEAC and BCEAO.



CHART 8

CFA Franc Zone
Counterparts of money supply, 1980-89
(In billions CFA francs; end of period)



Sources: Data provided by BEAC and BCEAO.

1/ Excluding Equatorial Guinea.

2/ Excluding Mali before 1984.

In the WAMU, the deterioration in net foreign assets during 1980-83 was very large, and was equally attributable to credit expansion to governments and to the private sector. Thereafter, credit to the governments was contained by the statutory provisions limiting monetary financing of the Government (some part of the governments' financing needs may, however, have been indirectly reflected in higher credit demands by the public enterprises and by private entities with overdue claims on the government). Credit to the private sector, meanwhile, expanded at a more subdued pace, in part owing to the introduction of direct controls in 1984. All together, the level of net foreign assets was stabilized after 1983.

In the BEAC countries, net foreign assets of the banking system improved during 1980-85, as the governments' creditor position with the banking system was bolstered by the high oil prices. With the fall in oil prices, however, both the governments and the public enterprises drew on their deposits with the banking system, causing net foreign assets to fall sharply during 1986-88.

Additional detail on the net foreign assets of the central banks is provided in Chart 9. An important point revealed in the chart is the movement of the operations account: despite the pressures on the fiscal position, the deterioration in the liability position in these accounts was arrested by the late 1980s, as the policy safeguards in the arrangements came into play. Indeed, the combined position improved strongly in 1989 and by early 1990 both accounts were in surplus, even though the calculated contribution of the largest member of each zone remained strongly negative.

3. Economic performance

In this section a broad assessment of economic performance of member countries of the CFA franc zone is presented. First, the trends of inflation and growth in the two blocs of the zone are examined. Second, attention is turned to the behavior of indicators of "competitiveness" or relative purchasing power parity. The third subsection reviews adjustment to external imbalances. A fourth subsection provides an international perspective.

a. Inflation and growth

For most of the past two decades, member countries of the CFA franc zone have managed to maintain relatively low rates of domestic inflation compared with the average for sub-Saharan Africa. As would be expected, inflation rates of zone members have moved in line with the rate of

inflation in France (Chart 10). ^{1/} Within the BEAC grouping, inflation rates were generally slightly lower than in France and their dispersion was relatively low until the mid-1980s. The dispersion was somewhat higher in the WAMU, and from about 1976 onward inflation rates were, with the exception of Senegal, somewhat higher than in France.

In line with price developments in France (and more generally, in industrial countries), most countries in the two blocs also experienced a notable deceleration in inflation after 1982. But the largest countries in each bloc--namely Côte d'Ivoire in the WAMU and Cameroon in the BEAC--encountered difficulties in matching the improvement in inflation performance from the mid-1980s onward. Both countries were relatively slow in adjusting fiscal policy in the aftermath of terms of trade shocks, which in turn made control of domestic credit more difficult. As a result, inflation rates in both countries have been above those recorded by France and by other members of the zone. ^{2/} In a number of other zone countries, recorded inflation rates declined below that of France. These countries' efforts to curb aggregate demand in the process of correcting external imbalances, together with other policy changes, served to exert downward pressures on prices.

As regards real GDP growth, the experience of the CFA franc zone countries has varied over time and among countries. As would be expected, the oil producers and Côte d'Ivoire, which experienced the largest terms of trade loss after 1985, have also registered a sharp deceleration in growth, or even outright decline after that year. On the other hand, the Sahel countries rebounded from the drought and experienced a marked pickup in real growth rates (Appendix IV, Table IX).

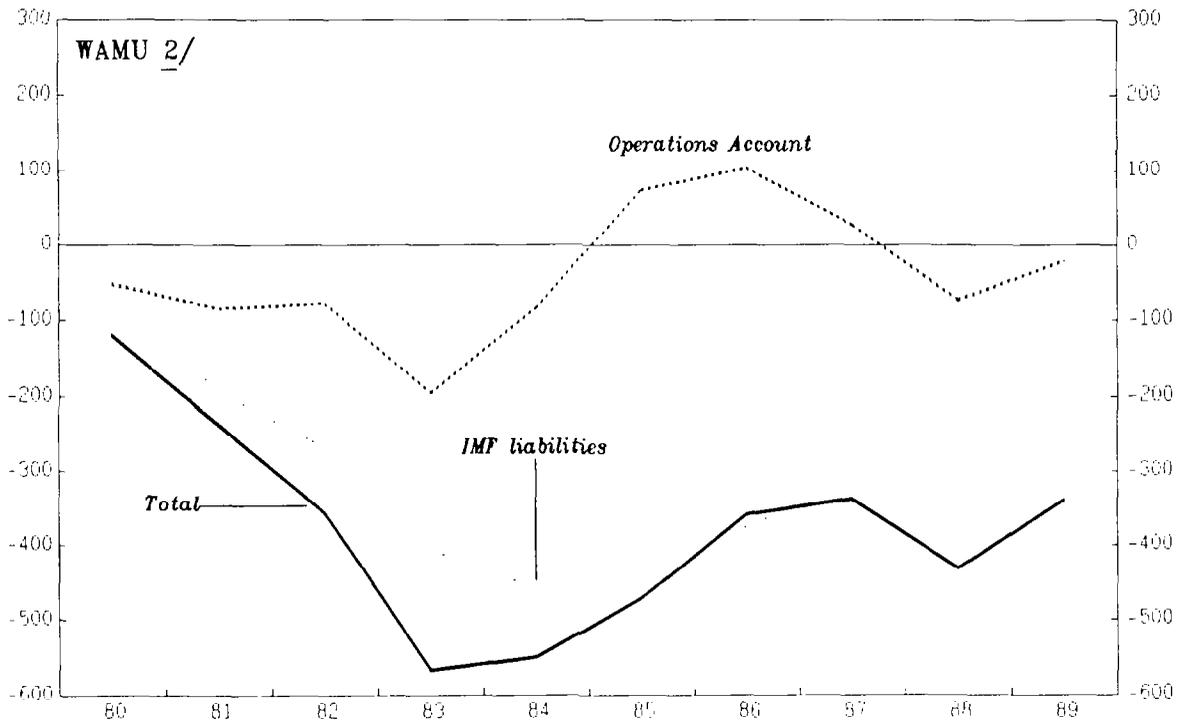
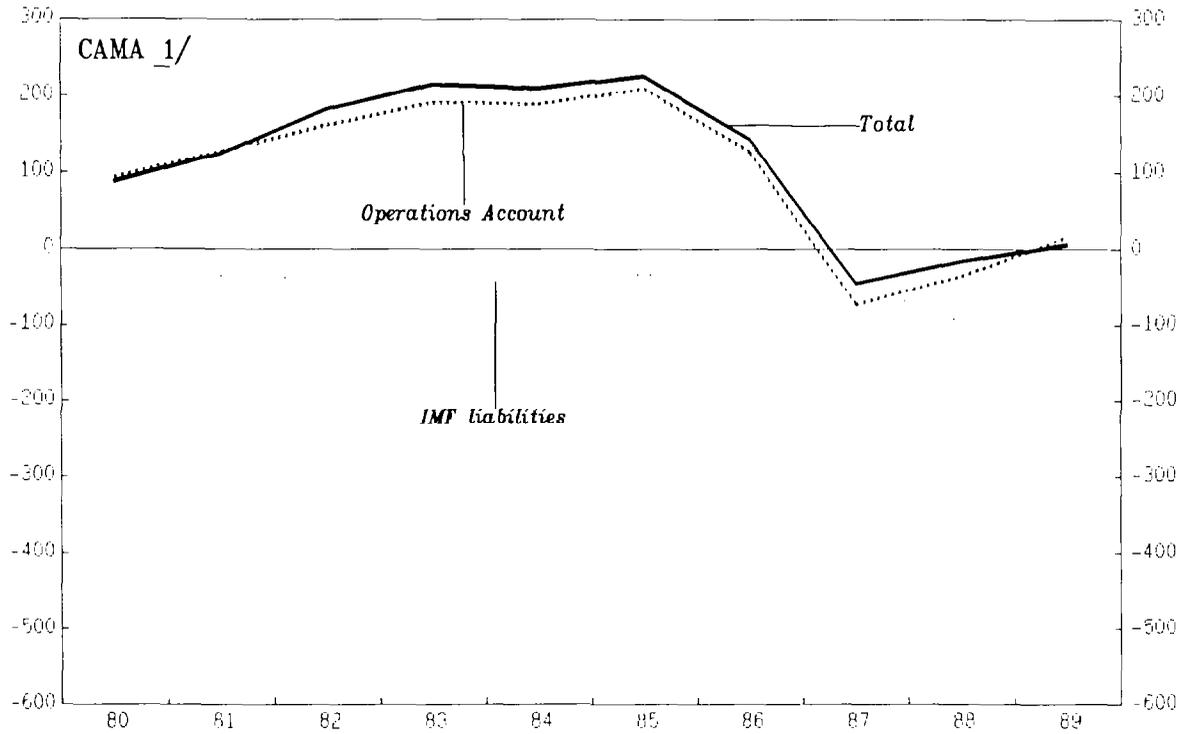
The record in mobilizing domestic savings also differed widely among individual countries and country groupings within the zone. By far the highest rates of domestic saving to GDP have been recorded by the group of oil exporters, while the Sahel group, excluding Chad, recorded an average savings rate of only 2 percent in the 1980s (Appendix IV, Tables X and XI). Changes in savings rates appear to have been linked primarily to developments in terms of trade and in output, mainly as a result of variations in public savings. Private saving rates were high throughout the period under review in the oil exporting

^{1/} The price data are subject to the standard caveats on quality. In particular, many of the consumer price indexes for countries in the zone are based on household surveys completed in the 1960s for the principal urban area and some apply to high-income households only.

^{2/} The CPI data for Cameroon, however, are not considered to be particularly reliable. The official series, as published in *IFS*, has a large, and so far unexplained, series break in mid-1985. The CPI shows a drop of about 12 percent in one month alone, but subsequent data show movement more in line with previously recorded rates of inflation. For the purposes of this paper, a spliced series has been constructed, which effectively excludes this one observation.

CHART 9

CFA Franc Zone: Central Bank Net Foreign Assets, 1980-89
(In billions of CFA francs; end of period)



Sources: Data provided by BEAC, BCEAO; and staff estimates.

1/ Excluding Equatorial Guinea.

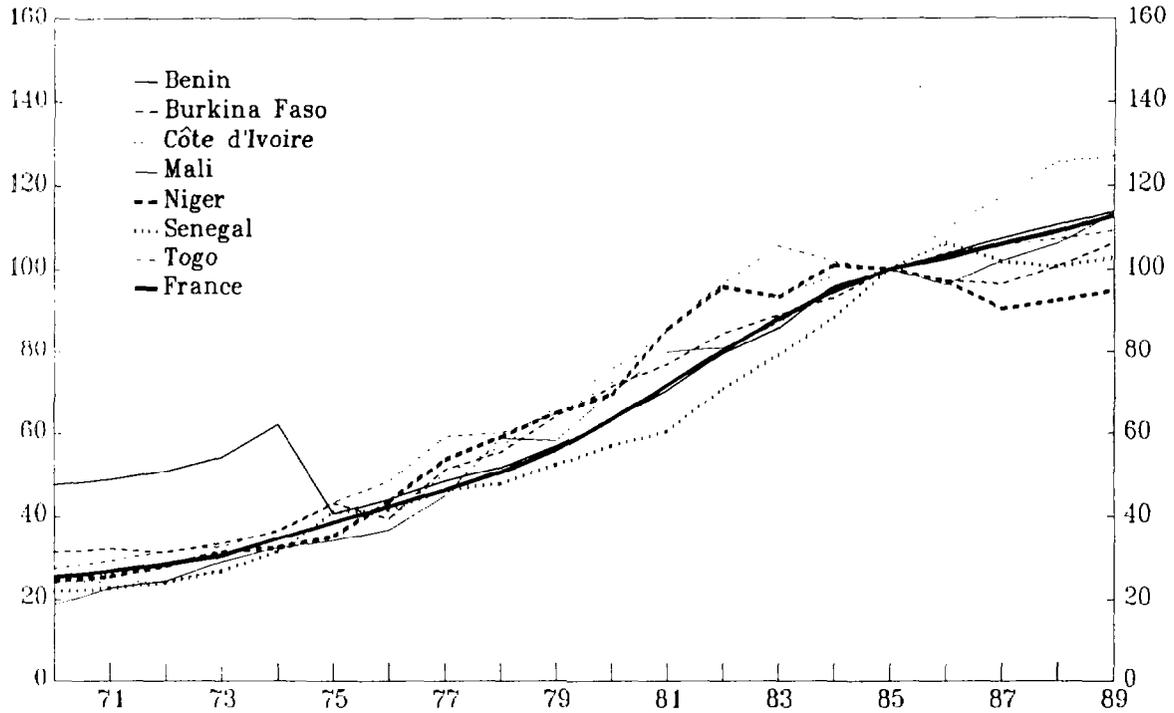
2/ Excluding Mali before 1984.

Chart 10

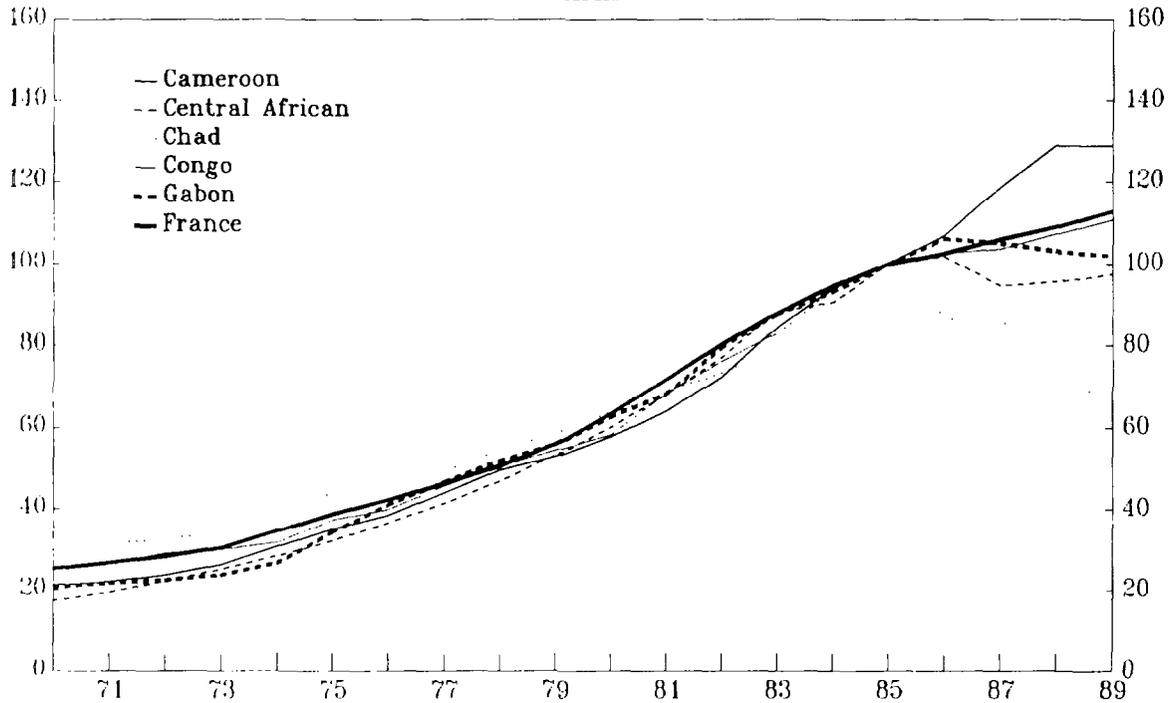
CFA Franc Zone: Consumer Price Index, 1970-89

(1985=100)

WAMU



CAMA



Source: International Financial Statistics and staff estimates.

countries and in Côte d'Ivoire, and fluctuated considerably in the other countries.

Overall, financial savings in the zone did not increase significantly during the 1980s. For the zone as a whole, the ratio of broad money to GDP rose from 21-22 percent in the late 1970s to 23-24 percent in the 1980s (Appendix IV, Table XII). To some extent, the stabilization of velocity in the 1980s is explained by a buildup of deposits abroad (as shown in Appendix IV, Table XIII). Cross-border bank deposits by nonbank residents of the CFA franc zone rose from the equivalent of 35 percent of domestic deposits in 1981 to 39 percent in 1987-89. As of mid-1989 the highest cross-border deposits relative to deposits with domestic banks were reported for Congo and the Central African Republic (over 60 percent), and for Côte d'Ivoire, Senegal, and Gabon (about 50 percent).

Finally, by creating a stable economic environment, the arrangements of the CFA franc zone were expected to help attract foreign investment as well as foreign lending for investment. ^{1/} Consistent data on direct foreign investment are not available for most countries in the zone. Available data on overall investment (Appendix IV, Table XIV) show that investment as a percentage of GDP averaged 26 percent during the peak period 1975-82, then declined to 20 percent on average in 1983-87, and to an estimated 17 percent in 1988-89; most of the decline was associated with reductions in public investment as countries sought to adjust to increasing external pressures and to secure higher returns on investment.

b. Competitiveness

An evaluation of the competitiveness of the CFA franc zone is a complex undertaking in view of the paucity of solid data. Nevertheless, four tentative conclusions can be derived from the following discussion. First, there is confirmation that the arrangements help member countries avoid large shifts in the standard real effective exchange rate indicators (REERs). Second, the stability of these indicators must be seen against the background of a deteriorating international environment, as discussed in the previous subsection. Third, while the documentation on costs and productivity levels is defective, there is evidence that cost levels in a number of countries in the zone are high. Fourth, the evidence on price and wage flexibility in the zone has been mixed.

(1) In keeping with expectations, real effective exchange rates in the CFA franc zone have been relatively stable since 1970. REERs can be given a number of somewhat different interpretations. First, they can be considered as simple indicators of relative

^{1/} See Fischer (1987).

purchasing power parity (PPP). 1/ Second, REERs may provide an indication of how multilateral exchange rate changes in relation to underlying cost developments are likely to affect trade or current account performance in each country. 2/ A third interpretation is that REERs are attempting to serve as a proxy for the ratio of tradable goods prices to nontradable goods prices. Often, the ratio is referred to as "the" real exchange rate. 3/ The key postulate is that the ratio represents the domestic cost of producing tradable goods and is a summary measure of the incentives guiding resource allocation between the two sectors of an economy. The popularity of this concept can be traced to the fact that for most small open economies, the prices of tradable goods can be considered to be exogenously given, and that for the analysis of certain policy issues--in particular, the repercussions of domestic policies for internal and external balance--the two-sector framework can prove extremely useful. One difficulty with applying the framework in practice is finding good proxies for nontradable and tradable goods prices. Often some weighted average of partner country prices is used as a proxy for tradable goods prices, while for the home country some local price index is used. As a result, CPI-based REERs tend to be used as a rough approximation. 4/ 5/

The expectation that the exchange arrangement should serve to avoid large shifts in the standard REERs is closely linked to the ability of countries in the zone to keep their price and cost inflation rates closely aligned with those of France and the other industrialized countries. If this objective is achieved, the importance of the industrialized countries in the indicators should mean that the effect

1/ If trends in monetary growth and inflation are different between countries, then the exchange rate would be expected to adjust accordingly in the long run. PPP indicators can show the deviation from this long-run equilibrium. However, it should be noted that relative PPP is not expected to hold in the event of real rather than monetary disturbances between economies.

2/ The basis for this interpretation is usually the solution of some reduced form model of multilateral trade.

3/ See, for example, Edwards (1989).

4/ It should be noted that if the REER is constructed so that an appreciation is an upward movement of the index (as is typically done in the Fund), then the REER is a proxy to the ratio of nontradable goods prices to tradable goods prices, rather than the inverse.

5/ Only limited inferences can be drawn from REERs based on the use of CPIs. The problems are perhaps less serious for the relative PPP interpretation, although CPIs as general price level indicators have well-known limitations. As underlying cost indicators, CPIs may not adequately reflect factor cost developments or changes in productivity. For proxying the ratio of tradable goods to nontradable goods, the use of CPIs in partner countries will include nontradable goods prices in the proxy variable. The use of the CPI as a proxy for domestic nontradable goods prices will be biased by the inclusion of a possibly quite high imported goods component.

of differential price performance as a source of real appreciation or depreciation is relatively small.

An aggregate REER for the zone as a whole and covering the period 1970-1989 is shown in Chart 11. The weights used in the index are based on the direction of trade for aggregate imports and exports of the zone. ^{1/} This indicator shows that in the period up to 1979 there was a real effective appreciation of about 15 percent over the level in the early 1970s, principally reflecting the fact that inflation in the WAMU-- and particularly in Côte d'Ivoire, which has a high weight in the zone's aggregate CPI index--was generally somewhat above the average inflation rate in the zone's trading partners. Subsequent movements in the index owe much to the behavior of the U.S. dollar vis-à-vis the yen and the major European currencies, but some of the real appreciation from 1984 to 1987 occurred because the rate of inflation in Côte d'Ivoire and Cameroon did not decelerate as fast as it did in the other countries of the zone. ^{2/}

To give some further perspective, the behavior of a simple average of REERs for CFA franc zone and for other countries in sub-Saharan Africa is also shown (Chart 12). Clearly evident is the dramatic real appreciation experienced in a number of African countries outside the zone in the period from 1973 to 1983. These countries pursued macro-economic policies that resulted in inflationary developments inconsistent with their chosen exchange arrangements. Subsequently, certain countries (e.g., Ghana, The Gambia, Zaïre) implemented adjustment policies, including devaluations, that more than reversed the earlier overvaluation.

(2) REER indicators do not explicitly integrate terms of trade developments and other relevant characteristics such as the debt service burden into the assessment of a country's capacity to generate sufficient export earnings to sustain its growth. Thus, for example, the theoretical construct behind the tradables-nontradables price ratio indicator assumes that the terms of trade are exogenously given. While the terms of trade are given to a small open economy, they are not constant. Prices of imports and exports may behave quite differently

^{1/} The trade data cover the period 1983-86. The aggregate price index was constructed as a weighted average of member country CPIs. Weights were based on the proportion of total trade accounted for by each country.

^{2/} REERs for each country in the zone used in the Information Notice System are available on a monthly basis from 1978 onward. These are shown in Appendix IV, Chart II. Primary product export-weighted indices are shown in Appendix IV, Chart III. The most notable feature in the recent behavior of these indices is the divergence between Côte d'Ivoire's REER and those of other WAMU members and also that between Cameroon and its partners in BEAC. This behavior reflects the higher recorded rates of inflation in the largest countries in each bloc.

over time, and for the CFA franc countries, shifts in the terms of trade have been a major source of difficulty in maintaining external balance.

A major implication of the preceding remarks is that the adequacy of competitiveness and relative prices cannot be properly assessed independently of reference to other factors, such as the terms of trade and debt service burdens incurred, that bear on the maintenance of internal and external balance. ^{1/} The substantial deterioration in the terms of trade in the 1980s, and in particular the precipitous drop faced by certain CFA franc countries over 1986-88, suggest the need for a marked improvement in competitiveness. Similarly, it can be argued that the accrual of foreign debt in earlier periods should, if it is to be serviced in later periods, be accompanied by changes in the structure of output. In brief, exchange rate-adjusted relative price levels (REERs) serve in the main as a check of the broad consistency of monetary policy with the chosen exchange arrangement, but comparative stability in such indicators may be seen as less than adequate against the background of a deteriorating economic environment.

(3) Fragmentary evidence available on relative cost levels in Côte d'Ivoire and Cameroon suggests that, relative to certain comparator developing countries, wage costs may be higher than that justified by productivity differentials (Chart 13). The estimates for 1988 suggest that wage costs in manufacturing were about CFAF 1.9 million per employee per year in Côte d'Ivoire and Cameroon compared with CFAF 1.1 million in Morocco, CFAF 0.9 million in Malaysia, and CFAF 0.6 million in Mauritius. Although not directly relevant to the costs of producing tradable goods, civil service earnings often influence or are influenced by wage levels elsewhere in the formal sector, and these data show similar differentials. The relatively high level of costs appears to be confirmed by a comparison of output costs between Côte d'Ivoire and producers elsewhere for certain commodities. On the basis of a comparison made in 1986, the cost of a kilogram of cocoa was CFAF 470 in Côte d'Ivoire versus CFAF 375 in Malaysia; that of a liter of palm oil was CFAF 118 versus CFAF 58. A kilogram of cotton fiber cost CFAF 516 in Côte d'Ivoire as opposed to CFAF 466 in Pakistan, and a ton of pineapple cost CFAF 115 versus CFAF 80 in Thailand. ^{2/}

The cost situation does not, however, appear to be uniform across member countries of the zone. For example, cotton production costs are lower in Mali and Chad than in Côte d'Ivoire. The smaller countries in the zone have generally been better able to control price and cost

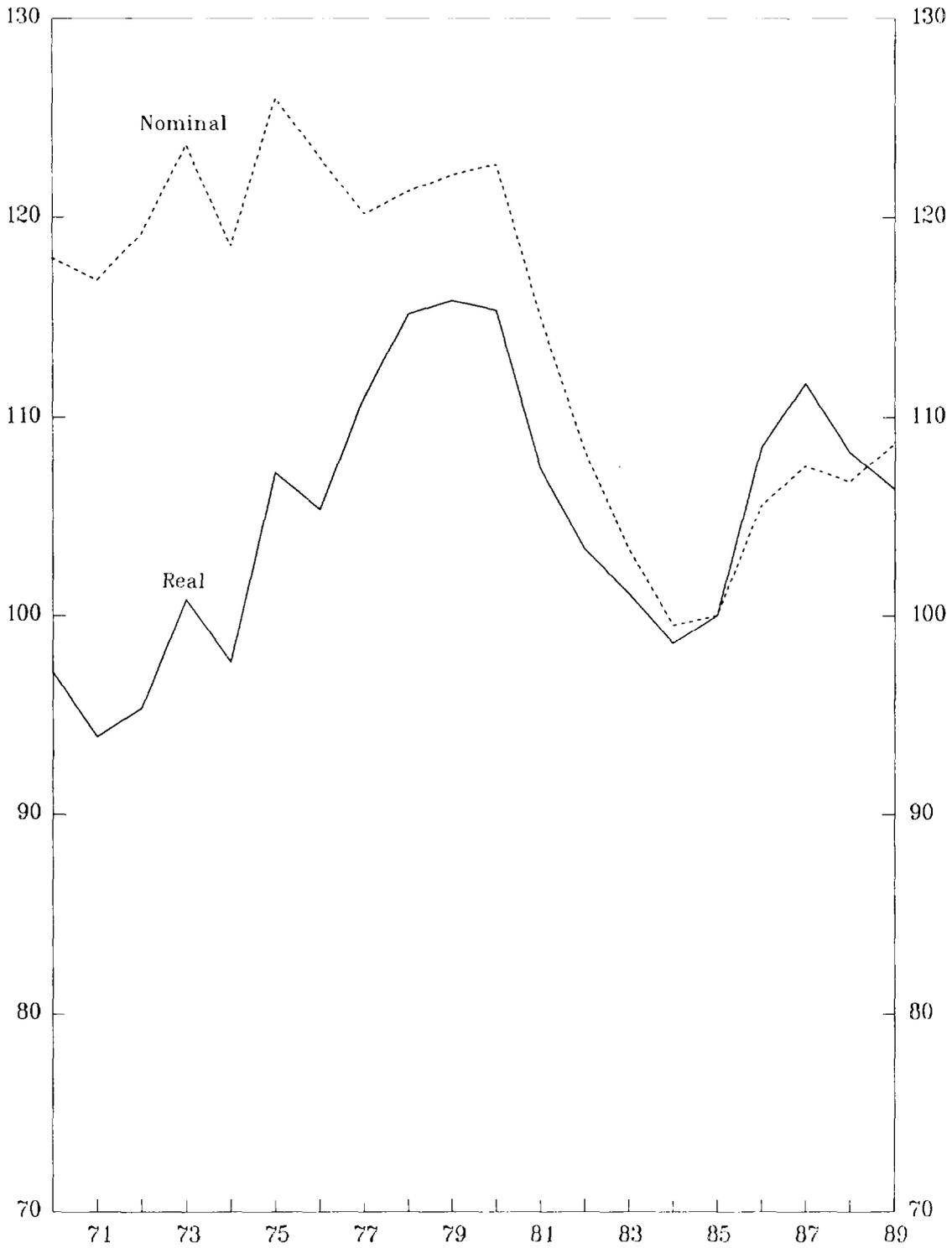
^{1/} Export prices could fall and import prices rise, leaving a composite index of traded goods prices unchanged. However, the trade account would deteriorate and supply incentives, for example, would clearly change between the export and import-substituting sectors.

^{2/} J.P. Barbier, "La Compétitivité Africaine," Marchés Tropicaux, December 29, 1989.

Chart 11

CFA Franc Zone: Effective Exchange Rate, 1970-89 ^{1/}

(1985=100)



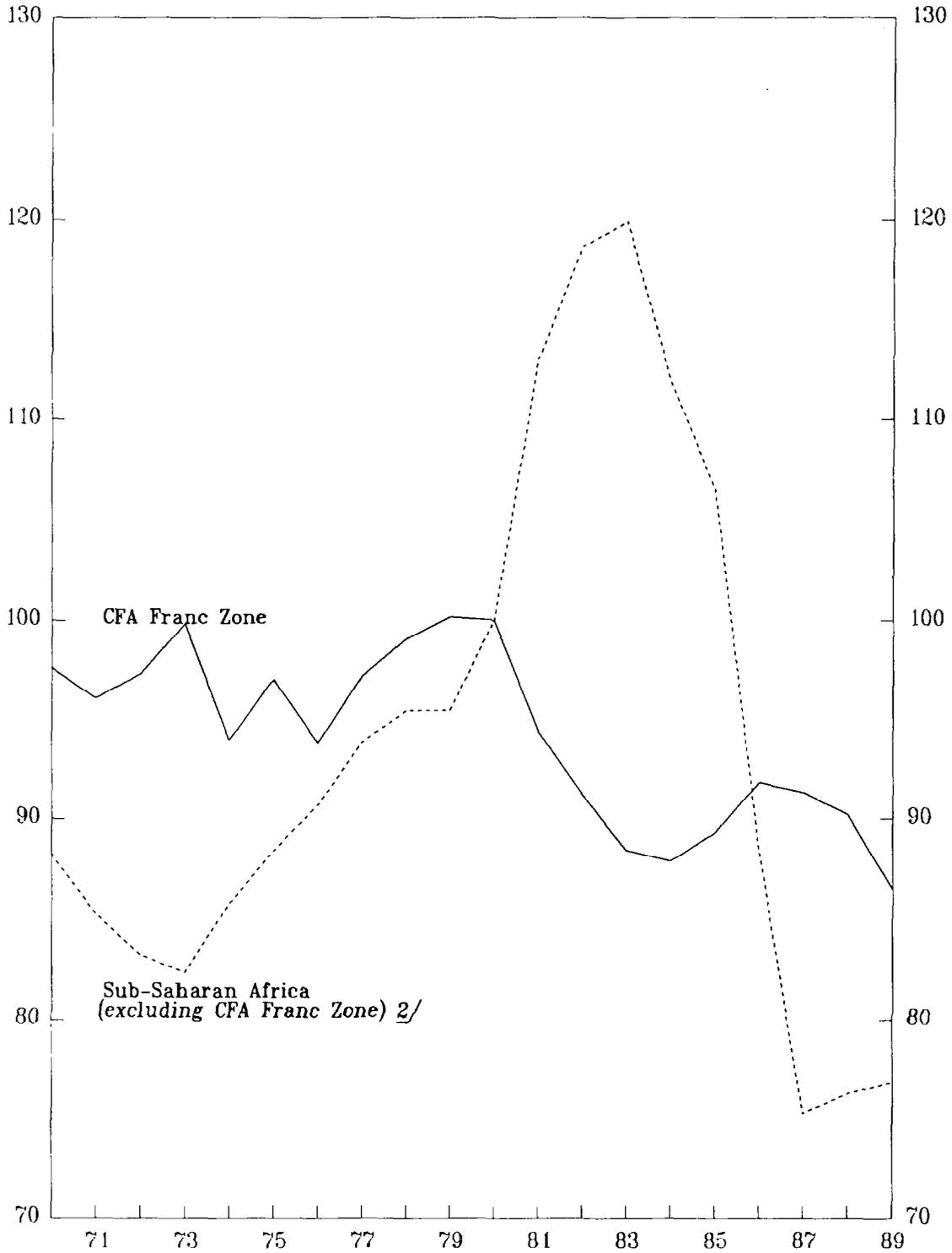
Source: Staff estimates.

^{1/} Trade-weighted index for the CFA Franc Zone as a whole.

Chart 12

Average Real Effective Exchange Rates, 1970-89 1/

(1985=100)



Source: Staff estimates and World Economic Outlook Database.

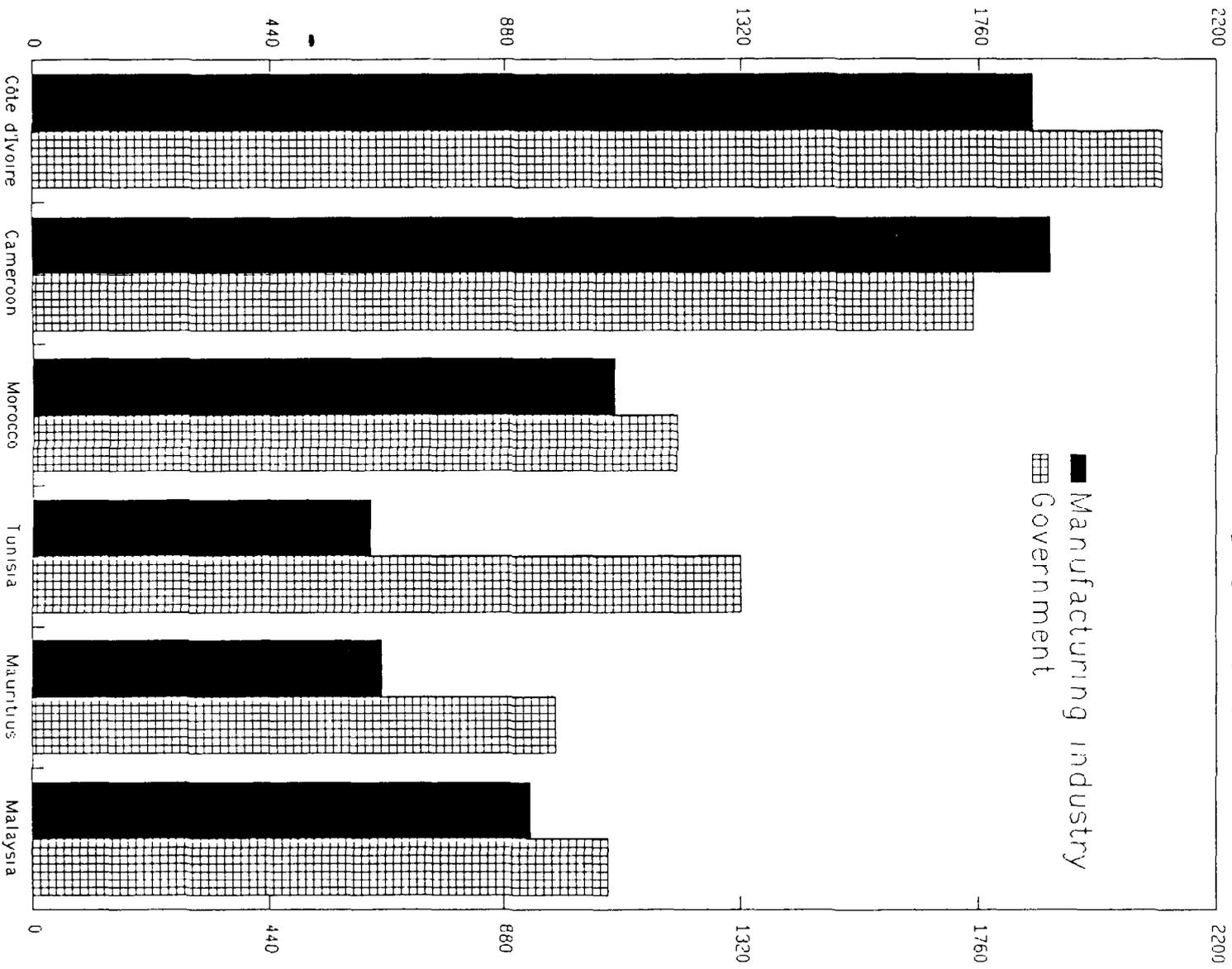
1/ Unweighted averages of country indexes.

2/ Excludes Nigeria.



CHART 13

Selected Countries
Labor Compensation, 1988
(In thousands of CFA francs per person per year)



Source: Data provided by authorities.

pressures than Côte d'Ivoire and Cameroon. ^{1/} In addition, the minimum hourly wage in industry varies from CFAF 67 in Mali to CFAF 124 in Cameroon and CFAF 191 in Côte d'Ivoire, and differences in average wages in both the public and private sectors are even larger (up to a factor of 6).

While the available data do not allow any strong inferences to be made about profitability in the industrial sectors of zone member countries, they do suggest that the level of wage costs in the larger countries is likely to prejudice further expansion and diversification in the nontraditional tradable goods sector (even if demand conditions within the zone were more favorable than they have been of late). There are also some indications--in the import data and from sources knowledgeable about trade conducted informally--that import penetration by neighboring countries outside the zone has increased in Côte d'Ivoire, Cameroon, and Niger. In particular, the achievement of real exchange rate depreciations by Ghana and Nigeria from positions of chronic misalignment in the early 1980s has served to increase regional competition for a range (albeit limited) of tradable goods.

While adjustment to terms of trade shocks in certain zone countries requires improvement in competitiveness in the nontraditional tradable goods sectors, the shocks have directly altered incentives in the traditional export sectors. A feature of the incentive system in a number of zone countries has been a policy of setting producer prices for key export crops to provide stable incentives and agricultural incomes. This system, however, has not been implemented flexibly and has tended to shield the agricultural sectors from the signals contained in international prices. With the volatility of prices in international commodity markets, a case has often been made for the operation of a stabilization fund (or insurance scheme) on behalf of producers (although not necessarily run by a government agency), but the pricing policies followed and the financial organization of the funds are crucial to their successful operation.

In Côte d'Ivoire and Cameroon, for example, producer prices for coffee and cocoa during the 1970s and the 1980s were changed infrequently and showed very little correlation with movements in international prices (Chart 14). Because of lagged adjustment to the commodity boom in the mid-1970s, producer prices were set at levels that yielded large surpluses to the stabilization agencies. These surpluses were committed to undertaking expenditures as mandated or directed by the fiscal authorities. As world prices of cocoa and coffee (in both nominal and real terms) started to fall after a local peak in 1984, domestic producer prices remained unchanged or were even raised in nominal terms; consequently, the financial position of the stabilization agencies deteriorated rapidly. As the drop in world prices continued,

^{1/} That the smaller countries may have succeeded better in price and cost adjustment can be inferred from the national REERs shown in Appendix IV, Charts II and III.

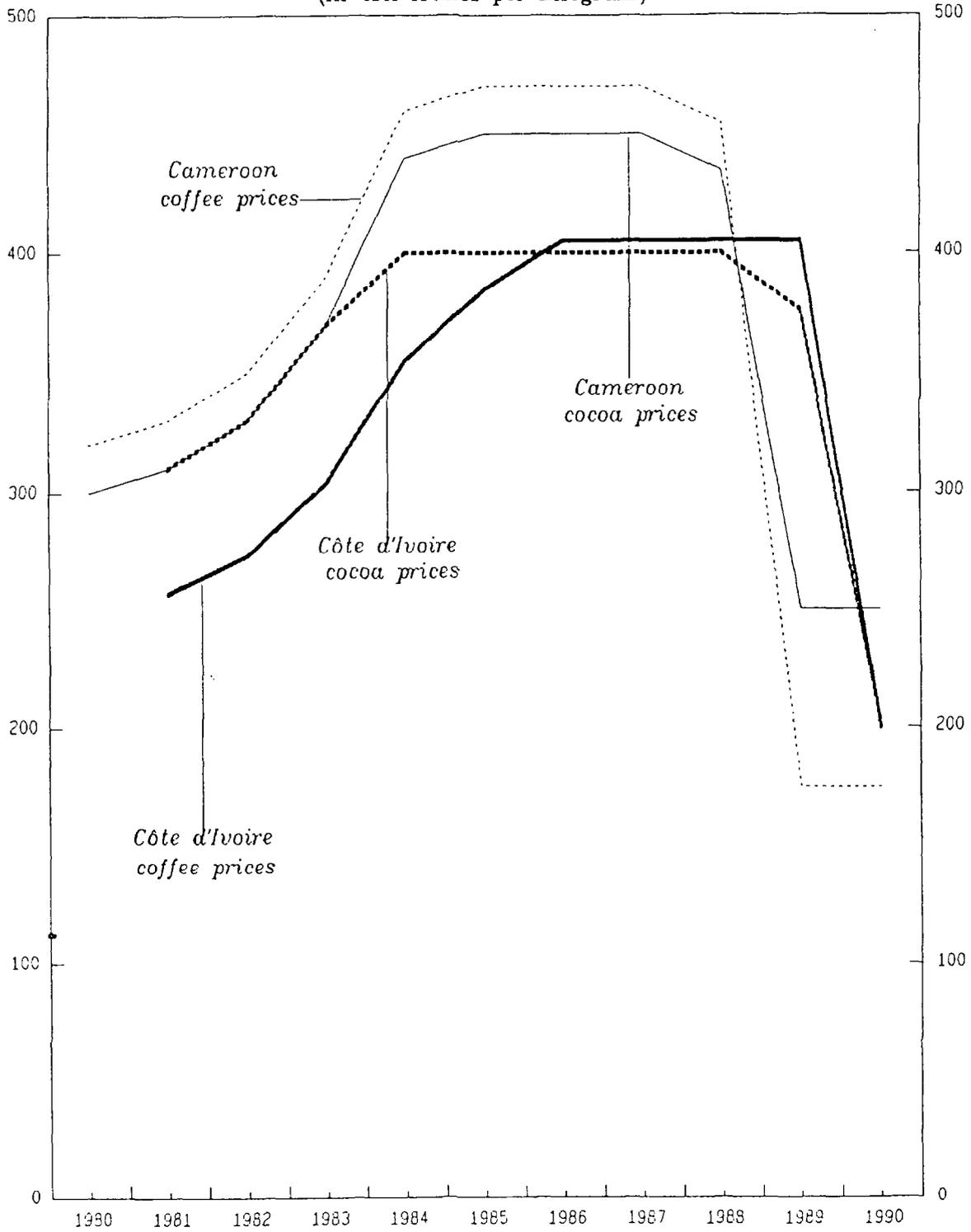
particularly after the collapse of the International Coffee Agreement in 1989, it became necessary to institute cuts in producer prices for coffee and cocoa without any substantial income support to the agricultural sector. As a result, producers (and more generally, the agricultural work force) are facing abrupt changes in income, incentives, and inter-crop price differentials to which it will be difficult to adjust in the short term. A better-designed and market-oriented producer pricing policy, as well as availability of usable resources for cyclical income support, would have permitted better signals to be transmitted to producers, together with somewhat smoother income streams. Similar considerations apply in other CFA franc countries in managing producer prices.

(4) With a fixed exchange rate, the prospects for improving competitiveness in member countries in the zone are dependent on the macroeconomic environment, the realization of efficiency gains, and the downward flexibility of nominal prices and factor costs. The evidence to date indicates that a number of zone countries have been slow in developing the macroeconomic policy mixes to give the necessary impetus to the process. Thus, for example, during 1985-88 underlying price developments in Côte d'Ivoire and Cameroon continued to move in the opposite direction to that required to improve competitiveness. Steps have been taken in a number of zone countries to improve the efficiency with which resources have been used, principally through restructuring and reforming the operations of marketing boards and nonfinancial public enterprises. However, gains from such structural reforms often tend to emerge gradually over time as they may depend also on such factors as access to technology and infrastructural adequacy which may change or be changed only relatively slowly.

The limited evidence available on the flexibility of wages in the zone has been mixed. In most countries, minimum wages have been frozen in nominal terms since the mid-1980s, resulting in substantial real reductions (Chart 15), although the possibility of some wage drift cannot be ruled out in the nongovernment sector. In several countries, pruning of fringe benefits has resulted in a reduction of government wage costs. However, employment guarantees have been an obstacle to cost adjustment in public enterprises. Particularly in Côte d'Ivoire and Cameroon, progress has been relatively slow, possibly reflecting the fact that their formal sectors, including government and the principal industrial and financial enterprises, are somewhat larger in an absolute and relative sense than in other countries of the zone. Labor in these sectors has so far proved resistant to downward pressure on nominal wages. A similar situation has prevailed in Gabon. A necessary (though not sufficient) condition for improving competitiveness in the nontraditional traded goods sectors has thus been difficult to satisfy. For this reason also there has been relatively little progress in modifying incentives in the traditional export sectors in the presence of reduced or static producer prices.

CHART 14

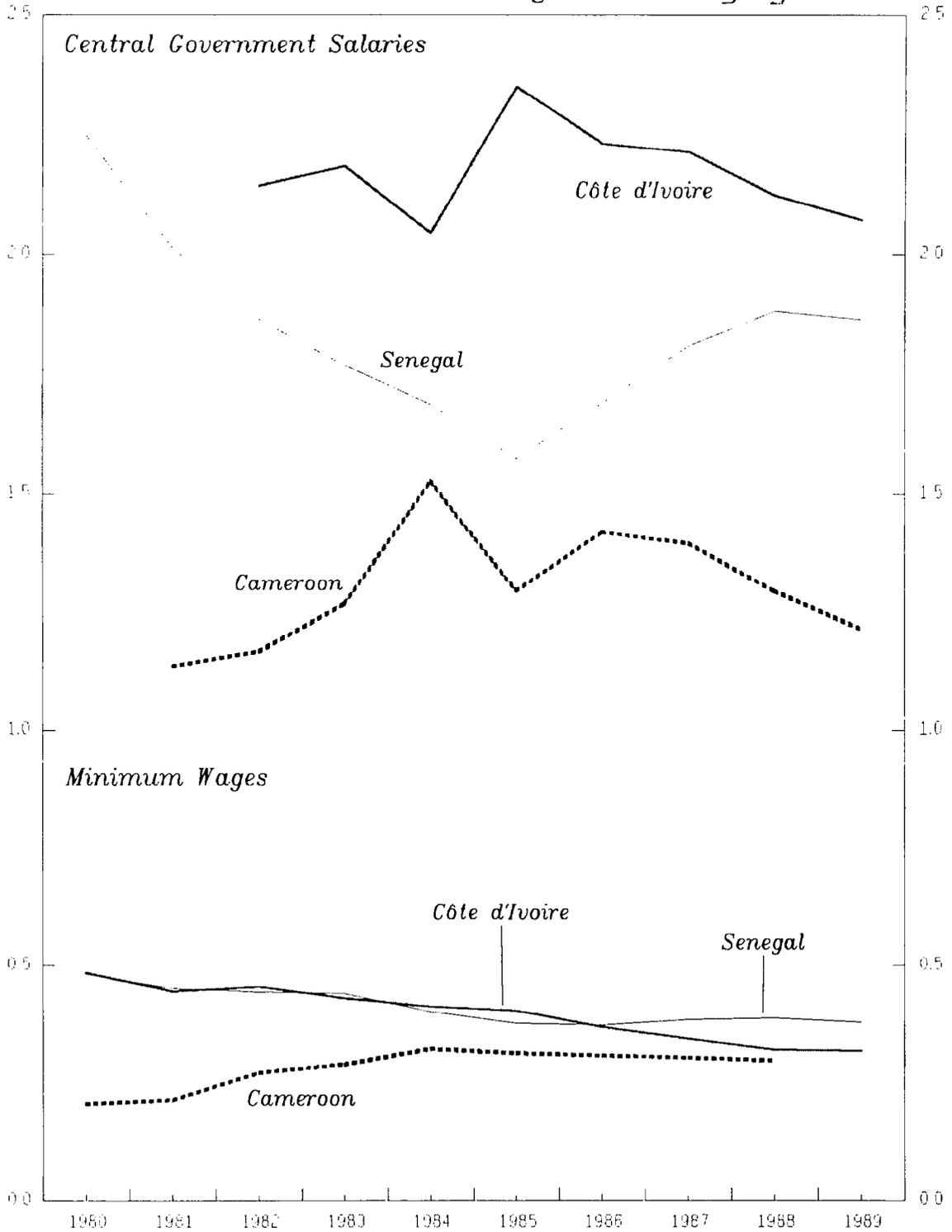
Cameroon and Côte d'Ivoire: Nominal Producer Prices,
1980-90
(In CFA francs per kilogram)



Sources: Data provided by the Cameroonian and Ivoirien authorities.

CHART 15

Selected Countries
Central Government Salaries and
Private Sector Minimum Wages, 1980-89 1/ 2/



Sources: Data provided by the authorities, and staff calculations.

1/ In millions of CFA francs per annum, at 1985 prices.

2/ Due to differences in concepts, data may differ from those in chart 13.

The above mixed experience suggests that the segmented and regulated labor markets have inhibited necessary cost adjustments. In part, the segmented nature of labor markets in the zone reflects factors such as the distance between countries, communication difficulties, and cultural differences. In some cases, the absence of restrictions on labor movements and repatriation of labor income have overcome these difficulties; Côte d'Ivoire has received an influx of workers from Mali and Burkina Faso, with transfer of labor income estimated in excess of 3 percent of Côte d'Ivoire's GDP in recent years. But such labor mobility has not been sufficient to create a unified market or to loosen to any large degree wage rigidities in the formal sectors.

c. External balance

The external balance of most countries in the CFA franc zone came under increasing pressure during the 1980s. Signs of this pressure included widening of current account deficits, continuing accumulation of external debt, and protracted recourse to exceptional financing.

The current account deficit (including transfers) of the CFA franc zone deteriorated abruptly in the latter part of the 1970s, averaging above 8 percent of GDP in 1978-82. The deterioration was particularly notable in Côte d'Ivoire, where expansionary demand policies, together with a decline in coffee and cocoa prices, caused the current account deficit to peak at 18 percent of GDP in 1980. The current account deficit for the zone as a whole narrowed briefly in 1984-85 owing to favorable developments in Côte d'Ivoire and the oil producers, but deteriorated again to 8-9 percent of GDP in the late 1980s (Appendix IV, Table XVI).

As a result of this external imbalance, the ratio of debt to GDP for the zone more than doubled to 77 percent between 1977 and 1984. Thereafter, the debt/GDP ratio was broadly stable as countries encountered increasing difficulties in securing access to net new financing--owing to arrears and other problems (Chart 16).

Despite these difficult circumstances, countries in the CFA franc zone have maintained the convertibility of their currencies. It is not clear, however, whether this form of external openness has been accompanied by a greater openness of their trade system. Accordingly, an attempt has been made to compare the main characteristics of the trade and exchange systems of the two largest CFA franc zone members, Cameroon and Côte d'Ivoire, and those of three other large African countries--Kenya, which pegs to a currency basket, and Nigeria and Zaïre, which maintain independent floating exchange rate arrangements.

The exercise confirms that the two CFA franc zone countries stand out as avoiding multiple currency practices and exchange restrictions on current transactions, enabling them to avoid the emergence of parallel exchange markets, as experienced by the other three countries (Table 3). However, contrary to expectations, the openness of the trade system is

Table 3. Summary of Exchange and Trade Systems of Selected African Countries, as of December 31, 1989 1/ 2/

	Côte				
	Cameroon	d'Ivoire	Kenya	Nigeria	Zaïre
Exchange arrangement					
Currency pegged to French franc	x	x	-	-	-
Currency pegged to a currency basket	-	-	x	-	-
Currency floating independently	-	-	-	x	x
Payments arrears	x	x	-	x	x
Bilateral payments arrangements with members	-	-	-	-	x
Restrictions on payments for current transactions and multiple currency practice <u>3/</u>					
Foreign exchange budget	-	-	x	x	-
Restrictive debt-equity scheme	-	-	-	x	-
Travel allowance <u>4/</u>	-	-	-	-	-
Export tax(es) through exchange system	-	-	-	-	x
Different rates in two or more exchange markets	-	-	-	x	-
Import duty drawback	-	-	x	-	-
Limits on remittances by nonresidents	-	-	x	-	-
Restrictions on payments for capital transactions <u>5/</u>	x	x	x	x	x

Sources: Data provided by the authorities.

1/ An x signifies that the specified practice is a feature of the exchange and trade system. A - indicates that the specified practice is not a feature of the system.

2/ All selected countries maintain Article XIV status. The currencies of Cameroon and Côte d'Ivoire are pegged to the French franc and that of Kenya is pegged to a currency basket. Nigeria and Zaïre maintain independently floating exchange rate arrangements.

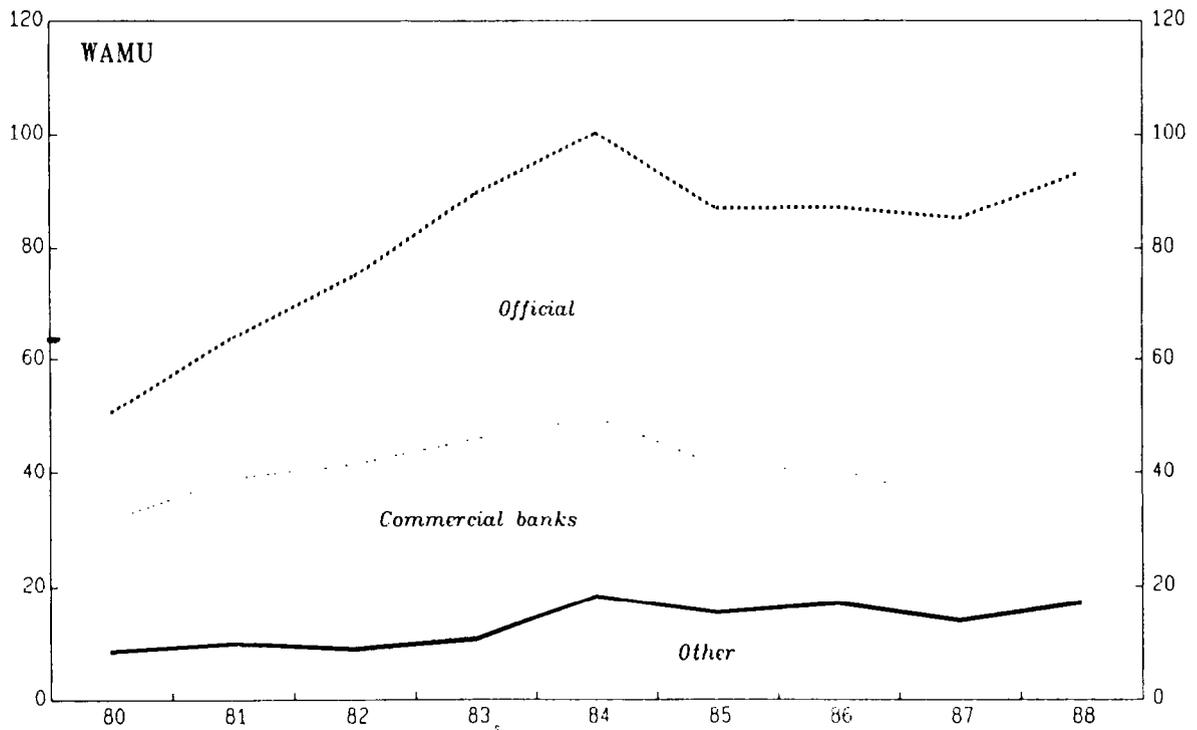
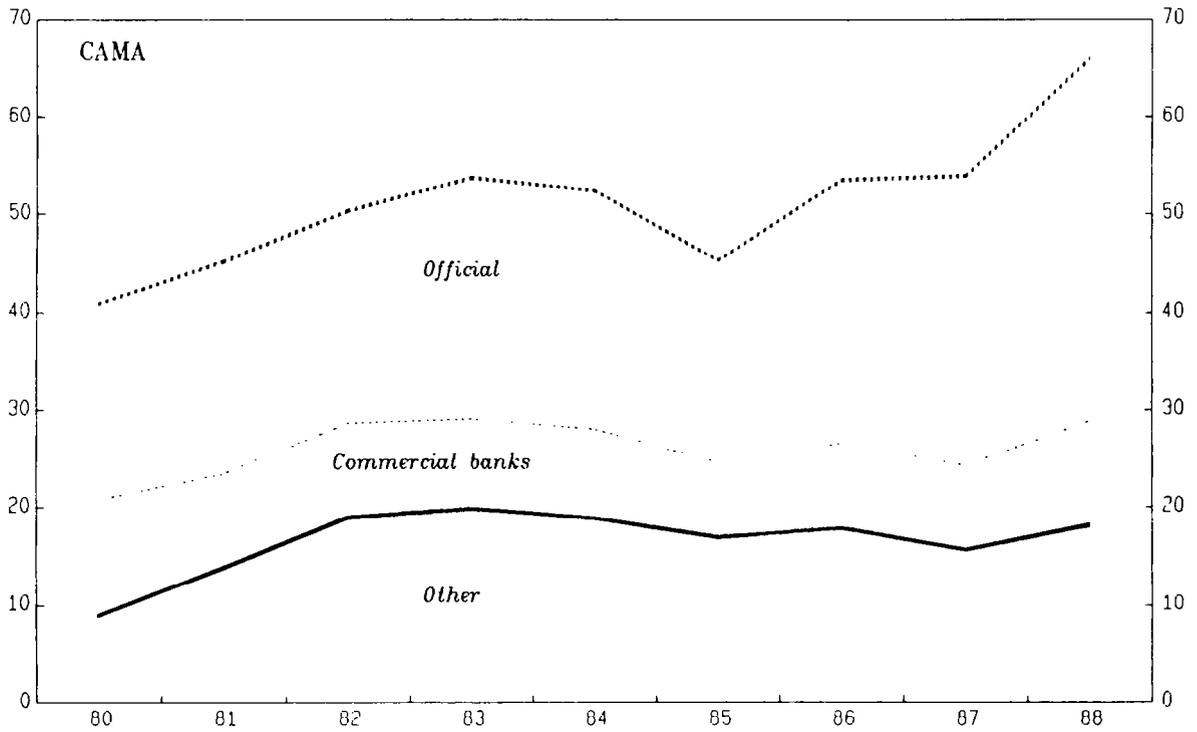
3/ All countries have repatriation/surrender requirements for export proceeds. Also, all countries, except Nigeria, require import licenses.

4/ Cameroon formally maintains a limitation on travel allowances.

5/ All countries have regulations governing direct investment, foreign borrowing, and borrowing by foreigners in the domestic markets. Capital transfers, including those by emigrants, generally require prior approval of the authorities.

CHART 16

CFA Franc Zone
External Public Debt Outstanding, 1980-88 ^{1/}
(In percent of GDP; end of period)



Source: IMF; WEO.

^{1/} Weighted averages.



not clearly greater for the two CFA franc countries than for the others (Appendix III). In fact, there are indications that tariff protection may be greater in the CFA franc zone countries than in the other three countries, and that all five countries have been pursuing strategies of inward-oriented industrialization through protected import substitution. However, all the countries embarked on significant trade reform in the 1980s, although Côte d'Ivoire, Kenya, and Zaïre did so earlier than Cameroon and Nigeria did. The major thrust of import trade reform has been to reduce reliance on nontariff measures and to improve the transparency of the trade systems. Of the five sample countries, Cameroon probably has the most complex and least transparent import system, relying on tariffs, entry duties, turnover taxes, and other charges, as well as nontariff measures, including quantitative restrictions. Côte d'Ivoire relies on tariffs, fiscal duties, value-added taxes, and other charges, and to some extent on nontariff measures including licensing, prior authorization, declarations, and some prohibitions and quotas. Kenya relies mainly on tariffs and, to a decreasing extent, on import licensing. Nigeria relies mainly on tariffs and, to some extent, on import prohibitions. Zaïre relies predominantly on tariffs and turnover taxes, as quantitative restrictions have been substantially liberalized. A comparison of the tariff and nontariff trade regimes of the five sample countries is presented in Appendix III.

In common with most African countries, the CFA franc zone countries maintain Article XIV status in the Fund, although their exchange system is free of restrictions on payments and transfers for current international transactions. In these circumstances, there is no advantage to maintaining Article XIV status. However, before accepting Article VIII status, the authorities would have to satisfy themselves that they are not likely to need recourse to restrictive measures in the foreseeable future (Decision No. 1034-(60/27) of June 1, 1960).

d. International perspective

International comparisons of country groups can be subject to severe methodological problems and pitfalls. First of all, the comparisons tend to be sensitive to the choice of comparator samples and to the choice of time periods. Second, the results may depend on whether the comparison is made in weighted (for example, by GDP) or in unweighted terms. Third, it is often difficult to take into account or to isolate in a rigorous fashion the importance of particular factors bearing on differences in economic performance across countries. ^{1/} These difficulties notwithstanding, an attempt is made here to gain some additional perspective by comparing the economic performance of the CFA franc countries with that of other sub-Saharan African countries.

^{1/} This point is closely related to the issue of how to evaluate the effects of Fund stabilization programs using multicountry data. See, for example, Goldstein and Montiel (1986).

Selected indicators of economic performance for the CFA franc zone countries and for other sub-Saharan African countries are presented in Table 4. Unweighted averages are used in this exercise, as the focus of the comparison is on country performance rather than group-wide results. The comparison is made for two periods, 1970-84 and 1985-89, to reflect the changing behavior of terms of trade in the mid-1980s and to bring into focus developments in the recent past. In the grouping of countries, Nigeria is considered separately because of its large size relative to other countries in sub-Saharan Africa and because it is generally classified as an oil exporter, as are Cameroon, Congo, and Gabon. In addition, the remaining group of 27 non-CFA franc zone countries in sub-Saharan Africa is divided into two groups: those countries that have experienced severe inflationary episodes and those that have not. 1/

The results of the comparison show clearly that, from the vantage point of inflation performance, the monetary and exchange rate arrangements of the CFA franc zone have served the interests of the zone's members well (Chart 17). In the period 1970-84, the simple average annual average inflation rate was 10 percent for the group of CFA franc zone countries versus 17 percent for the group of other countries. This differential widened in the period 1985-89; inflation in the CFA franc zone countries fell to an average of 2 percent, while that for the other countries (not including Nigeria) increased to an average of 30 percent. The comparison is somewhat biased, however, by the presence in the non-CFA franc group of some countries with very high inflation rates. Comparisons of the growth of broad money yielded results similar to those for inflation. The differential in rates of growth of broad money in the CFA franc and non-CFA franc zone countries was relatively small during 1970-84, but it widened substantially in the period 1985-89, largely because of an acceleration in the growth of money in 11 "high inflation" countries in the latter group.

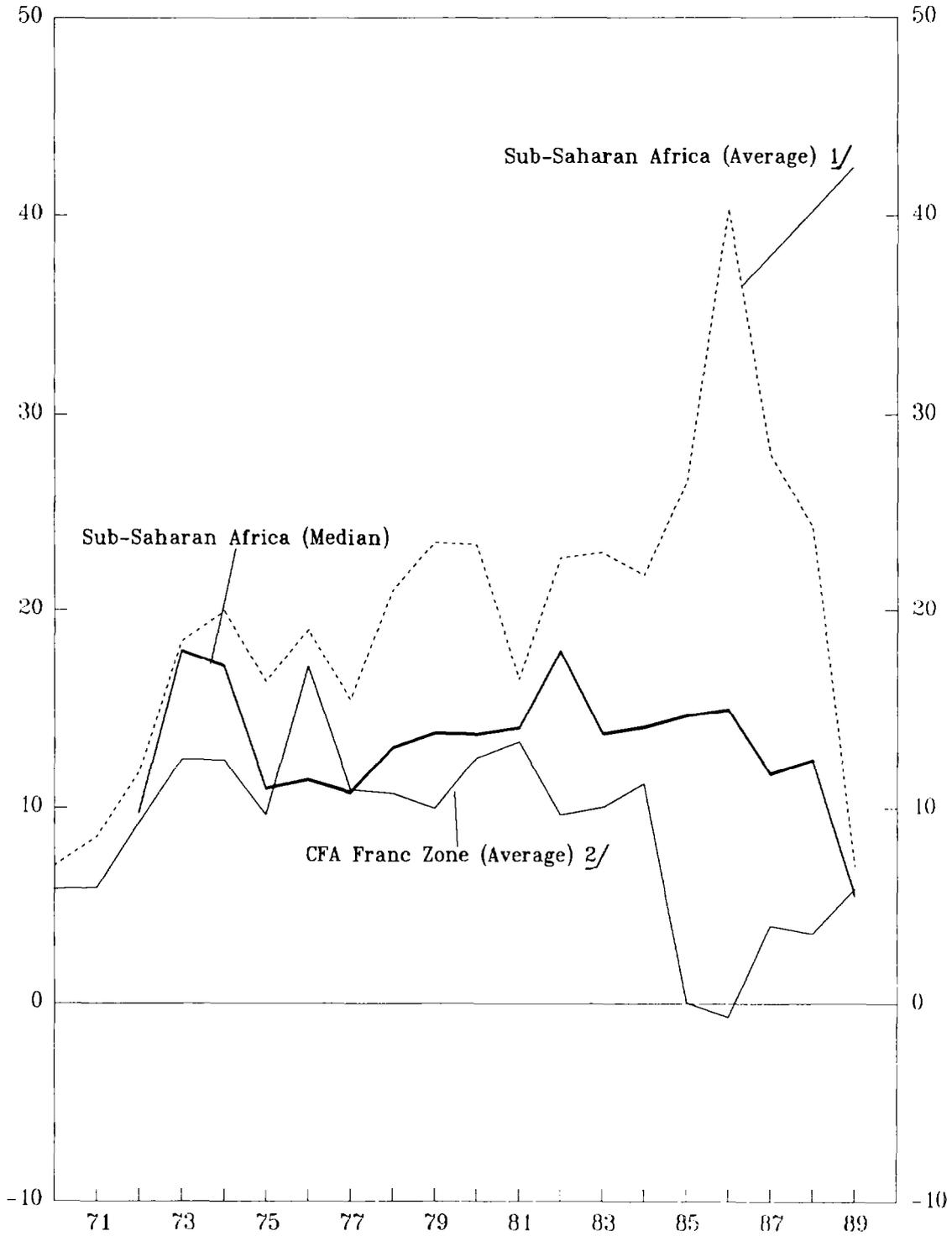
The greater price stability in the CFA franc zone was sustained in the 1970-84 period by a firmer control over the public sector and external account imbalances. The average general government deficit (after grants) was 4 ½ percent of GDP in 1970-84 in the CFA franc countries compared with 6 percent for Nigeria as well as the average for the group of other sub-Saharan countries. In 1985-89 the ratio increased to over 6 percent in the CFA Franc countries, to over 7 in Nigeria and to nearly 10 percent in the other countries. The smaller general

1/ Angola, Botswana, Equatorial Guinea, Mali, Mauritius, and Seychelles are not included in the data set. There were insufficient data for Angola. Equatorial Guinea and Mali were in the CFA franc zone for part of the period covered and outside the zone for the remainder. Botswana, given a small economic base in 1970, has recorded a very high compound average growth rate, which makes it a clear outlier in terms of economic performance. Mauritius and Seychelles are small island economies with per capita incomes considerably in excess of those achieved by other sub-Saharan African countries which do not export oil.

Chart 17

CFA Franc Zone: Inflation Performance, 1970-89

(Consumer Price Index Changes)



Source: World Economic Outlook Database.

1/ Unweighted average excluding Nigeria.

2/ Unweighted average.

Table 4. Economic Indicators for CFA Franc Zone and Other Sub-Saharan African Countries ^{1/}

(Average annual rates and average ratios)

	CFA Franc Zone			Nigeria	Other Sub-Saharan		
	Total	Oil Exp.	Rest		Total	High Infl.	Rest
<u>1970-84</u>							
Inflation rate	9.9	10.9	9.5	17.4	17.5	27.0	10.9
Growth of broad money	18.0	20.7	17.0	24.1	18.3	23.1	15.1
Fiscal deficit/GDP	-4.5	-5.2	-4.2	-6.0	-6.2	-4.1	-7.7
Exports/GDP	30.3	41.3	26.2	78.2	38.1	36.4	39.3
Current account/GDP	-5.1	-5.8	-4.8	-3.2	-7.6	-10.2	-5.9
Change in terms of trade	2.3	7.2	1.2	11.5	0.5	-1.5	1.9
Real effective exchange rate ^{2/}	96.2	94.3	97.0	90.9	96.6	89.6	102.2
Debt/GDP	37.3	48.0	33.3	29.1	42.5	54.3	34.4
Debt/Exports	122.5	113.4	126.0	46.6	168.4	251.2	111.5
Debt service/Exports	15.8	15.5	15.9	5.6	12.0	17.1	8.4
Growth of real GDP	2.4	4.4	1.7	1.8	2.6	2.4	2.7
Growth of real GDP per capita	-0.1	2.2	-1.0	-1.2	-0.2	-0.5	—
<u>1985-89 ^{3/}</u>							
Inflation rate	2.4	3.1	2.2	19.0	30.6	58.2	10.3
Growth of broad money	3.6	-0.2	5.0	17.7	33.0	58.0	14.6
Fiscal deficit/GDP	-6.1	-8.9	-5.0	-7.1	-9.9	-9.1	-10.4
Exports/GDP	28.9	37.8	25.5	36.6	29.7	18.6	37.3
Current account/GDP	-7.4	-12.1	-5.7	-7.5	-7.6	-8.7	-6.8
Change in terms of trade	-9.4	-16.3	-6.8	-20.5	-3.5	-2.9	-4.0
Real effective exchange rate ^{2/}	91.8	99.9	86.3	66.8	84.6	71.1	95.4
Debt/GDP	80.8	110.1	69.8	99.9	106.7	124.4	94.6
Debt/Exports	275.9	275.3	276.2	299.5	562.7	863.0	356.2
Debt service/Exports	21.4	28.1	18.9	27.7	27.1	33.4	22.7
Growth of real GDP	1.8	-2.0	3.2	3.8	3.0	2.4	3.4
Growth of real GDP per capita	-0.7	-4.0	0.6	1.1	—	-0.2	0.2

Source: World Economic Outlook data base and IFS.

^{1/} Excluding Angola, Botswana, Equatorial Guinea, Mali, Mauritius, and Seychelles; unweighted averages for the countries in each column.

^{2/} 1980 = 100; period average.

^{3/} The changes were calculated over a five-year period, 1984 to 1989.

government deficits in the CFA franc zone countries in 1970-84 contributed to smaller external current account deficits relative to GDP. However, the deterioration in fiscal performance of the CFA franc zone countries was accompanied by a substantial worsening of the terms of trade of these countries in 1985-89. Consequently, the ratio of the current account deficit to GDP of the CFA franc zone countries rose to close to the level of the other sub-Saharan countries (excluding Nigeria).

A comparison of real effective exchange rate levels between the two periods indicates some small depreciation, on average, for the CFA franc zone countries. However, the oil exporters appreciated by about 5 percent, whereas the non-oil CFA countries depreciated by 11 percent on average. For the oil exporters, there is a strong contrast with Nigeria which, following rapid appreciation in the late 1970s and early 1980s, depreciated sharply in real terms thereafter. As a result, the real exchange rate for Nigeria in the later period was substantially below the average level attained during the period 1970-84. The "high inflation" countries also recorded a real depreciation in 1985-89 relative to the average level of the earlier period. For the low-inflation countries in sub-Saharan Africa, real depreciation recorded was similar to that experienced by the non-oil CFA franc countries.

The experience of CFA franc zone countries and other sub-Saharan African countries with regard to external debt has been broadly similar. Debt to GDP ratios were of a similar order of magnitude both in 1970-84 and 1985-88. For both groups, these ratios approximately doubled between the two periods.

The better inflation performance of the CFA franc zone countries and the stability of the exchange and monetary arrangements over a long period of time could be considered as important elements in providing an economic environment conducive to growth. However, growth is a complex and imperfectly understood process, and it is very difficult to isolate the importance of financial stability in the process across diverse country groupings. Thus, while growth was of a similar order of magnitude on average between the CFA franc zone countries and other sub-Saharan countries during 1970-84, sub-groupings show much more diversity. The oil exporters in the CFA franc zone grew more rapidly than their partners in the CFA franc zone and other comparator groupings. ^{1/} For the non-oil CFA franc countries, growth was lower by roughly a percentage point than in other sub-Saharan comparator groupings. As the non-oil CFA franc grouping includes a number of Sahelian countries, part of the difference in performance can probably be ascribed to the impact of severe drought conditions in that region.

^{1/} It should be noted, however, that only in the 1980s did Cameroon emerge as a major oil exporter which provided a fillip to its growth performance (and that of the average for the oil grouping) late in the 1970-84 period.

In the 1985-89 period, growth in the CFA franc zone was considerably lower than that achieved elsewhere in sub-Saharan Africa (Chart 18). However, the non-oil CFA franc countries improved their performance on average compared to the earlier period, particularly if Côte d'Ivoire, which experienced negative real growth, is excluded. It should be noted that the terms of trade deterioration was greater for this grouping than for the non-CFA franc groupings. The CFA franc oil exporters experienced an even larger terms of trade deterioration in the mid-1980s, and growth was significantly negative thereafter.

IV. Current Policies and Reforms

As described in the previous section, the recent performance of most CFA franc zone countries--as well as a large number of other sub-Saharan African countries--has been severely affected by a sharp deterioration in the terms of trade and policy weaknesses, particularly in the fiscal area. The interaction of an unfavorable external environment and weak fiscal policies has seriously tested the viability of the common monetary arrangements. In the circumstances, the majority of the CFA franc zone countries have undertaken, with Fund and World Bank assistance, financial and structural adjustment programs designed to reduce domestic and external imbalances and improve international competitiveness. However, the timing, strength, and comprehensiveness of the adjustment policy packages have differed from case to case. For example, in Senegal and Togo, the adjustment process was initiated at an early stage, and despite occasional slippages in policy implementation, significant progress has been achieved in reducing fiscal imbalances and implementing structural reforms. In Cameroon and Côte d'Ivoire, as well as in Congo and Benin, the process of developing and implementing an appropriate mix of macroeconomic and structural policies has been relatively slow, thereby constraining the performance of the CFA franc zone as a whole.

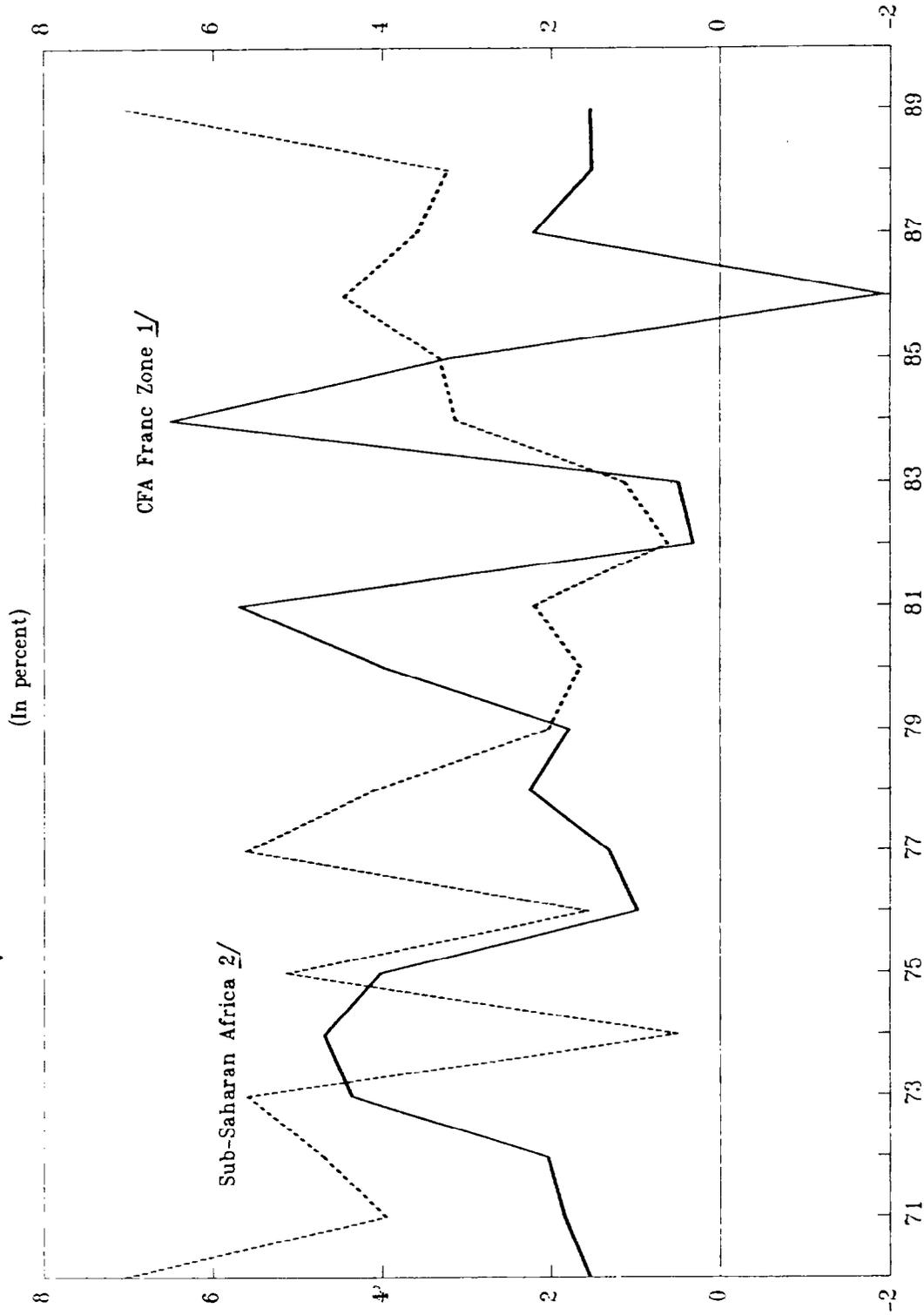
Despite the delays in the adoption of appropriate programs in some countries, sound macroeconomic and structural adjustment policies are being pursued. If fully implemented, and adapted where necessary in the light of changing circumstances, these policies would reinforce the credibility of the common monetary arrangements and help restore sustainable economic growth over the medium term. Nevertheless, in view of the magnitude of the external shocks and the limited prospects for a significant recovery in world market prices for a number of their principal export commodities, the authorities are keenly aware that they will be facing a difficult transitional period over the next few years.

While mindful of the importance of exchange rate policy, the authorities firmly believe that there is no substitute in the current circumstances of the CFA franc zone countries for the implementation of strong budgetary, monetary, and structural measures to reduce the fiscal and external imbalances and to bolster the trends already initiated toward lower domestic factor costs and prices. Based on the experience

of other African countries, the authorities are convinced that only through such measures can a durable adjustment be achieved. The stability of the exchange rate, the free convertibility of the currency, and the maintenance of an exchange system that is free of restrictions provide, in their view, a framework which is conducive to a sound restructuring of the economy in an environment of price stability. Based on these considerations, the authorities of the CFA franc zone countries have, individually and collectively, developed over the last two years a strategy focused on reducing public sector imbalances, strengthening the efficiency of monetary policy, and improving international competitiveness. Even though much remains to be done, mainly in those countries which have been late to adjust, the measures undertaken and planned in these three major areas represent a credible and substantial reinforcement of adjustment policies.

Given the size of the fiscal imbalances in most of the CFA franc zone countries, and the amount of payments arrears accumulated in some of them, the adjustment strategy emphasizes the reduction of the fiscal deficits to levels that can be financed by sustainable domestic and external resources. In order to achieve further and desirable improvements in these areas, substantial reforms are under way in most countries to rationalize the tax system, improve tax administration, cut back nonessential government expenditure, and strengthen budgetary controls. Thus, on the revenue side, concerted efforts are being made, notably in Chad, Mali, Senegal, and Togo, to enlarge the tax base, increase assessments and collections, and combat fraud and evasion. Specific measures have been introduced in several countries to improve taxation of the informal sector, reduce the scope of exemptions, and promote tax equity. An important feature of these efforts is the need to reduce reliance on export and import taxes and to compensate for a desirable reduction in the level of effective protection. At the same time, many country programs have entailed strict limits, if not sharp cuts, in government expenditure, especially the wage bill and nonessential current outlays. Although cuts in basic wages have been difficult to implement, a reduction in the share of the wage bill in total expenditure is being achieved in the majority of CFA franc zone countries through a combination of measures, including a freeze on promotions, reduction in allowances and indemnities, rigorous implementation of retirement procedures, strict limits on recruitment, improved control of the payroll, and programs of voluntary departure. In addition, the fiscal burden of public enterprises on government finances is being reduced in most countries. Progress in this area is being achieved partly through divestiture of public enterprises and partly by improvements in the organization, management, staffing, and pricing policies of key enterprises remaining in the government portfolios. Finally, improvements in the structure and control of public spending are being effected in many countries, including the preparation of rolling public investment programs with World Bank assistance.

Chart 18
CFA Franc Zone: Average Growth in Real GDP, 1970-89



Source: World Economic Outlook Database.

1/ Unweighted average.

2/ Unweighted average excluding Nigeria.

Faced with sharp reductions in export prices for agricultural commodities and large losses in the operations of marketing agencies, almost all countries have implemented strong measures to restore financial equilibrium in these sectors. In particular, producer prices have been reduced appreciably, export taxes removed (in several cases), and marketing costs rationalized; the reforms implemented in most of the countries have been designed to link farm prices to world market prices with a view to eliminating subsidies. Moreover, incentives have been introduced to encourage increased productivity, promote a better distribution of risks among the various participants in the production and trade process, and improve efficiency in the operations of the key marketing agencies.

In close coordination with the reinforced fiscal policies, the monetary authorities have applied since 1988 more rigorous monetary and credit policies directed toward improving the allocation of economic resources, enhancing the mobilization of domestic savings, and strengthening the financial sector and the balance of payments. As part of a comprehensive reform plan adopted by the Council of Ministers of the West African Monetary Union (WAMU) in 1989, quantitative credit controls will be progressively replaced by a system of market-oriented instruments of monetary management. In this context, as previously noted, the system of sectoral credit controls has already been abolished, and crop credit is no longer given preferential treatment outside the overall credit ceilings. Furthermore, the normal and preferential discount rates of the BCEAO have been unified, and the role of the money market is being expanded. Similar measures, such as the tightening of the crop credit system, have been introduced in the Central African Monetary Area. At the same time, in the two currency groups, a number of publicly owned commercial and specialized banks plagued with nonperforming portfolios, inadequate management, and excessive operating costs have been liquidated or are being substantially restructured. To assist in the rehabilitation of the restructured banks, the governments have made or are making arrangements for their recapitalization, as well as for securing external support on concessional terms. In addition, the BCEAO has agreed to consolidate already rescheduled excess debit balances, and part of its outstanding credit to the restructured banks. At the same time, all other banks are being urged to improve their management and credit control with a view to reducing costs and restoring sufficient profitability. This focus on improving the health of financial institutions is further supported in the WAMU by a revision of the banking legislation and the creation of a supranational banking commission in February 1990. Based on the experience gained during the recent crisis, attention is also being given to putting in place new financial institutions more in tune with the needs of economic restructuring and recovery; this will entail, for example, the revitalization of the securities market in Côte d'Ivoire, and the introduction in several countries of a credit system adapted to the needs of small- and medium-scale enterprises.

In tandem with the new fiscal and monetary policies designed to reduce domestic expenditure to a level compatible with available resources, most countries are implementing a wide range of structural reforms aimed at improving economic efficiency and international competitiveness with a view to boosting nontraditional exports and encouraging efficient import substitution. These reforms involve lowering factor costs, reducing distortions and rigidities, and increasing reliance on the private sector. Although the beneficial effects of these reforms are likely to materialize only with some lags, several governments in the zone have undertaken or are in the process of making the necessary revisions in their legislative framework to deregulate the labor market, liberalize foreign and domestic trade arrangements, and lift price controls. These steps, in conjunction with a reduction in public utility rates and taxes effected in a number of countries, should help lower factor costs and encourage private enterprises to intensify the productivity-boosting and restructuring efforts already begun in response to the economic crisis.

The sustained implementation of the adjustment policies described above should help reduce substantially the domestic and external imbalances in the CFA franc zone countries over the medium term. However, notwithstanding their commitment to adjustment, the external debt overhang of some of these countries, notably the middle-income countries, will remain a serious constraint on the prospects for achieving sustained economic growth in the context of balance of payments viability. For this reason, these countries--as well as other sub-Saharan African countries--will continue to require financial assistance on an appropriate scale and concessional terms over a number of years. In some cases, debt and debt service reduction operations will also need to be implemented in a phased manner.

V. Issues for Discussion and Concluding Remarks

In considering the role and operation of the CFA franc arrangements, two main issues may be considered for discussion. First, how effective have the arrangements been in providing an anchor for monetary policy and, more generally, for the implementation of a consistent set of macroeconomic policies? Second, what policy options are available to the member countries of the CFA franc zone to achieve external viability and maintain or restore the momentum of growth over the medium term?

The issue of the effectiveness of the CFA franc arrangements in promoting appropriate macroeconomic policies admits of no simple answer. From a strictly monetary perspective, the arrangements have been quite successful, as they have served to prevent member governments from resorting to inflationary finance from the banking system. Consequently, inflationary performance has been broadly comparable to that of the major industrialized countries. Limited recourse to domestic bank financing has also constrained the deterioration of the net foreign assets position of the zone's central banks, and, in

conjunction with pooling arrangements and support from France, has permitted the parity and currency convertibility to be maintained. To the extent that such monetary stability was a principal objective, the arrangements can be judged to have served the members well over a considerable period of time.

From a broader perspective, the arrangements were expected to provide a framework within which the member countries would implement fiscal policies consistent with both domestic and external objectives. For a considerable part of the period since the arrangements were established, these fiscal objectives were achieved in broad terms. However, in the late 1970s and early 1980s, considerable foreign borrowing was undertaken by member countries of the zone to finance overly ambitious expenditure commitments. The consequent debt service burdens have required exceptional foreign financing through reschedulings and/or the accumulation of external payments arrears. Moreover, the difficulties encountered of late by particular countries in achieving the requisite adjustment in public sector imbalances have also resulted in costs in the form of large domestic payments arrears and portfolio cum liquidity problems in the domestic banking systems. These problems have been especially severe in the two largest countries of the zone.

Regional surveillance in the context of the monetary and exchange arrangements has not played a sufficient role in restraining members' fiscal policies. The problems associated with inadequate fiscal restraint have been exacerbated by severe terms of trade shocks to certain countries, further complicating the task of external adjustment. Against this background, if the present parity with the French franc is to be maintained, two closely related policy requirements appear to be essential.

First and foremost, there is a pressing need for a sharp reduction in public sector imbalances. Inadequate fiscal adjustment, together with the limits on available external financing, has led to a large buildup of domestic payments arrears in several countries. These arrears have undermined the financial viability of the banking systems and have threatened to jeopardize the stance of monetary policy aimed at price stability and external adjustment. Unfortunately, fiscal retrenchment will have to be implemented in an unfavorable domestic environment in which the revenue base is being constrained by falls in income and reduced domestic demand. In addition, a necessary condition for an improvement in growth prospects is to deal with the liquidity and associated problems in the domestic banking systems. Consequently, external assistance to ease liquidity difficulties and to restructure the public enterprises and the banks could prove indispensable.

Second, with the exchange rate fixed at the present parity, downward flexibility in nominal prices and costs is needed in order to improve competitiveness and to provide appropriate incentives in the key traded goods sectors. Despite good performance on inflation, there are clear indications that, in several zone countries, the level of costs is

too high relative to recent trends in export prices and in the face of reduced levels of domestic demand. Achieving an improved cost structure will be facilitated by continuing with structural and regulatory reforms, particularly domestic liberalization measures, aimed at enhancing efficiency and improving productivity performance. If the countries in the zone are unable to achieve downward flexibility of unit input and factor costs (including through administrative means), both the traditional export sectors and other tradable goods sectors will be subject to price-cost pressures. In this case, movements in income differentials between urban and rural areas following the recent reduction in producer prices would not be mitigated. The restructuring of banking systems that is under way in several zone countries could also be prejudiced. But with regional disparities in wage costs and in administratively controlled wage floors, there is scope for member countries to reduce labor market segmentation by encouraging labor mobility between countries and by reducing national labor market regulation. By such measures, downward flexibility in nominal wage costs in response to market signals could be increased.

While structural and regulatory reforms will be essential to improving efficiency and competitiveness, a considerable part of the burden for achieving relative price realignment in the larger countries will have to come about indirectly as a result of demand reductions induced by fiscal adjustment. Labor resistance to downward pressure on wages has emerged in several countries of the zone, indicating that the current strategy carries with it the risk that the real exchange rate realignment may not occur quickly enough to avoid delay in the return to external viability consistent with enhanced growth prospects. In general, the Fund has been sympathetic with the aim of the CFA franc countries to maintain exchange rate stability in the context of their regional monetary arrangements based on strong ties of solidarity. However, if the present approach of improving external competitiveness through downward adjustment of nominal costs and prices were to prove unworkable, alternative adjustment measures would have to be considered.

Within the framework of the CFA franc arrangements, member countries have been broadly successful in maintaining a stable real effective exchange rate over the last two decades. This stability, however, has not provided adequate protection against the impact of the sharp deterioration in the terms of trade experienced in recent years. Furthermore, continuing export diversification has been impeded by inefficiencies associated with the expanding size of the public sectors--including the public enterprises as well as the civil services--and the pervasiveness of public regulations. Thus, underlying the present pressures on competitiveness is the deeper issue of restoring a more dynamic structure of incentives and of putting greater emphasis on the efficiency in resource allocation. Accordingly, the staff welcomes the efforts that are being made to cut the size of the public sectors and to deregulate the economies of the member countries and urges a redoubling of these efforts in order to ensure that the region's growth potential is realized.

Membership in the CFA Franc Zone

The CFA franc zone, consisting of two distinct currency areas, is part of the broader group of countries or territories, together known as the franc zone, whose currencies are linked by a fixed peg to the French franc.

The CFA franc zone was established at the end of 1945, at which time it covered a somewhat wider geographic area than currently. ^{1/} The establishment of sovereign status throughout Francophone west and central Africa led to formal monetary agreements in the early 1960s between France and the member countries of the zone. The West African Monetary Union was formally established in 1962. Of the countries in west Africa that had previously used the CFA franc, Guinea and Mali declined to join the Union and instead decided to issue and manage their own currencies. By the mid-1970s, the zone had been pared down to a contiguous form through the departure of several other countries, mostly in other regions of Africa (Appendix I Table). After two decades of independent currency issue, Mali rejoined the CFA franc zone and became a member of WAMU in 1984. Mauritania, though later to leave the Union, was an original party to the agreement, while Togo joined in 1963. In central Africa, member countries of the CFA franc zone agreed upon independence to continue as a common currency area with the BEAC as the central bank. ^{2/}

The current monetary agreements of the two currency blocks with France date from 1973 when the original terms and conditions were modified to devolve greater operational responsibility to the regions and to nationals of the regions. As part of the revamped agreements, the headquarters of the central banks were transferred from Paris to Dakar (BCEAO) and Yaoundé (BEAC). The composition of the banks' governing directorates was changed to increase African participation, and the top management positions, which had previously been held by French nationals, were henceforth to be filled by Africans. Some changes were also made in operating procedures and rules involving, most notably, the limits on central bank credit to member governments and where the central banks were obliged to hold their foreign reserves. Prior to the 1973 agreements, all foreign reserves of the two central banks had to be held in their respective operations accounts; presently, 65 percent of reserves must be held in those accounts. The limits on extension of credit by the central banks to the fiscal authorities were also relaxed somewhat. In addition, steps were taken within WAMU to improve the flow of funds between member countries through the organization of an interbank money market for the bloc as a whole. But while

^{1/} For more detailed reviews of the development and structure of the zone, see Allechi and Mamadou (1989), Bhatia (1985), McInerghan et al. (1982), and Neurrisse (1987).

^{2/} Membership in the currency area served by the BEAC has changed only with the 1985 entry of Equatorial Guinea.

Table. CFA Franc Zone: Membership 1/

Country	Region <u>2/</u>	Population (millions)	GDP (Billions of CFA francs)	GDP (Percent of total)	
Benin	BCEAO	4.30	403.1	3.1	
Burkina Faso	BCEAO	8.31	503.5 <u>3/</u>	3.8	
Cameroon	BEAC	10.82	4,004.9	30.6	
Central African Republic	BEAC	2.70	323.7	2.5	
Chad	BEAC	5.27	213.6	1.6	
Comoros	left in 1981 <u>4/</u>				
Congo	BEAC	1.84	646.8	4.9	
Côte d'Ivoire	BCEAO	11.14	3,054.7	23.4	
Djibouti	left in 1949				
Equatorial Guinea	joined in 1985	0.41	--		
Gabon	BEAC	1.06	1,019.3	7.8	
Guinea	left in 1958				
Madagascar	left in 1963				
Mali	left in 1962				
	rejoined in 1984	BCEAO	8.68	589.3	4.5
Mauritania	left in 1973				
Niger	BCEAO	6.49	649.9	5.0	
Réunion	left in 1975 <u>5/</u>				
St.-Pierre-et-Miquelon	left in 1972 <u>5/</u>				
Senegal	BCEAO	6.79	1,307.0	10.0	
Togo	BCEAO	3.15	363.6	2.8	

Sources: IFS; and staff estimates.

1/ Members since December 26, 1945, except as noted. Data are for 1987, except as noted.

2/ BEAC - Banque des Etats de l'Afrique Centrale; BCEAO - Banque Centrale des Etats de l'Afrique de l'Ouest.

3/ 1986.

4/ Comoros left the system in 1981 to establish its own currency, but the Comoros franc continues to be pegged to the French franc at the same rate as the CFA franc.

5/ Réunion and St.-Pierre-et-Miquelon subsequently became départements of France.

the changes embodied in the 1973 agreements were important and were presaged by economic development in zone member countries, they did not mark any large discontinuity in the way the monetary arrangements were expected to work.

Besides the 13 CFA franc countries, the franc zone comprises the French franc area, the Communauté Financière du Pacifique (CFP) area, and Comoros. The French franc is issued by the Banque de France in Metropolitan France and Monaco, by the Overseas Departments Institute of Issue (IEDON) in the four overseas departments and in Saint Pierre and Miquelon; by the Institute for Overseas Issue (IEOM) in Mayotte and the Austral Territories (TAAF). The IEOM issues the CFP in New Caledonia, French Polynesia, and Wallis and Futina; the exchange rate has been pegged to the French franc at a rate of CFP 100 = FF 5.5 since 1949. The Comorian franc has been issued by the Central Bank of the Comoros at a rate of CF 100 = FF 2 since 1938.

Central Bank Policies in the CFA Franc Zone

1. Framework for monetary policy

The main policymaking bodies of the WAMU are the Conference of the Heads of States and the Council of Ministers. The Conference of Heads of States, the WAMU's political body, decides on the admission of new member states, the compulsory withdrawal of member states and settles unresolved matters referred to it by the Council of Ministers. The Council of Ministers, the Union's highest policymaking body, formulates the broad orientation of the Union's monetary and credit policy. In so doing, it must be guided by the objective of protecting the common currency while promoting the economic development of the member countries. The Board of Directors of the BCEAO is charged with the overall management of the BCEAO's monetary and credit policy. At the country level, policymaking and management of monetary and credit policy are the responsibility of the National Credit Committees (NCCs), chaired by the Minister of Finance.

In 1989, the Council of Ministers of WAMU adopted a comprehensive reform of the Union's monetary policy instruments. The reform, which notably unifies the discount rates, ^{1/} aims at moving gradually to a market-oriented system. The achievement of a targeted external position of the central bank remains the primary objective of monetary management. Until such time as it will be possible to control credit through a market-oriented interest rate policy and reserve requirements, the central bank will continue to rely mainly on administrative controls, namely refinancing and overall credit ceilings.

At the core of monetary management is the annual determination of global (at the level of the Union) and national credit targets as well as global and national ceilings on central bank financing. In setting these ceilings, the prime policy objective is to maintain the central bank's net external assets at a certain level in order to keep the operations account within acceptable limits. The instruments of credit policy are also designed to control the monetary financing of the government.

The central bank sets credit targets that are consistent with the balance of payments objective and with forecasts of the growth of nominal GDP for the individual countries. The target for net credit to

^{1/} Until October 1989, the BCEAO set two rates for its lending operations, the normal discount rate (TEN, taux d'escompte normal) and the preferential discount rate (TEP, taux d'escompte préférentiel), as well as deposit money banks' lending and deposit rates. The TEP applied to advances to the Treasury, crop credit, credit to small- and medium-scale national enterprises, and loans for the construction by nationals of their primary residence; it was set at 2.5 percentage points lower than the TEN.

the Government (the position nette du gouvernement, PNG), determined on the basis of government revenue, expenditure, and foreign financing projections, is deducted from the overall target for domestic credit to derive the ceiling for credit available to the rest of the economy. The targets for domestic credit are translated into ceilings on central bank refinancing; central bank credit available to the government (the avance statutaire) is deducted from the overall ceiling on central bank financing to derive the refinancing available to the financial institutions. However, until recently, ceilings on refinancing of crop credit were only indicative in character. In the member countries, credit and rediscount ceilings for lending to the private sector are set monthly; in some countries, these ceilings are administratively assigned to individual banks. No mechanism exists to adjust the global credit and rediscount ceilings to unexpected external shocks such as changes in the terms of trade or in the real effective exchange rate, or to the impact of endogenous factors.

The interest rate structure is uniform throughout the Union. A call money market managed by the central bank began operating in July 1975; in August 1978, its operations were extended to cover one- and three-month transactions. The Governor of the BCEAO determines the interest rate applicable to deposits on and advances from the money market. The prime objective of the money market, which is intermediated by the central bank, is to recycle excess liquidity within the Union, thus curbing capital flight. Until October 1989 access was limited to the deposit money banks, which are thus provided with an outlet for their excess funds as they are not authorized to hold deposits abroad in excess of normal working balances with their correspondents. Since October 1989, nonbank financial institutions have been given access to the market.

In the CAMA, monetary policy is determined by the central bank's Board of Directors assisted, at the national level, by National Monetary Committees (NMCs). In addition, a mixed Monetary Committee at ministerial level (including French representatives) handles issues involving monetary cooperation with France, while a Ministerial Council without French participation deals with monetary cooperation among the six CAMA member countries. The Board of Directors defines the bank's overall monetary policy and sets the discount rates and other central bank rates, as well as aggregate ceilings on rediscounts, advances, and other short-term facilities for each member country. In practice, the BEAC relies on the targets for credit expansion proposed by the NMCs.

The main instrument of monetary policy is the set of rediscount ceilings established for short-term credit and for medium- and long-term credit to the private sector. Bank credit that meets BEAC's quality criteria is eligible for rediscounting. There is no ceiling on the rediscount of credit for the marketing, stockpiling, and export of crops (called crédits indexés), since these were expected to be self-liquidating within one year. Other short-term credit (called crédits plafonnés) is subject to individual ceiling on a bank by bank basis, and

subceilings by enterprise are set by the NMCs. In addition, the BEAC selectively controls the expansion of nonrediscountable credit through a set of banking ratios, namely the ratio of nonrediscountable credit to deposits (coefficient d'emploi des dépôts en crédits non réescomptables) and the ratio of own resources to credits (coefficient de fonds propres), and set other prudential ratios.

The Board of Directors of the BEAC sets five rates (taux de base) for its lending operations in all member countries. These are (i) the ordinary lending rate (taux de base débiteur ordinaire: TBDO), which is the BEAC's regular discount rate; (ii) the preferential prime lending rate (taux de base débiteur préférentiel: TBDP); (iii) the lending rate for advances on current account to the national treasuries (taux des concours aux Trésors); (iv) the penalty rate (taux de pénalité); and (v) the penalty rate for the Treasury, introduced in January 1988. In addition, the BEAC sets the prime borrowing rate (taux de base créditeur: TBC) for all member countries. By contrast with the WAMU, in the CAMA each country's NMC can, within certain limits, decide on the margins to be added to the first three of these prime rates to establish commercial bank rates. Thus, while the BEAC directly controls its rates, it has only partial control over national deposit and lending rates as the NMCs can change these rates independently of movements in prime rates and can fully or partially offset any movements in the prime rates. As a result, final lending and borrowing rates differ considerably among CAMA members.

2. The external position

The exchange arrangements governing the BCEAO and the BEAC mandate corrective monetary policy action when the foreign assets ratio of the central bank (the ratio of gross foreign assets to short-term liabilities) falls below 20 percent during three consecutive months. The corrective action to be considered includes increasing the discount rate and a lowering of rediscount ceilings. Moreover, when their balance in the operations account falls below a level judged adequate to meet current needs, the BCEAO and the BEAC countries are required to repatriate their assets abroad and deposit them in their operations account, call on all private and public entities in the currency area (with priority to member states with debtor position in the operations account) to surrender their foreign exchange assets to the central bank, and urge the member states to use their SDRs and seek access to Fund resources.

The evolution of the foreign assets ratio of the central bank varied considerably between the BCEAO and the BEAC and across countries. In the case of the BCEAO, this minimum ratio dropped, as a result mainly of the second oil shock, from an average of 43 percent over the period 1975-78 to a low of 5.2 percent by end-1980, gradually recovering to 18.5 percent by end-1986, then dropping again to 7.1 percent by end-1988. These movements mainly reflected the developments in the ratio for Côte d'Ivoire. In the BEAC countries, the evolution of

the ratio reflected essentially developments in the oil producing countries. The ratio generally remained above the minimum through 1985, having peaked at 48.4 percent in 1981 in the wake of the second round of oil price increases. It declined thereafter and dropped below the 20 percent minimum in 1986 and 1987, together with the deterioration in the terms of trade of these countries, and recovered to 23.2 percent in 1988.

Protecting the external position was a recurring preoccupation of BCEAO. In 1980, the deterioration of the foreign assets ratio led the BCEAO to seek to improve its control over monetary aggregates by reinforcing its policy instruments. Rediscount ceilings that had so far been set only on an annual basis were set monthly and supplemented by indicative ceilings on credit by the deposit money banks to the private sector. In addition, the central bank urged member states in deficit to negotiate agreements with the IMF, which would enable them to reschedule their external debt and give them access to structural adjustment loans from the World Bank. However, the further steep deterioration in the BCEAO's net external position and in its position in the operations account in 1981-83 proved that rediscount ceilings were a relatively weak instrument for controlling monetary developments. The central bank, therefore, reinforced its recourse to administrative controls. Hence, in 1984 it adopted as its operating target normative monthly ceilings on credit by the deposit money banks, thus choosing credit rationing as its main monetary policy instrument; the BCEAO continued, nevertheless, to rely also on its rediscount policy.

As noted, the deterioration of the BEAC's foreign assets ratio is recent. In response, the BEAC has lowered the rediscount ceilings by 10 percent and raised the discount rate by 1 point and, as developed below, emphasized compliance with statutory limits on monetary financing of the governments.

3. Credit to the Government

The statutes of the BCEAO and the BEAC prescribe that credit to the government by the central bank will not exceed a percentage of ordinary budgetary revenue of the previous fiscal year. The statutory ceiling, which is set at 20 percent, covers (i) overdrafts on the Treasury's current account, (ii) the discount by the central bank of medium-term government securities for the financing of development operations included in the government's budget, and (iii) the rediscount of government on government-guaranteed securities held by financial institutions.

In addition to preventing the inflationary financing of the government, the statutory ceiling aimed also at limiting the extent to which government deficits may lead to a deterioration in the operations account and limiting the pre-emption of private savings by the government.

Since the statutory ceiling is usually calculated with a lag of one or two years, there follows a potential lack of synchronization between fiscal and monetary policy. When the statutory ceiling is inflated after periods of exceptionally large fiscal receipts, an inconsistency may arise between the available margin for increasing government borrowing from the banking system and the possible use of the country's external reserves, since in an open economy such as those of the CFA franc zone countries any increase in government spending is likely to lead to an increase in the demand for imports and thus to a decline in external reserves. Thus, for example, in the case of Gabon in 1986, if the Government had made full use of its borrowing margin under the statutory ceiling, Gabon's external position would have been seriously weakened. In such a situation, balance of payments considerations place a tighter constraint on credit expansion than the statutory limit on credit to the Government.

In the WAMU, the statutory ceiling increased rapidly in the period 1978-81; since 1982, the growth of the ceiling decelerated and for 1990 the ceiling even declined by almost 2 percent. These developments paralleled with a lag the movements in fiscal revenue. In 1975-78, the WAMU countries made a relatively modest use of the statutory advance from the BCEAO (about 41 percent of the statutory ceiling). During the same period, the net position of the Government with the banking system improved markedly, reflecting mainly a build-up of deposits with the commercial banks. Paradoxically, this build-up occurred at a time when deficits on government financial operations were widening and external borrowing was accelerating. In the period 1979-82, the use of the statutory advance climbed to an average of 91 percent. The Government's net position with the banking system deteriorated sharply, reflecting mainly an increase in liabilities toward the central bank resulting from the on-lending of Fund resources, which is not included under the statutory ceiling, and a reduction in deposits with the commercial banks. Since 1983, the statutory advance has been used heavily and was occasionally exceeded. The net position of the Government, after deteriorating sharply in 1983-1984, remained strongly negative.

In the CAMA, the Central African Republic and Chad have tended to be near their respective statutory ceiling. The oil exporting countries remained well below the ceiling in the early 1980s, but approached it by 1986-87. In January 1988 the BEAC Board of Directors called for a prompt adjustment of the ceilings on the basis of recent fiscal revenue data which showed sharply reduced fiscal revenue, and introduced a 5.5 percent penalty interest on any amount of borrowing in excess of the ceiling. The Governments were thus facing the risk of substantially exceeding the ceiling once such an adjustment was made, in which case they would be liable to pay the penalty interest (one percentage point above the regular BEAC lending rate to Treasuries). In March 1990 the ceilings were adjusted downwards in line with the lower level of fiscal revenue, and a timetable for absorbing the overruns was defined.

4. Refinancing of credit to the economy

In the BCEAO, while refinancing of ordinary credit averaged about 97 percent of the central bank's ceiling in 1976-1983 (with the ceiling being exceeded only in 1978 for the WAMU as a whole), the indicative ceiling on the refinancing of crop credit was generally exceeded by a large margin. Thus the open-ended access by banks to automatic rediscount of crop credit seriously affected the central bank's efficiency and flexibility in controlling the supply of reserve money. Crop credits were expected to be self-liquidating in that they would be unwound within a year, adding nothing to the overall credit expansion. However, this was not the case. Because of the standard practice of financing these at cost, credit was extended to cover losses in the case of lower world market prices.

In addition to the loophole linked to crop credit, the central bank's refinancing instrument also lacked flexibility owing to the fact that, until the September 1989 reform, the ceilings were set once a year, and were not revised to take into account unexpected developments during the year.

In the CAMA, BEAC refinancing only represented a modest share of credit to the economy until recent years. Over the period 1975-86, deposits represented on average 66 percent of credit to the economy for CAMA. This share, however, dropped to 56 percent in 1987-88. Concurrently, the liabilities of the commercial banks vis-à-vis the central bank, which had averaged 22 percent of credit to the economy in 1975-79 and dropped to 18 percent in 1980-86, increased to 28 percent in 1987-88. Credit expansion in the CAMA has largely been determined by the demand for credit. The BEAC does not appear to have used a macroeconomic approach to defining monetary targets, including credit and rediscount ceilings. Although rediscount ceilings were the BEAC's main monetary policy instrument, comparison of rediscount ceilings and actual rediscounts, by country and for CAMA as a whole, shows that the overall ceilings have not had "bite." With the notable exception of Chad, actual rediscounts rarely exceeded 70 percent of the ceiling and more commonly remained below 60 percent during the period under review. For Gabon the ratio was by far the lowest, averaging 18 percent during 1980-86.

5. Interest rate policy

Although the determination of the base interest rate belongs to the Board of Directors of the BCEAO and the BEAC, it is subject to considerable political scrutiny. This may be one of the reasons why neither the BCEAO nor the BEAC made an active use of interest rates as a monetary policy instrument. Changes in the discount rates mainly reflected--with a lag--changes in the interest rates in France.

Neither in the BCEAO nor in the BEAC was the discount rate policy effectively used as a instrument to curb the banks' willingness to expand credit, since an increase did not affect the banks' margins, as banks' lending rates were linked to the discount rates. In the BCEAO and the BEAC, the central bank's lending rates were adjusted only seven times between 1975 and end-1988. Throughout the period, the BCEAO's normal rediscount rate remained above the BEAC's ordinary lending rate, as the BEAC continued to pursue a policy of low interest rates for the purpose of encouraging investment. Both the BCEAO and the BEAC applied selective interest rate policies to orient lending to priority sectors. However, this policy was abandoned in October 1989 in the BCEAO, in the context of the reform of the monetary policy instruments.

In the BCEAO, the administratively determined interest rates in the money market, intermediated by the central bank, were generally aligned with rates in Paris, in order to avoid that banks with excess liquidity would transfer these funds abroad. In the normal hierarchy of interest rates, the cost of funds on the money market, in particular the rate for overnight advances, should be lower than the TEN in order for the central bank to play its role of lender of last resort. The TEN--and a fortiori the preferential discount rate which was set at 2.5 percentage points below the TEN through December 1983--remained below the rates in the money market through 1985, with the difference averaging almost 3 percentage points in 1981 and 1982. In 1986, the normal hierarchy of rates was restored, and the TEN remained, with only temporary exceptions, higher than the rates in Paris.

In the BEAC, the differential between the central bank's ordinary prime lending rate and the French interbank money rate widened from about 2 percentage points in the 1970s to 6-7 points in 1981-82, when French interest rates were exceptionally high, but narrowed in the following years and by 1986-87 had virtually disappeared. The large differential undoubtedly contributed to the large increase in private sector deposits abroad (relative to domestic deposits) observed for some BEAC countries during the first half of the 1980s. As indicated earlier, commercial bank borrowing and lending rates may differ among CAMA countries since the margins to be added to the BEAC prime rates to establish the final banking rates are decided by the NMCs (within certain limits). Substantial differences did in fact exist. For instance, the rate on passbook savings in Chad has been 2 to 2.5 percentage points lower than in the other CAMA members, while Cameroon has applied lending rates about 2 percentage points above those in the other countries. The existence of such relatively large--and growing--differentials in a monetary union is somewhat surprising, and would appear to indicate that transport and other transaction costs are high enough to inhibit residents from one CAMA country from depositing or borrowing in another.

With regard to lending rates, neither in the BCEAO nor in the BEAC was the lending rate structure conducive to the development of medium- and long-term loans to small- and medium-scale enterprises. The permis-

sible margin over the rediscount rate was smaller for preferential credit than for normal credit rediscountable at a preferential rate, and the margin for long-term credit did not exceed the margin permissible on short-term credit. As a result, the mainly commercially oriented private banks have naturally favored domestic trade and import financing, while the more specialized and largely government-owned banks were forced to concentrate on riskier and more costly to administer medium- and long-term investment lending. The interest rate disincentive, together with a scarcity of bankable projects, may have contributed to the commercial banks' noncompliance with the minimum ratios of priority sector credit to total credit prescribed by the BCEAO and the BEAC. The fact that crop credit was not subject to any credit ceiling and was automatically rediscountable has compensated for the small margin (1 to 2 percentage points) allowed to the banks on this type of credit.

Concerning rates on deposits, there is no evidence that the interest rate policy significantly influenced the development of financial savings in the form of bank deposits. However, the suspension of the payment of interest on demand deposits since January 1985 in the WAMU, for the purpose of increasing the banks' margin, appears to have led to a sizable shift of demand deposits into time and savings deposits. Real interest rates (nominal interest rate on passbook savings deflated by the GDP deflator or by the CPI) remained negative through 1984 but turned positive thereafter, as inflation was brought under control.

A Comparative Review of Foreign Trade Regimes

This brief review covers the five countries Cameroon, Côte d'Ivoire, Kenya, Nigeria, and Zaïre, and the comparison relates specifically to tariffs and other charges; nontariff measures; and export taxes and subsidies.

1. Tariffs and other charges

Tariff levels in all five countries still remain fairly high in comparison to levels found in industrial economies. The weighted average tariffs range between 25 percent to 30 percent in Kenya, Nigeria, and Zaïre (taking into account prohibitions and major import taxes). Similar estimates for Cameroon and Côte d'Ivoire are not available; however, qualitative information suggests that, taking into account tariffs as well as other charges, the weighted average tariff level in Cameroon would probably be higher than the other sample countries, whereas that of Côte d'Ivoire would be at least not lower than the others in the sample except Cameroon. Unweighted average tariffs are significantly higher in Cameroon and Kenya (54 percent and 46 percent, respectively) compared with Nigeria and Zaïre (33 percent and 37 percent, respectively). ^{1/}

In all the sample countries, tariff dispersion is a significant source of distortions in the import regime, especially when other charges and taxes are taken into account in addition to the basic tariff. Tariffs range between 0 percent to about 200 percent, except in Zaïre where they range between 0 percent to 100 percent. Using the standard deviation of tariffs as a measure of dispersion, dispersion is significant (about 20 percent) in Cameroon, Kenya, and Zaïre, and even higher (closer to 30 percent) in Nigeria. Estimates for Côte d'Ivoire are not available, but qualitative information suggests that it is likely to belong to the former group of countries.

In all the sample countries, exemptions are in widespread use. These exemptions have had the effect of decreasing nominal protection for specific products, but increasing effective protection for final goods, and widening the dispersion in the tariff structure. And, of course, the exemptions have an adverse effect on government revenues.

All the sample countries impose greater tariffs on consumer goods than on capital and intermediate goods; furthermore, more exemptions are usually given to products in the latter categories than to consumer products.

^{1/} Of course, the unweighted average tariff structure is not necessarily a good indicator of protection as it does not reflect selective weights of different categories of goods in the import structure and actual import flows.

Available information on effective rates of protection, both quantitative and qualitative, suggests that effective protection rates are still high in all these countries, especially in Cameroon and Kenya. Effective protection rates are comparatively more uniform in Côte d'Ivoire and Zaïre compared with the other sample countries. In Cameroon, average (unweighted) tariffs on capital and intermediate goods are about 50 percent, compared with 65 percent for consumer goods. In Kenya the average (unweighted) tariff for consumer goods is 55 percent, compared with 34 percent for intermediate goods and 28 percent for capital goods. In Nigeria the average (unweighted) tariff for consumer goods is 47 percent, compared with 18 percent and 28 percent for capital and intermediate goods, respectively. In Zaïre the average (unweighted) tariff (including the turnover tax) for consumer goods is 50 percent compared with 33 percent and 26 percent for capital goods and intermediate goods, respectively. Quantitative estimates are not available for Côte d'Ivoire, but qualitative information suggests a similar pattern.

2. Nontariff measures

All the sample countries rely to some extent on nontariff measures with the least reliance being on the part of Zaïre and the greatest reliance probably on the part of Cameroon. The nontariff measures consist of prohibitions, quotas, import licensing, prior authorizations, and declarations.

All countries retain a small list of prohibited products, but these prohibitions are probably of major economic significance only in Nigeria. Comparative reliance on import licensing appears to be highest in Kenya and lowest in Nigeria and Zaïre, with Cameroon and Côte d'Ivoire in an intermediate position. Reliance on other quantitative restrictions appears to be higher in Cameroon and Côte d'Ivoire than in the other three sample countries.

Cameroon is currently in the process of lifting its quantitative restrictions in two stages, of which the first two stages were implemented in 1989-90 with liberalization of the less sensitive products, and the third stage is expected to be implemented in 1991. Kenya is also eliminating its import licensing in stages, and measures so far have led to elimination of licensing requirements (except for technical reasons) for 94 percent of imports; the remaining licensing is, however, still a significant factor in containing imports of consumer goods and other sensitive products.

3. Export subsidies/taxes

Export compensation schemes are operative in three countries--Côte d'Ivoire, Kenya, and Nigeria--and consist mostly of drawbacks for import duties and other taxes. However, none of these schemes appear to be operating very effectively, and they are in the process of being expanded and/or streamlined so as to improve their effectiveness.

Export taxes are applied in Cameroon, Côte d'Ivoire, and Zaïre. The duties are relatively modest in Zaïre compared with the other two countries. However, as part of a liberalization of the export regime, some export duties have been reduced or suspended in Cameroon and Côte d'Ivoire.

Table I. CFA Franc Zone: Competitiveness Weights, 1980-82

(In percent)

	Benin	Burkina Faso	Côte d'Ivoire	Mali	Niger	Senegal	Togo	Cameroon	Central Afr. Rep.	Chad	Congo	Gabon	Equatorial Guinea
EMS plus Austria	<u>82</u>	<u>64</u>	<u>53</u>	<u>64</u>	<u>80</u>	<u>62</u>	<u>60</u>	<u>67</u>	<u>68</u>	<u>58</u>	<u>86</u>	<u>66</u>	<u>34</u>
France	24	43	27	34	47	39	27	41	33	24	62	47	7
Austria	31						2						
Belgium-Luxembourg	5	4	3	3	2	3	3	3	12	3	5	2	2
Germany, Fed. Rep. of	5	6	7	8	16	6	7	9	7	7	7	6	5
Ireland				2						3			
Italy	7	3	4	9	4	5	4	5	5	12	5	4	10
Netherlands	6	4	6	2	5	3	8	4	4	4	3	4	4
United Kingdom	5	4	6	6	6	5	10	5	7	5	4	4	6
Other European	<u>6</u>	<u>—</u>	<u>3</u>	<u>2</u>	<u>—</u>	<u>6</u>	<u>4</u>	<u>—</u>	<u>2</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>49</u>
Norway	3					2							
Spain			2			4	2						49
Switzerland	3		1				2		2				
Turkey				2						2			
Yugoslavia										1			
Western Hemisphere	<u>3</u>	<u>11</u>	<u>18</u>	<u>13</u>	<u>8</u>	<u>17</u>	<u>10</u>	<u>17</u>	<u>10</u>	<u>18</u>	<u>8</u>	<u>17</u>	<u>7</u>
Canada		2	2	2	2	3		3		2			
United States	3	8	10	10	6	9	7	10	6	12	8	13	5
Argentina						2							
Brazil		1	5	1		3	3	3	3	2		4	2
Colombia			2						2				
Mexico										2			
Africa	<u>—</u>	<u>15</u>	<u>7</u>	<u>11</u>	<u>7</u>	<u>4</u>	<u>11</u>	<u>3</u>	<u>4</u>	<u>11</u>	<u>—</u>	<u>—</u>	<u>7</u>
Cameroon			2						3	9			
Côte d'Ivoire		14		8	3	2	4	3	2				4
Senegal				4									
Togo		1											
Ghana			3				1						3
Morocco						2	6						
Nigeria			2		3					1			
Other countries	<u>9</u>	<u>9</u>	<u>18</u>	<u>10</u>	<u>5</u>	<u>11</u>	<u>15</u>	<u>14</u>	<u>15</u>	<u>10</u>	<u>6</u>	<u>17</u>	<u>3</u>
Australia			2	2		1				1		2	
China, People's Rep.		2	1	1		2	2	2		2			
Egypt				2						2			
India	3												
Indonesia			2						3				
Israel									2				
Japan	6	6	7	3	5	5	8	8	7	2	6	12	3
Korea			1			2	2						
Malaysia			4					2	3			3	
Pakistan		1		2						3			
Taiwan Province of China			1				2	3					
Total, all countries	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: IMF, Information Notice System.

Table II. CFA Franc Zone: Intra-Zone Trade 1/

(In percent)

	Percent of exports	Percent of imports	Percent of total trade
CFA Franc Zone	6.6	10.7	8.6
WAMU	11.6	15.4	13.7
Benin	4.7	25.5	21.2
Burkina Faso	17.9	56.5	49.8
Côte d'Ivoire	11.5	7.8	9.9
Mali	25.3	37.8	34.6
Niger	3.0	13.7	9.0
Senegal	13.7	6.4	9.0
Togo	12.0	10.3	10.9
CAMA	1.7	3.2	2.3
Cameroon	5.2	2.4	3.6
Central African Republic	0.6	8.4	4.8
Chad	6.9	28.5	19.6
Congo	0.2	2.2	1.0
Gabon	0.4	1.5	0.7
Equatorial Guinea	0.6	2.6	1.6

Source: IMF, Direction of Trade Statistics Yearbook.1/ Average covering period 1982-85.

Table III. CFA Franc Zone: Government Financial Balances ^{1/}, 1980-89

(In percent of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
CAMA										
Cameroon	0.3	-0.2	0.2	4.2	-0.4	-1.5	-1.2	-12.8	-5.8	-4.2
Central African Republic	-11.2	-9.4	-6.3	-10.4	-9.0	-13.1	-13.5	-16.0	-13.1	-12.2
Chad	...	...	...	-5.9	-6.7	-8.9	-20.6	-25.8	-18.9	-23.5
Congo	-9.9	-4.3	-12.4	-12.6	-4.4	-6.7	-8.3	-13.0	-18.1	-10.8
Gabon	4.4	6.9	7.8	-3.3	-2.3	-5.3	-15.1	-12.7	-9.4	-5.3
WAMU										
Benin	-12.6	-6.3	-10.2	-14.1	-16.1	-10.4	-9.8	-10.6	-9.2	-9.8
Burkina Faso	-19.0	-20.7	-19.2	-21.6	-17.2	-11.9	-16.5	-17.1	-12.9	-15.5
Côte d'Ivoire	-12.7	-11.3	-16.1	-11.6	-1.0	2.9	-1.3	-7.0	-13.6	-16.9
Mali	-11.3	-9.6	-7.7	-13.1	-9.8	-15.2	-12.5	-10.6	-10.5	-9.5
Niger	-10.8	-14.5	-10.6	-8.7	-8.3	-8.3	-9.9	-9.1	-9.2	-10.0
Senegal	-5.5	-10.5	-9.3	-8.7	-7.9	-5.0	-4.1	-3.5	-4.2	-4.3
Togo	-8.0	-7.3	-8.5	-7.9	-6.4	-5.9	-8.8	-9.0	-5.3	-6.2
Averages (Unweighted)										
CFAF Zone	-8.7	-7.9	-8.4	-9.8	-7.5	-7.3	-9.2	-11.0	-10.1	-9.5
CAMA ^{2/}	-4.1	-1.8	-2.7	-5.5	-4.0	-6.7	-9.5	-13.6	-11.6	-8.1
WAMU	-11.4	-11.4	-11.7	-12.3	-9.5	-7.7	-9.0	-9.6	-9.3	-10.3
Averages (GDP weighted)										
CFAF Zone	-7.2	-6.4	-7.4	-6.8	-4.0	-3.5	-5.4	-10.3	-9.4	-9.2
CAMA ^{2/}	-0.4	0.7	-0.2	-1.3	-1.9	-3.7	-5.2	-13.0	-8.3	-5.8
WAMU	-11.5	-11.6	-13.2	-11.6	-5.9	-3.3	-5.5	-7.9	-10.2	-11.8

Sources: Data provided by the authorities; and staff estimates.

^{1/} On a commitment basis, excluding grants.^{2/} Excluding Chad and Equatorial Guinea.

Table IV. CFA Franc Zone: Financial Operations of the Government, 1980-89 ^{1/}

(In percent of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
ZONE ^{2/}										
Total revenue	23.5	24.4	25.4	25.6	25.3	25.7	24.4	20.0	19.2	18.3
Tax ^{3/}	16.3	16.0	15.3	14.5	14.2	13.3	14.0	14.1	13.5	13.1
Nontax and oil ^{4/}	7.2	8.5	10.1	11.1	11.1	12.4	10.3	5.9	5.6	5.2
Total expenditure	30.6	30.8	32.8	32.5	29.3	29.2	29.7	30.3	28.5	27.6
Current (excluding interest on external debt)	15.9	15.8	16.6	17.0	15.7	14.9	16.0	16.8	17.6	17.6
o/w wages and salaries	7.4	7.5	7.2	7.5	7.1	7.0	7.5	8.4	8.5	8.5
Interest on external debt	2.1	2.4	2.8	3.0	3.4	3.4	3.2	3.3	4.2	4.3
Capital and net lending	12.6	12.6	13.4	12.4	10.2	10.9	10.5	10.2	6.7	5.7
Overall balance ^{5/}	-7.2	-6.4	-7.4	-6.8	-4.0	-3.5	-5.4	-10.3	-9.3	-9.2
Current balance (including interest on external debt)	5.5	6.2	6.0	5.6	6.2	7.4	5.1	-0.0	-2.7	-3.6
CAMA ^{2/}										
Total revenue	23.7	28.2	30.2	30.5	28.3	26.4	25.8	19.0	17.7	18.2
Tax ^{3/}	13.2	12.9	12.6	11.9	12.0	10.4	11.3	11.3	11.0	11.4
Nontax and oil ^{4/}	10.5	15.3	17.4	18.4	16.2	15.9	14.5	7.7	6.6	6.7
Total expenditure	24.2	27.5	30.4	31.7	30.3	30.1	31.0	32.0	26.0	24.1
Current (excluding interest on external debt)	14.5	14.5	14.0	15.3	14.2	13.3	14.8	15.0	15.4	15.5
o/w wages and salaries	6.5	6.5	5.9	6.1	6.0	6.2	7.0	8.2	8.4	8.4
Interest on external debt	1.6	1.6	1.6	1.5	1.9	1.7	1.9	2.2	3.0	3.1
Capital and net lending	8.0	11.3	14.7	14.9	14.2	15.1	14.3	14.9	7.6	5.5
Overall balance ^{5/}	-0.4	0.7	-0.2	-1.3	-1.9	-3.7	-5.2	-13.0	-8.3	-5.8
Current balance (including interest on external debt)	7.6	12.0	14.5	13.7	12.3	11.4	9.1	1.9	-0.7	-0.3
WAMI¹										
Total revenue	23.3	21.7	21.6	21.5	22.5	25.0	23.0	20.9	20.3	18.4
Tax ^{3/}	18.2	18.2	17.3	16.6	16.2	16.3	16.5	16.6	15.5	14.3
Nontax and oil ^{4/}	5.1	3.4	4.2	4.8	6.3	8.7	6.5	4.3	4.7	4.0
Total expenditure	34.8	33.3	34.8	33.1	28.4	28.3	28.6	28.8	30.4	30.2
Current (excluding interest on external debt)	16.8	16.7	18.7	18.5	17.1	16.6	17.2	18.4	19.3	19.2
o/w wages and salaries	8.1	8.3	8.3	8.7	8.1	7.8	8.0	8.6	8.6	8.6
Interest on external debt	2.4	3.0	3.7	4.3	4.8	5.1	4.4	4.2	5.1	5.1
Capital and net lending	15.6	13.6	12.4	10.3	6.5	6.5	7.0	6.2	6.0	5.9
Overall balance ^{5/}	-11.5	-11.6	-13.2	-11.6	-5.9	-3.3	-5.5	-7.9	-10.1	-11.8
Current balance (including interest on external debt)	4.1	1.9	-0.8	-1.3	0.6	3.2	1.4	-1.7	-4.2	-6.0

Sources: REDs and Staff Reports.

^{1/} GDP weighted averages; data may not add up due to rounding.^{2/} Excluding Chad and Equatorial Guinea.^{3/} Excluding taxes related to oil production, export, and import.^{4/} Including taxes related to oil imports; including annexed budgets, special funds, and price stabilization agencies.^{5/} On a commitment basis, excluding grants.

Table V. CFA Franc Zone: Financing of Government Operations, 1980-89

(In percent of GDP) 1/

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
<u>CFA Franc Zone</u>										
Total financing	7.2	6.4	7.4	6.9	4.0	3.5	5.4	10.2	9.4	9.3
Net external disbursements	5.3	4.3	5.3	3.2	2.2	1.7	2.0	2.8	2.9	1.5
Disbursements	9.0	7.9	9.1	7.2	6.3	6.1	6.0	7.3	7.6	6.9
Grants	1.8	1.6	1.3	1.2	1.4	1.2	1.3	1.4	1.5	1.8
Loans	7.2	6.3	7.8	6.0	4.9	4.9	4.7	5.9	6.1	5.1
Amortization (scheduled)	-3.7	-3.5	-3.8	-4.0	-4.1	-4.4	-4.0	-4.5	-4.8	-5.4
Domestic (net)	1.6	1.5	1.3	1.5	-1.0	-0.1	0.4	3.1	0.5	2.1
Banking sector (net)	1.2	0.7	1.6	0.7	1.9	0.3	0.8	0.1	0.3	—
Other, excluding arrears	—	0.4	-0.7	0.2	-2.4	-0.4	-0.6	1.3	0.1	0.9
Exceptional financing	0.6	0.9	1.2	2.8	2.3	1.8	3.2	6.1	6.1	6.9
External	0.5	0.6	1.0	1.3	2.7	2.2	2.7	4.4	5.3	6.4
Debt rescheduling	0.4	0.4	0.3	0.7	2.4	2.0	2.9	2.3	3.4	8.3
Arrears (-decrease)	0.1	0.2	0.7	0.6	0.3	0.2	-0.2	2.1	2.0	-1.9
Domestic	0.1	0.4	0.2	1.5	-0.4	-0.4	0.6	1.7	0.8	0.6
Arrears (-decrease)	0.1	0.4	0.2	1.5	-0.4	-0.4	0.6	1.7	0.8	0.6
<u>Memorandum items:</u>										
IMF on-lent	0.4	1.5	0.8	1.1	0.4	0.2	—	-0.6	-0.2	-0.4
Domestic financing (net), excl. IMF	0.9	-0.1	0.3	1.3	-1.3	-0.6	0.7	3.6	1.4	1.9
Of which: banking sector	(0.8)	(-0.9)	(0.8)	(-0.4)	(1.6)	(0.1)	(0.7)	(0.7)	(0.5)	(0.4)
<u>CAMA (excl. Chad and Equatorial Guinea)</u>										
Total financing	0.5	-0.7	0.1	1.2	1.9	3.7	5.2	13.0	8.3	5.8
Net external disbursements	1.8	0.1	1.6	1.5	1.8	2.2	1.7	2.4	3.5	0.5
Disbursements	5.1	3.2	4.6	4.4	5.0	5.5	5.2	6.2	7.3	5.0
Grants	0.6	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.6	0.6
Loans	4.6	2.8	4.3	4.1	4.6	5.2	4.9	5.8	6.8	4.4
Amortization (scheduled)	-3.4	-3.1	-3.1	-3.0	-3.2	-3.3	-3.6	-3.8	-3.8	-4.5
Domestic (net)	-1.3	-1.5	-1.8	-1.9	0.1	0.5	0.7	3.8	-0.4	2.6
Banking sector (net)	-1.4	-2.4	-0.8	-2.3	2.6	1.2	0.8	1.2	-0.6	0.9
Other, excluding arrears	0.1	0.9	-1.0	0.4	-2.5	-0.7	-0.1	2.6	0.1	1.7
Exceptional financing	—	0.7	0.3	1.7	—	1.0	2.9	6.8	5.2	2.7
External	0.1	0.3	0.1	0.3	0.4	0.5	2.3	3.9	4.8	5.0
Debt rescheduling	—	0.2	—	0.1	0.1	0.1	3.2	2.6	2.2	4.1
Arrears (-decrease)	0.1	0.1	0.1	0.3	0.3	0.4	-0.9	1.3	2.6	1.0
Domestic	-0.1	0.5	0.2	1.3	-0.3	0.5	0.6	2.9	0.4	-2.3
<u>Memorandum items:</u>										
IMF on-lent	0.1	0.5	—	0.5	0.2	0.3	0.1	-0.2	-0.1	0.5
Domestic financing (net), excl. IMF	-1.5	-1.5	-1.6	-1.0	-0.5	0.7	1.1	7.0	—	-0.2
Of which: banking sector	(-1.5)	(-2.9)	(-0.8)	(-2.7)	(2.3)	(0.9)	(0.6)	(1.4)	(-0.5)	(0.4)
<u>WAMU</u>										
Total financing	11.5	11.6	13.2	11.6	5.9	3.3	5.5	7.9	10.2	11.9
Net external disbursements	7.6	7.5	8.3	4.6	2.5	1.2	2.2	3.1	2.4	2.2
Disbursements	11.5	11.4	12.7	9.5	7.4	6.6	6.6	8.3	7.9	8.3
Grants	2.6	2.5	2.1	2.0	2.2	2.1	2.2	2.2	2.2	2.6
Loans	8.9	8.9	10.6	7.5	5.2	4.5	4.4	6.1	5.7	5.6
Amortization (scheduled)	-3.9	-3.8	-4.5	-4.9	-4.9	-5.5	-4.4	-5.2	-5.5	-6.1
Domestic (net)	2.9	3.1	3.1	3.4	-1.1	-0.6	-0.2	-0.7	1.0	-0.4
Banking sector (net)	2.9	3.0	3.5	3.3	1.3	-0.5	0.8	-0.8	1.0	-0.8
Other, excluding arrears	-0.1	0.1	-0.4	0.1	-2.4	-0.1	-1.0	0.1	—	0.3
Exceptional financing	1.0	1.1	1.8	3.7	4.5	2.7	3.5	5.5	6.8	10.1
External	0.8	0.8	1.7	2.1	5.0	4.0	3.0	4.9	5.7	7.4
Debt rescheduling	0.6	0.5	0.5	1.2	4.7	4.0	2.6	2.1	4.3	11.5
Arrears (-decrease)	0.1	0.3	1.2	0.9	0.3	—	0.4	2.8	1.4	-4.2
Domestic	0.3	0.3	0.2	1.6	-0.5	-1.3	0.5	0.6	1.1	2.8
Arrears (-decrease)	0.3	0.3	0.2	1.6	-0.5	-1.3	0.5	0.6	1.1	2.8
<u>Memorandum items:</u>										
IMF on-lent	0.6	2.3	1.5	1.7	0.5	0.2	-0.1	-0.9	-0.4	-1.1
Domestic financing (net), excl. IMF	2.5	1.0	1.8	3.2	-2.0	-2.0	0.4	0.7	2.5	3.4
Of which: banking sector	(2.3)	(0.7)	(2.0)	(1.6)	(0.8)	(-0.7)	(0.8)	(0.1)	(1.4)	(0.4)

Source: Data provided by the authorities.

1/ GDP-weighted averages.

Table VI. CFA Franc Zone: Money Supply and its Counterparts, 1980-89

	ZONE 1/2/					CAMA 1/					WAMU 2/				
	Money (M2)	Counterparts				Money (M2)	Counterparts				Money (M2)	Counterparts			
		Foreign assets (net)	Total	Government (net)	Private sector		Foreign assets (net)	Total	Government (net)	Private sector		Foreign assets (net)	Total	Government (net)	Private sector
1980	1,611	-311	2,105	-23	2,128	594	2	683	25	658	1,017	-313	1,422	-48	1,470
1981	1,943	-349	2,521	7	2,514	752	76	780	-101	881	1,191	-425	1,738	106	1,633
1982	2,170	-503	2,939	92	2,847	877	57	954	-101	1,055	1,292	-560	1,985	193	1,792
1983	2,394	-659	3,417	265	3,151	1,052	140	1,173	-81	1,253	1,342	-799	2,243	346	1,898
1984	2,926	-485	3,696	411	3,285	1,251	229	1,288	-27	1,315	1,675	-714	2,408	438	1,970
1985	3,275	-439	3,929	445	3,484	1,446	234	1,501	18	1,483	1,829	-673	2,428	427	2,001
1986	3,349	-563	4,262	572	3,690	1,368	11	1,750	117	1,632	1,981	-574	2,512	455	2,058
1987	3,136	-716	4,195	439	3,756	1,190	-118	1,680	81	1,598	1,946	-598	2,516	358	2,158
1988	3,194	-736	4,218	487	3,731	1,213	-26	1,609	51	1,558	1,981	-710	2,609	436	2,173
1989	3,191	-575	4,096	465	3,631	1,231	7	1,641	121	1,519	1,960	-583	2,455	344	2,112

Sources: BCEAO; BEAC; and IFS.

1/ Excluding Equatorial Guinea.2/ Excluding Mali before 1984.

Table VII. CFA Franc Zone: Net Foreign Assets 1980-89

(In billions of CFA francs; end of period)

	ZONE <u>1/2/</u>					CAMA <u>1/</u>					WAMU <u>2/</u>				
	Total	Central bank		Commer- cial banks		Total	Central bank		Commer- cial banks		Total	Central bank		Commer- cial banks	
		Total	o/w IMF liabil- ities				o/w Oper- ations Account	Total				o/w IMF liabil- ities	o/w Oper- ations Account		
1980	-311	-32	-93	42	-279	2	88	-30	94	-86	-313	-120	-63	-52	-193
1981	-349	-114	-229	42	-235	76	124	-36	127	-48	-425	-238	-193	-85	-187
1982	-503	-174	-306	84	-329	57	182	-38	162	-125	-560	-356	-268	-78	-204
1983	-659	-354	-450	-4	-305	140	214	-43	191	-74	-799	-568	-407	-195	-231
1984	-485	-342	-499	105	-143	229	309	-40	189	20	-714	-551	-459	-84	-163
1985	-439	-247	-437	283	-192	234	225	-33	209	9	-673	-472	-404	74	-201
1986	-563	-216	-418	231	-347	11	143	-41	127	-132	-574	-359	-376	104	-215
1987	-716	-383	-357	-46	-333	-118	-45	-45	-73	-73	-598	-338	-312	27	-260
1988	-736	-448	-388	-108	-288	-26	-16	-96	-35	-10	-710	-432	-292	-73	-278
1989	-575	-345	-390	-5	-230	7	-6	-96	16	13	-582	-339	-294	-21	-243

Sources: BCEAO; BEAC; and IFS.

1/ Excluding Equatorial Guinea.2/ Excluding Mali before 1984.

Table VIII. CFA Franc Zone: Balance Sheets of Central Banks, 1980-89

(In billions of CFA Francs; end of period)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
<u>Total Zone</u>										
Foreign assets, net <u>1/</u>	-32	-114	-174	-354	-342	-247	-216	-383	-448	-342
Claims on Government, net <u>2/</u>	173	259	281	431	582	616	704	696	704	720
Claims on financial institutions, net	515	682	794	856	751	689	708	906	927	783
Claims	562	736	861	977	936	937	1,041	1,265	1,283	1,168
Liabilities	-47	-54	-67	-121	-185	-248	-333	-359	-356	-385
Currency in circulation	574	711	743	775	913	989	1,063	1,046	995	977
<u>BEAC (CAMA)</u>										
Foreign assets, net <u>1/</u>	88	124	182	214	209	225	143	-45	-16	-6
Claims on Government, net <u>2/ 3/</u>	43	16	-19	-17	29	41	107	145	133	186
Claims on financial institutions, net	92	132	173	189	200	218	249	409	363	307
Claims	119	156	194	234	243	256	328	467	441	401
Liabilities <u>4/</u>	-27	-24	-21	-45	-43	-38	-79	-58	-78	-94
Currency in circulation	189	240	267	303	340	375	385	396	373	382
<u>BCEAO (WAMU)</u>										
Foreign assets, net <u>1/</u>	-120	-238	-356	-568	-551	-472	-359	-338	-432	-339
Claims on Government, net <u>2/ 4/</u>	131	243	300	448	553	575	597	551	571	534
Claims on financial institutions, net	423	550	621	667	552	471	459	497	564	476
Claims	443	580	667	743	693	681	713	758	842	767
Liabilities <u>4/</u>	-20	-30	-46	-76	-142	-210	-254	-301	-278	-291
Currency in circulation	385	471	476	472	573	614	678	650	622	595

Sources: Data provided by BEAC and BCEAO.

1/ Including Fund credit and allocation of SDRs as liabilities.2/ Including claims on Government on account of Fund credit.3/ Including currency held by Government as a liability.4/ Excluding currency held by banks and/or Government.

Table IX. CFA Franc Zone: Real GDP Growth, 1980-89

(Annual percent change)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
CAMA										
Cameroon	6.0	19.2	6.7	4.9	8.9	14.0	7.4	-2.3	-7.7	-8.6
Central African Republic	-3.0	-2.1	1.5	-6.0	8.7	3.8	8.1	-2.8	-0.9	1.5
Chad	-6.1	1.0	5.4	15.7	2.1	21.8	-4.1	-3.4	17.7	1.2
Congo	17.7	24.0	23.6	5.9	7.0	-1.2	-6.8	-0.3	1.6	0.2
Gabon	-0.0	0.2	4.1	0.9	2.7	5.8	0.3	-14.6	1.9	6.0
WAMU										
Benin	10.9	3.9	22.4	-4.9	-2.9	1.5	-1.3	-3.6	2.7	0.6
Burkina Faso	1.2	2.7	3.8	0.4	-1.7	9.8	15.7	-1.7	7.7	3.5
Côte d'Ivoire	7.4	2.2	0.2	-1.7	1.3	4.9	3.0	-2.7	-3.6	-0.8
Mali	...	-2.4	6.8	-5.2	0.9	-0.8	18.7	1.0	-1.0	9.9
Niger	4.9	1.1	-0.8	-2.6	-16.8	7.5	3.8	-0.7	7.7	-3.3
Senegal	-3.3	-0.8	15.2	2.6	-4.6	3.8	4.4	4.0	5.1	3.8
Togo	0.3	-5.7	-3.7	-1.2	1.1	3.1	3.4	1.5	4.5	2.3
<u>Averages (unweighted)</u>										
CFA Franc Zone <u>1/</u> <u>2/</u>	3.3	4.2	7.1	1.3	0.5	6.8	3.1	-2.4	3.3	0.6
CAMA <u>1/</u>	2.9	8.5	8.3	4.3	5.9	8.8	1.0	-4.7	2.5	0.1
WAMU <u>2/</u>	3.6	0.6	6.2	-1.2	-3.9	5.1	4.8	-0.5	4.0	1.0

Sources: IFS; WEO; and staff estimates and projections.

1/ Excludes Equatorial Guinea.2/ Excludes Mali.

Table X. CFA Franc Zone: Ratio of Savings to GDP, 1980-89

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Prov.
CAMA										
Cameroon	21.2	28.2	31.4	32.4	34.6	37.7	30.1	28.6	18.4	16.9
Central African Republic	2.1	2.0	-7.2	-1.9	-2.0	0.8	0.2	-3.4	-2.6	-2.8
Chad	...	...	...	-8.1	-4.4	-21.1	-23.3	-21.1	-13.3	-11.1
Congo	41.4	45.8	46.5	44.6	46.4	42.0	15.6	23.9	19.1	27.1
Gabon	58.7	59.0	56.9	53.0	54.2	51.0	27.9	28.5	26.0	34.9
WAMU										
Benin	8.0	-9.7	-4.9	2.5	3.8	5.1	0.1	1.2	0.7	5.7
Burkina Faso	-11.2	-9.9	-7.4	-9.5	-1.4	-5.8	-6.2	-5.7	-3.6	-6.3
Côte d'Ivoire	22.9	18.8	20.3	19.4	21.5	28.4	19.5	15.8	14.9	12.6
Mali	...	-0.3	0.9	-4.4	-3.4	-14.3	-1.2	6.1	3.8	8.4
Niger	21.4	14.9	10.6	4.4	-0.4	2.9	5.0	4.2	9.4	9.4
Senegal	-0.4	-4.7	4.7	2.0	5.0	1.2	5.6	7.6	8.5	10.5
Togo	20.8	16.9	4.0	13.7	19.2	19.5	12.9	13.4	14.8	15.0
<u>Averages (unweighted)</u>										
CFA Franc Zone <u>1/2/</u>	18.5	16.1	15.5	16.1	18.1	18.3	11.1	11.4	10.6	12.3
CAMA <u>2/</u>	30.8	33.8	31.9	32.0	33.3	32.9	18.5	19.4	15.2	19.0
WAMU <u>1/</u>	10.3	4.4	4.5	5.4	7.9	8.6	6.2	6.1	7.5	7.8

Sources: IFS; WEO; and staff estimates and projections.

1/ Excludes Mali.2/ Excludes Chad before 1983.

Table XI. CFA Franc Zone: Ratios of Public and Private Savings to GDP, 1980-89

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Prov.
Public Savings										
CAMA										
Cameroon	5.8	12.8	11.6	13.9	10.3	9.1	10.1	4.7	1.9	0.5
Central African Republic	...	-3.9	-0.2	-0.8	2.5	3.2	2.4	1.6	2.0	2.3
Chad	...	...	...	-2.2	-2.2	-2.2	-2.2	-2.2	-0.6	-1.5
Congo	-3.0	16.3	15.6	13.5	13.9	12.6	2.2	-7.9	-10.3	-5.6
Gabon	17.9	22.0	23.6	20.6	22.2	22.2	16.9	-1.1	-2.6	0.5
WAMU										
Benin	1.5	6.8	1.5	-2.7	-2.5	-3.4	-3.4	-4.3	-2.5	-4.4
Burkina Faso	—	-2.5	-2.2	-4.1	1.2	1.5	0.7	2.0	0.4	0.9
Côte d'Ivoire	5.8	3.4	-1.5	-1.0	4.6	13.1	9.4	3.2	-1.5	-3.9
Mali	...	...	...	...	...	1.4	3.4	2.5	1.5	4.4
Niger	5.2	4.1	2.5	2.0	0.8	—	-0.1	-0.1	-1.4	-1.5
Senegal	-0.9	-3.9	-1.6	-1.2	-1.6	-1.2	-0.4	0.2	-0.5	0.7
Togo	9.1	2.6	2.1	7.9	10.4	12.7	10.0	4.6	6.2	5.6
Private Savings										
CAMA										
Cameroon	15.5	15.4	19.8	18.5	24.2	28.6	20.0	23.9	16.6	16.4
Central African Republic	...	5.9	-7.0	-1.0	-4.6	-2.3	-2.2	-5.0	-4.6	-5.1
Chad	...	...	...	-5.9	-2.2	-19.0	-21.1	-18.9	-12.7	-9.6
Congo	44.3	29.6	30.9	31.1	32.5	29.4	13.4	31.8	29.4	32.7
Gabon	40.9	37.1	33.4	32.3	32.0	28.8	11.0	29.6	28.7	34.4
WAMU										
Benin	6.5	-16.5	-6.4	5.2	6.3	8.5	3.5	5.5	3.1	10.1
Burkina Faso	-11.2	-7.4	-5.2	-5.3	-2.6	-7.2	-6.8	-7.7	-4.0	-7.2
Côte d'Ivoire	17.1	15.4	21.8	20.4	16.9	15.3	10.1	12.7	16.4	16.5
Mali	...	...	...	...	...	-15.7	-4.7	3.6	2.3	4.0
Niger	16.2	10.9	8.1	2.4	-1.2	2.9	5.1	4.3	10.8	10.9
Senegal	0.5	-0.8	6.3	3.2	6.5	2.3	6.0	7.4	9.0	9.8
Togo	11.8	14.3	1.9	5.8	8.8	6.8	2.9	8.8	3.6	9.4

Sources: IFS; WEO; and staff estimates and projections.

Table VII. CFA Franc Zone: Indicators of Financial Savings, 1980-89

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
CFA Franc Zone <u>1/2/</u>										
M2/GDP	21.8	23.3	22.6	22.2	23.4	22.9	24.7	24.4	23.3	23.2
Currency in circulation/GDP	8.2	9.7	9.0	8.3	8.0	7.5	8.7	8.8	7.6	7.5
Bank deposits/GDP	13.3	13.4	13.3	13.6	15.1	15.1	15.7	15.3	15.4	15.4
Time/Total deposits	32.8	35.2	34.6	36.6	37.4	41.6	45.0	47.9	49.1	48.2
CAMA <u>1/</u>										
M2/GDP	19.1	19.6	18.4	18.8	19.3	19.0	21.5	21.8	21.1	20.9
Currency in circulation/GDP	8.1	8.7	8.1	8.1	8.3	7.6	9.0	9.8	8.6	8.6
Bank deposits/GDP	10.9	10.8	10.2	10.4	10.8	11.2	12.3	11.9	12.3	12.2
Time/Total deposits	29.3	31.6	32.1	34.0	33.8	38.4	40.9	42.4	43.9	39.8
WAFU <u>1/2/</u>										
M2/GDP	24.0	26.3	26.0	25.0	26.8	26.1	27.4	26.6	25.2	25.2
Currency in circulation/GDP	8.2	10.5	9.7	8.4	7.8	7.4	8.4	8.0	6.8	6.6
Bank deposits/GDP	15.3	15.5	15.9	16.2	18.7	18.4	18.6	18.2	18.0	18.0
Time/Total deposits	35.7	38.3	36.6	38.8	40.4	44.2	48.4	52.4	53.5	55.2

Source: IFS; and staff estimates.

1/ Unweighted average of countries in group.

2/ Excludes Mali.

Table XIII. CFA Franc Zone: Cross-Border Bank Deposits of Nonbanks
by Residence of Depositor, 1981-89 (End of period)

	1981	1982	1983	1984	1985	1986	1987	1988	1989 June
(In billions of CFA francs)									
CAMA									
Cameroon	117.0	117.4	112.1	213.2	247.6	131.7	145.1	120.8	144.2
Central African Republic	5.7	6.7	8.3	10.1	10.1	11.0	13.1	17.8	14.6
Chad	2.9	3.0	2.9	4.3	5.7	5.2	7.7	6.4	7.0
Congo	25.3	33.6	45.5	62.8	73.3	56.8	57.1	51.2	59.1
Gabon	46.3	60.9	76.4	68.6	93.4	79.5	87.9	93.9	101.2
WAMU									
Benin	33.1	18.2	21.3	16.3	25.0	12.3	13.9	16.9	12.6
Burkina Faso	6.0	10.4	7.5	6.7	11.3	9.0	15.8	16.4	15.3
Côte d'Ivoire	149.7	180.9	191.6	209.7	254.3	218.6	236.6	242.0	326.9
Mali	4.3	8.1	22.1	11.5	15.5	11.9	16.3	15.8	16.3
Niger	11.5	21.2	16.3	16.0	22.4	22.2	16.3	16.6	20.4
Senegal	48.0	58.2	68.8	72.4	80.4	93.0	111.6	126.2	137.4
Togo	9.8	25.6	17.5	40.3	31.8	34.5	34.7	39.3	41.1
CAMA total	197.2	221.6	245.2	359.0	430.1	284.2	311.0	290.1	326.0
WAMU total	258.1	314.4	323.0	361.4	425.2	389.6	429.0	457.4	553.6
CFA Franc Zone total	455.2	536.0	568.2	720.4	855.2	673.8	739.9	747.5	879.6
(In percent of deposits with domestic banks)									
CAMA									
Cameroon	38.7	31.4	23.2	35.5	34.6	19.9	28.7	22.7	27.0
Central African Republic	44.2	57.3	63.0	69.2	53.2	62.9	71.8	93.8	63.6
Chad	26.6	27.9	22.5	19.1	23.3	19.9	27.2	23.7	30.0
Congo	41.5	47.9	67.6	85.5	78.0	75.1	73.3	60.7	65.6
Gabon	33.5	39.6	41.2	31.4	37.5	35.1	46.7	47.7	48.3
WAMU									
Benin	73.4	27.1	29.7	20.2	28.3	15.3	18.8	24.8	22.6
Burkina Faso	16.1	24.3	16.0	11.3	18.9	13.2	19.6	17.2	15.2
Côte d'Ivoire	36.5	41.3	41.9	38.7	40.3	33.9	37.9	37.6	50.3
Mali	18.5	30.1	60.3	18.1	24.4	18.3	24.8	21.0	18.2
Niger	19.8	45.5	32.7	23.3	30.6	28.1	21.2	19.8	22.6
Senegal	34.6	33.8	36.2	35.3	38.3	41.5	48.9	53.3	52.5
Togo	19.9	41.2	24.6	41.1	30.9	29.1	30.3	32.7	32.3
CAMA average	36.9	40.8	43.5	48.1	45.3	42.6	49.5	49.7	46.9
WAMU average <u>1/</u> <u>2/</u>	33.4	35.5	30.2	28.3	31.2	26.9	29.5	30.9	32.6
CFA Franc Zone average <u>1/</u> <u>2/</u>	35.0	37.9	36.2	37.3	37.6	34.0	38.6	39.5	39.1

Source: IFS.1/ Unweighted averages.2/ Excludes Mali.

Table XIV. CFA Franc Zone: Ratio of Investment to GDP, 1980-89

	1980	1981	1982	1983	1984	1985	1986	1987	1988	<u>1989</u> Prov.
CAMA										
Cameroon	20.8	32.5	29.4	31.2	29.8	27.2	29.7	33.2	21.2	16.8
Central African Republic	6.8	10.1	4.1	12.4	12.3	14.4	14.4	13.6	10.3	12.3
Chad	...	...	...	3.1	5.4	8.2	9.1	10.3	9.1	13.3
Congo	35.8	0.0	59.7	38.4	30.4	30.3	29.5	20.3	17.4	15.4
Gabon	27.5	33.1	32.4	36.3	33.5	37.3	45.0	28.3	34.0	31.7
WAMU										
Benin	23.6	21.7	25.0	18.8	13.0	13.5	13.1	11.9	14.7	11.3
Burkina Faso	16.6	17.7	23.7	19.5	22.6	25.2	22.8	22.7	23.7	21.5
Côte d'Ivoire	26.5	25.9	23.2	18.1	11.6	14.6	12.2	11.7	15.3	7.7
Mali	...	17.5	17.6	14.6	15.2	19.6	22.9	23.0	22.6	24.4
Niger	32.4	24.4	17.9	12.6	9.9	9.9	9.2	12.7	11.2	14.7
Senegal	15.5	16.4	15.8	16.2	15.8	13.7	14.6	15.0	14.2	14.5
Togo	34.7	30.2	26.3	22.0	21.1	28.7	26.8	23.9	21.6	20.6
<u>Averages (unweighted)</u>										
CFAF Zone <u>1/2/</u>	24.0	21.2	25.7	20.8	18.7	20.3	20.6	18.5	17.5	16.4
CAMA <u>2/</u>	22.7	18.9	31.4	24.3	22.3	23.5	25.5	21.1	18.4	17.9
WAMU <u>1/</u>	24.9	22.7	22.0	17.9	15.7	17.6	16.5	16.3	16.8	15.1

Sources: IFS; WEO; and staff estimates and projections.

1/ Excludes Mali.

2/ Excludes Chad before 1983.

Table XV. CFA Franc Zone: Selected Agricultural Producer Prices, 1975-89

(In CFA francs per kilogram, unless otherwise indicated)

Crop year ending in	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Coffee (Robusta)															
World market price	59	138	249	151	160	141	127	166	215	274	247	233	140	128	110
Producer price in:															
Côte d'Ivoire	175	175	180	250	250	300	300	300	300	350	380	400	400	400	400
Cameroon	135	145	195	250	280	310	320	330	350	390	430	440	440	440	440
Central African Republic							330	337	347	367	397	418	483	483	
Togo	105	115	125	145	180	200	200	215	235	290	315	365	400	400	350
Cocoa beans															
World market price	55	101	192	158	144	113	116	118	166	215	208	147	124	97	82
Producer price in:															
Côte d'Ivoire	150	150	180	250	250	300	300	300	300	350	375	400	400	400	400
Cameroon	120	130	150	220	260	290	300	310	330	370	410	420	420	420	420
Togo	115	120	130	150	200	220	220	225	235	275	300	330	360	360	300
Cotton (medium)															
World market price (ginned cotton)	52	84	79	74	74	90	103	108	145	160	122	75	102	86	110
Producer price in:															
Burkina Faso	40	40	40	55	55	55	55	62	62	70	90	100	100	95	95
Chad	45	45	45	50	50	50	50	60	70	80	100	100	100	100	100
Niger		47	47	55	62	62	62	80	120	120	120	130	130	110	100
Senegal		47	49	49	49	55	60	68	70	70	70	100	100	100	100
Groundnuts															
World market price (groundnut oil, CFAF per metric ton)	167	165	208	244	189	181	283	192	271	444	407	197	150	176	248
Producer price in:															
Benin			40	40	40	40	50	60	65	80	80	95	85	95	50
Burkina Faso	34	34	38	44	54	54	31	131	131	131	131	150	90	90	95
Cote d'Ivoire				50	50	50	50	50	50	50	50	50	50	50	
Niger		55	55	60	75	75	75	85	90	90	100	130	130	95	--
Senegal		42	52	42	42	46	50	70	70	70	80	90	90	90	70
Maize															
World market price (CFAF per bushel)	26	27	23	23	25	27	36	36	52	59	50	30	23	32	36
Producer price in:															
Burkina Faso	22	18	21	32	40	40	45	50	60	60	85	80	40	50	45
Cote d'Ivoire					30	30	30	30	40	40	40	40	50	45	
Congo		30	30	30	43	43	47	59	65	68	73	73	85		

Sources: IFS; Recent Economic Developments (various reports); and staff projections.

Table XVI. CFA Franc Zone: Ratio of External Current Account to GDP, 1980-89

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
CAMA										
Cameroon	-0.5	-6.6	-3.7	0.9	4.0	4.0	-5.3	-9.4	-7.3	-4.1
Central African Republic	-4.8	-0.5	-5.5	-4.1	-4.3	-7.7	-6.6	-6.9	-3.3	-5.0
Chad	1.2	3.5	3.4	6.5	2.0	-8.9	-7.9	-3.2	-1.8	-4.5
Congo	-9.7	-23.1	-15.3	-19.1	1.5	-7.5	-32.5	-9.7	-20.6	-5.2
Gabon	9.2	10.5	8.7	2.2	3.2	-4.4	-30.5	-12.9	-18.6	-6.5
WAMU										
Benin	-14.0	-8.7	-20.2	-11.6	-3.0	-2.1	-6.6	-6.0	-7.9	-6.6
Burkina Faso	-4.0	-3.9	-8.0	-5.6	-0.4	-5.5	-2.2	-1.6	-3.2	-5.7
Côte d'Ivoire	-18.0	-16.7	-13.4	-13.6	-0.8	0.7	-3.9	-7.0	-13.2	-9.3
Mali	-9.5	-8.5	-8.9	-9.0	-6.0	-12.4	-10.6	-5.1	-4.7	-4.1
Niger	-12.1	-7.8	-9.4	-4.5	-1.6	-4.0	-2.1	-3.7	-2.7	-4.5
Senegal	-14.5	-18.7	-12.6	-12.6	-11.3	-12.5	-7.2	-6.3	-4.7	-3.6
Togo	-8.4	-4.6	0.6	-5.4	2.9	-3.8	-10.8	-8.9	-4.8	-2.6
<u>Averages</u>										
CFA Franc Zone	-6.9	-7.0	-6.9	-6.1	-0.7	-4.7	-10.5	-6.9	-8.0	-5.2
CAMA <u>1/</u>	-0.9	-3.2	-2.5	-2.7	1.3	-4.9	-16.6	-8.4	-10.3	-5.0
WAMU <u>2/</u>	-11.8	-10.1	-10.5	-8.9	-2.4	-4.5	-5.5	-5.6	-6.1	-5.4

Sources: IFS; WEO; and staff estimates and projections.

1/ Excluding Equatorial Guinea.

2/ Excluding Mali.

Table XVII. CFA Franc Zone: External Public Debt Outstanding, 1980-89

(End of period; in percent of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
CFA Franc Zone <u>1/</u>										
Total	46.7	55.8	63.8	72.7	76.6	65.3	70.7	70.4	81.0	...
By maturity										
Long term	42.8	52.3	57.7	65.6	69.7	58.9	63.8	62.6	71.2	...
Short term	5.3	5.0	6.1	7.1	6.9	6.5	6.9	7.8	9.8	...
By creditor										
Official	19.4	23.6	28.1	34.7	37.6	32.7	37.1	40.7	47.8	...
Commercial banks	18.6	20.5	22.2	23.0	20.4	16.5	16.2	15.1	15.6	...
Other	3.7	11.7	13.5	15.0	18.5	16.1	17.4	14.7	17.5	...
CAMA <u>1/</u>										
Total	40.9	45.2	50.3	53.7	52.5	45.3	53.4	53.9	65.9	...
By maturity										
Long term	38.3	44.5	44.4	47.4	45.7	37.3	43.7	44.8	54.6	...
Short term	5.9	4.2	5.9	6.2	6.8	8.0	9.7	9.1	11.3	...
By creditor										
Official	20.2	21.8	21.7	24.6	24.4	20.8	27.0	29.7	37.1	...
Commercial banks	11.8	9.6	9.7	9.3	9.2	7.6	8.7	8.6	10.7	...
Other	8.9	13.8	18.9	19.8	18.8	16.9	17.8	15.6	18.1	...
WAMU <u>1/</u>										
Total	50.6	63.9	75.0	89.7	100.3	87.0	87.0	85.1	93.4	88.4
By maturity										
Long term	45.8	58.3	68.8	81.9	93.4	82.1	82.7	78.4	84.8	80.8
Short term	4.8	5.6	6.3	7.8	7.0	4.8	4.3	6.7	8.6	7.6
By creditor										
Official	18.9	25.0	33.5	43.8	50.6	45.6	46.6	50.5	56.6	52.4
Commercial banks	23.1	28.9	32.5	35.2	31.5	26.0	23.4	20.8	19.7	21.1
Other	8.6	10.0	9.0	10.7	18.2	15.3	17.0	13.9	17.1	15.0

Source: WEO.

1/ GDP weighted averages.

Table XVIII. CFA Franc Zone: Nominal GDP, 1980-89

(In billions of CFA francs)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
CAMA										
Cameroon	1,356.2	1,796.5	2,172.8	2,629.0	3,192.0	4,005.0	4,166.0	3,969.0	3,697.0	3,325.0
Central African Republic	188.8	218.1	245.9	251.0	278.7	316.1	352.4	330.6	330.9	342.4
Chad	146.8	159.1	179.9	223.3	282.7	327.9	260.3	243.2	313.2	323.9
Congo	360.4	541.7	710.0	799.2	958.5	970.8	640.4	689.8	661.1	723.1
Gabon	904.5	1,049.6	1,188.9	1,292.6	1,535.8	1,645.8	1,201.1	1,044.6	983.0	1,141.2
WAMU										
Benin	245.6	301.0	411.9	439.4	466.3	499.8	503.1	502.0	525.2	551.0
Burkina Faso	284.9	343.2	380.7	402.0	417.6	479.1	503.6	509.6	581.5	619.8
Côte d'Ivoire	2,149.8	2,291.5	2,486.7	2,606.0	2,989.3	3,136.8	3,244.3	3,117.8	3,038.0	2,949.0
Mali	337.0	365.0	403.6	411.3	463.5	475.0	528.2	568.8	578.2	641.8
Niger	528.5	601.5	663.1	687.2	638.5	647.0	643.4	649.9	694.2	669.8
Senegal	627.3	669.7	843.8	939.5	1,015.4	1,152.0	1,294.3	1,382.3	1,483.3	1,572.0
Togo	238.9	261.5	270.0	291.8	313.8	338.2	362.5	375.1	406.4	426.9
CAMA	2,956.7	3,765.0	4,497.5	5,195.1	6,247.7	7,265.6	6,620.2	6,277.2	5,985.2	5,855.6
WAMU ^{1/}	4,412.0	4,833.4	5,459.8	5,777.2	6,304.4	6,727.9	7,079.4	7,105.5	7,306.8	7,430.3
CFA Franc Zone ^{1/}	7,368.7	8,598.4	9,957.3	10,972.3	12,552.1	13,993.5	13,699.6	13,382.7	13,292.0	13,285.9

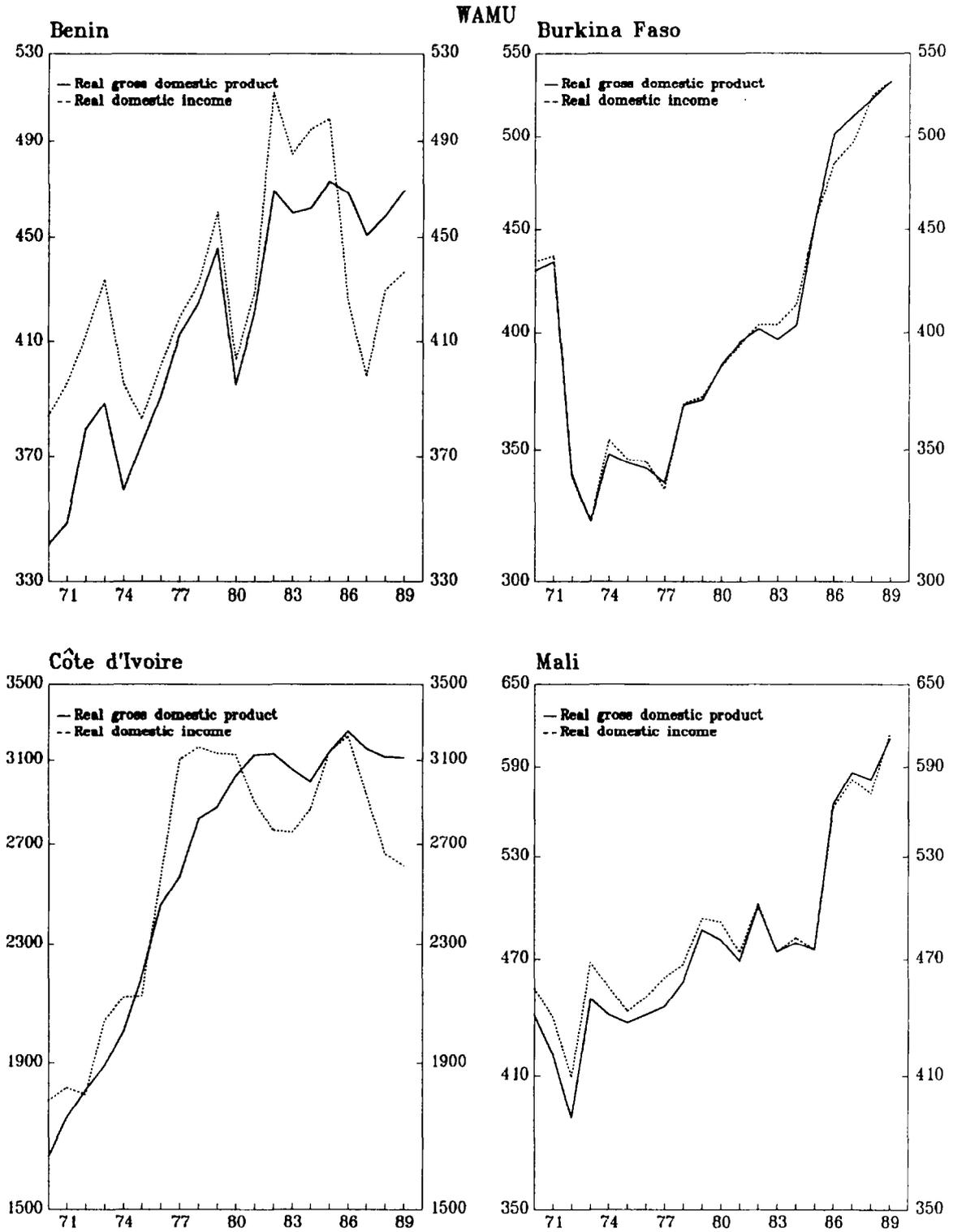
Sources: IFS; WEO; and staff estimates and projections.

^{1/} Before 1976 the totals exclude Mali.

Chart I

Real Income: Adjusted for Terms of Trade.

(In 1985 prices) ^{1/}

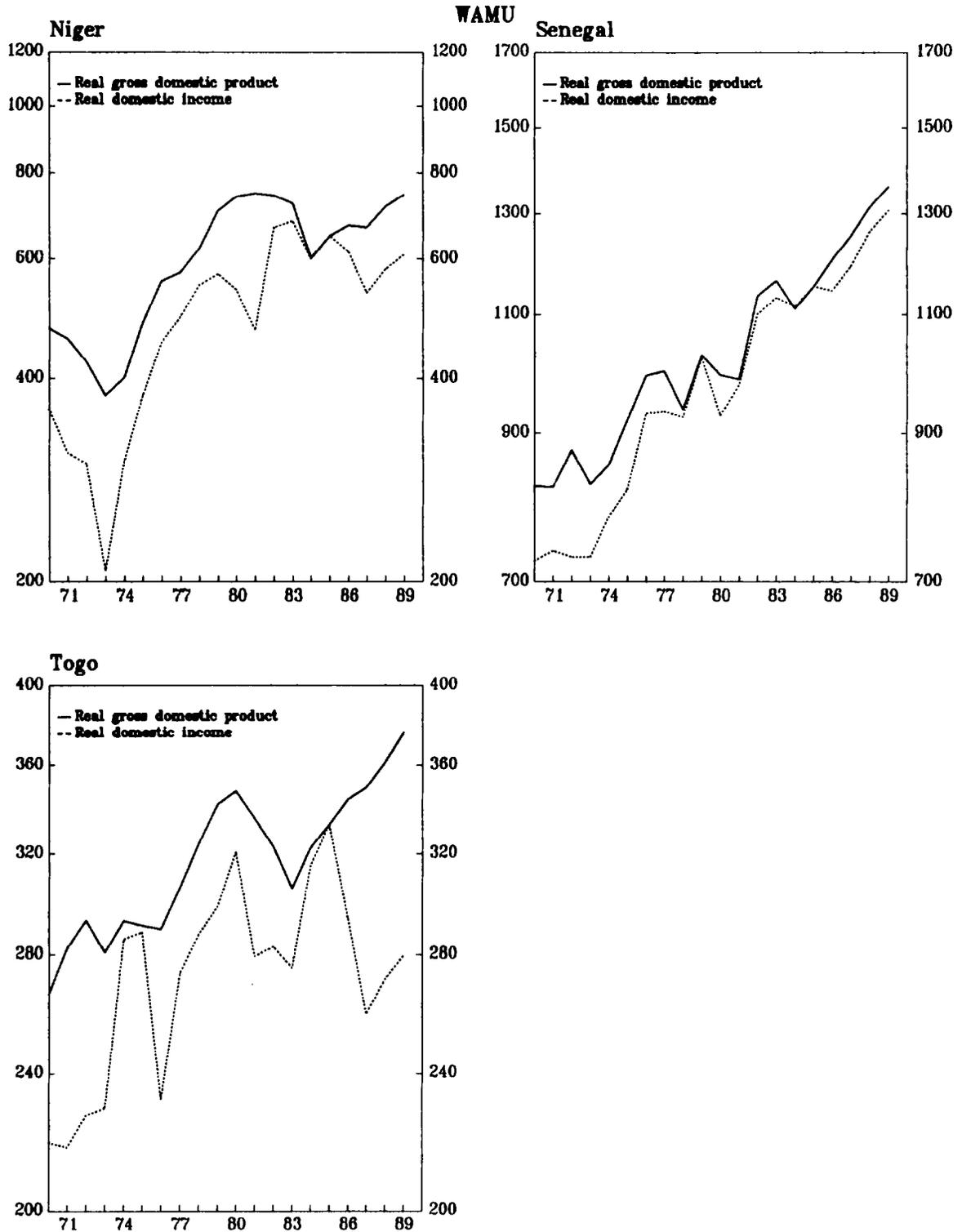


Source: World Economic Outlook Database.

^{1/} In billions of CFA Francs. Note the scale used is logarithmic.

Chart I (Continued)

Real Income: Adjusted for Terms of Trade.
(In 1985 prices) 1/

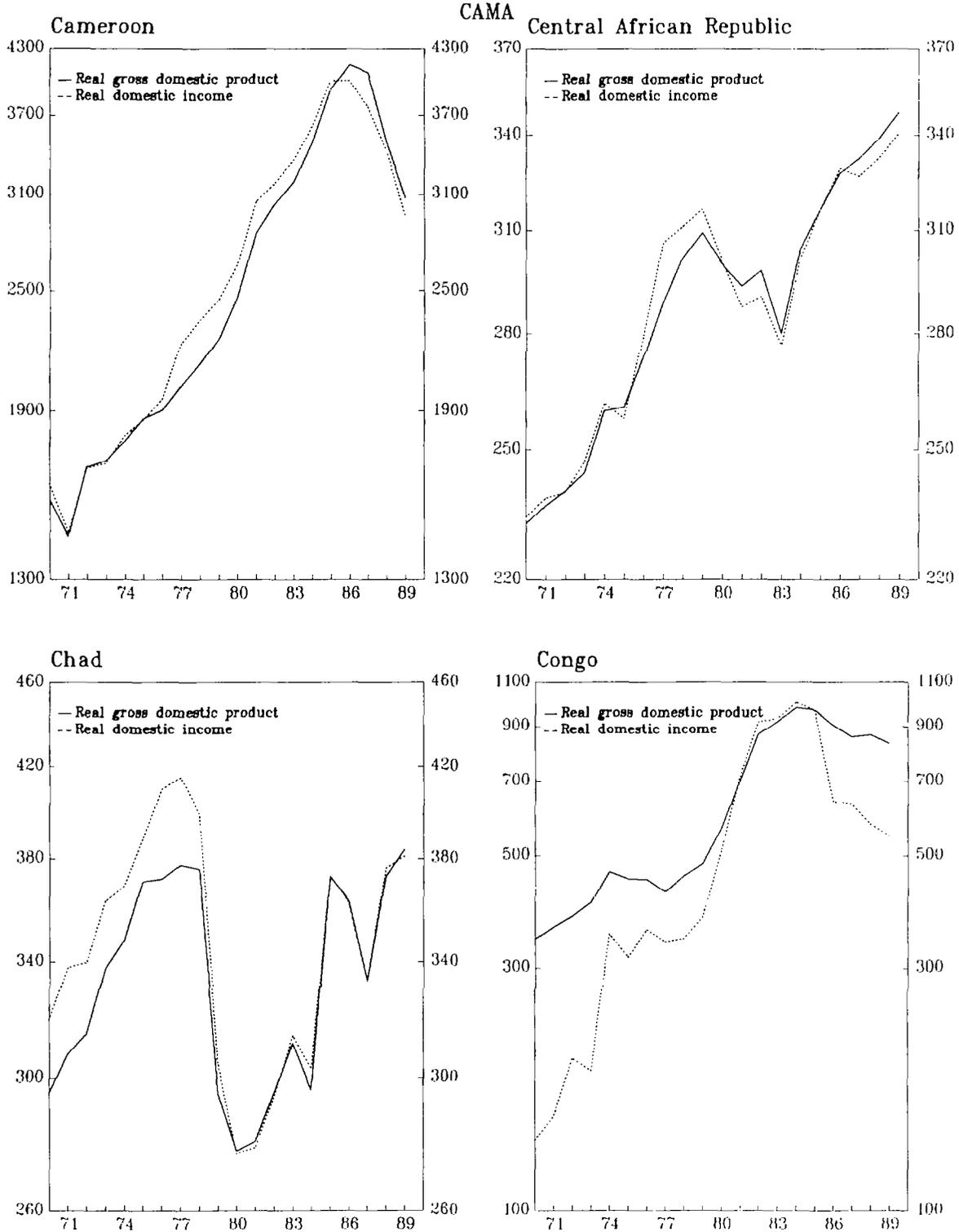


Source: World Economic Outlook Database.

1/ In billions of CFA Francs. Note the scale used is logarithmic.

Chart I (Continued)

Real Income: Adjusted for Terms of Trade.
(In 1985 prices) ^{1/}

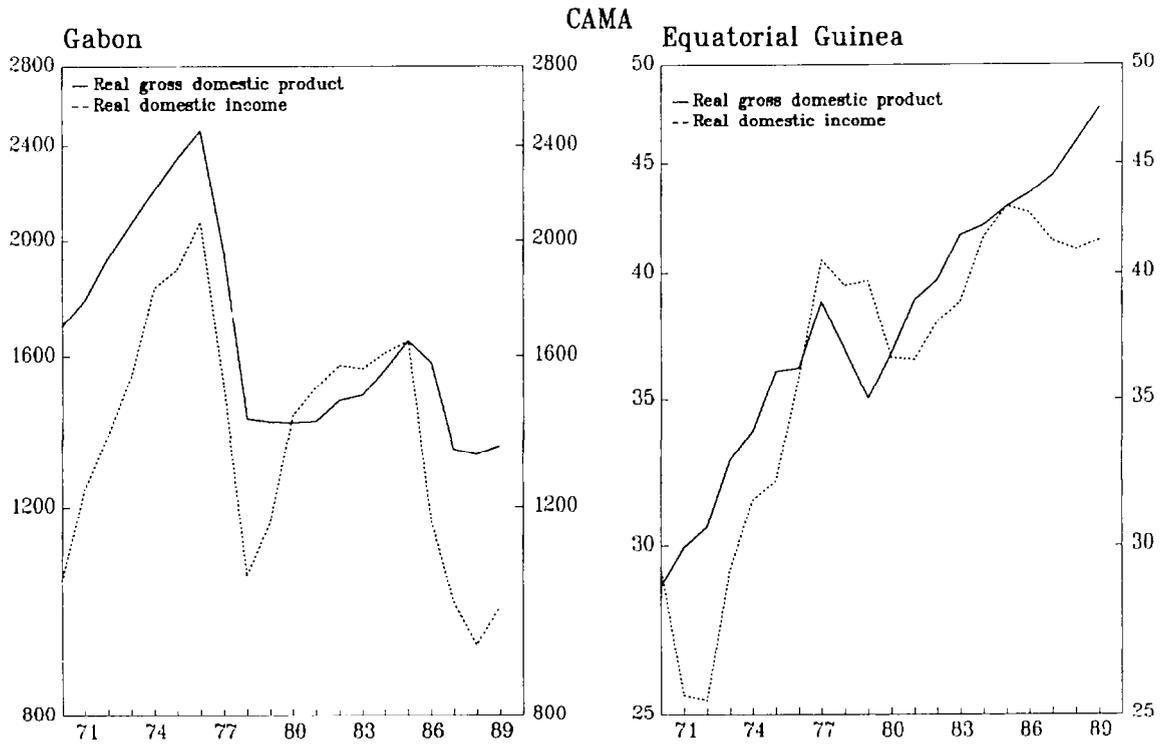


Source: World Economic Outlook Database.

^{1/} In billions of CFA Francs. Note the scale used is logarithmic.

Chart I (Continued)

Real Income: Adjusted for Terms of Trade.
(In 1985 prices) ^{1/}



Source: World Economic Outlook Database.

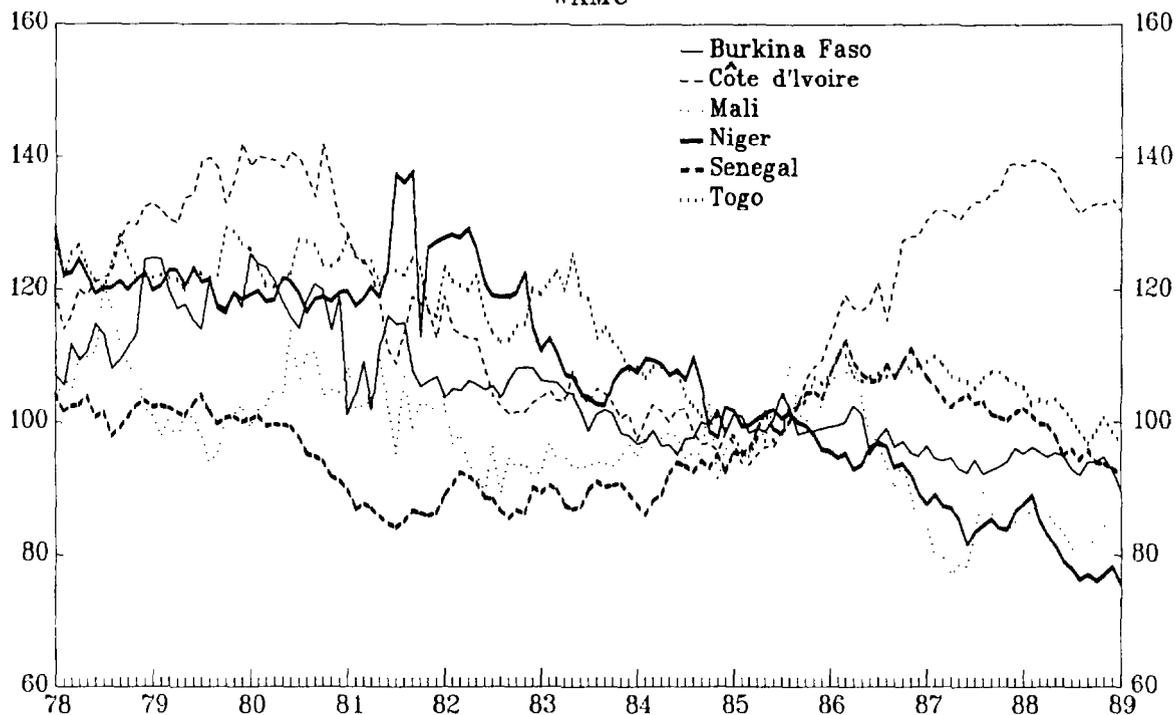
^{1/} In billions of CFA Francs. Note the scale used is logarithmic.

Chart II

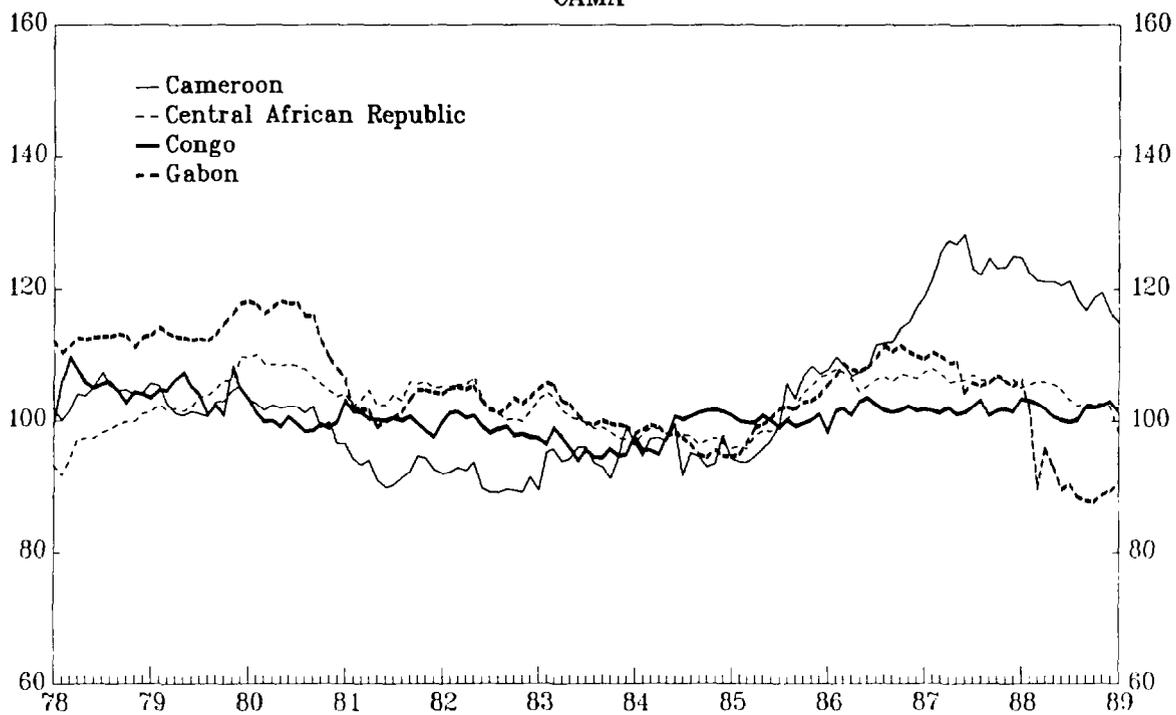
Real Effective Exchange Rates ^{1/}

(1985=100)

WAMU



CAMA



Source: Information Notice System.

^{1/} Direction of trade weights.

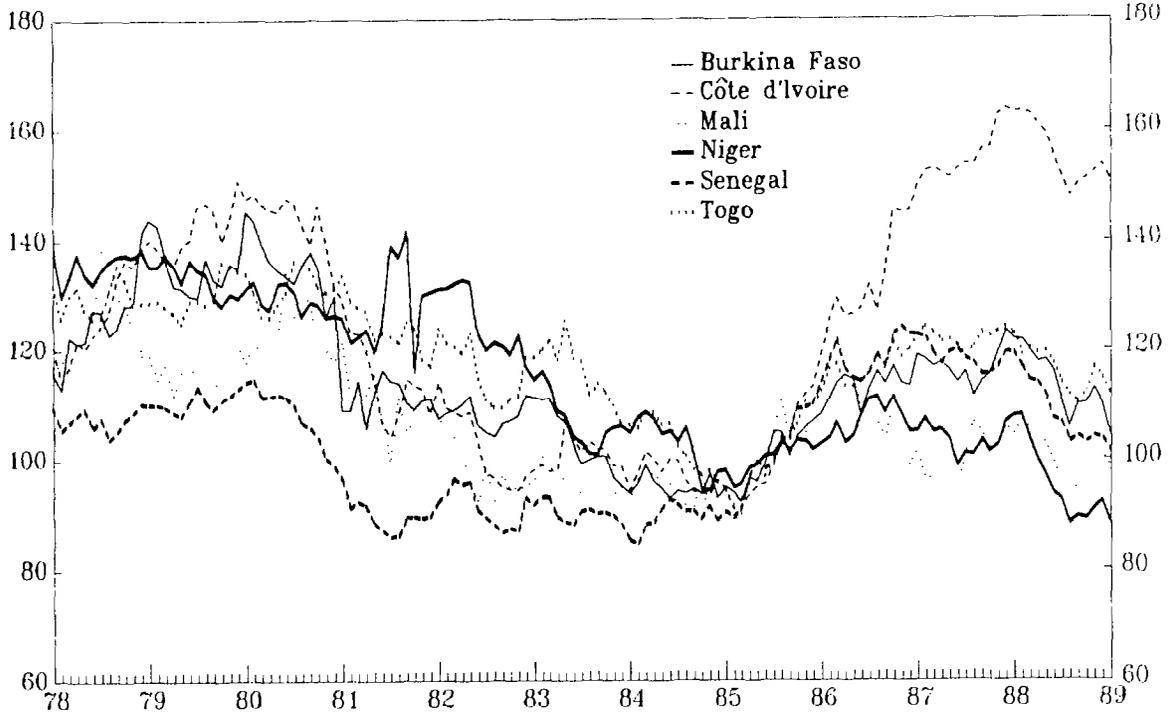


Chart III

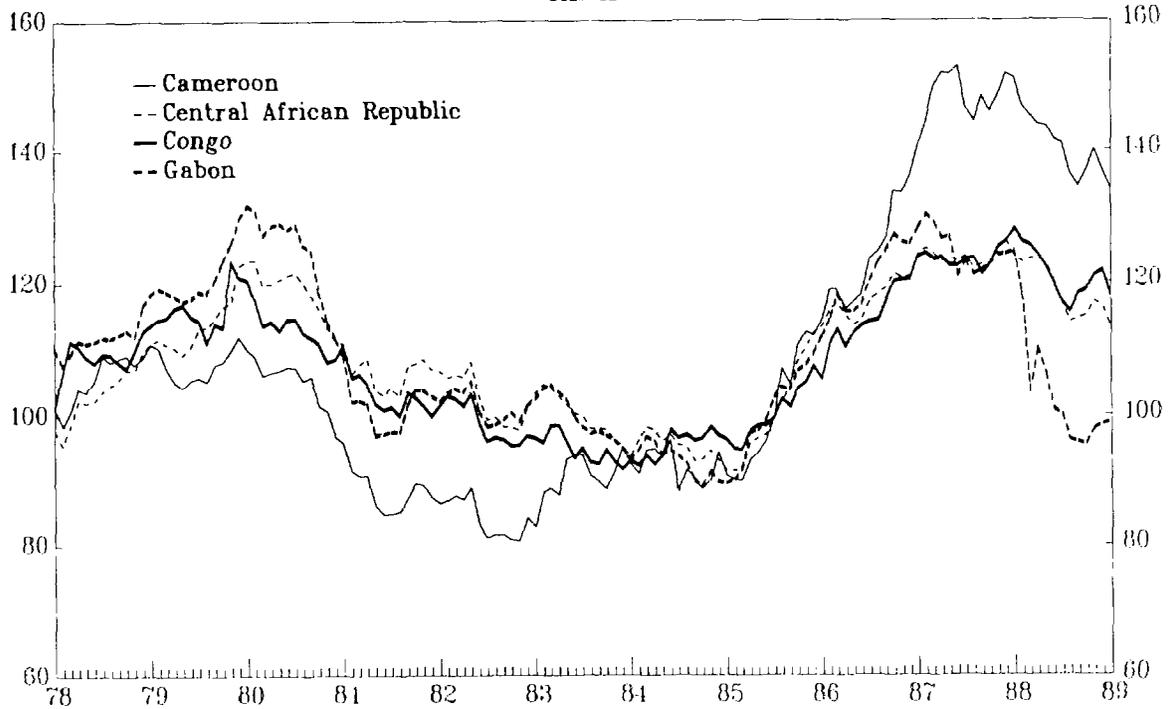
Real Effective Exchange Rates 1/

(1985=100)

WAMU



CAMA



Source: Staff calculations.

1/ Primary product export weights.

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