December 2003
IMF Country Report No. 03/398

Central African Economic and Monetary Community—Paper on Recent Developments and Regional Policy Issues; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director on Recent Developments and Regional Policy Issues in the Central African Economic and Monetary Community

As a supplement to the Article IV consultations with Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon, the IMF has regular discussions of developments and regional policy issues in the Central African Economic and Monetary Community (CEMAC). In this context, the following documents have been released and are included in this package:

- the paper on recent developments and regional policy issues in the **Central African Economic and Monetary Community**, prepared by a staff team of the IMF, following discussions that ended on **June 20, 2003,** with the officials of the CEMAC on economic developments and policies. **Based on information available at the time of these discussions, the paper was completed on September 15, 2003**. The views expressed in the paper are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- the Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its **November 12, 2003** discussion of the paper.

- a statement by the Executive Director on recent developments and regional policy issues in the CEMAC.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

Central African Economic and Monetary Community: Recent Developments and Regional Policy Issues

Prepared by the Staff Representatives for the 2003 Consultation with the Central African Economic and Monetary Community

Approved by Donal Donovan and Michael Hadjimichael

September 15, 2003

- This paper reports on the staff's discussions with senior officials of the regional authorities of the Central African Economic and Monetary Community (CEMAC). It provides a regional dimension to the Executive Board's discussions of Article IV consultations with the six member countries of the CEMAC: Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon.
- The discussions were held in Yaoundé (Cameroon) during June 17-20, 2003. The CEMAC representatives included Messrs. Mamalépot and Issiobeka, Governor and Vice Governor of the Bank of Central African States (BEAC), Mr. Madji, Secretary General of the Banking Commission of Central Africa (COBAC), Mr. Ketchemen of the CEMAC Executive Secretariat, and Mr. Malloum, Secretary General of the Development Bank of Central African States (BDEAC). The mission also met with Mr. Sylvain Goma, Secretary General of the Economic Union of Central African States (CEEAC). The staff team consisted of Messrs. Katz (head), van den Boogaerde, Chauffour, Weisfeld (all AFR), Mr. Prokopenko (MFD), Ms. Rahman (PDR), and Messrs. Ryba, Samen and Obidegwu (World Bank). Mr. Nguenang, the Research Assistant to the Fund Resident Representative in Yaoundé, assisted the mission.
- In concluding the last consultation with the CEMAC regional institutions in June 2002 (IMF Country Report No. 02/203), Executive Directors noted that developments in world oil markets had permitted CEMAC countries to sustain satisfactory—albeit somewhat uneven—economic growth. However, they considered that domestic demand had been allowed to grow too strongly—reflecting a rapid expansion in credit granted by the BEAC and a procyclical fiscal policy. To strengthen discipline in public finances, they recommended that the fiscal convergence criterion be adjusted to take into account the importance of oil revenues for most of the economies in the region. They also saw potential merit in the planned establishment of an oil revenue stabilization fund and welcomed the plan to phase out statutory central bank financing of government deficits. They noted the scope for further strengthening bank soundness, including making the common banking license effective and developing a well-functioning interbank market. Finally, Directors noted that much remained to be done to implement fully the goal of a single market in the region and stressed the importance of reducing barriers to trade.
- Little progress has been made since the last consultations in strengthening institutions and in meeting convergence criteria.
- At present, a regional consultation is not a legal requirement for concluding bilateral Article IV consultations with CEMAC countries. The regional authorities reacted favorably to the staff's proposal to elevate the regional discussions to a formal regional surveillance of CEMAC-wide issues as part of the Article IV consultation process with member countries, consistent with the approach taken in the context of the consultations with the euro area institutions. However, the authorities explained that they would need further internal consultations before providing a definitive reply.

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EXECUTIVE SUMMARY

- In spite of a rich regional endowment of oil and other natural resources, the CEMAC region continues to fare poorly with respect to the UNDP human development indicators, and poverty remains pervasive. Little progress has been made in recent years with respect to strengthening institutions and meeting convergence criteria.

- In 2002, oil sector developments continued to dominate regional economic performance. Real economic growth slowed slightly, reflecting a decline in oil output in some countries. Consumer price inflation fell, partly as a result of the appreciation of the euro. In line with lower economic growth, difficulties in containing spending in countries with falling oil output, and strong spending increases in countries with growing oil production, the regional fiscal position weakened further. Against the background of an ongoing appreciation of the real effective exchange rate, the external current account deteriorated somewhat, while higher oil sector-related foreign direct investment inflows helped the regional central bank accumulate reserves. Progress with structural reform has been mixed. While the restructuring and privatization of distressed banks have moved ahead and the regulatory framework for financial institutions has been strengthened, the health of the banking system remains fragile in several CEMAC countries, the effectiveness of monetary policy instruments limited, and the implementation of the customs union partial.

- In 2003, real GDP growth should edge up slightly. Assuming the adjustment that is envisaged both on the revenue and the expenditure sides, fiscal balances would strengthen. Inflation is projected to rise somewhat, and the external current account should improve.

- The main theme of this year's discussions was the importance of prudent management of oil revenues. Discussions centered on the need for a lasting consolidation of public finances in spite of the volatile nature of oil revenues, notably by adopting a fiscal rule and changing the regional surveillance framework's fiscal balance criterion accordingly. While agreeing with staff on the advantages of basing fiscal policy on a rule that takes account of the volatility of fiscal oil revenues, the authorities saw only limited prospects for a broad-based implementation of such an approach in the near future. They felt that most member countries might not be ready to submit their spending decisions to such a rule. They also thought that more time was needed to strengthen the surveillance framework in its present form.

- A second important theme of the discussions was the conduct of monetary policy. The staff judged the regional central bank's monetary policy stance during the last year to be generally prudent. Also, their monetary programming exercise for 2003 was found to be broadly consistent with the regional inflation objective. The main monetary policy issue under discussion was the limited effectiveness of monetary policy instruments. The transmission of monetary policy within CEMAC has long been hampered by an inefficient interbank market and structural impediments to the development of credit relationships in the region. More recently, declining euro-area interest rates and sizable foreign reserves inflows into the oil-producing member countries have made the situation even more difficult. Staff suggested that monetary policy effectiveness could be improved by sterilizing a larger share of foreign currency inflows, consistent with the proposed fiscal policy rule; enhancing the functioning of the interbank market; and creating additional negotiable financial assets as a basis for indirect monetary policy instruments. The staff also suggested that the country-by-country differentiation of reserve requirements introduced in 2002 should be abolished. While the authorities agreed with many of the above suggestions, they thought that the differentiation of reserve requirements should be maintained for the time being. In their view, no other instrument was available for mopping up unevenly distributed overall excess liquidity.

- A further issue discussed was how to foster an integrated financial system. The staff suggested, inter alia, tightening prudential norms beyond those employed in diversified industrialized economies.

- In addition, the issue of achieving a higher degree of intraregional and international goods market integration was reviewed. The staff argued that administration of the customs union needs to be improved, and obstacles to trade both within the region and with third countries reduced. In this context, and against the backdrop of a sustained appreciation of the real effective exchange rate, the staff urged the authorities to closely monitor developments in the region's competitiveness and step up the pace of structural reforms.

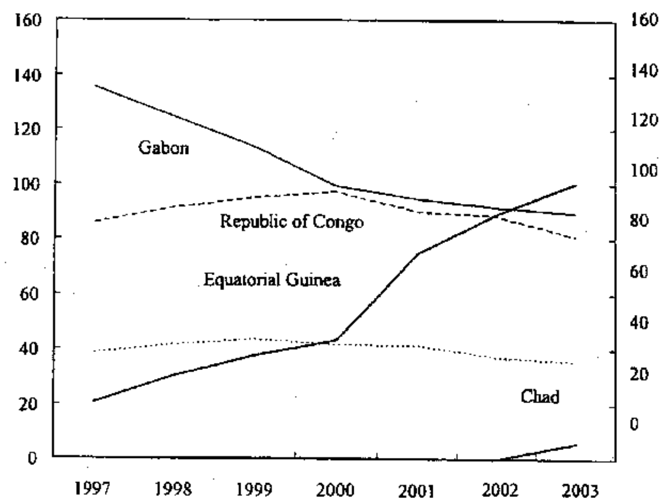
- Finally, the staff believes that the regional authorities should intensify their efforts to integrate the region in all relevant respects. Only then will regional integration contribute noticeably to growth and poverty reduction.

I. Recent Economic Developments and Prospects

1. **Oil market developments continue to dominate the economic performance of the region,** as petroleum constitutes 77 percent of the Central African Economic and Monetary Community (CEMAC) countries' export receipts and almost half of their budgetary revenue.[1] Despite a rich regional endowment of oil and other natural resources, four CEMAC countries continue to rank in the lowest quartile of the United Nations Development Program (UNDP) human development indicators and poverty remains pervasive in most countries.

2. **Region-wide real GDP growth declined from 5.4 percent in 2001 to 4.7 percent in 2002** (Figure 1 and Tables 1, 2, 3, and 5).[2] Growth ranged from an estimated 40.6 percent in Equatorial Guinea, which benefited from a continued strong growth of oil output (see figure to the right), to zero in Gabon, an outcome that reflects a decline in oil output and a lackluster non-oil sector. Chad recorded 9.7 percent real GDP growth, mainly on account of the construction of the Doba-Kribi pipeline; Cameroon sustained broad-based growth of 4.2 percent; the economy of the Republic of Congo (henceforth "the Congo") grew by 3.5 percent following the resolution of its political crisis; while in the Central African Republic, economic growth declined to 0.8 percent, reflecting political instability.

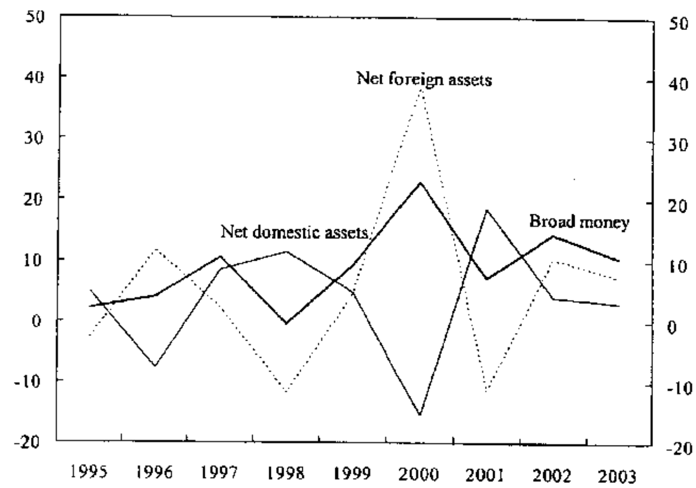
Oil Production
(In millions of barrels per year)



[1] Oil production also accounts for 31 percent of regional GDP (90 percent in Equatorial Guinea, 54 percent in the Republic of Congo, 42 percent in Gabon, and 12 percent in Cameroon; see Table 4). Member countries are at widely differing stages of the life cycle of oil production. Oil output is declining in Cameroon, Gabon, and the Republic of Congo, strongly growing in Equatorial Guinea, and just starting this year in Chad (see figure above). The Central African Republic does not produce oil.

[2] The overall economic performance of the region is mainly driven by Cameroon and Gabon, which account for 49 percent and 22 percent of the region's GDP, respectively. The third-largest country is the Republic of Congo, with 11 percent of regional GDP.

CEMAC: Net Domestic Assets, Net Foreign Assets and Broad Money
(Annual change in percent of beginning-of-period broad money)



3. **In spite of strong growth of broad money, consumer price inflation in CEMAC countries fell from 4.3 percent in 2001 to 3 percent in 2002, partly as a result of the appreciation of the euro and increased monetization of the economy.** While net domestic assets of the banking system grew by less than 5 percent of beginning-of-period broad money, reflecting a decline in net bank credit to government and a moderate increase in private sector credit, a significant buildup of net foreign assets contributed to a double-digit expansion of broad money (Tables 7, 8, and 9, and figure above).

4. **The use of monetary policy instruments by the Bank of Central African States (BEAC) has remained problematic.** In spite of excess bank liquidity overall,[3] the BEAC lowered its intervention rates in 2002 in line with the monetary easing in the euro area.[4] In the meantime, in an attempt to respond to differences in liquidity conditions among CEMAC countries and to improve the effectiveness of its monetary policy instruments, the BEAC increased the statutory reserve requirements on commercial bank deposits and began differentiating them by country. As a result, banks in Cameroon, the Congo, and Equatorial Guinea bear reserve requirements that exceed those of the other three countries by 2.75 percentage points.[5]

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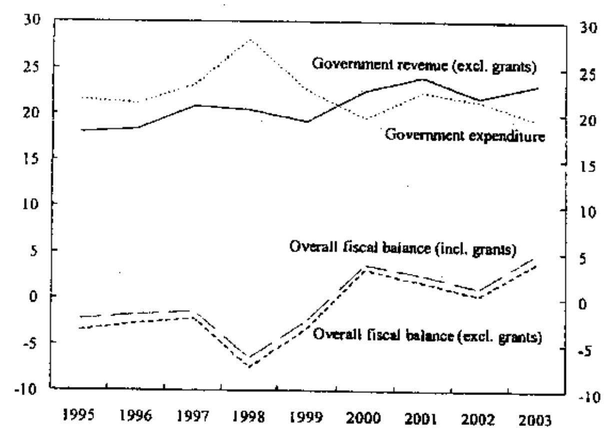
[3] In recent years, some CEMAC member countries have experienced a strong rise in commercial bank liquidity resulting mainly from public and private oil-sector-related foreign currency inflows. Excessive commercial bank liquidity constitutes a risk to price stability.

[4] The discount (bank refinancing) rate, which stood at 6.5 percent at the beginning of the year, was reduced in two steps to 6.3 percent at end-December, while the interest rate on short term (28-day) deposits was lowered from 3.7 percent to 2.8 percent (Figure 5 and Table 7). Over the same period, interest rates in the euro area fell from 3.3 percent to 2.9 percent. By March 2003, the BEAC interest rate on short-term deposits had been reduced further to 2.6 percent, in line with a lowering of euro area interest rates to 2.5 percent.

[5] In May 2003, the BEAC suspended the application of reserve requirements on commercial banks in the Central African Republic because of a liquidity crunch in that country.

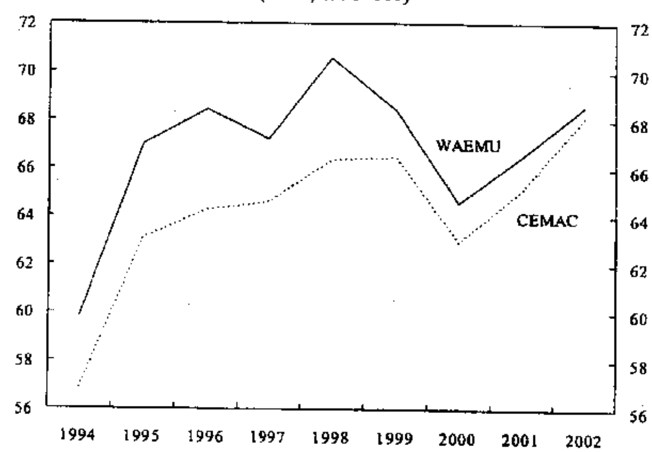
5. **In line with lower GDP growth, the regional fiscal position weakened in 2002.** The overall fiscal surplus (excluding grants) declined to 0.3 percent of GDP in 2002, after having fallen to 1.7 percent in 2001 (Tables 1, 2 and 6, and figure to the right). While total government revenue fell by 2.3 percentage points to 21.7 percent of GDP, expenditure was reduced by only 0.9 percentage point to 21.4 percent of GDP, reflecting difficulties in containing spending in countries with declining oil output and strong spending growth in Chad and Equatorial Guinea. The primary surplus of the region is estimated at 6.8 percent of GDP, down from 10.2 percent in 2001. Partly because of the weakening of fiscal balances, several countries accumulated external arrears.[6]

CEMAC: Government Revenue, Expenditure, and Balance
(In percent of GDP)



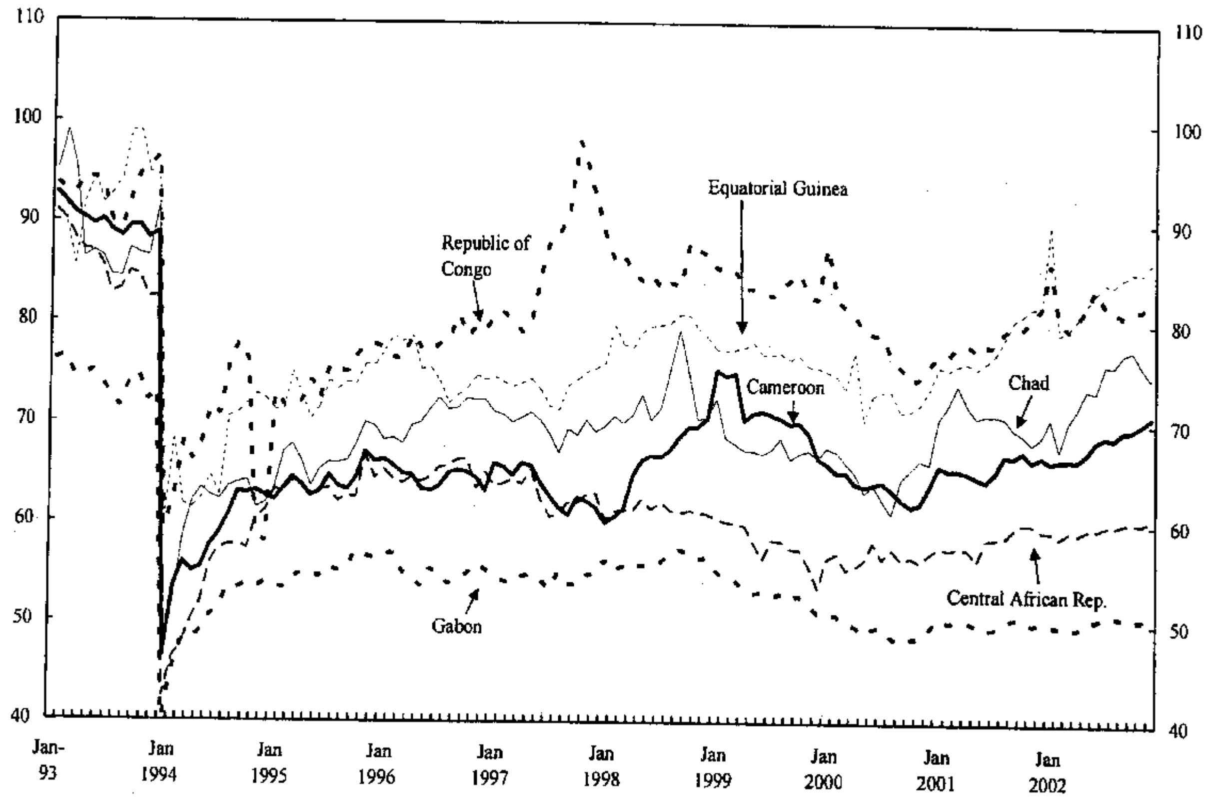
6. **Against a background of broadly unchanged terms of trade, the trade balance and the current account balance deteriorated slightly in 2002** (Figure 4 and Tables 1, 10, and 12). The trade surplus slipped by 0.5 percentage point to 9.3 percent of GDP, while the external current account deficit rose from 7 percent of GDP to 7.8 percent. Nevertheless, mainly because of larger foreign direct investment inflows, BEAC's international reserves grew by 39 percent, raising the ratio of gross foreign exchange reserves to base money to 68 percent (Figure 2). Reflecting subdued trading partners' inflation, higher domestic inflation, and the depreciation of the U.S. dollar against the euro, the real effective exchange rate appreciated by 4.7 percent in 2002 (Figure 3, figures above and below, and Table 11). Higher international commodity prices resulted in an improvement of 0.7 percent in the terms of trade.

CEMAC and WAEMU Real Effective Exchange Rates
(Index, 1990=100)



[6] In the Congo, external arrears had reached 114 percent of GDP by end-2002. For data on CEMAC countries' external debt, see Table 13.

CEMAC: Real Effective Exchange Rates of Member Countries
(Index, 1990=100)



7. **Several member countries are pursuing reform-oriented policies.**[7] **However, progress on the structural front has been slow.** While there have been some steps towards enhancing the soundness of the banking system, more needs to be done to strengthen the financial system, make monetary policy instruments more effective, and improve implementation of the customs union:

- **The restructuring and privatization of distressed banks have been largely completed in five of the six countries.** One bank in the Congo is still to be restructured, under the supervision of the Banking Commission of Central Africa (COBAC). The Development Bank of Central African States (BDEAC) has also been restructured under new leadership.

- **The health of banks remains fragile in several CEMAC countries in spite of an upgrade in bank ratings by COBAC** (Table 15). At end-March 2003, 8 banks did not comply with the capital adequacy ratio, 19 banks failed to abide by the lending diversification ratio, and 3 banks did not meet the minimum liquidity ratio (Table 17).

[7] Box 1 reviews CEMAC member countries' programs with the Fund.

The market share of undercapitalized banks was particularly significant in the Central African Republic, Chad, and the Congo, while a high concentration of lending was especially pronounced in Cameroon, the Central African Republic and the Congo. At end-March 2003, the share of nonperforming loans in total loans remained broadly unchanged, at about 15 percent. However, the provisioning against nonperforming loans declined (Table 18).

- **Partly in response to the recommendations of the Financial Sector Assessment Programs (FSAPs) for Cameroon (2000) and Gabon (2001), the regulatory and supervisory framework for financial institutions has been strengthened.** In April 2002, a new regional regulatory framework for microfinance institutions was adopted, together with rules for supervision by COBAC. A regulation that allows a bank licensed in one of the member countries to open branches in all other member countries *(agrément unique)* has also been issued. Anti-money laundering/combating the financing of terrorism (AML/CFT) legislation was enacted in March 2003.[8] Finally, the staff of COBAC was recently expanded.

- **The effectiveness of monetary policy instruments remains limited.** The lack of tradable instruments continues to hamper open market operations; the authorities have postponed *sine die* the planned phasing out of the BEAC's statutory advances[9] and their substitution by national government-issued treasury bills; the interbank market remains thin (Table 15); and common decisions on foreign exchange regulations and the repatriation of export proceeds are not yet fully enforced.

- **Implementation of the customs union remains partial.** Most CEMAC countries maintain nontariff barriers on internal trade and trade with third countries, and some continue to impose temporary surcharges. As a result, intraregional trade is exceptionally low compared with other regional trade blocks. The common external tariff (CET), which was introduced in 1994 with four rates (5, 10, 20, and 30 percent),

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[8] In March 2003, the Ministerial Committee of the Union Monétaire de l'Afrique Centrale (UMAC) adopted regulations on the prevention and suppression of money laundering and terrorism financing in central Africa. These regulations address the principal legal and institutional aspects of an AML/CFT framework. In particular, they call for the establishment of national financial intelligence units in charge of the AML/CFT detection and prevention, and provide rules for (i) customer identification; (ii) the reporting of suspicious transactions to the intelligence units; (iii) criminalization of money laundering and terrorism financing; and (iv) international cooperation.

[9] The BEAC statutes allow each member country to draw central bank credit up to a limit of 20 percent of the country's previous year fiscal revenue, thereby creating the clear potential for a procyclical fiscal policy.

continues to be subject to diverging nomenclatures, different rate structures, and varying specific levies and surcharges.[10]

8. **The economic outlook for CEMAC countries in 2003 continues to be dominated by prospects in the oil sector.** Real GDP growth is projected to increase slightly to 4.9 percent. In line with stronger growth and assuming fiscal adjustment on both the revenue and expenditure sides, fiscal balances would strengthen. Inflation is projected to increase to 3.9 percent, reflecting the inflationary effect of the monetary overhang created in 2002. The external current account should improve, in part because of lower debt service, thanks, in turn, to the HIPC Initiative. The main risk to the outlook lies in the possibility that oil prices will turn out lower than the US$26.5 per barrel assumption that underlies the baseline scenario; such an outcome would affect both income and the fiscal and external balances negatively (see figure above). During the first half of the year, however, the average oil price exceeded US$28 per barrel, so that the downside oil price risk appears to be limited. An additional risk lies in the possibility that Gabon and the Congo will fail to implement the envisaged ambitious fiscal adjustments.

Impact of a One Dollar Decrease in Oil Prices in 2003
(In percent of GDP)

	Fiscal Balance	Current Account
Cameroon	-0.2	-0.3
Congo	-0.6	-0.9
Equatorial Guinea	-0.3	-0.3
Gabon	-0.6	-0.8
CEMAC	-0.4	-0.6

9. **The regional medium-term outlook is broadly favorable** (Table 2). During the period 2004-2007, real GDP growth should pick up to an average 5.8 percent, led by strong export growth of the younger oil producers, while consumer price inflation is expected to stabilize around 3.2 percent. Fiscal balances are projected to improve to an average overall surplus (excluding grants) of almost 4 percent of GDP, reflecting both higher revenues, in particular in the newer oil producers, and better control over spending. In line with dynamic export growth, the trade balance is expected to strengthen. Together with a reduction of debt service obligations, this should allow the external current account to improve gradually.

II. Main Policy Issues and Report on the Discussions

10. **The discussions focused on the adequacy of regional policies and instruments to foster regional integration and cooperation, given the major challenges posed by differences among member countries in the degree of reliance on oil and in their positions in the life cycle of oil production.** The discussions were structured around the three main dimensions of regional policies: (i) promoting macroeconomic discipline, notably the prudent management of oil revenues; (ii) creating an integrated regional financial system; and (iii) integrating intraregional and international goods markets.

[10] Box 2 discusses the CEMAC's trade policies and performance.

A. Promoting Macroeconomic Discipline

11. The discussions centered on the two main instruments for promoting macroeconomic discipline in the CEMAC: regional surveillance and the common monetary policy.

Regional surveillance

12. **Given the significance of oil in the region, economic development depends crucially on sound management of oil resources.** So far, however, the CEMAC regional economic environment suffers from a series of problems typical of resource-based economies: (i) large oil revenues induce macroeconomic mismanagement, corruption, and rent seeking; (ii) fiscal policy tends to be procyclical, especially under the current system of government access to central bank credits; and (iii) oil income tends to raise domestic factor costs and thus render non-oil-related production uncompetitive.[11] **The staff emphasized the importance of putting in place a sound legal framework covering the entire spectrum of oil-related activities, from oil exploration and production to the management of fiscal oil revenues and oil-related financial assets.** While some of these aspects lie outside their mandate (e.g., the control over national oil companies), there are a number of areas where the regional institutions have a role to play (e.g., transparency in public finances and reserves pooling). In particular, **the staff suggested that the authorities set up a regional surveillance exercise that (i) improves transparency, accountability, and good governance in the management of oil resources, and (ii) promotes fiscal policies that seek to insulate the economy from oil price volatility. Furthermore, to be effective, the exercise should be made more binding.** The CEMAC representatives agreed with the staff that the region had not benefited from the oil windfall as much as it could have, especially with respect to poverty reduction, and that the management of oil resources should improve and become more transparent.

13. **It was agreed that the introduction of a reinforced regional surveillance exercise in 2001 constituted a positive step towards better management of oil revenues because it promoted macro-economic coordination and discipline within the zone.**[12] However, in 2002, the CEMAC member countries made little progress toward meeting the revised

CEMAC: Noncompliance with Convergence Criteria

	1998	1999	2000	2001	2002 Est.	2003 Proj.
Number of countries not in compliance with:						
Fiscal balance	5	4	2	2	3	2
Inflation	3	1	3	4	3	3
Public debt	4	4	4	4	2	2
Arrears	2	3	1	3	3	2
Total criteria	14	12	10	13	11	9

[11] Annexes I and II review CEMAC countries' current practices regarding oil sector management and fiscal policy design, respectively.

[12] Box 3 describes the revised regional surveillance framework.

convergence criteria in spite of favorable oil market developments (Table 14 and figure above).

14. Against this background, the staff and the authorities reviewed the **adequacy of the CEMAC convergence criteria in the face of the dominance of the oil sector in the region. There was a consensus that, while most of the surveillance criteria were broadly appropriate, the fiscal balance criterion did not account for the volatility of the very sizable oil revenues.** In particular, the latter should correct for oil price fluctuations, so as to prevent a surge in fiscal spending in times of high oil prices and a precipitous drop in spending when oil prices are low. The CEMAC representatives agreed with the staff that fiscal policy should, in principle, be rule-based to take account of the above concerns.

15. **Two alternative fiscal rules could be considered consistent with such an approach.** Under a price-based rule, the fiscal balance would be targeted on the basis of an assumed long-term oil price, whereas, under a deficit-based rule the basic non-oil balance would be the operational fiscal criterion. In both cases, the specific targets would reflect the extent to which regional authorities wish to set some of today's oil revenue aside for future consumption.[13] The CEMAC representatives did not express a clear preference for either of the two possible rules; in addition, they felt that it might be difficult to implement a rule-based convergence criterion at this juncture, in part because national governments needed more time to adjust to the changes made to the surveillance framework in 2001. The staff also recommended that the list of convergence criteria be expanded to include the ratio of the wage bill to non-oil tax revenue as a secondary convergence criterion.

16. **Under this approach, the staff proposed that "excess" oil revenue be invested in foreign-currency-denominated assets, either through the BEAC or directly, while observing BEAC regulations. In this context, it would be important for the BEAC to provide more attractive modalities for managing foreign reserves and financial assets.** So far, only very limited resources have been put into the few national investment funds created at the BEAC. The reluctance of member countries to place resources in such funds reflects in part BEAC's Article 11 requirement, which stipulates that foreign exchange reserves be held in specified short-term, low-risk financial assets with, accordingly, low average rates of return, and that they be managed by the BEAC. The staff welcomed the authorities' plan to amend Article 11 to allow for more attractive options and, more generally, urged the BEAC to strengthen its foreign exchange reserves management capacity.[14] The BEAC representatives pointed out that they did not believe national

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[13] The issue of saving out of current oil revenue is closely linked to fiscal policy sustainability. Box 4 reviews fiscal sustainability in CEMAC's oil producing countries.

[14] The planned amendment would free part of the reserves to be invested in a wider range of assets and longer-term assets, including under foreign management. While welcoming this

(continued…)

governments should be allowed to invest their foreign currency earnings abroad directly (i.e., other than through the BEAC), arguing that the region was too poor to accommodate such investment outflows.

17. **The authorities and staff also discussed the possibility of introducing credible peer reviews and binding measures in case convergence criteria were breached.**[15] The staff noted that, for the regional institutions to function properly and provide the benefits of regional integration, a stronger political commitment to the policy and institutional requirements of the economic and monetary union was needed. The staff encouraged the CEMAC Executive Secretariat to publish its assessment of country performance, and also proposed putting in place an appropriate system of automatic sanctions in cases of breaches of convergence criteria. The CEMAC representatives took note of these recommendations.

Monetary policy

18. **The staff and the authorities agreed that the monetary policy stance in 2002 was generally prudent and the regional monetary program for 2003 broadly consistent with the regional inflation objective and the programs of individual countries supported by the Fund,** in particular as regards the provision of central bank credit to national treasuries.[16] The staff observed that the BEAC would gain from enhanced transparency, including through improved communication to commercial banks and the public of the rationale of monetary policy actions. The authorities reacted favorably to the staff's suggestion of holding ex ante discussions between Fund and BEAC staffs on the BEAC's annual monetary program.

19. **As regards the effectiveness of monetary policy instruments, the staff commented that the transmission of monetary policy continued to be hindered by the long-standing inefficiency of the interbank market and structural impediments to the development of credit relationships in the region,** including weaknesses in the judicial system. As a result, large areas of the economy have little access to bank credit (see figure below), and monetary policy, in particular changes in the BEAC's intervention rates, has little impact on private credit allocation. Thus, the region has yet to reap the benefits of a common currency area in allocating savings to the most productive uses. While generally agreeing

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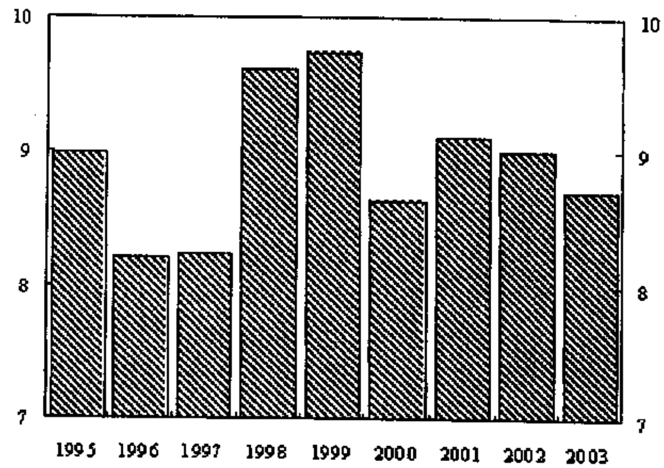
change, the staff felt that the member countries' obligations to repatriate foreign currency revenues needed further clarification.

[15] Experience in the CEMAC region suggests that, in the absence of sanctions, even mutually agreed policy orientations may not be implemented.

[16] There is a lack of consistency between the inflation objective and the provision of central bank credit to national treasuries because the amount that governments can draw from the BEAC is not governed by an overall credit ceiling but, as explained in footnote 9, by a rule that allows governments to borrow up to 20 percent of the previous year's fiscal revenue.

with these observations, the BEAC representatives noted that the apparent lack of a close relationship between central bank intervention rates and commercial bank lending rates did not always result from the above-mentioned shortcomings but could sometimes reflect the influence of fiscal policies on financial market conditions.[17] **In addition, the conduct of monetary policy by the BEAC has been rendered difficult in recent years by a combination of declining euro-area interest rates and sizable foreign reserves inflows, primarily linked to oil production.**[18]

Financial Depth—Credit to the Private Sector
(In percent of GDP)



20. The staff argued that **the conduct of monetary policy could be greatly helped by sterilizing a larger part of foreign exchange inflows, improving the functioning of the regional interbank market, and developing additional indirect monetary policy instruments, so as to allow better management of bank liquidity at the regional level:**

- **A larger share of foreign exchange revenues could be sterilized by investing the foreign currency revenues not needed for the rule-based fiscal spending discussed above in foreign reserves holdings or foreign-currency-denominated assets.** This would help avoid the creation of excessive and uneven liquidity at domestic commercial banks.

- **The functioning of the interbank market** could be enhanced by liberalizing interest rates,[19] completing the restructuring of the banking sector, enforcing prudential

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[17] Government borrowing from or depositing sizeable oil revenues in domestic commercial banks can significantly change credit conditions for the private sector.

[18] Given the peg to the euro and the de jure free capital mobility between the CFA franc and the euro zone, European Central Bank actions largely determine the stance of BEAC's monetary policy. However, de facto limitations to capital mobility, such as the costs of transferring funds and administrative obstacles, create some room for an independent determination of interest rates.

[19] The BEAC imposes maximum debtor and minimum creditor interest rates on banks' operations with their clients. The maximum interest rate that banks may charge was reduced from 22 percent per annum to 18 percent in September 2001 and has been kept constant since

(continued…)

regulations more aggressively, implementing the reform of the payments system,[20] and unifying the "positive" and "negative" open market operations facilities.

- **The range of indirect monetary policy instruments could be broadened by basing open market operations on treasury bills that have been scheduled to be issued by member states.** The BEAC representatives explained that the start date for treasury bill issuance and the phasing out of central bank advances to governments had been postponed in order to allow for more thorough technical preparation of this project, and did not reflect a lack of political will. The staff suggested that, in the absence of treasury bills, the BEAC might consider creating its own negotiable certificates of deposit to provide a better basis for open market operations than was currently available.[21] The BEAC representatives plan to review this proposal. The staff also suggested that, once treasury bills started to be issued, central bank advances to governments should be phased out quickly; in addition it voiced serious concerns regarding the proposal that the central bank guarantee the repayment of maturing bills.[22]

21. **In 2002, the BEAC introduced a differentiation of reserve requirements in an attempt to mop up overall excess liquidity in an environment of very uneven liquidity conditions across countries and banks.** The staff took the view that, while this approach might indeed have helped to rein in liquidity, country-specific reserve requirements created a distortion and ran counter to the objective of establishing a level playing field for financial services. **The staff, therefore, called for a unification of reserve requirements.** The authorities replied that country-specific reserve requirements were the only suitable instrument available to affect liquidity in a differentiated liquidity environment, and that (nondifferentiated) open market operations had not sufficiently reduced liquidity because of the low rates of remuneration they involved. Thus, the authorities felt that the distortions associated with this approach were acceptable in order to ensure monetary control.

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then. The minimum interest rate a bank must pay on term deposits has been 5 percent since 1999.

[20] The reform of the payments system is supported by the World Bank in the context of its Regional Integration Assistance Strategy. Box 5 presents the main elements of this strategy.

[21] Open market operations as conducted presently suffer from a lack of negotiability of the underlying assets.

[22] Phasing out access by governments to central bank financing could also help the conduct of fiscal policy by eliminating a source of fiscal procyclicality.

B. Fostering an Integrated Financial System

22. **Integrating and strengthening the financial system is one of the central tasks of regional policies.** In this context, the staff noted only slow improvements in banks' compliance with prudential norms and, while welcoming the adoption of new regulations for the microfinance sector and the increase in the staffing of the COBAC, urged that **further measures to strengthen the financial sector be taken, including the following:**

- **Ensuring that banks either comply with prudential regulations, agree to rehabilitation plans, or be closed.** The COBAC representatives responded that the need to protect customers' assets required giving banks sufficient time to improve their compliance with prudential regulations.

- **Applying prudential norms that take into account high risks inherent in these economies.** For example, the capital requirement should be stricter than that currently employed in advanced industrialized countries, given that the CEMAC operating environment is characterized by high macroeconomic volatility, limits to diversification, and considerable operational risks.[23] In this context, the staff welcomed the planned increase in the minimum capital adequacy ratio of commercial banks from 6 to 8 percent by end-2004, emphasizing that this level should be considered a minimum. The COBAC representatives, however, noted that government debt had already received a higher risk weighting in the CEMAC region than necessary on the basis of the Basel accord.[24]

- **Ensuring that regulation on internal controls addresses all banking risks.** At present, there is no specific control over market and foreign exchange risks.

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[23] The minimal capital adequacy ratio of 8 percent was suggested by the Basel Capital Accord for banks in industrialized countries operating in the context of fairly stable macroeconomic situations, a relatively high degree of portfolio diversification, and limited operational risks. Operational risks may result from weak internal controls or poor corporate governance, two factors that are likely to be present in the CEMAC region.

[24] COBAC also explained that, in the future, the risk weight of credits to CEMAC member governments would be made to depend on the government's performance under the regional surveillance framework. Credits toward a government that observed all performance criteria in the past year would receive a risk weight of zero; credits toward governments that missed one criterion would receive a risk weight of 25 percent; credits toward a government that missed two criteria would receive a risk weight of 50 percent; and so on.

- **Facilitating the opening of bank branches through a revision of the common bank licensing rules (*agrément unique*),**[25] and granting to COBAC the exclusive right to grant or revoke a bank license independently of agreement by country authorities. These measures should help reduce the existing barriers to the integration of the still fragmented banking sector, thereby stimulating competition and providing opportunities for diversification of banks' portfolios.[26] The COBAC representatives, however, felt that the common bank licensing rules were generally adequate, even if no bank had yet applied for a license on this basis; however, consideration might be given to changing national authorities' prerogatives in this area once bank supervision has been consolidated.[27]

23. In reviewing the legal environment for banking activities, **the staff and the regional representatives noted a decrease in the frequency of fraudulent seizure of bank deposits at the BEAC and their transfer to third parties (*saisie-attribution*).**[28] There was a consensus in favor of calling upon all country authorities to fully implement the agreements (*accords de siège*) protecting banks' deposits with the BEAC from seizure.[29]

24. **The staff observed that nonbank financial institutions were still in an early phase of development.** Leasing companies, insurance companies, housing banks, and other specialized financial institutions exist but represent only a fraction of the total formal financial system in the CEMAC region, which is dominated by commercial banks.

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[25] This would include the removal of the obligation to post the same minimum capital as required for a full-fledged subsidiary.

[26] Once the requirements of the *agrément unique* have been relaxed and banks start to compete with each other more actively, consideration should be given to unifying the minimum capital requirement for all banks in the CEMAC region. Currently, the capital required for opening a bank varies from country to country: it is set at CFAF 1 billion in Gabon and Cameroon, CFAF 300 million in Equatorial Guinea, CFAF 200 million in the Central African Republic, and CFAF 150 million in the Congo.

[27] At present, bank supervision by COBAC is still performed on a country-by-country basis in the sense that banks and their subsidiaries or branches in different CEMAC member countries are not consolidated, but seen as two or more different companies.

[28] This procedure was discussed in last year's staff report on recent developments and regional policy issues in the CEMAC zone (SM/02/168, 06/03/02). Most cases of abusive seizure and transfer of commercial banks' assets occurred in Cameroon, apparently reflecting weaknesses in that country's judicial system.

[29] These agreements are not yet fully enforced in Cameroon.

Microfinance institutions, especially informal credit and savings associations, have grown in recent years but remain dispersed unequally across countries.[30] Mindful of the potentially large impact on poverty reduction of a well-functioning microfinance sector, staff urged the authorities to make the new microfinance supervision framework operational as soon as possible. It was recently decided to establish a stock exchange in Gabon, while the creation of another stock exchange is already under active preparation in Douala, the largest commercial center in the CEMAC region. The staff expressed the view that the parallel establishment of the two stock exchanges would be inefficient, given the small size of the private sector and the nascent market for public paper in the region, and it therefore suggested a merger of both exchanges. CEMAC representatives shared the staff's concerns on this issue but noted that the decision to create stock exchanges involved political considerations.

25. **Regarding the implementation of the business plan of the regional development bank (BDEAC), the staff supported World Bank staff in calling for BDEAC to limit its operations strictly to the refinancing of long-term loans extended to the private sector by domestic commercial banks,** and to take credit decisions on the basis of sound technical and financial criteria.

26. **While welcoming the recent adoption of an AML/CFT framework, the staff stressed that additional steps were needed.** The CEMAC representatives agreed that the anti-money-laundering task force, GABAC,[31] should be made fully operational, including through adequate staffing and financial resources.[32] The staff also recommended that each CEMAC member country quickly establish national financial intelligence units to make the recently adopted regulations fully applicable.

27. **The staff reviewed the key recommendations made in the context of the Stage Two (on-site) safeguards assessment of the BEAC in July 2001 and noted that they were gradually being implemented.** The BEAC representatives agreed with the staff on the need to continue improving the bank's internal audit capacity but did not concur with a staff proposal to publish the Auditor General's report.

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[30] While Cameroon's microfinance sector is relatively important (with over 700 microfinance institutions (MFIs) serving more than 200,000 customers and providing more than 4 percent of Cameroonian commercial banks' loans), Gabon's microfinance sector represents a minuscule fraction of its financial sector (only 13 MFIs as of mid-2001, serving less than 3,000 clients and providing only the equivalent of 0.01 percent of Gabonese banks' loans).

[31] GABAC stands for Groupe Anti Blanchiment en Afrique Centrale.

[32] The Permanent Secretary of GABAC was appointed in January 2003. Two deputy permanent secretaries are expected to be appointed shortly.

C. Achieving Intraregional and International Goods Markets Integration

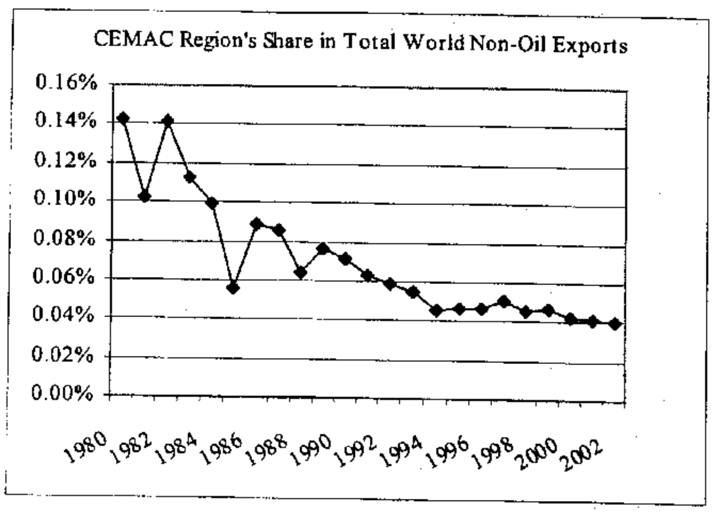
Integrating intraregional and international goods markets is the third dimension of regional integration policy, comprising the policy measures necessary for establishing a single market for goods and services, preserving competitiveness, and opening up to trade.

Establishing a single market

28. **The staff stressed that the creation of a single market requires (i) common structural policies aimed at diversifying production and lowering factor costs and (ii) a common legal and regulatory environment** to facilitate private sector development and encourage saving, investment, and efficient resource allocation. In this context, the staff noted the positive contribution of the work done by the Organization for the Harmonization of Business Law in Africa (OHADA)[33] but regretted the slow implementation of the regional investment charter, adopted in 2000.

Preserving competitiveness

29. **In light of the recent appreciation of the euro and a continued lack of diversification in the region, the authorities should step up efforts to preserve competitive-ness.** Over time, there has been a gradual decline in the market share of the region's non-oil exports (see figure to the right) as well as a loss of some of the competitiveness gains from the 1994 devaluation. Diversification remains a challenge for the region as one or two dominant commodities account for 70 percent or more of the exports of most CEMAC member countries.[34] While Cameroon has succeeded in reducing its dependence on oil, symptoms of Dutch disease are evident in



[33] Box 6 describes the OHADA.

[34] Commodity dependence in the CEMAC region is not limited to oil. The following are roughly the shares of commodities in exports in CEMAC countries: Cameroon: 86 percent (oil, wood, cocoa, coffee, cotton and aluminum), Chad: projected to be above 70 percent in 2003 (oil and cotton), Central African Republic: 91 percent (wood, diamonds, cotton and coffee), Republic of Congo: 91 percent (oil, wood and sugar), Equatorial Guinea: 95 percent (oil and wood), and Gabon: 96 percent (oil, wood and manganese).

Equatorial Guinea, Gabon and the Republic of Congo.[35] In Gabon, the shares of agriculture and industry in GDP have remained stagnant in the 1990s while in the Congo, these shares have declined in real terms since the 1994 devaluation. Similarly, in Equatorial Guinea, agriculture is languishing and manufacturing remains very weak. Meanwhile, the expansion of the oil sector, with associated rents accruing to the government, has resulted in an overgrown public sector in Gabon and the Congo.[36] The staff highlighted the positive effect a sound rule-based fiscal policy would have on competitiveness. The staff also underlined the need to create favorable conditions for private sector growth by streamlining the role of the government, further developing infrastructure, and strengthening financial sector reforms to increase credit intermediation. The authorities are fully aware of these issues, and BEAC has initiated research work on competitiveness.

Opening up to trade

30. **In order to stimulate growth-enhancing intraregional trade and trade with third countries,[37] the staff suggested a series of measures:** (i) the strict application of the regional free trade agreement, including the implementation of the common external tariff (CET) in all countries; (ii) the removal of all customs levies other than those adopted to finance the institutions of the CEMAC;[38] (iii) the elimination of nontariff barriers, including

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[35] See for details, *Escaping the Curse of Oil—The case of Gabon* by Ludvig Soderling, IMF Working Paper WP/02/93, *Republic of Congo—Staff Report on the 2003 Article IV Consultation and a New SMP*, (EBS/03/72, 06/02/03), Box 4, and *Equatorial Guinea - Staff Report on the 2003 Article IV Consultation* (forthcoming).

[36] The number of government workers per 1,000 inhabitants stands at 38.6 and 21.1 in Gabon and Congo, respectively, compared with 10 or less in the rest of CEMAC and the WAEMU countries (except for Guinea Bissau, which has 24 government workers per 1,000 inhabitants).

[37] Given the preponderance of oil in CEMAC exports and the absence of barriers to trade in oil, market access for exports from the region does not seem to be a major issue. However, this also implies that the region may not benefit much from the recent initiatives by the United States, the EU, and Canada to increase market access for developing countries. A recent study shows that the sectors most likely to benefit from the U.S. African Growth and Opportunity Act are apparel and a range of light industrial products, which do not feature prominently in CEMAC countries' exports (see A. Mattoo, D. Roy, and A. Subramanian, *The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined?*, World Bank Policy Research Working Paper No. 2908, Washington: World Bank, 2002).

[38] The levy is currently set at 1 percent of the value of goods imported from outside the CEMAC. However, the disappointing tax collection so far has led to a lack of resources necessary for the functioning of the CEMAC regional authorities, compensations for tax

(continued...)

state trade monopolies, licensing, import and export bans, and quotas; and (iv) the introduction of a three-rate tariff structure by eliminating the CET's top rate of 30 percent, as is the case in the WAEMU. In line with the conclusions of the April 2003 customs union workshop organized by the CEMAC, the European Union (EU), France, and the World Bank in Brussels, the staff urged the early adoption of a detailed road map by the CEMAC Executive Secretariat for the way forward. It also welcomed the progress made in initiating trade consultations with the World Trade Organization (WTO) and ensuring that current practices were consistent with WTO rules. The CEMAC representatives noted that the national governments' fear of fiscal revenue losses as a result of the dismantling of import tariffs was inhibiting further trade liberalization.[39]

D. Statistical Issues

31. **The uneven quality, coverage, and timeliness of data in CEMAC countries hamper policy coordination and the monitoring of economic and financial developments.** The staff urged the BEAC to improve the quality and coverage of data and reduce delays in their production, including via implementation of the recent recommendations of Fund technical assistance, and of measures proposed during the regional workshop on the General Data Dissemination System held at the BEAC in early 2002. Such **improvements would be particularly important in the areas of national accounts and government financial operations data (especially domestic arrears), as well as price indices, since the regional surveillance exercise relies on these data.** Also, a region-wide database on social indicators, household surveys, and other relevant statistics should be established to track progress with respect to poverty reduction.

III. Staff Appraisal

32. **In 2002, macroeconomic developments in the CEMAC region were generally satisfactory, but risks to macroeconomic stability persist.** Economic growth remained fairly buoyant and inflation moderate, and the external current account deteriorated only slightly, while higher foreign direct investment allowed official reserves to grow. However,

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revenue losses resulting from the planned reduction of import tariffs, and the funding of regional infrastructure projects. Financing of the BEAC is achieved through own profits. The BEAC also finances COBAC. The latter expressed general satisfaction with this arrangement, pointing out that it allowed a high degree of independence from national authorities.

[39] The staff discussed trade issues also with representatives of the Economic Community of Central African States (CEEAC). The CEEAC members are Angola, Burundi, the Democratic Republic of the Congo, the CEMAC countries, Rwanda, and São Tomé and Príncipe. The CEEAC is thus not a CEMAC authority. Its mandate is to help ensure peace, food security, and free trade in the region and assist in developing transport infrastructure.

weaknesses threaten the future macroeconomic performance of the region, including the high degree of dependence of fiscal revenues on the oil sector, the gradual erosion of the non-oil sector's competitiveness, and the lack of diversification. Also, the relatively high level of indebtedness of some countries remains a risk to their macroeconomic stability.

33. **Despite being richly endowed with oil and other natural resources, the CEMAC countries continue to rank at the bottom of the human development indicators, and poverty remains pervasive.** Political commitment to stronger regional institutions and better-formulated and -executed regional and national policies could enhance sustainable economic growth and reduce poverty. In the staff's view, there is a particular need to encourage fiscal discipline and the prudent management of oil revenue, increase the effectiveness of the common monetary policy, and foster a single market in goods and services.

34. **The process of convergence remains slow and needs strengthening, notably through the adoption of a fiscal rule and the elimination of bank financing of fiscal deficits.** The new convergence criteria introduced in 2001 have improved macroeconomic coordination and reinforced regional discipline. However, the convergence process is slow, and the authorities have not been able to consolidate public finances against the background of volatile oil revenues. Thus, consideration should be given to modifying the basic fiscal balance criterion by using a fiscal rule, accompanied by a more transparent management of oil resources, in line with best international practices. The plans for making the administration of stabilization funds and Funds for Future Generations more flexible are welcome and should be implemented expeditiously, together with additional steps to enhance their attractiveness. Finally, the surveillance process could be strengthened, notably by publishing the recommendations of the CEMAC Executive Secretariat and applying appropriate sanctions to member countries that violate the convergence criteria.

35. **The BEAC's monetary policy stance was generally prudent in 2002, and the monetary policy stance planned for 2003 is broadly adequate. However, monetary policy instruments can be made more effective by sterilizing a greater part of oil-related foreign currency inflows, strengthening the interbank market, and developing indirect monetary policy instruments.** The interbank market needs to be strengthened by freeing up interest rates, improving the payments system, eliminating bank financing of government deficits, and simplifying the procedures used for open market operations. The authorities are urged not to delay further the replacing of BEAC financing of budget deficits by the issuance of treasury bills, especially since this would eliminate a source of procyclical fiscal policy; the staff also has serious reservations regarding the proposal of a central bank guarantee for maturing bills. The BEAC might consider issuing its own negotiable certificates of deposit for as long as government treasury bills are not available. **Finally, reserve requirements should be unified to allow a return to a more level playing field for financial services in the region.**

36. **Continued efforts by the banking regulator are needed to strengthen the banking sector, which remains fragile, as reforms are aimed at eliminating the fraudulent attachment and transfer of bank accounts.** While the restructuring of distressed banks has been largely completed, three banks remain in critical condition, underscoring the need for COBAC to act more forcefully in requiring banks to comply with prudential norms or agree to comprehensive restructuring plans. COBAC should also be made the sole authority for issuing and withdrawing bank licenses, and the regulations of the single zonewide agreement for the establishment of banks should be reviewed to eliminate remaining hindrances. COBAC's planned progressive tightening of the capital adequacy ratio is welcome, but, given the operational risks and undiversified economic structure of CEMAC member countries, consideration needs to be given to matching capital requirements to the high risks inherent in the CEMAC economies.

37. **The authorities are encouraged to press ahead with their other financial sector reform efforts,** including early and effective implementation of the new regulations pertaining to the microfinance sector. The adoption of anti-money-laundering regulations is a positive development, but additional steps need to be taken to make them truly operational. Given the modest size of the private sector in CEMAC, **there is a strong case for merging the nascent regional stock exchange in Libreville and the Douala stock exchange.** It is also important that the recently reorganized regional development bank (BDEAC) adopt a prudent approach, including confining lending operations, using only own funds and long-term resources borrowed on the regional market, and refinancing in accordance with sound financial criteria. Finally, the recommendations of the BEAC safeguards assessment mission should be implemented without delay.

38. The **erosion of some of the competitiveness gains** resulting from the 1994 devaluation of the CFA franc underscores the **need to accelerate structural reforms, strengthen basic infrastructure, and adopt common sectoral policies aimed at diversifying the regional economy.**

39. **Member countries still do not consistently apply the provisions of the common external tariff (CET) and maintain nontariff barriers, while tax harmonization is far from complete. Further progress is needed to create a common market and harmonize taxation.** The CET should be overhauled, including by dropping the top rate of 30 percent, eliminating nontariff barriers, and harmonizing customs codes and customs valuations with WTO guidelines. Other tax harmonization efforts ought to be pursued more vigorously, and collection of the regional tax on imports should be enhanced in order to finance the operating cost of the regional institutions and regional integration funds.

40. **Furthermore, progress is required to improve the quality, harmonization, and distribution of CEMAC's economic data,** notably in the areas of price indices, the real sector, and public finance. Moreover, the staff encourages the collection of social sector statistics in order to improve the tracking of progress in the reduction of poverty.

41. The staff encourages the CEMAC authorities to **agree to the proposal to elevate the regional discussions to the level of formal regional surveillance** of CEMAC-wide issues, in the context of Article IV consultations with member countries.

Box 1. CEMAC: Member Countries' Programs with the International Monetary Fund

Cameroon is being supported by a three-year arrangement with the Fund under the Poverty Reduction and Growth Facility (PRGF), approved in December 2000. Earlier financial arrangements included an Enhanced Structural Adjustment Facility (ESAF, August 1997-December 2000) and a Stand-By Arrangement (September 1995-September 1996). In addition to the PRGF-supported program, Cameroon is benefiting from debt relief under the Enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The HIPC Initiative decision point was reached in October 2000.

The **Central African Republic** currently does not benefit from a Fund-supported program. Earlier programs included an ESAF/PRGF program (July 1998-January 2002), a Stand-By Arrangement (March 1994-March 1995), and a Structural Adjustment Facility (SAF) program (June 1987-May 1990).

Chad is being supported by a three-year arrangement under the PRGF, which was approved in January 2000. Previous programs included an ESAF arrangement (September 1995-April 1999) and a Stand-By Arrangement (March 1994-March 1995). Chad is benefiting from debt relief under the Enhanced HIPC Initiative. It reached the HIPC Initiative decision point in May 2001.

The Congo presently does not have a Fund-supported program. Previous programs included an ESAF arrangement (June 1996-June 1999) and two Stand-By Arrangements (May 1994-May 1995 and August 1990-May 1992). Following the 1999 ceasefire agreement, the Congo received Fund support in November 2000 under the post-conflict emergency assistance policy. Performance under the program and subsequently under two successive staff-monitored programs (SMPs) through end-2002 has not yet paved the way for a PRGF program and debt relief under the Enhanced HIPC Initiative.

Equatorial Guinea has not had a program with the Fund since the ESAF arrangement that expired in 1996. Earlier arrangements comprised a structural adjustment facility (SAF) program (December 1988-December 1991) and a Stand-By Arrangement (June 1985-June 1986).

Gabon does not have a Fund-supported program at present. A Stand-By Arrangement expired in April 2002. Previous programs included an Extended Fund Facility (EFF) program (November 1995-July 1999) and a Stand-By Arrangement (March 1994-March 1995).

Box 2. CEMAC: Trade Policies and Performance

Following the devaluation in 1994, CEMAC countries implemented major trade reforms in order to reduce external protection and promote regional integration. A common external tariff with four rates (5, 10, 20 and 30 percent) was adopted, together with the immediate removal of all intrazone tariff and nontariff trade barriers for locally produced primary products and over a three-year period for eligible industrial products. Supportive changes in domestic tax regimes were also envisaged through application of a single value-added tax (VAT) / sales tax rate, harmonization of other indirect and direct taxes, and progressive reduction in exemptions.

However, these reforms have had very little positive impact on trade, particularly on intraregional trade. While overall trade as a share of GDP increased slightly during 1994-2002, this is broadly reflective of developments in the oil sector, which is insulated from the domestic tariff regime.[1] Meanwhile, CEMAC countries' share of non-oil exports in total regional exports declined substantially during 1994-2002, from 35 percent to 26 percent, as well as in total world non-oil exports, from 0.05 percent to 0.04 percent. Similarly, intraregional merchandise exports, at 1.2 percent of total exports, rank as one of the lowest among regional trade blocs in the world and follow a declining trend.[2]

Structural barriers account for a good part of CEMAC's poor performance in international trade. Recent research shows that relatively low trade in sub-Saharan Africa is mostly explained by income, geography, and the economic size of these countries, and does not necessarily reflect undertrading. However, when differentiated by regions, such as anglophone and francophone Africa, evidence of undertrading can be found in the latter, pointing to, among other things, the negative effect of policy-determined hurdles on international trade.[3]

For CEMAC, higher average tariffs and flawed implementation of the customs union have contributed to the relatively high costs of trade. CEMAC countries rank higher (3 or 4) in the IMF's tariff restrictiveness index[4] than members of the other two customs unions in sub-Saharan Africa - WAEMU (2) and SACU (2) -, reflecting the higher average tariff rates. Application of the four-rate CET remains flawed regarding classification, customs valuation and exemptions. Other violations of the CET that add to import costs include a diverse set of ad hoc taxes and fees on imports and the continuation by some members of the temporary surcharges on industrial products that were scheduled to be eliminated by June 2000. Despite adoption of the single VAT / sales tax rate in the region, imports are sometimes discriminated against through exemptions and uneven application of the rate. Similarly, effective nontariff barriers in the form of state-run monopolies, lengthy and complicated customs procedures, and extensive physical inspection of goods pose major obstacles to larger trade integration.

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[1] Increased trade and exports during this period can be attributed to both petroleum prices, which experienced a cumulative increase of over 70 percent, and production of oil, which went up by over 40 percent.
[2] Shares of intraregional merchandise exports for WAEMU, the Economic Community of West African States (ECOWAS), and the Southern African Development Community (SADC) are around 10 percent.
[3] See Arvind Subramanian and Natalia Tamirisa, *Africa's Trade Revisited*, IMF Working Paper 01/33.
[4] On a 10-point scale, with 10 being the most restrictive.

Box 3. CEMAC: Revised Regional Surveillance Framework

In 2001, the CEMAC replaced its traditional annual regional surveillance exercise by a more stringent framework that includes the monitoring, country-by-country, of four primary convergence criteria: a nonnegative basic fiscal balance (the basic fiscal balance excludes grants and externally financed investment expenditures); consumer price inflation of no more than 3 percent; a level of external and domestic public debt of no more than 70 percent of GDP; and the nonaccumulation of external or domestic payments arrears. Further nonbinding indicators are monitored as well. The broad setup of the CEMAC surveillance framework follows the one used in the euro area. The CEMAC representatives explained that the surveillance framework's main purpose was to protect monetary policy from undesired influences by fiscal policy.

Box 4. CEMAC: Sustainability of Fiscal Policies in Oil-Producing Countries

Casting macroeconomic policies in a longer-term context is essential in the presence of resource revenues. In particular, fiscal policy in oil-rich countries needs to address the intertemporal decision of how much to save out of current and expected oil revenues to ensure intergenerational equity.

Using the permanent income hypothesis, where long-term fiscal sustainability implies a per capita public consumption out of oil revenue that is constant across generations, current fiscal policies in the Congo and Equatorial Guinea appear to need further strengthening to be fully sustainable; Gabon has recently adopted a fiscal policy that is more consistent with fiscal sustainability; whereas fiscal policies in Cameroon and Chad seem to be sustainable.[1]

For the **Congo**, assuming a 2 percent annual population growth rate, a 4 percent real interest rate on financial assets and an annual oil output decline of 5 percent, the maximum level of sustainable consumption out of fiscal oil revenues is US$180 million per year. The large external debt and arrears further reduce this sustainable level of consumption. This compares with the Congo's current fiscal expenditure, net of non-oil revenue, of over US$300 million.

For **Equatorial Guinea**, where current oil reserves are expected to last until 2021, assuming a 2 percent population growth and a real rate of return on financial assets of 2.75 percent, the sustainable non-oil primary fiscal deficit is close to 40 percent of non-oil GDP. This limit has been exceeded by considerable margins in recent years.

For **Gabon**, assuming a rapid decline of oil reserves after 2006 and a real interest rate on financial assets of 4 percent, continuation of past policies would imply the government's net wealth position becoming increasingly negative after 2018.

The most recent fiscal sustainability analysis for **Cameroon** dates back to 1999. It shows that after the 1994 devaluation of the CFA franc, Cameroon returned to a sustainable fiscal position. In recent years, Cameroon's growth performance and fiscal position have improved, so that it appears likely that Cameroon's fiscal stance is sustainable.

In **Chad**, fiscal sustainability is being supported by the PRGF program. Based on a macroeconomic analysis for the period 2000-2020, the program limits fiscal spending to sustainable levels while allowing the authorities to maintain sufficient foreign reserves.

[1] For details on these assessments, see Republic of Congo—Selected Issues and Statistical Appendix (SM/02/18, 01/14/02), chapter III; the forthcoming Staff Report and Selected Issues Paper related to the 2003 Article IV consultations with Equatorial Guinea; and Gabon—Selected Issues Paper (SM/02/93, 03/22/02), chapter III; Cameroon—Selected Issues and Statistical Appendix, (SM/99/78, 03/24/99) chapter III; and Chad—Fifth Review Under the Three-Year Arrangement (EBS/03/77, 06/10/2003), Box 3.

Box 5. CEMAC: World Bank Regional Integration Assistance Strategy for Central Africa (CEMAC)

On February 6, 2003, the World Bank Executive Board approved a five-year Regional Integration Assistance Strategy for Central Africa.[1/] The strategy is designed to support the CEMAC in the two areas of integration and cooperation, and includes two levels of Bank involvement: core activities, where the Bank will play a leadership role, and noncore activities, where it will act only as an associate. The program requires IDA financing of US$140 million for five technical assistance operations and one US$100 million road investment project. In the following, the IDA financing for each activity is shown in brackets.

Core activities

- **Trade policies.** The Bank will provide technical assistance to the CEMAC in order to first remove important shortcomings in the administration of the existing customs union and later help prepare the further rationalization of the trade regime, with the aim of moving toward lower and less dispersed external tariffs (US$5.0 million).
- **Infrastructure measures for trade and transport facilitation.** The Bank will help prepare the following: (i) a Trade and Transport Facilitation Project aimed at improving access of the landlocked countries, the Central African Republic and Chad, to the port of Douala (US$5.0 million); (ii) an investment project for upgrading or building priority road links, which are part of the 2,000 kilometers of road that will remain to be built under the CEMAC transport master plan after 2006 (US$100.0 million); and (iii) an Air Transport Security Project to help member states improve air safety and security and meet the International Civil Aviation Organization standards (US$5.0 million).
- **Financial sector.** The Bank intends to provide technical assistance to the CEMAC for establishing an effective regional payments system (US$15.0 million); strengthening the regulatory framework for the microfinance sector (US$10.0 million); and setting up a regional bills and bond market for government and possibly corporate paper.
- **Human resources.** The Bank will provide technical assistance for fighting HIV/AIDS in the Lake Chad area (US$10.0 million).
- **Institutional issues.** The Bank will consider a grant for strengthening the institutional capacity of the CEMAC Executive Secretariat.

Non-core activities

The Bank will participate in **macroeconomic surveillance** (led by the Fund); advise on the **harmonization of commercial law and telecommunications and energy policies**, and support a **competitiveness observatory**. The Bank will also provide technical assistance for an EU-led program of **forestry protection** and assist the UNDP in its project at **protecting Lake Chad's water resources** (US$5.0 million). In the financial sector, the Bank stands ready to support **restructuring of CEMAC's development bank, the BDEAC**, but is not willing to engage in lending to this institution until it has demonstrated its viability. Finally, the Bank will support efforts to **establish a regulatory framework for the regional stock exchange.**

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[1] A Regional Integration Assistance Strategy for West Africa was endorsed by the World Bank Board in August 2001.

Box 6. CEMAC: Harmonization of Business Law in Africa

Recognizing the importance of a well-functioning legal and judiciary system for economic development, several Central and West African francophone countries decided in the early 1990s to overhaul and unify their commercial laws. To this end, they founded the Organization for the Harmonization of Business Law in Africa (OHADA) through a treaty effective in September 1995. Today, OHADA membership comprises 16 countries: the 14 members of the CFA franc zone, Guinea, and the Comoros.

OHADA's purpose is to promote regional integration and economic growth by ensuring a secure legal environment in the area of commercial law. To this end, OHADA strives to provide its member states with (i) a single, modern, flexible, and reliable business law that can be adapted to each country's specific circumstances; (ii) procedures and institutions for the arbitration of disputes; and (iii) training for judges and lawyers.

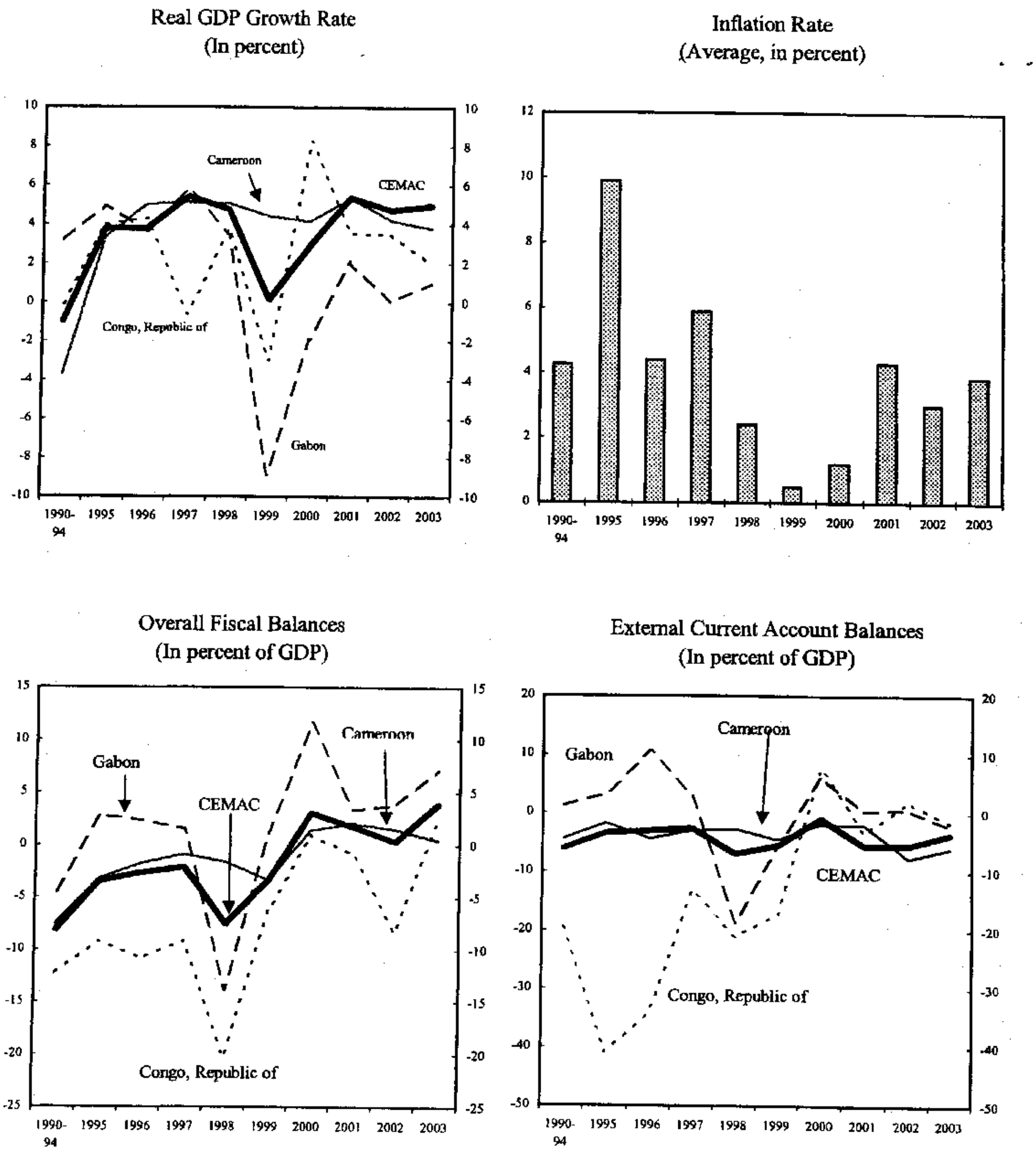
OHADA's institutions are the Council of Ministers of Justice and Finance, its governing body; the Permanent Secretariat, the administrative body, headquartered in Yaoundé, Cameroon; the Common Court of Justice and Arbitration (CCJA), based in Abidjan, Côte d'Ivoire; and the Regional Training School of the Judiciary, installed in Porto Novo, Benin. OHADA is financed through annual contributions of the contracting states.

A central task falling upon the Council of Ministers is the adoption of common laws, the so-called uniform acts. The acts do not have to be transposed into national law to be effective in the member states. Ninety days after their adoption by the council, they become directly applicable and override national law. Litigation pertaining to elements of the uniform acts is settled in the first instance and on appeal within the courts and tribunals of the contracting states. By way of appeal, the CCJA rules on the decisions pronounced by the appellate courts of the contracting states. The judgments of the CCJA are final. Enforcement falls upon the contracting states.

Until now, OHADA has drafted and promulgated eight uniform acts: (i) a general commercial law; (ii) a corporate law; (iii) laws concerning secured transactions; (iv) a debt recovery and enforcement law; (v) a bankruptcy law; (vi) an arbitration law; (vii) an accounting law, and (viii) a ground transportation law. More acts are yet to come. Under the treaty, the labor law and the sales law are also to be harmonized. Furthermore, it has been decided to pursue the unification of the competition law, the intellectual property law, the banking law, laws related to unincorporated forms of business, the contract law, and the law of evidence.

OHADA's effectiveness to date is difficult to assess. However, several development partners have cited OHADA as an essential tool for development in Africa.

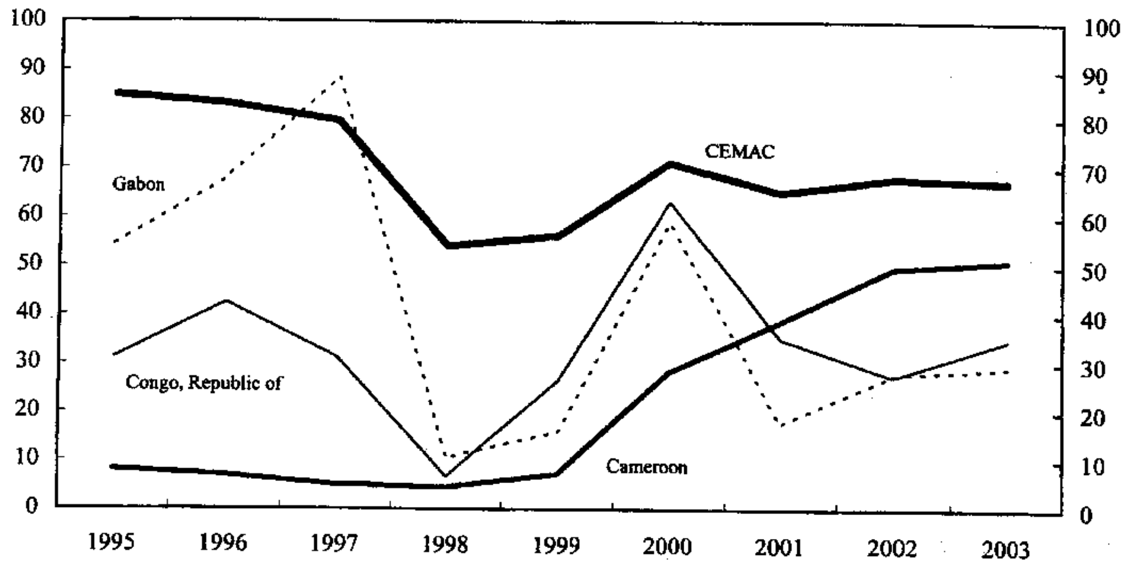
Figure 1. CEMAC: Selected Macroeconomic Indicators, 1990–2003 1/



Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.

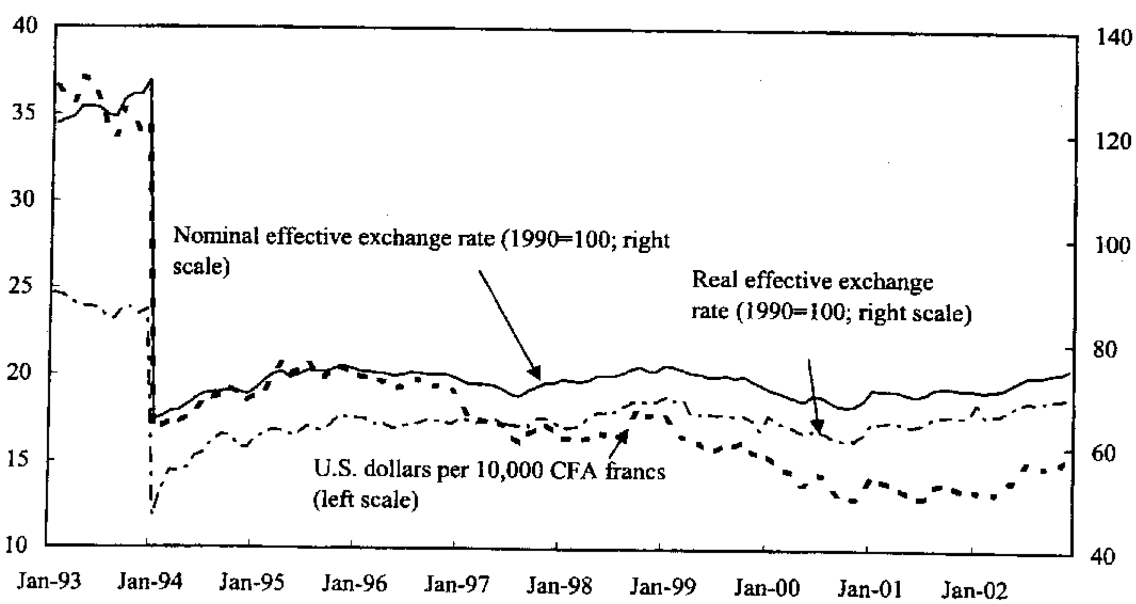
1/ Cameroon, Gabon, and Republic of Congo are the largest economies in the zone.

Figure 2. CEMAC: Currency Cover Ratio, 1995–2003 1/
(In percent)



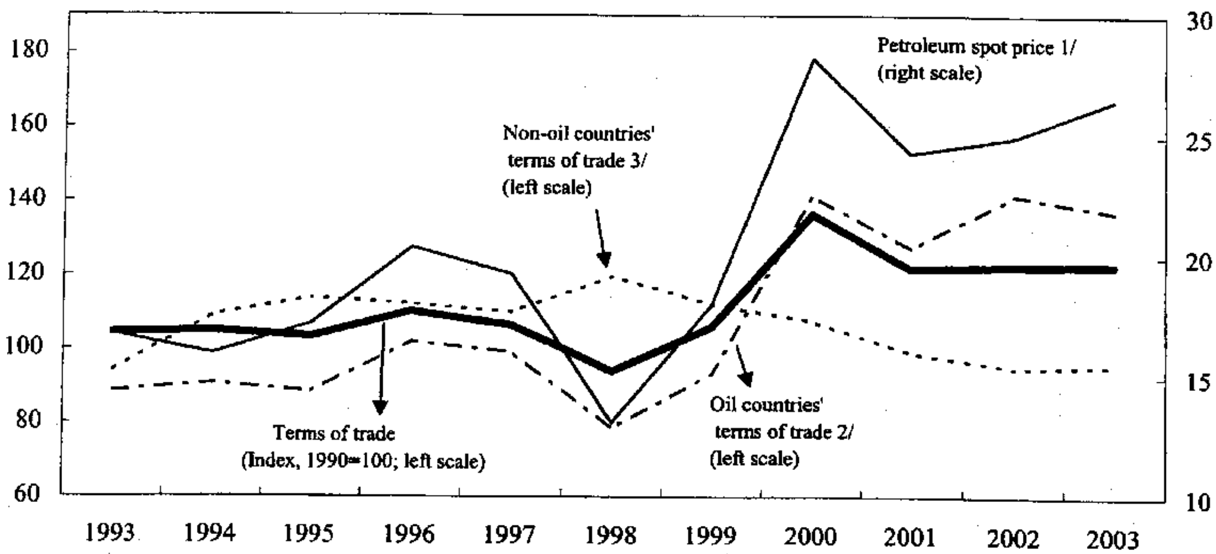
1/ Data as of April 2003; gross official reserves as a percentage of base money.

Figure 3. CEMAC: Nominal and Real Effective Exchange Rates and U.S. Dollar Exchange Rate, January 1993–April 2003 1/



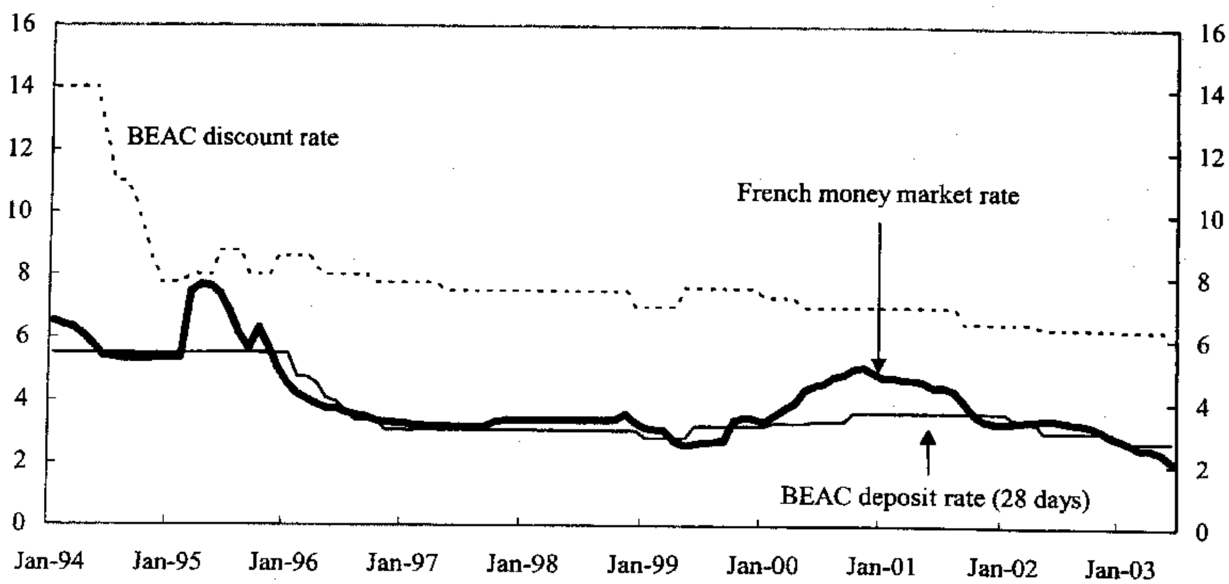
Sources: IMF, Information Notice System; and Bank of Central African States
1/ A higher effective exchange rate corresponds to an appreciation of the domestic currency.

Figure 4. CEMAC: Terms of Trade and Petroleum Prices, 1993–2003



Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.
1/ Average petroleum spot price of U.K., Dubai, and West Texas crude in U.S. dollars (WEO).
2/ Cameroon, Republic of Congo, Equatorial Guinea, and Gabon.
3/ Chad and Central African Republic.

Figure 5. CEMAC: French Money Market Rate and BEAC Discount and Deposit Rates, January 1994–June 2003
(In percent)



Sources: IMF, Information Notice System; and Bank of Central African States (BEAC).

Table 1. CEMAC: Selected Economic and Financial Indicators, 1998–2003

	1998	1999	2000	2001	2002 Est.	2003 Proj.
	(Annual percentage change)					
National income and prices						
GDP at current prices	-2.2	8.0	21.5	4.8	9.7	3.2
GDP at constant prices	4.8	0.1	2.9	5.4	4.7	4.9
Oil GDP 1/	1.4	3.6	-4.6	2.0	8.7	4.1
Non-oil GDP 1/	5.0	-0.5	4.3	5.9	4.1	6.5
Consumer prices (average)	2.4	0.5	1.2	4.3	3.0	3.9
Terms of trade	-19.1	17.1	48.3	-8.1	0.7	-5.5
Nominal effective exchange rate	3.3	0.2	-6.2	2.4	2.9	...
Real effective exchange rate	2.7	0.2	-5.3	3.4	4.7	...
	(Annual changes in percent of beginning-of-period broad money)					
Money and credit						
Net foreign assets	-11.8	4.5	38.4	-11.3	10.3	...
Net domestic assets	11.5	4.8	-15.4	18.6	4.2	...
Broad money	-0.3	9.3	23.0	7.2	14.4	...
	(In percent of GDP, unless otherwise indicated)					
National accounts						
Gross domestic savings	20.2	23.7	29.7	28.1	28.5	27.3
Gross domestic investment	n.a	21.9	20.0	25.4	24.5	22.5
Government financial operations						
Total revenue, excluding grants	20.4	19.2	22.5	24.0	21.7	23.2
Government expenditure	28.0	22.5	19.5	22.3	21.4	19.3
Primary fiscal balance 2/	4.3	6.0	10.4	10.2	6.8	9.4
Basic fiscal balance 3/	-2.1	0.3	5.9	5.4	3.1	6.5
Overall fiscal balance, excluding grants	-7.6	-3.4	3.0	1.7	0.3	3.8
Overall fiscal balance, including grants	-6.4	-2.4	3.6	2.5	1.1	4.9
External sector						
Exports of goods and nonfactor services	37.1	41.1	52.2	48.8	47.8	43.0
Imports of goods and nonfactor services	39.5	34.9	34.7	38.9	38.5	34.3
Balance on goods and nonfactor services	-2.4	6.2	17.6	9.8	9.3	8.6
Current account, including grants	-11.3	-8.7	-0.9	-7.0	-7.8	-5.8
External public debt	104.4	102.3	90.2	85.8	74.7	64.0
Gross official reserves (end of period, in millions of U.S. dollars)	552.0	595.2	1,318.9	1,157.6	1,608.0	1,800.5
Memorandum items:						
Nominal GDP (in billions of CFA francs)	10,915	11,788	14,320	15,014	16,470	16,998
CFA francs per U.S. dollar, average	590.0	615.7	712.0	732.5	690.9	581.4
Oil prices (in U.S. dollars per barrel)	13.1	18.0	28.2	24.3	25.0	26.5
Oil prices (in CFA francs per barrel)	7,713	11,073	20,108	17,785	17,241	15,409

Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.

1/ The weighted average of oil and non-oil real GDP growth rates does not always add up to real GDP growth because of the nonadditivity of the underlying index.

2/ Excluding grants and foreign-financed investment and interest payments.

3/ Excluding grants and foreign-financed investment.

Table 2. CEMAC: Summary Medium-Term Projections, 2001-2007

	2001	2002	2003	2004	2005	2006	2007
			(Annual percentage change)				
National income and prices							
Real GDP	5.4	4.7	4.9	7.7	5.3	5.1	5.0
GDP deflator	-0.5	4.8	-1.6	-0.8	0.2	1.2	2.0
Nominal GDP	4.8	9.7	3.2	6.9	5.5	6.3	7.1
Consumer prices (average)	4.3	3.0	3.9	2.9	3.2	3.3	3.5
External sector							
Exports, f.o.b	-4.9	14.1	10.2	8.0	2.1	4.2	4.8
Export volume	13.5	18.4	8.3	38.7	13.3	6.9	5.7
Imports, c.i.f.	14.4	15.0	9.4	-0.9	0.7	4.0	2.6
Import volume	34.2	13.2	-4.2	-4.8	-2.5	3.4	1.9
Terms of trade	-8.1	10.2	-5.5	-8.4	-2.4	-0.7	1.9
			(In percent of GDP; unless otherwise specified)				
Central government							
Overall balance, excluding grants	1.7	0.3	3.8	3.3	3.7	3.7	4.8
Overall balance, excluding grants (in percent of non-oil GDP)	2.5	0.4	5.4	4.6	5.1	5.0	6.4
Non-oil overall balance	-12.4	-12.6	-6.6	-6.1	1.0	-3.4	-1.6
Total revenue and grants	24.8	22.4	24.2	23.2	23.5	23.4	24.1
Total expenditure and net lending	22.3	21.4	19.3	18.9	18.9	18.8	18.5
External sector							
Current account balance	-7.0	-7.8	-5.8	-3.6	-2.1	-1.3	0.1
Trade balance	9.8	9.3	8.6	11.4	11.5	11.4	11.8
Gross official reserves (end of period, in millions of US dollars)	1,158	1,608	1,801	...	...	...	...

Sources: IMF, World Economic Outlook database, April 2003; and staff estimates and projections.

Table 3. CEMAC: National Accounts, 1998–2003

	1998	1999	2000	2001	2002 Est.	2003 Proj.
	(Annual percentage change)					
Real GDP						
Cameroon 1/	5.0	4.4	4.2	5.3	4.2	3.8
Central African Republic	3.9	3.6	1.8	1.0	0.8	-0.7
Chad	7.7	2.3	1.0	8.5	9.7	11.2
Congo, Republic of	3.7	-3.0	8.2	3.6	3.5	2.0
Equatorial Guinea	14.6	30.7	15.2	45.1	40.6	13.3
Gabon	3.5	-8.9	-1.9	2.0	0.0	1.0
CEMAC	4.8	0.1	2.9	5.4	4.7	4.9
Nominal GDP						
Cameroon 1/	6.2	3.2	7.8	8.5	8.7	4.3
Central African Republic	7.1	5.3	6.2	4.5	3.6	2.8
Chad	12.4	-3.6	4.1	17.0	17.1	16.5
Congo, Republic of	-15.2	26.0	58.2	-10.9	2.8	3.7
Equatorial Guinea	-9.8	67.8	95.7	46.4	47.3	2.1
Gabon	-14.9	8.5	26.0	-4.7	0.0	-3.9
CEMAC	-2.2	8.0	21.5	4.8	9.7	3.2
Consumer price inflation 2/						
Cameroon 1/	3.2	1.9	1.2	4.5	2.8	2.5
Central African Republic	-1.9	-1.5	3.1	3.8	2.3	3.2
Chad	4.3	-8.0	3.8	12.4	5.2	4.3
Congo, Republic of	-1.6	3.6	-0.3	0.4	3.8	2.0
Equatorial Guinea	7.8	0.6	4.6	8.8	7.6	10.0
Gabon	2.3	-0.7	0.5	2.1	0.2	2.0
CEMAC	2.4	0.5	1.2	4.3	3.0	3.9
	(In percent of GDP)					
Gross domestic saving						
Cameroon 1/	19.2	18.4	20.3	20.5	14.7	13.1
Central African Republic	3.8	7.1	4.7	2.8	4.4	3.2
Chad	4.1	-2.2	1.6	1.3	5.4	10.5
Congo, Republic of	30.3	41.0	57.7	53.1	52.5	40.3
Equatorial Guinea	25.3	30.1	37.5	42.2	46.4	52.2
Gabon	38.5	47.5	56.2	49.1	47.6	44.6
CEMAC	20.2	23.7	29.7	28.1	28.5	27.3
Gross domestic investment						
Cameroon 1/	17.5	18.7	16.4	17.8	19.6	17.6
Central African Republic	11.1	11.7	9.6	8.4	8.6	7.1
Chad	17.5	12.6	17.0	41.3	62.6	42.1
Congo, Republic of	26.7	27.8	21.0	26.4	23.3	23.3
Equatorial Guinea	n.a	62.8	43.8	54.2	22.4	22.6
Gabon	39.1	23.9	21.8	25.8	24.3	26.5
CEMAC	n.a	21.9	20.0	25.4	24.5	22.5

Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001 and calendar year starting in 2002.

2/ Annual average.

Table 4. CEMAC: Relative Size of CEMAC Economies and Importance of Oil Sector, 1998–2003

	1998	1999	2000	2001	2002 Est.	2003 Proj.
Nominal GDP	(In percent of CEMAC's nominal GDP)					
Cameroon 1/	46.1	48.1	48.7	48.6	49.4	48.9
Central African Republic	5.5	5.7	5.7	5.4	5.2	4.9
Chad	7.8	7.9	7.8	8.0	8.4	8.9
Congo, Republic of	10.9	10.6	11.1	10.9	10.8	10.5
Equatorial Guinea	1.8	2.3	2.6	3.6	4.8	5.2
Gabon	27.9	25.4	24.2	23.4	22.4	21.5
Nominal oil GDP	(In billions of CFA francs)					
Cameroon 1/	429	338	818	988	808	606
Chad	0	0	0	0	0	105
Congo, Republic of	420	773	1,502	1,159	1,126	1,134
Equatorial Guinea	180	340	766	1,159	1,757	1,781
Gabon	742	1,104	1,761	1,450	1,443	1,232
CEMAC	1,770	2,556	4,848	4,756	5,134	4,858
Nominal oil GDP	(In percent of country's total nominal GDP)					
Cameroon 1/	8.2	6.3	14.0	15.6	11.8	8.5
Chad	0.0	0.0	0.0	0.0	0.0	6.5
Congo, Republic of	36.5	53.4	65.5	56.7	53.6	52.0
Equatorial Guinea	65.5	73.9	85.1	87.8	90.4	89.8
Gabon	28.1	38.5	48.7	42.1	41.8	37.1
CEMAC	16.2	21.7	33.9	31.7	31.2	28.6
Oil exports	(In percent of value of country's total goods exports)					
Cameroon 1/	32.9	31.4	46.6	49.2	44.8	41.2
Chad	0.0	0.0	0.0	0.0	0.0	36.3
Congo, Republic of	87.6	91.8	100.1	89.0	88.1	84.6
Equatorial Guinea	87.7	80.0	89.1	93.5	96.2	96.8
Gabon	74.1	74.0	79.9	78.6	79.0	72.9
CEMAC	60.5	65.1	76.6	74.4	77.2	75.0
Fiscal oil revenue	(In percent of country's total fiscal revenue, excluding grants)					
Cameroon 1/	24.1	15.9	29.7	33.7	28.0	19.3
Chad	0.0	0.0	0.0	0.0	0.0	5.5
Congo, Republic of	53.1	71.7	77.4	68.6	69.5	65.3
Equatorial Guinea	69.3	71.4	82.5	82.2	81.6	66.6
Gabon	54.6	45.3	67.5	64.1	55.9	49.7
CEMAC	40.1	37.1	54.4	52.9	47.9	42.7

Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001 and calendar year starting in 2002.

Table 5. Sub-Saharan Africa: Cross-Group Comparisons, 1998–2003 1/

	1998	1999	2000	2001	2002 Est.	2003 Proj.
	(Annual percentage changes)					
Real GDP						
CEMAC	4.8	0.1	2.9	5.4	4.7	4.9
WAEMU 2/	4.9	3.6	0.9	3.5	3.3	2.6
Sub-Saharan Africa 3/	2.6	2.7	2.9	3.5	3.4	3.8
Inflation (period average)						
CEMAC	2.4	0.5	1.2	4.3	3.0	3.9
WAEMU 2/	3.2	0.2	1.4	4.3	3.2	3.0
Sub-Saharan Africa 3/	10.6	15.6	18.3	16.3	11.5	12.2
Terms of trade						
CEMAC	-19.1	17.1	48.3	-8.1	0.7	-5.5
WAEMU 2/	5.6	-8.3	-13.3	4.0	5.0	5.5
Sub-Saharan Africa 3/	-2.7	1.4	6.2	-1.7	1.0	3.4
	(In percent of GDP, unless otherwise indicated)					
Domestic investment						
CEMAC	n.a	21.9	20.0	25.4	24.5	22.5
WAEMU 2/	16.6	16.5	15.6	15.6	15.8	16.6
Sub-Saharan Africa 3/	18.2	17.5	16.0	17.2	17.1	18.4
Overall fiscal balance, including grants						
CEMAC	-6.4	-2.4	3.6	2.5	1.1	4.9
WAEMU 2/	-1.9	-2.6	-2.0	-1.6	-2.3	-2.9
Sub-Saharan Africa 3/	-3.7	-3.4	-1.4	-2.2	-2.9	-1.2
Current account balance, including grants						
CEMAC	-11.3	-8.7	-0.9	-7.0	-7.8	-5.8
WAEMU 2/	-5.1	-5.3	-6.5	-5.9	-4.9	-4.6
Sub-Saharan Africa 3/	-5.2	-4.7	-0.8	-2.6	-3.9	-2.7
External public debt						
CEMAC	104.4	102.3	90.2	85.8	74.7	64.0
WAEMU 2/	76.1	75.8	83.9	82.5	75.2	67.5
Sub-Saharan Africa 3/	50.2	50.5	49.1	50.0	48.0	41.0
Currency cover ratio 3/						
CEMAC	53.9	56.2	71.1	65.0	68.3	68.3
WAEMU 2/	98.3	104.5	117.7	116.7	117.2	118.4

Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.

1/ CEMAC data is weighted by the nominal GDP.

2/ West African Economic and Monetary Union.

3/ Sub-Saharan Africa, excluding Eritrea, Liberia, and Somalia.

4/ Gross official reserves as a percentage of base money.

Table 6. CEMAC: Fiscal Balances, 1998–2003

(In percent of GDP)

	1998	1999	2000	2001	2002 Est.	2003 Proj.
Overall fiscal balance (excluding grants)						
Cameroon 1/	-1.7	-3.4	1.4	2.0	1.4	0.4
Central African Republic	-8.8	-8.8	-6.7	-4.3	-4.5	-4.1
Chad	-7.6	-10.5	-12.3	-11.0	-12.2	-11.7
Congo, Republic of	-20.3	-6.3	0.9	-0.9	-8.3	2.3
Equatorial Guinea	-2.0	0.1	8.1	14.6	9.6	27.9
Gabon	-14.0	1.2	11.6	3.2	3.8	7.1
CEMAC	-7.6	-3.4	3.0	1.7	0.3	3.8
Overall fiscal balance (including grants)						
Cameroon 1/	-1.4	-3.2	1.4	2.4	1.8	1.3
Central African Republic	0.0	-0.5	-1.8	-0.9	-1.3	-1.6
Chad	-2.5	-5.9	-6.8	-5.1	-6.3	-7.0
Congo, Republic of	-20.0	-5.9	1.2	-0.7	-8.1	3.3
Equatorial Guinea	-1.4	0.5	8.1	14.6	9.6	27.9
Gabon	-14.0	1.2	11.6	3.2	3.8	7.3
CEMAC	-6.4	-2.4	3.6	2.5	1.1	4.9
Basic balance 2/						
Cameroon 1/	0.0	-1.2	2.3	3.2	2.0	1.4
Central African Republic	-0.7	-1.8	-1.9	-1.0	-0.5	-0.8
Chad	-0.2	-2.0	-3.0	-2.5	-3.3	-3.5
Congo, Republic of	-15.9	-0.6	7.2	8.9	-0.8	6.9
Equatorial Guinea	-0.4	4.3	9.0	14.6	9.6	28.0
Gabon	-1.3	4.3	13.9	7.7	7.0	10.8
CEMAC	-2.1	0.3	5.9	5.4	3.1	6.5
Government revenue (excluding grants)						
Cameroon 1/	16.2	15.5	18.8	20.6	18.9	18.5
Central African Republic	9.3	9.4	8.9	8.9	10.7	8.9
Chad	7.6	8.1	8.0	7.8	8.0	8.3
Congo, Republic of	22.6	26.5	26.4	30.7	27.2	28.3
Equatorial Guinea	27.4	18.6	19.8	26.4	21.3	37.0
Gabon	34.5	28.3	33.4	34.0	31.6	31.9
CEMAC	20.4	19.2	22.5	24.0	21.7	23.2
Government expenditure						
Cameroon 1/	17.9	18.9	17.4	18.6	17.4	18.1
Central African Republic	18.1	18.2	15.6	13.2	15.2	13.0
Chad	15.2	18.6	20.3	18.8	20.2	20.0
Congo, Republic of	42.9	32.8	25.5	31.6	35.5	26.0
Equatorial Guinea	29.4	18.5	11.8	11.8	11.7	9.2
Gabon	48.5	27.2	21.7	30.8	27.8	24.8
CEMAC	28.0	22.5	19.5	22.3	21.4	19.3

Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001 and calendar year starting in 2002.

2/ Overall budget balance excluding grants and foreign-financed investment.

Table 7. CEMAC: Monetary Survey, 1998–2003

	1998	1999	2000	2001	2002	2003 March
	(In billions of CFA francs)					
Net foreign assets	122	193	862	619	855	899
Bank of Central African States (BEAC)	85	116	588	486	697	722
Foreign assets	310	389	930	851	1,050	1,062
Of which						
Operations account	181	252	787	680	870	886
Foreign liabilities	-226	-273	-342	-365	-353	-340
Commercial banks	37	77	274	133	158	177
Foreign assets	153	236	428	246	333	332
Foreign liabilities	-116	-159	-153	-112	-175	-155
Net domestic assets	1,472	1,549	1,280	1,678	1,773	1,687
Net credit to government	933	947	679	931	883	816
BEAC	698	752	619	807	752	722
Advances	366	395	360	570	611	621
Consolidated debt	217	195	174	156	135	126
Other	222	268	332	357	344	329
Government deposits	-106	-106	-247	-275	-338	-353
Commercial banks	235	195	60	123	131	94
Net credit to public agencies	-47	-54	-82	-83	-126	-109
Net credit to private sector	1,049	1,147	1,235	1,367	1,482	1,478
Other items, net	-463	-491	-551	-537	-465	-498
Broad money	1,593	1,742	2,142	2,297	2,628	2,587
Currency outside banks	558	606	690	762	815	725
Bank deposits	1,035	1,135	1,452	1,535	1,813	1,861
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)					
Net foreign assets	-11.8	4.5	38.4	-11.3	10.3	7.3
Net domestic assets	11.5	4.8	-15.4	18.6	4.2	3.1
Credit to government	8.3	0.9	-15.4	11.7	-2.1	-4.2
Credit to the private sector	8.1	6.2	5.0	6.2	5.0	5.3
Other	-5.0	-2.3	-5.0	0.6	1.2	2.1
Broad money	-0.3	9.3	23.0	7.2	14.4	10.4
Velocity (GDP/broad money)	6.9	6.8	6.7	6.5	6.3	6.6
Memorandum items:	(In percent)					
BEAC interest rates						
Repurchase rate (TIPP)	9.00	9.60	9.00	8.50	8.30	8.30
Bank refinancing rate (TIAO)	7.00	7.60	7.00	6.50	6.30	6.30
Certificate of deposit (28-day maturity)	2.81	3.21	3.66	3.66	2.76	2.56
French money market rate	3.28	3.44	4.93	3.34	2.94	2.53

Sources: BEAC; and staff estimates.

Table 8. CEMAC: Summary Accounts of Central Bank, 1998–2003

	1998	1999	2000	2001	2002	2003 March
	(In billions of CFA francs)					
Net foreign assets	85	116	588	486	697	722
Assets 1/	310	389	930	851	1,050	1,062
Of which						
Operations account	181	252	787	680	870	886
Liabilities	-226	-273	-342	-365	-353	-340
Net domestic assets	604	628	466	626	575	554
Net credit to government	698	752	619	807	752	722
Claims	804	857	866	1,082	1,090	1,075
Consolidated debt	217	195	174	156	135	126
Advances	366	395	360	570	611	621
Cameroon	111	135	149	220	250	253
Central African Republic	11	11	12	17	14	14
Chad	11	11	17	18	22	22
Congo, Republic of	82	82	82	123	137	146
Equatorial Guinea	4	12	8	0	0	0
Gabon	146	143	93	191	188	186
Other claims	222	268	332	357	344	329
Government deposits	-106	-106	-247	-275	-338	-353
Net claims on financial institutions	49	32	16	16	13	12
Other items, net	-143	-156	-169	-196	-190	-181
Base money	688	744	1,053	1,112	1,272	1,276
Currency in circulation	558	606	690	762	815	725
Banks' reserves 2/	124	126	345	331	438	530
Other institutions' reserves	6	11	19	19	19	20
Memorandum items:	(In percent)					
Currency cover ratio 3/	53.9	56.2	71.1	65.0	68.3	68.3
Base money/deposits	66.6	66.0	73.3	73.2	70.9	69.3

Sources: Bank of Central African States (BEAC); and staff estimates.

1/ Gross foreign reserves, including gold, foreign currency reserves, IMF reserve position, and balance of the operations account at the French Treasury.

2/ Includes cash in vault and deposits of commercial banks with the BEAC.

3/ Gross official reserves as a percentage of base money.

Table 9. CEMAC: Summary Accounts of Commercial Banks, 1998–2003

	1998	1999	2000	2001	2002	2003 March
	(In billions of CFA francs)					
Net foreign assets	37	77	274	133	158	177
Assets	153	236	428	246	333	332
Liabilities	-116	-159	-153	-112	-175	-155
Net domestic assets	917	953	831	1,067	1,211	1,146
Net credit to public sector	188	141	-22	41	4	-15
Cameroon 1/	88	72	51	51	-2	0
Central African Republic	-1	-2	0	6	1	1
Chad	-19	-22	-20	-13	-21	-25
Congo, Republic of	11	-5	-30	3	9	-4
Equatorial Guinea	-5	-10	-5	-25	-47	-26
Gabon	114	109	-19	17	64	41
Claims	344	338	304	288	308	285
Liabilities	157	197	326	248	304	300
Credit to the economy	1,049	1,147	1,235	1,367	1,482	1,478
Cameroon 1/	498	541	638	696	772	768
Central African Republic	36	43	39	42	49	48
Chad	54	49	54	65	79	94
Congo, Republic of	130	173	120	109	66	72
Equatorial Guinea	15	21	27	37	54	51
Gabon	316	319	357	419	456	444
Other items, net	-320	-336	-382	-341	-275	-317
Net refinancing from central bank	-79	-98	-333	-318	-425	-518
Borrowing	44	29	11	12	13	12
Cameroon 1/	14	2	1	0	0	0
Central African Republic	5	5	3	2	3	3
Chad	11	4	1	5	2	3
Congo, Republic of	7	6	6	2	0	1
Equatorial Guinea	0	0	0	0	0	0
Gabon	8	12	0	3	8	5
Reserves	124	126	345	331	438	530
Cameroon 1/	69	63	142	201	301	329
Central African Republic	1	1	1	1	2	3
Chad	10	10	10	13	29	27
Congo, Republic of	14	13	106	30	29	67
Equatorial Guinea	3	5	10	29	23	31
Gabon	27	35	76	56	54	74
Deposits	1,033	1,127	1,438	1,519	1,794	1,841
Demand deposits	543	594	805	782	944	968
Public enterprises	54	48	138	75	97	86
Private sector	489	546	667	707	847	883
Term deposits	490	533	633	737	849	873
Public enterprises	34	34	32	50	49	60
Private sector	455	499	601	687	801	813
Memorandum items:	(In percent)					
Reserves/deposits	12.0	11.2	24.0	21.8	24.4	28.8
Credit to the economy/deposits	101.5	101.8	85.9	90.0	82.6	80.3

Sources: Bank of Central African States (BEAC); and staff estimates.

1/ Fiscal year (July-June) up to 2001 and calendar year starting in 2002.

Table 10. CEMAC: Balance of Payments, 1998–2003 1/

(In billions of CFA francs)

	1998	1999	2000	2001	2002 Est.	2003 Proj.
Balance on current account	-1,229	-1,025	-123	-1,052	-1,281	-987
Balance on goods and services	-258	736	2,514	1,477	1,536	1,465
Exports of goods	3,507	4,249	6,762	6,621	7,168	6,613
Exports of services	547	602	717	700	708	688
Imports of goods	-2,333	-2,191	-2,694	-3,372	-3,574	-3,368
Imports of services	-1,979	-1,924	-2,272	-2,471	-2,766	-2,468
Income, net	-964	-1,751	-2,738	-2,640	-2,937	-2,603
Of which						
Interest paid on public debt	-613	-609	-611	-655	-484	-387
Interest paid on nonpublic debt	-283	-677	-927	-634	-729	-604
Current transfers, net	-6	-11	101	111	120	151
Private current transfers, net	-76	-51	40	28	64	62
Official current transfers, net	70	40	61	83	56	89
Balance on capital and financial account	1,344	913	-41	1,028	1,379	987
Balance on capital account (incl. capital transfers)	376	632	591	612	446	193
Balance on financial account (incl. reserves)	967	281	-632	416	933	794
Direct investment, net	444	774	689	1,208	1,525	1,480
Portfolio investment, net	59	-214	-188	-212	144	33
Other investment, net	242	-210	-693	-647	-480	-645
Reserve assets (accumulation -)	222	-68	-440	67	-256	-74
Errors and omissions, net	-115	113	164	23	-99	0
Memorandum item:						
Nominal GDP	10,915	11,788	14,320	15,014	16,470	16,998

Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.

Table 11. CEMAC: Nominal and Real Effective Exchange Rates, 1997–2002 1/

(Annual percentage changes)

	1997	1998	1999	2000	2001	2002 Est.
Nominal effective exchange rate						
Cameroon	-3.9	2.3	2.0	-5.5	1.6	3.1
Central African Republic	-0.5	1.1	-0.3	0.1	5.3	3.3
Chad	-4.4	1.5	3.7	-5.2	1.6	2.7
Congo, Republic of	-3.0	1.7	-1.3	-4.5	1.0	2.1
Equatorial Guinea	-3.2	1.7	-1.4	-4.4	0.7	1.9
Gabon	-3.4	2.5	-2.5	-5.5	1.4	2.3
CEMAC	-3.3	3.3	0.2	-6.2	2.4	2.9
Real effective exchange rate						
Cameroon	-1.5	3.8	2.5	-5.7	3.2	3.6
Central African Republic	-3.1	-2.5	-5.2	-2.6	3.3	2.2
Chad	-1.3	3.5	-6.1	-4.3	8.8	4.4
Congo, Republic of	11.0	-1.2	1.0	-8.8	-0.4	4.1
Equatorial Guinea	-2.1	7.3	-2.8	-4.9	6.5	7.4
Gabon	-1.3	3.4	-4.2	-8.1	1.4	0.5
CEMAC	0.5	2.7	0.2	-5.3	3.4	4.7

Sources: IMF, Information Notice System; and staff estimates.
1/ CEMAC data is weighted by nominal GDP.

Table 12. CEMAC: Terms of Trade, 1997–2002

(Annual percentage changes)

	1997	1998	1999	2000	2001	2002 Est.
Cameroon	5.1	-4.5	-15.7	41.5	4.5	-4.2
Central African Republic	2.1	7.1	-3.0	-4.8	-10.6	-3.2
Chad	-4.9	8.7	-6.7	-2.7	-17.1	0.0
Congo, Republic of	-12.5	-20.7	21.9	53.3	-13.6	3.7
Equatorial Guinea	-6.6	-32.1	42.7	43.6	-11.1	1.7
Gabon	-3.6	-29.0	37.9	43.0	-16.9	5.9
CEMAC	-2.3	-19.1	17.1	48.3	-8.1	0.7
Oil-producing countries	-4.9	-21.5	18.3	45.6	-9.9	1.7
Non-oil producing countries	-2.0	8.0	-5.1	-3.6	-14.3	-1.4

Sources: IMF, World Economic Outlook database, June 2003; and staff estimates.

Table 13. CEMAC: External Debt, 1998–2003

	1998	1999	2000	2001	2002 Est.	2003 Proj.
			(In percent of GDP)			
External public debt						
Cameroon 1/	92.1	94.6	91.2	81.7	57.5	48.8
Central African Republic	88.1	2.0	81.5	92.7	95.1	101.6
Chad	59.3	66.1	75.3	77.0	69.3	55.2
Congo, Republic of	264.4	231.6	164.9	193.1	212.9	186.4
Equatorial Guinea	56.7	37.7	22.4	16.0	10.0	8.2
Gabon	84.9	79.7	63.8	58.2	59.1	45.5
CEMAC	104.4	102.3	90.2	85.8	74.7	64.0
			(In percent of exports of goods and services)			
External public debt						
Cameroon 1/	445.0	516.6	379.9	326.2	293.2	295.7
Central African Republic	599.8	544.0	498.4	647.0	717.6	804.2
Chad	390.7	550.3	583.2	693.1	774.7	428.4
Congo, Republic of	376.4	350.4	216.7	262.0	276.0	302.3
Equatorial Guinea	57.3	34.6	20.9	15.0	9.3	7.8
Gabon	199.7	148.2	100.8	104.6	108.6	90.6
CEMAC	322.9	287.2	194.5	194.0	171.9	165.5
			(In percent of government revenue)			
Debt service						
Cameroon 1/	53.4	29.5	22.1	14.7	14.9	16.8
Central African Republic	17.1	9.5	2.0	11.1	1.6	...
Chad	20.1	23.5	42.5	28.0	21.7	15.6
Congo, Republic of	18.7	22.2	23.6	21.4	27.9	32.6
Equatorial Guinea	2.0	71.6	38.4	19.5	0.0	3.4
Gabon	2.0	1.0	32.3	40.4	32.8	91.2
CEMAC	18.9	26.2	26.8	22.5	16.5	...

Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001 and calendar year starting in 2002.

Table 14. CEMAC: Compliance with Convergence Criteria, 1998-2003 1/
(In percent of GDP, unless otherwise indicated)

	1998	1999	2000	2001	2002 Est.	2003 Proj.
Basic fiscal balance (criterion: nonnegative) 2/						
Cameroon	0.0	-1.2	2.3	3.2	2.0	1.4
Central African Republic	-0.7	-1.8	-1.9	-1.0	-0.5	-0.8
Chad	-0.2	-2.0	-3.0	-2.5	-3.3	-3.5
Congo, Republic of	-15.9	-0.6	7.2	8.9	-0.8	6.9
Equatorial Guinea	-0.4	4.3	9.0	14.6	9.6	28.0
Gabon	-1.3	4.3	13.9	7.7	7.0	10.8
Number of countries violating	5	4	2	2	3	2
Consumer price inflation (annual percentage change; criterion: not higher than 3 percent)						
Cameroon	3.2	1.9	1.2	4.5	2.8	2.5
Central African Republic	-1.9	-1.5	3.1	3.8	2.3	3.2
Chad	4.3	-8.0	3.8	12.4	5.2	4.3
Congo, Republic of	-1.6	3.6	-0.3	0.4	3.8	2.0
Equatorial Guinea	7.8	0.6	4.6	8.8	7.6	10.0
Gabon	2.3	-0.7	0.5	2.1	0.2	2.0
Number of countries violating	3	1	3	4	3	3
Level of public debt 3/ (criterion: not higher than 70 percent of GDP)						
Cameroon	92.1	94.6	91.2	81.7	57.5	48.8
Central African Republic	88.1	77.6	81.5	92.7	95.1	101.6
Chad	59.3	66.1	75.3	77.0	69.3	55.2
Congo, Republic of	264.4	231.6	164.9	193.1	212.9	186.4
Equatorial Guinea	56.7	37.7	22.4	16.0	10.0	8.2
Gabon	84.9	79.7	63.8	58.2	59.1	45.5
Number of countries violating	4	4	4	4	2	2
Net change in government arrears 4/ (criterion: non-positive)						
Cameroon	-9.8	-0.9	-1.8	-2.9	-9.0	-0.5
Central African Republic	-11.6	-0.5	-0.4	-1.0	3.3	4.3
Chad	-1.0	-0.5	0.0	0.7	-0.4	-0.7
Congo, Republic of	30.8	20.3	11.6	2.6	8.7	7.0
Equatorial Guinea	-2.9	6.9	-1.4	-1.1	-0.1	-3.4
Gabon	8.0	5.1	-15.1	2.6	4.5	-10.1
Number of countries violating	2	3	1	3	3	2
Total number of criteria violations	14	12	10	13	11	9
Cameroon	2	2	1	2	0	0
Central African Republic	2	1	3	3	3	4
Chad	2	1	2	4	2	2
Congo, Republic of	3	4	2	2	4	2
Equatorial Guinea	2	2	1	1	1	1
Gabon	3	2	1	1	1	0

Sources: IMF, World Economic Outlook database, June 2003; and staff estimates and projections.

1/ Revised set of criteria as valid from 2002 onward.

2/ Overall budget balance, excluding grants and foreign-financed investment.

3/ External debt only. The CEMAC's convergence criterion also includes domestic debt, on which the World Economic Outlook database provides insufficient information.

4/ External and domestic arrears.

Table 15. CEMAC: Money Market Volumes, 2000–02
(In billions of CFA francs)

	Injections of Liquidity			Absorptions of Liquidity			Volume Traded on Interbank Market		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Cameroon	25.5	14.1	2.6	550.0	1,086.9	1,473.8	78.4	124.7	74.4
Central African Republic	47.8	28.8	28.1	0.2	2.1	0.3	0.1	4.0	1.5
Chad	112.7	97.0	39.8	2.4	8.5	18.3	2.2	11.0	0.0
Congo, Republic of	81.8	29.7	7.0	98.3	402.5	228.0	0.0	0.0	12.0
Equatorial Guinea	0.0	0.0	0.1	0.0	47.2	92.4	48.3	96.5	38.0
Gabon	12.9	3.0	27.4	258.4	203.1	100.0	47.4	46.7	31.2
CEMAC	280.6	172.6	105.1	909.3	1,750.2	1,912.8	176.4	282.7	157.1

Source: Bank of Central African States (BEAC).

Table 16. CEMAC: Bank Ratings, March 2003 1/
(Number of banks)

	1	2	3A	3B	3C	4A	4B	4C	Not Rated
	(Number of banks)								
Cameroon (9)	1	5	1	0	0	1	0	0	1
Central African Republic (3)	0	2	0	0	0	1	0	0	0
Chad (5)	0	3	0	2	0	0	0	0	0
Congo, Republic of (4)	0	0	0	2	0	1	0	0	1
Equatorial Guinea (3)	0	3	0	0	0	0	0	0	0
Gabon (6)	0	5	0	0	0	0	0	0	1
CEMAC (30)	1	18	1	4	0	3	0	0	3

Source: Banking Commission of Central Africa (COBAC).

1/ Ratings: 1=strong; 2=good; 3A=fragile; 3B=moderately fragile; 3C=highly fragile; 4A=critical; 4B=highly critical and 4C=irreparable.

Table 17. CEMAC: Violations of Main Prudential Ratios, 2001- 03

	Capital Adequacy			Liquidity			Fixed Assets Coverage			Maturity Transformation			Minimum Capital			Diversification		
	2001	2002	2003 March	2001	2002	2003 March	2001	2002	2003 March	2001	2002	2003 March	2001	2002	2003 March	2001	2002	2003 March
Country (number of banks)	(Number of banks in violation) 1/																	
Cameroon (9)	3	3	2	1	0	0	3	3	2	4	3	4	3	1	1	6	8	9
Central African Republic (3)	1	1	1	2	3	1	1	1	1	2	1	1	1	1	1	1	1	2
Chad (5)	1	2	2	0	1	1	3	3	3	2	2	1	1	0	0	1	1	2
Congo, Republic of (4)	2	2	3	3	2	0	3	2	4	2	2	2	2	1	1	1	3	4
Equatorial Guinea (3)	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	1	1	1
Gabon (6)	0	0	0	1	1	1	1	1	1	0	0	0	0	0	0	0	0	1
CEMAC (30)	7	8	8	7	7	3	12	11	11	10	8	8	7	3	3	10	14	19
	(In percent of deposits) 2/																	
Cameroon (9)	10	7	2	2	0	0	3	24	21	3	44	45	10	2	2	22	71	100
Central African Republic (3)	36	42	43	54	100	38	36	42	43	82	42	43	36	42	43	36	36	43
Chad (5)	25	41	39	0	14	13	91	54	58	39	41	26	25	0	0	14	14	26
Congo, Republic of (4)	57	56	21	82	37	0	75	37	100	57	37	50	57	16	21	20	77	100
Equatorial Guinea (3)	0	0	0	0	0	0	58	53	0	0	0	0	0	0	0	33	39	49
Gabon (6)	0	0	0	19	28	42	25	18	19	0	0	0	0	0	0	0	0	29

Sources: Banking Commission of Central Africa (COBAC) and staff calculations.

1/ Number of banks in violation in the country.

2/ Percentage of deposits represented by the number of banks in violation in the country.

Table 18. CEMAC: Quality of Loan Portfolio, 2000–03
(In billions of CFA francs; unless otherwise indicated)

	Gross Loans				Nonperforming Loans				Provisions				Rate of Nonperforming Loans 1/				Rate of Provisions 2/			
	2000	2001	2003 March	2003 Aug.	2000	2001	2003 March	2003 Aug.	2000	2001	2003 March	2003 Aug.	2000	2001	2003 March	2003 Aug.	2000	2001	2003 March	2003 Aug.
Cameroon	632.5	702.5	770.5	806.0	109.6	110.0	124.0	117.4	81.7	86.0	101.7	98.3	17.3	15.7	16.1	14.6	74.5	78.2	82.0	83.7
Central African Republic	45.6	52.2	53.6	54.0	11.7	15.3	15.2	16.1	9.2	4.0	13.7	14.5	25.6	29.4	28.4	29.8	78.9	26.1	90.1	90.1
Chad	71.7	86.2	101.1	111.7	21.5	17.8	16.9	16.3	15.5	12.9	14.8	14.1	29.9	20.7	16.7	14.6	72.1	72.5	87.6	86.5
Congo, Republic of	176.9	121.5	74.9	80.1	106.8	48.2	1.0	1.5	103.6	40.5	0.4	0.4	60.4	39.7	1.3	1.9	97.0	84.0	40.0	26.7
Equatorial Guinea	31.4	40.6	57.2	58.8	3.1	4.2	6.5	6.5	2.7	3.7	4.6	5.3	9.8	10.5	11.4	11.1	86.2	86.0	70.8	81.5
Gabon	432.8	495.5	528.9	513.5	28.6	43.0	73.9	71.1	18.5	27.2	46.1	46.5	6.6	8.7	14.0	13.8	64.7	63.2	62.4	65.4
CEMAC	1,390.9	1,498.4	1,586.2	1,624.1	281.3	238.6	237.5	228.9	231.2	174.3	181.4	179.1	20.2	15.9	15.0	14.1	82.2	73.0	76.4	78.2

Sources: Banking Commission of Central Africa (COBAC) and staff calculations.

1/ In percent of gross loans.
2/ In percent of nonperforming loans.

CEMAC: Current Practices in Oil Sector Management[40]

This appendix reviews current practices in fiscal oil sector management in CEMAC's established oil producing countries Cameroon, the Republic of Congo, Equatorial Guinea and Gabon, as well as the newcomer, Chad.[41] Table 1 provides details.

A. Institutional Oversight of the Oil Sector

Background

Countries that have had success in managing their oil sectors usually have a sound legal structure, with a set of tailor-made laws for the oil sector. The successful institutional setup normally distinguishes between two tasks in oil sector management: (i) strategic issues regarding the oil industry; and (ii) tactical issues, such as the daily monitoring of oil operations. The technological and financial requirements of oil production, as well as the risks involved, mean that most countries have to attract foreign direct investment in order to develop their hydrocarbon deposits. Experience has shown that the systems that specify the payments due to governments out of oil sales proceeds vary in their attractiveness to investors, and in the level of revenue and risk allocated to the government.

Current practice

The current practice is as follows:

- Oil operations in the group are dominated by international oil companies. At the same time, three out of the five oil-producing countries in the CEMAC have national oil companies (NOCs).

- All countries use either production-sharing arrangements (PSAs) or royalty and tax combinations to define relations between the government and the oil companies. Contract terms differ widely across countries. The government's share in percent of the total value of production, or the government take, is highest in Cameroon.

- No CEMAC country organizes competitive bidding rounds to allocate exploration rights.

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[40] This appendix draws on the background paper prepared by the African Department for the Workshop on Macroeconomic Policies and Governance in Sub-Saharan African Oil Exporting Countries held in Douala, Cameroon, April 29-30, 2003.

[41] Oil production in Chad will commence only this year.

B. Transparency Requirements

Background

Transparency in oil sector operations is needed to allow an open discussion on fiscal policy and spending priorities. A credible aggregation of payments due to the government needs to be made, and three concepts of government revenue flows need to be distinguished: (i) payments due, (ii) payments made, and (iii) payments received. Verification mechanisms and enhanced accountability are instrumental for avoiding corruption and waste of public resources. Timely and trustworthy reports on the financial integrity of government accounts—including oil revenue—need to be prepared. An administrative unit needs to be created that is trustworthy in the public's eye, and technically capable of handling the complex tasks.

Current practice

The current practice is as follows:

- Contractual arrangements and oil sector operations generally lack transparency and suffer from institutional capacity constraints.
- Arrangements among the treasuries, the ministries in charge of the oil sector, and NOCs are not clearly defined; the government institutions in charge of the oil sector lack expertise; and data provision is too weak to allow for monitoring of oil revenue.
- Where a NOC exists, government oil revenues often pass through the company accounts, and deposits in treasury accounts frequently depend on the dividend policy of the NOC. The time lag between payment and accrual of government oil revenue further reduces transparency in oil sector operations.
- Operations of foreign oil companies are audited by independent external auditors in most countries; operations of NOCs are audited only in some cases.

Table 1. CEMAC: Current Practice in Oil Sector Management

Country	National Oil Companies	Production Sharing	Bidding Rounds	Contract Transparency	Audits	Data Availability
Cameroon	Société National des Hydrocarbures (SNH).	Yes.	No.	Yes.	Independent audits of SNH being conducted annually.	Under the PRGF-supported program the authorities are committed to report monthly data related to oil sector operations.
Chad	No, but the government is a partner in a joint venture with foreign oil companies that manages the export pipeline.	Yes.	No.	Yes.	Audits are to be conducted annually of oil revenue payments, and of offshore accounts that receive oil payments and of spending financed by oil revenue.	Under the PRGF-supported program the authorities are committed to report monthly data related to oil sector operations.
The Congo	SNPC.	Yes.	No.	Yes.	The World Bank has offered financial and technical support for the operational audit of the petroleum sector and the SNPC. Audits have not yet been conducted.	Insufficient.

Table 1. CEMAC: Current Practice in Oil Sector Management (concluded)

Country	National Oil Companies	Production Sharing	Bidding Rounds	Contract Transparency	Audits	Data Availability
Equatorial Guinea	Gepetrol. Established in 2001 and expected to take working interest in any new oil projects.	A model production sharing agreement is posted on the website of the Ministry of Mining. The details of taxation are being negotiated. The percentage of government oil revenue is low by international comparison.	No.	Bilateral negotiations between companies and government not transparent. PSAs remain confidential and not discussed outside small circle in the Ministry of Mining and the Presidency.	Audits of oil company operations and government oil revenue payments undertaken for the first time in 2001 and reports made available to Fund staff.	Insufficient. Data on government bank deposits abroad and government oil revenue are incomplete.
Gabon	None.	Most fields are operated under production-sharing agreements, but some older license regimes persist.	No.	No.	Audits of three smaller oil companies were completed in end-2001, while those for the two largest companies and two smaller ones were initiated in September 2002.	Insufficient. There is no systematic comparison by the authorities of data available on (i) tax payments; (ii) tax declarations by companies; and (iii) tax obligations assessed and controlled by the Tax Department.

Sources: Country authorities; and Fund staff analyses.

CEMAC: Current Practices in Fiscal Policy Design[42]

This appendix reviews current practices in fiscal oil revenue management in the CEMAC's established oil-producing countries, Cameroon, the Republic of Congo, Equatorial Guinea, and Gabon, as well as the newcomer, Chad. Table 1 provides details.

A. Fiscal Policy Challenges

Background

Fiscal policy in oil-producing countries faces challenges arising from three characteristics of oil revenue: (i) oil revenue is more volatile than revenue from other export commodities because of international market conditions and the high fixed costs involved; (ii) oil revenue is a foreign exchange inflow, and its use can have large effects on macroeconomic stability; and (iii) oil is an exhaustible resource with a finite revenue stream. The challenge of fiscal policy is to stabilize budgetary expenditures and sterilize excess revenue inflows in the context of medium- to long-term sustainability considerations, and thereby provide an enabling environment for growth and poverty reduction. A rule-based stabilization policy would aim at insulating the economy from the short-term volatility of oil prices and revenues by defining a fiscal stance for a given medium-term projection of oil prices and revenues. Prudence would advise that borrowing against expected higher oil revenue in the future be avoided, including in periods of low oil prices.

Current practice

The current practice is as follows:

- As in many other oil-producing countries, fiscal policy in CEMAC countries has generally not been successful in smoothing out fluctuations in budgetary outlays resulting from volatile oil prices. Erratic fiscal policies that depend strongly on current oil price developments have caused "boom-bust" cycles in CEMAC's oil producers.[43] In the process, Gabon has accumulated high levels of public debt, owing

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[42] This appendix draws on the background paper prepared by the African Department for the Workshop on Macroeconomic Policies and Governance in Sub-Saharan African Oil Exporting Countries held in Douala, Cameroon, April 29-30, 2003.

[43] The correlation between primary expenditure and current or lagged oil prices for Cameroon, the Republic of Congo, and Gabon is clearly positive. Correlation coefficients lie between 0.3 and 0.5. Correlation coefficients for Chad and Equatorial Guinea have not been calculated because of an insufficient number of observations.

to the "ratchet effect", as public expenditure has increased in years of high oil prices and adjustment has been incomplete in years with low oil prices.

- CEMAC's oil-producing countries commonly do not follow any declared fiscal rule limiting overall expenditure. Only Chad has adopted an explicit rule to deposit a part of oil revenue in a Fund for Future Generations. The Congo has heavily borrowed against future oil revenue.

- Cameroon, Chad, and Equatorial Guinea have adopted rules that limit the use of government oil revenue to certain types of expenditure. In Cameroon, half of any windfall revenue is to be spent in the social sectors. In Chad, oil revenue is to be used mostly for earmarked social sector spending. Equatorial Guinea restricts the use of oil revenue to public investment only.

B. The Framework for the Accumulation of Assets and Budget Execution

Background

Savings of oil revenue could be utilized for (i) the repayment of existing government debt, (ii) investment in domestic assets, or (iii) investment in foreign assets. To the extent that the third option is chosen, a secure and transparent framework for the management of foreign financial assets in saving funds has to be put in place. Regarding budget procedures, it is important that all oil-related financial operations be included in the government budget, and that savings funds be created as an integral part of the normal budgetary operations.

Current practice

The current practice is as follows:

- Currently, all CEMAC countries channel at least part of their fiscal surpluses from oil revenue (insofar as surpluses exist) into a treasury account with the central bank; however, countries maintain offshore bank accounts, some of which are not fully transparent and in violation of BEAC rules.

- A regional legal framework to place part of oil revenues in funds with the BEAC was put in place in 2001. However, to date only very limited amounts have been placed in these funds.[44]

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[44] The BEAC created a framework for two funds: one to help achieve the short-term stabilization of oil receipts and the other to accumulate long-term savings for future generations. Countries can pay 50 percent of their "excess" oil receipts into the stabilization fund—excess defined as revenue corresponding to the oil price exceeding its five-year

(continued…)

- While all countries now include oil revenues in the budget, serious weaknesses in budget preparation and execution persist in some countries. Also, ad hoc adjustments to budgets are common.

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average. Conversely, countries can make drawings from the fund corresponding to 50 percent of the shortfall. A country's net balance in the stabilization fund must remain positive. Up to 10 percent of oil revenues can be deposited in the savings fund.

Table 1. CEMAC: Current Practice in Fiscal Policy Design

Country	Fiscal Rules Governing Overall Expenditure	Fiscal Rules Governing Type of Expenditure	Intergenerational Equity Provisions	Integrity of Budget
Cameroon	Target a balanced budget at the expected level of oil revenue. A contingency mechanism lowers the target in case of a shortfall.	None.	Ongoing discussions to set up a Fund for Future Generations.	All oil revenue is included in the budget.
Chad	Target a fiscal surplus at the projected oil price and deposit a fixed percentage of oil revenue in a Fund for Future Generations.	Net direct oil revenue (after debt service to IBRD and allocations to the Fund for Future Generations) is to be spent mainly in priority sectors for poverty reduction, namely, health, education, rural development, and infrastructure.	Yes. The exact rules guiding the eventual use of this Fund have not yet been agreed upon and should be designed so as to ensure intergenerational equity.	All oil revenue should be fully budgeted, and associated spending should follow normal budgetary procedures.
The Congo	None.	Proportion of oil revenue earmarked for specific uses–collateralized debt service payments and investment projects–account for 40 percent of total oil fiscal revenue in 2001.	None.	Oil revenue and expenditure are included in the budget. Effective unified management of treasury operations is impaired by collateralized debt operations and financing of some public investment projects directly with oil revenues.

Table 1. CEMAC: Current Practice in Fiscal Policy Design (concluded)

Country	Fiscal Rules Governing Overall Expenditure	Fiscal Rules Governing Type of Expenditure	Intergenerational Equity Provisions	Integrity of Budget
Equatorial Guinea	None. Fiscal surpluses (including oil revenue) are believed to be held mostly in an investment account abroad.	Oil revenue to be used for investment purposes only.	Currently, foreign assets are being accumulated; these are not in the form of long-term investments. However, the revised 2002 budget projected the creation of a special reserve fund.	All oil revenue have been included in the budget since 2001, and the earlier practice of financing extrabudgetary expenditure by advances from the oil companies has been discontinued.
Gabon	None.	None.	A Fund for Future Generations was created by law in 1998. According to the law, 10 percent of budgeted oil revenue as well as 50 percent of any windfall revenue is to be directed to the fund. A first deposit of CFAF 70 billion was made in 2002.	All oil revenue is included in the budget.

Sources: Country authorities; and Fund staff analyses.

INTERNATIONAL MONETARY FUND

Central African Economic and Monetary Community:
Recent Developments and Regional Policy Issues
Supplementary Information

Prepared by the Staff Representatives for the 2003 Consultation with the Central African Economic and Monetary Community

Approved by Donal Donovan

November 10, 2003

1. This supplement provides additional information that has become available since the issuance of the staff report on recent developments and regional policy issues in the Central African Economic and Monetary Community on September 18, 2003. This information does not alter the thrust of the staff appraisal.

2. **Revisions to GDP reveal a weaker-than-estimated performance in 2002, mainly on account of lower-than-expected oil-sector growth in Equatorial Guinea (Table 1, changes highlighted).** As a result, the trade and external current account balances estimates were revised downward. Furthermore, the incorporation of new information on consumer price inflation in Equatorial Guinea led to an upward revision of this country's real effective exchange rate, indicating a stronger-than-estimated real appreciation there (Figure 1).

3. **A higher oil price projection for 2003 triggered changes in forecasts for 2003.** The World Economic Outlook oil price projection for 2003 was revised upward from US$26.5 per barrel to US$28.5 per barrel. On this basis, forecasts of nominal GDP growth and year-on-year changes in the external sector balances were revised upward as well.

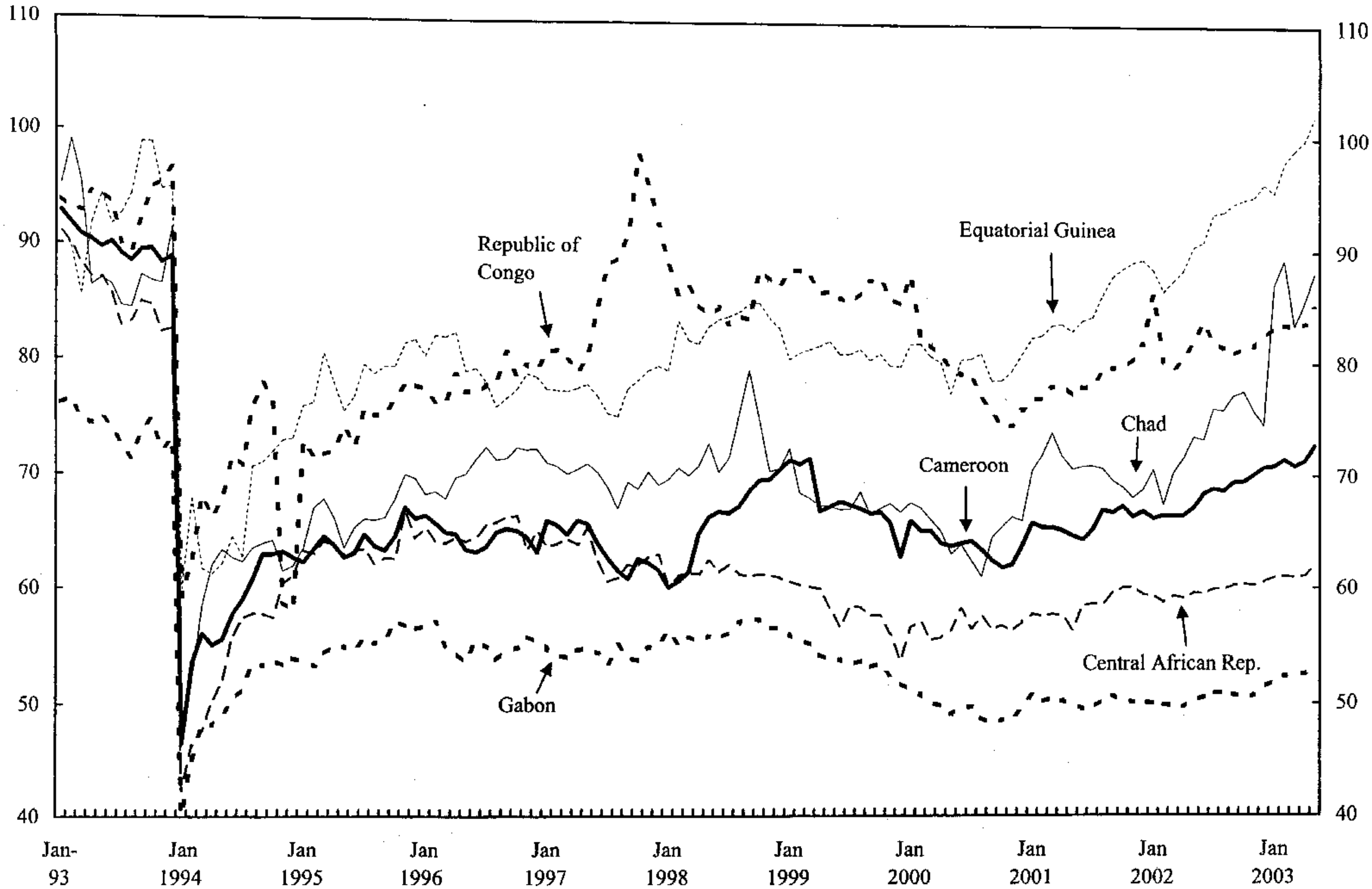
Table 1. CEMAC: Selected Economic and Financial Indicators, 1998–2003 1/

	1998	1999	2000	2001	2002 Est.	2003 Proj.
	(Annual percentage change)					
National income and prices						
GDP at current prices	-2.1	8.0	21.4	4.4	7.1	5.8
GDP at constant prices	4.9	-0.1	3.2	5.2	3.9	5.0
Oil GDP 2/	1.4	3.6	-4.6	1.2	2.1	4.2
Non-oil GDP 2/	5.2	-0.5	4.4	5.9	4.2	6.5
Consumer prices (average)	2.7	1.2	1.2	4.3	3.0	3.7
Terms of trade	-19.1	17.1	48.3	-8.1	0.7	-2.4
Nominal effective exchange rate	3.3	0.2	-6.2	2.4	3.0	...
Real effective exchange rate	2.8	0.3	-4.9	3.6	4.3	...
	(Annual changes in percent of beginning-of-period broad money)					
Money and credit						
Net foreign assets	-11.8	4.5	38.4	-11.3	10.3	...
Net domestic assets	11.5	4.8	-15.4	18.6	4.2	...
Broad money	-0.3	9.3	23.0	7.2	14.4	...
	(In percent of GDP, unless otherwise indicated)					
National accounts						
Gross domestic savings	20.2	23.7	29.7	28.1	28.5	27.4
Gross domestic investment	n.a	21.9	20.0	25.5	25.2	22.5
Government financial operations						
Total revenue, excluding grants	20.4	19.1	22.5	24.1	22.4	23.2
Government expenditure	28.0	22.5	19.5	22.4	22.0	19.7
Primary fiscal balance 3/	4.3	6.0	10.4	10.2	7.0	9.1
Basic fiscal balance 4/	-2.1	0.3	5.8	5.4	3.1	6.2
Overall fiscal balance, excluding grants	-7.6	-3.4	3.0	1.7	0.3	3.5
Overall fiscal balance, including grants	-6.4	-2.4	3.6	2.5	1.1	4.6
External sector						
Exports of goods and nonfactor services	37.1	41.1	52.1	48.5	45.6	41.7
Imports of goods and nonfactor services	39.5	37.0	37.2	43.4	41.3	36.8
Balance on goods and nonfactor services	-2.4	4.1	14.9	5.1	4.3	4.8
Current account, including grants	-11.2	-8.5	-0.8	-7.1	-8.5	-6.1
External public debt	104.3	102.3	90.2	86.2	76.4	63.3
Gross official reserves (end of period, in millions of U.S. dollars)	552.0	595.2	1,318.9	1,157.6	1,608.0	1,757.1
Memorandum items:						
Nominal GDP (in billions of CFA francs)	10,924	11,794	14,318	14,950	16,008	16,930
CFA francs per U.S. dollar, average	590.0	615.7	712.0	732.5	690.9	581.4
Oil prices (in U.S. dollars per barrel)	13.1	18.0	28.2	24.3	25.0	28.5
Oil prices (in CFA francs per barrel)	7,713	11,073	20,108	17,785	17,241	16,571

Sources: IMF, World Economic Outlook database, September 2003; and staff estimates and projections.

1/ Major changes for the years 2002 and 2003 highlighted in grey.
2/ The weighted average of oil and non-oil real GDP growth rates does not always add up to real GDP growth because of the nonadditivity of the underlying index.
3/ Excluding grants and foreign-financed investment and interest payments.
4/ Excluding grants and foreign-financed investment.

Figure 1. CEMAC: Real Effective Exchange Rates of Member Countries, 1993-2003
(Index, 1990=100)



INTERNATIONAL MONETARY FUND
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Public Information Notice (PIN) No. 03/141
FOR IMMEDIATE RELEASE
December 4, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Discussion of Recent Developments and Regional Policy Issues in the Central African Economic and Monetary Community

On November 12, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the 2003 discussion of recent developments and regional policy issues in the Central African Economic and Monetary Community (CEMAC).

Background

In spite of a rich regional endowment of oil and other natural resources, the CEMAC region continues to fare poorly with respect to the United Nations Development Program human development indicators, and poverty remains pervasive. While macroeconomic developments in 2002 can be considered satisfactory, the authorities have so far not been able to consolidate public finances in spite of higher oil prices since 2000, prolonging the risk that a potential decline of oil prices might lead to serious macroeconomic disruptions. Other risks to economic stability persist as well, most importantly the high degree of fiscal revenue dependence on oil, the gradual erosion of the non-oil sector's competitiveness, the lack of diversification, and the high level of some member countries' indebtedness. Finally, little progress has been made with respect to strengthening institutions and meeting convergence criteria.

Oil sector developments continue to dominate the economic performance of the region, as petroleum constitutes on average 31 percent of GDP, 48 percent of budgetary revenue, and 77 percent of exports. The real growth rate of regional GDP declined from 5.2 percent in 2001 to 3.9 percent in 2002. Growth ranged from an estimated 17.6 percent in Equatorial Guinea, which benefited from a further growth in oil output, to zero in Gabon, an outcome that reflects a decline in oil output and a lackluster non-oil sector. Chad recorded 9.7 percent real GDP growth, mainly on account of the construction of the Doba-Kribi pipeline; Cameroon sustained broad-based growth of 4.2 percent; the economy of the Republic of Congo grew by 3.5 percent following the resolution of its political crisis; and in the Central African Republic, economic growth declined to 0.8 percent, reflecting political instability.

In line with lower GDP growth, the regional fiscal position weakened in 2002. The overall fiscal surplus (excluding grants) declined to 0.3 percent of GDP in 2002 from 1.7 percent in 2001. While total government revenue dropped by 1.7 percentage points to 22.4 percent of GDP, expenditure was reduced by only 0.4 percentage point to 22 percent of GDP, reflecting difficulties in containing spending in countries with declining oil output and strong spending growth in Chad and Equatorial Guinea. The regions' primary surplus is estimated at 7 percent of GDP, down from 10.2 percent in 2001. Partly because of the weakening of fiscal balances, several countries accumulated additional external arrears.

An insufficient sterilization of oil-sector related foreign currency inflows resulted in broad money to grow at double-digit rates. However, average consumer price inflation in CEMAC countries fell from 4.3 percent in 2001 to 3 percent in 2002, partly as a result of the appreciation of the euro and increased monetization of the regional economy.

Against a background of broadly unchanged terms of trade, the trade and the current account balances deteriorated somewhat in 2002. The trade surplus slipped from 5.1 percent of GDP in 2001 to 4.3 percent in 2002, while the external current account deficit rose from 7.1 percent of GDP to 8.5 percent. Nevertheless, foreign currency inflows contributed to a further rise in international reserves of the Bank of Central African States (BEAC). Reflecting the differential between domestic and trading partners' inflation, as well as the appreciation of the euro against the U.S. dollar, the region's real effective exchange rate appreciated by 4.3 percent in 2002.

The use of monetary policy instruments by the BEAC remained problematic. In spite of excess bank liquidity overall, the BEAC lowered its intervention rates in 2002 in line with the monetary easing in the euro area. In the meantime, in an attempt to respond to differences in liquidity conditions among CEMAC countries and to improve the effectiveness of its monetary policy instruments, the BEAC increased the statutory reserve requirements on commercial bank deposits and began differentiating them by country.

Given these macroeconomic developments, progress towards compliance with the recently reformed surveillance framework was slow. The total number of criteria violations declined from 11 in 2001 to 9 in 2002.

Progress with structural reform has been mixed. While the restructuring and privatization of distressed banks have moved ahead and the regulatory framework for financial institutions has been strengthened, the health of the banking system remains fragile in several CEMAC countries, the effectiveness of monetary policy instruments limited, and the implementation of the customs union inadequate.

Executive Board Assessment

Executive Directors observed that macroeconomic developments in the CEMAC region were generally satisfactory in 2002, with growth remaining buoyant, inflation moderate, and the level of official reserves rising. However, the region remains excessively dependent on the oil sector, and human development indicators have improved only marginally despite the region's endowment of natural resources. More broadly, Directors considered that greater convergence in members' fiscal, monetary, and trade policies would contribute to realizing the full potential of regional economic integration.

Against that background, Directors regretted the slow progress in macroeconomic convergence, and urged greater political commitment to and strengthening of the surveillance process. They welcomed the introduction of improved convergence criteria, and suggested further strengthening the peer review process. Given the volatility of oil revenues, they encouraged the CEMAC authorities to modify the basic fiscal balance criterion by using a fiscal rule, and to introduce greater transparency in the management of oil resources in line with international best practices. Directors welcomed the plans for making the administration of national stabilization funds and "Funds for Future Generations" more flexible, and suggested that consideration be given to improved ways of investing these resources with the BEAC.

Directors considered the BEAC's monetary policy stance in 2002 to have been generally prudent, and the 2003 monetary program is broadly consistent with the regional inflation objective. However, more progress is needed to remove the long-standing structural weaknesses that hinder the effective conduct of monetary policy in the region. Directors urged the CEMAC authorities not to delay further the replacement of the BEAC financing of budget deficits by the issuance of treasury bills. In that context, they encouraged the BEAC to consider issuing its own negotiable certificates of deposit in order to enhance its liquidity management capacity until government treasury bills become more generally available. Directors also considered that country-specific reserve requirements might create distortions across the region's financial markets, which could impair the competitiveness of financial service providers in some member countries, and called for their realignment. Directors called for additional measures, such as a freeing up of interest rates, improving the payments system, and simplifying the procedures used for open market operations, to enhance the functioning of the interbank market.

Directors stressed the need for continued efforts to strengthen the banking system, which remains fragile despite the restructuring of distressed banks, and emphasized the role of the Banking Commission of Central Africa (COBAC) in ensuring banks' compliance with prudential norms. They recommended that the COBAC be made the sole authority for issuing and withdrawing bank licenses, and that the common bank licensing rules be revised to further facilitate opening of bank branches across the region. Directors welcomed COBAC's plans for progressive tightening of the capital adequacy ratio, but highlighted the need to match capital requirements to the high operational risks inherent in CEMAC economies because of their undiversified economic structure.

Directors encouraged the CEMAC authorities to press ahead with other financial sector reforms, including early and effective implementation of the new regulations for the microfinance sector. They welcomed the adoption of anti-money-laundering regulations, but noted that additional steps are needed to make them fully operational. In light of the modest size of the private sector in CEMAC countries, Directors expressed a preference for merging the nascent regional stock exchange in Libreville with the existing one in Douala. They saw merit in adopting a prudent approach in the operations of the recently reorganized regional development bank (BDEAC), so as to confine its lending operations to refinancing activities in accordance with sound financial criteria, relying on its own funds and long-term resources borrowed on the regional market.

Directors regretted that member countries still do not consistently apply the provisions of the common external tariff (CET), and they saw expediting trade integration among CEMAC nations as urgent. Remaining nontariff barriers need to be eliminated, customs codes, valuations and exemptions need to be harmonized, and the CET overhauled, including by reducing the top tariff rate of 30 percent. Directors encouraged the authorities to pursue tax harmonization in other fiscal areas as well, and to strengthen the collection of the regional tax on imports to ensure financing of the regional institutions and regional integration funds.

Directors observed that some of the competitiveness gains resulting from the 1994 devaluation of the CFA franc have been eroded. In order to maintain the region's external competitiveness and its share in export markets, they underscored the need to pursue policies aimed at broadening the productive base and diversifying the economies, including by accelerating structural reforms, strengthening basic infrastructure, and adopting common sectoral policies.

Directors urged the authorities to improve the quality, harmonization, and distribution of CEMAC's economic data, notably in the areas of price indices, the real sector, and public finance. In light of the high incidence of poverty in the region, it is important that social sector statistics be collected in order to track progress with poverty reduction and human development indicators.

Directors supported elevating the regional discussions on economic developments and policies to the level of formal regional surveillance of CEMAC-wide issues in the context of Article IV consultations with member countries.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Table 1. CEMAC: Selected Economic and Financial Indicators, 1997–2003

	1998	1999	2000	2001	2002 Est.	2003 Proj.
National income and prices	(Annual percentage change)					
GDP at constant prices	4.9	-0.1	3.2	5.2	3.9	5.0
Oil GDP	1.4	3.6	-4.6	1.2	2.1	4.2
Non-oil GDP	5.2	-0.5	4.4	5.9	4.2	6.5
Consumer prices (average)	2.7	1.2	1.2	4.3	3.0	3.7
Terms of trade	-19.1	17.1	48.3	-8.1	0.7	-2.4
Real effective exchange rate	2.8	0.3	-4.9	3.6	4.3	...
Money and credit	(Annual changes in percent of beginning-of-period broad money)					
Net foreign assets	-11.8	4.5	38.4	-11.3	10.3	...
Net domestic assets	11.5	4.8	-15.4	18.6	4.2	...
Broad money	-0.3	9.3	23.0	7.2	14.4	...
National accounts	(In percent of GDP, unless otherwise indicated)					
Gross domestic savings	20.2	23.7	29.7	28.1	28.5	27.4
Gross domestic investment	n.a	21.9	20.0	25.5	25.2	22.5
Resource gap	n.a	1.7	9.7	2.7	3.3	4.9
Government financial operations						
Total revenue, excluding grants	20.4	19.1	22.5	24.1	22.4	23.2
Total expenditure	28.0	22.5	19.5	22.4	22.0	19.7
Overall fiscal balance, including grants	-6.4	-2.4	3.6	2.5	1.1	4.6
External sector	(In billions of U.S. dollars, unless otherwise indicated)					
Exports of goods and services	6.9	7.9	10.5	9.9	10.6	12.1
Imports of goods and services	7.3	7.1	7.5	8.9	9.6	10.7
Current account, including grants	-2.1	-1.6	-0.2	-1.5	-1.9	-1.8
In percent of GDP	-11.2	-8.5	-0.8	-7.1	-8.5	-6.1
External public debt	19.3	19.6	18.1	17.6	17.6	18.3
In percent of GDP	104.3	102.3	90.2	86.2	76.4	63.3

Table 1. CEMAC: Selected Economic and Financial Indicators, 1997–2003 (continued)

	(In percent of GDP, unless otherwise indicated)					
Exports of goods and services	37.1	41.1	52.1	48.5	45.6	41.7
Imports of goods and services	39.5	37.0	37.2	43.4	41.3	36.8
Current account, including grants	-11.2	-8.5	-0.8	-7.1	-8.5	-6.1
Memorandum items:						
Gross official reserves (end of period, in millions of US dollars)	552.0	595.2	1,318.9	1,157.6	1,608.0	1,757.1
CFA francs per U.S. dollar, average	590.0	615.7	712.0	732.5	690.9	581.4
CFA francs per ECU/euro, average	657.2	656.0	656.0	656.0	656.0	656.0
Oil prices (in U.S. dollars per barrel)	13.1	18.0	28.2	24.3	25.0	28.5

Sources: IMF, World Economic Outlook database, June 2003; and IMF staff estimates and projections.

Statement by Damian Ondo Mañe, Executive Director on Recent Developments and Regional Policy Issues in the Central African Economic and Monetary Community November 12, 2003

1 – Introduction.

I would like to thank the staff for the comprehensive report on the Central African Economic and Monetary Community (CEMAC) and for the useful discussions held with the representatives of CEMAC and the *Banque des Etats de l'Afrique Centrale* (BEAC). My authorities appreciate the exchange of views with the staff on recent economic and financial developments in the region. The report highlights well recent developments and the main regional policy challenges facing the CEMAC. It also indicates progress made to enhance macroeconomic convergence, improve banking intermediation and supervision, and promote intra-regional trade. The report also makes a useful contribution to the discussions on the management of oil revenues and the diversification of the production base, which are critical issues in view of the fact that almost all the member countries of the CEMAC are oil exporting countries. In this regard, it is worth noting that a workshop on macroeconomic policies and governance in Sub-Saharan African oil-exporting countries was held in Douala, Cameroon, on April 29 and 30, 2003. The workshop brought together high-level policy makers from governments, central banks, national oil companies as well as Fund and World Bank representatives. A summary of proceedings of this workshop was made available to Executive Directors.

CEMAC is an economic and monetary union whose treaty entered into force in August 1999. At present it comprises six countries namely Cameroon, Central African Republic, Republic of Congo, Equatorial Guinea, Gabon and Chad. These countries share a common currency, the CFA Franc, which is pegged at a fixed parity to the Euro since January 1999. The BEAC, common central bank, conducts the common monetary policy while a regional banking commission entitled COBAC is in charge of banking supervision.

The main objectives pursued by CEMAC include: i) monetary cooperation among member countries; ii) a single domestic market and a full fledged customs union; iii) harmonization of legal and regulatory mechanisms; iv) convergence of fiscal policies and v) common sectorial policies.

2 – Recent Economic Developments.

Oil contributes to three quarters of the CEMAC countries' export earnings and almost 50 percent of their budgetary revenues. As a result economic and financial performance is dependent on developments in the world oil market. Helped by higher oil prices, GDP of the community grew by 5.4 percent in 2001 and by a further 4.7 percent in 2002. However, this performance is uneven among member countries. Indeed, while economic growth in Equatorial Guinea, Chad and Cameroon was strongly positive, it stood at 0.8 percent in Central African and zero in Gabon. Despite these disparities, the region recorded a broadly satisfactory macroeconomic performance Inflation was moderate and the official reserves increased.

Economic prospects for 2003 have been dominated by developments in the oil sector. Real GDP growth is projected at 4.9 percent while fiscal balances are forecast to be strengthened further. The external current account is expected to improve owing to lower debt service under the HIPC initiative.

3 – Strengthening Regional Surveillance.

As petroleum accounts for three quarters of the CEMAC countries' export earnings and about half of their fiscal revenue, economic developments and prospects will depend on the evolution of oil prices. From a regional perspective, the coordination of macroeconomic policies is crucial in order to reap the full benefits of the economic and monetary community. In this regard, there is a need to strengthen regional surveillance over macroeconomic policies and conduct a prudent common monetary policy.
Moreover, to deepen regional integration, strong policy actions and initiatives are to be implemented. My authorities are determined to enhance the macroeconomic convergence in the region and improve on the management of oil resources.

4 – Regional Monetary Policy.

The common monetary policy implemented by the BEAC is meant to support the fixed parity of the CFA franc to the euro. As stated by the staff, the monetary policy stance in 2002 was prudent. The regional monetary program for 2003 is in line with the regional inflation objective and the programs of member countries supported by the Fund. We understand the concern raised by the staff on the issue of central bank credit to national treasuries. With a view to improving the effectiveness of the monetary policy, my authorities agree with the staff that there is a need to develop markets for treasury bills and bonds to be issued by member countries. In this regard, they are of the view that a regional market on which securities would be traded would help achieve the objectives of the common monetary policy.

In 2002, the BEAC introduced a differentiation of reserve requirements among countries and banks in order to mop up excess liquidity. This measure is seen as an adequate instrument to strongly affect liquidity in a differentiated liquidity environment.

With regard to the issue of investment of "excess" oil revenue to be invested in foreign currency-denominated assets, my authorities have taken note of staff recommendations. The authorities are in consultation among themselves and with partners to look at the best way to deal with this issue.

5 – Banking Supervision and Financial Sector.

The Commission Bancaire de l'Afrique Centrale (COBAC) is the organ in charge of the financial supervision within the community. Over the last year, COBAC has pursued the strengthening of banking with more banks complying with prudential norms. Measures have been taken towards the banking institutions in non compliance with norms and in critical financial situation. For the latter, those measures include, among others, the capital restructuring and privatization. In this regard, it is important to note that this action has been implemented in five of six countries. The regional development bank (BDEAC) has also been restructured under new management. The authorities have also adopted new regulations for the micro finance sector development.

6 – Trade Policy and External Competitiveness.

We are of the view that the exchange rate is not the only instrument to asses the competitiveness of the region as a unified market. Other factors should also be taken into account. In the case of CEMAC, my authorities are aware of the need to accelerate structural reforms, widen and reinforce the basic infrastructure together with adopting common sectorial policies aimed at diversifying the regional economy, thus reducing its dependence on the crude oil production and export.

With regard to intra regional trade, my authorities are fully determined to implement measures adopted by the community with the objective of increasing the trade of goods and services between member countries. In this area progress has been made through consultations with the World Trade Organization (WTO). These consultations are to ensure that practices applied by member countries are in line with WTO rules. In this regard, recommendations made by staff are welcomed and well noted by my authorities.

7 – Statistical Issues.

In spite of progress made on the statistical front, there is still a need for CEMAC member countries to enhance their statistical capacities in order to improve the quality, harmonization and dissemination of economic, financial and social data. We are hopeful that CEMAC and its member countries will continue to benefit from technical assistance from the Fund in this particular area.

The CEMAC authorities have consented to publishing the convergence report. They have already published the report for the year 002 and for the half of 2003 on the central bank's web site (www.beac.int)

8 – Money Laundering and Combating Terrorist Activities.

As regards AML/CFT, a regional law on the prevention and the repression of money laundering and financing of terrorism was adopted in March 2003. This law, that is applicable in all the six countries of the community, enables the freezing of suspicious resources and requires that the banking institutions report any suspicious capital. This law also creates in each country a national agency of financial investigation (ANIF). As regards the latter, a model of draft decree on the organization and the functioning of the ANIF to be passed in each country has been attached in the fore mentioned law.

In addition, the Permanent Secretary and the Manager of the *Groupe Anti-Blanchiment en Afrique Centrale* (GABAC) have been appointed. The official responsible for Intelligence is about to be appointed by the ministerial committee of the CEMAC. The inaugural meeting of the GABAC will be held later this year and at that time, its articles of agreements, that are already drafted, will be adopted. My CEMAC authorities would like to recall that they returned duly filled the questionnaire on AML/CFT-related policies and institutions.

My CEMAC authorities will continue to monitor closely the implementation by the members of the directives adopted regionally on that issue.

9 – Transparency and Governance

On transparency and governance, my CEMAC authorities have been taking a number of measures to improve the transparency on oil resources management, as well as the management of other resources. These measures have been in place prior to the Seminar on Oil Resource Management held in Douala last year. In this regard, coordinated efforts among the membership have been put in place, and steps have been taken to publish on a regular basis the Communiqués of Ministerial meetings as part of a peer review process among CEMACs member states. The Seminar on oil management in Douala and the forthcoming one in Libreville will reinforce the process already in place, in particular the appropriation process. It will be attended by senior government officials, representatives of oil companies and other stakeholders.

Moreover, the BEAC's website has been publishing regularly the evolution of the main economic and financial indicators of the region. In the context of multilateral surveillance, Cameroon, Chad, Gabon, Equatorial Guinea and the Republic of Congo are making available information on oil activities, which in the past were classified as confidential, and more recently some of these countries have welcomed the British Initiative regarding extractive industry. However, we think that the efforts of the CEMAC members will need to be supported by the international community through adequate technical assistance to help them build the institutions and capacity needed to deal with the important challenges faced by the region, including the enormous resources, as noted by the staff.

10 – Conclusion

My CEMAC authorities remain strongly committed to regional integration. Despite adverse exogenous factors, significant progress has been made in this area. In this respect, they are convinced that the common central bank has served them well. In view of the size of oil resources, which are depletable resources, my authorities are forging ahead with structural measures in order to develop and diversify the productive base in the non oil sector, and putting in place measures to reduce poverty.