November 2005
IMF Country Report No. 05/403

Central African Economic and Monetary Community—Paper on Recent Developments and Regional Policy Issues; 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 March 11, 2005, with the officials of the CEMAC on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 25, 2005. 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.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 17, 2005 Executive Board discussion of the paper.

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

The document listed below have been or will be separately released.

Selected Issues Paper

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 African Department

(In consultation with Finance, Fiscal Affairs, Legal, Monetary and Financial Systems, Policy Development and Review, Research and Statistics Departments)

Approved by Saul Lizondo and Michael Hadjimichael

May 25, 2005

- A mission visited Yaoundé during March 6–11, 2005, to conduct the annual surveillance discussions with the regional institutions of the CEMAC. The mission met with Governor Mamalepot and other senior representatives of the Banque des États de l'Afrique Centrale (BEAC) and with senior officials of the Banque de Développement des États de l'Afrique Centrale (BDEAC), the Communauté Économique des États de l'Afrique Centrale (CEEAC), the Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC), the Commission Bancaire de l'Afrique Centrale (COBAC), and the Groupe d'action contre le blanchissement de l'argent en Afrique Centrale (GABAC).
- The staff team comprised Ms. Anne-Marie Gulde (head), Messrs. Jakob Christensen and Charalambos Tsangarides (all AFR), Ms. Corinne Deléchat (PDR), and Mr. Felix Fischer (MFD). Messrs. Andres Jaime and Jonathan Darboux of the World Bank also participated in the mission.
- CEMAC members include Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon. The common currency, the CFA franc, is pegged to the euro at CFAF 656 per €1. The annual regional surveillance discussions complement bilateral surveillance with the six member countries. The CEMAC members accepted the obligations of Article VIII in June 1996.
- At the time of the 2003 regional consultation, Directors noted the generally favorable macroeconomic developments. At the same time, they regretted the slow progress in structural policy harmonization and in macroeconomic convergence, which had kept the region from realizing the full potential of regional integration. Directors called on CEMAC member countries' authorities to renew the political commitment to the integration process. They also pointed out that certain modifications to this process, such as using a fiscal rule to set the fiscal convergence criterion and placing greater emphasis on transparency in the management of the region's oil wealth, would be beneficial to growth and development in the region.
- The CEMAC countries' relations with the Fund are summarized in Appendix I.

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Executive Summary

- Macroeconomic developments in 2004 were favorable, supported by an increase in oil receipts. Region-wide real GDP growth reached 8.3 percent, a 10-year high, while inflation remained low at 1.7 percent, and international reserves increased substantially. External sector accounts improved in spite of the strengthening of the CFA franc, which—along with the euro—appreciated by 10 percent against the U.S. dollar and by about 3 percent in real effective terms. Overall, fiscal balances improved in most member countries. Non-oil GDP growth, however, slowed slightly to 3.2 percent, and progress in important areas for structural reform remains slow. Compliance with the region's convergence criteria improved in 2004, with oil-exporting members able to comply with nearly all criteria.

- The fixed exchange rate regime provides the ultimate anchor for monetary policy, but—given remaining capital controls—the authorities use a reserve money program to guide monetary policy. Implementation of the common monetary policy remains constrained by a lack of instruments and shallow financial markets. Yet, with only moderate broad money growth, the authorities noted that they have been successful in managing liquidity. They agreed, however, that the introduction of treasury bills or, at least temporarily, of central bank bills could facilitate monetary control and help financial market development.

- The CEMAC has improved its surveillance over member countries' fiscal policies by taking longer-term considerations and structural balances into account when assessing their fiscal stance. The mission and the regional authorities agreed that saving some of the oil receipts in funds for future generations, which are currently being established in the BEAC, would maintain transparency while taking account of the special nature of oil receipts. However, in deciding on the possible size of these funds, the authorities need to remain mindful of the need to maintain an adequate level of common reserves.

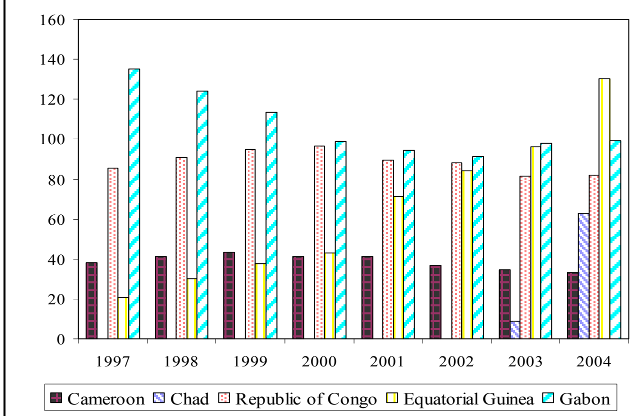
- Trade restrictions and an uneven application of CEMAC rules constrain external and intraregional trade. CEMAC officials agreed that further trade growth, in particular also deeper regional trade integration, will require renewed commitment to abide by common trading rules. Broader changes in the economic environment, which are currently undertaken in the context of gaining access to foreign markets, have a potential to also benefit trade in the region.

- The CEMAC faces important structural challenges, such as the weak financial sectors in several member countries, shallow and segmented financial markets, and the need to increase competitiveness in the non-oil segments of the region's economies. The authorities see regional integration, possibly in an even further expanded area, as a key vehicle to achieve desirable non-oil growth rates. They plan to press ahead with financial sector and legal reforms that would support market integration. The mission noted that increasing the effectiveness of existing institutions and agreements was an important precondition for further widening the integration area.

I. Recent Developments and Trends in Economic Integration

1. **Macroeconomic developments in 2004 were favorable, but structural problems persist.** Five out of six CEMAC members are oil producers (Figure 1 and Table 1), and the effects of oil windfalls dominated economic developments in 2004. However, the member countries made only marginal progress toward overcoming their structural problems, including those posing obstacles to regional economic integration.

Figure 1. Oil Production
(in millions of barrels per year)

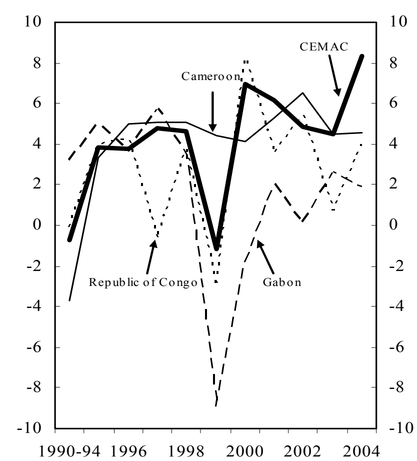


Sources: IMF, World Economic Outlook database; and staff estimates and projections.

A. Macroeconomic Developments and Prospects

2. **Region-wide real GDP growth in 2004 reached 8.3 percent, the highest level in 10 years driven by growth in the oil sector** (Table 2 and Figure 2). Real oil GDP grew by more than 21 percent, mainly as oil output in two member countries—Chad and Equatorial Guinea—increased markedly. Oil prices increased by over 30 percent during the year and oil now accounts for nearly 80 percent of the region's exports.

Figure 2. Real GDP Growth Rate
(In percent)

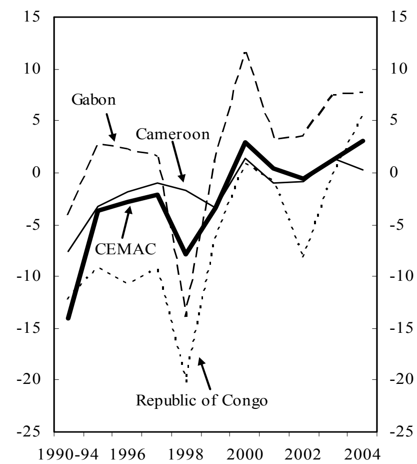


Sources: IMF, World Economic Outlook database; and staff estimates and projections.

3. **Growth developments in the non-oil sector were less encouraging.** Region-wide non-oil GDP growth slowed from 3.6 percent in 2003 to 3.2 percent in 2004, the lowest level in five years (Table 3). This performance resulted from a drought and locust-related decline in non-oil output in Chad, and roughly constant or only slowly improving non-oil growth in the remaining oil-exporting CEMAC member countries. The Central African Republic, a post-conflict country and the sole non-oil exporter in the CEMAC region, halted its two-year economic decline but grew by less than 1 percent.

4. **Broad money growth was moderate, and inflation in the region declined further to 1.7 percent—below euro-area levels** (Table 4). Money growth was contained as the strong increase in the central bank's net foreign assets was offset by the increase in oil-producing countries' government deposits with the BEAC (Tables 5 and 6). The favorable inflation performance—in spite of the overall high growth and significant reserve inflows—was helped by positive agricultural developments in almost all countries, as well as by the appreciating nominal exchange rate vis-à-vis the U.S. dollar. Yet, inflation performance differed significantly across the region. In Chad and the Central African Republic, both countries with stagnant or declining domestic demand, the price level dropped. Inflation in Equatorial Guinea reached 8 percent, reflecting mainly supply bottlenecks in the country's fast-growing economy.

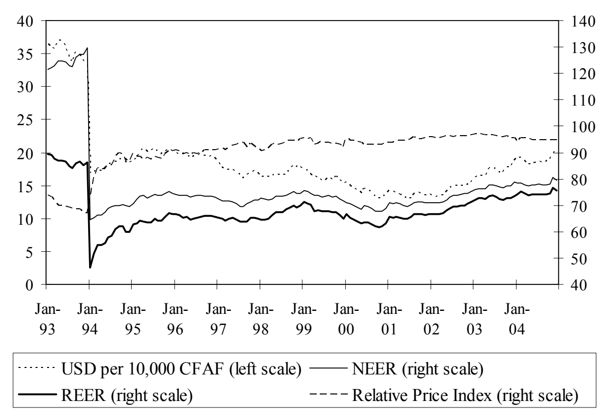
Figure 3. Overall Fiscal Balances
(In percent of GDP)



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

5. **In line with higher oil output and increasing oil prices, the region-wide fiscal position further improved in 2004.** The CEMAC as a whole posted an overall fiscal surplus (excluding grants) estimated at 3.1 percent of GDP (Table 7). The positive fiscal outcomes were in part due to windfall revenues from higher oil prices. For the region as a whole about one-fourth of oil windfall receipts associated with the price increases accrued to the budgets of oil producers. Different structures and ownerships of oil sectors led to different budgetary impacts across member countries, ranging from about half of the additional revenues in Cameroon to less than 10 percent in Chad (Figure 3 and Tables 7 and 8). As a result of improved non-oil revenue collection in some member countries, the region-wide non-oil overall fiscal deficit (excluding grants) also improved slightly, even though in Cameroon, the largest CEMAC economy, the non-oil fiscal balance deteriorated by 1 percent of non-oil GDP. At more than 12 percent of non-oil GDP, the non-oil deficit remains sizeable, underscoring the fundamental dependence of the region on oil receipts for government finance.

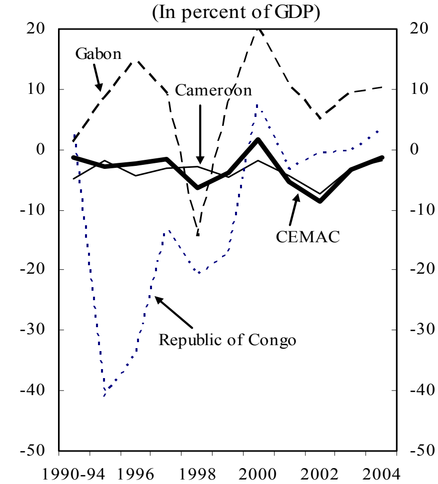
Figure 4. CEMAC Exchange Rates and Relative Prices
Weights: Nominal GDP; Index 1990=100



Sources: IMF, Information Notice System (INS); World Economic Outlook; and staff estimates and projections.

6. **External sector developments in 2004 were favorable.** Despite a strengthening of the CFA franc by about 3 percent in real effective terms (Figure 4 and Table 9), the current account deficit declined from more than 5 percent in 2003 to about 2 percent of GDP in 2004 (Figure 5), and the reserve position strengthened**.** In line with differing inflation performance, REER appreciation was most pronounced in Equatorial Guinea, whereas REERs in other member countries stayed largely constant or appreciated slightly. The region's exports (in U.S. dollars) increased sharply, mostly reflecting oil windfalls, which are estimated at more than 17 percent of region-wide GDP. Non-oil exports as a share of GDP remained constant at 13 percent. Imports also increased albeit at a somewhat lower rate (Table 10). Import demand is partly determined by oil-related equipment imports, which tend to move with production and investment cycles. Intraregional trade stayed unchanged at 1.3 percent of total exports, significantly lower than in other regional groupings, including in the WAEMU (Figure 6). Given the BEAC's repatriation and reserve pooling arrangements, the strong oil-related inflows in 2004 almost doubled the BEAC's net foreign assets to more than US$3 billion.

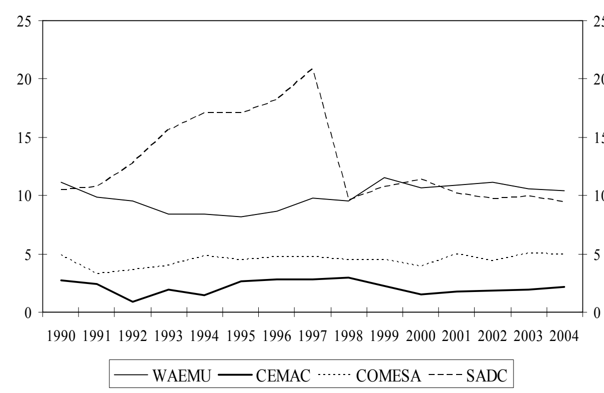
Figure 5. External Current Account Balances
(In percent of GDP)



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

7. **The region's economic prospects continue to be dominated by developments in oil markets** (Table 11)**.** Growth in 2005 is forecast to remain strong at about 5 percent, yet below the 2004 rate, which benefited from the strong impetus of Chad's oil production coming on-stream. The overall fiscal balance, including oil, is forecasted to remain roughly constant. However, with oil prices expected to remain high, there could be a further round of favorable oil export and budget windfalls (Table 12). The prospects for a strengthening of the non-oil sectors in the short term appear to be slight.

Figure 6. Intra-regional Trade: CEMAC, WAEMU, SADC, and COMESA



Sources: IMF, Direction of Trade Statistics (DTS); and staff estimates and projections.

B. Structural Developments and Creation of a Regional Market

8. **Although several member countries are pursuing structural reform programs, progress in important areas remains slow.** Member countries must still address

weaknesses in the banking sector—such as low levels of capital and risk diversification in some banks. Regional money and financial markets remain shallow and segmented. Also, while fiscal conditions in 2004 were favorable, the abolition of statutory advances to governments from the BEAC was postponed because of member countries' concerns about their ability to place debt in the domestic market. There was however continuing progress in the areas of payments system reform and regulation of microfinance, which have a potential to help financial sector development over the coming years.

C. Policy Convergence

9. **Compliance with convergence criteria improved significantly in 2004 helped by higher oil revenues.** CEMAC rules set limits on key macroeconomic indicators to promote national policies that are consistent with the common currency.[1] Aided by favorable external developments in 2004, the oil-exporting CEMAC countries were, for the first time since the introduction of the convergence criteria in 1997, able to comply with nearly all criteria (Table 13). The sole exception among oil producers was Equatorial Guinea, which missed the inflation criterion. In contrast, the Central African Republic—experiencing the after-effects of the internal conflict and having not benefited from the oil boom—missed three out of four criteria, including the criterion on fiscal arrears.

II. Main Regional Policy Issues and Report on the Discussions

10. **All CEMAC members have regional integration as a key policy goal, but their implementation of the relevant policies remains slow.** The discussions covered the obstacles to further integration and the authorities' efforts to overcome them. Three broad areas emerged, including (i) establishing a regional framework for the design and implementation of appropriate macroeconomic policies, (ii) creating an enabling environment for market development, and (iii) improving regional institutions and the integration process.

A. Supporting and Implementing an Appropriate Macroeconomic Framework

Monetary policy

11. **The BEAC formulates common monetary policy targets, but implementation remains constrained by a lack of instruments and shallow financial markets.** The fixed

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[1] The convergence criteria are for the basic fiscal balance (non-negative), consumer price inflation (not higher than 3 percent), level of public debt (less than 70 percent of GDP) and net change in government arrears (non-positive).

exchange rate regime provides the ultimate anchor for monetary policy in the region. However, given the remaining capital controls, the authorities have formulated a regional reserve money program as a guide to assessing liquidity. As in previous years, the BEAC had difficulty adhering to the common program in 2004, because it could neither adequately forecast nor control balance of payments flows and statutory advances to member governments.[2] Among the few tools it uses to absorb liquidity, the BEAC imposes reserve requirements on commercial banks that in recent years have been set at differentiated levels across member countries to account for varying levels of excess liquidity. In addition, the BEAC offers, at its discretion, remunerated short-term deposits to commercial banks to sterilize liquidity. In practice, liquidity growth in 2004 has also been limited as a result of the rising government deposits with the BEAC.

12. **The lack of monetary instruments could compromise the BEAC's ability to achieve price stability, its primary goal.** The long-delayed abolition of statutory advances and their replacement with treasury bills would have helped the BEAC to gain greater control over its balance sheet. Treasury bills could also have served as an instrument for open market operations. In spite of the BEAC's successful preparatory work, the introduction of treasury bills has been delayed because member countries have been concerned about borrowing costs and technical constraints. In the absence of longer-term instruments, short-term deposits with the BEAC are insufficient to sterilize the high level of banks' free liquidity.

13. **The authorities acknowledged that they face challenges in implementing monetary policy but noted their overall success in liquidity management.** They felt, in particular, that the use of differentiated reserve requirements—a pragmatic step given the very limited integration of money markets—had been effective in sterilizing liquidity where the problem was most acute. They also felt that short-term deposits with the central bank were effective tools for steering liquidity, but acknowledged that the lack of tradability of these instruments made them less desirable to banks than central bank bills. Finally, they indicated that CEMAC convergence criteria provided assurance that the high level of liquid government deposits would not translate into short-term liquidity injections. The mission cautioned that, given past experiences with fiscal slippages, government deposits remain a source of potential liquidity.

14. **Looking forward, the monetary policy framework will need to adapt to greater market integration and, possibly, more volatile capital flows.** A successful implementation of financial sector reforms as well as the ongoing reform of the regional payments system should increase financial market integration in the zone. Over time, even in the absence of full capital account liberalization, there is likely to be an increase in capital flows as banks continue to increase their exposures abroad, and the regional capital market develops. The authorities agreed that, as a result, the BEAC's operating environment would

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[2] Member governments are entitled to statutory advances from the BEAC up to 20 percent of the previous year's budgetary receipts.

become more complex and would require the introduction of market-based instruments to allow the central bank to more directly influence interest rates in the zone. In the short term, given member states' decision to delay the introduction of treasury bills, the BEAC agreed to review the mission's suggestion of issuing tradable central bank bills, at least as an interim solution, subject to the need to maintain its overall profitability. The authorities also indicated that the central bank was already putting in place supporting measures—such as strengthening its macroeconomic forecasting unit—to be better prepared to cope with the changes in its operating environment.

Fiscal policies and oil-related inflows

15. **Fiscal policies remain under the control of member countries, but fiscal convergence in support of the monetary union is a key concern of the CEMAC.** In the past, the effectiveness of CEMAC surveillance has been questioned, given its focus on the "basic fiscal balance," which does not take structural and long-term considerations into account.[3] Given the legal complications that would arise if the convergence criteria were changed, the formal requirement remains the basic balance.[4] Yet, in response to earlier discussions of this issue, CEMAC broadened the implementation of its fiscal surveillance. Now the CEMAC also monitors structural balances and "permanent income" out of oil wealth, and brings its concerns to the member countries' attention even if there is no violation of the formal convergence criterion. The mission welcomed the CEMAC's new approach and suggested to keep track of the structural changes in member countries' economies and be prepared to consider further refinements in assessing underlying fiscal balances if necessary. For reasons of transparency the mission also recommended that these additional considerations, even if they cannot legally substitute for the formal convergence criterion, should be set out in a transparent manner, possibly in the form of supplementary criteria.

16. **Discussion of current fiscal challenges centered on the impact of the recent increases in oil output and oil-related receipts on optimal fiscal spending patterns.** Fiscal policies in 2004 remained conservative, with much of the oil windfall saved in the form of higher net government deposits with the central bank. The mission welcomed this initial response in the face of uncertainty about the duration of the oil price increase. With oil prices now forecast to remain high, there is likely to be a permanent element that could justify some cautious increase in fiscal spending. The mission and the regional authorities

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[3] The basic fiscal balance is defined in the CEMAC as the overall balance minus grants and foreign-financed investment. The basic structural fiscal balance is defined in the same way but uses the average oil revenue of the last five years instead of current oil revenues.

[4] The macroeconomic convergence criteria are set out in the treaty establishing the economic and monetary union. Changes would require consent of the Conference of Heads of State and of the French Government, as France is a party to the agreement.

agreed that any additional spending would need to be reviewed on a country-by-country basis and in all cases take into account longer-term fiscal and debt sustainability. The mission also noted the limited absorptive capacity of some CEMAC countries that could hinder the design of additional government spending.

17. **With rising oil output and incomes, CEMAC members also need to decide on ways to safeguard the oil wealth for future generations.** At present, most of the member countries' oil income is subject to the BEAC's repatriation requirement. As a result, oil-related inflows have been reflected in increases in the BEAC's international reserves and, as a counterpart, CFA franc-denominated liquid deposits of member countries at the central bank. Several member countries have raised concerns with the central bank and regional institutions that these arrangements are not appropriate for oil-exporting countries. They point to the need to save the oil receipts in the form of alternative long-term assets, which would provide higher returns to share with future generations. They also raised concerns that the present arrangement limits individual countries to holding a CFA franc-denominated asset with a low rate of remuneration, whereas the higher returns on the foreign exchange asset accrue to the region as a whole in the form of BEAC profit distribution.

18. **The BEAC noted the advantages of the present system for increasing the transparency of oil-related incomes.** Central bank officials argued that channeling all foreign exchange inflows through the BEAC, will allow a full accounting of, and full accountability for, oil income. In addition, the BEAC noted that reserve pooling was a key feature of the monetary union and that the implied element of solidarity had served member countries well in the past and should not be abandoned lightly. Nevertheless, central bank officials acknowledged member countries' concerns and they indicated their willingness to review a range of options. They also noted that arrangements for investing oil receipts, which they are currently finalizing with individual countries would be available to all members.

19. **The mission welcomed the BEAC's openness to establishing for each oil-producing member an oil stabilization fund and a fund for future generations.** Country-owned funds administered by the BEAC could preserve transparency in the management of oil revenues, while providing a better return to oil exporters. The mission noted though that the design, operation, and governance of such funds should be transparent and follow international best practice. To alleviate members' remaining unease about the BEAC's role in investment of oil related reserve inflows, the mission recommended that the BEAC discuss the matter openly with the ministries of finance in the zone, and disseminate any bilateral agreements to all interested member governments. Finally, given the constraints of the exchange rate regime, any change in the share of exports receipts accruing to the common pool would need to be cognizant of the implications for the level of reserves (see also below).

Exchange rates and international reserves

20. **The exchange rate of the CFA franc along with the euro has appreciated against the U.S. dollar.** The authorities stressed the importance of the current exchange rate regime as a broad policy framework. They felt that the regional institutions and the CEMAC

economies were sufficiently flexible to minimize any adverse real effects that could be implied by changes in the euro/U.S. dollar exchange rate. The mission stressed the continuous need for appropriate macroeconomic and structural policies to be consistent with the exchange rate regime. In that context, the mission noted that technical work by the staff, using a traditional model, suggested that the real exchange rate might be slightly above its long-term equilibrium value (Box 1). The mission recognized, however, that other aspects may need to be considered in modeling the equilibrium exchange rate, including properly accounting for the structural change in the region's economies as a result of oil output.[5] While agreeing with the need to ensure the sustainability of the exchange rate regime, the authorities felt that competitiveness needed to be discussed in a broader structural context. The mission agreed that measures to enhance factor productivity and improve the business environment were of key importance in that respect (see paragraph 30).

21. **The mission discussed with the authorities the reserve implications of the recent oil price increases and forward-looking criteria on optimal levels of reserves.** In their discussions, the mission and the authorities agreed that the level of international reserves in the CEMAC region needed to be evaluated in the context of the fixed exchange rate regime and the convertibility guarantee. Foreign exchange reserves, which have increased with the recent oil price increases, have reached the equivalent of US$3.2 billion, a 10-year high. The coverage of reserve money reached 75 percent, far exceeding the 20 percent coverage ratio mandated in the CFA franc agreement with France. Notwithstanding these positive developments, commonly used measures of reserve adequacy do not seem to indicate, at this stage, excessive levels (Box 2).

22. **Looking forward, the current reserve levels may need to be maintained or even augmented in the future.** The main arguments for a somewhat higher level of reserves are related to the CEMAC's production and export structure, which makes reserve holdings highly sensitive to oil price changes. In this regard, the mission noted that financial markets might view the current level of reserves as a benchmark, given that it reached, for the first time, the same levels as those of other fixed exchange rate regimes and monetary unions, which traditionally had higher levels of foreign exchange reserves (Box 2). In this context,

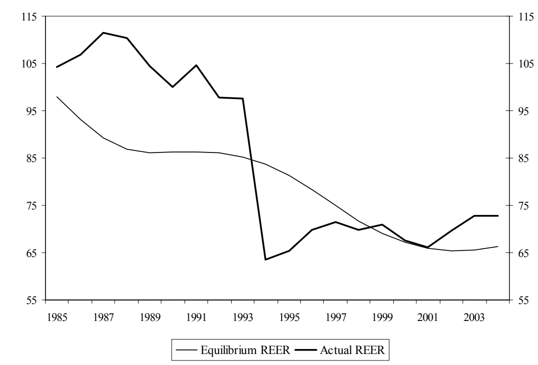
[5] While the model used by staff reflects oil price increases through the terms of trade variable, and oil output through productivity, alternative models could account for oil prices and output more directly.

Box 1. Actual and Long-Run Real Equilibrium Effective Exchange Rates in the CEMAC Region

We analyze the relationship between the CEMAC real effective exchange rate (REER) and its long-run equilibrium level by applying the fundamental equilibrium exchange rate (FEER) approach based on the Edwards (1989) model and the Johansen (1995) cointegration methodology.[1] As one of several possible approaches to review equilibrium exchange rates, this approach assesses whether a movement of the REER represents a misalignment, or whether the equilibrium exchange rate itself has shifted as a result of changes in a country's economic fundamentals. While the results show indications of a possible misalignment of the CFA franc in the CEMAC area, they are not statistically significant at the 95 percent level.

We test for the existence of a cointegrating (long-run) relationship between the real exchange rate and terms of trade *(TOT)*, the ratio of government consumption to GDP *(CGR)*, the ratio of investment to GDP *(INV)*, the rate of technological progress *(PROD)*, and capital inflows *(BFDIR)*. Terms of trade, technological progress, and capital inflows are expected to have a positive (appreciating) effect on the REER as an increase in any of these variables induces an increase in the relative price of non tradable goods. Investment is expected to have a negative (depreciating) effect on the REER as a rise in the ratio of investment to GDP is likely to shift spending toward traded goods, thus raising their relative price. Finally, in the absence of a breakdown of the ratio of government consumption to GDP into tradable and nontradable goods, the expected sign of government consumption is ambiguous.

Figure 1. CEMAC: Actual and Equilibrium Real Exchange Rates
Index 1990=100



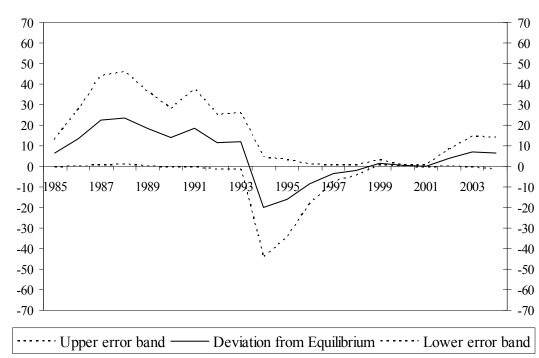
The data consist of annual observations for the period 1970–2004. The cointegration equation presented below (with t-statistics in brackets) shows the long-run relationship between the REER and the fundamentals.

$$\ln(\text{REER}) = \underset{[2.44]}{2.71} + \underset{[7.78]}{2.21} \times \ln(\text{TOT}) - \underset{[-1.62]}{0.44} \times \ln(\text{CGR}) - \underset{[-6.11]}{2.71} \times \ln(\text{INV}) + \underset{[8.63]}{1.67} \times \ln(\text{PROD}) + \underset{[1.97]}{0.06} \times (\text{BFDIR})$$

Using the estimated coefficients and the long-term trend component of the fundamentals, the long run equilibrium exchange rate series (Figure 1) was generated.

The results show that the REER in the CEMAC region was overvalued from 1985 to 1994, validating the 1994 devaluation. Since 1994, the gap between the actual REER and its equilibrium level continuously narrowed, with the REER reaching its equilibrium level at end-2001. The appreciating trend of the REER kept it above its subsequent equilibrium level for the rest of the period of analysis possibly implying a misalignment in the last three years. However, this misalignment is not statistically significant from zero as the 95 percent error bands around the deviations from equilibrium include zero (Figure 2). While the results of the analysis herein must be interpreted with considerable caution (given data limitations and other statistical issues), they seem to be broadly consistent with the picture that emerges from other indicators.

Figure 2. CEMAC: Deviations from the Equilibrium



[1] The Selected Issues Paper includes a detailed description of the econometric analysis.

Box 2. Reserve Adequacy in the CEMAC Region

CEMAC's reserves are now at their highest since the 1994 devaluation, but proposed changes in accounting for oil export receipts might have implications for reserve levels. This box presents criteria in evaluating reserve adequacy.

Current institutional arrangement and proposed changes: CEMAC is part of the CFA franc zone. The CFA franc, which is pegged to the euro, is issued by the BEAC, the common central bank, which also holds member countries' pooled reserves. The full convertibility of the CFA is guaranteed by the French Treasury. As a counterpart to this guarantee, the BEAC is required to keep at least 65 percent of its foreign assets in the operations account with the French Treasury and to maintain a foreign exchange cover of at least 20 percent of its sight liabilities. Since 1994, the currency cover ratio has remained well above the limit of 20 percent, and there have been only two instances when the operations account represented less than 65 percent of foreign assets. The proposed saving of some oil receipts in member-owned funds for future generations would reduce the pool of common reserves. These funds would, instead, be owned by countries, and invested according to longer –term considerations.

Table 1. Reserve Adequacy Indicators as of end-2004
(In percent, unless otherwise indicated)

Gross reserves as a percent of:	GDP	M2	Imports 1/	Short-term debt 2/
Cameroon	5.3	25.9	2.3	89.6
Central African Rep.	10.1	58.8	5.8	162.1
Chad	6.1	67.2	2.2	645.9
Congo, Rep. of	0.6	3.2	0.1	7.7
Equatorial Guinea	19.0	215.5	2.8	538.2
Gabon	5.7	30.2	2.0	88.7
CEMAC	*8.0*	*52.1*	*2.5*	*165.9*
WAEMU	*16.3*	*63.6*	*6.6*	*564.8*
ECCU	*19.2*	*19.4*	*2.9*	*200.0*

Sources: IMF WEO, April 2005, and staff calculations.

1/ In months of following year's imports of goods and services
2/ On a remaining maturity basis.

Static measures of reserve adequacy: The CEMAC's ratio of reserves to imports has increased but remains below a benchmark of three months. Reserves as a share of short-term debt are comfortable. While reserve pooling is a key feature of the CFA arrangement, the BEAC continues to attempt to meet the reserve cover targets for individual countries, implying a need for higher reserves than aggregate requirements would indicate. Compared to other currency unions, the CEMAC region has lower values for most standard reserve adequacy indicators, except the ratio of reserves to broad money. The latter, however, reflects a lower level of broad money because of the region's lower financial development (Table 1).

Table 2. CEMAC: Projected Reserve Adequacy Indicators, 2005
(In percent, unless otherwise indicated)

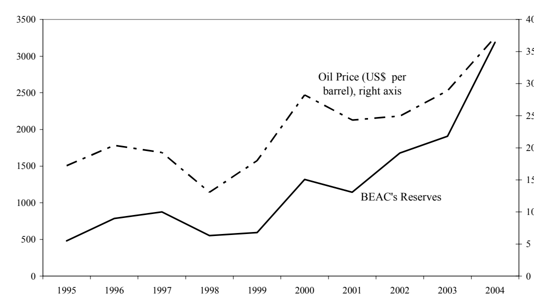
Gross reserves as a percent of:	Imports	Short-term debt
Current WEO Oil price (US$46.5 pb)	3.3	229.7
WEO price + 1 standard deviation	5.1	416.5
WEO price - 1 standard deviation	1.5	123.5

Sources: IMF WEO, April 2005, and staff calculations.

1/ Ten year standard deviation = US$7

Dynamic considerations: Five of the six CEMAC member countries are oil exporters. Oil price fluctuations and the oil production cycle in each country represent major sources of macroeconomic and reserve volatility (Figure 1). Large interest payments on debt, (oil sector) FDI-related income payments and (oil sector) FDI-related imports, and FDI in the oil sector are the main determinants of balance of payments flows. Reserve flows have therefore been closely linked to oil price movements (Figure 2). Volatility could represent an important risk, especially in the context of a fixed exchange rate regime. For example, in the absence of any other adjustment, a US$7 change in the oil price (representing its 10-year standard deviation) would imply a fall (increase) in reserve assets of US$2.33 billion, implying a significant deterioration (improvement) in reserve adequacy indicators (Table 2).

Figure 1. CEMAC: Evolution of Reserves, 1995-2005
(in millions of U.S. dollars)



Source: WEO and IMF staff calculations.

the mission felt that the French guarantee—while never in question—was more of a safety net in an unlikely crisis situation but could play less of a role in day-to-day perceptions of reserve adequacy.

23. **The mission noted that in establishing oil-related "funds for future generations," the BEAC needs to be mindful of how these funds could affect regional reserve adequacy.** Foreign assets held in such funds would not constitute monetary reserves. They are to be invested in longer-term assets that are not generally considered adequate for reserve management. In addition, such funds—while maintained and managed by the BEAC—will be owned by member countries. They will, hence, need to be taken off the BEAC's balance sheet and cannot be considered part of international reserves. Given that present levels of reserves do not appear excessive, the establishment of funds for future generations may need to focus on forthcoming receipts, and exclude reserves already with the BEAC. In addition, given the predominance of oil receipts in total exports, the mission agreed that the common reserve pool will need to receive some share of oil export receipts to ensure the sustainability of the monetary arrangement.

B. Creating an Enabling Environment for Market Development

Financial sector soundness and financial sector development

24. **Despite a strengthening of prudential regulations in recent years, concerns about the health of the banking sector remain** (Tables 14 to 18)**.** The mission noted the importance of raising capital adequacy levels, especially of the bottom third of institutions that do not yet comply with minimum requirements, and reinforcing efforts to reduce nonperforming loans, which rose slightly to 14.6 percent in 2004 (Table 16). The authorities agreed with this assessment but indicated that the implementation of some prudential requirements—especially the requirement on risk diversification, which more than half of the institutions have missed—is hampered by the economic structure of the member countries.

25. **The banking sector in the CEMAC plays a limited role in the economy, even compared to other countries in the region.** In 2004, loans to the private sector stood at only 7 percent of the region's GDP, notwithstanding a sharp reduction in net credit to the government and relatively strong private sector growth.[6] Formal financial services are available only to a small segment of the population, with about 3 percent of the population having accounts with commercial banks. In that regard, staff observed that the region-wide minimum saving deposit interest rate of 5 percent was an important obstacle as it increased banks' costs of funds and in practice limited financial deepening. The authorities shared the mission's concerns about the private sector's access to credit, but noted that credit was

[6] Private sector lending to regional non-oil GDP in 2004 amounted to only 11 percent in 2004, which is low even for countries in the region (the average outstanding stock of bank loans to GDP was equivalent to 15 percent for sub-Saharan Africa).

expected to increase following several ongoing reforms (for example, the clarification of the legal status of mortgages, and the COBAC's efforts to familiarize banks with syndication as a tool of risk diversification). On deposit rates, they noted that minimum deposit rates were needed for consumer protection and could be removed only after competition in the banking sector had increased.

26. **Regional financial markets remain shallow and highly segmented** (Table 17). The volume traded on the regional money market (3 percent of broad money in 2004) is negligible, partly because banks in five member countries have excess liquidity. The low volume also reflects the lack of suitable technical payments system infrastructure between countries. Finally, banks have limited information to judge the creditworthiness of potential borrowers. On the payments system, BEAC and COBAC representatives noted progress toward a regional payments platform, which is expected to be operational by 2006. The authorities reaffirmed their commitment to promoting capital market development and to opening a regional stock exchange in Libreville. While acknowledging the importance of a regional stock market, the staff underscored the need to avoid duplication with the already existing stock exchange in Cameroon.

Trade and economic integration

27. **Trade restrictions and an uneven application of CEMAC rules constrain external and intraregional trade.** Obstacles to trade include the relatively high effective level of the common external tariff (CET) with four rates (5, 10, 20, and 30 percent). In addition, individual countries continue to impose ad hoc fees, and other administrative requirements. Intraregional trade also suffers from a lack of complementarities in CEMAC countries' output structure, the absence of harmonized tax structures including for the value-added tax (VAT), and, at times, the imposition of tariffs on intraregional trade in violation of the common market agreement. In addition, nontariff barriers—for example state-run monopolies, lengthy and complicated customs procedures, and extensive physical inspection of goods—also pose major obstacles to larger trade integration.

28. **CEMAC officials pointed to their repeated efforts to increase member states' compliance with common rules.** They agreed, in particular, with concerns about the violation of agreed free trade between the members, but noted that the limited institutional capacity at the central level made it difficult to enforce controls over the regime. Significant improvements in compliance will therefore require a renewed political commitment to abide by the agreed trading rules. CEMAC officials also noted that several member countries maintained internal tariffs for fiscal reasons. Consequently, finding an alternative financing source for the government was a priority.

Further trade growth should be supported by broader changes in the economic environment. In view of the weak impact that past structural reforms and the region's tariff policy have had on trade, the mission reiterated the importance of adopting measures to promote export diversification, reduce production costs, attract foreign direct investment (FDI), and improve the business environment. The mission also stressed the importance of ongoing negotiations to gain access to foreign markets, in particular the prospects of negotiating partnership agreements with the European Union (Box 3)[7] and the eligibility of member states for the U.S. African Growth and Opportunity Act (AGOA) initiative.

Box 3. CEMAC: Economic Partnership Agreement with the European Union and Regional Integration

The recently initiated negotiations on an Economic Partnership Agreement (EPA) with the European Union (EU) set out measures that will—if implemented in a manner consistent with global trade liberalization—benefit both regional integration and support overall trade growth.[1] A detailed plan for the negotiations was signed in July 2004. While the negotiations themselves are only expected to finish by 2007, background studies on the measures needed to deepen the regional integration process and strengthen competitiveness have already begun.[2] Key areas to be addressed prior to establishing the proposed free trade area include the following:

1. Tariff policy
- Eliminate the distortions in implementation of the Common External Tariff (CET).
- Assess the extent of double taxation problems attributable to the customs warehouse regime.
- Verify the coherence of national investment codes with the regional investment charter.
- Measure the impact of exemptions on member states' revenue.
- Harmonize VAT implementation.

2. World Trade Organization customs valuation and rules of origin
- Strengthen capacity of national customs administration.
- Ensure arbitration of differences in implementation of transaction value.
- Strengthen rules of origin by looking into a new definition.

3. Trade and transit facilitation
- Promote and accelerate the integrated road program.
- Rehabilitation of port infrastructures.
- Implement interconnection among customs administrations.
- Limit the number of documents needed at customs (implementation of the Unique Administrative Document already adopted by the CEMAC).
- Provide the CEMAC with an efficient system to transport merchandises to landlocked countries and reduce delays and costs along the transit corridors.
- Harmonize reglementation related to the freight weight for trucks.

4. Competitiveness
- Undertake studies of the business environment, with a focus on sound macroeconomic frameworks and on the capacity of national administrations to promote investment.
- For infrastructures and trade services, reduce factor costs such as transport, water, electricity, and telecommunications through reforms of development policies, and strengthen public-private partnerships.
- Encourage professional training and diversification of the financial sector with a view to increasing investment financing.
- Assist enterprises in their restructuring and upgrading efforts through technical assistance, access to financing, and an appropriate regulatory framework.
- Establish competitiveness observatories to follow up on sectorial and macro competitiveness, in particular regarding the development of agricultural and industrial production, increases in market shares, improvements of competitiveness gains, and creating employment opportunities.

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[1] The 2003 Cotonou Agreement between the European Union and the ACP countries recognized the limited success of the preferential market access approach of the Lomé Conventions and replaced it with a more integrated cooperation framework, to be made operational through the signature of EPAs. This aims at establishing a free trade zone between the CEMAC and the EU for 12 years starting in 2008.
[2] These studies are financed by the European Development Fund (FED).

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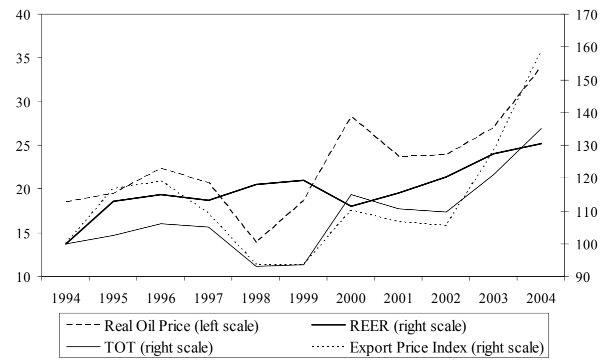
[7] These discussions also include São Tomé and Príncipe, with which the CEMAC signed a free-trade agreement in December 2004.

Competitiveness

29. **With the predominance of oil exports, competitiveness in the CEMAC is difficult to assess.** Based on the real effective exchange rate, competitiveness in 2004 largely remained constant, after having deteriorated over the previous three years. As for longer-run developments, the competitiveness gains achieved with the 1994 CFA franc devaluation seem to have been largely preserved. Constant or improving profitability has also been supported by improving terms of trade and export prices. However, most of the improvements in export profitability have resulted from oil-price and output changes (Figures 7 and 8) while there are indications that the profitability of the non-oil sector has recently declined.[8]

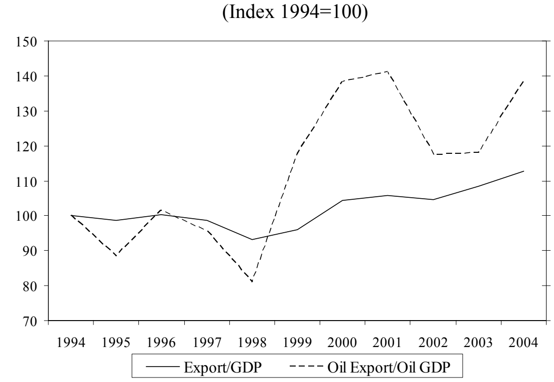
Figure 7. CEMAC: Terms of Trade, Oil Prices and Exchange Rates (Index 1994=100)



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

30. **The authorities indicated that recent changes in the exchange rate with respect to the U.S. dollar have had limited impact on exports.** Oil and other commodity export prices, such as diamonds, timber and coffee, are invoiced in U.S. dollars and producers' profits tend to be affected more by commodity price swings than by nominal exchange rate changes. In addition, among nontraditional exports and imports, exchange rates play a limited role as trade with the euro zone predominates. In pointing to possible competition from third countries with more flexible exchange rates, the mission noted that the prospects for a continuing appreciation of the CFA franc could have the potential of weakening competitiveness in the future and of discouraging efforts at export diversification.

Figure 8. CEMAC: Profitability Indicators (Index 1994=100)



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

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[8] For a more in-depth discussion, see the accompanying selected issues paper on "Competitiveness in the CEMAC Area."

31. **The mission and the authorities discussed the elements of a broader agenda to improve competitiveness.** The mission argued that, given the constraints of the exchange rate regime, it is critical to move rapidly with structural reform policies to boost labor productivity and diversify the base of production and exports. However, the mission and the authorities agreed that the exchange rate was but one element in ensuring competitiveness and that the implementation of key elements of the broader regional integration strategy—creating access to new technologies and improving road infrastructure, telecommunications, and energy—would also help to strengthen the region's position.[9] Finally, the creation of conditions that will attract additional domestic and foreign private investment, especially in the non-oil sector, could contribute to the development of a competitive economic base.

C. Improving Regional Institutions and the Integration Process

Effectiveness of regional surveillance and regional institutions

32. **The CEMAC has increased its efforts to discuss policy issues with member countries.** The mission noted the importance of the regional surveillance process and of the improvements achieved over the past year. Most important, the CEMAC's surveillance now seems to be better established, and coordination of CEMAC and IMF surveillance on individual member states is advanced. While welcoming the progress made, the mission emphasized the need to further strengthen the regional surveillance process, notably by raising awareness of the importance of regional consistency in setting policies at the national level, and by introducing incentives and sanctions to encourage compliance with the convergence criteria and region-wide regulations.

33. **The quality and financial sustainability of regional institutions continues to be uneven.** The BEAC, the regional central bank, is well-established and recognized for its contributions. Representatives of other institutions, however, pointed out that working conditions in some institutions remain constrained by shortages of qualified staff, as well as by non-payment by member states of agreed contributions. For example, the COBAC continues to suffer from an insufficient number of qualified supervisors. The different CEMAC institutions are meant to be financed through a surcharge on external import tariffs, but most members do not yet fully participate in its financing.[10] In addition to the lack of

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[9] The mission noted the need to improve data on complementary indicators such as FDI flows/unit labor costs, and indices of other production costs (for example, transportation, energy, and telecommunications costs), and the evolution of market shares in the main export markets.

[10] To strengthen the CEMAC and provide resources for regional investment projects, member states agreed in 2002 to put in place a regional integration tax equivalent to 1 percent of the region's imports. Although member countries have started collecting the tax, the accrued revenues have not yet been fully transferred to the CEMAC's accounts.

resources, the failure to implement agreed procedures complicates these institutions' ability to engage in medium-term planning. Finally, the mission noted that the financing of the regional institutions other than the BEAC and the COBAC, all of which relied mostly on surcharges over import tariffs, might need to be reviewed in the context of ongoing trade liberalization.

34. **The mission took note of the recent efforts to integrate the CEMAC into the ECCAS**.[11] The authorities explained that efforts to widen integration beyond the CEMAC needed to be seen in the larger context of member states' desire to follow the African Union integration process. The mission encouraged the authorities to remain mindful of a potential duplication of tasks and of possible inconsistencies in the application of ECCAS and CEMAC regulations.

Legal, tax, and institutional harmonization

35. **The strengthening and harmonization of the legal and institutional framework in the region remains an integral part of the integration process.** In 2004, the council of ministers of the CEMAC adopted relevant initiatives in the areas of transportation, statistics, fiscal, and funding for regional institutions. However, many of the regional policies could not be implemented because the member countries lacked the political will or because the CEMAC lacked the financial resources. Notwithstanding these setbacks, the authorities reaffirmed their intention to continue with legal and procedural harmonization. In 2005, regional policy initiatives will focus on streamlining investment codes in member countries, adopting a single administration document and thus limiting the number of customs forms for traded goods and services in the zone, eliminating double taxation of goods in member countries, and applying region-wide laws.

Fund surveillance

36. **The authorities welcomed the proposed formalization of IMF surveillance over monetary unions and the recent agreement on a regional FSAP.**[12] They expressed a desire to link future Fund surveillance activities more closely with the CEMAC review of member countries' policies, including through overlapping missions. They also indicated that a regional FSAP would be an appropriate vehicle for reviewing the current challenges to financial stability and financial sector development.

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[11] The ECCAS (Economic Community of Central African States) includes the CEMAC member states as well as Angola, Burundi, the Democratic Republic of the Congo, Rwanda and São Tomé and Princípe.

[12] A Board Paper proposing formalization of regional consultations in the context of Article IV consultations with member countries is under preparation.

37. **In the context of improving regional surveillance the mission also noted the need to make progress on outstanding statistical issues.** The data most in need of improvement are price and trade statistics. The authorities noted that the BEAC is working with national statistical agencies to update and harmonize the collection and coverage of consumer price indices in the region. Given the weak data on intraregional trade, the CEMAC is working with the authorities of member countries to strengthen customs agencies, which would also improve the registration of trade flows.

III. Staff Appraisal

38. **Economic developments in 2004 were dominated by increases in oil output and oil prices.** Oil-related inflows, including significant windfalls from higher than expected oil prices, contributed to a ten-year high in real growth and income, improved fiscal performance in most of the oil-exporting countries, and a significant accumulation of international reserves. At the same time the non-oil growth rate for the region weakened slightly and progress on structural reforms was uneven. Developments in the Central African Republic—a post-conflict country and the sole non-oil economy in the region differed significantly from the regional pattern.

39. **The region's management of the 2004 oil windfall has been prudent.** Given the uncertainty about oil price developments, saving most of the windfall receipts in the form of higher reserves allowed the region to achieve reserve levels more in line with the needs implied by the exchange rate regime and the underlying economic vulnerabilities, including those related to oil price fluctuations. With oil prices now expected to remain high in the medium term, there could be scope for some cautious additional spending, consistent with medium-term fiscal sustainability criteria.

40. **The proposed changes in the treatment of oil receipts must take into account the need to maintain an adequate level of reserves.** Efforts to direct some receipts into country-owned "funds for future generations" at the BEAC are a welcome and transparent way of addressing intergenerational concerns from oil exploitation, especially once the remaining technical considerations on accounting, asset composition, and remuneration have been addressed. Yet, with oil overwhelmingly dominating exports, a part of oil export receipts will need to continue to form part of the common pool of reserves.

41. **In 2004, the CEMAC region made little progress in key structural areas, especially in trade and financial market integration.** While all CEMAC members reaffirmed in principle their support for regional integration, the lack of implementation of agreed measures is a serious obstacle to moving forward with actual deepening of common markets. The differences between pronouncements and implementation could send mixed signals to markets and reduce the credibility of the political process. In this vein, ongoing efforts should be directed at increasing the effectiveness of existing institutions and agreements. Any widening of the area or integrating the CEMAC with a broader group of countries should proceed with caution. Changes to the regional integration pattern would

need to avoid inconsistencies among the policies pursued in relation to the different country groups.

42. **The regional surveillance process has improved but continues to be hampered by a lack of resources and adequate follow-up on findings.** Further changes should therefore be directed at strengthening the framework, including by introducing appropriate incentives and sanctions. The proposed formalization of IMF surveillance over monetary unions is likely to strengthen the effectiveness of the Fund's surveillance and its links with the region. Close cooperation of CEMAC institutions in the process is likely to also support the internal CEMAC surveillance process.

43. **Looking forward, the key challenge for the CEMAC will be to improve competitiveness and broaden its output base beyond oil to allow higher growth rates on a sustainable basis.** The CEMAC shares many of the growth challenges with other sub-Saharan African countries, but its task is more complex, given the exchange rate regime, the volatility of oil receipts, and the expected depletion of oil reserves in several member countries over the medium term. Efforts to insulate the real economy from the fluctuations of oil prices as well as broad-based efforts to diversify exports will be needed to foster non-oil activities as a basis for economic growth beyond the horizon of oil production. Measures proposed under the ongoing trade initiatives—if implemented in earnest—have the potential to promote important progress in this area.

CEMAC Member Countries' Relations with the Fund

I. Membership Status

Five CEMAC members joined the IMF in 1963, Equatorial Guinea joined in 1969. The region accepted Article VIII on June 1, 1996.

II. CEMAC Member Countries' Fund Relations

Cameroon: A three-year PRGF arrangement expired in December 2004; the last review completed was the fourth review in December 2003. Cameroon reached the Decision Point under the enhanced HIPC initiative in October 2000, but is currently not receiving interim debt relief assistance as the country does not have a formal program with the Fund. However, at the time of the conclusion of the last Article IV consultation (April 22, 2005), the Cameroon also requested the monitoring by Fund staff of its economic program for 2005. Cameroon is now on a 12-month consultation cycle.

Central African Republic (CAR): The country has received assistance under an economic post-conflict assistance program (EPCA), which was approved in July 2004. CAR is eligible for assistance under the enhanced HIPC initiative but has not yet reached the Decision Point. The last Article IV consultation was concluded on April 2, 2004. CAR is on a standard 12-month consultation cycle.

Chad: A three-year PRGF arrangement was approved for Chad on February 16, 2005. The previous PRGF arrangement expired in January 2004. The country reached the Decision Point under the enhanced HIPC initiative in May 2001 and is benefiting from interim debt relief assistance. The last Article IV consultation was concluded on March 19, 2004. Chad is on a 24-month consultation cycle.

Congo, Republic of: The Executive Board approved a three-year PRGF arrangement for Congo in an amount equivalent to SDR 54.99 million (about US$84.4 million) in December 2004. The country is eligible for assistance under the enhanced HIPC initiative but has not yet reached the Decision Point. The last Article IV consultation was concluded on June 6, 2004. Congo is on a 24-month consultation cycle.

Equatorial Guinea: The last financial arrangement (an ESAF) expired in 1996. Equatorial Guinea is not expected to seek Fund financial assistance over the next few years. The country is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on April 25, 2005. Equatorial Guinea is on a 12-month consultation cycle.

Gabon: The country receives support from the IMF under a 14-months stand-by arrangement, which was approved in May 2004. The third review under the arrangement was completed on March 29, 2005. Gabon is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on March 28, 2005. If the current program expires without a successor arrangement in July 2005, Gabon will revert to a 12-month Article IV consultation cycle.

III. Safeguards Assessments

A follow-up safeguards assessment of the Bank of Central African States (BEAC), which is the regional central bank, was completed on August 30, 2004. This assessment found that the BEAC has implemented a number of measures to strengthen its safeguards framework since an earlier safeguards assessment in 2001, but further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include: (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of its full financial statements, together with the auditor's report, starting with the 2003 financial statements; (iii) formulation of Board-approved formal guidelines under which the BEAC Governor is authorized to make exceptional advances to BEAC member countries; (iv) annual review by the BEAC internal audit department of the process of program data reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter for the internal audit function; and (vi) systematic follow up of all recommendations pertaining to the BEAC's system of internal controls to be coordinated by the internal audit department, with regular reporting to the Audit Committee and the BEAC Governor.

IV. Exchange System

The regional currency is the CFA franc. From 1948 to 1999 the CFA franc was pegged to the French franc. Since the introduction of the euro in 1999 the CFA franc has been pegged to the euro at the rate of CFAF 656.34 per euro. While the CEMAC accepted Article VIII status, it maintains restrictions on certain invisible transactions and certain current transfers, including limits and documentary requirements for trade and investment-related payments, payments for travel, and family maintenance.

V. Regional Consultations

Regional consultations with the CEMAC/BEAC take place on an annual basis. The Executive Board discussed the staff report for the 2003 regional consultation on November 12, 2003. During the recent consultation mission, the authorities welcomed the proposed formalization of the IMF surveillance of monetary unions, which would make the regional consultations into a formal part of the Article IV discussions with member countries.

VI. FSAP Participation and ROSCs

Two individual country FSAPs have been carried out for CEMAC members (Cameroon (2001) and Gabon (2002)). To date no regional ROSCs have been undertaken. However, a regional Financial Sector Assessment Program (FSAP) is planned to start in fall 2005.

VII. Technical Assistance to BEAC

2000–2005: Five visits by MFD expert on banking supervision.

2001–2004: Two MFD expert visits and one mission on payments system on.

2002–present: Visits by MFD foreign exchange reserve management expert

2004: MFD AMLT and CFT advisor.

2005: MFD mission on internal audit.

2001, 2004: IMF safeguards assessments.

2001: STA mission on monetary and financial statistics.

Table 1. CEMAC: Relative Size of CEMAC Economies and Importance of Oil Sector, 1999–2005

	1999	2000	2001	2002	2003	2004 Est.	2005 Proj.
Nominal GDP			(In percent of CEMAC's nominal GDP)				
Cameroon 1/	40.8	41.1	40.8	41.4	41.4	40.0	39.8
Central African Republic	4.9	4.8	4.6	4.3	3.8	3.6	3.5
Chad	7.3	7.0	7.3	7.6	8.1	9.8	10.2
Congo, Republic of	15.5	16.2	15.8	15.9	15.3	14.7	15.2
Equatorial Guinea	4.7	5.4	7.1	7.4	8.4	10.4	10.4
Gabon	26.9	25.5	24.5	23.4	23.0	21.6	20.9
Nominal oil GDP			(In percent of CEMAC's nominal GDP)				
Cameroon 1/	2.9	5.8	6.6	5.1	4.3	4.1	3.3
Chad	0.0	0.0	0.2	0.3	1.1	4.6	5.6
Congo, Republic of	6.6	10.6	7.8	7.1	6.2	5.4	6.9
Equatorial Guinea	2.9	4.3	6.6	7.2	9.2	12.0	10.1
Gabon	9.4	12.4	9.7	9.1	8.5	8.6	8.3
CEMAC	21.7	33.1	30.9	28.8	29.3	34.7	34.2
Nominal oil GDP			(In percent of country's total nominal GDP)				
Cameroon 1/	6.3	14.0	15.6	11.8	10.1	10.2	8.3
Chad	0.2	0.5	2.0	3.9	12.3	39.3	43.2
Congo, Republic of	53.4	65.5	56.7	53.6	50.0	48.5	54.6
Equatorial Guinea	73.1	80.5	85.3	85.5	87.5	89.7	87.0
Gabon	38.5	48.7	42.1	41.8	40.8	42.9	42.4
CEMAC	21.7	33.1	30.9	28.8	29.3	34.7	34.2
Oil exports			(In percent of value of country's total goods exports)				
Cameroon 1/	31.4	46.6	49.2	43.8	40.2	40.0	37.9
Chad	0.0	0.0	0.0	0.0	48.8	85.9	87.4
Congo, Republic of	91.8	93.7	89.0	87.7	83.1	96.5	85.4
Equatorial Guinea	70.7	107.2	99.0	91.8	81.5	89.8	92.8
Gabon	75.1	80.8	80.2	79.2	79.6	80.9	78.6
CEMAC	64.4	76.9	75.0	73.9	71.2	79.9	78.7
Fiscal oil revenue			(In percent of value of country's fiscal revenue)				
Cameroon 1/	38.8	22.6	30.4	31.5	24.5	25.0	19.5
Chad	0.0	0.0	0.0	0.0	5.5	32.0	47.2
Congo, Republic of	71.7	77.4	68.6	69.5	69.8	73.2	79.9
Equatorial Guinea	72.1	81.9	82.2	81.6	82.8	68.3	156.9
Gabon	45.3	67.5	64.1	56.0	54.4	53.4	62.1
CEMAC	45.6	51.9	52.9	49.9	47.2	49.5	64.8

Sources: IMF, World Economic Outlook database, September 2004; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001 (hence for 2001, data cover July 2000-June 2001) and calendar year starting in 2002.

Table 2. CEMAC: Selected Economic and Financial Indicators, 1999-2005

	1999	2000	2001	2002	2003	2004 Est.	2005 Proj.
	(Annual percentage change)						
National income and prices							
GDP at current prices	7.8	20.4	5.1	6.6	6.0	14.5	6.3
GDP at constant prices	-0.4	3.4	6.2	4.9	4.5	8.3	5.2
Oil GDP 1/	-0.5	-0.5	5.9	1.6	6.9	21.5	6.1
Non-oil GDP 1/	-0.3	4.9	6.2	6.2	3.6	3.2	4.7
Consumer prices (average)	1.2	1.2	3.6	4.3	1.9	1.7	2.6
Terms of trade	17.1	22.9	-3.8	-1.1	10.6	11.5	6.3
Nominal effective exchange rate	0.2	-6.2	2.4	3.0	5.7	1.6	...
Real effective exchange rate	1.0	-6.7	3.7	4.3	6.2	2.7	...
	(Annual changes in percent of beginning-of-period broad money)						
Money and credit							
Net foreign assets	4.5	38.4	-11.3	10.3	-1.4	26.4	...
Net domestic assets	4.8	-15.4	18.6	4.2	3.1	-16.1	...
Broad money	9.3	23.0	7.2	14.4	1.7	10.3	...
	(In percent of GDP, unless otherwise indicated)						
National accounts							
Gross domestic savings	20.9	33.2	34.9	33.1	36.4	36.6	39.1
Gross domestic investment	21.8	21.0	26.7	28.1	25.0	23.5	23.1
Government financial operations							
Total revenue, excluding grants	19.2	22.7	22.9	21.6	21.6	22.2	21.9
Government expenditure	22.6	19.7	22.5	22.2	20.3	19.1	18.4
Primary basic fiscal balance 2/	6.0	10.5	9.0	5.8	7.6	8.4	8.7
Basic fiscal balance 3/	0.3	5.9	4.1	2.3	3.9	5.6	6.2
Overall fiscal balance, excluding grants	-3.4	3.0	0.4	-0.6	1.3	3.1	3.5
Non-oil overall fiscal balance, excluding grants 4/	-15.5	-13.2	-17.0	-16.0	-12.6	-12.1	-16.2
Overall fiscal balance, including grants	-2.8	3.3	0.8	-0.3	1.7	3.3	3.7
External sector							
Exports of goods and nonfactor services	41.0	52.5	48.2	45.5	44.6	52.3	50.9
Imports of goods and nonfactor services	37.5	36.6	40.3	43.1	37.0	39.4	37.4
Balance on goods and nonfactor services	3.5	15.9	7.9	2.4	7.5	12.9	13.5
Current account, including grants	-5.7	2.7	-6.6	-12.0	-5.4	-2.3	-1.2
External public debt	102.2	89.0	86.5	75.3	66.8	44.9	38.4
Gross official reserves (end of period, in millions of U.S. dollars)	595.2	1,318.9	1,143.3	1,678.2	1,908.3	3,188.7	...
Memorandum items:							
Nominal GDP (in billions of CFA francs)	11,774	14,175	14,894	15,871	16,830	19,271	20,485
CFA francs per U.S. dollar, average	615.7	712.0	733.0	697.0	581.2	528.3	...
Oil prices (in U.S. dollars per barrel)	18.0	28.2	24.3	25.0	28.9	37.8	46.5
Oil prices (in CFA francs per barrel)	11,071	20,103	17,835	17,390	16,793	19,947	...

Sources: IMF, World Economic Outlook database, September 2004; 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.

4/ In percent of non-oil GDP.

Table 3. CEMAC: National Accounts, 1999–2005

	1999	2000	2001	2002	2003	2004 Est.	2005 Proj.
			(Annual percentage change)				
Real GDP							
Cameroon 1/	4.4	4.2	5.3	6.5	4.5	4.6	4.7
Central African Republic	3.6	1.8	0.3	-0.6	-7.0	0.9	3.5
Chad	-1.7	-0.6	9.9	9.9	11.3	30.5	10.0
Congo, Republic of	-3.0	8.2	3.6	5.4	0.8	4.0	9.2
Equatorial Guinea	30.2	18.0	40.5	9.6	18.3	34.2	4.8
Gabon	-8.9	-1.9	2.0	0.0	2.6	1.9	1.6
CEMAC	-0.4	3.4	6.2	4.9	4.5	8.3	5.2
Nominal GDP							
Cameroon 1/	3.2	7.8	8.5	8.7	5.7	6.5	5.0
Central African Republic	5.3	7.0	3.8	2.4	-3.7	0.6	5.7
Chad	-5.6	5.4	23.2	14.0	8.5	50.7	15.4
Congo, Republic of	26.0	58.2	-10.9	2.9	-1.5	3.4	21.3
Equatorial Guinea	64.3	63.2	50.9	15.7	33.0	45.6	-7.9
Gabon	8.5	26.0	-4.7	0.0	2.0	9.1	4.7
CEMAC	7.8	20.4	5.1	6.6	6.0	14.5	6.3
Real non-oil GDP							
Cameroon 1/	4.4	4.6	5.5	7.2	4.8	4.9	5.1
Central African Republic	3.6	1.8	0.3	-0.6	-7.0	0.9	3.5
Chad	-1.8	-1.0	8.2	7.9	1.5	-9.7	2.8
Congo, Republic of	-9.3	16.6	12.1	9.7	5.3	5.0	5.1
Equatorial Guinea	25.0	12.0	7.0	9.8	8.6	12.8	9.7
Gabon	-10.5	2.1	5.3	0.6	2.4	3.5	4.0
CEMAC	-0.3	4.9	6.2	6.2	3.6	3.2	4.7
Consumer price inflation 2/							
Cameroon 1/	1.9	0.8	2.8	6.3	0.6	0.5	1.9
Central African Republic	-1.4	3.2	3.8	2.3	4.2	-2.2	2.5
Chad	-8.0	3.8	12.4	5.2	-1.8	-4.8	3.0
Congo, Republic of	3.6	0.4	0.8	3.1	1.5	2.0	2
Equatorial Guinea	6.5	6.5	7.3	5.9	7.0	8.0	8
Gabon	-0.7	0.4	2.1	0.2	2.1	1.0	2
CEMAC	1.2	1.2	3.6	4.3	1.9	1.7	2.6
			(In percent of GDP)				
Gross domestic saving							
Cameroon 1/	18.4	20.3	20.4	16.8	17.1	17.3	16.2
Central African Republic	7.1	4.7	3.9	4.3	0.1	0.1	2.7
Chad	-7.4	4.3	9.7	10.7	23.5	43.3	52.8
Congo, Republic of	41.0	57.7	53.1	50.1	47.5	43.4	45.8
Equatorial Guinea	21.0	53.9	70.4	72.3	83.8	66.2	70.3
Gabon	45.4	58.1	52.1	44.2	46.3	49.4	46.9
CEMAC 3/	20.9	33.2	34.9	33.1	36.4	36.6	39.1
Gross domestic investment							
Cameroon 1/	18.7	16.4	17.7	18.3	16.9	17.2	17.1
Central African Republic	11.7	9.5	8.4	9.0	6.0	6.8	8.6
Chad	10.4	24.5	46.1	62.9	56.4	24.9	19.0
Congo, Republic of	27.8	21.0	26.4	23.4	22.9	24.8	21.9
Equatorial Guinea	62.0	57.1	70.2	69.7	43.1	43.5	54.3
Gabon	23.9	21.8	25.8	24.4	24.0	24.2	22.7
CEMAC	21.8	21.0	26.7	28.1	25.0	23.5	23.1

Sources: IMF, World Economic Outlook database, September 2004; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001 (hence for 2001, data cover July 2000-June 2001) and calendar year starting in 2002.

2/ Annual average.

3/ In 2004, excluding Equatorial Guinea.

Table 4. CEMAC: Monetary Survey, 1999–2005

	1999 Dec.	2000 Dec.	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec.	2005 Feb.
	(In billions of CFA francs)						
Net foreign assets	193	862	619	855	818	1,523	1,589
Bank of Central African States (BEAC)	116	588	486	697	675	1,233	1,240
Foreign assets	389	930	851	1,050	991	1,536	1,543
Of which							
Operations account	252	787	680	870	814	1,306	1,313
Foreign liabilities	-273	-342	-365	-353	-316	-303	-303
Commercial banks	77	274	133	158	142	290	349
Foreign assets	236	428	246	333	274	437	456
Foreign liabilities	-159	-153	-112	-175	-132	-147	-107
Net domestic assets	1,549	1,280	1,678	1,773	1,855	1,425	1,305
Net credit to government	947	679	931	883	908	537	441
BEAC	752	619	807	752	769	417	331
Advances	395	360	570	611	631	629	648
Consolidated debt	195	174	156	135	107	83	79
Other	268	332	357	344	299	290	291
Government deposits	-106	-247	-275	-338	-269	-585	-687
Commercial banks	195	60	123	131	138	121	110
Net credit to public agencies	-54	-82	-83	-126	-104	-118	-134
Net credit to private sector	1,147	1,235	1,369	1,477	1,539	1,519	1,515
Other items, net	-491	-551	-539	-460	-487	-513	-518
Broad money	1,742	2,142	2,297	2,628	2,673	2,948	2,894
Currency outside banks	606	690	762	815	771	856	774
Bank deposits	1,135	1,452	1,535	1,813	1,902	2,092	2,120
	(Annual change in percent of beginning-of-period broad money unless otherwise indicated)						
Net foreign assets	4.5	38.4	-11.3	10.3	-1.4	26.4	2.2
Net domestic assets	4.8	-15.4	18.6	4.2	3.1	-16.1	-4.1
Credit to government	0.9	-15.4	11.7	-2.1	0.9	-1.1	-0.5
Credit to the private sector	6.2	5.0	6.3	4.7	2.4	-1.1	0.4
Other	-2.3	-5.0	0.5	1.5	-0.2	-13.9	-4.0
Broad money	9.3	23.0	7.2	14.4	1.7	10.3	8.3
Velocity (GDP/broad money)	6.8	6.6	6.5	6.0	6.3	8.0	7.6
Memorandum items:	(In percent)						
BEAC interest rates							
Repurchase rate (TIPP)	9.60	9.00	8.50	8.30	7.80	7.80	7.5
Bank refinancing rate (TIAO)	7.60	7.00	6.50	6.30	6.00	6.00	5.8
Certificate of deposit (28-day maturity)	3.21	3.66	3.66	2.76	2.01	2.01	1.8
French money market rate	3.44	4.93	3.34	2.94	2.15	2.17	2.1

Sources: BEAC; and IMF staff estimates.

Table 5. CEMAC: Summary Accounts of Central Bank, 1999–2005

	1999 Dec.	2000 Dec.	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec.	2005 Feb.
	(In billions of CFA francs)						
Net foreign assets	116	588	486	697	675	1,233	1,240
Assets 1/	389	930	851	1,050	991	1,536	1,543
Of which							
Operations account	252	787	680	870	814	1,306	1,313
Liabilities	-273	-342	-365	-353	-316	-303	-303
Net domestic assets	628	466	626	575	613	283	169
Net credit to government	752	619	807	752	769	417	331
Claims	857	866	1,082	1,090	1,038	1,002	1,018
Consolidated debt	195	174	156	135	107	83	79
Advances	395	360	570	611	631	629	648
Cameroon	135	149	220	250	257	253	247
Central African Republic	11	12	17	14	17	25	25
Chad	11	17	18	22	31	42	42
Congo, Republic of	82	82	123	137	161	161	161
Equatorial Guinea	12	8	0	0	0	0	0
Gabon	143	93	191	188	165	148	173
Other claims	268	332	357	344	299	290	291
Government deposits	-106	-247	-275	-338	-269	-585	-687
Net claims on financial institutions	32	16	16	13	13	12	9
Other items, net	-156	-169	-196	-190	-169	-147	-172
Base money	744	1,053	1,112	1,272	1,288	1,516	1,409
Currency in circulation	606	690	762	815	771	856	774
Banks' reserves 2/	126	345	331	438	493	634	605
Other institutions' reserves	11	19	19	19	25	26	30
Memorandum items:			(In percent)				
Currency cover ratio 3/	56.2	71.1	65.0	68.3	66.3	74.6	75.3
Base money/deposits	66.0	73.3	73.2	70.9	68.6	73.3	67.4

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 6. CEMAC: Summary Accounts of Commercial Banks, 1999–2005

	1999 Dec.	2000 Dec.	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec.	2005 Feb.
	(In billions of CFA francs)						
Net foreign assets	77	274	133	158	142	290	349
Assets	236	428	246	333	274	437	456
Liabilities	-159	-153	-112	-175	-132	-147	-107
Net domestic assets	953	831	1,067	1,211	1,255	1,155	1,146
Net credit to public sector	141	-22	41	4	34	3	-24
Cameroon 1/	72	51	51	-2	17	2	2
Central African Republic	-2	0	6	1	2	2	1
Chad	-22	-20	-13	-21	-13	-4	-5
Congo, Republic of	-5	-30	3	9	2	12	-10
Equatorial Guinea	-10	-5	-25	-47	-32	-30	-36
Gabon	109	-19	17	64	58	23	25
Claims	338	304	288	308	284	290	275
Liabilities	197	326	248	304	250	287	299
Credit to the economy	1,147	1,235	1,369	1,477	1,539	1,519	1,515
Cameroon 1/	541	638	696	772	845	847	846
Central African Republic	43	39	42	49	49	56	54
Chad	49	54	65	79	98	93	96
Congo, Republic of	173	120	109	66	82	85	85
Equatorial Guinea	21	27	37	54	52	63	61
Gabon	319	357	419	456	413	375	376
Other items, net	-336	-382	-343	-270	-318	-367	-346
Net refinancing from central bank	-98	-333	-318	-425	-480	-621	-595
Borrowing	29	11	12	13	13	12	9
Cameroon 1/	2	1	0	0	0	0	0
Central African Republic	5	3	2	3	2	4	2
Chad	4	1	5	2	10	8	7
Congo, Republic of	6	6	2	0	1	0	0
Equatorial Guinea	0	0	0	0	0	0	0
Gabon	12	0	3	8	0	0	0
Reserves	126	345	331	438	493	634	605
Cameroon 1/	63	142	201	301	260	325	302
Central African Republic	1	1	1	2	2	2	2
Chad	10	10	13	29	20	30	26
Congo, Republic of	13	106	30	29	37	52	58
Equatorial Guinea	5	10	29	23	84	105	69
Gabon	35	76	56	54	89	119	148
Deposits	1,127	1,438	1,519	1,794	1,877	2,066	2,090
Demand deposits	594	805	782	944	929	1,059	1,040
Public enterprises	48	138	75	97	62	78	77
Private sector	546	667	707	847	867	981	962
Term deposits	533	633	737	849	949	1,007	1,050
Public enterprises	34	32	50	49	79	41	42
Private sector	499	601	687	801	870	966	1,008
Memorandum items:			(In percent)				
Reserves/deposits	11.2	24.0	21.8	24.4	26.2	30.7	28.9
Credit to the economy/deposits	101.8	85.9	90.2	82.3	82.0	73.5	72.5

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

1/ Fiscal year (July-June) up to 2001 (hence for 2001, data cover July 2000-June 2001) and calendar year starting in 2002.

Table 7. CEMAC: Fiscal Balances, 1999-2005
(In percent of GDP)

	1999	2000	2001	2002	2003	2004 Est.	2005 Proj.
Overall fiscal balance (excluding grants)							
Cameroon 1/	-3.4	1.4	-1.0	-0.8	1.4	0.3	0.4
Central African Republic	-8.8	-6.6	-4.3	-5.0	-4.6	-4.5	-3.6
Chad	-10.7	-12.4	-10.5	-12.0	-14.3	-6.0	-6.4
Congo, Republic of	-6.3	0.8	-0.9	-8.3	-0.1	5.5	9.8
Equatorial Guinea	-0.1	9.2	16.7	17.0	5.8	12.7	13.0
Gabon	1.2	11.6	3.2	3.4	7.4	7.7	8.0
CEMAC	-3.4	3.0	0.4	-0.6	1.3	3.1	3.5
Overall fiscal balance (including grants)							
Cameroon 1/	-3.2	1.4	-0.6	-0.5	2.0	0.4	0.5
Central African Republic	-0.5	-1.8	-0.9	-1.2	-3.1	-1.6	-0.8
Chad	-6.0	-6.8	-5.3	-5.9	-6.2	-2.2	-2.3
Congo, Republic of	-5.9	1.1	-0.7	-8.1	0.4	5.7	10.2
Equatorial Guinea	0.3	9.2	16.7	17.0	5.8	12.8	13.0
Gabon	1.2	11.6	3.2	3.5	7.4	7.9	8.2
CEMAC	-2.8	3.3	0.8	-0.3	1.7	3.3	3.7
Basic balance 2/							
Cameroon 1/	-1.2	2.3	0.2	-0.4	1.9	1.0	1.2
Central African Republic	-1.8	-1.9	-1.0	-0.5	-3.3	-2.5	-0.9
Chad	-2.0	-3.1	-2.4	-3.2	-3.1	0.4	0.9
Congo, Republic of	-0.6	7.1	8.9	-0.8	5.2	11.2	15.3
Equatorial Guinea	4.0	10.4	16.7	17.0	5.8	12.8	13.0
Gabon	4.3	13.9	7.7	6.8	10.9	11.4	11.3
CEMAC	0.3	5.9	4.1	2.3	3.9	5.6	6.2
Government revenue (excluding grants)							
Cameroon 1/	15.5	18.8	17.6	17.0	18.2	16.8	17.4
Central African Republic	9.4	8.9	8.9	10.8	7.7	7.8	8.3
Chad	8.2	8.1	7.5	7.9	8.5	8.8	10.9
Congo, Republic of	26.5	26.3	30.7	27.2	29.1	33.8	35.2
Equatorial Guinea	18.1	23.2	30.3	31.2	26.7	33.8	28.6
Gabon	28.3	33.4	34.0	31.5	29.8	29.3	28.1
CEMAC	19.2	22.7	22.9	21.6	21.6	22.2	21.9
Government expenditure							
Cameroon 1/	18.9	17.4	18.6	17.8	16.8	16.5	17.1
Central African Republic	18.2	15.5	13.2	15.8	12.2	12.3	11.9
Chad	19.0	20.5	18.0	19.9	22.8	14.8	17.3
Congo, Republic of	32.8	25.5	31.6	35.5	29.3	28.3	25.4
Equatorial Guinea	18.2	13.9	13.6	14.2	20.8	21.1	15.6
Gabon	27.2	21.7	30.8	28.1	22.4	21.6	20.1
CEMAC	22.6	19.7	22.5	22.2	20.3	19.1	18.4

Sources: IMF, World Economic Outlook database, September 2004; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001 (hence for 2001, data cover July 2000-June 2001) and calendar year starting in 2002.
2/ Overall budget balance excluding grants and foreign-financed investment.

Table 8. CEMAC: Fiscal Non-Oil Balances, 1999-2005
(In percent of Non-Oil GDP) 1/

	1999	2000	2001	2002	2003	2004 Est.	2005 Proj.
Overall fiscal balance (excluding grants)							
Cameroon 2/	-10.1	-3.3	-7.5	-7.0	-3.4	-4.4	-3.3
Central African Republic	-8.8	-6.6	-4.3	-5.0	-4.6	-4.5	-3.6
Chad	-10.7	-12.4	-10.7	-12.5	-16.8	-14.5	-20.3
Congo, Republic of	-54.2	-56.6	-50.7	-58.6	-41.0	-37.4	-40.3
Equatorial Guinea	-13.2	-9.7	-8.2	-8.5	-16.3	-10.4	-31.9
Gabon	-18.9	-21.2	-32.1	-24.4	-14.9	-13.9	-16.4
CEMAC	-15.5	-13.2	-17.0	-16.0	-12.6	-12.1	-16.2
Overall fiscal balance (including grants)							
Cameroon 2/	-9.9	-3.3	-7.1	-6.7	-2.8	-4.2	-3.1
Central African Republic	-0.5	-1.8	-0.9	-1.2	-3.1	-1.6	-0.8
Chad	-11.2	-12.5	-10.1	-13.0	-16.6	-15.1	-21.4
Congo, Republic of	-53.3	-55.7	-50.3	-58.2	-40.0	-36.9	-39.5
Equatorial Guinea	-12.8	-9.7	-8.2	-8.5	-16.3	-10.3	-31.9
Gabon	-18.9	-21.2	-32.1	-24.3	-14.8	-13.6	-16.2
CEMAC	-14.8	-12.8	-16.4	-15.5	-12.1	-11.8	-16.0
Basic balance 3/							
Cameroon 2/	-7.7	-2.3	-6.1	-6.6	-2.8	-3.6	-2.4
Central African Republic	-1.8	-1.9	-1.0	-0.5	-3.3	-2.5	-0.9
Chad	-2.0	-3.1	-2.5	-3.3	-4.0	-4.0	-7.5
Congo, Republic of	-42.1	-38.3	-28.1	-42.4	-30.2	-26.2	-28.3
Equatorial Guinea	-9.1	-8.6	-8.2	-8.5	-16.3	-10.3	-31.9
Gabon	-13.9	-16.7	-24.4	-18.6	-9.0	-7.4	-10.7
CEMAC	-10.8	-8.8	-11.6	-11.9	-8.8	-8.3	-12.1
Government revenue (excluding grants)							
Cameroon 2/	10.1	16.9	14.5	13.2	15.3	14.0	15.3
Central African Republic	9.4	8.9	8.9	10.8	7.7	7.8	8.3
Chad	8.3	8.1	7.6	8.2	9.2	9.8	10.1
Congo, Republic of	16.1	17.3	22.3	17.8	17.6	17.6	15.6
Equatorial Guinea	5.1	4.2	5.4	5.7	4.6	10.7	-16.3
Gabon	25.2	21.2	21.1	23.9	23.0	23.9	18.5
CEMAC	13.3	16.3	15.6	15.2	16.1	17.2	11.7
Government expenditure							
Cameroon 2/	20.2	20.2	22.0	20.2	18.7	18.4	18.6
Central African Republic	18.2	15.5	13.2	15.8	12.2	12.3	11.9
Chad	19.0	20.6	18.4	20.7	26.0	24.4	30.4
Congo, Republic of	70.3	73.8	73.0	76.4	58.5	55.0	55.9
Equatorial Guinea	18.2	13.9	13.6	14.2	20.8	21.1	15.6
Gabon	44.1	42.3	53.1	48.3	37.9	37.8	34.9
CEMAC	28.8	29.5	32.6	31.2	28.7	29.2	27.9

Sources: IMF, World Economic Outlook database, September 2004; and staff estimates and projections.

1/ Given the small size of non-oil GDP for Equatorial Guinea, data for this country are in percent of total GDP.
2/ Fiscal year (July-June) up to 2001 (hence for 2001, data cover July 2000-June 2001) and calendar year starting in 2002.
3/ Overall budget balance excluding grants and foreign-financed investment.

Table 9. CEMAC: Nominal and Real Effective Exchange Rates, 1999–2004 1/

	1999	2000	2001	2002	2003	2004 Est.
			Index (1990=100)			
Nominal effective exchange rate						
Cameroon	82.2	77.7	78.9	81.5	86.9	89.1
Central African Republic	97.9	98.0	103.2	106.7	111.2	113.1
Chad	65.1	61.7	62.7	64.5	68.7	70.7
Congo, Republic of	64.8	61.9	62.6	63.9	66.8	68.0
Equatorial Guinea	71.8	68.6	69.1	70.4	73.5	74.8
Gabon	59.9	56.6	57.3	58.7	61.6	62.8
CEMAC	73.7	69.1	70.8	72.9	77.1	78.3
			(Annual percentage changes)			
Cameroon	2.0	-5.5	1.6	3.2	6.6	2.6
Central African Republic	-0.3	0.1	5.3	3.4	4.3	1.7
Chad	3.7	-5.2	1.6	2.9	6.6	2.9
Congo, Republic of	-1.3	-4.5	1.0	2.1	4.6	1.8
Equatorial Guinea	-1.4	-4.4	0.7	1.9	4.4	1.8
Gabon	-2.5	-5.5	1.4	2.3	5.1	1.9
CEMAC	0.2	-6.2	2.4	3.0	5.7	1.6
			Index (1990=100)			
Real effective exchange rate						
Cameroon	71.6	64.2	66.3	68.7	71.7	71.9
Central African Republic	58.4	57.0	58.9	60.9	64.7	63.2
Chad	68.0	65.1	70.9	75.6	79.1	78.1
Congo, Republic of	84.3	79.4	79.1	81.6	84.9	87.8
Equatorial Guinea	81.0	80.3	85.6	91.9	101.0	105.4
Gabon	53.4	49.7	50.4	50.7	53.3	53.5
CEMAC	68.1	63.5	65.9	68.7	73.0	74.9
			(Annual percentage changes)			
Cameroon	4.5	-10.4	3.3	3.6	4.4	0.2
Central African Republic	-5.2	-2.3	3.3	3.3	6.3	-2.4
Chad	-6.1	-4.3	8.8	6.7	4.6	-1.3
Congo, Republic of	0.5	-5.9	-0.4	3.2	4.0	3.4
Equatorial Guinea	-3.0	-0.9	6.6	7.4	9.9	4.3
Gabon	-4.4	-6.8	1.4	0.5	5.3	0.4
CEMAC	1.0	-6.7	3.7	4.3	6.2	2.7

Sources: IMF, Information Notice System; and staff estimates.

1/ CEMAC data is weighted by nominal GDP.

Table 10. CEMAC: Balance of Payments, 1999–2005 1/
(In billions of CFA francs)

	1999	2000	2001	2002	2003	2004 Est.	2005 Proj.
Balance on current account	-673	377	-977	-1,901	-910	-439	-246
Balance on goods and services	412	2,248	1,182	383	1,268	2,485	2,769
Exports of goods	4,153	6,727	6,439	6,403	6,689	9,190	9,517
Exports of services	670	712	741	826	814	893	915
Imports of goods	-2,357	-2,806	-3,473	-4,180	-3,674	-4,581	-4,670
Imports of services	-2,054	-2,385	-2,526	-2,667	-2,560	-3,018	-2,993
Income, net	-1,180	-1,969	-2,216	-2,337	-2,273	-2,986	-3,053
Income credits	128	110	104	93	93	88	82
Income debits	-1,309	-2,079	-2,321	-2,429	-2,366	-3,074	-3,135
Of which							
Investment income, debit: interest (accrued;-sign)	-929	-1,114	-999	-912	-938	-1,031	-955
Interest paid on public debt	-610	-610	-647	-481	-376	-354	-304
Interest paid on nonpublic debt	-321	-504	-353	-433	-563	-675	-654
Current transfers, net	95	98	86	75	113	80	55
Private current transfers, net	22	44	-8	-6	22	3	-17
Official current transfers, net	74	54	94	81	91	78	72
Balance on capital and financial account	1,049	21	1,130	2,259	931	439	246
Balance on capital account (including capital transfers)	636	611	817	1,570	949	796	954
Balance on financial account (including reserves)	384	-637	266	763	7	-350	-715
Direct investment, net	534	786	1,156	2,723	1,539	1,511	1,535
Portfolio investment, net	34	132	113	113	111	124	129
Other investment, net	-439	-1,265	-1,079	-1,549	-1,527	-1,443	-1,837
Reserve assets (accumulation -)	255	-291	76	-525	-116	-542	-543
Errors and omissions, net	-347	-350	-254	-431	-46	0	0
Memorandum item:							
Nominal GDP	11,774	14,175	14,894	15,871	16,830	19,271	20,485

Sources: IMF, World Economic Outlook database, September 2004; and staff estimates and projections.

Table 11. CEMAC: Summary Medium-Term Projections, 2001–07

	2001	2002	2003	2004	2005	2006	2007
	(Annual percentage change)						
National income and prices							
Real GDP	6.2	4.9	4.5	8.3	5.2	4.2	4.3
GDP deflator	-1.0	1.6	1.5	5.7	1.1	-2.8	-0.4
Nominal GDP	5.1	6.6	6.0	14.5	6.3	1.2	3.9
Consumer prices (average)	3.6	4.3	1.9	1.7	2.6	2.9	3.1
External sector							
Exports, f.o.b (in millions of U.S. dollars)	-6.2	5.9	24.5	47.9	10.4	-4.4	-0.8
Export volume	5.5	7.6	6.9	59.9	14.5	0.8	4.7
Imports, c.i.f. (in millions of U.S. dollars)	12.2	20.0	9.2	34.1	7.6	1.4	-1.4
Import volume	22.6	29.0	-4.9	11.4	5.1	-1.9	-0.2
Terms of trade	-3.8	-1.1	10.6	11.5	6.3	-10.0	-3.2
	(In percent of GDP; unless otherwise specified)						
Central government							
Overall balance, excluding grants	0.4	-0.6	1.3	3.1	3.5	2.7	2.7
Overall balance, excluding grants 1/	0.6	-0.8	1.8	4.7	5.3	3.8	3.8
Non-oil overall balance 1/	-17.0	-16.0	-12.6	-12.1	-16.2	-16.8	-15.5
Total revenue and grants	23.7	22.5	22.7	22.9	22.7	22.2	22.1
Total expenditure and net lending	22.5	22.2	20.3	19.1	18.4	18.8	18.6
External sector							
Current account balance, including grants	-6.6	-12.0	-5.4	-2.3	-1.2	-0.6	1.2
Trade balance	7.9	2.4	7.5	12.9	13.5	10.6	10.3
Gross official reserves (end of period, in millions of U.S. dollars)	1,143.3	1,678.2	1,908.3	3,188.7	...	...	...

Sources: IMF, World Economic Outlook database, September 2004; and staff estimates and projections.
1/ In percent of non-oil GDP.

Table 12. CEMAC's Hydrocarbon Export and Revenue Windfalls

	Oil and Gas Export Windfall 1/				Oil and Gas Revenue Windfall 2/			
	2004		2005		2004		2005	
	(Billions of U.S. dollars)	(Percent of GDP)	(Billions of U.S. dollars)	(Percent of GDP)	(Billions of U.S. dollars)	(Percent of GDP)	(Billions of U.S. dollars)	(Percent of GDP)
Cameroon	0.1	0.8	0.1	0.5	0.1	0.4	0.0	0.0
Chad	1.7	39.1	2.5	46.9	0.1	2.6	0.2	3.4
Congo, Rep. of	0.7	18.1	1.4	26.9	0.3	6.5	0.7	13.0
Equatorial Guinea	1.9	39.4	1.9	39.0	0.5	9.3	1.5	30.9
Gabon	0.9	12.0	1.0	12.7	0.2	2.4	0.2	2.3
Total CEMAC	5.3	21.9	6.9	25.2	1.1	4.2	2.5	9.9

Sources: World Economic Outlook; and IMF staff calculations.

1/ The export windfall is the oil and gas export earnings of the reported year subtracted against 2003 oil and gas used export earnings. The WEO oil prices for these calculations are as released on March 1, 2005: 2003 = US$28.89 per barrel, 2004 = US$37.76 per barrel, 2005 = US$46.5 per barrel.
2/ Revenue windfall is the oil and gas revenue earnings of the reported year subtracted against 2003 oil and gas revenue earnings. The revenue windfall also includes tax revenue from the domestic sale of oil and gas, which might be important for some countries.

Table 13. CEMAC: Compliance with Convergence Criteria, 1999–2005 1/
(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004 Est.	2005 Proj.
Basic fiscal balance (criterion: nonnegative) 2/							
Cameroon	-1.2	2.3	0.2	-0.4	1.9	1.0	1.2
Central African Republic	-1.8	-1.9	-1.0	-0.5	-3.3	-2.5	-0.9
Chad	-2.0	-3.1	-2.4	-3.2	-3.1	0.4	0.9
Congo, Republic of	-0.6	7.1	8.9	-0.8	5.2	11.2	15.3
Equatorial Guinea	4.0	10.4	16.7	17.0	5.8	12.8	13.0
Gabon	4.3	13.9	7.7	6.8	10.9	11.4	11.3
Number of countries in violation	4	2	2	4	2	1	1
Consumer price inflation (annual percentage change; criterion: not higher than 3 percent)							
Cameroon	1.9	0.8	2.8	6.3	0.6	0.5	1.9
Central African Republic	-1.4	3.2	3.8	2.3	4.2	-2.2	2.5
Chad	-8.0	3.8	12.4	5.2	-1.8	-4.8	3.0
Congo, Republic of	3.6	0.4	0.8	3.1	1.5	2.0	2.0
Equatorial Guinea	6.5	6.5	7.3	5.9	7.0	8.0	8.0
Gabon	-0.7	0.4	2.1	0.2	2.1	1.0	2.0
Number of countries in violation	1	3	3	4	2	1	1
Level of public debt 3/ (criterion: not higher than 70 percent of GDP)							
Cameroon	94.6	91.2	81.8	55.1	48.2	47.8	40.8
Central African Republic	82.4	80.3	93.9	91.4	93.3	92.7	90.1
Chad	62.0	74.4	58.1	58.5	54.0	36.9	32.7
Congo, Republic of	231.6	164.9	193.3	201.1	197.4	62.1	43.0
Equatorial Guinea	36.0	23.3	15.4	13.9	5.3	2.7	2.4
Gabon	79.7	57.0	64.2	65.7	59.2	53.9	46.1
Number of countries in violation	4	4	3	2	2	1	1
Net change in government arrears 4/ (criterion: nonpositive)							
Cameroon	-0.9	-1.8	-2.9	-8.1	-0.5	0.0	-0.1
Central African Republic	-0.5	-0.4	-1.0	2.9	4.4	2.9	2.5
Chad	-0.5	-0.3	0.8	-0.5	0.2	-0.3	-0.6
Congo, Republic of	20.3	11.7	3.6	9.8	6.0	-114.2	-7.6
Equatorial Guinea	6.8	-1.6	-1.2	-0.2	-0.5	-1.4	-0.9
Gabon	5.1	-15.1	2.6	4.0	0.3	-10.0	-1.3
Number of countries in violation	3	1	3	3	4	1	1
Total number of criteria violations	12	10	11	13	10	4	4
Cameroon	1	1	1	2	0	0	0
Central African Republic	2	3	3	3	4	3	3
Chad	1	3	3	2	2	0	0
Congo, Republic of	4	2	2	4	2	0	0
Equatorial Guinea	2	1	1	1	1	1	1
Gabon	2	0	1	1	1	0	0

Sources: IMF, World Economic Outlook database, September 2004; 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 14. CEMAC: Bank Ratings, September 2004 1/
(Number of banks)

	1	2	3A	3B	3C	4A	4B	Not Rated
Cameroon (10)	1	7	0	1	0	0	1	0
Central African Republic (3)	1	0	0	1	0	0	1	0
Chad (6)	0	2	1	1	1	0	0	1
Congo, Republic of (4)	0	2	0	1	0	0	1	0
Equatorial Guinea (3)	0	2	0	0	0	0	0	1
Gabon (6)	1	4	0	0	0	0	0	1
CEMAC (33)	2	16	4	4	1	0	3	3

Source: Banking Commission of Central Africa (COBAC).

1/ Ratings: 1=strong; 2=good; 3A=fragile; 3B=moderately fragile; 3C=highly fragile; 4A=critical; and 4B=highly critical. Data for CEMAC are from January 2005.

Table 15. CEMAC: Violations of Main Prudential Ratios, 2002–04

	Capital Adequacy			Liquidity 1/			Fixed Assets 2/ Coverage			Maturity 3/ Transformation			Minimum Capital			Limit on Single Large Exposure		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
	5%	6%	7%	minimum 100%			minimum 100%			minimum 50%			4/			5/		
	(Number of banks in violation) 5/																	
Country (number of banks)																		
Cameroon (9), in 2004 (10)	3	1	3	0	0	2	3	2	4	3	3	5	1	1	2	9	7	8
Central African Republic (3)	1	1	1	3	2	1	1	1	1	1	1	1	1	1	1	2	2	2
Chad (5), in 2004 (7)	2	1	2	1	1	0	3	2	3	2	1	2	0	0	2	3	4	5
Congo, Republic of (4)	3	3	2	2	0	0	2	3	2	2	2	2	1	1	1	3	4	3
Equatorial Guinea (3)	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0	1	1	2
Gabon (6)	0	0	1	2	0	0	2	1	1	1	0	0	0	1	1	1	1	1
CEMAC (30), in 2004 (33)	9	6	9	8	3	4	12	9	11	9	7	10	3	4	7	19	19	21
	(In percent of deposits) 6/																	
Cameroon (9), in 2004 (10)	8	2	14	0	0	6	24	20	32	45	20	34	2	2	11	100	77	70
Central African Republic (3)	42	44	37	100	81	37	42	44	37	42	44	37	42	44	37	83	81	76
Chad (5), in 2004 (7)	42	14	34	14	15	0	55	37	50	42	14	34	0	0	34	43	71	97
Congo, Republic of (4)	56	79	47	37	0	0	37	79	39	37	58	39	16	24	18	77	100	72
Equatorial Guinea (3)	0	0	0	0	0	11	53	0	0	0	0	0	0	0	0	39	51	89
Gabon (6)	0	0	1	28	0	0	18	24	1	0	0	0	0	0	0	0	7	1

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

1/ Short-term assets of up to one month (remaining maturity) over short-term liabilities of up to one month (remaining maturity).
2/ Net capital and other premanent resources over fixed assets.
3/ Long-term assets of more than five years over long-term liabilities of more than five years.
4/ Minimum capital varies by country (in millions of CFA): Cameroon 1,000; Central African Republic 200; Chad 150; Republic of Congo 150; Equatorial Guinea 300; Gabon 1,000.
5/ Single large exposure is limited to 45 percent of capital.
6/ Percentage of deposits represented by the number of banks in violation in the country.

Table 16. CEMAC: Quality of Loan Portfolio, 2002–04

(In billions of CFA francs; unless otherwise indicated)

	Gross Loans			Nonperforming Loans			Provisions			Rate of Nonperforming Loans 1/			Rate of Provisions 2/		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
Cameroon	774.0	861.0	873.6	121.6	119.6	114.2	98.6	97.1	97.5	15.7	13.9	13.1	81.1	81.2	85.3
Central African Republic	54.9	54.9	60.2	17.0	17.0	20.8	12.7	15.3	15.5	31.0	30.9	34.6	74.9	90.0	74.6
Chad	85.8	105.5	112.3	16.8	18.0	22.4	13.2	14.1	15.1	19.6	17.1	20.0	78.3	78.4	67.1
Congo, Republic of	86.4	92.3	107.0	0.9	3.2	7.0	0.1	0.6	1.9	1.1	3.5	6.5	13.2	19.1	27.6
Equatorial Guinea	63.0	61.4	95.4	5.5	11.2	12.9	4.0	7.3	9.2	8.7	18.2	13.5	73.7	65.1	71.4
Gabon	553.0	503.8	463.1	63.0	69.7	73.0	41.9	54.9	57.2	11.4	13.8	15.8	66.5	78.8	78.4
CEMAC	1,617.0	1,678.9	1,711.6	224.8	238.7	250.2	170.5	189.4	196.3	13.9	14.2	14.6	75.9	79.3	78.5

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

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

Table 17. CEMAC: Money Market Volumes, 2000–04
(In billions of CFA francs)

	Injections of Liquidity					Absorptions of Liquidity					Volume Traded on Interbank Market				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Cameroon	25.5	14.1	2.6	1.2	1.2	550.0	1,086.9	1,473.8	963.9	455.5	78.4	124.7	74.4	82.1	51.5
Central African Republic	47.8	28.8	28.1	22.1	16.2	0.2	2.1	0.3	3.2	0.6	0.1	4.0	1.5	0.0	0.5
Chad	112.7	97.0	39.8	45.4	131.1	2.4	8.5	18.3	31.8	18.0	2.2	11.0	0.0	0.0	0.7
Congo, Republic of	81.8	29.7	7.0	6.0	6.6	98.3	402.5	228.0	211.5	145.1	0.0	0.0	12.0	18.5	27.0
Equatorial Guinea	0.0	0.0	0.1	0.0	0.0	0.0	47.2	92.4	76.1	30.7	48.3	96.5	38.0	0.0	3.5
Gabon	12.9	3.0	27.4	14.7	0.0	258.4	203.1	100.0	108.5	320.7	47.4	46.7	31.2	9.5	7.0
CEMAC	280.6	172.6	105.1	89.4	155.2	909.3	1,750.2	1,912.8	1,395.1	970.5	176.4	282.7	157.1	110.1	90.2

Source: Bank of Central African States (BEAC).

Table 18. Selected Financial Soundness Indicators, 2002–04
(In percent)

	2002	2003	2004
Capital adequacy ratio 1/			
Cameroon	9.3	9.8	8.3
Central African Republic	7.1	11.8	11.0
Congo, Republic of	4.3	4.6	3.7
Gabon	19.0	20.4	18.1
Equatorial Guinea	6.5	13.1	15.2
Chad	9.2	8.9	9.6
CEMAC	11.7	12.8	11.4
Non performing loans (NPL) relative to gross loeans			
Cameroon	15.7	13.9	13.1
Central African Republic	31.0	30.9	34.6
Congo, Republix of	1.1	3.5	6.5
Gabon	11.4	13.8	15.8
Equatorial Guinea	8.7	18.2	13.5
Chad	19.6	17.1	20.0
CEMAC	13.9	14.2	14.6
Provisions against NPL			
Cameroon	81.1	81.2	85.3
Central African Republic	74.9	90.0	74.6
Congo, Republic of	13.2	19.1	27.6
Gabon	66.5	78.8	78.4
Equatorial Guinea	73.7	65.1	71.4
Chad	78.3	78.4	67.1
CEMAC	75.9	79.3	78.5
Liquidity ratio 2/			
Cameroon	207.0	185.9	197.5
Central African Republic	73.7	86.2	119.9
Congo, Republic of	156.1	126.8	175.2
Gabon	137.7	185.3	219.5
Equatorial Guinea	253.3	333.3	275.8
Chad	174.9	211.8	204.8
CEMAC	181.9	191.2	206.8

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

1/ Minimum 8 percent (steadily increased from 5 percent from 2002)
2/ Short-term assets of up to one month (remaining maturity) over short-liabilities of up to one month (remaining maturity).

INTERNATIONAL MONETARY FUND
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Public Information Notice (PIN) No. 05/151
FOR IMMEDIATE RELEASE
November 1, 2005

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

IMF Executive Board Concludes 2005 Regional Consultation with the Central African Monetary and Economic Union (CEMAC)

On June 17, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Regional Consultation with the Central African Monetary and Economic Union (CEMAC).[1]

Background

Five out of six CEMAC members are oil producers and the effects of oil windfalls dominated economic developments in 2004. Region-wide real GDP growth in 2004 reached 8.3 percent, the highest level in 10 years, driven by growth in the oil sector. Real oil GDP grew by more than 21 percent, mainly as oil output in two member countries—Chad and Equatorial Guinea—increased markedly. Oil prices increased by over 30 percent during the year and oil now accounts for nearly 80 percent of the region's exports.

Growth developments in the non-oil sector were less encouraging. Region-wide non-oil GDP growth slowed from 3.6 percent in 2003 to 3.2 percent in 2004, the lowest level in five years. This performance resulted from a drought and locust-related decline in non-oil output in Chad, and roughly constant or only slowly improving non-oil growth in the remaining oil-exporting CEMAC member countries. The Central African Republic, a post-conflict country and the sole non-oil exporter in the CEMAC region, halted its two-year economic decline but grew by less than 1 percent.

Broad money growth was moderate, and inflation in the region declined further to 1.7 percent—below euro-area levels. Money growth was contained as the strong increase in the central bank's

[1] The IMF holds annual regional discussions with the CEMAC region. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

net foreign assets was offset by the increase in oil-producing countries' government deposits with the BEAC. The favorable inflation performance—in spite of the overall high growth and significant reserve inflows—was helped by positive agricultural developments in almost all countries, as well as by the appreciating nominal exchange rate vis-à-vis the U.S. dollar. Yet, inflation performance differed significantly across the region. In Chad and the Central African Republic, both countries with stagnant or declining domestic demand, the price level dropped. Inflation in Equatorial Guinea reached 8 percent, reflecting mainly supply bottlenecks in the country's fast-growing economy.

In line with higher oil output and increasing oil prices, the region-wide fiscal position further improved in 2004. The CEMAC as a whole posted an overall fiscal surplus (excluding grants) estimated at 3.1 percent of GDP. The positive fiscal outcomes were in part due to windfall revenues from higher oil prices. For the region as a whole about one-fourth of oil windfall receipts associated with the price increases accrued to the budgets of oil producers. Different structures and ownerships of oil sectors led to different budgetary impacts across member countries, ranging from about half of the additional revenues in Cameroon to less than 10 percent in Chad. As a result of improved non-oil revenue collection in some member countries, the region-wide non-oil overall fiscal deficit (excluding grants) also improved slightly, even though in Cameroon, the largest CEMAC economy, the non-oil fiscal balance deteriorated by 1 percent of non-oil GDP. At more than 12 percent of non-oil GDP, the non-oil deficit remains sizeable, underscoring the fundamental dependence of the region on oil receipts for government finance.

External sector developments in 2004 were favorable**.** Despite a strengthening of the CFA franc by about 3 percent in real effective terms, the current account deficit declined from more than 5 percent in 2003 to about 2 percent of GDP in 2004, and the reserve position strengthened**.** In line with differing inflation performance, real exchange rate (REER) appreciation was most pronounced in Equatorial Guinea, whereas REERs in other member countries stayed largely constant or appreciated slightly. The region's exports (in U.S. dollars) increased sharply, mostly reflecting oil windfalls, which are estimated at more than 17 percent of region-wide GDP. Non-oil exports as a share of GDP remained constant at 13 percent. Imports also increased albeit at a somewhat lower rate. Import demand is partly determined by oil-related equipment imports, which tend to move with production and investment cycles. Intraregional trade stayed unchanged at 1.3 percent of total exports, significantly lower than in other regional groupings, including in the West African Economic and Monetary Union (WAEMU). Given the BEAC's repatriation and reserve pooling arrangements, the strong oil-related inflows in 2004 almost doubled the BEAC's net foreign assets to more than US$3 billion.

The region's economic prospects continue to be dominated by developments in oil markets. Growth in 2005 is forecast to remain strong at about 5 percent, yet below the 2004 rate, which benefited from the strong impetus of Chad's oil production coming on-stream. The overall fiscal balance, including oil, is forecasted to remain roughly constant. However, with oil prices expected to remain high, there could be a further round of favorable oil export and budget windfalls. The prospects for a strengthening of the non-oil sectors in the short term appear to be slight.

Executive Board Assessment

Directors welcomed the positive macroeconomic developments in the Central African Economic and Monetary Union in 2004, while noting that the situation varies across the member countries. Higher oil output and prices led to a near doubling of the region's aggregate economic growth, a marked improvement in the balance of payments and fiscal accounts and an accumulation of international reserves. In addition, inflation remained low as a result of the peg of the CFA franc to the euro, the improved fiscal performance, and the positive agricultural developments in most member countries.

Directors noted, however, that non-oil growth for the region weakened slightly in 2004. They underscored that the achievement of higher non-oil growth will be necessary to sustain higher overall growth rates. In this regard, the key challenges for CEMAC will be to improve the competitiveness of the non-oil sector and diversify the output base. Directors observed that, while CEMAC shares many of the growth challenges facing other sub-Saharan African countries, its task is more complex given the exchange rate regime, the volatility of oil receipts, and the expected depletion of oil reserves in several member countries over the medium term. They therefore stressed the importance of steady progress on structural reforms to strengthen non-oil growth, diversify exports, and advance toward the Millennium Development Goals. In this regard, they welcomed the broad-based structural measures proposed under ongoing trade initiatives, such as the Economic Partnership Agreement with the European Union, which could lead to important improvements in the business environment in CEMAC member countries.

Directors underscored the importance of fiscal discipline in member countries. They welcomed the prudent management of the increased oil revenue, most of which has been saved in the form of higher foreign exchange reserves. However, as oil prices are expected to remain high in the medium term, and given the overall favourable fiscal and external positions, Directors acknowledged that there could now be scope for some cautious additional spending on infrastructure and poverty-reduction programs. Additional spending must, however, be consistent with medium-term fiscal and debt sustainability of individual members and their absorptive capacity.

Directors welcomed the increase in international reserves, but noted that they may need to increase further in view of the fixed exchange rate regime and the underlying economic vulnerabilities. Directors supported the creation of country-owned oil stabilization funds and “funds for future generations” under the management of the regional central bank, provided that this does not weaken the BEAC’s external position and that the funds are managed efficiently and with full transparency. Furthermore, they stressed that any changes in the institutional arrangements for managing oil receipts must take into account the need to maintain an adequate level of reserves. Since oil is by far the predominant export, Directors recommended that a part of the oil export receipts continue to be placed in the common pool of reserves.

Directors observed that monetary policy has been broadly successful in keeping liquidity and inflationary pressures under control. They commended the recent measures by the regional central bank to strengthen its monetary policy framework, and the progress made toward the establishment of a regional payments platform. They stressed the importance of gradually shifting toward the use of market-based instruments in the conduct of monetary policy, but noted the lack of such instruments given the region’s shallow and segmented money markets. Directors therefore urged faster progress in finalizing the abolition of statutory advances to member countries and their replacement with treasury bills.

Directors noted the continued weaknesses in the region’s banking sector, including a high level of non-performing loans and some banks’ failure to comply with capital adequacy standards. Directors stressed the importance of strengthening the regional supervisory agency. Directors also noted the very low level of bank credit to the private sector. They encouraged the authorities to step up their efforts to develop a sound and competitive financial sector, as this will be crucial to the development of the non-oil sector. Directors supported the use of a regional FSAP to help guide a comprehensive reform of the financial sector.

Directors expressed concern that continued obstacles to trade and financial market integration have resulted in low levels of intra-regional trade and capital flows and prevented CEMAC from reaping the full benefits of regional integration. They regretted, in particular, the persistent lack of implementation of agreed regional policies. They stressed that commitment to, and compliance with, the convergence criteria is crucial to the integration process and to the strengthening of investor confidence and the business environment in the region.

Directors encouraged the authorities to increase the effectiveness of existing regional institutions and agreements before pursuing additional regional integration efforts. They cautioned that prematurely integrating CEMAC with a broader group of countries could hamper the necessary deepening of common policies in the existing area. They stressed that changes to the regional integration pattern will need to be consistent with efforts to further trade liberalization.

Directors commended the regional authorities for improvements in the regional surveillance process, in particular the more nuanced review of member countries' fiscal stance. They suggested that further changes should aim at strengthening the effectiveness of the regional surveillance framework, including the introduction of appropriate incentives and sanctions and the strengthening and harmonization of the legal and institutional framework in the region. They supported the formalization of the Fund's regional surveillance of CEMAC and its integration with the Article IV consultations with individual countries, which could help strengthen CEMAC's regional surveillance process. Directors emphasized, however, that the lack of resources in CEMAC for continuous regional surveillance and adequate follow-up on findings needs to be addressed.

CEMAC: Selected Economic and Financial Indicators, 1999-2005

	1999	2000	2001	2002	2003	2004 Est.	2005 Proj.
	(Annual percentage change)						
National income and prices							
GDP at current prices	7.8	20.4	5.1	6.6	6.0	14.5	6.3
GDP at constant prices	-0.4	3.4	6.2	4.9	4.5	8.3	5.2
Oil GDP 1/	-0.5	-0.5	5.9	1.6	6.9	21.5	6.1
Non-oil GDP 1/	-0.3	4.9	6.2	6.2	3.6	3.2	4.7
Consumer prices (average)	1.2	1.2	3.6	4.3	1.9	1.7	2.6
Terms of trade	17.1	22.9	-3.8	-1.1	10.6	11.5	6.3
Nominal effective exchange rate	0.2	-6.2	2.4	3.0	5.7	1.6	...
Real effective exchange rate	1.0	-6.7	3.7	4.3	6.2	2.7	...
	(Annual changes in percent of beginning-of-period broad money)						
Money and credit							
Net foreign assets	4.5	38.4	-11.3	10.3	-1.4	26.4	...
Net domestic assets	4.8	-15.4	18.6	4.2	3.1	-16.1	...
Broad money	9.3	23.0	7.2	14.4	1.7	10.3	...
	(In percent of GDP, unless otherwise indicated)						
National accounts							
Gross domestic savings	20.9	33.2	34.9	33.1	36.4	36.6	39.1
Gross domestic investment	21.8	21.0	26.7	28.1	25.0	23.5	23.1
Government financial operations							
Total revenue, excluding grants	19.2	22.7	22.9	21.6	21.6	22.2	21.9
Government expenditure	22.6	19.7	22.5	22.2	20.3	19.1	18.4
Primary basic fiscal balance 2/	6.0	10.5	9.0	5.8	7.6	8.4	8.7
Basic fiscal balance 3/	0.3	5.9	4.1	2.3	3.9	5.6	6.2
Overall fiscal balance, excluding grants	-3.4	3.0	0.4	-0.6	1.3	3.1	3.5
Non-oil overall fiscal balance, excluding grants 4/	-15.5	-13.2	-17.0	-16.0	-12.6	-12.1	-16.2
Overall fiscal balance, including grants	-2.8	3.3	0.8	-0.3	1.7	3.3	3.7
External sector							
Exports of goods and nonfactor services	41.0	52.5	48.2	45.5	44.6	52.3	50.9
Imports of goods and nonfactor services	37.5	36.6	40.3	43.1	37.0	39.4	37.4
Balance on goods and nonfactor services	3.5	15.9	7.9	2.4	7.5	12.9	13.5
Current account, including grants	-5.7	2.7	-6.6	-12.0	-5.4	-2.3	-1.2
External public debt	102.2	89.0	86.5	75.3	66.8	44.9	38.4
Gross official reserves (end of period, in millions of U.S. dollars)	595.2	1,318.9	1,143.3	1,678.2	1,908.3	3,188.7	...
Memorandum items:							
Nominal GDP (in billions of CFA francs)	11,774	14,175	14,894	15,871	16,830	19,271	20,485
CFA francs per U.S. dollar, average	615.7	712.0	733.0	697.0	581.2	528.3	...
Oil prices (in U.S. dollars per barrel)	18.0	28.2	24.3	25.0	28.9	37.8	46.5
Oil prices (in CFA francs per barrel)	11,071	20,103	17,835	17,390	16,793	19,947	...

Sources: IMF, World Economic Outlook database, September 2004; and IMF 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.
4/ In percent of non-oil GDP.

Statement by Damian Ondo Mañe, Executive Director on Recent Developments and Regional Policy Issues in the Central African Economic and Monetary Community
June 17, 2005

1 – Introduction

On behalf of my CEMAC authorities, I would like to thank staff for the constructive policy discussions and the comprehensive set of papers on the recent macroeconomic developments in the region. Discussions focused on the economic, financial and monetary situation and the main challenges facing member countries. They also covered, the issues regarding the diversification of the production base, management of oil revenue, deepening the financial market and the improvement of the regional integration process and institutions. My authorities appreciate the exchange of views with staff and welcome the policy advice. In particular, they welcome the proposed formalization of IMF surveillance over monetary unions and the recent agreement on regional FSAP. These steps would help strengthen CEMAC review and further harmonize member countries' policies and make progress on outstanding issues.

2 – Recent Macroeconomic Developments

It is worth noting that apart from Central African Republic (CAR) all other CEMAC member countries are oil producers and the effects of oil windfalls largely dominated macroeconomic developments in 2004 . In view of increases in oil prices and export volume, and broadly favorable rainfall, real GDP growth of the region reached 8.3 percent against 4.5 percent in 2003. While the real oil GDP grew by 21 percent, the non-oil GDP recorded a growth of 3.2 percent against 3.6 percent in the previous year due to the drought and locust invasion in Chad and the post conflict effects emerging in CAR. Furthermore, inflation has declined while international reserves increased significantly and fiscal performance improved markedly.

In spite of these achievements and some progress made in trade and financial market integration, much remains to be done in the structural areas in order to deepen the regional integration. In addition the region's economic prospects will continue to be dominated by developments in oil markets. In 2005, economic growth is forecasted to remain strong and overall fiscal balance roughly constant. The authorities have renewed, during their summit held in last February in Libreville, (Gabon), their commitment to the regional integration through further enhancing their efforts to increase the effectiveness of CEMAC institutions and agreements. In this regard, they call on the Fund and the international community for an adequate technical assistance to help them build the capacity needed to deal with the important challenges facing the region including fighting poverty, and enhancing the regional integration process.

Moreover, in their efforts to diversify the non oil sector in the region, the CEMAC authorities intend to host in collaboration with the Fund a workshop on the sources of growth in member countries.

3 – Strengthening Regional Surveillance

My CEMAC authorities are cognizant that an effective coordination of macroeconomic policies is crucial for member countries to reap full benefits of the economic integration process. Therefore there is a need to strengthen CEMAC regional surveillance and fully implement policy actions designed in this regard. My authorities welcome the proposed formalization of IMF surveillance over monetary unions and the recent agreement on a regional FSAP. They intend to link future Fund surveillance more closely with CEMAC review of member countries' policies with a view to further support the regional surveillance process. This new framework will enable the authorities to find solutions to the problems stemming from lack of resources and adequate follow-up of policy recommendations.

4 – Transparency and Governance

Significant progress has been achieved in this area and the CEMAC authorities are determined to sustain their efforts in collaboration with the international community. At present, all oil exporters are implementing the EITI with the World Bank's support and some of them like Equatorial Guinea is publishing the ROCS on fiscal transparency. In addition, transparency and accountability in oil resource management was the theme of the regional seminar for CEMAC Parliamentarians held in Malabo, Equatorial Guinea, on January 27, 2005 with the assistance of the Fund and the World bank. Also we would like to recall that the CEMAC Summit that took place in Libreville, Gabon, in August 2004 was an opportunity for the Heads of State to reaffirm their strong commitment to transparency in the management of natural resources, particularly oil revenue. They decided to improve their efforts of public communication in this regard. They have also welcomed the formulation of a code of conduct in oil sector as proposed by the Fund Managing Director. Moreover, it is worth noting that the BEAC posts regularly on its website the evolution of the main economic and financial indicators in the region. Member countries also are making available data and information on oil activities in their territories. However, the strengthening of achievements made by the CEMAC members, will require further technical assistance from the international community aimed at building institutions and capacity needed to deal with challenges faced by the region, notably in the economic diversification and oil revenue management.

5 – Monetary Policy and International Reserves Management

The BEAC's monetary policy is aimed at supporting the fixed parity of the CFA franc to the Euro and that monetary arrangement has served the member countries very well. Despite the lack of a wide range of instruments and shallow markets, monetary policy has been effective and prudent. Inflation has remained low and official reserves increased sharply in 2004 mainly on account of the rise in oil revenue. The new situation resulting from the large increase in oil revenue flows has highlighted the challenges facing the central bank in implementing a prudent policy with its current monetary instruments. The authorities believe that there is a crucial need to develop markets for treasury bills and bonds. They are also mindful that the only short-term deposits with the BEAC are insufficient in sterilizing the high level of banks' liquidity. Therefore they share the view for improving the financial market integration in the region through a successful implementation of reforms in the regional payment system, strengthening the Central Bank's forecasting unit and issuing tradable central bank bills as an interim solution before the introduction of treasury bills. My authorities fully agree that as the BEAC operating environment becomes more complex, it will require the introduction of market-based instruments in order to allow the central bank to more directly influence interest rates.

With regard to the issue of investment of excess oil revenue and related effects, my authorities are aware of their fiscal and monetary implications notably in a context of international reserves pooling. While noting the limits of the current arrangements meant to remunerate the CFA franc-denominated deposits of oil exporting countries at the central bank, my BEAC authorities are strongly determined to deal with concerns expressed by some member countries. To that extend they welcome Fund technical assistance in order to better preserve transparency in the management of oil revenues, provide a better return to oil exporters and strengthen the common pool of reserves. In this context My CEMAC authorities also agree with staff that the level of international reserves need to be adequate while taking into account the country-owned "Funds for Future Generations" and respecting the principles of the monetary arrangement.

6 – Banking Supervision and Financial Sector

Over the past years, the *Commission Bancaire de l'Afrique Centrale* (COBAC) has pursued the strengthening of prudential regulations. However the implementation of some prudential requirements was hampered by the economic structure of the member countries. The authorities are concerned about this situation and determined to subdue the nonperforming loans. While the authorities share the concerns expressed about the access of the private sector to credit, they remain committed to press ahead with the ongoing reforms in the financial sector including the clarification of the legal status of mortgage and the banks' familiarization with loans' syndication. New regulations regarding capital base, risk-management systems and audits to properly manage risks have also been adopted with a view to strengthen the public confidence in the banking sector. The CEMAC authorities are strongly determined to develop a regional capital market. To this end they also take note of the need to avoid duplication of efforts in the sector. In addition, the project meant to modernize the regional payment system has been on going and the authorities envisage to operationalize the new system in 2006. Progress made in the area of microfinance regulation and supervision will be sustained owing to its valuable role in financing rural activities and helping financial sector development.

7 - Trade Policy and External Competitiveness

My CEMAC authorities stressed their commitment to increase member countries' compliance with common rules in order to expand the intraregional trade. They support the staff' views on the difficulties they face in this area due in particular to weak institutional capacity to implement and control trading rules. Fiscal factors also explainthe internal tariffs' upholding in some member countries. To further increase the trade within the region, there is a crucial need to step up structural reforms in improving the region's tariff policy, promoting export diversification, reducing production costs and making better the business environment to attract foreign direct investment. The CEMAC authorities attach great importance to these steps as they are key elements in their efforts to improve the region's competitiveness. In order to strengthen the region's economic position, my authorities are determined to boost labor productivity, diversify the production and export base as well as improving infrastructure, energy and access to new technologies. In the same vein, they will focus on streamlining investment codes, adopting a single document by limiting the number of customs forms and eliminating double taxation of goods in member countries and further enhancing the region-wide laws implementation.

8 – Policy Convergence

It is worth noting that compliance with CEMAC convergence criteria improved significantly in 2004. This noteworthy progress, over the past years, is the result of the authorities' determination to abide by macroeconomic criteria coupled with the favorable external developments that occurred in the oil markets. Nearly all oil exporters were able to meet the criteria. Based on this result, the authorities are committed to further encourage compliance with the regional convergence criteria and region-wide rules and regulations.

9 – Conclusion

Strengthening the regional integration process remains the key objective of my CEMAC authorities and the political commitment of member countries is still strong. In his respect significant progress has been achieved, notably in 2004, with the convergence criteria. However, much remains to be done in order to create an effective regional economy. To this end the CEMAC authorities, mindful of the depletion of oil resources, are strongly determined to press ahead with structural reforms needed to support market integration, diversify the production and export base in the non oil sector. They will also pursue steadfastly the efforts to reduce poverty in the region.