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Central African Economic and Monetary Community: Staff Report on Common Policies of Member Countries; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Central African Economic and Monetary Community

In the context of Article IV consultations with the countries forming the Central African Economic and Monetary Community (CEMAC), the following documents have been released and are included in this package:

- the Staff Report on Common Policies of Member Countries of the CEMAC, prepared by a staff team of the IMF, following discussions that ended on April 8, 2006, 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 June 20, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of July 10, 2006 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 10, 2006 discussion of the staff report.

- a statement by the Executive Director on the common policies of member countries in the CEMAC.

The document listed below has been separately released.

Financial System Stability Assessment
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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Central African Economic and Monetary Community—Staff Report on Common Policies of Member Countries

Prepared by the African Department

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

Approved by Benedicte Vibe Christensen and Michael Hadjimichael

June 20, 2006

- A staff team visited the Banque des Etats de l'Afrique Central (BEAC) in Yaoundé April 2–8, 2006 to conduct the first formal Article IV discussions in relation to Central African Economic and Monetary Community (CEMAC) members. Regional Financial Sector Assessment Program (FSAP) missions took place in January and March 2006.

- CEMAC members are Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, and Gabon. The common currency, the CFA franc, is pegged to the euro at CFAF 656 per €1. CEMAC member countries accepted the obligations of Article VIII in June/July 1996.

- The mission met with Governor Mamalepot and other senior BEAC representatives and with senior representatives of the Banque de Développement des États de L'Afrique Centrale (BDEAC), 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 team, headed by Ms. Gulde-Wolf (AFR), consisted of Messrs. Christensen, Kalonji, and Tsangarides (all AFR) and Mr. Martijn (PDR). Messrs. Jaime and Darboux of the World Bank joined the discussions. Ms. Gulde-Wolf and Mr. Christensen also participated in the FSAP concluding meeting on March 29, 2006.

- In recent years, the policy dialogue has been directed to improving the effectiveness of regional monetary policy, deepening trade and financial market integration, and enhancing the competitiveness of the region. The authorities have generally agreed with the recommendations of the informal regional discussions, but implementation of some recommendations has been slow.

- Appendix I summarizes the CEMAC countries' relations with the Fund.

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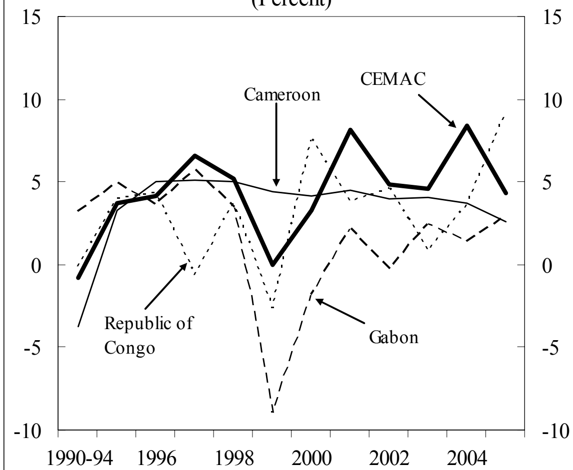
EXECUTIVE SUMMARY

- These were the first formal discussions with the CEMAC in the context of the Article IV consultations with member countries. The discussions also covered the findings of the preceding regional FSAP missions.
- Recent macroeconomic developments in the CEMAC have benefited from oil windfalls. The fiscal surplus excluding grants quadrupled to 7.9 percent of GDP, and the regional current account showed a surplus for the first time since 2000. Foreign reserves increased to 4 months of imports of goods and services from 2.4 months at end-2004. The CEMAC members used some of the oil windfalls to repay domestic and external debt.
- The fixed exchange rate of the CFA franc to the euro provides the nominal anchor for the regional economy. In 2005, as a result of changes in the euro/US dollar exchange rate, there was a further slight appreciation of the real effective exchange rate (REER). Analysis of the equilibrium exchange rate and increases in international reserves support the conclusion, however, that the current level of the exchange rate is broadly appropriate, but structural factors constrain competitiveness. With the recent slow-down in the growth of non-oil exports, the authorities need to be mindful of avoiding "Dutch disease."
- Oil-related surpluses pose new challenges for macroeconomic policymaking, particularly coordination of national fiscal policies. Since the convergence criteria cannot provide adequate guidelines for fiscal surpluses, a mechanism needs to be found to divide oil inflows between spending and saving and, for the latter, between common reserves and country-owned financial funds. The BEAC can play a useful role in the investment of countries' long-term savings, but members should earn market-based remuneration.
- Recent oil-related inflows contributed to a rapid expansion of broad money and emerging inflationary pressures in some the CEMAC member countries. It is urgent that excess liquidity should be mopped up in the region, preferably using BEAC bills to mop up liquidity. Moving to single treasury accounts with the BEAC, rather than keeping government balances with commercial banks, would also help.
- The regional FSAP points to weaknesses in banks, including low capitalization, and raises concerns about the limited independence and constrained human and financial resources of COBAC, the regional banking supervision agency. It sees access to financial services as the key developmental challenge.
- CEMAC could draw further benefits from regional integration. Intraregional trade, less than 2 percent of total trade, is among the lowest of all African trade groups, and financial flows between countries are limited to intragroup transactions. To enhance competition, the region's high external tariffs should be reduced. Removing informal barriers to intraregional and international trade and improving the business climate generally would also contribute to faster economic growth and trade.

I. Recent Developments and Trends in Economic Integration

1. **Macroeconomic developments benefited from oil windfalls, but structural problems still impede non-oil growth.** Fiscal and current account balances for the CEMAC region as a whole improved in 2005 largely—but not exclusively—because of oil-related inflows (Table 1). However, despite the positive terms-of-trade shock, real GDP growth was weak (Figure 1), and the region made only limited progress in deepening integration and in structural reforms.

Figure 1. CEMAC: Real GDP Growth Rate
(Percent)



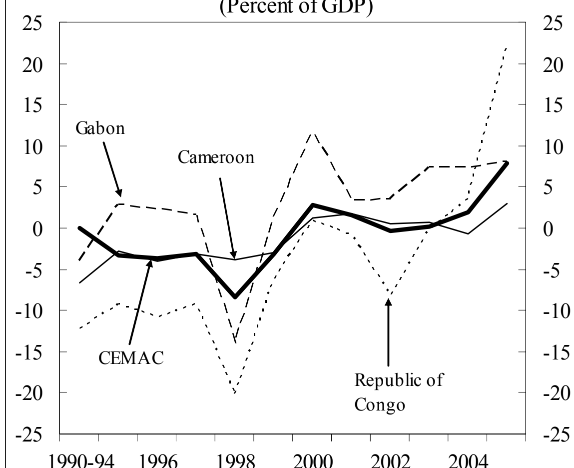
Sources: IMF, *World Economic Outlook;* and staff estimates.

A. Macroeconomic Developments and Prospects

2. **Fiscal and external balances improved in the CEMAC because of the surge in oil prices and better fiscal management (Table 2).**

- Fiscal revenues to GDP increased from 21 percent in 2004 to almost 26 percent in 2005, while lower debt service obligations helped reduce expenditures from 19.3 percent to 17.9 percent of GDP, despite higher investment in infrastructure (Tables 3 and 4, and Figure 2). About half the improvement in revenues was on the non-oil side because of measures taken in several the CEMAC countries to broaden the tax base and reduce fraud and tax evasion. The fiscal surplus, excluding grants, quadrupled to 7.9 percent of GDP. The regional non-oil fiscal deficit, excluding grants, was reduced by 2 percentage points to 11 percent of non-oil GDP.

Figure 2. CEMAC: Overall Fiscal Balances
(Percent of GDP)



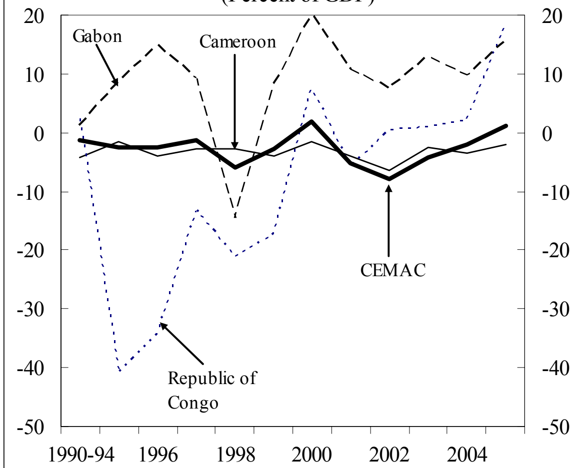
Sources: IMF, *World Economic Outlook;* and staff estimates.

- The region's external current account balance turned positive for the first time since 2000 (Table 5 and Figure 3): the surplus of 2.7 percent of GDP followed a 2004 deficit of 3.1 percent. Higher prices for oil, coffee, timber, and aluminum raised export receipts by more than 20 percent. In spite of some real appreciation, import growth slowed as the previous import boom (related to oil investments) came to an end.

- Foreign reserves increased to 4 months of imports of goods and services from 2.4 months at end-2004.

- CEMAC members used some of the oil windfalls to repay domestic and external debt. External debt fell from 59.8 of regional GDP in 2004 to 40.6 percent—half the 2000 level—in 2005.[1] Domestic debt declined by about 1.5 percent of regional GDP.

Figure 3. CEMAC: External Current Account Balances
(Percent of GDP)

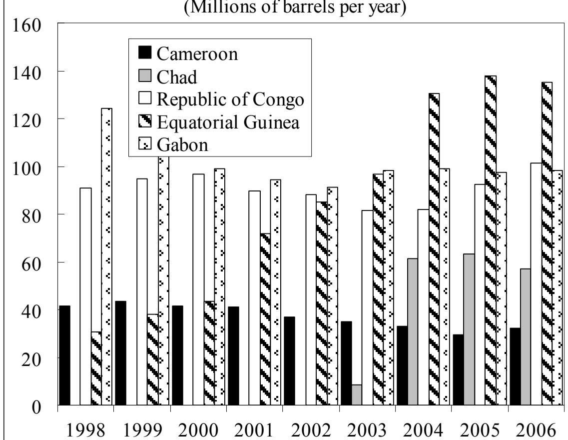


Sources: IMF, *World Economic Outlook;* and staff estimates.

3. **Oil-related reserve inflows also helped accelerate regional broad money, leading to somewhat higher inflation and a small further appreciation of the real effective exchange rate (REER).** With no active sterilization policy, oil-related liquidity was only partly absorbed through government deposits at the central bank (Table 6), which by November 2005 further increased excess liquidity in the commercial banking sector to 18 percent of broad money (Table 7). Fueled by increases in net foreign bank assets and rapid credit growth in Chad, Congo, Equatorial Guinea, and Gabon, regional broad money growth increased to almost 18 percent from 10 percent in 2004 (Table 8). Inflation increased from about 1 percent to 3.8 percent, partly because adverse weather conditions continued to raise food prices. The pick-up in inflation largely accounted for a modest appreciation of the REER for the fifth year in a row (Table 9).

4. **Low per capita growth remains a concern.** Despite the rapid increases in oil prices, which greatly supported real income growth, poverty is widespread. Five CEMAC countries still rank in the lowest third of the U.N. Human Development Index. Region-wide real GDP growth fell from 8.4 percent in 2004 to 4.3 percent in 2005, mainly because oil production in Chad and Equatorial Guinea steadied after recent rapid expansions (Table 10 and Figure 4). Non-oil output growth declined slightly, from 4.4 percent in 2004 to

Figure 4. CEMAC: Oil Production
(Millions of barrels per year)

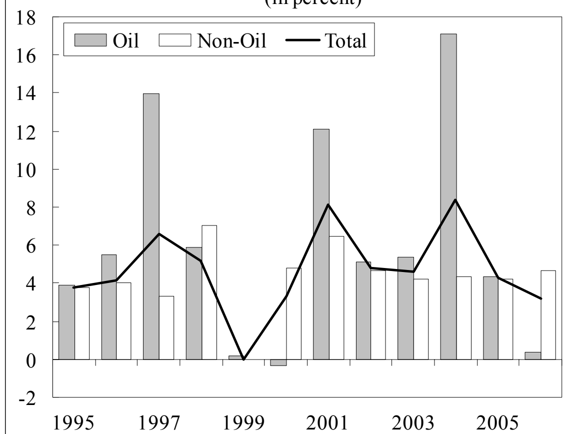


Sources: IMF, World Economic Outlook database; and staff estimates and projections.

[1] Almost half of the debt reduction, however, was due to the Paris Club agreement for the Republic of Congo, implemented in 2005, and smaller debt relief given to Chad under the HIPC Initiative.

4.2 percent in 2005, continuing a pattern that began in 2001 (Figure 5).

Figure 5. CEMAC: Real GDP Growth Decompoition
(in percent)



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

5. **Macroeconomic prospects for 2006 are positive, despite persistent structural challenges (Table 11).** Real GDP growth is forecast to slow to 3.2 percent because oil production in Chad and Equatorial Guinea is slowing, and inflation is expected to be about 3 percent. Higher oil prices support a further increase in the external current account surplus (including grants) to 5 percent of GDP. The fiscal surplus (excluding grants) is expected to continue at about 9 percent. Among the risks to the forecast are further exchange rate appreciation, the lack of significant steps to ease structural constraints to non-oil growth, and strong wage pressures in some countries.

B. Regional Convergence and Progress in Economic Integration

6. **Economic performance in 2005 continued to differ widely by country** (see below**).** Growth was lowest in the Central African Republic (CAR)—the only non-oil producer in CEMAC—despite increased diamond production. Among the oil producers, growth ranged from 2.6 percent (Cameroon) to 9.2 percent (Republic of Congo). Cameroon, the largest and most diversified economy, grew by only 2.6 percent because of weak agro-industry production and a poor business environment. Inflation ranged from 8 percent in Chad to about zero in Gabon, reflecting differences in pass-through of higher oil prices, poor harvests in Chad, and rapid growth of money and credit in some countries.[2]

CEMAC: Differences in Macroeconomic Performance Among Member Countries

	Real GDP [1]			Inflation [1]			Non-oil Fiscal Balance [2]			Current Account Balance [2]			Terms of Trade [1]		
	2000-04	2005	2006	2000-04	2005	2006	2000-04	2005	2006	2000-04	2005	2006	2000-04	2005	2006
Cameroon	4.1	2.6	4.2	2.2	2.0	2.6	-3.9	-0.1	-2.5	-3.6	-2.0	-2.0	7.8	15.2	4.5
Centr. Afr. Republic	-1.0	2.2	3.2	2.3	3.0	2.3	-5.2	-4.6	-3.3	-5.9	-6.0	-6.0	-7.4	1.4	0.7
Chad	12.6	5.6	3.0	2.9	7.9	3.0	-13.3	-15.8	-22.1	-43.7	1.0	6.0	8.3	27.7	23.5
Congo, Republic of	4.1	9.2	5.2	1.9	2.0	2.5	-49.5	-42.9	-40.9	1.0	18.6	17.5	17.1	8.9	-6.1
Equatorial Guinea	32.0	6.0	-1.1	6.9	6.8	5.5	-13.6	-6.6	-2.0	-30.1	-13.6	-6.1	32.9	23.6	22.0
Gabon	0.8	2.9	2.9	1.1	0.1	1.0	-21.8	-23.1	-23.8	12.2	15.6	19.4	2.6	11.9	0.4
CEMAC	5.8	4.3	3.2	2.5	3.8	3.1	-13.3	-11.0	-11.9	-3.5	1.1	2.6	5.9	15.8	7.6

Sources: IMF African Department database; World Economic Outlook; and staff estimates and projections.
[1] Annual percentage change.
[2] In percent of GDP, excluding grants.

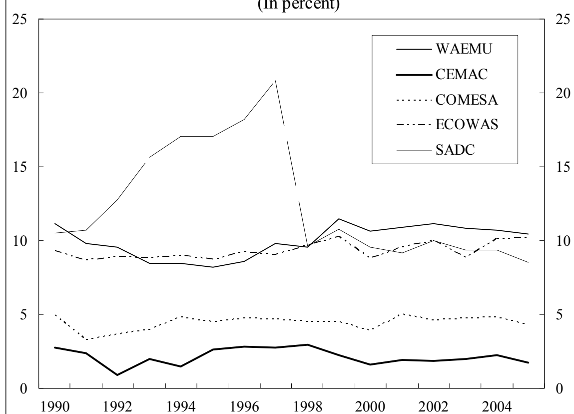
7. **The CEMAC member countries made progress toward meeting the convergence criteria in 2005 but economic links among countries are still feeble (Table 12).** Oil-exporting CEMAC countries were able to comply with nearly all criteria, except that

[2] Pass-through was 88 percent in Cameroon, and 58 percent in Equatorial Guinea. Pass-through was 0 in the Central African Republic, the Republic of Congo and Gabon.

Equatorial Guinea and Chad missed the inflation criterion due to domestic demand pressures and the Republic of Congo missed the debt criterion. However, the measured improvements in convergence were driven more by oil windfalls than by targeted national policies supporting the monetary union. The CAR missed three of four criteria, including the fiscal arrears criterion.

8. **Structural obstacles impede a deepening of regional integration.** Despite a common monetary and economic zone, all CEMAC markets remain shallow and segmented. Important financial sector reforms—such as full implementation of the single license for banks in the region and the introduction of marketable official debt instruments—have yet to be made. Continuing difficulties in applying agreed trade policies limit the growth benefits of the regional arrangement. The low intraregional trade—in 2005 only 1.4 percent of total trade (Figure 6)—attests to the continuing challenges in economic integration. Finally, the region has seen no progress toward external trade liberalization. Customs procedures are cumbersome and the common external tariff is relatively high (30 percent for consumer goods).

Figure 6. Selected Regional Groups: Intraregional Trade
(In percent)



Sources: IMF, *Direction of Trade Statistics;* and staff estimates and projections.

II. Regional Policy Issues and Report on the Discussions

9. **Higher oil income offers CEMAC members economic opportunities but also challenges.** It permits members to achieve fiscal sustainability, accumulate savings, and undertake social and infrastructural expenditures to boost growth and make progress towards the Millennium Development Goals (MDGs). But beyond the macroeconomic challenges of absorbing increasing inflows, there is a need to coordinate fiscal policy as set by each country with the regional monetary policy. Adding to the policy challenges are the limited time horizon for regional oil production—known resources are expected to peak in 2010—and diverging production patterns for the oil exporters.

10. **Against this background, the policy discussions dealt with three areas:** (i) an appropriate macroeconomic framework; (ii) structural measures to improve the functioning of the CEMAC economies and the environment for economic development; and (iii) policies to strengthen regional integration that would allow CEMAC members to draw more benefits from it. The mission followed up with the regional authorities on the policy recommendations of the Financial Sector Assessment Program (FSAP) missions earlier in 2006.

A. Macroeconomic Framework

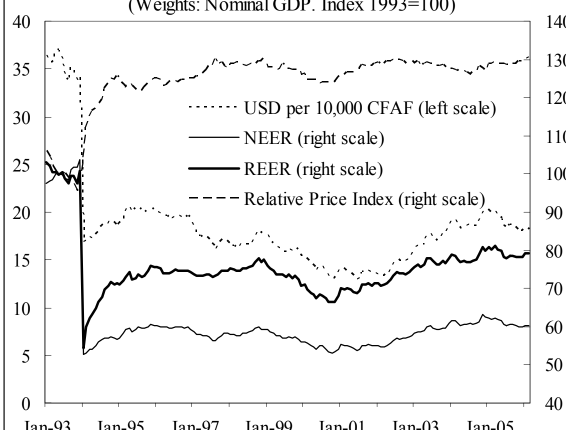
Exchange rates and international reserves

11. **The fixed exchange rate regime, in place for about 50 years, anchors the region's macroeconomic policy.** In the past, the CEMAC has had similar growth to other sub-Saharan (SSA) countries, albeit with significant country-specific differences, and lower inflation. The authorities expressed continued strong support for the arrangement, noting the benefits of the common currency on inflation and for effective policy coordination. They pointed out that the system was able to weather the significant real shocks in the past years, including the changes in the REER resulting from changes in the euro-US dollar exchange rate. Staff and the authorities agreed that macroeconomic policies, a path for reserve accumulation from oil-related incomes, and efforts to avoid "Dutch disease" would all be needed if the exchange rate regime were to stay consistent.

12. **The mission and the authorities welcomed the stronger reserve cushion and agreed that the level was now appropriate.** In assessing the adequacy of regional reserves, it is necessary that there be a credible backing for the fixed exchange rate regime and an understanding of the particular risks in the region, including the vulnerability of CEMAC members to terms-of-trade shocks. While there is no firm rule for assessing reserve adequacy, the mission pointed out that a common rule of thumb is that the optimal level of foreign exchange reserves should equal at least three months of imports. A recent staff study found that, for the CEMAC, withstanding a two-standard deviation shock to the trade balance would require reserve coverage equal to 4.5 months of imports.[3] Thus with reserves exceeding four months of imports and covering almost 100 percent of money supply, there is room for some longer-term investment of oil-related inflows (see also below). The mission underscored, however, that revised investment rules still had to ensure that monetary reserves remained adequate.

13. **Though the REER appreciated by about 1 percent in 2005, it remains below its pre-devaluation level (Figure 7).** The mission and the authorities discussed the appropriateness of the current level of the exchange rate, competitiveness going forward, and the continued suitability of the exchange rate regime. Staff research has found a small, statistically insignificant, overvaluation of the REER at the end of 2005 and a recent decrease in the gap between the actual and the equilibrium REER (Box 1). The mission acknowledged, however, that modeling the equilibrium exchange rate in the context of the

Figure 7. CEMAC: Exchange Rates and Relative Prices
(Weights: Nominal GDP. Index 1993=100)



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

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[3] See "Reserve Adequacy in a Currency Union: The Case of CEMAC", in Central African Economic and Monetary Community—Selected Issues (IMF Country Report 05/390).

Box 1. Actual and Long-Run Real Equilibrium Effective Exchange Rates in CEMAC[1]

A staff study examined the relationship between the CEMAC real effective exchange rate (REER) and its long-run equilibrium level (EREER) using the Edwards (1989) fundamentals equilibrium exchange rate (FEER) approach and the Johansen (1995) cointegration methodology. The study 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 economic fundamentals. Because the estimation approach has certain limitations, the results should be used in conjunction with other indicators.

Using annual observations for the period 1970-2005, the study tests for the existence of a cointegrating (long-run) relationship between the real exchange rate and terms of trade (TOT), government consumption to GDP (CGR), investment to GDP (INV), technological progress (PROD), and openness (OPEN). A priori, increases in the terms of trade and technological progress are expected to have an appreciating effect on the REER because an increase in these variables induces an increase in the relative price of non-tradable goods; increases in investment and openness are expected to have a depreciating effect on REER by shifting spending toward traded goods, thus raising their relative price. Finally, increases in government consumption will result in appreciation if government spending is primarily directed towards nontradable goods and in depreciation if spending is directed toward tradable goods.

$$\ln(\text{REER}) = 1.57 + \underset{[9.04]}{0.70} \times \ln(\text{TOT}) + \underset{[2.70]}{0.41} \times \ln(\text{CGR}) - \underset{[-2.50]}{0.21} \times \ln(\text{INV}) + \underset{[15.60]}{0.59} \times \ln(\text{PROD}) - \underset{[-2.36]}{0.24} \times \ln(\text{OPEN})$$

The resulting cointegration equation is consistent with the predictions from economic theory, because the estimated coefficients of the fundamentals have the expected signs and are strongly statistically significant. The estimated elasticities show that terms of trade and productivity have the highest marginal impact.

The permanent component of the fundamentals derived using the Gonzalo-Granger (1995) methodology and the estimated coefficients are used to generate the EREER series (Figure 1) and the associated error bands (Figure 2). The results show that the REER was overvalued from the late 1980s to 1994, suggesting that the 1994 devaluation was warranted. After 1994, the gap between the REER and the EREER narrowed, with the REER temporarily exceeding its equilibrium level in 1999 and again from 2001 through 2004. The REER remained above equilibrium for the rest of the period analyzed, with the distance gradually decreasing from 2002 on. At the end of 2005, the estimated deviation from the EREER was not statistically significant (Figure 2), suggesting that the REER was broadly in line with its estimated long-run equilibrium level.

Figure 1.CEMAC
Actual and Equilibrium Real Exchange Rates

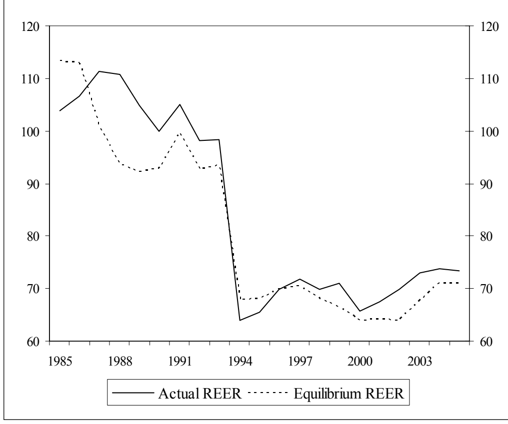
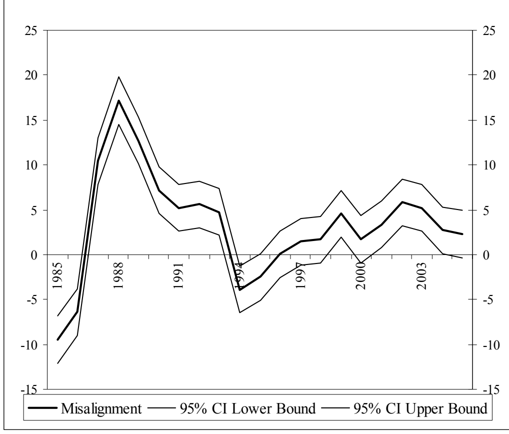


Figure 2. CEMAC
Estimated Misalignment Episodes

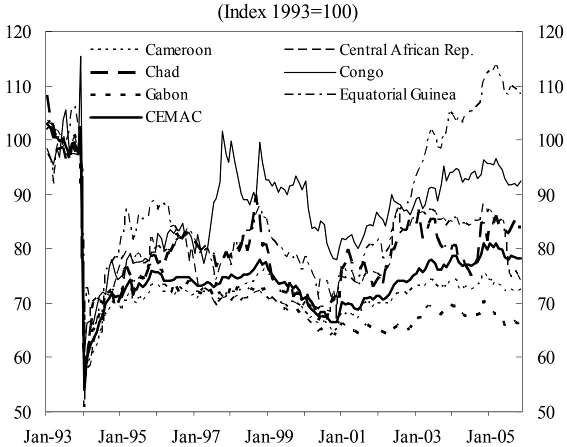


[1] Based on a forthcoming Working Paper, "Estimating the Equilibrium Exchange Rate for the CFA Franc Zone." A similar approach was used in IMF Country Report 05/390.

CEMAC was particularly challenging, given the need to account for structural changes from oil income. The authorities concurred that, with the slowdown in real appreciation, the current level of the exchange rate was appropriate.

14. **Trends in the REER of the CEMAC members diverge significantly (Figure 8).** The authorities acknowledged the economic policy challenges of the stark differences among member countries. They agreed that countries with more appreciated REERs (notably Equatorial Guinea) and the Republic of Congo face more severe competitiveness challenges. The mission suggested that the significant differences in prices, which are at the heart of the divergences in REERs, in part reflected limited cross-border movements of capital, goods, and labor, which would suggest a call for increased goods and factor mobility.

Figure 8. CEMAC: Real Effective Exchange Rates
(Index 1993=100)



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

Competitiveness

15. **The authorities agreed on the need to monitor competitiveness but cited difficulties in reconciling conflicting evidence** (see CEMAC competitiveness indicators). The mission and the authorities agreed that, going forward, the challenges to competitiveness stemmed more from structural factors rather than from nominal effective exchange rate and price developments. The authorities argued, furthermore, that exchange rate–based measures of competitiveness do not capture structural changes in the region's output composition as the oil sector expands. While exchange rate-based measures point to declines in competitiveness, the authorities suggested that recent increases in export volumes, market penetration ratios, and export market shares to different regions could indicate gains. They also said that terms of trade and export profitability

CEMAC: Indicators of Competitiveness

	1993	1994	2000	2001	2002	2003	2004	2005 Est.
REER CPI-based[1]	100	66.2	68.1	70.1	73.0	76.7	78.1	79.2
Cumulative gain/loss		-33.8	-31.9	-29.9	-27.0	-23.3	-21.9	-20.8
Market penetration[2]								
To European Union	0.14	0.13	0.13	0.13	0.12	0.11	0.11	0.13
To Africa	0.28	0.28	0.29	0.33	0.36	0.28	0.26	0.25
To US	0.25	0.23	0.21	0.20	0.20	0.24	0.31	0.42
To World	0.13	0.11	0.14	0.13	0.14	0.14	0.15	0.20
Domestic market penetration[3]	13.4	20.8	24.6	28.0	28.5	26.6	26.7	28.1
Exports/GDP	23.0	33.9	44.8	40.9	38.7	38.9	45.5	54.3
Oil exports/GDP	14.8	21.1	33.3	31.0	29.0	29.0	36.0	45.8
Non-oil exports/GDP	7.5	10.5	10.4	8.5	9.2	9.9	9.3	8.4
Oil exports/total exports	66.5	66.8	76.2	78.4	76.0	74.5	79.5	84.5
Non-oil exports/total exports	33.5	33.2	23.8	21.6	24.0	25.5	20.5	15.5
Export volume								
Oil export volume	3.6	3.3	4.0	4.0	4.5	4.9	6.7	7.3
Non-oil export volume	1.9	1.7	2.4	2.3	2.3	2.7	2.9	2.9
Profitability[4]	100	162.5	224.5	187.1	169.4	170.5	166.1	207.0
Profitability[5]	100	134.1	165.3	148.2	141.0	144.4	145.7	187.7

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

[1] An increase (decrease) in the indicator implies a deterioration of (improvement in) competitiveness.

[2] Ratio of CEMAC exports to selected groups' imports.

[3] Ratio of imports to domestic demand. An increase (decrease) in the indicator implies a deterioration of (improvement) in competitiveness.

[4] Ratio of export price index to wages.

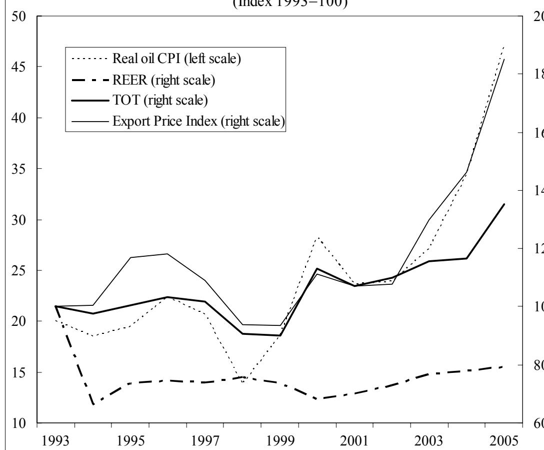
[5] Ratio of export price index to tetriary GDP deflator.

had recently improved, mainly driven by oil price and export volume increases (Figures 9 and 10).

16. **The slowdown in the growth of non-oil exports in the CEMAC is worrisome.** In view of the need to diversify economies within the relatively short horizon of oil production, the mission suggested a need to focus on non-oil sector competitiveness. The shares of non-oil exports in total exports and in GDP have been declining since 1995 and volumes of non-oil exports have remained almost flat in the last two years (Figure 11). The authorities concurred that the expansion in oil sectors had led to growing domestic cost pressures, including higher costs of labor and services, particularly in Equatorial Guinea and Chad. Finally, structural rigidities undermine the competitiveness of the non-oil export sector. For example, business climate indicators in the CEMAC region point to severe obstacles to private sector development, including limited access to bank credit, high cost of collateral, an inadequate legal framework, and labor market rigidities (Table 13). Non-oil sectors also did not benefit from the recent large increases in foreign direct investment (FDI), which were predominantly associated with investments in the oil sector.

17. **The authorities and the mission alike saw a need to better promote diversification.** To improve competitiveness, the regional authorities have proposed to member countries a list of measures that include tightening fiscal and revenue policies to avoid an inflationary spiral, improving energy and food supplies, promoting FDI outside the energy sector, and aligning export quality to international standards. The authorities suggested that regional efforts to improve transportation and telecommunications would strengthen competitiveness. The mission mentioned the

Figure 9. CEMAC: Terms of Trade, Export Prices and Exchange Rates
(Index 1993=100)

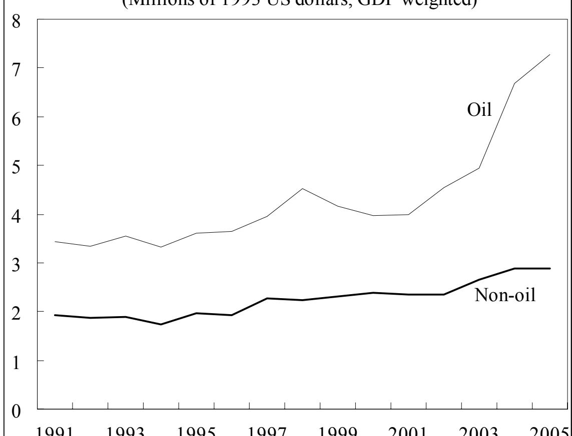


Sources: IMF, *World Economic Outlook;* and staff estimates.

Figure 10. CEMAC: Profitability Indicators
(Index 1993=100)

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

Figure 11. CEMAC: Oil and Non-oil Volume Exports
(Millions of 1993 US dollars, GDP weighted)



Source: IMF, INS; and *World Economic Outlook.*

challenges of keeping price and wage pressures under control and called for a review of labor market rigidities, which are high in comparison with other African countries.

Fiscal policy and oil-related inflows

18. **The mission and the authorities agreed that, given the oil-related inflows, the region should offer countries with a fiscal surplus guidance on an appropriate mix of spending and saving.** In a monetary union some coordination of fiscal policies is needed to avoid negative spillovers from unsustainable fiscal policies to other members. In the CEMAC, the peg of the common currency to the euro imposes additional constraints on the policy mix. At present, fiscal policy in CEMAC is conditioned by the convergence criteria, which require a zero basic balance.[4] While performance against this yardstick has improved, it has—in the context of fiscal surpluses—also lost much of its relevance. The authorities and the mission concurred that safeguarding part of the additional oil revenue for future generations was an important goal for member countries. The mission suggested, however, that member countries be guided by a broader view on fiscal policies, taking account of members' spending needs and absorptive capacity, while also considering the longer-term implication of higher spending once the temporary revenues come to an end. Staff noted that a rule aiming at a fiscal balance based on permanent instead of actual revenues, could supplement the convergence criterion, but that sufficient flexibility to increase social and growth-critical expenditures needed to be retained. In the authorities' view, a policy dialogue like the one that recently took place at the biannual meeting of head of states and finance ministers could be a forum for regional coordination, even though to facilitate the process they felt that a more automatic formula might be needed in the medium term.

19. **The discussion of current fiscal challenges centered on how recent increases in oil income have affected spending patterns.** Fiscal policies in 2005 were conservative, with most of the windfall either used to repay domestic and external debt or saved in the form of higher government deposits at the BEAC. The authorities said they considered part of the oil price increase to be permanent and suggested that, over time, increases in the absorptive capacity of member country economies should allow for higher spending in support of deeper regional integration and faster regional growth through, e.g., national and regional infrastructural investments. They said they planned to draw on regional and international expertise in this effort and a consultative conference is planned for November 2006. The authorities and the mission agreed that higher spending would need to be phased in cautiously, to avoid spending beyond countries' absorptive capacity as well as risks of "Dutch disease." The mission also cautioned against channeling large-scale investments through the regional development bank, which has only just emerged from a long restructuring process and is untested in its new form.

20. **The recent agreement on a framework for channeling oil-related government savings through the BEAC is commendable.** It allows member countries to open CFA-

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[4] A CFA franc zone-wide review of the convergence framework is currently under way. It is aiming at an adequate definition of relevant deficits and does not address the management of a temporary revenue boom.

dominated Funds for Future Generations (FFGs) and Oil-Income Stabilization Funds (OSFs) in the central bank. The new framework suggests that, in accordance with the current rules on the investment of foreign exchange reserves, counterpart foreign exchange funds will be invested largely with the operations account at the French Treasury.[5] Remuneration to members will be linked to the BEAC's earnings on this account. The mission welcomed the remunerated funds and agreed that locating them in the BEAC helped transparency. It suggested, however, that the investment and remuneration schemes should be reviewed. In particular, it saw a need to distinguish between monetary reserves and funds that will be held in FFGs and OSFs: monetary reserves should be invested—as the BEAC currently does—with a view to safety and liquidity. FFGs and OSFs could be invested in longer-term instruments that earn a higher return. Remuneration of FFGs and OSFs should reflect investment returns, thus giving member governments incentives to save. The authorities agreed to review investment options. While the BEAC's own reserve management capabilities are being built up, it will secure the help of a reputable outside investment manager.

Monetary policy, liquidity management, and interest rates

21. **While the exchange rate is fixed, the BEAC has some monetary independence because of capital controls.** The BEAC formulates a regional reserve money program, but with reserve inflows high and the BEAC's lack of substantial sterilization efforts, the region suffers from substantial excess liquidity. The authorities felt that no additional sterilization efforts were necessary because the excess liquidity did not currently constitute an immediate threat to price stability, and sterilization would be costly. The mission, however, argued for more aggressive mopping-up of excess liquidity, noting recent sharp increases in bank lending and inflation in some member countries. Beyond the immediate challenges, it also believed, that persistent high excess liquidity has a negative impact on the efficiency of central bank monetary policy signals and financial market development.

22. **The mission called for more support from member governments to strengthen monetary management, ensure financial stability, and increase transparency.** The fact that the majority of the CEMAC governments continue to hold their funds in commercial banks has considerably increased liquidity and is a major complication for monetary management. It could also have negative implications for financial stability, if fiscal problems lead to sudden deposit withdrawals. The mission suggested that the BEAC encourage its members to move to single treasury accounts with the BEAC, stressing the advantages not only for monetary policy implementation but also for the efficiency and transparency of fiscal operations. It also suggested a renewal of earlier efforts to replace direct central bank advances by treasury bills, which would give the BEAC better control over its balance sheet. While agreeing in principle with the proposal, the CEMAC representatives said that this reform needed support at the member country level. They also argued, and the mission agreed, that given the current surpluses statutory advances were not

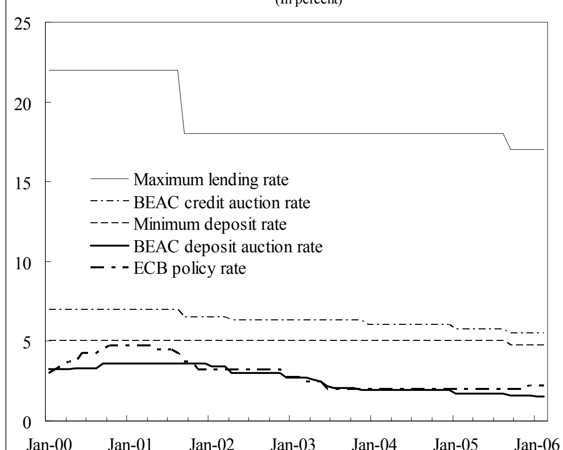
[5] Current rules for monetary reserves require that the BEAC invest 65 percent of its foreign exchange funds with the operations account with the French treasury, while the remainder can be invested by the authorities according to the BEAC's reserve investment rules.

the primary cause of excess liquidity. Finally, the mission supported calls by the regional authorities for more transparency in the accounting for and repatriation of export receipts, and welcomed the establishment of a permanent EITI secretariat at the BEAC. The mission noted that adequate remuneration of all government's funds held with the BEAC, including both regular deposits and—importantly FFGs and OSFs—would be important in this context (see also paragraph 20).

23. **The mission also called on the BEAC to make more efforts to signal and implement a consistent monetary policy.** Since liquidity is excessive, the mission expressed concerns about the credibility of BEAC monetary policy, and suggested a more transparent and proactive stance. The mission reiterated earlier recommendations to mop up liquidity in excess of levels consistent with the monetary program. Also, the mission reiterated the recommendation to unify required reserves across members, and lower their currently excessive high levels. It suggested issuing marketable central bank bills, which would—beyond their value as monetary instruments—also support financial market development. The authorities agreed that it was desirable to stay closer to the liquidity targets set in the regional monetary program. However, they cautioned that even if it were more active, the management of recent oil-related inflows exceeded the central bank's capacity for sterilization. The mission thought this underscored a need to channel some funds into FFGs and OSFs. Given that the domestic liquidity counterparts would be longer-term illiquid deposits with the BEAC, this would help limit direct liquidity consequences. The authorities agreed to review the possibility of introducing marketable central bank bills but expressed concerns about the possible impact on the BEAC's income position.

24. **The mission cited the importance of rationalizing interest rate policy.** At a time of increasing euro interest rates (Figure 12), the BEAC recently lowered all policy as well as all controlled interest rates. The authorities argued that these moves did not endanger the peg because the interest rate differential to euro retail rates remained positive. They also deemed the move necessary to raise investment. The mission felt that the move did not seem justified given that, with the excess liquidity, bank lending did not seem constrained, while there were indications of increased private capital outflows. The authorities stressed the need to continue to control some deposit and lending rates (against the FSAP and the mission's recommendations) but said those affected only a small fragment of the market. They agreed that, given low inflation, the minimum deposit rate could be lowered further.

Figure 12. CEMAC: Domestic and Foreign Interest Rates, 2000-06
(In percent)



Sources: BEAC; IMF, *International Financial Statistics;* and staff estimates.

B. Structural Policies and Regional Market Environment

Financial soundness and financial sector development

25. **The mission applauded CEMAC's participation in the regional FSAP.** The FSAP outlined regional reform priorities for liquidity management, banking supervision, resolution of remaining weak banks, and strengthening CEMAC financial integration to support the stability and enhancement of the regional financial system. The authorities agreed with the findings of the FSAP and said that its recommendations built on reform efforts already underway. Given this consistency between their own and the FSAP assessment, they said, the suggested reform proposals would guide BEAC and COBAC's financial sector reforms.

26. **The FSAP recommendations underscore the importance of structural reforms in the financial sector** (Box 2). Given the obstacles to private sector lending and the lack of effective financial market integration among CEMAC members, the financial sector is a significant obstacle to sustainable higher growth. In addition, the very low access of households to financial services—among the lowest in the world—is a concern in overcoming poverty. The FSAP points to vulnerabilities in the banking system and emphasizes the importance of strengthening the regional supervisor to ensure vigilance. In line with the FSAP conclusions, the mission in turn emphasized the importance of improvements in the business environment in such areas as bankruptcy law and collateral registration.

27. **The mission suggested that member countries could draw more benefits from the regional financial markets.** As confirmed by the FSAP, the legal basis for a common monetary zone is in place and many banks operate in several member countries. However, as shown by persistent interest rate differentials and limited regional interbank activity, actual financial integration is lagging. The mission pointed to the economies of scale and better risk diversification associated with better integrated financial markets. It therefore recommended making cross-border links a priority—for example, by conducting monetary policy at the regional rather than the country level.

Trade and regional market integration

28. **Intraregional trade is lower than in any other free trade area on the continent**. The mission acknowledged that the lack of complementarities between the CEMAC countries limits the scope for intraregional trade. However, the mission also argued that trade is hindered by the poor functioning of the CEMAC customs union. This union was formally adopted in 1994, but it is not yet well administered. Moreover, national customs procedures and regulations do not comply with the common regime. Remedial action has fallen well behind a provisional 2003 roadmap for reform. The authorities said, however, that progress was underway with the planned move of five members to the Automated System for Customs Data (ASYCUDA) customs information system, efforts to facilitate transit trade from

Box 2. Findings and Recommendations of the CEMAC Regional FSAP

The 2006 Article IV consultation in relation to CEMAC members was accompanied by a regional financial sector assessment program (FSAP). The exercise assessed regional financial stability and common developmental challenges. The FSAP will be supplemented with smaller modules for some member countries that will focus on country-specific challenges.

The regional FSAP assessment found improved financial sector stability but continuing important challenges:

- In relation to the Basel Core Principles (BCP) and the IMF Code of Good Practices on Transparency in Monetary and Financial Policies—Transparency of Banking Supervision, the region generally complies with international best practices, but shortcomings remain in areas of prudential regulation, such as the level and calculation of the solvency ratio and limits to large exposures and the capacity and institutional independence of the regional banking commission.
- A significant number of banks do not meet all prudential rules. With limited implementation capacity, COBAC has shown continued forbearance.
- Stress tests based on individual banks and region-wide data show that the banking sector is particularly vulnerable to credit risks: a relatively large number of banks are undercapitalized and there is a high sectoral concentration of bank loans.
- While a legal framework to criminalize money laundering and combat the financing of terrorism has been adopted, the FSAP assessment found that its implementation is hampered by unclear assignment of responsibilities between regional agencies and national authorities.

The FSAP's main conclusions on financial sector development relate to limited access to finance, both households and small and medium-sized enterprises (SMEs). The findings are based on discussions with policy-makers and representatives of banks and banking associations and on analysis of detailed banking surveys on lending practices and deposit relations. Key conclusions:

- Banks are reluctant to finance SMEs due to flaws in the legal and judicial framework and poor corporate accounting and governance.
- The imposition on banks of minimum deposit and maximum lending rates curtails access. As a result, banks mainly deal with a small number of large corporate clients.
- Although the microfinance sector has witnessed significant membership growth and emerging linkages with banks in recent years, its outreach is still relatively limited.
- The OHADA (Organization for the Harmonization of African Business Law) accounting framework places an excessive burden on SMEs.

Implementing the recommendations will require actions both regional and national levels. At the regional level, the recommendations call for

- strengthening the supervisory capacity and institutional independence of COBAC,
- revising the OHADA legislation on debt collection and accounting practices, and
- adjusting administered interest rates to better align with market fundamentals.

At the national level, the recommendations call for

- upgrading the judicial system through, e.g., larger allocations and more training,
- tackling governance issues,
- improving commercial and land registries, and
- adopting a framework for appointing and training insolvency administrators.

Cameroon to the CAR and Chad, and a new study on rules of origin. Road networks are being connected with support from the EU, African Development Bank (AfDB), and the World Bank (WB). But the authorities also pointed to serious security problems that obstruct transportation, such as highway robbers and armed cross-border rebels.

29. **External trade also suffers from a high level of restrictions.** Pointing out that freer external trade promises benefits for economic development, the mission called for more ambition in external trade reform. It proposed a significant lowering of the relatively high common external tariff (CET), currently levied at 5, 10, 20, and 30 percent, using as a benchmark, the four WAEMU bands (0, 5, 10, and 20 percent), and a reduction in tariff dispersion. The authorities responded that any revision would have to be based on both a review of experience with the regime introduced in 1994 and an assessment of proposed new rates. They reiterated their call for foreign partners to help with these studies. The mission said that the IMF, like other donors, stands ready to assist with various aspects of further trade integration. IMF technical assistance and policy advice could, in particular, help identify alternative revenues as tariff receipts decline, and the IMF would consider providing additional resources to cover adjustment costs for countries that have a Fund-supported program.

30. **Also discussed were the implications of a possible economic partnership agreement (EPA) with the European Union (Box 3)**. The preliminary negotiations were completed in December 2005, and an agreement could be reached by the start of 2008. São Tomé & Príncipe and the Democratic Republic of Congo (DRC) have joined the CEMAC in preparing the EPA proposal. The authorities are aware that there might be adverse trade diversion effects and repercussions on fiscal revenues from an EPA. The mission encouraged the CEMAC to ask for liberal rules of origin and to use this opportunity to not only gain market access to the EU but also to win support for institutional reforms that would enhance the region's competitiveness in world markets. It also pointed out, that parallel reductions in tariff rates on a most-favored-nation basis vis-à-vis non-EPA members would allow the CEMAC to boost its trade with all its partners, thereby promoting competition and limiting the potential for costly trade diversion.

C. Regional Institutions and Surveillance

Effectiveness of regional institutions

31. **The CEMAC Secretariat faces major obstacles in formulating and supporting implementation of regional policies.** The Secretariat is charged with preparing the full range of common policies, including regional and common external trade policies, infrastructure, and the collection of statistics on regional integration. As part of its surveillance, the CEMAC Secretariat reviews the macroeconomic and structural policies of member countries and monitors their implementation of agreed rules. With only about 60 professional staff and many members in arrears to the institutions, the secretariat's resources fall significantly short of what is needed to effectively execute its assigned tasks.

Box 3. Possible Effects of Trade Reform

The authorities have indicated that further changes to the trade regime would require prior analysis of its likely impact. In this context, some considerations are presented in an accompanying selected issues paper. The analysis is, however, hampered by severe data limitations: sufficiently detailed recent balance of payments data were available for Cameroon, Gabon, and the CAR only.

- The revenue implications of trade reform would call for strong efforts to mobilize alternative fiscal resources—involving strengthened policies and administration for income taxes, VAT, and customs duties.
- Taxes on imports (excl. VAT) have accounted for about 12 percent of total fiscal revenues (excluding grants) in recent years. A rough simulation (without incorporating elasticity effects or product exemptions) suggests that these revenues could be reduced by about half in case of either an EPA or the proposed CET reduction
- A very large overlap between products imported from EU and non-EU sources confirms the existence of risks of trade diversion with an EPA.

32. **The mission welcomed recent declarations by member countries on strengthening regional integration.** The CEMAC representatives suggested that in the context of channeling oil receipts back to region a new impetus for cooperation had emerged. However, the regional representatives cautioned that financial support by members for common policies and effective policy administration, at times, remained weak and suggested that the union could be more effective if external partners, like the IMF, would urge member governments to abide by the regional agreements. While the mission agreed on the need to coordinate IMF bilateral and regional discussions, it explained that the IMF's efforts could not substitute for the political will of member countries to deepen integration. It cautioned that the proposed transformation of the CEMAC Secretariat into a commission (planned for 2008) would lead to measurable benefits only if the revamped institution has greater national support and more financial resources.

33. **While the BEAC is well staffed and professional, COBAC, the regional banking supervisor, enjoys only limited autonomy and faces severe resource constraints.** The FSAP recognized COBAC's institutional strength but stated that persistent severe staffing shortages and limited independence undermine its effectiveness and threaten the quality of financial supervision in the region. To regain the necessary level of surveillance, the FSAP called for more autonomy for the supervisor and for a doubling of the number of professional staff. The BEAC, which has administrative control over COBAC, did not see constraints from its close links with the supervisory agency. It acknowledged, however, the concerns about resources, but felt a need to increase those gradually so that they would be absorbed effectively. The mission welcomed the small increase in resources already committed, but

because these problems are by now long-standing, called for significant acceleration of the process.

Fund surveillance

34. **The authorities were pleased that the regional discussions had been elevated to a formal status as part of the Article IV consultations with member countries and welcomed the regional FSAP.** The mission stated that, in line with the Board Decision of January 6, 2006, this staff report and the associated Board discussion would be an integral part of the next Article IV consultations in relation to CEMAC members.[6] Formalizing this framework should highlight the regional elements in the Fund's policy advice and help ensure uniformity of treatment. The FSAP will be a roadmap for regional financial stability and development and will in due course be complemented by country-specific modules.

35. **To date, implementation of Fund advice has been limited, reflecting the slow pace of reform generally in the region.** Regional authorities and member countries have had few disagreements with past Fund policy recommendations, which have emphasized the need for improving the effectiveness of regional monetary policy, deepening trade and financial market integration, and strengthening competitiveness. Yet, few of the steps proposed in past reports have been taken, in part because of insufficient support and follow-up at the national level for regional initiatives.

36. **Better statistical systems and data collection would strengthen both CEMAC and Fund surveillance.** At present, the uneven quality, coverage, and timeliness of macroeconomic data pose particular problems in assessing convergence, competitiveness, regional linkages, and possible channels for contagion. Consumer price indices are not harmonized across countries and are sometimes based on outdated household surveys, which makes it hard for BEAC to measure the impact of monetary policy changes. Another weakness is the lack of data on labor markets, such as employment rates, labor movements between countries, wages over time, and other cost data. Finally, better financial sector data, especially on interest rates and sectoral lending levels, would improve financial sector surveillance.

37. **The new regional technical assistance center (AFRITAC) in Gabon is expected to bolster technical assistance.** The Fund has provided technical assistance to regional authorities in such areas as banking supervision, payment systems, anti-money laundering, foreign exchange reserve management, tax- and customs administration, public finance management, debt management, and statistics. Before the regional AFRITAC center is expected to open in Libreville, Gabon, in January 2007, a needs assessment mission in June will identify priorities for regional and national technical assistance. The center will be financed mainly by the CEMAC member countries and bilateral and multilateral donors.

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[6] The summing-up of the conclusion of the Board's annual discussion on CEMAC's common policies will be cross-referenced in the summings-up for the Article IV consultations with individual members. The Board discussions for the Article IV consultations with member countries will be clustered, to the extent possible, around the Board discussion on CEMAC policies.

III. Staff Appraisal

38. **The improvements in macroeconomic performance in 2005 offer an opportunity for CEMAC to address long-standing structural issues.** Oil-related inflows brought significant improvements in national fiscal balances, current accounts, reserve accumulation, and debt overhang. However, per capita income in most CEMAC members is low and the countries face huge challenges in meeting the MDGs. The CEMAC authorities should therefore concentrate their attention on addressing long-standing structural issues directly linked with growth.

39. **In 2005, there was little progress in addressing these structural problems, but recent efforts to strengthen regional integration could indicate a new momentum.** CEMAC's structural problems—excess liquidity, shallow and inefficient money and financial markets, lacking regional infrastructure and transport, minimal intraregional and international trade integration, and constrained institutional capacity—are all still unaddressed. In the context of the recent CEMAC heads-of-state meeting there have been commitments at the highest political level to make the regional agreement more effective. Specific measures promised include for member countries to clear arrears to the CEMAC, and ensure better funding, enhance regional policy coordination in the face of oil-related inflows, and promote regional projects to increase integration. Managed properly, these commitments could allow the region to move forward.

40. **Continued oil inflows demand coordination of fiscal policies and careful investment of oil-related savings.** The recent agreement to allow member countries to save oil-related inflows in FFGs held in the BEAC should be amended to allow investment of these funds in longer-term assets and to ensure that member countries receive returns on such funds that is more directly linked to the total return on investment. Yet, there is also a need to maintain sufficient monetary reserves to back the fixed exchange rate regime. The fiscal policies of members must be coordinated to ensure that sufficient reserve inflows are channeled to the common pool of reserves rather than to FFGs and OSFs. Recent efforts in that direction have been commendable, as have the efforts to improve the transparency of oil-related inflows by establishing a permanent secretariat for the Extractive Industries Transparency Initiative at the BEAC.

41. **Medium-term financial sustainability in the region will require prudent macroeconomic policies and broad improvements in competitiveness.** The region remains susceptible to terms-of-trade shocks. In addition, with known oil reserves limited, the region needs to support non-oil development. While the present real exchange rate is appropriate, if future overvaluation is to be avoided in the context of the fixed exchange rate regime, inflation must be kept low and fiscal spending restricted to the economies' absorptive capacity. Improved competitiveness will also require strenuous efforts to overcome regional structural rigidities through, e.g., more flexible labor markets, freer trade, and a business environment that is more conducive to private sector growth.

42. **The implementation of monetary policy is weak and financial sector deficiencies impede growth.** Based on the FSAP results, while financial sectors in the region are reasonably sound, they are still among the least developed in the world. Absorbing excess

liquidity through marketable central bank bills would improve liquidity management and help deepen financial markets. Such deepening would also benefit from countries dismantling the restrictions on interest rates, lowering the excessively high-required reserves, and taking measures to improve the business environment generally.

43. **Accelerating CEMAC integration, along with further internal and external trade liberalization, has the most promise for meeting the region's development goals.** To achieve more benefits from the regional agreements, it will be necessary to remove bottlenecks to internal markets, such as nontariff barriers and other impediments to the free movement of goods and factors. Deeper financial integration would make it possible for member countries to take full advantage of the common currency and larger regional market.

Table 1. CEMAC: Relative Size of CEMAC Economies and Importance of Oil Sector, 2001–06

	2001	2002	2003	2004	2005 Est.	2006 Proj.
Nominal GDP	(Percent of CEMAC's nominal GDP)					
Cameroon [1]	42.5	42.2	42.0	40.2	39.5	39.9
Central African Republic	4.2	4.0	3.5	3.3	3.2	3.2
Chad	6.7	6.9	7.6	9.1	9.2	9.2
Congo, Republic of	14.6	14.6	14.1	13.5	14.1	14.4
Equatorial Guinea	9.2	10.6	11.6	14.2	14.4	13.8
Gabon	22.7	21.6	21.2	19.8	19.6	19.5
Nominal oil GDP	(Percent of CEMAC's nominal GDP)					
Cameroon [1]	3.3	3.2	2.8	2.7	3.1	3.0
Chad	0.2	0.3	1.2	4.3	5.5	6.1
Congo, Republic of	7.4	6.7	5.9	6.1	5.0	5.5
Equatorial Guinea	6.9	7.6	8.2	11.1	14.3	15.1
Gabon	9.2	8.7	8.3	8.4	10.3	10.9
CEMAC	26.9	26.6	26.5	32.6	38.1	40.6
Nominal oil GDP	(Percent of country's total nominal GDP)					
Cameroon [1]	7.3	7.1	6.1	6.5	8.0	8.2
Chad	2.0	3.7	13.6	37.8	44.2	47.4
Congo, Republic of	56.6	53.5	50.0	52.5	49.3	52.6
Equatorial Guinea	87.3	87.7	87.5	90.7	92.7	92.7
Gabon	42.1	42.0	40.9	43.3	50.7	53.5
CEMAC	26.9	26.6	26.5	32.6	38.1	40.6
Oil exports	(Percent of value of country's total goods exports)					
Cameroon [1]	58.3	46.5	39.7	42.1	47.8	47.0
Chad	0.0	0.0	39.0	80.8	85.8	87.9
Congo, Republic of	92.1	86.6	81.9	83.7	88.7	90.4
Equatorial Guinea	96.2	97.0	97.3	98.2	98.9	99.1
Gabon	80.2	80.6	84.1	80.0	83.4	84.4
CEMAC	78.4	76.0	74.5	79.5	84.5	85.7
Fiscal oil revenue	(Percent of value of country's fiscal revenue)					
Cameroon [1]	25.9	30.0	25.5	25.7	17.9	16.7
Chad	0.0	0.0	0.0	29.6	46.2	73.9
Congo, Republic of	68.6	69.5	69.8	71.9	82.6	84.6
Equatorial Guinea	82.2	81.6	82.8	70.8	69.7	63.3
Gabon	64.1	56.0	55.7	56.5	68.3	79.9
CEMAC	50.1	49.1	48.2	50.8	56.9	59.6

Sources: IMF, World Economic Outlook database; 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, 2001–06

	2001	2002	2003	2004	2005 Est.	2006 Proj.
	(Annual percentage change)					
National income and prices						
GDP at current prices	4.8	6.0	4.4	14.1	16.3	11.4
GDP at constant prices	8.1	4.8	4.6	8.4	4.3	3.2
Oil GDP [1]	12.1	5.1	5.4	17.1	4.3	0.3
Non-oil GDP [1]	6.4	4.7	4.2	4.4	4.2	4.7
Consumer prices (average)	3.7	4.6	1.8	1.0	3.8	3.1
Terms of trade	-5.6	2.9	4.9	0.9	15.8	7.6
Nominal effective exchange rate	0.7	2.4	5.8	2.9	-0.2	…
Real effective exchange rate	3.0	4.0	5.2	1.8	1.4	…
	(Annual changes in percent of beginning-of-period broad money)					
Money and credit						
Net foreign assets	-11.3	10.3	-1.4	26.4	50.4	…
Net domestic assets	18.6	4.2	3.1	-16.1	-32.6	…
Broad money	7.2	14.4	1.7	10.3	17.8	…
	(Percent of GDP, unless otherwise indicated)					
National accounts						
Gross domestic savings	36.1	26.2	37.0	39.4	47.2	48.2
Gross domestic investment	27.8	25.2	27.3	24.2	22.6	21.2
Government financial operations						
Total revenue, excluding grants	22.9	20.9	20.5	21.1	25.8	26.8
Government expenditure	21.3	21.2	20.3	19.3	17.9	17.9
Primary basic fiscal balance [2]	9.7	6.2	7.0	7.2	13.7	13.5
Basic fiscal balance [3]	5.1	2.4	2.7	4.3	10.1	11.6
Overall fiscal balance, excluding grants	1.6	-0.3	0.2	1.8	7.9	8.9
Non-oil overall fiscal balance, excluding grants [4]	-13.5	-14.4	-13.2	-13.2	-11.0	-11.9
Overall fiscal balance, including grants	2.3	0.9	1.3	2.5	8.5	9.6
External sector						
Exports of goods and nonfactor services	45.7	43.3	43.3	49.7	58.4	61.7
Imports of goods and nonfactor services	38.1	40.8	36.8	37.3	35.6	34.9
Balance on goods and nonfactor services	7.7	2.5	6.5	12.5	22.8	26.8
Current account, including grants	-6.6	-10.5	-7.0	-3.1	2.7	5.2
External public debt	82.7	71.2	68.2	59.8	40.6	35.7
Gross official reserves (end of period, in millions of U.S. dollars)	1,143.3	1,678.2	1,908.3	3,188.7	5,315.7	…
In months of imports of goods and services	1.4	1.8	1.6	2.4	3.9	…
Memorandum items:						
Nominal GDP (in billions of CFA francs)	15,756	16,700	17,431	19,895	23,140	25,784
CFA francs per U.S. dollar, average	733.0	697.0	581.2	528.3	526.6	550.0
Oil prices (in U.S. dollars per barrel)	24.3	25.0	28.9	37.8	53.4	61.3
Oil prices (in CFA francs per barrel)	17,835	17,390	16,793	19,947	28,096	33,689

Sources: IMF, World Economic Outlook database; 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: Fiscal Balances, 2001–06
(In percent of GDP)

	2001	2002	2003	2004	2005 Est	2006 Proj.
Overall fiscal balance (excluding grants)						
Cameroon [1]	1.8	0.5	0.7	-0.8	3.0	0.7
Central African Republic	-4.3	-5.0	-4.6	-5.5	-4.6	-3.3
Chad	-10.3	-12.2	-14.4	-6.1	-4.3	-4.0
Congo, Republic of	-0.9	-8.3	-0.1	3.6	22.1	22.4
Equatorial Guinea	15.5	11.5	-1.8	9.9	23.3	28.1
Gabon	3.2	3.4	7.4	7.4	8.0	11.7
CEMAC	1.6	-0.3	0.2	1.8	7.9	8.9
Overall fiscal balance (including grants)						
Cameroon [1]	2.1	1.8	1.4	-0.5	3.5	1.2
Central African Republic	-0.9	-1.2	-3.1	-2.2	-2.5	-1.3
Chad	-5.2	-6.0	-6.5	-3.1	-1.6	-1.5
Congo, Republic of	-0.7	-8.1	0.4	3.9	22.1	22.9
Equatorial Guinea	15.5	11.5	-1.7	9.9	23.3	28.2
Gabon	3.2	3.5	7.4	7.4	8.0	11.8
CEMAC	2.3	0.9	1.3	2.5	8.5	9.6
Basic balance [2]						
Cameroon [1]	2.8	0.8	1.1	0.0	3.4	1.8
Central African Republic	-1.0	-0.5	-3.3	-3.9	-2.5	-0.7
Chad	-2.4	-3.2	-3.5	-0.2	0.9	0.7
Congo, Republic of	8.9	-0.8	5.2	9.2	28.7	30.4
Equatorial Guinea	15.5	11.5	-1.7	9.9	23.3	28.2
Gabon	7.7	6.8	10.8	11.0	11.1	15.1
CEMAC	5.1	2.4	2.7	4.3	10.1	11.6
Government revenue (excluding grants)						
Cameroon [1]	18.4	16.2	16.0	15.2	17.2	17.6
Central African Republic	8.9	10.8	7.7	8.1	8.2	8.7
Chad	7.4	8.0	7.9	8.6	9.8	10.3
Congo, Republic of	30.7	27.2	29.1	32.2	53.1	49.4
Equatorial Guinea	28.0	28.5	28.7	34.4	42.9	47.5
Gabon	34.0	31.5	29.7	28.8	28.3	28.5
CEMAC	22.9	20.9	20.5	21.1	25.8	26.8
Government expenditure						
Cameroon [1]	16.6	15.7	15.3	16.0	14.3	16.9
Central African Republic	13.2	15.8	12.3	13.5	12.8	12.1
Chad	17.7	20.2	22.3	14.7	14.1	14.3
Congo, Republic of	31.5	35.5	29.3	28.6	31.0	27.0
Equatorial Guinea	12.5	17.0	30.5	24.5	19.6	19.4
Gabon	30.8	28.0	22.4	21.4	20.3	16.8
CEMAC	21.3	21.2	20.3	19.3	17.9	17.9

Sources: IMF, World Economic Outlook database; 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 4. CEMAC: Fiscal Non-Oil Balances, 2001–06

(In percent of Non-Oil GDP) [1]

	2001	2002	2003	2004	2005 Est	2006 Proj.
Overall fiscal balance (excluding grants)						
Cameroon [2]	-3.2	-4.7	-3.6	-5.0	-0.1	-2.5
Central African Republic	-4.3	-5.0	-4.6	-5.5	-4.6	-3.3
Chad	-10.5	-12.7	-16.7	-13.9	-15.8	-22.1
Congo, Republic of	-50.4	-58.5	-41.0	-41.2	-42.9	-40.9
Equatorial Guinea	-7.5	-11.8	-25.5	-14.5	-6.6	-2.0
Gabon	-32.1	-24.4	-15.5	-15.7	-23.1	-23.8
CEMAC	-13.5	-14.4	-13.2	-13.2	-11.0	-11.9
Overall fiscal balance (including grants)						
Cameroon [2]	-2.8	-3.3	-2.9	-4.8	0.4	-1.9
Central African Republic	-0.9	-1.2	-3.1	-2.2	-2.5	-1.3
Chad	-5.3	-6.3	-7.5	-9.0	-10.9	-17.4
Congo, Republic of	-50.0	-58.1	-40.0	-40.5	-42.9	-39.8
Equatorial Guinea	-7.5	-11.8	-25.5	-14.4	-6.6	-1.8
Gabon	-32.1	-24.3	-15.5	-15.6	-23.0	-23.6
CEMAC	-12.5	-12.7	-11.6	-12.3	-10.0	-10.7
Basic balance [3]						
Cameroon [2]	-2.1	-4.3	-3.1	-4.1	0.4	-1.2
Central African Republic	-1.0	-0.5	-3.3	-3.9	-2.5	-0.7
Chad	-2.4	-3.4	-4.0	-4.5	-6.5	-13.1
Congo, Republic of	-27.9	-42.3	-30.2	-29.4	-29.9	-24.0
Equatorial Guinea	-7.5	-11.8	-25.5	-14.4	-6.6	-1.8
Gabon	-24.4	-18.6	-9.7	-9.2	-16.7	-16.5
CEMAC	-8.7	-10.7	-9.7	-9.6	-7.4	-7.4
Government revenue (excluding grants)						
Cameroon [2]	14.7	12.2	12.7	12.1	15.4	16.0
Central African Republic	8.9	10.8	7.7	8.1	8.2	8.7
Chad	7.5	8.3	9.1	9.7	9.4	5.1
Congo, Republic of	22.2	17.8	17.6	19.1	18.3	16.1
Equatorial Guinea	5.0	5.2	4.9	10.1	13.0	17.4
Gabon	21.1	23.9	22.3	22.1	18.2	12.3
CEMAC	15.6	14.5	14.4	15.4	18.0	18.2
Government expenditure						
Cameroon [2]	17.9	16.9	16.3	17.1	15.5	18.4
Central African Republic	13.2	15.8	12.3	13.5	12.8	12.1
Chad	18.0	21.0	25.8	23.6	25.2	27.2
Congo, Republic of	72.6	76.3	58.5	60.3	61.2	57.0
Equatorial Guinea	12.5	17.0	30.5	24.5	19.6	19.4
Gabon	53.1	48.3	37.9	37.8	41.2	36.1
CEMAC	29.1	28.9	27.7	28.6	29.0	30.1

Sources: IMF, World Economic Outlook database; 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 5. CEMAC: Balance of Payments, 2001–06
(Billions of CFA francs)

	2001	2002	2003	2004	2005 Est.	2006 Proj.
Balance on current account	-1,033	-1,760	-1,216	-621	624	1,345
Balance on goods and services	1,211	419	1,135	2,483	5,266	6,920
Exports of goods	6,449	6,460	6,787	9,059	12,566	14,863
Exports of services	759	779	764	835	944	1,052
Imports of goods	-3,356	-4,024	-3,584	-3,959	-4,333	-4,767
Imports of services	-2,640	-2,797	-2,832	-3,452	-3,912	-4,227
Income, net	-2,329	-2,320	-2,424	-3,171	-4,709	-5,647
Income credits	47	37	226	92	101	107
Income debits	-2,376	-2,358	-2,650	-3,265	-4,738	-5,536
Of which:						
Investment income, debit: interest (accrued;-sign)	-942	-748	-1,002	-943	-1,289	-1,564
Interest paid on public debt	-648	-480	-374	-348	-274	-290
Interest paid on nonpublic debt	-294	-269	-629	-593	-1,017	-1,277
Current transfers, net	85	141	73	66	68	72
Private current transfers, net	1	8	-11	-53	-66	-64
Official current transfers, net	84	133	84	119	134	135
Balance on capital and financial account	1,133	2,714	1,599	865	117	-508
Balance on capital account (including capital transfers)	202	316	230	251	-231	-79
Balance on financial account (including reserves)	905	2,411	1,350	241	-393	-1,296
Direct investment, net	1,205	1,601	1,612	1,691	1,590	1,702
Portfolio investment, net	113	113	111	124	129	137
Other investment, net	-661	1,019	-365	-1,021	-1,222	-1,703
Reserve assets (accumulation -)	248	-322	-8	-554	-890	-1,432
Errors and omissions, net	-219	-241	-321	4	38	-32
Memorandum item:						
Nominal GDP	15,756	16,700	17,431	19,895	23,140	25,784

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

Table 6. CEMAC: Summary Accounts of Central Bank, 2001–06

	2001	2002	2003	2004	2005			2006
	Dec.	Dec.	Dec.	Dec.	Jun	Sep	Dec	Jan
	(Billions of CFA francs)							
Net foreign assets	486	697	675	1,233	1,654	1,891	2,626	2,699
Assets [1]	851	1,050	991	1,536	1,954	2,188	2,911	2,984
Of which:								
Operations account	680	870	814	1,306	1,740	1,977	2,647	2,686
Liabilities	-365	-353	-316	-303	-300	-297	-285	-285
Net domestic assets	626	575	613	283	-98	-224	-704	-810
Net credit to government	807	752	769	417	68	-63	-526	-639
Claims	1,082	1,090	1,038	1,002	963	962	886	908
Consolidated debt	156	135	107	83	71	67	74	71
Advances	570	611	631	629	607	613	544	570
Cameroon	220	250	257	253	201	233	176	184
Central African Republic	17	14	17	25	25	25	32	35
Chad	18	22	31	42	52	52	45	45
Congo, Republic of	123	137	161	161	159	152	155	134
Equatorial Guinea	0	0	0	0	0	0	0	0
Gabon	191	188	165	148	170	167	135	171
Other claims	357	344	299	290	285	282	268	267
Government deposits	-275	-338	-269	-585	-896	-1,025	-1,412	-1,546
Net claims on financial institutions	16	13	13	12	12	15	15	15
Other items, net	-196	-190	-169	-147	-178	-176	-193	-186
Base money	1,112	1,272	1,288	1,516	1,555	1,668	1,922	1,889
Currency in circulation	762	815	771	856	811	855	980	902
Banks' reserves [2]	331	438	493	634	714	780	903	945
Other institutions' reserves	19	19	25	26	30	33	38	42
Memorandum items:								
Currency cover ratio [3]	65.0	68.3	66.3	74.6	80.9	82.3	88.2	87.8
Base money/deposits	73.2	70.9	68.6	73.3	70.2	69.6	78.3	75.6

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

[1] Gross foreign reserves, including gold, foreign currency reserves, IMF reserve position, and 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 7. CEMAC: Summary Accounts of Commercial Banks, 2001–06

	2001	2002	2003	2004	2005			2006
	Dec.	Dec.	Dec.	Dec.	Jun	Sep	Dec	Jan
	(Billions of CFA francs)							
Net foreign assets	133	158	142	290	349	426	383	471
Assets	246	333	274	437	484	556	511	615
Liabilities	-112	-175	-132	-147	-135	-130	-128	-145
Net domestic assets	1,067	1,211	1,255	1,155	1,165	1,204	1,182	1,097
Net credit to public sector	41	4	34	3	-70	-97	-183	-193
Cameroon [1]	51	-2	17	2	11	2	9	16
Central African Republic	6	1	2	2	5	2	2	4
Chad	-13	-21	-13	-4	-21	-10	-18	-44
Congo, Republic of	3	9	2	12	-22	-3	-37	-16
Equatorial Guinea	-25	-47	-32	-30	-52	-111	-128	-159
Gabon	17	64	58	23	11	17	-13	4
Claims	288	308	284	290	277	281	273	275
Liabilities	248	304	250	287	346	379	456	467
Credit to the economy	1,369	1,477	1,539	1,519	1,555	1,619	1,716	1,655
Cameroon [1]	696	772	845	847	877	896	914	898
Central African Republic	42	49	49	56	50	53	54	53
Chad	65	79	98	93	113	107	130	131
Congo, Republic of	109	66	82	85	82	88	86	80
Equatorial Guinea	37	54	52	63	68	99	94	99
Gabon	419	456	413	375	374	404	418	373
Other items, net	-343	-270	-318	-367	-321	-317	-352	-365
					2,216	2,395	2,453	2,498
Net refinancing from central bank	-318	-425	-480	-621	-703	-765	-888	-930
Borrowing	12	13	13	12	12	15	15	15
Cameroon [1]	0	0	0	0	0	0	0	0
Central African Republic	2	3	2	4	0	0	0	0
Chad	5	2	10	8	11	11	15	15
Congo, Republic of	2	0	1	0	0	0	0	0
Equatorial Guinea	0	0	0	0	0	0	0	0
Gabon	3	8	0	0	0	0	0	0
Reserves	331	438	493	634	714	780	903	945
Cameroon [1]	201	301	260	325	257	295	368	379
Central African Republic	1	2	2	2	3	4	8	7
Chad	13	29	20	30	30	31	32	41
Congo, Republic of	30	29	37	52	89	147	136	150
Equatorial Guinea	29	23	84	105	162	139	210	179
Gabon	56	54	89	119	173	169	149	190
Deposits	1,519	1,794	1,877	2,066	2,216	2,395	2,453	2,498
Demand deposits	782	944	929	1,059	1,175	1,332	1,318	1,341
Public enterprises	75	97	62	78	75	222	92	123
Private sector	707	847	867	981	1,100	1,110	1,226	1,218
Term deposits	737	849	949	1,007	1,041	1,063	1,136	1,157
Public enterprises	50	49	79	41	31	33	33	32
Private sector	687	801	870	966	1,010	1,030	1,102	1,125
Memorandum items:								
Reserves/deposits	21.8	24.4	26.2	30.7	32.2	32.6	36.8	37.8
Credit to the economy/deposits	90.2	82.3	82.0	73.5	70.2	67.6	70.0	66.3

Sources: Bank of Central African States (BEAC); and IMF 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 8. CEMAC: Monetary Survey, 2001–06

	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec.	2005 Jun	2005 Sep	2005 Dec	2006 Jan
	(Billions of CFA francs)							
Net foreign assets	619	855	818	1,523	2,003	2,317	3,009	3,169
Bank of Central African States (BEAC)	486	697	675	1,233	1,654	1,891	2,626	2,699
Foreign assets	851	1,050	991	1,536	1,954	2,188	2,911	2,984
Of which:								
Operations account	680	870	814	1,306	1,740	1,977	2,647	2,686
Foreign liabilities	-365	-353	-316	-303	-300	-297	-285	-285
Commercial banks	133	158	142	290	349	426	383	471
Foreign assets	246	333	274	437	484	556	511	615
Foreign liabilities	-112	-175	-132	-147	-135	-130	-128	-145
Net domestic assets	1,678	1,773	1,855	1,425	1,054	965	463	273
Net credit to government	931	883	908	537	127	-5	-570	-619
BEAC	807	752	769	417	68	-63	-526	-639
Advances	570	611	631	629	607	613	544	570
Consolidated debt	156	135	107	83	71	67	74	71
Other	357	344	299	290	285	282	268	267
Government deposits	-275	-338	-269	-585	-896	-1,025	-1,412	-1,546
Commercial banks	123	131	138	121	59	58	-44	20
Net credit to public agencies	-83	-126	-104	-118	-129	-155	-139	-212
Net credit to private sector	1,369	1,477	1,539	1,519	1,555	1,619	1,716	1,655
Other items, net	-539	-460	-487	-513	-499	-494	-545	-551
Broad money	2,297	2,628	2,673	2,948	3,057	3,283	3,472	3,442
Currency outside banks	762	815	771	856	811	855	980	902
Bank deposits	1,535	1,813	1,902	2,092	2,246	2,428	2,491	2,539
	(Annual change in percent of beginning-of-period broad money unless otherwise indicated)							
Net foreign assets	-11.3	10.3	-1.4	26.4	16.3	26.9	50.4	55.8
Net domestic assets	18.6	4.2	3.1	-16.1	-12.6	-15.6	-32.6	-39.1
Credit to government	11.7	-2.1	0.9	-1.1	-13.9	-18.4	-37.6	-39.2
Credit to the private sector	6.3	4.7	2.4	-1.1	1.2	3.4	6.7	4.6
Other	0.5	1.5	-0.2	-13.9	0.1	-0.6	-1.8	-4.5
Broad money	7.2	14.4	1.7	10.3	3.7	11.3	17.8	16.7
Velocity (GDP/broad money)	6.9	6.4	6.5	9.0	7.6	7.0	6.7	7.5
Memorandum items:	(Percent)							
BEAC interest rates								
Repurchase rate (TIPP)	8.5	8.3	7.8	7.8	7.5	7.3	7.3	7.3
Bank refinancing rate (TIAO)	6.5	6.3	6.0	6.0	5.8	5.5	5.5	5.5
Certificate of deposit (28-day maturity)	3.7	2.8	2.0	2.0	1.8	1.7	1.7	1.7
French money market rate	3.3	2.9	2.2	2.2	2.1	2.1	2.5	2.5

Sources: BEAC; and IMF staff estimates.

Table 9. CEMAC: Nominal and Real Effective Exchange Rates, 2001–05 [1]
(Annual percentage changes)

	2001	2002	2003	2004	2005
Nominal effective exchange rate					
			Index (2000=100)		
Cameroon	101.1	103.7	108.6	110.8	110.1
Central African Republic	100.5	102.0	106.3	108.1	107.9
Chad	99.9	102.2	109.3	113.2	112.8
Congo, Republic of	102.1	105.1	112.8	116.6	116.2
Equatorial Guinea	99.0	102.3	114.0	119.8	119.6
Gabon	100.0	101.6	106.3	108.5	108.1
CEMAC	100.7	103.1	109.1	112.3	112.0
			(Annual percentage changes)		
Cameroon	1.1	2.6	4.7	2.0	-0.7
Central African Republic	0.5	1.5	4.2	1.7	-0.2
Chad	-0.1	2.2	7.0	3.6	-0.3
Congo, Republic of	2.1	2.9	7.3	3.4	-0.4
Equatorial Guinea	-1.0	3.3	11.4	5.1	-0.1
Gabon	0.0	1.6	4.6	2.1	-0.3
CEMAC	0.7	2.4	5.8	2.9	-0.2
Real effective exchange rate					
			Index (2000=100)		
Cameroon	103.4	107.1	110.4	110.7	109.8
Central African Republic	107.1	116.1	123.3	122.2	114.7
Chad	109.7	115.8	119.1	114.2	121.3
Congo, Republic of	99.6	104.9	109.3	113.2	112.5
Equatorial Guinea	105.1	114.9	134.4	143.8	149.9
Gabon	100.1	100.0	104.8	105.1	102.6
CEMAC	103.0	107.2	112.7	114.7	116.3
			(Annual percentage changes)		
Cameroon	3.4	3.5	3.1	0.2	-0.8
Central African Republic	7.1	8.4	6.2	-0.9	-6.2
Chad	9.7	5.6	2.8	-4.2	6.2
Congo, Republic of	-0.4	5.4	4.2	3.5	-0.6
Equatorial Guinea	5.1	9.3	16.9	7.0	4.2
Gabon	0.1	-0.1	4.8	0.3	-2.4
CEMAC	3.0	4.0	5.2	1.8	1.4

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

[1] CEMAC data is weighted by nominal GDP.

Table 10. CEMAC: National Accounts, 2001–06

	2001	2002	2003	2004	2005 Est.	2006 Proj.
	(Annual percentage change)					
Real GDP						
Cameroon [1]	4.5	4.0	4.0	3.7	2.6	4.2
Central African Republic	0.3	-0.6	-7.6	1.3	2.2	3.2
Chad	10.4	8.4	14.9	29.5	5.6	3.0
Congo, Republic of	3.8	4.6	0.8	3.6	9.2	5.2
Equatorial Guinea	78.3	21.3	14.1	32.4	6.0	-1.1
Gabon	2.1	-0.3	2.4	1.4	2.9	2.9
CEMAC	8.1	4.8	4.6	8.4	4.3	3.2
Nominal GDP						
Cameroon [1]	6.8	7.4	4.8	4.9	7.5	6.6
Central African Republic	3.8	2.4	-4.3	-0.6	5.0	6.1
Chad	26.4	10.5	12.5	46.7	26.7	15.0
Congo, Republic of	-10.7	2.8	-1.6	10.8	1.3	16.2
Equatorial Guinea	48.2	16.9	13.1	48.6	45.8	17.7
Gabon	-4.7	0.2	2.1	9.6	21.5	12.2
CEMAC	4.8	6.0	4.4	14.1	16.3	11.4
Real non-oil GDP						
Cameroon [1]	5.5	4.9	4.9	4.9	3.5	4.0
Central African Republic	0.3	-0.6	-7.6	1.3	2.2	3.2
Chad	8.4	6.8	6.6	2.0	6.9	5.0
Congo, Republic of	12.5	8.5	5.4	5.2	5.5	6.3
Equatorial Guinea	18.0	8.5	13.2	11.9	9.9	15.3
Gabon	5.3	0.6	2.4	3.5	4.0	4.4
CEMAC	6.4	4.7	4.2	4.4	4.2	4.7
Consumer price inflation [2]						
Cameroon [1]	2.8	6.3	0.6	0.3	2.0	2.6
Central African Republic	3.8	2.3	4.4	-2.2	3.0	2.3
Chad	12.4	5.2	-1.8	-5.4	7.9	3.0
Congo, Republic of	0.8	3.1	1.5	3.6	2.0	2.5
Equatorial Guinea	8.8	7.6	7.8	3.8	6.8	5.5
Gabon	2.1	0.2	2.1	0.4	0.1	1.0
CEMAC	3.7	4.6	1.8	1.0	3.8	3.1
	(In percent of GDP)					
Gross domestic saving						
Cameroon [1]	19.0	19.0	18.6	18.5	19.6	21.2
Central African Republic	3.9	3.7	0.3	-0.5	0.6	1.9
Chad	9.0	-40.6	22.1	32.1	38.2	39.7
Congo, Republic of	50.5	51.0	51.3	51.4	79.9	75.4
Equatorial Guinea	82.2	80.7	81.6	86.5	89.3	90.3
Gabon	51.8	43.5	48.0	48.3	55.3	60.8
CEMAC [3]	36.1	26.2	37.0	39.4	47.2	48.2
Gross domestic investment						
Cameroon [1]	20.3	19.8	18.3	18.9	19.7	21.5
Central African Republic	8.4	9.0	6.0	6.1	7.2	8.3
Chad	44.2	60.9	57.1	26.5	18.7	14.8
Congo, Republic of	26.4	23.4	25.7	24.2	29.3	29.2
Equatorial Guinea	72.9	31.8	60.9	45.9	33.4	23.4
Gabon	25.8	24.4	23.9	24.0	21.4	20.5
CEMAC	27.8	25.2	27.3	24.2	22.6	21.2

Sources: IMF, World Economic Outlook database; 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 11. CEMAC: Summary Medium-Term Projections, 2001-09

	2001	2002	2003	2004	2005	2006	2007	2008	2009
	(Annual percentage change)								
National income and prices									
Real GDP	8.1	4.8	4.6	8.4	4.3	3.2	4.3	5.9	3.6
GDP deflator	-3.1	1.1	-0.2	5.3	11.5	8.0	0.5	1.6	-0.1
Nominal GDP	4.8	6.0	4.4	14.1	16.3	11.4	4.8	7.5	3.5
Consumer prices (average)	3.7	4.6	1.8	1.0	3.8	3.1	2.5	3.0	1.9
External sector									
Exports, f.o.b	-6.1	5.6	25.1	44.2	37.0	12.8	1.1	3.9	-0.7
Export volume	6.7	6.1	14.2	71.5	4.8	0.9	1.6	1.8	-3.7
Imports, c.i.f.	13.2	19.6	12.8	27.1	11.6	4.4	1.3	2.7	0.4
Import volume	27.3	61.5	-28.8	4.9	-1.9	4.8	4.0	4.5	-1.9
Terms of trade	-5.6	2.9	4.9	0.9	15.8	7.6	-3.3	-5.4	-5.7
	(Percent of GDP; unless otherwise specified)								
Central government									
Overall balance, excluding grants	1.6	-0.3	0.2	1.8	7.9	8.9	8.7	9.0	7.9
Overall balance, excluding grants [1]	2.2	-0.5	0.2	2.7	12.7	15.0	14.4	14.7	12.5
Non-oil overall balance [1]	-13.5	-14.4	-13.2	-13.2	-11.0	-11.9	-17.1	-12.3	-13.0
Total revenue and grants	23.6	22.2	21.6	21.8	26.4	27.5	27.0	27.1	27.7
Total expenditure and net lending	21.3	21.2	20.3	19.3	17.9	17.9	17.6	17.5	17.8
External sector									
Current account balance, including grants	-6.6	-10.5	-7.0	-3.1	2.7	5.2	4.9	5.4	5.4
Trade balance	7.7	2.5	6.5	12.5	22.8	26.8	25.8	25.3	23.9
Gross official reserves (end of period, in millions of US dollars)	1,143.3	1,678.2	1,908.3	3,188.7	5,315.7	…	...	...	...

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

[1] In percent of non-oil GDP.

Table 12. CEMAC: Compliance with Convergence Criteria, 2001-06 [1]
(Percent of GDP, unless otherwise indicated)

	2001	2002	2003	2004	2005 Est.	2006 Proj.
Basic fiscal balance (criterion: nonnegative) [2]						
Cameroon	2.8	0.8	1.1	0.0	3.4	1.8
Central African Republic	-1.0	-0.5	-3.3	-3.9	-2.5	-0.7
Chad	-2.4	-3.2	-3.5	-0.2	0.9	0.7
Congo, Republic of	8.9	-0.8	5.2	9.2	28.7	30.4
Equatorial Guinea	15.5	11.5	-1.7	9.9	23.3	28.2
Gabon	7.7	6.8	10.8	11.0	11.1	15.1
Number of countries violating	*2*	*3*	*3*	*2*	*1*	*0*
Consumer price inflation (annual percentage change; criterion: not higher than 3 percent)						
Cameroon	2.8	6.3	0.6	0.3	2.0	2.6
Central African Republic	3.8	2.3	4.4	-2.2	3.0	2.3
Chad	12.4	5.2	-1.8	-5.4	7.9	3.0
Congo, Republic of	0.8	3.1	1.5	3.6	2.0	2.5
Equatorial Guinea	8.8	7.6	7.8	3.8	6.8	5.5
Gabon	2.1	0.2	2.1	0.4	0.1	1.0
Number of countries violating	*3*	*4*	*2*	*2*	*2*	*0*
Public debt [3] (criterion: not higher than 70 percent of GDP)						
Cameroon	73.2	49.9	46.8	40.3	32.8	29.6
Central African Republic	93.9	91.4	93.9	86.9	82.8	79.3
Chad	57.8	57.6	51.4	36.0	26.5	24.9
Congo, Republic of	192.8	200.9	215.6	212.9	127.1	108.6
Equatorial Guinea	24.8	10.2	10.1	6.2	3.8	3.0
Gabon	64.2	65.6	59.1	53.8	42.7	35.5
Number of countries violating	*3*	*2*	*2*	*2*	*2*	*0*
Net change in government arrears [4] (criterion: non-positive)						
Cameroon	-2.6	-0.1	-0.3	0.4	-0.4	-1.3
Central African Republic	-1.0	2.9	4.4	3.1	3.2	2.7
Chad	0.7	-0.5	0.2	1.0	-0.4	0.0
Congo, Republic of	3.6	9.8	6.0	-71.7	-2.2	-3.4
Equatorial Guinea	-1.1	-0.1	-0.1	-0.1	-0.1	0.0
Gabon	2.6	4.0	0.3	-9.8	-1.9	0.0
Number of countries violating	*3*	*3*	*4*	*3*	*1*	*0*
Total number of criteria violations	11	12	11	9	6	0
Cameroon	1	1	0	1	0	0
Central African Republic	3	3	4	3	3	0
Chad	3	2	2	2	1	0
Congo, Republic of	2	4	2	2	1	0
Equatorial Guinea	1	1	2	1	1	0
Gabon	1	1	1	0	0	0

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

[1] Revised criteria valid from 2002 onward.

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

[3] External debt only. The CEMAC's convergence criteria also include domestic debt, for which the World Economic Outlook database provides insufficient information.

[4] External and domestic arrears.

Table 13. Doing Business Survey, 2005

Indicator	WAEMU								CEMAC					SSA
	Benin	Burkina Faso	Côte d'Ivoire	Mali	Niger	Senegal	Togo	*Average* [1]	Cameroon	Central Afr. Rep.	Chad	Congo, Rep. of	*Average* [1]	*Average* [1]
1. Starting a business														
Number of procedures	8	12	11	13	13	9	13	11	12	10	19	8	12	11
Time (days)	32	45	45	42	35	57	53	44	37	14	75	67	48	64
Cost (percent of per capita income)	191	150	134	191	465	109	218	208	173	212	361	289	259	215
Min. capital (percent of per capita income)	323	484	225	491	761	260	460	429	217	568	619	220	406	297
2. Hiring and Firing Workers														
Rigidity of Employment Index [2]	53	84	45	66	90	64	79	69	56	76	72	80	71	53
Firing costs (weeks of wages)	35	57	68	81	76	38	66	60	40	37	21	42	35	53
3. Registering Property														
Number of procedures	3	8	7	5	5	6	6	6	5	3	6	6	5	7
Time (days)	50	107	369	44	49	114	212	135	93	69	44	103	77	118
Cost (% of property value)	15	16	14	20	14	18	8	15	19	17	21	22	20	13
4. Getting Credit														
Legal rights index [3]	4	4	2	3	4	3	2	3	4	3	3	2	3	4
Credit information index [4]	1	1	1	1	1	1	1	1	2	2	2	2	2	2
5. Protecting Investors														
Disclosure index [5]	5	6	6	6	6	7	4	6	8	…	3	4	5	5
6. Enforcing Contracts														
Number of procedures [6]	49	41	25	28	33	33	37	35	58	45	52	47	51	36
Time (days)	570	446	525	340	330	485	535	462	585	660	526	560	583	439
Cost (% of debt)	30	95	48	35	42	24	24	42	36	72	55	43	52	42
7. Closing a Business														
Time (years)	3	4	2	4	5	3	3	3	3	5	10	3	5	3
Cost (% of estate) [7]	14	9	18	18	18	7	14	14	14	76	63	24	44	20
Recovery rate (cents on the dollar)	10	6	15	6	3	19	16	11	24	0	0	19	11	16

Source: World Bank, Doing Business Database 2006, and IMF staff calculations.

[1] Simple averages.

[2] 100=more rigid (rigid hours, difficulty of hiring and firing).

[3] 10=better collateral and bankruptcy laws.

[4] 6= more credit information available.

[5] 10=better disclosure of ownership and financial info.

[6] From the time a complaint is filed until actual payment.

[7] Court costs and fees.

Table 14. CEMAC: Bank Ratings, 2005 [1]
(Number of banks)

	1	2	3A	3B	3C	4
	(Number of banks)					
Cameroon (11)	3	4	1	1	0	2
Central African Republic (3)	1	1	0	0	0	1
Chad (6)	0	2	1	1	2	0
Congo, Republic of (4)	0	3	0	0	0	1
Equatorial Guinea (4)	1	2	0	1	0	0
Gabon (4)	0	4	0	0	0	0
CEMAC (32)	5	16	2	3	2	4

Source: Banking Commission of Central Africa (COBAC).

[1] Ratings: 1=solid; 2=good; 3A=slightly fragile; 3B=moderately fragile; 3C=highly fragile; 4=critical.

Table 15. CEMAC: Money Market Volumes, 2001–05
(Billions of CFA francs)

	Injections of Liquidity					Absorptions of Liquidity					Volume Traded on Interbank Market				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Cameroon	14.1	2.6	1.2	1.2	2.4	1,086.9	1,473.8	963.9	455.5	76.0	124.7	74.4	82.1	51.5	61.5
Central African Republic	28.8	28.1	22.1	16.2	14.4	2.1	0.3	3.2	0.6	4.7	4.0	1.5	0.0	0.5	0.0
Chad	97.0	39.8	45.4	131.1	135.9	8.5	18.3	31.8	18.0	5.8	11.0	0.0	0.0	0.7	0.0
Congo, Republic of	29.7	7.0	6.0	6.6	0.1	402.5	228.0	211.5	145.1	11.2	0.0	12.0	18.5	27.0	0.0
Equatorial Guinea	0.0	0.1	0.0	0.0	0.0	47.2	92.4	76.1	30.7	59.0	96.5	38.0	0.0	3.5	97.0
Gabon	3.0	27.4	14.7	0.0	0.0	203.1	100.0	108.5	320.7	123.0	46.7	31.2	9.5	7.0	1.0
CEMAC	172.6	105.1	89.4	155.2	152.8	1,750.2	1,912.8	1,395.1	970.5	279.7	282.7	157.1	110.1	90.2	159.5

Source: Bank of Central African States (BEAC).

Table 16. CEMAC: Violations of Main Prudential Ratios, 2002- 05

	Capital Adequacy				Liquidity [1]				Fixed Assets Coverage [2]				Maturity Transformation [3]				Minimum Capital [4]				Limit on Single Large Exposure [5]			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
	5%	6%	7%	8%	min 100%				min. 100%				min 50%											
	(Number of banks in violation)																							
Country (number of banks)																								
Cameroon (9), in 2005 (10)	3	1	3	5	0	0	2	0	3	2	4	5	3	3	5	4	1	1	2	2	9	7	8	7
Central African Republic (3)	1	1	1	1	3	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	3
Chad (5), in 2005 (7)	2	1	2	2	1	1	0	1	3	2	3	1	2	1	2	3	0	0	2	1	3	4	5	6
Congo, Republic of (4)	3	3	2	0	2	0	0	0	2	3	2	2	2	2	2	2	1	1	1	1	3	4	3	4
Equatorial Guinea (3)	0	0	0	1	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	1	1	2	3
Gabon (6)	0	0	1	0	2	0	0	0	2	1	1	0	1	0	0	0	0	1	1	1	1	1	1	4
CEMAC (30), in 2004 (33)	9	6	9	9	8	3	4	2	12	9	11	9	9	7	10	10	3	4	7	6	19	19	21	27
	(Percent of deposits) [6]																							
Cameroon (9), in 2005 (10)	8	2	14	33	0	0	6	0	24	20	32	43	45	20	34	29	2	2	11	5	100	77	70	47
Central African Republic (3)	42	44	37	42	100	81	37	35	42	44	37	42	42	44	37	42	42	44	37	42	83	81	76	100
Chad (5), in 2005 (7)	42	14	34	32	14	15	0	30	55	37	50	48	42	14	34	62	0	0	34	12	43	71	97	99
Congo, Republic of (4)	56	79	47	0	37	0	0	0	37	79	39	47	37	58	39	47	16	24	18	13	77	100	72	100
Equatorial Guinea (3)	0	0	0	17	0	0	11	0	53	0	0	0	0	0	0	0	0	0	0	0	39	51	89	100
Gabon (6)	0	0	1	0	28	0	0	0	18	24	1	0	0	0	0	0	0	0	0	1	0	7	1	35

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

[1] Short-term assets (up to one month remaining maturity) over short-term liabilities (up to one month remaining maturity).

[2] Net capital and other permanent resources over fixed assets.

[3] Long-term assets (more than five years) over long-term liabilities (more than five years).

[4] Minimum capital varies by country (in million 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.

Table 17. CEMAC: Quality of Loan Portfolio, 2002–05
(Billions of CFA francs; unless otherwise indicated)

	Gross Loans				Nonperforming Loans				Provisions				Rate of Nonperforming Loans [1]				Rate of Provisions [2]			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Cameroon	774.0	861.0	873.6	964.2	121.6	119.6	114.2	121.0	98.6	97.1	97.5	103.3	15.7	13.9	13.1	12.6	81.1	81.2	85.3	85.4
Central African Republic	54.9	54.9	60.2	62.1	17.0	17.0	20.8	21.3	12.7	15.3	15.5	16.6	31.0	30.9	34.6	34.2	74.9	90.0	74.6	77.9
Chad	85.8	105.5	112.3	147.6	16.8	18.0	22.4	20.2	13.2	14.1	15.1	16.0	19.6	17.1	20.0	13.7	78.3	78.4	67.1	78.9
Congo, Republic of	86.4	92.3	107.0	90.5	0.9	3.2	7.0	3.1	0.1	0.6	1.9	2.6	1.1	3.5	6.5	3.4	13.2	19.1	27.6	84.2
Equatorial Guinea	63.0	61.4	95.4	116.1	5.5	11.2	12.9	20.0	4.0	7.3	9.2	13.4	8.7	18.2	13.5	17.2	73.7	65.1	71.4	67.0
Gabon	553.0	503.8	463.1	473.2	63.0	69.7	73.0	67.6	41.9	54.9	57.2	54.2	11.4	13.8	15.8	14.3	66.5	78.8	78.4	80.2
CEMAC	1,617.0	1,678.9	1,711.6	1,853.7	224.8	238.7	250.2	253.1	170.5	189.4	196.3	206.0	13.9	14.2	14.6	13.7	75.9	79.3	78.5	81.4

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

[1] Percent of gross loans.

[2] Percent of nonperforming loans.

Relations of CEMAC Member Countries and the Fund

I. Membership Status

Cameroon, Central African Republic, Chad, Republic of Congo, and Gabon joined the IMF in 1963 Equatorial Guinea joined in 1969. The region accepted Article VIII on June 1, 1996.

II. Relations of the CEMAC Member Countries and the Fund

Cameroon: The Executive Board approved a three-year PRGF arrangement on October 24, 2005 in an amount equivalent to SDR 18.57 million (about US$26.8 million). The first review was completed on April 28, 2006, the date on which Cameroon reached the Completion Point under the enhanced HIPC Initiative. Debt relief to Cameroon under HIPC will be approximately US$1.267 billion in 1999 NPV terms. The last Article IV consultation was concluded on May 19, 2005. Cameroon is on a standard 12-month consultation cycle.

Central African Republic (C.A.R.): The Executive Board approved an Emergency Post-Conflict Assistance (EPCA) credit of SDR 6.962 million (about US$10.2 million) for the C.A.R. on January 27, 2006. 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 October 24, 2005. The C.A.R. is on a standard 12-month consultation cycle.

Chad: An Executive Board approved a three-year PRGF arrangement for Chad on February 16, 2005 in an amount equivalent to SDR 25.2 million (about US$38.2 million). The previous PRGF arrangement expired in January 2004. The country reached the Decision Point under the enhanced HIPC initiative in May 2001 and has benefited 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: 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 first review was completed in August 2005. The country reached the Decision Point under the enhanced HIPC initiative on March 8, 2006. The last Article IV consultation was concluded on June 10, 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 May 10, 2006. Equatorial Guinea is on a 12-month consultation cycle.

Gabon: A 14-month stand-by arrangement expired at the end of July 2005. The last review completed was the fourth, on July 8, 2005. Gabon is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on March 28, 2005. Given that it is no longer on a Fund program, Gabon has reverted to a 12-month consultation cycle.

III. Safeguards Assessments

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

The main recommendations of the assessment, applicable to the BEAC as an institution, are: (i) preparation of financial statements in full accordance with internationally recognized accounting standards, initially the ECB guidelines; (ii) publication of its full financial statements, together with the auditor's report, starting with those for 2003; (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 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.

Other priority recommendations of the assessment, but of a country specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states are encouraged to establish a mechanism to prevent IMF overdues and facilitate timely payments through advance acquisitions of SDRs and an authorization to debit the SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm the Treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

IV. Exchange System

The regional currency is the CFA franc. From 1948 to 1999, it was pegged to the French franc. Since the euro was introduced in 1999, it has been pegged to the euro at the rate of CFAF 655.957 per euro.

V. Article IV Consultation

Following an Executive Board decision in January 2006, discussions with monetary unions have been formalized and are part of the Article IV consultations with member countries. The discussions reported here are thus in relation with Article IV consultations with the six CEMAC member countries. The next Article IV consultation will be held on the standard 12-month cycle. The Executive Board concluded the regional consultation with the CEMAC on June 17, 2005.

VI. FSAP Participation and ROSCs

The first regional Financial Sector Assessment Program (FSAP) was carried out January-March 2006. To date no regional Report on Observance of Standards and Codes (ROSCs) have been done.

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.

Statement by the IMF Staff Representatives
July 10, 2006

1. The following information has become available since the issuance of the staff report and the Financial System Stability Assessment. The thrust of the staff appraisal remains unchanged.

2. The BEAC has increased the remuneration of government deposits. Following the 25 basis point increase in the European Central Bank's policy rate to 2.75 percent (with effect from June 15, 2006) and the increase of the remuneration of the BEAC's foreign assets on the Operation Account with the French Treasury from 3.5 percent to 3.75 percent, the BEAC revised the remuneration of Government deposits provided in Box 2 of SM/06/201 as follows: (i) Funds for Future Generation: 2.15 percent from 1.9 percent; (ii) Fiscal Revenue Stabilization Mechanism: 1.95 percent from 1.7 percent; (iii) Conventional Deposits: unchanged at 0.50 percent for countries with outstanding advances from BEAC, and 1.65 percent from 1.4 percent for the other countries.

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IMF Executive Board Concludes 2006 Discussion on Common Policies of Member Countries with CEMAC

On July 10, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the discussions on Common Policies of Member Countries with the Central African Economic and Monetary Community (CEMAC).[1]

Background

Recent macroeconomic developments in the CEMAC benefited from oil windfalls and improved implementation of macroeconomic policies, but structural problems continue to hamper non-oil growth. The fiscal surplus, excluding grants, quadrupled to 7.9 percent of GDP, as a result of an increase in revenues to GDP from 21 percent in 2004 to almost 26 percent in 2005. About half the improvement in revenues was on the non-oil side because of measures taken in several of the CEMAC countries to broaden the tax base and reduce fraud and tax evasion. In addition, lower debt service obligations helped reduce expenditures from 19.3 percent to 17.9 percent of GDP, despite higher investment in infrastructure. The regional non-oil fiscal deficit, excluding grants, was reduced by 2 percentage points to 11 percent of non-oil GDP.

[1]The IMF holds annual regional discussions with the CEMAC region. A staff team visits the region, collects economic and financial information, and discusses with officials the region'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 region's authorities. This PIN summarizes the views of the Executive Board as expressed during the July 10, 2006 Executive Board discussion based on the staff report.

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The region's external current account balance turned positive for the first time since 2000. The surplus of 2.7 percent of GDP in 2005 followed a deficit in 2004 of 3.1 percent. Higher prices for oil, coffee, timber, and aluminum raised export receipts by more than 20 percent. In spite of some real effective exchange rate (REER) appreciation, import growth slowed as the previous import boom (related to oil investments) came to an end. Foreign reserves increased to 4 months of imports of goods and services from 2.4 months at end-2004. CEMAC members used some of the oil windfalls to repay domestic and external debt. External debt fell from 59.8 percent of regional GDP in 2004 to 40.6 percent—half the 2000 level—in 2005. Domestic debt declined by about 1.5 percent of regional GDP.

Oil-related reserve inflows also helped accelerate regional broad money, leading to somewhat higher inflation and a small further appreciation of the REER. With no active sterilization policy, oil-related liquidity was only partly absorbed through government deposits at the central bank, which by November 2005 further increased excess liquidity in the commercial banking sector to 18 percent of broad money. Fueled by increases in commercial banks' net foreign assets and rapid credit growth in Chad, Congo, Equatorial Guinea, and Gabon, regional broad money growth increased to almost 18 percent from 10 percent in 2004. Inflation increased from about 1 percent to 3.8 percent, partly because adverse weather conditions continued to raise food prices. The pick-up in inflation largely accounted for a further one percent real appreciation of the REER, which followed appreciating REERs in the past four years.

Low per capita growth and limited regional integration remain a concern. Despite the rapid increases in oil prices, which greatly supported real income growth, poverty remains a challenge. Five CEMAC countries still rank in the lowest third of the U.N. Human Development Index. Region-wide real GDP growth fell from 8.4 percent in 2004 to 4.3 percent in 2005, mainly because oil production in Chad and Equatorial Guinea steadied after recent rapid expansions. Non-oil output growth declined slightly, from 4.4 percent in 2004 to 4.2 percent in 2005, continuing a pattern that began in 2001. As a result of oil windfalls, compliance with macroeconomic convergence criteria improved in 2005. However, further regional integration is hampered by the lack of full implementation of regionally agreed structural policies, notably in the area of financial and trade reforms.

Macroeconomic prospects for 2006 are positive, despite persistent structural challenges. Real GDP growth is forecast to slow to 3.2 percent because oil production in Chad and Equatorial Guinea is steadying, and inflation is expected to be about 3 percent. Higher oil prices are expected to support a further increase in the external current account surplus (including grants) to 5 percent of GDP. The fiscal surplus (excluding grants) is expected to continue at about 9 percent. Among the risks to the forecast are the following: a further exchange rate appreciation; the lack of significant steps to ease structural constraints to non-oil growth; and strong wage pressures in some countries.

In conjunction with the 2006 discussions on Common Policies of Member Countries with CEMAC the region participated in the joint World Bank/IMF Financial Sector Assessment Program (FSAP). The regional FSAP found that financial sector soundness had improved but important stability and developmental challenges remained. Key weaknesses include protracted noncompliance by several banks with critical prudential norms, insufficient capitalization to cope with credit risks, and the limited independence and constrained human and financial resources of the regional banking supervision agency (COBAC). In addition, the FSAP found that access to financial services is limited for both households and medium-sized enterprises (SMEs). Underscoring the importance of structural reforms in the financial sector, the FSAP outlined regional reform priorities for liquidity management by the regional central bank, banking supervision, resolution of remaining weak banks, and strengthening CEMAC financial integration to support the stability and enhancement of the regional financial system. Implementing the FSAP recommendations will require concerted actions at both regional and national levels.

Executive Board Assessment

Directors commended the positive macroeconomic performance in the Central African Economic and Monetary Community (CEMAC) region in 2005. Oil-related inflows and improved fiscal policy administration, including revenue enhancements, have led to significant improvements in national fiscal balances, external current accounts, and reserve accumulation, while supporting a reduction in external debt levels and helping achieve closer adherence to macroeconomic convergence criteria. Directors observed, however, that per capita income in most CEMAC member countries remains low and that they face significant challenges in meeting the Millennium Development Goals. They therefore urged the authorities to take advantage of the improved macroeconomic and financial conditions to address long-standing structural issues that are critical for raising non-oil growth and employment, and reducing poverty.

Directors underscored the macroeconomic challenges arising from the current oil-related inflows. They stressed, in particular, the need to balance carefully critical spending needs against the limited absorptive capacity and possible risks of Dutch disease. At the regional level, this will require coordination of fiscal policies and careful investment of oil-related savings. In this regard, Directors welcomed the recent agreement allowing member countries to save oil-related inflows in country-owned Funds-For-Future-Generations and Oil-Stabilization-Funds at the BEAC. However, Directors recommended that the rules be amended to allow these funds to be invested in longer-term assets, while ensuring that their remuneration reflects actual investment returns. At the same time, it will also be important to maintain sufficient monetary reserves to support the continued credibility of the fixed exchange rate regime. Directors also welcomed recent efforts to improve the transparency of oil-related inflows by establishing a permanent secretariat for the Extractive Industries Transparency Initiative at the BEAC.

Directors welcomed the region’s participation in the FSAP. While recognizing the region’s success in achieving reasonably sound financial sectors, they urged the authorities to further strengthen financial stability and accelerate reforms, particularly as the financial sectors in the region remain among the least developed in the world. Directors emphasized the need to address the commercial banks’ low capitalization in relation to credit risk, and to enhance the institutional independence and staffing of the Central African Banking Commission. To improve monetary policy implementation and help deepen financial markets, Directors recommended dismantling restrictions on interest rates, and lowering the excessively high-required reserves. They also recommended absorbing excess liquidity through marketable central bank bills, although this would require careful monitoring of the BEAC's income position. The authorities should also ensure the effective implementation of AML/CFT legislation.

Directors emphasized that medium-term financial sustainability in the region will require prudent macroeconomic policies and broad improvements in competitiveness. Given that oil reserves are limited, greater urgency should be accorded to addressing the structural impediments that constrain the competitiveness of the non-oil sectors. This will require strong efforts to overcome regional structural rigidities, including through more flexible labor markets, trade facilitation and liberalization, and a business and legal environment that is more conducive to private sector growth. Directors also noted that inflation must be kept low and fiscal spending contained to avoid the risk of an exchange rate overvaluation.

Directors noted the potential for regional integration to increase market size and help foster growth. They regretted the very low degree of trade and financial integration, and pointed to the lack of infrastructure and insufficient financing for some regional institutions that continue to constrain integration. In this respect, Directors welcomed recent commitments at the highest political level to strengthen regional integration, including clearing arrears to the CEMAC and ensuring better funding of regional institutions, enhancing regional policy coordination in the face of oil-related inflows, and promoting regional projects.

Directors called for a renewed focus on the promotion of trade to realize the potential benefits from economic integration. They underscored the need to overcome the continuing difficulties in applying agreed trade policies within the customs union, which hinder external and intraregional trade. Directors called for a more ambitious external trade reform, pointing in particular to the need to lower the common external tariff. Directors noted the recent progress in the negotiations for an economic partnership agreement with the European Union. They indicated that trade reforms should be designed with a view to minimizing trade distortions, and be accompanied by strong efforts to mobilize alternative fiscal revenues.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Statement by Damian Ondo Mañe, Executive Director on Common Policies of Member Countries of the Central African Economic and Monetary Community
July 10, 2006

Introduction

On behalf of the authorities of the Central African Economic and Monetary Community (CEMAC), I would like to thank staff for the comprehensive set of papers on the recent developments in the region and in particular, for the constructive dialogue they have had during their last mission in the region to conduct the first formal Article IV discussions and the Regional Financial Sector Assessment Program (FSAP).

My authorities would also like to express their appreciation for the exchange of views with the Board travel group and Management in the context of their latest visit in the region. They would like to thank the Managing Director for his attendance to the CEMAC summit held in March 2006 in Bata and they also welcome the policy advice resulting from the regional seminar on "Sources of Growth in CEMAC region" organized in the context of this summit.

Although the oil sector has boosted the economic growth in the CEMAC region over the past years, the authorities are aware that achieving the objective of strong and sustainable growth in order to reduce poverty requires diversifying the economy and broadening the export base. To this end, the authorities are fully committed to pursue their efforts meant to strengthen governance, improve the effectiveness of public investment and expedite structural reforms. In this regard, it is worth noting that they are implementing measures to create an environment conducive to private sector expansion, push ahead the privatization of State Owned Enterprises (SOEs) and improve the transportation infrastructure within the region. Intraregional trade remains low, due mainly to the deficiencies of transportation infrastructure, leading to high costs and long delays in the transportation of goods in particular during the rainy season. Therefore, to promote growth and increase trade within CEMAC call for the development of the transportation infrastructure. In this regard, the assistance of the development partners is crucial. Moreover, recent security developments in some member countries, including the Central African Republic (CAR) and Chad affected particularly by the crisis in Darfur, are a matter of concerns as they have an adverse impact on the regional efforts to promote growth and enhance economic integration.

Recent Macroeconomic Developments

The CEMAC region made up of five oil producers, namely Cameroon, Chad, Republic of Congo, Equatorial Guinea and Gabon, and the Central African Republic has benefited significantly from the oil windfalls. In addition to the surge of oil prices, the region benefited also from the high prices of coffee, timber and aluminum. Export receipts in 2005 increased by more than 20 percent, while import growth slowed. Due to the surge in oil prices and better fiscal management, the region recorded a fiscal surplus, excluding grants, representing almost 8 percent of GDP as well as a reduction of the non oil fiscal deficit to 11 percent of GDP. The regional current account has been positive since 2000, with a surplus of 2.7 percent of GDP and the foreign reserves amounted to 4 months of imports of goods and services against 2.4 months at-end of 2004.

On the inflation front, due to the rise of food prices, reflecting poor harvest, on account of the bad weather conditions, consumer prices increased to 3.8 percent from 1 percent previously. Real GDP growth for the CEMAC region declined from 8.4 to 4.3 percent in 2005 and diverged widely from country to country. This downturn is mainly due to the slowdown of the oil production, difficulties in the agro-industry activities and underdeveloped business environment. The non oil sector declined in 2005 continuing a trend observed since 2001.

In the fiscal area, progress was made by several countries in broadening the tax base and reducing fraud and tax evasion. As a result, half of the improvement in revenue collection was due to the non oil sector. Indeed, fiscal revenue to GDP increased to 26 percent in 2005 from 21 percent in 2004. Despite higher capital investment, public expenditure stood at 17.0 percent of GDP from 19.3 percent in 2004. CEMAC countries used some of the oil windfalls to repay their external and domestic debt. In fact, the external debt was reduced to 40.6 percent of GDP from 59.8 percent in 2004 and domestic debt declined by 1.5 percent of regional GDP.

Despite progress made in improving the fiscal and external balances, much remains to be done, notably in the area of structural reforms, with a view to boosting the growth of the non-oil sector. The CEMAC authorities are committed to diversify the region economy in strengthening the non mineral sectors, with a view to increase resistance to shocks and broaden the revenue base. They are also determined to further stimulate economic growth by raising labor productivity through better improvement in education and health sectors.

Regional Convergence

In 2005 member countries made important progress in meeting the regional convergence criteria, thanks to the oil windfalls. All criteria were met, but the inflation criterion was missed in Equatorial Guinea and Chad, due mainly to high domestic demand. The Debt criterion was not satisfied by the Republic of Congo. Three out of the four criteria, including the fiscal arrears were not met by the Central African Republic. It is important to note that structural obstacles in regional trade and the financial sector explain the difficulties CEMAC members are facing in deepening the integration process and meeting the convergence criteria. My CEMAC authorities are aware of the need to effectively coordinate macroeconomic policies, with a view to better reap the benefits of the economic and monetary union. They welcome the IMF regional surveillance, which will enable them to identify bottlenecks and develop appropriate policies to deal with the situation. The authorities are committed to pursue the reforms in the financial sector and accelerate their efforts towards meeting the regional convergence criteria.

Transparency and Governance

All CEMAC oil exporters have subscribed to the EITI and are implementing their action plan with the assistance of the World Bank. In this context, the authorities have established a permanent EITI Secretariat at the BEAC. In addition to the authorities' efforts in publishing the evolution of the economic and financial indicators in the region, the World Bank has prepared the Report on ROSC for anti-money laundering and combating the financing of terrorism for the region. This assessment conducted, in the context of the FSAP, for the CEMAC reviewed the legal and institutional framework and examined the capacity, the implementation and the effectiveness of this framework. While significant progress has been made, my authorities recognize the need to step up their efforts within the framework of promoting good governance and fighting corruption.

Monetary Issues

The CFA Franc, the common currency of the CEMAC member states, is managed by the BEAC, the common central bank and, is pegged to the Euro at a fixed exchange rate. The exchange regime has served the member countries very well. Indeed, the common currency has delivered significant benefits on inflation, effective policy coordination and efforts to weather shocks, including the changes in the REER resulting from changes in the Euro-US dollar exchange rate. In spite of the domestic pressures and the large inflows stemming from the increase in oil revenues, average inflation in the region remains low and under control. As for official reserves since 2004 they increased sharply to cover four months of imports of goods and services. The authorities are mindful that subduing inflation and strengthening the international reserves management have highlighted the challenges facing the regional central bank in its efforts to implement prudent monetary policy with its current instruments. However, while the authorities are of the view that the current excess liquidity does not constitute an immediate threat to price stability, they agree to review the recommendation to introduce marketable central bank bills, but remain concerned about the impact of this move on the BEAC's income position.

With regard to the market remuneration base of the government' s funds held with the BEAC, including Funds for Future Generations (FFGs) and Oil-Income Stabilization Funds (OSFs), my authorities at the highest level are aware of the difficulties facing the BEAC. In this context, high level discussions are underway among member countries and other important partners to find satisfactory solutions to this issue, including putting in place a credible and modern framework in line with international standards in this area.

In their continued efforts to strengthen the monetary management and increase transparency as well as efficiency of fiscal operations, my CEMAC authorities see merit in encouraging member countries to move to single treasury accounts with the common central bank. In this regard, they hope to benefit from technical assistance from the Fund and other partners.

On interest policy, my authorities have recently lowered the bank's interest rate, in order to encourage investment. However, they deem necessary to continue to control some deposit and lending rates affecting a small fragment of the market.

Financial Issues

My authorities welcome the CEMAC regional FSAP designed to enable them to further improve the financial sector stability in the region in facing common developmental challenges. While the financial sector in the region is sound, they are also mindful of the fact that the financial sector is fragmented and its stability is exposed to some risks and the access to financial services is very low. To address these challenges and establish a strong financial sector, there is a need to strengthen, at regional and national levels, the legal and institutional framework. To this end, the authorities welcome the recommendations of the FSAP which are valuable inputs to press ahead with the needed reforms through in particular enhancing the supervisory capacity and independence of *la Commission Bancaire* (COBAC), upgrading the judicial system, improving commercial and land registries and revising the OHADA legislation on debt collection and accounting practices. The low access to financial services including banking credit is a concern in the authorities' efforts to fight poverty. In line with the FSAP conclusion and reform efforts already underway, the authorities are determined to improve the business environment, including areas as bankruptcy and collateral registration with a view to widen the access to financial services. They are also determined to improve transparency in credit institutions in order to guarantee the integrity of the financial system. In addition, the CEMAC authorities recognize that member countries could draw more benefits from the regional financial markets, in view of the economies of scale and better risk diversification in a context of integrated financial markets.

Trade and regional integration

The CEMAC authorities recognize the need to increase the intraregional trade in order, among others, to accelerate the economic integration process of the member countries. However, many obstacles, including high levels of restrictions, poor development of transportation and telecommunication infrastructure, have hampered the trade and regional integration. My authorities see merit in more ambitious external trade reform, including through lowering of the common external tariff. However, they are of the view that any reform would be based on the review of the regime introduced in 1994 and an assessment of proposed new rates. They also expressed the need to be assisted by the Fund and other donors in carrying out the needed studies and reforms.

Fully determined to further intensify their external trade notably with the European Union, my CEMAC authorities have completed the preliminary negotiations with the EU in December 2005 and are hopeful that an economic partnership agreement (EPA) would be reached at the beginning of 2008. On the other hand, the authorities are expecting adverse trade diversion effects and repercussions on fiscal revenues from an EPA with the EU. In the context of this agreement, member countries will gain further market access to the EU as well as support for institutional reforms to strengthen the external competitiveness of their economies. Moreover, the authorities agreed that to improve competitiveness there is a need at national and regional levels to overcome structural rigidities through, among others, more flexible labor markets, freer trade and a more conducive environment to private sector growth.

Fund Surveillance and technical assistance

My CEMAC authorities are pleased to note that the regional discussions have been elevated to a formal status as part of the Article IV consultations with member countries, in accordance to the Board Decision in last January. This step designed to further strengthen Fund relationship with CEMAC countries will remedy the lack of sufficient support to follow up Fund policy recommendations as well as regional initiatives. Further improvements in the statistical systems and data collection should enable the surveillance conducted by the CEMAC and the Fund to meet their objectives.

The slow pace of improving the effectiveness of regional monetary policy, deepening trade and financial market integration and strengthening region competitiveness has been explained by the lack of human and institutional capacity. To address this daunting challenge the Fund, the donors and CEMAC members have agreed on the establishment of a regional technical assistance center (AFRITAC) in Libreville, Gabon. My CEMAC authorities are grateful to the Fund and donors for this decision and their contribution to its financing and functioning reflect the size of their determination to increase their capacities in areas such as banking supervision, payments systems, foreign exchange, public finance and debt management as well as in statistics. The training program expected from this regional center would enable regional institutions to address the severe human resources constraints facing notably the BEAC and COBAC.

Conclusion

Important progress is being made in the areas of fiscal management and external account balances in the CEMAC region. However, the CEMAC authorities are cognizant that much remains to be done in order to achieve more benefits from the regional agreements. They are fully committed to pursue their reform agenda, as stressed in the final communiqué of the last meeting of the Heads of State held in Bata. In this regard, they have conducted an external audit of the regional institutions and set up a high level follow up committee with a mandate to design and monitor a regional program of reforms to be implemented through March 2008. Channeling oil receipts back to the region has led to a new impetus for strengthening the regional integration. In view of the large resource needed in implementing common policies, a strong support of the international community is required. In this regard, my authorities look forward to further strengthening their cooperation with the Fund and donor community, notably in structural reforms needed for export base diversification, financial market integration and competitiveness strengthening as well as human and institution capacity improvement.