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Central African Economic and Monetary Community: Staff Report on Common Policies of Member Countries; 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 the 2012 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 March 29, 2012, 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 1, 2012. 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 Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 18, 2012 discussion of the staff report.
- A statement by the Executive Director on the common policies of member countries in the CEMAC.

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

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

June 1, 2012

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES

KEY ISSUES

Context. Thanks to high oil-related inflows, macroeconomic performance was good in 2011 with improved fiscal balances and ambitious public investment programs, and higher reserves. However, the CEMAC is facing challenges from deep-seated structural problems, including uncoordinated fiscal policy, financial sector weaknesses, and obstacles to growth and competitiveness.

Outlook and risks. In the near term, the economic recovery is expected to be sustained, supported by strong oil exports and public infrastructure programs. The foremost risk is a possible global slowdown stemming from the euro area crisis.

Ensuring economic stability and sustainability. The regional surveillance framework needs to be enhanced to ensure that fiscal policies support the peg. The reform of monetary policy is needed for effective macroeconomic management.

Ensuring financial stability and development. Financial stability has weakened, and financial access is among the lowest in sub-Saharan Africa. Financial sector challenges, therefore, include returning to region-wide financial stability, addressing the problems of weak banks, and deepening access and integration.

Enhancing growth and competitiveness. Regional and global integration needs to be fostered by removing trade barriers, promoting labor mobility, and enhancing the business environment and governance.

Strengthening common institutions. To support deeper integration, further strengthening of the CEMAC's common institutions is urgently needed. Notably, the governance of the Bank of Central African States (BEAC) should be further enhanced, and capacities should be built up in the Central African Banking Commission (COBAC) and the CEMAC Commission. The IMF has provided extensive assistance in capacity building.

Approved By
Anne-Marie Gulde-Wolf (AFR) and Dhaneshwar Ghura (SPR)

Discussions took place in Yaoundé on March 20-29, 2012 with the Bank of Central African States (BEAC), the Central African Banking Commission (COBAC), and the Central African Economic and Monetary Community (CEMAC) Commission. The staff team comprised Mr. Akitoby (head), Ms. Dieterich, Messrs. Oshima and Nxumalo (all AFR), Mr. Youm (MCM), and Mr. Kpodar (the resident representative in Yaoundé). Messrs. Bah (OED) and Koyasse (the World Bank) also joined the discussions.

CEMAC members are Cameroon, Central African Republic (C.A.R.), Chad, Republic of Congo, Equatorial Guinea, and Gabon. The common currency, the CFA franc, is pegged to the euro at CFAF 655.957 per €1.

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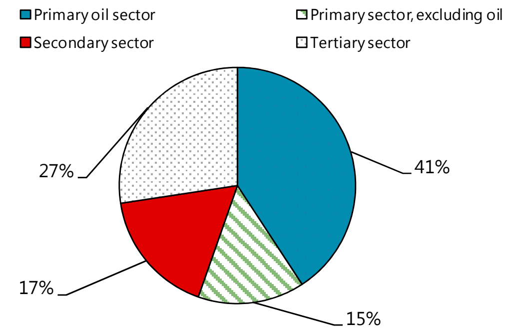
INTRODUCTION

1. Macroeconomic performance in 2011 was good, supported by high oil-related inflows. Oil revenue allowed oil-producing member countries to comfortably finance ambitious investment programs while further strengthening international reserves.

2. Despite its vast oil wealth, the CEMAC faces substantial development challenges. Five of the six CEMAC countries are oil producers; oil accounts for 41 percent of regional GDP (Figure 1) and 86 percent of total goods exports. Oil-related surpluses have posed challenges for macroeconomic policymaking. Channeled through government spending, oil revenue is the main driver of economic activity. Volatile oil prices and procyclical fiscal policy have caused boom and bust cycles, exacerbated by high wages, in a fixed exchange rate regime. Spending out of oil wealth has not led to more inclusive growth. The Central African Republic (C.A.R.), the only member country without oil, continues to grapple with the challenges of a fragile postconflict state. With high inequality, poverty, and unemployment, it is unlikely that the region will meet the Millennium Development Goals by 2015 (Table 2).

Figure 1. CEMAC: GDP Composition, 2011



Source: IMF African Department (AFR) database.

3. Implementation of long-standing IMF policy advice has been slow. National fiscal policies are not well coordinated, in part because the current convergence criteria are not appropriate for a region dominated by oil-producers (Appendix I). On monetary policy, long-standing recommendations on improving policy instruments have not yet been implemented. However, government cash holdings have largely been centralized at the regional central bank, statutory advances are being phased out, and a regional government securities market is now operating. Regarding the financial sector, core recommendations of the 2006 Financial Sector Assessment Program (FSAP) report (Appendix III) have not been implemented. Notably, the principal prudential regulations are still out of line with international best practices and are poorly enforced. The regional supervisor's (the Central African Banking Commission (COBAC)) severe staffing problems continue to undermine the credibility of supervision, with serious reputational risks for the financial sector. The new regulation on banking crisis management has yet to be adopted, and little progress has been made on addressing the problems of weak banks, including a systemically important regional banking group. Regarding trade reforms, more needs to be done to remove barriers to internal and external trade. On safeguards and governance issues, the BEAC has made progress in implementing its action plan, but risks remain in core functions and at the higher level of governance and oversight bodies.

4. **The CEMAC would benefit from improved regional integration.** The ongoing crisis in the euro area has brought to the forefront a currency union's policy challenges stemming from loss of competitiveness, lack of fiscal coordination, and loose economic and financial integration. To safeguard the CEMAC's currency union and enhance the benefits of regional integration, the authorities need to ensure progress in three areas:[1] (i) ensuring economic stability and external sustainability; (ii) ensuring financial stability and development; and (iii) enhancing growth and competitiveness. To this end, there is an urgent need to further strengthen the CEMAC's common institutions.

ECONOMIC CONTEXT

A. Recent Economic Developments

5. **Economic activity in 2011 was affected by lower oil output (Tables 1 and 3, and Figure 2).** Real GDP growth in 2011 fell slightly to 4.5 percent, driven by a decline in oil output growth in Republic of Congo and Gabon. Non-oil real GDP growth was somewhat below sub-Saharan African (SSA) oil exporters' average, but exceeded the West African Economic and Monetary Union's (WAEMU) average.

6. **Regional inflation picked up, but the real effective exchange rate (REER) was stable (Table 4).** Because of rising food and fuel prices, average annual consumer price inflation increased markedly from 2.4 percent in 2010 to 3.1 percent in 2011, slightly above the regional convergence criterion of 3 percent, but close to inflation in the WAEMU. The regional REER was stable because the appreciation in Republic of Congo and Equatorial Guinea outweighed the depreciation in other CEMAC countries. The REER remains below its predevaluation level.

[1] Background paper: Akitoby, B. and S. Coorey "CEMAC: Macroeconomic Challenges" in: *Oil Wealth in Central Africa: Policies for Inclusive Growth* (forthcoming), ed. by B. Akitoby and S. Coorey (Washington: International Monetary Fund).

7. The monetary stance was accommodative (Figure 3). Despite inflation slightly above the convergence criterion of 3 percent and high excess liquidity, the BEAC left its policy rate unchanged. The spread between the BEAC and the European Central Bank (ECB) policy rates was about 200 basis points during 2011. Regarding monetary aggregates in 2011, government deposits increased, driven by oil-related inflows. However, broad money and credit to private sector grew by double digits driven by commercial bank deposits (Tables 8, 9, and 10). Commercial bank excess liquidity also remained elevated.

8. The fiscal stance was expansionary (Figure 4). The region's non-oil primary deficit widened, driven by public investment. It is estimated to have increased from about 23.5 percent of non-oil GDP in 2010 to about 26 percent of non-oil GDP in 2011, because the fiscal position deteriorated markedly in Republic of Congo and Gabon. Public debt remained low at about 18 percent of GDP, as the scaled-up investment was primarily financed from buoyant oil revenue.

9. The external position strengthened (Table 5 and Figure 2). Owing to high commodity prices, the current account deficit narrowed despite high import demand from the expansionary fiscal stance. Consequently, international reserves strengthened to about five months of total imports or nearly 100 percent of broad money in 2011.

10. Compliance with convergence criteria improved, but structural differences remain significant (Table 7). The number of criteria violations declined further from six in 2010 to three in 2011. The public debt criterion (70 percent of GDP) was met by all countries. The oil-exporting CEMAC countries, except Cameroon, complied with all fiscal criteria, which are no longer binding because of oil inflows. Equatorial Guinea missed the inflation criterion and the Central African Republic the basic fiscal balance criterion. Overall, cross-country differences in economic variables remain, in spite of oil production in five out of six countries.

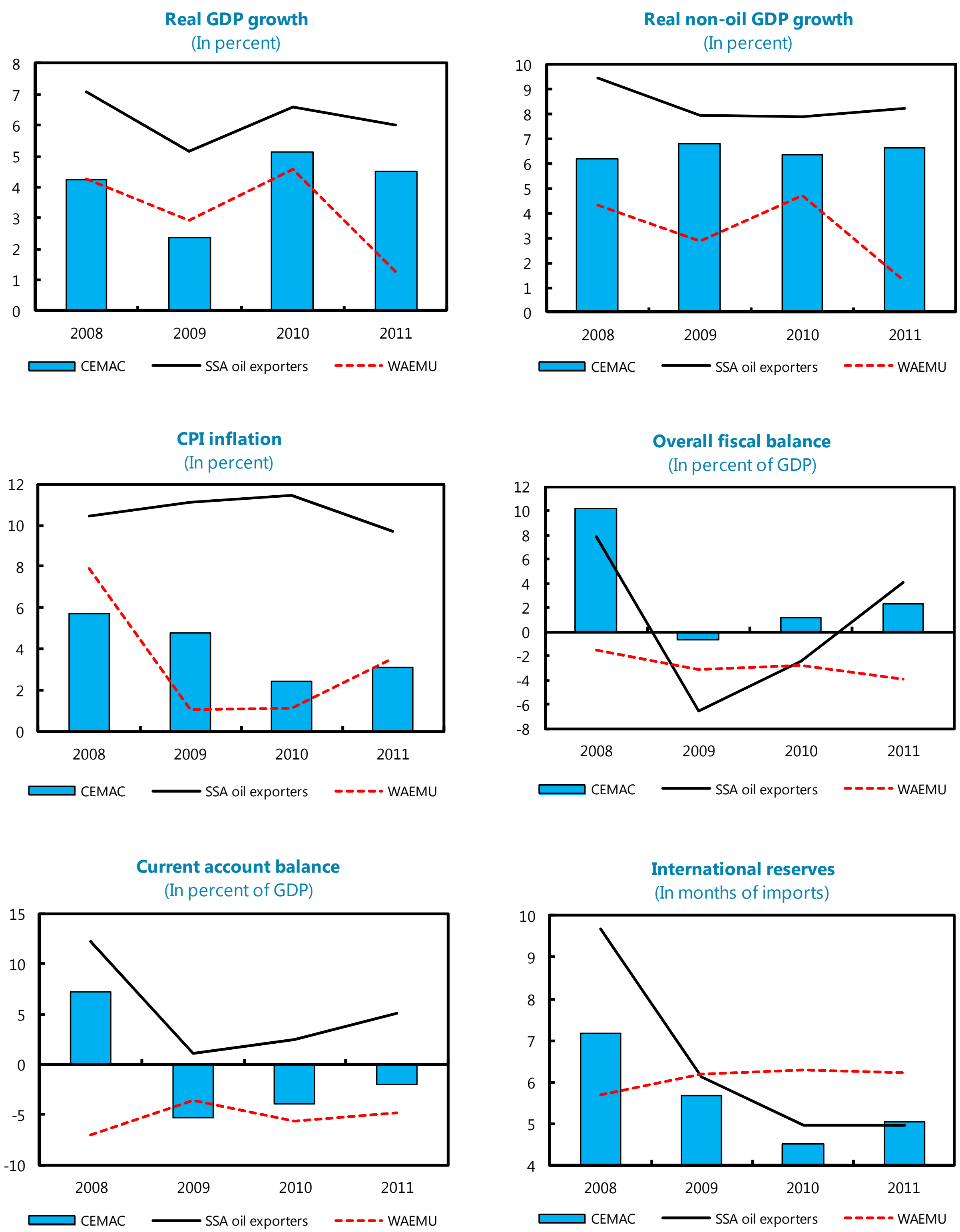
B. Outlook and Risks

11. The regional economic outlook is generally positive (Figure 5). Non-oil real GDP growth is projected to moderate to about 5.5 percent in 2012, while overall real GDP growth would remain broadly stable at about 4.5 percent, supported by a rebound in oil output. End-of-period inflation is forecast to decline, mostly because of limited pass-through of higher fuel prices (Table 1). Over the medium-term, non-oil real GDP growth will average about 5 percent, supported by the growth effects of infrastructure projects in the last few years. At the same time, overall GDP growth is projected to decline to about 3.5 percent on average, because of declining oil output growth.

12. The foremost risk is a weaker-than-expected global environment (Appendix IV). A possible global slowdown stemming from the euro area crisis could affect the region through the financial and real sectors. Regarding the financial sector, staff and the authorities agreed that the spillover risk from the euro crisis to the CEMAC's financial sector appears limited because domestic banks rely relatively little on external funding. Even banks with European parent banks (about one fourth of total bank deposits in the region) rely mainly on domestic funding and are exposed to lower credit risks according to the stress test (Box 3). Concerning the spillover to the CEMAC's real sector, staff and the authorities agreed that the main transmission channel would be a decline in commodity prices, especially oil, because commodities account for about 90 percent of total exports of goods and 50 percent of nominal GDP in 2011. In Box 1, staff assessed how the region would be affected if the spring 2012 WEO adverse scenario materialized. The findings show that the impact on export receipts would be an 8.7 percent decline from the baseline level. Real GDP growth would decline from 4.6 percent in the baseline scenario to about -0.7 in the downside scenario, reflecting a decline in non-oil GDP on account of public demand withdrawal. As seen during the 2009 global recession, the region's reserves provide a comfortable cushion, unless a prolonged crisis severely depresses oil prices. A risk to the reserve buffer is noncompliance with rules for pooling official reserves at the BEAC. The authorities are working toward addressing this issue (see Paragraphs 33 and 34 on External Sustainability).

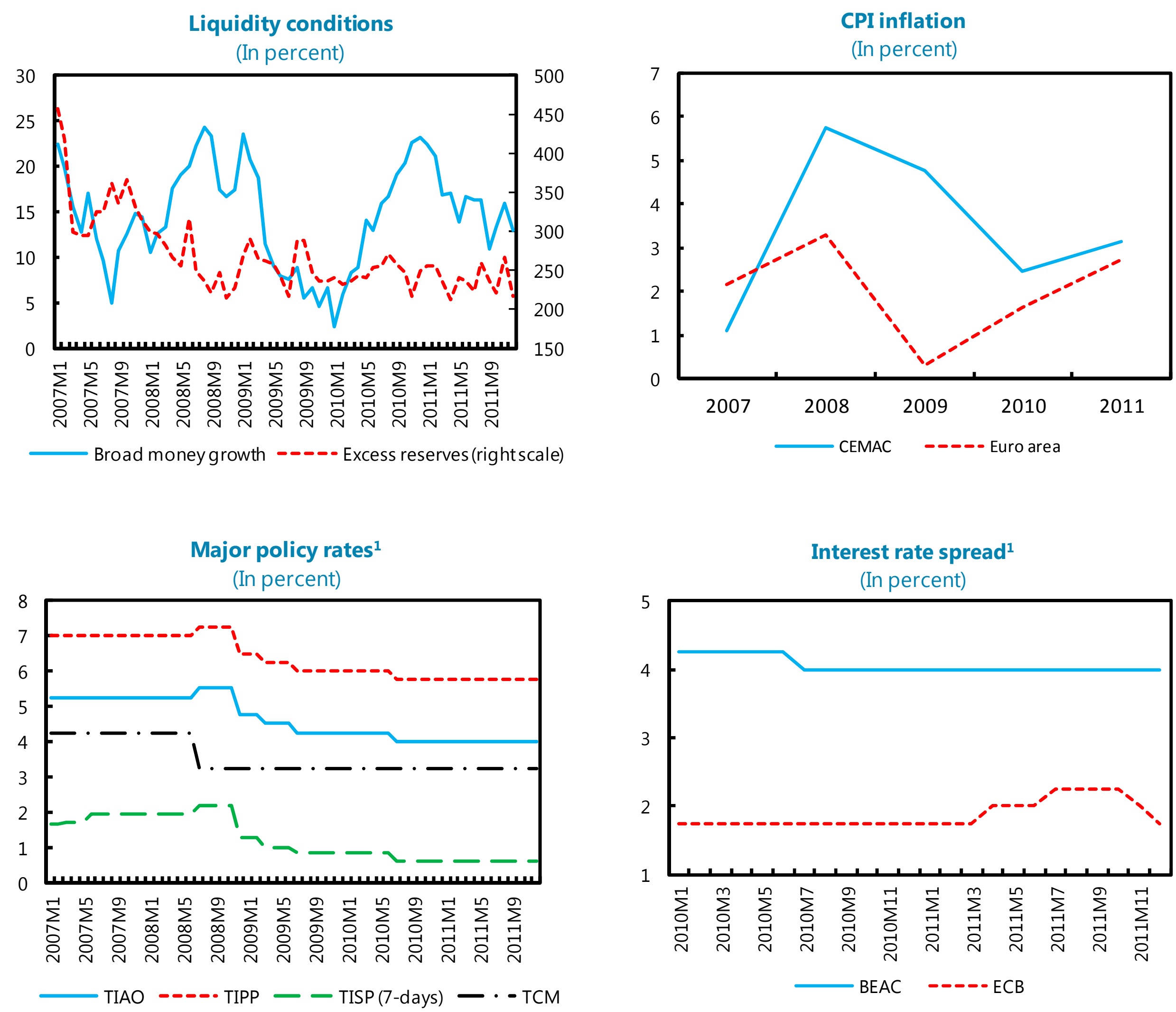
13. Another risk to the outlook stems from financial sector vulnerabilities. Weak supervision and the increasing number of troubled banks are serious threats to financial stability. Staff urged the authorities to take decisive and urgent actions to safeguard financial stability (see section on Ensuring Financial Stability and Development).

Figure 2. Recent Economic Developments, 2008–11



Source: IMF AFR database.

Figure 3. CEMAC: Monetary Developments, 2007–11

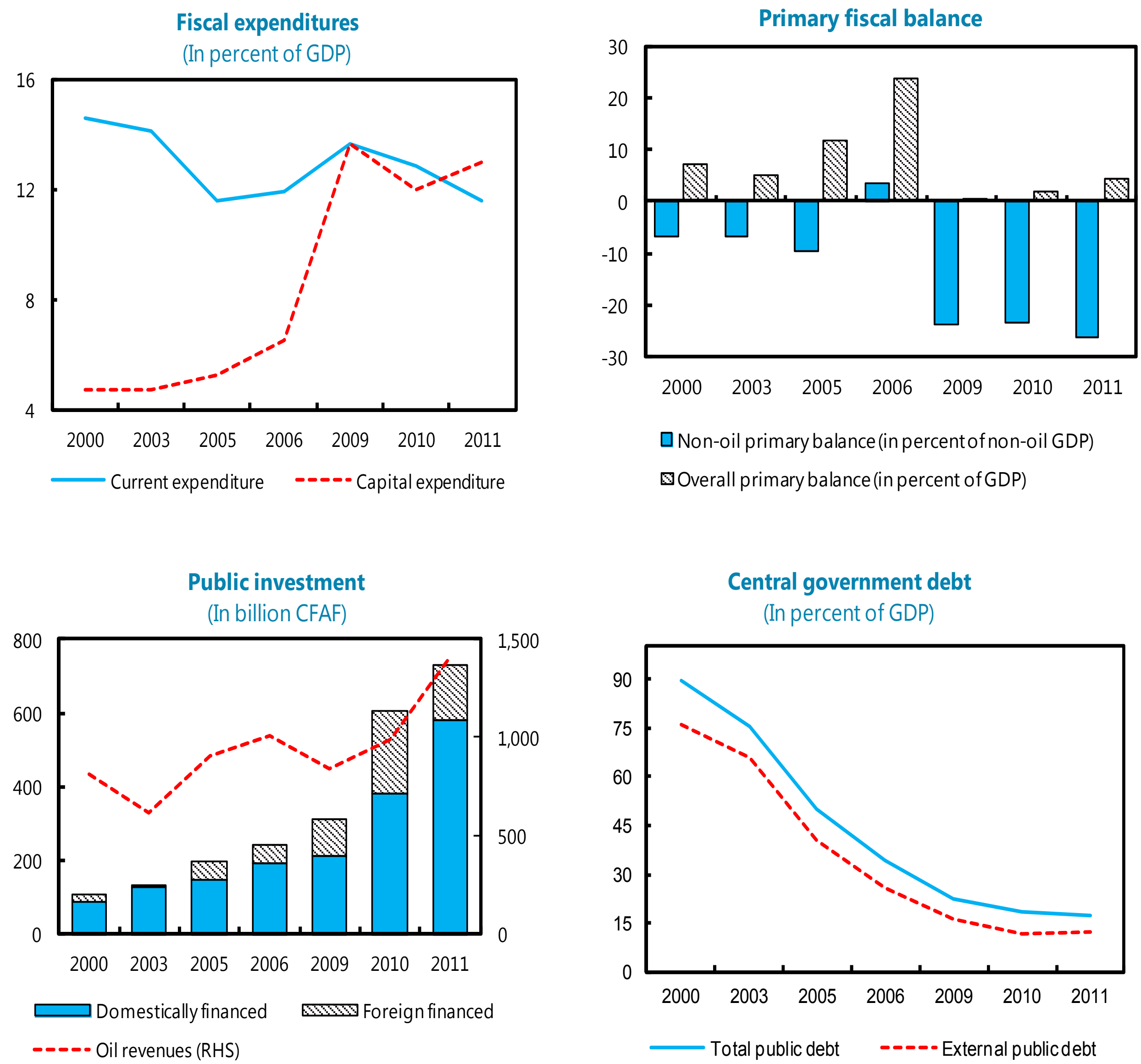


[1] TIAO: Taux des appels d'offres, TIPP: Taux des prises en pension, TPB: Taux de pénalité aux banques, TISP: Taux d'intérêt sur placement à 7 jours, and TCM: Taux Créditeur Minimum.

[1] BEAC refers to TIAO rate and ECB refers to the marginal lending facility

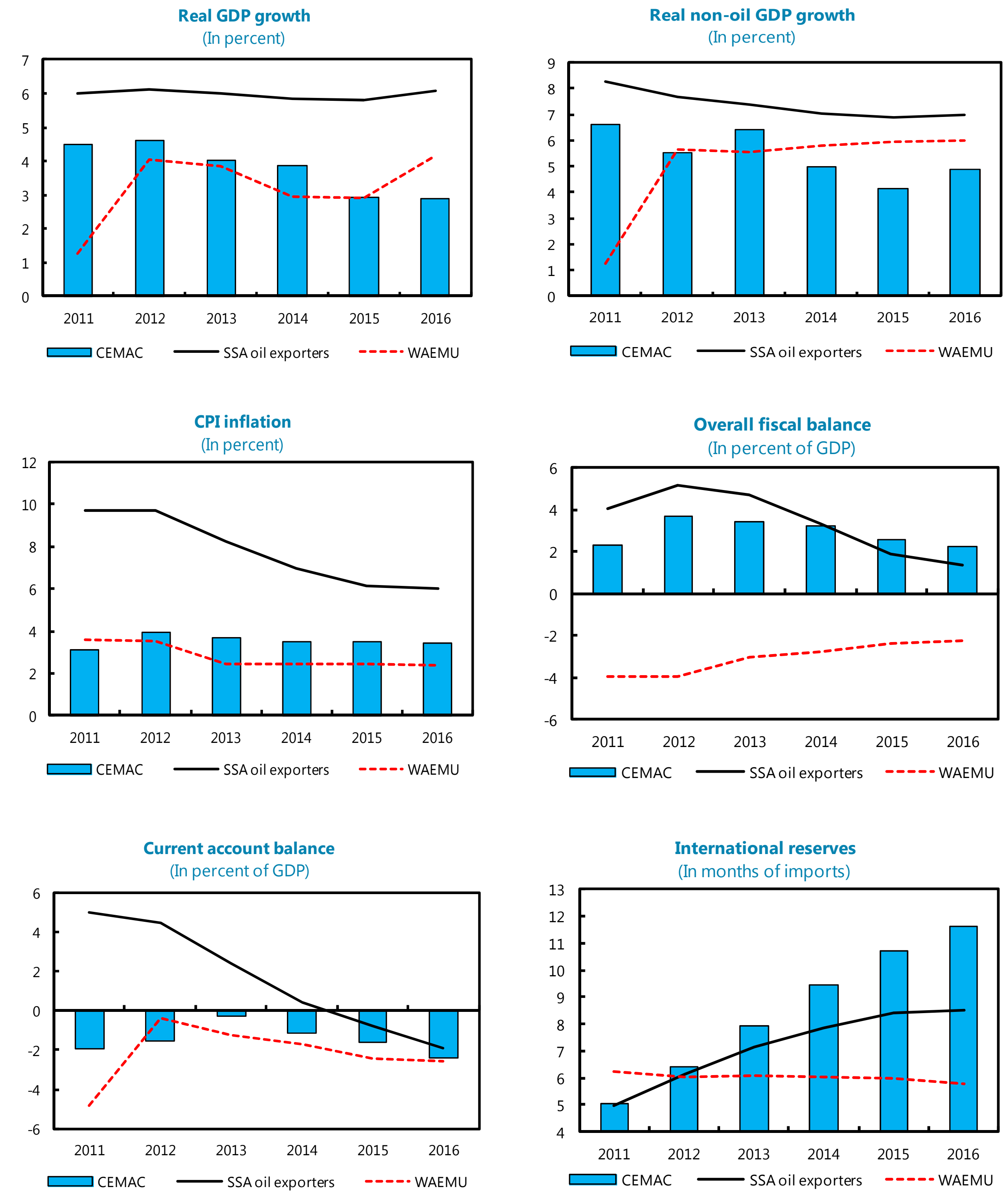
Sources: International Financial Statistics (IFS), BEAC, and ECB.

Figure 4. CEMAC: Fiscal Developments, 2000–11



Sources: IMF AFR database and staff estimates.

Figure 5. Medium-Term Outlook, 2011–16



Source: IMF AFR database.

Box 1. How Would a Weaker Global Environment Affect the CEMAC Region?

This analysis assesses how the region would be affected if the spring 2012 WEO adverse scenario materialized. In this scenario, oil prices are 12 percentage points lower than in the baseline scenario in 2012. The findings show that real GDP growth would be about 5 percentage points lower than in the baseline and export receipts would decline by about 9 percentage points from their baseline level.

Trade would be the dominant transmission channel because of the region's dependence on commodities, especially oil. With commodities accounting for about 90 percent of total exports of goods and 50 percent of regional GDP in 2011, changes in commodity prices would have a major impact on the CEMAC's external accounts and income. For instance, during the 2008/09 crisis, the commodity price decline triggered a substantial drop in export receipts and the current account. The fiscal balance also deteriorated because the share of oil revenue in total government revenue is high (close to 65 percent over the last five years). Thanks to the comfortable reserves cushion and fiscal buffers, the CEMAC region was able to absorb this shock.

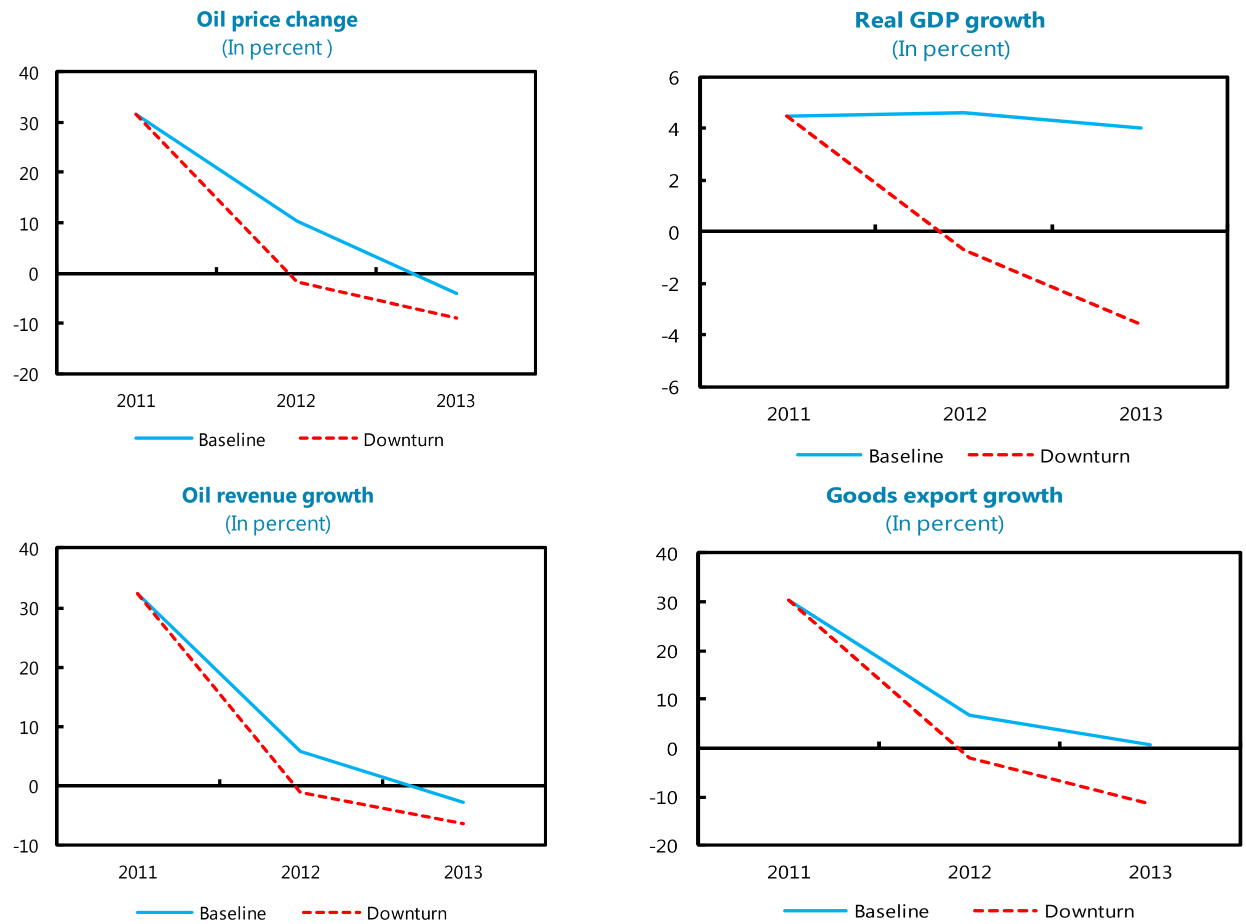
Transmission through financial flows, aid, and remittances plays a minor role. Because of the region's limited international financial linkages, direct spillovers through financial flows are marginal as evidenced by the 2008 crisis. However, a global slowdown, which depresses oil prices, could lead to a deterioration of the loan portfolio (Box 3). Regarding aid and remittances, they also play a marginal role as transmission channels for shocks because they represent less than 1 percent of regional GDP.

The analysis of the impact of a global recession on the CEMAC is based on the reactions of macro variables to oil price changes. Because of substantial data limitations, estimating price-elasticities specific to the CEMAC region was challenging. Therefore, the analysis is based on the historical averages of oil price-elasticities. The elasticity is about 0.4 for real GDP, 0.7 for oil revenue, and 1.3 for exports of goods. The elasticity of non-oil GDP to oil price is about 0.5. The response of macro variables to the oil price changes is derived through a partial equilibrium analysis, using the above elasticity values.

The findings show a significant decline in real GDP compared to the baseline. In 2012, real GDP growth falls from 4.6 percent under the baseline to -0.7 percent in the adverse scenario. Exports of goods shrink by about 2 percent instead of growing by 6.5 percent as forecast in the baseline. On the fiscal side, oil revenues shrink by 1 percent in 2012 as opposed to a baseline growth of 6 percent. These responses assume no counter-cyclical policy response. The impact of the shock on reserves would be a decline in the 2012 reserve to import ratio from 6.4 months in the baseline to 6.1 in the downside scenario.

Box 1. How Would a Weaker Global Environment Affect the CEMAC Region? (concluded)

Simulation Results



Source: IMF AFR database and staff estimates.

ENSURING ECONOMIC STABILITY AND EXTERNAL SUSTAINABILITY

A. Monetary Policy and Liquidity Management

14. Although the exchange rate is fixed, the BEAC has some monetary independence because of capital controls.[2] The BEAC formulates a regional reserve money program, but, in practice, monetary policy has been largely passive over the past few years with high oil-related inflows. The BEAC policy instruments consist of refinancing and deposit windows for banks, interest rates, and reserve requirements. In addition, BEAC advances to governments have been abolished, and the stock at end-December 2011 will be phased out over 10 years.

15. Monetary policy instruments are ineffective. First, country-specific banks' reserve requirement rates hinder the effectiveness of this policy instrument and undermine the BEAC's common monetary policy for the region. Second, in conducting its liquidity management, the BEAC does not take into account regional liquidity conditions, but is reactive to banks' demand and supply. As a result, the BEAC simultaneously injects and absorbs liquidity. Finally, the BEAC's interest rate structure does not reflect the liquidity conditions in the banking system.

16. In practice, monetary policy remains constrained by structural factors. First, the region suffers from structural excess liquidity because of high oil-related inflows. Second, regional financial infrastructure and markets are underdeveloped. For instance, a regional government securities market has just been launched; and the quasi-inexistence of an inter-bank market limits the effectiveness of the monetary transmission mechanism by preventing the emergence of a benchmark rate and impeding the BEAC's control of liquidity injections. Factors constraining the development of the inter-bank market include the lack of a well-functioning regional securities market and the absence of a legal framework for collateralized inter-bank trading and repo agreements. Finally, the BEAC's capacity to conduct studies to underpin monetary policy decisions is limited, because of staff shortages in the directorates in charge of monetary analysis. The IMF's Monetary and Capital Market Department (MCM) has been providing advice on developing collateral instruments for the BEAC's operations and regional government securities and inter-bank markets.

[2] Some capital controls apply to transactions outside the CFA franc Zone. For example, financial investments abroad above CFAF 100 million require the approval of the Ministry of Finance.

Staff's advice

17. Staff noted that progress in revamping monetary policy has been slow and urged the central bank to give priority to this reform. Notably, in line with MCM advice, the authorities should:

- Enhance the effectiveness of monetary policy instruments, including unifying the BEAC's windows for liquidity provision, rationalizing its interventions, harmonizing the required reserves ratios, and supporting the development of an active inter-bank market.
- Improve the coordination between fiscal and monetary policies, by setting up a system to monitor the member states' debt and cash positions.
- Strengthen monetary analysis, including developing a better understanding of the determinants of autonomous factors and the monetary transmission mechanisms. Increase staffing for monetary analysis.

Authorities' views

18. The authorities noted that a comprehensive reform is underway. Long-standing technical assistance (TA) recommendations have not been implemented because of lack of human capital. Because this is now being addressed, the monetary policy committee has just approved the reform proposals, which build on the 2006 FSAP recommendations and IMF technical assistance. The reform consists of three components (institutional, analytical, and operational framework) with the objective of moving to market-based instruments in the context of a fully developed inter-bank market.

19. Required reserve ratios will be harmonized, as the proposed reform of monetary policy takes hold. Given the cross-country differences in liquidity and the still fragmented regional financial markets, country-specific reserve requirements should be seen as a second-best and transitory measure.

20. The newly established regional government securities market could help reduce excess liquidity. The operational framework will be enhanced through a regional repo agreement, thereby allowing for collateralization of operations among banks.

21. Coordination between fiscal and monetary policies will be enhanced. As governments start using the regional government securities market, the BEAC will have better data on their fiscal positions to help improve coordination between fiscal and monetary policies. The BEAC will also encourage member states to establish cash management committees and public debt committees, with the effective participation of the BEAC national directorates.

B. Fiscal Policy Coordination

22. **The regional surveillance framework needs to be enhanced so that fiscal policies support the peg.** The CEMAC Commission carries out regional surveillance, with the objective of preventing excessive fiscal deficits. The framework relies on four mandatory convergence criteria, complemented by non-binding sub-criteria (Appendix I). Currently, the convergence criteria on fiscal balances and public debt are not binding, owing to high oil receipts. Moreover, the debt ceiling of 70 percent of GDP is too high in light of current debt levels. To address the fiscal sustainability problem, the CEMAC monitors the non-oil basic balance, without setting a convergence criterion on this variable. Overall, the coexistence of a strict deficit criterion with a lax debt criterion undermines credibility, without addressing the sustainability of national fiscal policies.

23. **The CEMAC adopted in late 2011 six directives to better coordinate and harmonize fiscal policies**. These public financial management (PFM) directives are on budget law and the medium-term fiscal framework (MTFF), public accounting, payroll management, implementation of the *Government Finance Statistics Manual (GFSM) 2001*, metadata related to the budget system, and transparency and good governance in PFM. They are required to be transposed into national legal frameworks within two years. However, the directives are expected to be fully implemented over ten years, taking into account country-specific capacity. The reform process is supported by technical assistance from the IMF's Fiscal Affairs Department (FAD), which also assisted the commission in developing the directives (see Informational Annex), and other development partners.

Staff's advice

24. **The regional surveillance framework should be reformed.** Notably, binding fiscal rules cast in an MTFF are needed to ensure fiscal sustainability. While there is no one solution for fiscal rules, several options could be considered. These include mandatory limits on the non-oil primary deficit, an oil price-based rule, country specific limits on expenditure growth, and a binding debt ceiling. The CEMAC could adopt a fiscal rule at the regional level, while setting country-specific quantitative targets that reflect the oil depletion, investment profiles, as well as the C.A.R.'s needs as the only country without oil in the region.[3]

25. **It is essential to monitor the implementation of the CEMAC directives on PFM.** First, the transposition of the CEMAC directives on PFM in national legal frameworks should be a priority. Next, effective

[3] At the level of member states, a value at risk analysis could complement an oil-price based rule by defining the optimum balance of stabilization buffers.

implementation should be planned based on a clear and binding timeline.

Authorities' views

26. The authorities agreed with the need to reform the regional surveillance framework. They welcomed staff's proposal for binding fiscal rules. They acknowledged the need to accommodate cross-country structural differences (e.g., country-specific oil depletion and investment profiles). However, they noted that country-specific quantitative targets could weaken the credibility of the convergence criteria. To move forward with the reform of the convergence criteria, they proposed holding a workshop in 2012 for senior officials of member countries and the BEAC, in close coordination with staff.

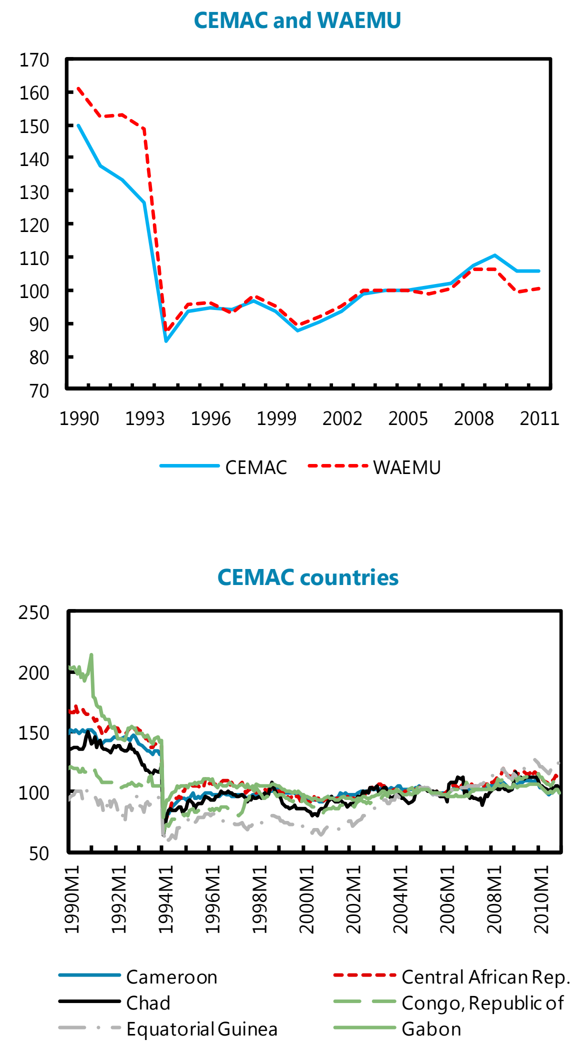
27. The CEMAC directives should help strengthen regional surveillance. A time-bound action plan has been finalized, and training of national officials will start in the second half of 2012. This process is fully supported by all the CEMAC finance ministers, who see the directives as an effective way to enforce efficient and transparent PFM.

C. External Sustainability

28. The REER is broadly aligned with fundamentals, but other indicators could signal a deterioration of competitiveness. For the CEMAC as a whole, the appreciating trend of the REER since the 1994 devaluation has been moderated by the recent euro depreciation (Figure 6). However, there is concern that high public sector wages could spill over to the private sector. Although wage data are scarce, a cross-country comparison of minimum wages shows that a number of the CEMAC countries have some of the highest minimum wages among a sample of 16 SSA countries.[4] Staff assessed the REER and the external position, using two methodologies that take into account the specificities of oil-producing countries, especially the temporary nature of oil revenue (Box 2). Both approaches suggest that the external position and the REER are broadly consistent with equilibrium under current policies. However, poor non-oil export performance underlines the need to remove structural obstacles to competitiveness (the section on Strengthening Growth and Competitiveness).

[4] Source: Based on data from ILO, UNDP, and national government documents.

Figure 6. Real Effective Exchange Rate (2005=100), 1990–2011



Source: Information Notification System (INS).

29. The fixed exchange rate regime is secured in the near term by adequate reserves. At about five months of total imports or nearly 100 percent of broad money, the region's official reserves comfortably exceed traditional benchmarks. An analysis of reserve adequacy on the basis of observed exchange market pressure events finds that reserves are adequate to withstand a three-standard-deviation shock to the oil price lasting two years with unchanged policies (Appendix II).

30. However, a longer-term risk stems from some member countries' failure to fully comply with the rule for pooling official reserves. A BEAC working group is studying ways to enhance compliance with the reserve-pooling requirement. Compliance has been weakened by recent BEAC safeguards concerns and low interest rates on government deposits at the BEAC, including those on the Fund for Future Generations. Based on preliminary information, reserves held outside the BEAC are equivalent to about 50 percent of the BEAC's reserves. Gabon has recently transformed its Fund for Future Generations into a Strategic Investment Fund, raising the question of countries' ability to invest independently. The Gabonese government assured the BEAC management that its obligations under the regional reserve-pooling requirement will be respected.

Staff's advice

31. The authorities should strengthen oil-savings management. The BEAC could invest excess foreign assets (above the desired level of monetary reserves) in investment portfolios, reflecting countries' investment horizon, return objectives, and risk profile. Countries should also have a say in how long-term oil savings are invested.

32. Member countries should adhere fully to the reserve-pooling requirement. Notably, the Council of Finance Ministers and the BEAC Board should be updated regularly on the progress of the working group that is seeking to enhance compliance.

Authorities' views

33. The authorities shared staff's assessment of external sustainability. The BEAC's own analysis pointed to similar conclusions that the reserves are adequate to support the fixed exchange rate regime and that the CEMAC's external position and the REER are broadly consistent with external stability. The longer-term risk from noncompliance with the rule for pooling reserves is expected to be addressed by a successful reform of oil-savings management.

34. The reform of oil-savings management is a priority. The BEAC is working on analytical tools that will help distinguish between monetary reserves and funds that could be invested in longer-term instruments. The Funds for Future Generations will also be reformed so that its remuneration is tightly linked to investment returns, thus giving member governments incentives to pool reserves. Regarding member countries' setting up their own sovereign wealth funds, the BEAC is concerned that this may undermine the foundation of the currency union, which rests on reserve pooling. Nonetheless, the BEAC plans to seek member states' views on reforming oil-savings management, including setting up a sovereign wealth fund compatible with the regional reserve pooling requirement. To this end, a high-level workshop will be held in late 2012 in close coordination with staff.

Box 2. CEMAC: External Stability Assessment

Staff's assessment of the CEMAC's external sustainability is based on two methodologies that take into account the specificities of oil-producing countries, especially the temporary nature of oil revenue. Both approaches suggest that the estimated overvaluation (around 10 percent) is within the margin of error. As a result, the external position and the REER are broadly consistent with equilibrium under current policies. However, poor non-oil export performance underlines the need to remove structural obstacles to competitiveness.

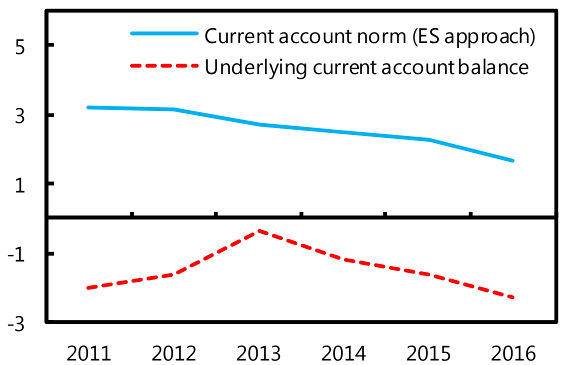
Model based assessment[1]

The Bems and Carvalho (2009) model applies the balance sheet-based methodology and smoothes intertemporal consumption from oil wealth. Using this methodology, staff derives a current account norm for the oil producing CEMAC countries.

The exchange rate assessment compares this norm to the underlying 2016 current account, which takes into account the temporarily high public investment.[2] This amounts to a very stringent test because the norm presumes that investment should be smoothed across generations.

Comparing this norm to the underlying (medium-term) current account deficit yields an overvaluation of about 11 percent. The Consultative Group on Exchange Rate Issues (CGER)'s external sustainability approach—based on stabilizing the net foreign assets (NFA) at the 2011 level without any correction for the temporary nature of oil revenue—also points to an overvaluation of the same magnitude.

CEMAC: Current Account Balance, 2011-16
(In percent of GDP)



Sources: IMF AFR database and staff estimates.

CEMAC: External Sustainability Analysis, 2016

	Bems/Carvalho Constant Real Annuity	External Sustainability
Current account norm	1.7	1.5
Underlying current account	-2.4	-2.4
Current account elasticity[1]	0.37	0.37
Overvaluation	11.0	10.5

Source: IMF staff estimates.
[1]Elasticities are based on total exports and imports.

Reserve adequacy

With gross international reserves at about five months of total imports or about 100 percent of broad money, the fixed exchange rate regime is adequately secured in the near term. An analysis of reserve adequacy in the CEMAC shows that the current coverage of about five months of total imports would allow the region to withstand a three-standard-deviation shock to the trade balance (Appendix II). Under current fiscal policies, gross international reserves are projected to stabilize at about four months of total imports by 2015.

[1] The equilibrium exchange rate approach was not used in this analysis because it is backward looking and does not take into account the temporary nature of oil income.

[2] Average gross public capital formation is projected to increase from around 8 percent of GDP between 2006 and 2008 to 10.5 percent in 2016. The underlying current account estimate assumes long-term gross public capital formation of 9 percent of GDP.

Box 2. CEMAC: External Stability Assessment (concluded)

A risk to this outlook over the long term is possible widespread noncompliance with the rule for pooling reserves. Low interest rates on CFAF-denominated government deposits at the BEAC discourage the pooling of reserves. In addition, recent safeguards concerns at the BEAC have weakened the member states' confidence in the BEAC, thus reducing the incentive for pooling reserves.

Non-oil export performance and competitiveness

The CEMAC's export performance suggests there is room for improving competitiveness in non-commodity sectors. The region's non-oil exports have stagnated at about 0.05 percent of world exports. At the same time, the non-commodity exports growth between 2000 and 2008 has been lagging behind SSA (4.5 percent compared with 14.2 percent).

CEMAC: Exports of Goods, 1995-2011
(In percent of total world exports)

	1995	2005	2011
Total exports of goods	0.12	0.23	0.26
Oil	1.22	1.65	1.53
Non-oil	0.05	0.04	0.04

Sources: IMF 2012 World Economic Outlook (WEO) and IMF staff estimates.

Structural factors have been a constraint to competitiveness. A wide range of indicators measuring the business environment (the World Bank's Doing Business and Country Policy and Institutional Assessments (CPIA), and the World Economic Forum's competitiveness index) rank the CEMAC in the lowest quartile. Specific areas for improvement include the limited access to financing and inadequate supply of infrastructure.

ENSURING FINANCIAL STABILITY AND DEVELOPMENT

35. The health of the financial sector is a source of concern. Overall compliance with the regional prudential ratios is weak, and on-site examinations routinely find an even weaker than reported observance of prudential regulations. There are also concerns about a systemically important regional banking group and weak state-owned banks in Cameroon and Gabon. Preliminary data for 2011 show that the violations of main prudential ratios are high (Table 13), although the principal prudential regulations appear lax. Staff's stress tests suggest that the banking system is generally vulnerable to a wide range of risks, particularly to credit risk (Box 3). In addition, a recent survey of microfinance institutions shows that 80 percent of them are deemed insolvent. At the same time, the COBAC's staffing issues undermine its capacity to address these concerns (see Paragraph 65).

36. The resolution of problem banks takes a long time. Notably, the resolution of a systemically important regional banking group, the Commercial Bank Group (CBG), is taking longer than expected because the CEMAC Court has suspended the COBAC's decision to revoke the CBG's license in Cameroon, pending a long overdue restructuring plan. Meanwhile, the restructuring plans of the CBG's banks in Chad and the C.A.R. are proceeding, focusing on recapitalization with public funds and a search for strategic investors. The protracted failure to address the CBG's problems points to the need to strengthen the crisis prevention, management, and resolution framework.

37. The work on the crisis resolution framework is taking longer than anticipated. The CEMAC authorities have prepared a new region-wide regulation for a special resolution regime (SRR). It is expected to (i) allow the authorities to intervene early to resolve banking crises, (ii) define clearly the responsibilities of regional and national bodies and the scope of judicial review, and (iii) prevent shareholders of an insolvent bank from participating in its restructuring. The new SRR, which has been awaiting final adoption for months, is a step in the right direction, but more needs to be done to (i) further strengthen the regulator's powers to take prompt action, (ii) allow out-of-court resolution, and (iii) unify the liquidation process. To complement this framework, the COBAC introduced in 2009 a deposit insurance scheme, funded by fees from financial institutions (Appendix III).

38. Financial access in the CEMAC region is among the lowest in SSA (Figure 7). The penetration rate, defined as the ratio of deposit account holders over the adult population, is low (about 6 percent), and credit to the private sector is well below the average for SSA. Structural factors that explain the low levels of access include (i) high operating costs because of low population density; (ii) weak investor protection; (iii) poor institutional and legal environments; and (iv) under-developed markets and payment systems.

39. Microfinance institutions have so far played a limited role in expanding access to financial services. They claim just 8 percent of total deposits of the banking system and 7 percent of total credit. About 65 percent of microfinance institutions are in Cameroon, followed by 23 percent in Chad. Given the limited role of microfinance institutions, most small and medium-sized enterprises (SMEs) find it difficult to obtain credit.

Box 3. Findings from the CEMAC Banking Stress Test

The health of the financial sector is a source of concern (Table 13). The CEMAC banks' solvency ratio, while remaining above the 8 percent regulatory threshold, fell by 2.5 percentage points in 2011. Profitability declined sharply in 2011 with return on equity dropping by 3 points to 5.3 percent, despite banks' efforts to contain personnel spending and noninterest costs. One third of banks need additional capital to meet all equity-based prudential requirements. Rising noncompliance with the prudential liquidity requirement, particularly in Gabon, and noncompliance with the limit on single large exposure are a source of concern, as is the high level of nonperforming loans for state-owned banks.

Stress tests were conducted to identify vulnerabilities in the banking sector (Table below). Stress test results were analyzed at the national and the regional level, based on individual banks' unaudited data provided by the COBAC. Banks under restructuring were not included in the exercise. Three subgroups of banks were identified: (i) foreign banks, with majority shareholders outside the CEMAC region (76 percent of assets); (ii) domestic private banks (16 percent of assets); and (iii) state-owned banks (8 percent of assets). The mission simulated extreme, but plausible shocks in line with the economic structure of the CEMAC and other regions. The type of shocks and their magnitude were discussed in detail with the COBAC which also received all information about the methodology, the results, and the relevant spreadsheets to facilitate a replication of the tests.

The results of the stress tests suggest that the banking system in the CEMAC is generally vulnerable to a wide range of risks, particularly to credit risk (Table 16). The tests found that the concentration of lending to large borrowers and to the public sector is the major source of risk. Nine shocks were tested based on three broad categories of credit risk. Under the most damaging scenario, the recapitalization costs to meet minimum capital requirements would remain limited (at most 1.4 percent of GDP in the C.A.R. and 1.3 percent of GDP in Cameroon). This reflects, to a large extent, the small size of the banking sector and more generally the low financial intermediation in the CEMAC. The vulnerability of the banking system to credit risks confirms the need to strengthen supervision, including regular monitoring.

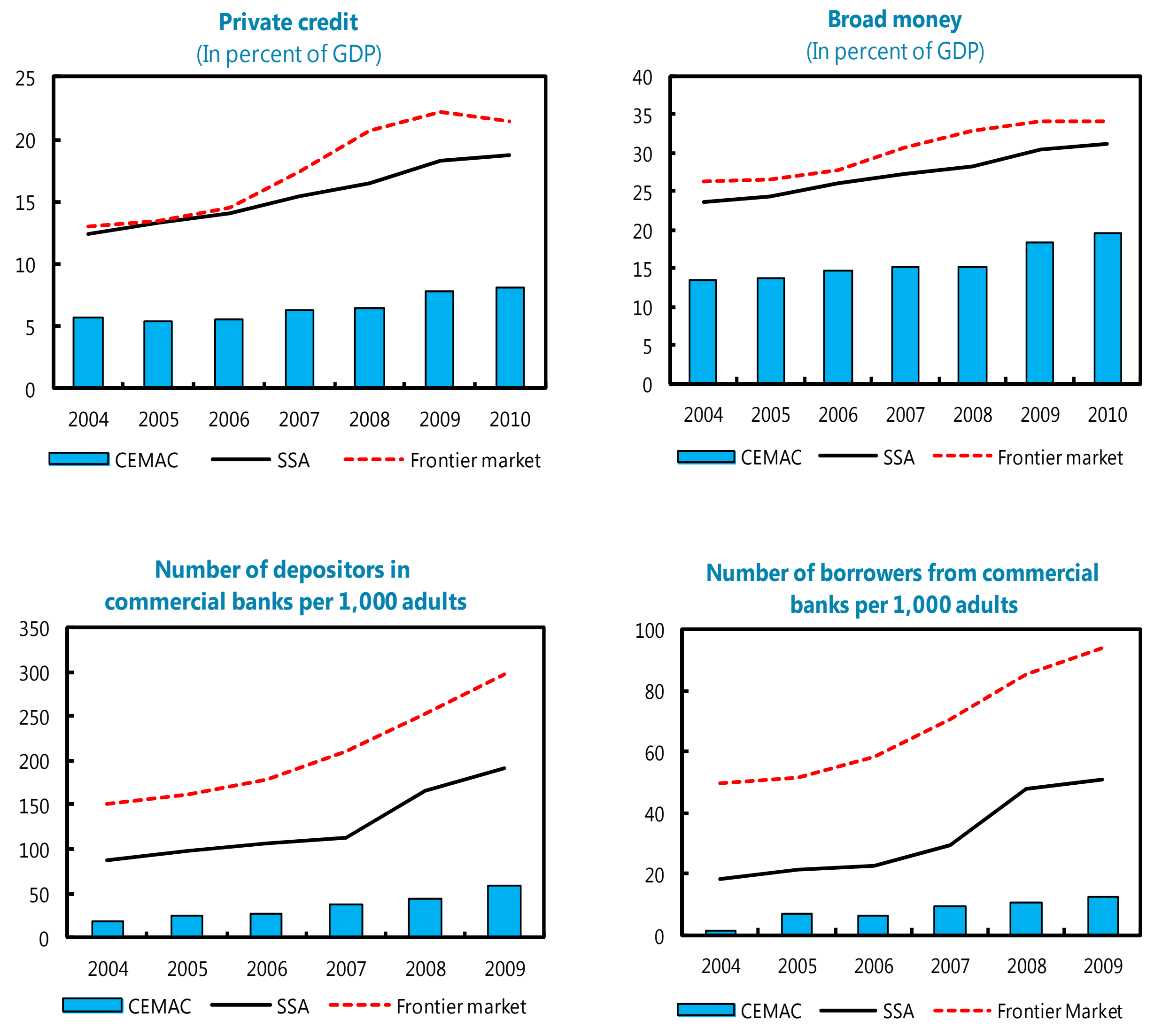
Stress Test: Credit Risk

	Shocks	Provisioning
Concentration and sectoral risks	Default by the largest individual exposure	100%
	Default by the two largest individual exposures	100%
	Trade sector	100%
	Transportation and communication sector	100%
	Agriculture and forestry sector	100%
	Manufacturing sector	100%
Overall credit risks	Downgrade NPLs by one category	100%
	Fifty percent increase in total NPLs	Current average rate
Public finance risks	Default on bank credit to government and public enterprises	100%

Source: IMF staff.

Liquidity risks vary across countries. Liquidity shocks were applied by simulating a run on the banks for five consecutive business days, giving the banks no recourse to emergency funds (from other banks or from the central bank). Results show that some national banking systems are more liquid than others and would show resilience to a run on deposits, while others would be comparatively more vulnerable.

Figure 7. Financial Depth, 2004–10



Sources: IFS and IMF Financial Access Survey.
Note: Frontier markets include Botswana, Ghana, Kenya, Mozambique, Tanzania, and Zambia.

Staff's advice

On financial stability:

40. Given the rising risks in the CEMAC financial system and the limited resources available to the institutions overseeing the financial system, staff urges the authorities to implement the following recommendations (some of which were in the 2006 FSAP), with assistance from the IMF's MCM department:

- Bring the prudential regulations up to international standards and best practices.

- Enhance banking supervision practices by promptly enforcing prudential requirements and avoiding forbearance.

- Focus supervision of microfinance institutions on the 20 percent that collect 80 percent of deposits, given the COBAC's limited human resources. Encourage consolidation or mergers of microfinance institutions and develop a resolution plan for the insolvent ones. Moreover, consider relicensing of microfinance institutions.

- Improve crisis preparedness by adopting the regulations on bank crisis management and developing macroprudential regulations and policies. Given the complexity of the new regulation, seek advice from the IMF's Legal Department.

- Clarify the BEAC's role regarding the lender of last resort and emergency liquidity assistance; and enhance the COBAC's crisis contingency planning by conducting stress tests, scenario analyses, and simulation exercises.

41. Regarding troubled banks, the authorities should take swift action to resolve the banks' financial problems. Troubled banks with no viable and credible restructuring plans should be liquidated as soon as possible. For the others, quick implementation of their restructuring plans is needed. The longer the conditions facing weak banking institutions are allowed to persist, the higher the cost for the government, for the credibility of supervision agencies, and for the reputation of the CEMAC financial sector. The authorities should:

- Closely monitor liquidity conditions to avoid any suspension of payments by these banks;

- Require full loss absorption by previous shareholders; and

- Pursue maximum recovery of loans owed by related parties to minimize the financial costs to governments.

On financial development:

- Devise and implement a coherent strategy to develop regional inter-bank and debt markets, consistent with efforts to improve systemic liquidity management.

- Accelerate the payment systems project initiated in 2003 with assistance from the World Bank.

- Adopt an institutional and operational debt management framework to monitor countries' debt sustainability and ensure that country specific risks are disclosed to market participants and properly priced.

- Focus institutional reforms to (i) improve the operations of land and commercial registries, (ii) streamline procedures for recording and enforcing guarantees, and

(iii) strengthen creditor rights enforcement by enhancing governance of the courts.[5]

Authorities' views

On financial stability:

42. The authorities agreed with the need to review the prudential regulations. They noted that a comprehensive reform is expected to take two to three years to ensure sound preparation and a smooth transition. With MCM TA, a study is underway on how to move forward with the reform. In the meantime, a number of steps have been taken to strengthen the CEMAC's financial stability. In particular, minimum capital requirements have been increased, a regional deposit insurance scheme established, and a financial stability committee will soon become operational.

43. The upcoming regulation on bank crisis management will facilitate the resolution of weak banks. The draft regulation was submitted to the BEAC Board in late March, but the Board asked for clarifications on a number of provisions, especially on the division of responsibilities between the regional supervisor and national authorities. While the COBAC continues to have the powers to withdraw bank's licenses, weak cooperation from national authorities limits its effectiveness in dealing with troubled banks.

On financial development:

44. There is a need to improve the institutional environment for the financial sector. Specific measures taken and actions in progress to deepen the financial sector include (i) regular publication of lending costs and related fees to promote banking transparency and competition, and also consumer protection; (ii) creation of a regional deposit insurance fund to protect small savers; (iii) creation of credit bureaus with World Bank technical assistance; and (iv) establishment of a credit rating agency and a central registry of corporate balance sheets to reduce information asymmetry in credit activities.

45. Progress was made on enhancing collaterals. With implementation of Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA) recommendations, most of the CEMAC countries have been enhancing land registration and the bookkeeping of titles. Gabon has recently improved the process of getting credit by broadening the range of assets that can legally be used as collateral.

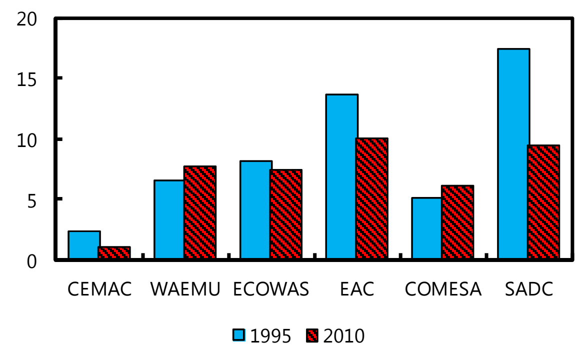
[5] Background paper: Akitoby, B., "Seven Questions on How Institutions Shape Financial Markets," (*IMF Research Bulletin*, September 2010).

STRENGTHENING GROWTH AND COMPETITIVENESS

46. Oil wealth has not led to more inclusive growth. Although the CEMAC has earned significant revenue from oil production in past decades, poverty and unemployment remain widespread because few employment opportunities have been generated in the non-oil sector. Non-oil sector growth has been constrained by structural obstacles, including inadequate infrastructure.[6] Although the zone has outperformed the WAEMU in overall growth performance, it has lagged growth in SSA oil-producing countries. Regional policies to enhance growth should tackle challenges in the financial sector, regional and external trade, and common infrastructure.

47. The CEMAC's low intraregional trade limits the gains from regional integration. In theory, regional integration fosters growth through trade promotion. At about 1.2 percent of total trade, intraregional trade is, however, the lowest among regional trade groups in SSA (Figure 8).

Figure 8. Intraregional Trade: Selected Regions
(In percent of total imports and exports)



Sources: IMF Direction of Trade Statistics and staff estimates.

48. Poor infrastructure largely explains this disappointing performance. The lack of functional transportation corridors among CEMAC countries is the prominent infrastructure bottleneck that hampers trade. Moreover, at the country level, institutional capacity is low, raising concerns about the quality of ongoing public investment.

49. Trade barriers also remain pervasive. At 30 percent, the common external tariff (CET) is higher than in most other African regions, and a CEMAC decision to cut the CET has not been implemented. Yet some member states still impose additional surcharges and other fees. Moreover, border procedures are cumbersome and lack of coordination of customs administrations sometimes gives rise to double taxation of goods going to the hinterland, in violation of the free trade rules.

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[6] See Akitoby, B. and Coorey, S. "CEMAC: Macroeconomic Challenges" in: *Oil Wealth in Central Africa: Policies for Inclusive Growth* (forthcoming), ed. by B. Akitoby and S. Coorey (Washington: International Monetary Fund).

50. Negotiations on the Economic Partnership Agreement (EPA) with the European Union (EU) could help reduce trade barriers. Cameroon signed an interim EPA in 2009 that called for a gradual removal of duties and quotas on up to 80 percent of the EU exports to Cameron. Gabon and Republic of Congo have not yet signed an EPA and, as a result, their trade with the EU continues under the Generalized System of Preferences scheme. Chad, the C.A.R., and Equatorial Guinea continue to benefit from duty and quota-free EU access under the "Everything but Arms" scheme.

51. Labor mobility continues to be an issue. The free movement of persons within the CEMAC has been hampered by Gabon's and Equatorial Guinea's visa requirements, on security grounds. Moreover, a CEMAC directive on the rights of establishment for CEMAC citizens, which guarantees labor mobility, is not effectively implemented. Instead, some member countries have signed bilateral agreements on labor mobility, but these agreements are also hardly implemented.

52. The Regional Economic Program (REP) holds the promise of enhancing growth and competitiveness. The REP intends to strengthen economic integration and transform the region into an emerging market by 2025. The program recognizes the importance of improving governance and transparency in the region. The total cost for implementing the REP is estimated at about CFAF 3.2 trillion through 2025, of which 94 percent will be allocated to infrastructure and land development. Financing will be covered by national budgets. Regional infrastructure projects will be derived from a "bottom up" approach, integrating national investment programs, thus ensuring synergy and coordination among national investment programs.

Staff's advice

53. The following reforms are critical to strengthening growth and competitiveness:

- Remove barriers to internal and external trade. The priorities are to (i) expedite the intended lowering of the CET, (ii) implement the rules of origin, and (iii) coordinate the customs administrations. Surcharges should be limited across the CEMAC to a uniform, low level that is justified by import processing costs.

- Address labor market mobility issues at the CEMAC ministerial meetings.

- Move forward with the implementation of the REP, including development of the necessary capacity at the CEMAC Commission. Seek World Bank TA to strengthen the appraisal, selection, and monitoring of regional infrastructure projects, particularly those that connect the CEMAC countries. Over the medium term, when institutional capacity improves and the CEMAC guidelines on public-private partnerships (PPP) are fully implemented, the authorities could complement public investment with PPP's, while containing the risk to public finances.[7]

Authorities' views

54. Although the authorities reiterated their commitment to regional integration, they recognized that national governments' compliance with regional directives has been slow. A strong political will, therefore, is needed to renew the momentum on trade and regional issues.

55. Coordination of customs administrations is being strengthened. With EU assistance, the move to the Asycuda++ system is expected to facilitate coordination and effectiveness of customs procedures. Recently, coordination between the C.A.R. (a landlocked country) and Cameroon has also been facilitated by the establishment of a transit stop shop in the port of Douala.

56. The planned reduction in the CET is awaiting an economic impact study. A second study on the impact of lowering the CET has been initiated, given that the first was considered unsatisfactory by some member states. Once this has been completed, an action plan will be submitted to the Council of Finance Ministers, but no timeline has been set.

57. Efforts have been made to remove barriers to intraregional trade. First, to avoid arbitrary interpretation of the rules of origin, all decisions on that matter have now been centralized at the regional level, thus removing an important barrier to intraregional trade. Second, with the financial and technical support of the World Bank and the EU, projects are being implemented with the objective of reducing physical and nonphysical barriers on the two main transportation corridors (Douala-N'Djaména and Douala-Bangui). The CEMAC Commission monitors these internal trade barriers and produces annual reports to spur actions.

58. Labor mobility issues will be taken up at the CEMAC ministerial meetings. The ministers will have to discuss ways to effectively implement the directive on the rights of establishment for CEMAC citizens. It is expected that the introduction of the CEMAC passport will make the free movement of persons a reality. This is a pre-condition for labor mobility.

59. Efforts to implement the REP are well under way. The REP's first five-year operational plan (2011–15) was approved by the CEMAC's ministerial committee in December 2011. The CEMAC Commission is working with development partners on enhancing the capacity needed to assist

[7] Akitoby, B. "Public Investment and Private Public Partnerships," (IMF *Economics Issues*, Vol. 40. 2007).

member countries in implementing regional projects.

60. A renewed drive for reforms in the region will make growth more inclusive. So far, several member countries achieved little in addressing poverty because of the poor management of oil revenue. Efforts to diversify the economy in line with the REP will generate employment. With the approval of the PFM directives, the CEMAC has set a foundation for improved spending efficiency that will also benefit social services.

STRENGTHENING COMMON INSTITUTIONS

61. In 2009, the BEAC's ability to safeguard IMF resources was called into question. The safeguards concerns stemmed from investigations into fraud in the BEAC Paris Office in 2009 and worrisome findings from the special audit of the BEAC's accounting and procedures. Since then, staff has worked closely with the BEAC authorities to address shortcomings in five areas: (i) the external audit mechanism, (ii) the legal structure and autonomy, (iii) the financial reporting framework, (iv) the internal audit mechanism, and (v) the system of internal controls. The BEAC has been implementing an action plan during the last two years to address short-term vulnerabilities and a medium-term reform plan with assistance from the IMF and development partners (see Informational Annex).

62. Some progress has been made in addressing safeguards concerns, but risks remain elevated in core functions. The March 2012 safeguards mission found that some progress was made in strengthening the audit committee, improving internal audits, and clearing suspense accounts. Notably, internal audit reports covering the BEAC headquarters became more focused during the past year, partly because of assistance by an external co-sourcing firm. The audit committee's performance was much improved, partly as a result of an external expert assisting the audit committee. The external auditors have expanded their scope to cover national directorates, but the dissemination, timeliness, and discussion of the findings should be strengthened. Internal audit reports covering the BEAC headquarters became more focused during the past year, partly because of assistance by external auditors. The suspense accounts credits and debits that could not be allocated to any specific account were analyzed, and the sources and wrong practices leading to these suspense accounts were identified. However, budget monitoring and oversight of capital and recurrent expenditure are still weak.

63. Progress on the BEAC medium-term reform plan has been slow. Beyond the short-term safeguards measures, the plan aims to address medium-term issues relating to accounting and information technology (IT), internal controls, human resources (HR), reserves management, and the national directorates. Most reform actions, including several actions relevant to safeguards, are behind schedule, and the authorities will need to update their timeline for credibility.

64. Fundamental governance reform should continue to be of paramount importance. Country representation practices within the BEAC impede the effectiveness of the governance bodies, decision making, transparency, and the autonomy of the central bank. The recent practice of having a minister of finance chairing the Board of the BEAC infringes on its independence and has led to increased political interference in the central bank's decision making process. In addition, the BEAC governance and legal frameworks do not address the challenge of making the pooling of reserves more attractive for CEMAC member countries.

65. The common supervisory agency (COBAC) faces severe capacity constraints. Although efforts have been made to increase the COBAC staffing, the institution remains understaffed compared to the number of banks and microfinance establishments it supervises. In addition, the COBAC keeps losing qualified staff to the BEAC, where career prospects are more attractive. This undermines the COBAC's effectiveness and threatens the quality of financial supervision in the region.

66. The CEMAC Commission's capacity and governance need to be enhanced. It is constrained by inadequate administrative capacity and limited financial resources, given the non-payment by some member states of agreed contributions. Notably, the community integration tax (CIT), the commission's main source of financing, is not transferred in full by member countries. As a result, the commission is limited in its role of promoting regional integration and enforcing the regional regulatory framework. Regarding the commission's governance, more needs to be done to instill transparency and accountability in its financial management. In particular, strict budget control and regular audits would help build up the member states' confidence in the commission.

67. The regional development bank's governance should be strengthened. The Banque de Développement des Etats de l'Afrique Centrale (BDEAC) does not comply with the legal requirement of conducting and publishing regular audits (the last published report is for 2008). Given its tight liquidity situation, in 2009 it received a line of credit from the BEAC of CFAF 10 billion, of which CFAF 6.2 billion was still outstanding in January 2012.

Staff's advice

68. Staff made the following recommendations to strengthen the common institutions:

- Put the reform of the BEAC's governance on the CEMAC ministerial committee's agenda. Continue to implement safeguards measures to help build up confidence in the central bank.

- Adopt a binding medium-term plan to bring the COBAC staffing to the optimal level.
- Strengthen the capacity of the CEMAC Commission, including through the timely transfer of the CIT revenue. Staff suggested that this issue be put on the agenda for the CEMAC's ministerial committee.
- Improve transparency and accountability in the management of the budgets of all regional institutions. Notably, they should adhere to the best practices of conducting and publishing annual audit reports on budget execution.
- Divest the central bank's stake in the BDEAC and any other development banks (e.g., Gabonese Bank of Development), because the central bank's status of stakeholder in development banks is incompatible with its role of bank supervisor.

Authorities' views

69. The BEAC authorities reiterated their commitment to safeguards measures and the central bank reform plan. They appreciated the technical support provided by the IMF, which is instrumental in the ongoing restructuring of the central bank.

70. There is no immediate plan to reform country representation in the BEAC governing bodies. After the recent changes to the BEAC statutes and the management shake-up in 2010, more time is needed to draw lessons and build a new consensus on governance reform.

71. Efforts are under way to recruit more staff for the COBAC. A recruitment committee has been put in place to expedite the planned recruitment of about ten bank supervisors. Consideration will be given to adopting a binding medium-term plan to bring the staffing to the optimal level.

72. The CEMAC Commission's administrative capacity is being strengthened. An evaluation of the commission's resource needs has led to the recruitment of fifteen high-level staff in 2011. More staffing is still needed to allow the commission to carry out its duties. With World Bank technical and financial assistance, a capacity building project is being implemented through provision of office equipment, recruitment of consultants, and high-level training in strategic planning, PFM, and development of analytical tools for regional surveillance.

73. Timely transfer of the CIT revenue depends on the national authorities. The CEMAC ministerial committee has already discussed this issue, but most national governments continue to incur delays in transferring the CIT revenue and paying their contributions.

74. Budget monitoring and oversight will be a priority. Budgeting is a critical area that needs further improvement. Renewed efforts will be made to ensure transparency and accountability.

75. Pursuit of the BEAC divesture from development banks will continue. The divesture has not occurred because of lack of interest from national governments to buy the BEAC's stakes in these development banks. Renewed efforts will be made to convince the national governments of the need to resolve this issue.

OTHER ISSUES

A. Capacity Building

76. The IMF is providing wide ranging technical assistance (see Informational Annex). An IMF technical assistance program covering 2011–13 has been put in place to strengthen capacity at the BEAC and the COBAC. One resident advisor has been stationed at the BEAC, and another at the COBAC. More broadly, the IMF technical assistance program covers the following fields: corporate governance of the BEAC and the COBAC; internal and external control systems; management, accounting, and budget supervision; reserves management; monetary policy; and the regional public debt market. The IMF is also providing technical support to the CEMAC Commission for preparation and implementation of regional PFM directives. The main objectives are to (i) promote effective, and transparent public financial management in all member states; and (ii) enable comparability of public finance data for effective multilateral surveillance of national budgetary policies.

77. Other development partners are implementing capacity building projects with all regional institutions. The EU and the Agence Française de Development are providing technical and financial assistance to the CEMAC Commission, in particular related to the Regional Economic Program. The World Bank has a capacity building project covering all the main regional institutions.

B. Data Quality

78. While data provision is generally adequate for surveillance, staff analysis is hampered by shortcomings in data timeliness. In general, limited data sharing among public agencies delays data compilation by national statistical agencies. In addition, the quality of national accounts statistics suffers from methodological and coverage issues, mainly caused by a lack of resources in national statistical agencies. A key shortcoming of monetary and financial statistics is insufficient institutional coverage. Moreover, the BEAC does not collect data on financial institutions' deposit and lending interest rates. Regarding government financial statistics, more needs to be done for their dissemination. Balance of payments data are not publicly available or are substantially delayed in most of the member countries. In addition, Balance of Payments data collection is constrained by companies' low response rates to surveys and limited reliability of customs data in some countries. The authorities recognize the need to improve data collection and dissemination and are taking steps to strengthen economic and financial data, with technical assistance from the IMF.

STAFF APPRAISAL

79. **Policies in 2011 were dominated by high oil prices.** With excess liquidity in the banking system, the monetary stance was accommodative, and oil-related inflows led to expansionary fiscal policy driven by ambitious investment programs. Yet, the external position strengthened owing to high oil prices, and international reserves accumulated. Compliance with convergence criteria also improved, but structural differences remain significant.

80. **The regional economic outlook is generally positive, but there are downside risks.** Supported by higher oil output, economic activity will remain robust, but inflation is projected to pick up because of rising food and fuel prices. The foremost risk is a possible global slowdown stemming from the euro area crisis, which could lower world oil prices. However, the region's comfortable reserves provide some buffers. Another risk to the outlook stems from financial sector vulnerabilities.

81. **The CEMAC is facing significant policy challenges that need to be addressed.** In spite of the common currency and a comprehensive regional institutional setup, fiscal policies are not coordinated, monetary policy remains constrained by structural factors, financial stability is a source of concern, financial markets are shallow and fragmented, and intraregional trade is low.

82. **The regional surveillance framework should be reformed to ensure fiscal coordination.** Binding fiscal rules cast in a medium-term fiscal framework are critical to ensuring fiscal sustainability. Effective implementation of the CEMAC directives on PFM will also help strengthen regional surveillance.

83. **The reform of monetary policy is needed to make it an efficient tool of macroeconomic management.** Monetary policy remains constrained by structural excess liquidity, underdeveloped regional

infrastructure and markets, country specific reserve requirements, and the central bank's limited capacity. The reform priorities are to strengthen monetary analysis, rationalize monetary policy instruments, harmonize the required reserves ratios, develop the regional government securities and interbank markets, and improve coordination between fiscal and monetary policies.

84. **The CEMAC's real effective exchange rate is broadly consistent with external stability.** The fixed exchange rate regime should continue to anchor the region's macroeconomic policy. Staff's assessment of the REER suggests that, notwithstanding some real appreciation, the REER appears to remain broadly in line with fundamentals. The fixed exchange rate regime is also secured in the near term by adequate reserves. However, a longer-term risk stems from noncompliance with the rule for pooling reserves. The reform of oil-savings management would help mitigate this risk.

85. **The reform of oil-savings management is critical.** Staff urges the BEAC to expedite its ongoing efforts to reform the current reserve management framework. Beyond the sufficient monetary reserves to back the fixed exchange rate regime, excess foreign reserves should be invested in longer-term assets, reflecting countries' investment horizon, return objectives, and risk profile.

86. **Efforts to reform the financial sector should be accelerated.** Notably, long-standing IMF recommendations to reform the prudential and regulatory framework need to be implemented expeditiously and rigorously enforced. The current situation of financially weak banks needs to be addressed urgently, including close monitoring of liquidity conditions, minimizing fiscal costs by requiring full loss absorption by previous shareholders, and maximizing loan recovery from related parties. It is also essential to adopt the draft regulation on banking crisis management as soon as possible and to expedite the planned recruitment of bank supervisors. To increase access to financial services, priority should be given to improving the institutional and regulatory environment, specially creditor rights protection and governance of the courts.

87. **A strong political will and concerted efforts are needed to foster more integration and boost growth and competitiveness.** It will be necessary to reduce the CET, remove non-tariff barriers to internal and external trade, address regional labor market mobility issues, remove regional infrastructure bottlenecks, and enhance the business environment and governance. These reforms will address structural obstacles to competitiveness and enhance growth and economic diversification.

88. **There is an urgent need to further strengthen the governance of the CEMAC's common institutions.** Good governance and accountability are critical for addressing the

policy challenges facing the currency union. The BEAC reform should be sustained and deepened, and the COBAC's capacity built up through adoption of a binding medium-term staffing plan. The CEMAC Commission's human resources should be commensurate with its key role in fostering trade and regional integration. Stringent mechanisms should also be in place in all regional institutions to ensure transparency and accountability in the management of their budgets. The IMF will continue to support capacity building through its technical assistance.

89. The data provided to the IMF are generally adequate for surveillance. However, improvements are needed in balance of payments statistics and timeliness of fiscal, monetary, and financial data. The regional authorities should coordinate efforts to improve and harmonize national statistics.

90. Staff proposes that regional discussions with the CEMAC authorities remain on the standard 12-month consultation cycle.

Table 1. CEMAC: Selected Economic and Financial Indicators, 2007–13

	2007	2008	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
	(Annual percent change)						
National income and prices							
GDP at constant prices	5.9	4.3	2.4	5.1	4.5	4.6	4.0
Oil GDP	-2.2	-0.7	-5.4	-0.6	-3.1	4.4	3.5
Non-oil GDP	12.2	6.2	6.8	6.3	6.6	5.5	6.4
Consumer prices (period average)[1]	1.1	5.7	4.8	2.4	3.1	3.9	3.7
Consumer prices (end of period)[1]	3.0	7.1	3.0	2.8	5.2	3.9	3.9
Nominal effective exchange rate[1]	3.1	3.2	-0.1	-4.1	1.2	...	...
Real effective exchange rate[1]	0.9	5.1	3.2	-4.3	-0.3	...	...
	(Annual changes in percent of beginning-of-period broad money)						
Money and credit							
Net foreign assets	35.6	30.2	-13.5	-4.7	12.6	...	...
Net domestic assets	-20.5	-12.7	20.1	27.8	0.3	...	...
Broad money	14.3	17.5	6.6	23.2	12.9	...	...
	(Percent of GDP, unless otherwise indicated)						
Gross national savings	28.0	28.5	22.1	24.5	25.0	24.1	24.6
Gross domestic investment	23.1	21.2	27.4	28.4	26.9	25.9	25.0
Of which: public	7.9	8.8	13.6	12.0	13.3	12.8	12.0
Government financial operations							
Total revenue, excluding grants	27.8	30.6	26.0	25.6	27.2	26.6	25.8
Government expenditure	19.8	20.8	27.5	25.0	25.5	24.8	24.0
Primary basic fiscal balance[2]	9.7	11.7	1.1	3.1	4.9	6.1	4.7
Basic fiscal balance[3]	8.6	10.7	0.4	2.4	3.9	4.8	3.9
Overall fiscal balance, excluding grants	8.0	9.7	-1.7	0.4	1.5	1.6	1.7
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-18.1	-23.3	-26.2	-25.8	-28.9	-27.5	-23.7
Overall fiscal balance, including grants	8.8	10.2	-0.6	1.2	2.3	3.7	3.4
External sector							
Exports of goods and nonfactor services	56.0	57.4	47.1	52.6	58.6	56.3	54.2
Imports of goods and nonfactor services	35.3	35.2	42.2	42.9	44.5	41.8	38.4
Balance on goods and nonfactor services	20.7	22.2	4.9	9.7	14.1	14.4	15.8
Current account, including grants	4.9	7.3	-5.3	-3.9	-1.9	-1.6	-0.3
External public debt	22.7	15.6	16.1	11.6	12.1	12.3	12.7
Gross official reserves (end of period)							
Millions of U.S. dollars	11,937	15,662	14,354	13,658	15,925	19,543	24,575
Months of imports of goods and services	5.3	7.2	5.7	4.5	5.0	6.4	7.9
Percent of broad money	119.9	125.1	113.4	91.9	94.9	102.3	112.9
Memorandum items:							
Nominal GDP (Billions of CFA francs)	29,559	35,326	30,231	35,986	41,705	46,262	48,630
CFA francs per U.S. dollar, average	479.3	447.8	472.2	495.3	471.9	...	...
Oil prices (US dollars per barrel)	71.1	97.0	61.8	79.0	104.0	114.7	110.0

Sources: Authorities' actual data and IMF staff estimates and projections.
[1] CEMAC data are weighted by GDP in purchasing power parity US dollar.
[2] Excluding grants and foreign-financed investment and interest payments.
[3] Excluding grants and foreign-financed investment.

Table 2. CEMAC: Millennium Development Goals, 1990 and 2010

	1990		2010	
	CEMAC	SSA	CEMAC	SSA
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	64	63	65	65
Employment to population ratio, ages 15-24, total (%)	50	49	49	49
GDP per person employed (constant 1990 PPP $)	...	2,479	...	3,272
Income share held by lowest 20%	...	...	3.4	...
Malnutrition prevalence, weight for age (% of children under 5)	18	...	...	...
Poverty gap at $1.25 a day (PPP) (%)	...	...	31	...
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	...	...	63	...
Vulnerable employment, total (% of total employment)				
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15–24)	...	...	73	...
Literacy rate, youth male (% of males ages 15–24)	...	...	80	...
Persistence to last grade of primary, total (% of cohort)	...	...	55	...
Primary completion rate, total (% of relevant age group)	40	51	54	67
Total enrollment, primary (% net)	65	...	72	...
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	12	...	11	...
Ratio of female to male primary enrollment (%)	71	...	84	...
Ratio of female to male secondary enrollment (%)	52	...	60	...
Ratio of female to male tertiary enrollment (%)	19	...	40	...
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	13	...	...	...
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12–23 months)	68	57	61	73
Mortality rate, infant (per 1,000 live births)	95	105	82	78
Mortality rate, under-5 (per 1,000)	151	175	128	124
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15–19)	...	...	117	...
Births attended by skilled health staff (% of total)	58	...	44	...
Contraceptive prevalence (% of women ages 15–49)	16	15	...	21
Maternal mortality ratio (modeled estimate, per 100,000 live births)	763	870	...	640
Pregnant women receiving prenatal care (%)	79	...	...	...
Unmet need for contraception (% of married women ages 15–49)	22	...	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	126	210	299	275
Prevalence of HIV, female (% ages 15–24)	...	...	3.3	...
Prevalence of HIV, male (% ages 15–24)	...	...	1.4	...
Prevalence of HIV, total (% of population ages 15–49)	1.8	2.4	4.5	5.5
Tuberculosis case detection rate (%, all forms)	52	39	59	61
Goal 7: Ensure environmental sustainability				
CO_2 emissions (kg per PPP $ of GDP)	0.2	0.8	...	0.4
CO_2 emissions (metric tons per capita)	1.0	0.9	...	0.8
Forest area (% of land area)	53	31	...	28
Improved sanitation facilities (% of population with access)	21	27	...	31
Improved water source (% of population with access)	49	49	...	60
Marine protected areas (% of territorial waters)	0.2	3.2	3.0	4.7
Terrestrial protected areas (% of total land area)	7.9	11	13	12
Goal 8: Develop a global partnership for development				
Net ODA received per capita (current US$)	94	35	52	53
Debt service (PPG and IMF only, in % of exports, excluding workers' remittances)	...	...	8.1	...
Internet users (per 100 people)	0	0	3.8	9.3
Mobile cellular subscriptions (per 100 people)	0	0	58	38
Telephone lines (per 100 people)	0.6	1.0	1.2	1.5
Fertility rate, total (births per woman)	5.8	6.2	4.7	5.0
Other				
GNI per capita, Atlas method (current US dollars)	690	586	1,580	1,150
GNI, Atlas method (current US dollars), billions	21	...	63	1,004
Gross capital formation (% of GDP)	15	18	29	21
Life expectancy at birth, total (years)	53	50	53	54
Literacy rate, adult total (% of people ages 15 and above)	34	...	67	...
Population, total (millions)	25	...	41	...
Trade (% of GDP)	67	52	91	64

Source: World Development Indicators.

Table 3. CEMAC: National Accounts, 2007–13

	2007	2008	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
			(Annual percent change)				
Real GDP							
Cameroon	3.4	2.6	2.0	2.9	4.1	4.1	4.5
Central African Republic	3.7	2.0	1.7	3.3	3.1	4.1	4.2
Chad	0.2	1.7	-1.2	13.0	1.6	6.9	0.1
Congo, Republic of	-1.6	5.6	7.5	8.8	4.5	3.1	5.4
Equatorial Guinea	21.4	10.7	5.7	-0.8	7.1	4.0	6.8
Gabon	5.6	2.3	-1.4	6.6	5.8	5.6	2.3
CEMAC[1]	5.9	4.3	2.4	5.1	4.5	4.6	4.0
Nominal GDP							
Cameroon	4.3	8.5	-1.4	6.0	7.7	6.5	7.5
Central African Republic	5.6	9.2	5.3	5.0	4.0	6.9	6.4
Chad	2.0	11.4	-10.6	26.5	4.1	12.0	0.6
Congo, Republic of	-0.5	32.0	-14.7	31.3	17.1	7.6	6.5
Equatorial Guinea	20.0	36.9	-30.0	24.3	30.1	18.9	8.0
Gabon	11.1	17.3	-20.6	26.5	22.6	11.1	-0.7
CEMAC	7.5	19.5	-14.4	19.0	15.9	10.9	5.1
Real non-oil GDP							
Cameroon	4.0	3.1	2.9	3.7	4.7	3.9	4.1
Central African Republic	3.7	2.0	1.7	3.3	3.1	4.1	4.2
Chad	3.1	3.0	0.0	15.0	2.5	7.0	1.5
Congo, Republic of	6.6	5.4	3.9	6.5	7.4	7.4	7.7
Equatorial Guinea	47.2	18.1	27.6	5.4	12.6	5.0	15.7
Gabon	6.2	3.4	-0.5	5.7	7.2	6.9	4.3
CEMAC[1]	12.2	6.2	6.8	6.3	6.6	5.5	6.4
Consumer price inflation (period average)							
Cameroon	1.1	5.3	3.0	1.3	2.9	3.0	3.0
Central African Republic	0.9	9.3	3.5	1.5	0.7	2.5	1.9
Chad	-7.4	8.3	10.1	-2.1	1.9	5.5	3.0
Congo, Republic of	2.6	6.0	4.3	5.0	1.9	2.7	2.9
Equatorial Guinea	2.8	4.3	7.2	7.5	7.3	7.0	7.0
Gabon	5.0	5.3	1.9	1.4	1.3	2.3	2.6
CEMAC[1]	1.1	5.7	4.8	2.4	3.1	3.9	3.7
			(Percent of GDP)				
Gross national saving							
Cameroon	16.4	16.3	12.7	13.3	14.8	14.3	16.1
Central African Republic	4.5	2.9	5.1	5.1	5.5	6.5	9.1
Chad	38.1	36.0	32.9	38.9	18.8	12.5	25.2
Congo, Republic of	15.3	20.6	15.1	25.5	31.2	32.4	32.3
Equatorial Guinea	40.3	35.1	31.2	24.3	25.1	24.7	22.6
Gabon	41.8	45.7	33.2	36.4	40.5	39.0	35.5
CEMAC	28.0	28.5	22.1	24.5	25.0	24.1	24.6
Gross domestic investment							
Cameroon	15.0	17.5	16.4	16.1	18.4	19.0	19.4
Central African Republic	10.7	12.7	13.2	15.1	12.4	14.1	15.9
Chad	26.5	27.1	36.9	42.4	36.4	22.5	21.9
Congo, Republic of	21.8	18.3	22.5	20.5	25.0	28.2	28.5
Equatorial Guinea	35.3	26.0	48.3	48.4	34.8	33.7	29.2
Gabon	24.8	21.5	26.9	27.3	28.5	27.3	28.0
CEMAC	23.1	21.2	27.4	28.4	26.9	25.9	25.0

Sources: Authorities' actual data and IMF staff estimates and projections.
[1] CEMAC data are weighted by GDP in purchasing power parity US dollar.

Table 4. CEMAC: Nominal and Real Effective Exchange Rates, 2006–11

	2006	2007	2008	2009	2010	2011
Nominal effective exchange rate						
			(Index, 2005=100)			
Cameroon	99.5	102.6	105.1	106.1	101.4	102.6
Central African Republic	99.9	102.9	105.5	104.7	100.3	101.1
Chad	100.0	102.5	105.4	106.3	103.2	104.4
Congo, Republic of	99.9	102.6	106.4	105.6	100.3	101.5
Equatorial Guinea	99.7	104.3	110.4	109.0	104.1	106.1
Gabon	100.0	102.1	104.1	103.3	99.8	100.1
CEMAC [1]	99.8	102.8	106.1	106.0	101.7	102.8
			(Annual percent change)			
Cameroon	-0.5	3.1	2.5	0.9	-4.4	1.2
Central African Republic	-0.1	3.0	2.5	-0.8	-4.2	0.8
Chad	0.0	2.5	2.8	0.9	-2.9	1.1
Congo, Republic of	-0.1	2.7	3.7	-0.8	-5.0	1.1
Equatorial Guinea	-0.3	4.6	5.8	-1.3	-4.5	2.0
Gabon	0.0	2.2	1.9	-0.7	-3.4	0.3
CEMAC [1]	-0.2	3.1	3.2	-0.1	-4.1	1.2
Real effective exchange rate						
			(Index, 2005=100)			
Cameroon	101.5	102.5	105.5	107.8	101.1	101.0
Central African Republic	104.0	105.2	113.3	115.6	110.2	107.9
Chad	104.7	94.9	102.5	112.0	103.6	96.6
Congo, Republic of	101.7	103.6	108.6	112.0	108.7	107.9
Equatorial Guinea	101.5	106.4	115.5	119.3	120.5	127.4
Gabon	96.4	101.0	104.5	105.3	101.3	99.9
CEMAC [1]	101.1	102.0	107.2	110.7	106.0	105.6
			(Annual percent change)			
Cameroon	1.5	1.0	3.0	2.2	-6.3	0.0
Central African Republic	4.0	1.2	7.7	2.0	-4.7	-2.1
Chad	4.7	-9.4	8.0	9.3	-7.5	-6.8
Congo, Republic of	1.7	1.9	4.8	3.2	-3.0	-0.7
Equatorial Guinea	1.5	4.9	8.6	3.3	1.0	5.8
Gabon	-3.6	4.7	3.5	0.8	-3.8	-1.4
CEMAC [1]	1.1	0.9	5.1	3.2	-4.3	-0.3

Sources: IMF, Information Notice System.

[1] CEMAC data are weighted by GDP in purchasing power parity US dollar.

Table 5. CEMAC: Balance of Payments, 2007–13

	2007 Est.	2008 Est.	2009 Est.	2010 Est.	2011 Est.	2012 Proj.	2013 Proj.
			(CFAF billions)				
Balance on current account	1,460	2,572	-1,604	-1,399	-812	-722	-122
Balance on goods and services	6,119	7,833	1,478	3,484	5,892	6,684	7,677
Total exports	16,541	20,281	14,241	18,938	24,437	26,028	26,336
Exports of goods	15,482	19,143	13,068	17,683	23,034	24,581	24,710
Exports of services	1,058	1,137	1,173	1,255	1,402	1,447	1,627
Total imports	10,422	12,448	12,763	15,454	18,545	19,344	18,660
Imports of goods	6,157	7,520	8,014	9,802	11,588	12,278	11,547
Imports of services	4,265	4,927	4,749	5,652	6,957	7,066	7,113
Income, net	-5,074	-5,646	-3,485	-5,205	-7,066	-7,848	-8,177
Income credits	177	197	234	278	253	285	317
Income debits	-5,251	-5,843	-3,719	-5,483	-7,319	-8,132	-8,494
Of which:							
Investment income, debit	-2,108	-2,398	-1,997	-2,573	-3,552	-3,833	-3,691
Interest paid on public debt	-140	-128	-127	-130	-73	-62	-73
Interest paid on nonpublic debt	-78	-188	-215	-11	-464	-500	-469
Current transfers, net	416	386	404	322	363	442	378
Private current transfers, net	264	214	269	156	185	170	180
Official current transfers, net	151	172	135	166	177	272	198
Balance on capital and financial accounts	-1,392	-2,438	872	992	1,222	722	122
Balance on capital account (incl. capital transfers)	126	251	187	1,456	155	296	212
Balance on financial account (incl. reserves)	-1,518	-2,689	685	-464	1,067	426	-90
Direct investment, net	2,312	1,651	2,186	3,131	3,630	3,229	3,319
Portfolio investment, net	566	180	149	146	173	145	164
Other investment, net	-3,322	-3,228	-1,886	-3,754	-1,613	-1,156	-1,081
Reserve assets (accumulation -)	-1,073	-1,293	236	13	-1,123	-1,792	-2,492
Errors and omissions, net	-68	-135	732	407	-410	0	0
Memorandum items:							
Nominal GDP	29,559	35,326	30,231	35,986	41,705	46,262	48,630
Gross official reserves (end of period)							
Billions CFAF	5,721	7,014	6,778	6,764	7,887	9,679	12,172
Millions U.S. dollars	11,937	15,662	14,354	13,658	15,925	19,543	24,575
Months of imports of goods and services	5.3	7.2	5.7	4.5	5.0	6.4	7.9

Sources: Authorities' actual data and IMF staff estimates and projections.

Table 6a. CEMAC: Fiscal Balances, 2007–13

(Percent of GDP)

	2007	2008	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
Overall fiscal balance (excluding grants)							
Cameroon	3.3	1.5	-0.9	-1.8	-2.5	-4.1	-3.0
Central African Republic	-2.9	-5.8	-5.4	-7.7	-5.0	-4.1	-4.9
Chad	1.7	3.0	-13.4	-6.8	1.4	4.3	2.5
Congo, Republic of	9.0	22.7	4.5	16.0	15.5	13.6	12.1
Equatorial Guinea	19.3	15.4	-8.0	-5.1	-3.0	-2.5	-1.0
Gabon	8.7	11.7	7.5	3.0	2.1	5.1	3.9
CEMAC	8.0	9.7	-1.7	0.4	1.5	1.6	1.7
Overall fiscal balance (including grants)							
Cameroon	4.5	2.3	-0.1	-0.9	0.3	-3.5	2.9
Central African Republic	1.2	-1.0	-0.1	-1.4	-2.4	0.5	0.5
Chad	3.1	4.5	-9.9	-5.2	3.2	6.6	4.9
Congo, Republic of	9.4	23.4	4.8	16.1	15.9	15.3	12.5
Equatorial Guinea	19.3	15.4	-8.0	-5.1	-3.0	-2.5	-1.0
Gabon	8.7	11.7	7.5	3.0	2.1	5.1	3.9
CEMAC	8.8	10.2	-0.6	1.2	2.3	3.7	3.4
Basic balance[1]							
Cameroon	4.1	1.6	-0.2	-0.9	-1.0	1.6	2.7
Central African Republic	-0.5	-2.4	-1.4	-2.0	-2.0	-0.4	-0.1
Chad	4.3	5.0	-10.1	-3.7	4.4	7.6	5.9
Congo, Republic of	10.1	24.2	4.9	17.4	19.3	21.5	15.5
Equatorial Guinea	17.8	15.4	-3.8	-4.3	0.0	0.0	0.9
Gabon	9.5	12.6	9.4	6.4	3.9	6.2	4.9
CEMAC	8.6	10.7	0.4	2.4	3.9	4.8	3.9
Primary fiscal balance (including grants)							
Cameroon	5.0	2.7	0.3	-0.8	-1.5	-3.2	-2.1
Central African Republic	2.6	0.9	1.0	-0.4	-1.7	1.3	1.0
Chad	3.4	4.7	-9.3	-4.5	3.6	7.3	4.8
Congo, Republic of	12.7	26.8	7.1	18.5	19.5	21.2	14.9
Equatorial Guinea	19.4	15.4	-7.9	-4.8	-2.6	-2.2	-0.6
Gabon	10.6	13.2	8.1	3.5	2.7	5.7	5.0
CEMAC	9.8	11.4	0.0	1.9	3.1	3.9	3.1
Government revenue (excluding grants)							
Cameroon	19.1	20.0	17.6	16.8	18.3	17.5	18.6
Central African Republic	10.3	10.4	10.8	11.6	10.9	11.5	12.0
Chad	22.8	26.4	16.1	23.6	30.0	28.7	26.6
Congo, Republic of	38.9	46.4	29.1	37.4	41.1	44.1	43.5
Equatorial Guinea	38.3	37.0	41.0	29.9	28.0	25.2	22.2
Gabon	29.5	31.9	32.6	28.1	27.8	27.1	27.2
CEMAC	27.8	30.6	26.0	25.6	27.2	26.6	25.8
Government expenditure							
Cameroon	15.7	18.5	18.4	18.6	20.7	21.5	21.6
Central African Republic	13.2	16.2	16.2	19.4	15.9	15.6	16.9
Chad	21.1	23.4	29.5	30.5	28.6	24.4	24.1
Congo, Republic of	29.9	23.6	24.7	21.4	25.6	30.5	31.4
Equatorial Guinea	19.0	21.6	49.0	35.0	31.1	27.7	23.3
Gabon	20.8	20.2	25.1	25.1	25.8	22.0	23.3
CEMAC	19.8	20.8	27.5	25.0	25.5	24.8	24.0

Sources: Country authorities' actual data and IMF staff projections.

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

Table 6b. CEMAC: Fiscal Non-oil Balances, 2007–13

(Percent of non-oil GDP)

	2007	2008	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
Non-oil fiscal balance (excluding grants)							
Cameroon	-3.5	-6.8	-6.1	-6.7	-8.5	-9.5	-9.5
Central African Republic	-2.9	-5.8	-5.4	-7.7	-5.0	-4.1	-4.9
Chad	-27.6	-33.2	-34.2	-37.7	-32.4	-25.1	-22.6
Congo, Republic of	-66.2	-58.5	-43.0	-42.2	-57.5	-70.1	-65.8
Equatorial Guinea	-55.7	-75.4	-109.6	-79.2	-70.0	-64.7	-44.8
Gabon	-17.6	-19.6	-17.1	-25.7	-34.9	-23.0	-18.3
CEMAC	-18.1	-23.3	-26.2	-25.8	-28.9	-27.5	-23.7
Non-oil fiscal balance (including grants)							
Cameroon	-2.1	-5.9	-5.2	-6.0	-7.9	-8.9	-9.0
Central African Republic	1.2	-1.0	-0.1	-1.4	-2.4	0.5	0.5
Chad	-24.9	-30.4	-28.8	-35.1	-29.6	-21.6	-19.1
Congo, Republic of	-65.1	-56.3	-42.0	-42.0	-56.1	-64.5	-64.7
Equatorial Guinea	-55.7	-75.4	-109.6	-79.2	-70.0	-64.7	-44.8
Gabon	-17.6	-19.6	-17.1	-25.7	-34.9	-23.0	-18.3
CEMAC	-16.8	-22.0	-24.6	-24.5	-27.8	-25.9	-22.7
Basic balance[1]							
Cameroon	4.5	1.8	-0.2	-1.0	-1.1	1.8	2.9
Central African Republic	-0.5	-2.4	-1.4	-2.0	-2.0	-0.4	-0.1
Chad	7.9	9.3	-15.8	-6.2	6.7	11.5	8.8
Congo, Republic of	29.3	82.7	13.1	54.1	64.2	69.1	47.1
Equatorial Guinea	68.1	60.3	-9.2	-10.9	0.1	0.0	1.8
Gabon	19.0	25.9	16.7	12.6	8.4	13.3	9.4
CEMAC	14.7	19.7	0.6	4.0	7.9	7.2	5.4
Non-oil primary fiscal balance (including grants)							
Cameroon	-1.6	-5.5	-4.9	-5.7	-7.5	-8.6	-8.5
Central African Republic	2.6	0.9	1.0	-0.4	-1.7	1.3	1.0
Chad	-24.3	-30.0	-27.9	-33.9	-29.0	-20.6	-19.2
Congo, Republic of	-55.7	-44.5	-36.0	-34.4	-44.0	-45.6	-57.4
Equatorial Guinea	-55.6	-75.3	-109.5	-78.5	-68.9	-63.7	-44.0
Gabon	-13.3	-16.0	-14.3	-22.8	-31.7	-20.1	-15.6
CEMAC	-15.0	-20.2	-23.6	-23.3	-26.1	-23.6	-21.4
CEMAC (Excluding public investment)	-1.4	-4.2	-2.9	-3.7	-3.5	-1.4	-1.8
Government revenue (excluding grants)							
Cameroon	21.1	22.2	18.6	18.1	19.9	19.1	20.4
Central African Republic	10.3	10.4	10.8	11.6	10.9	11.5	12.0
Chad	41.6	49.2	25.3	39.1	45.9	43.7	39.5
Congo, Republic of	112.4	158.1	77.4	116.5	136.3	141.6	132.0
Equatorial Guinea	146.3	145.2	99.7	75.4	69.1	64.2	47.7
Gabon	58.9	65.9	57.7	55.1	59.2	57.9	51.7
CEMAC	47.7	56.0	39.4	41.9	46.1	45.8	42.0
Government expenditure							
Cameroon	17.4	20.6	19.6	20.0	22.5	23.6	23.6
Central African Republic	13.2	16.2	16.2	19.4	15.9	15.6	16.9
Chad	38.5	43.7	46.2	50.4	43.7	37.2	35.7
Congo, Republic of	86.3	80.7	65.5	66.7	85.0	98.1	95.1
Equatorial Guinea	72.4	84.8	119.0	88.2	76.6	70.7	49.9
Gabon	41.6	41.7	44.4	49.2	54.8	47.0	44.4
CEMAC	34.0	38.1	41.7	40.9	43.4	42.7	39.2

Sources: Country authorities' actual data and IMF staff projections.

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

Table 7. CEMAC: Compliance with Convergence Criteria, 2007–13

	2007	2008	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
				(Percent of GDP)			
Basic fiscal balance[1] (≥ 0)							
Cameroon	4.1	1.6	-0.2	-0.9	-1.0	1.6	2.7
Central African Republic	-0.5	-2.4	-1.4	-2.0	-2.0	-0.4	-0.1
Chad	4.3	5.0	-10.1	-3.7	4.4	7.6	5.9
Congo, Republic of	10.1	24.2	4.9	17.4	19.3	21.5	15.5
Equatorial Guinea	17.8	15.4	-3.8	-4.3	0.0	0.0	0.9
Gabon	9.5	12.6	9.4	6.4	3.9	6.2	4.9
Number of countries violating	1	1	4	4	2	2	1
				(Annual percent change)			
Consumer price inflation (≤ 3%)							
Cameroon	1.1	5.3	3.0	1.3	2.9	3.0	3.0
Central African Republic	0.9	9.3	3.5	1.5	0.7	2.5	1.9
Chad	-7.4	8.3	10.1	-2.1	1.9	5.5	3.0
Congo, Republic of	2.6	6.0	4.3	5.0	1.9	2.7	2.9
Equatorial Guinea	2.8	4.3	7.2	7.5	7.3	7.0	7.0
Gabon	5.0	5.3	1.9	1.4	1.3	2.3	2.6
Number of countries violating	1	6	5	2	1	2	2
				(Percent of GDP)			
Level of public debt (≤ 70% GDP)							
Cameroon	12.0	9.5	10.6	12.1	12.9	17.7	19.9
Central African Republic	78.6	79.0	35.2	37.6	40.9	36.6	32.4
Chad	26.0	23.6	30.5	27.6	27.5	24.6	24.2
Congo, Republic of	98.0	68.1	57.2	23.8	22.7	21.4	19.3
Equatorial Guinea	1.1	0.7	5.1	7.5	8.3	9.7	8.3
Gabon	43.2	20.9	26.4	25.0	20.5	17.3	17.2
Number of countries violating	2	1	0	0	0	0	0
				(Percent of GDP)			
Non-accumulation of government arrears[2] (≤ 0)							
Cameroon	-0.8	-0.4	-0.2	-1.1	-0.8	-1.5	-0.1
Central African Republic	-1.7	-0.6	-0.5	-0.8	-0.2	-0.5	-1.3
Chad	-0.6	-2.4	-2.5	-2.4	-2.3	-1.9	-1.5
Congo, Republic of	-6.7	-17.8	-2.7	-3.8	-1.0	-0.6	-0.4
Equatorial Guinea	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gabon	-0.7	-2.0	-4.1	-0.3	-0.1	-0.2	-0.1
Number of countries violating	0	0	0	0	0	0	0
Total number of criteria violations	4	8	9	6	3	4	3
Cameroon	0	1	2	1	1	0	0
Central African Republic	2	3	2	1	1	1	1
Chad	0	1	2	1	0	1	1
Congo, Republic of	1	1	1	1	0	0	0
Equatorial Guinea	0	1	2	2	1	2	1
Gabon	1	0	0	0	0	0	0

Sources: Country authorities' actual data and IMF staff projections.

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

2 External and domestic arrears.

Table 8. CEMAC: Monetary Survey, 2007–11

	2007 Dec.	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.
	(CFAF billions)				
Net foreign assets	6,345	7,786	7,027	6,748	7,677
BEAC	5,276	7,274	6,345	6,152	7,060
Foreign assets	5,386	7,394	6,536	6,748	7,702
Of which: Operations account	3,687	7,238	5,483	4,737	5,847
Foreign liabilities	-110	-121	-191	-596	-642
Commercial banks	1,069	512	682	595	617
Foreign assets	1,300	739	957	880	1,037
Foreign liabilities	-231	-227	-275	-285	-420
Net domestic assets	-1,571	-2,179	-1,052	612	635
Net credit to government	-2,598	-3,790	-2,315	-1,839	-2,543
BEAC	-2,264	-3,769	-2,340	-1,991	-2,782
Advances	367	39	295	526	475
Consolidated debt	77	75	76	78	79
Other	82	78	158	92	157
Government deposits	-2,789	-3,962	-2,869	-2,687	-3,493
Commercial banks	-334	-21	25	152	239
Net credit to public agencies	-236	-251	-255	-261	-282
Net credit to private sector	1,946	2,487	2,652	3,069	3,878
Other items, net	-684	-625	-1,134	-358	-418
Broad money	4,773	5,607	5,974	7,359	8,312
Currency outside banks	1,200	1,458	1,525	1,728	1,805
Bank deposits	3,573	4,148	4,449	5,631	6,507
	(Annual change in percent of beginning-of-period broad money)				
Net foreign assets	35.6	30.2	-13.5	-4.7	12.6
Net domestic assets	-20.5	-12.7	20.1	27.8	0.3
Credit to government (net)	-79.3	-25.0	26.3	8.0	-9.6
Credit to the private sector (net)	4.5	11.3	3.0	7.0	11.0
Other (net)	54.3	0.9	-9.1	12.9	-1.1
Broad money	14.3	17.5	6.6	23.2	12.9
Velocity (GDP/broad money)	6.2	6.3	5.1	4.9	5.0
	(Percent of GDP)				
Broad money	16.1	15.9	19.8	20.4	19.9
Private bank deposits	10.7	10.6	13.1	13.9	13.4
Credit to the private sector	6.6	7.0	8.8	8.5	9.3

Source: BEAC.

Table 9. CEMAC: Summary Accounts of Central Bank, 2007–11

	2007 Dec.	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.
			(CFAF billions)		
Net foreign assets	5,276	7,274	6,345	6,152	7,060
Assets	5,386	7,394	6,536	6,748	7,702
Of which: operations account	3,687	7,238	5,483	4,737	5,847
Liabilities	-110	-121	-191	-596	-642
Net domestic assets	-2,488	-4,002	-2,888	-1,824	-2,646
Net credit to government	-2,264	-3,769	-2,340	-1,991	-2,782
Claims	526	193	529	696	711
Consolidated debt	77	75	76	78	79
Advances	367	39	295	526	475
Cameroon	80	0	0	0	0
Central African Republic	16	18	21	22	23
Chad	18	22	142	217	209
Congo, Republic of	154	0	42	42	0
Equatorial Guinea	0	0	0	0	0
Gabon	99	0	90	245	243
Other claims	82	78	158	92	157
Government deposits	-2,789	-3,962	-2,869	-2,687	-3,493
Net claims on financial institutions	6	6	5	0	2
Other items, net	-230	-239	-553	168	134
Base money	2,788	3,272	3,457	4,328	4,414
Currency in circulation	1,200	1,458	1,525	1,728	1,805
Banks' reserves	1,497	1,715	1,845	2,493	2,545
Other institutions' reserves	66	81	68	99	59
Memorandum items:					
Reserve coverage of broad money	119.9	125.1	113.4	91.9	99.6
Base money/deposits	82.8	82.7	81.5	79.9	70.0

Source: BEAC.

Table 10. CEMAC: Summary Accounts of Commercial Banks, 2007–11

	2007 Dec.	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.
	(CFAF billions)				
Net foreign assets	1,069	512	682	595	617
Assets	1,300	739	957	880	1,037
Liabilities	-231	-227	-275	-285	-420
Net domestic assets	807	1,738	1,723	2,329	3,244
Net credit to public sector	-570	-272	-230	-108	-44
Cameroon	3	-27	-70	-73	-23
Central African Republic	18	21	17	19	24
Chad	-21	-28	-40	-52	-46
Congo, Republic of	-13	-7	-1	-7	-12
Equatorial Guinea	-123	-264	-150	-157	-213
Gabon	-435	33	12	161	226
Credit to the economy	1,946	2,487	2,652	3,069	3,878
Cameroon	910	1,088	1,188	1,285	1,649
Central African Republic	55	62	62	87	102
Chad	122	178	204	244	291
Congo, Republic of	91	167	218	325	462
Equatorial Guinea	176	362	402	538	703
Gabon	593	629	579	590	670
Other items, net	-569	-477	-699	-631	-590
Net refinancing from central bank	-1,491	-1,709	-1,840	-2,493	-2,447
Borrowing	6	6	5	0	2
Cameroon	0	0	0	0	0
Central African Republic	0	0	0	0	0
Chad	3	6	5	0	2
Congo, Republic of	3	0	0	0	0
Equatorial Guinea	0	0	0	0	0
Gabon	0	0	0	0	0
Reserves	1,497	1,715	1,845	2,493	2,450
Cameroon	678	644	732	790	741
Central African Republic	9	9	27	14	9
Chad	76	72	76	103	149
Congo, Republic of	205	342	264	704	638
Equatorial Guinea	280	233	373	428	727
Gabon	249	415	372	453	581
Deposits	3,368	3,959	4,244	5,418	6,308
Demand deposits	2,038	2,516	2,688	3,587	4,300
Public enterprises	165	146	214	262	565
Private sector	1,873	2,370	2,474	3,326	3,735
Term deposits	1,330	1,442	1,556	1,830	2,008
Public enterprises	26	53	57	137	138
Private sector	1,304	1,390	1,498	1,693	1,869
	(Percent of deposits)				
Memorandum items:					
Reserves	44.5	43.3	43.5	46.0	38.8
Credit to the economy	57.8	62.8	62.5	56.6	61.5

Source: BEAC.

Table 11. CEMAC: Summary Medium-Term Projections, 2011–16

	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
National income and prices	(Annual percent change)					
Real GDP	4.5	4.6	4.0	3.9	2.9	2.9
Oil	-3.1	4.4	3.5	2.9	1.9	1.6
Non-oil	6.6	5.5	6.4	5.0	4.2	4.9
Nominal GDP	15.9	10.9	5.1	3.6	2.0	2.4
Consumer prices (period average)	3.1	3.9	3.7	3.5	3.5	3.4
External sector						
Exports, f.o.b	29.0	6.5	1.2	-2.0	-4.2	-4.7
Export volume[1]	5.4	3.2	1.5	2.2	1.1	0.7
Imports, c.i.f.	20.0	4.3	-3.5	1.6	0.0	0.1
Import volume[1]	3.2	7.7	-2.3	2.5	-0.6	-1.0
Terms of trade[1]	14.2	5.6	-1.2	-3.1	-3.6	-2.0
Central government	(Percent of GDP)					
Overall balance, including grants	2.3	3.7	3.4	3.2	2.6	2.2
Grants	0.8	2.1	1.7	1.9	1.5	1.4
Total revenue and grants	28.0	28.6	27.5	27.3	26.7	26.6
Total expenditure and net lending	25.5	24.8	24.0	24.0	24.1	24.4
External sector						
Current account balance, including grants	-1.9	-1.6	-0.3	-1.1	-1.6	-2.4
Trade balance	14.1	14.4	15.8	13.6	11.3	8.7
	(Percent of non-oil GDP)					
Overall balance, excluding grants	2.5	2.8	2.8	2.0	1.6	1.2
Non-oil overall balance, including grants	-27.8	-25.9	-22.7	-20.9	-19.1	-17.4
Non-oil primary balance, including grants	-26.1	-23.6	-21.4	-20.1	-18.7	-17.0

Sources: Country authorities' actual data and IMF staff projections.

[1] CEMAC data are weighted by GDP in purchasing power parity US dollar.

Table 12. CEMAC: Relative Size of CEMAC Economies and Importance of Oil Sector, 2007–12

	2007	2008	2009	2010	2011 Est.	2012 Proj.
Nominal GDP			(Percent of CEMAC's nominal GDP)			
Cameroon	33.1	30.1	34.7	30.9	28.7	27.5
Central African Republic	2.8	2.5	3.1	2.7	2.4	2.4
Chad	11.4	10.6	11.1	11.8	10.6	10.7
Congo, Republic of	13.6	15.0	15.0	16.5	16.7	16.2
Equatorial Guinea	20.4	23.4	19.1	20.0	22.4	24.0
Gabon	18.8	18.4	17.1	18.2	19.2	19.2
CEMAC	100.0	100.0	100.0	100.0	100.0	100.0
Nominal oil GDP (percent of CEMAC)			(Percent of CEMAC's nominal GDP)			
Cameroon	3.2	3.0	2.0	2.2	2.3	2.4
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0
Chad	5.1	4.9	4.0	4.7	3.7	3.7
Congo, Republic of	8.9	10.6	9.3	11.2	11.7	11.2
Equatorial Guinea	15.1	17.4	11.2	12.0	13.3	14.6
Gabon	9.4	9.5	7.4	8.9	10.2	10.2
CEMAC	41.6	45.5	34.0	39.0	41.1	42.0
Nominal oil GDP			(Percent of country's nominal GDP)			
Cameroon	9.6	10.1	5.8	7.1	7.9	8.6
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0
Chad	45.2	46.5	36.1	39.6	34.6	34.3
Congo, Republic of	65.4	70.7	62.4	67.9	69.9	68.9
Equatorial Guinea	73.8	74.5	58.9	60.3	59.4	60.8
Gabon	49.9	51.5	43.5	49.0	53.0	53.2
CEMAC	41.6	45.5	34.0	39.0	41.1	42.0
Oil exports			(Percent of country's total goods exports)			
Cameroon	50.9	53.5	41.2	48.6	49.3	53.3
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0
Chad	88.3	89.7	87.4	91.4	91.3	92.6
Congo, Republic of	89.4	88.9	88.1	88.4	87.2	86.7
Equatorial Guinea	99.0	99.3	98.7	98.2	98.5	98.7
Gabon	83.0	79.1	85.4	85.9	86.8	87.9
CEMAC	84.6	85.1	83.4	85.5	86.1	87.2
Fiscal oil revenue			(Percent of country's fiscal revenue)			
Cameroon	31.8	36.6	26.3	25.6	28.3	25.6
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0
Chad	69.2	74.5	43.3	63.3	70.9	67.0
Congo, Republic of	81.3	84.8	70.0	78.8	79.1	77.2
Equatorial Guinea	88.5	93.5	90.6	88.1	90.4	90.6
Gabon	58.6	65.5	49.7	53.9	63.4	55.5
CEMAC	64.9	71.9	58.0	61.8	66.8	64.4

Sources: Country authorities' actual data and IMF staff projections.

Table 13. CEMAC: Violations of Main Prudential Ratios, 2009–11

	Capital Adequacy			Liquidity[1]			Fixed Assets[2]			Maturity[3] Transformation			Minimum[4] Capital			Limit on Single[5] Large Exposure		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
	8%			Min 100%						Min 50%								
Country (number of banks in 2011)																		
Cameroon (13)	3	3	5	0	0	1	4	5	8	4	6	5	1	4	5	2	4	9
Central African Republic (4)	2	1	0	0	1	1	3	2	0	2	1	0	0	2	1	2	1	2
Chad (8)	3	2	0	1	1	0	1	3	0	1	2	0	1	4	2	1	4	1
Republic of Congo (7)	0	0	2	0	0	1	0	0	1	0	0	0	0	2	1	0	2	3
Equatorial Guinea (4)	2	1	0	0	0	0	1	0	1	1	1	1	0	0	0	0	0	0
Gabon (9)	1	0	0	2	1	2	3	0	0	2	0	0	0	1	1	1	1	4
CEMAC (45)	11	7	7	3	3	5	12	10	10	10	10	6	2	13	10	6	12	19
	Percent of deposits[6]																	
Cameroon (13)	27	17	21	0	0	2	14	39	46	30	45	19	6	13	19	9	19	37
Central African Republic (4)	81	21	0	0	18	17	85	75	0	81	21	0	0	29	22	81	21	38
Chad (8)	40	27	0	10	6	0	10	31	0	10	27	0	10	40	14	10	61	13
Republic of Congo (7)	0	0	19	0	0	7	0	0	3	0	0	0	0	10	3	0	41	61
Equatorial Guinea (4)	42	11	0	0	0	0	6	0	24	6	11	16	0	0	0	0	0	0
Gabon (9)	0	0	0	1	0	62	5	0	0	35	0	0	0	0	0	0	0	37

Source: Banking Commission of Central Africa (COBAC).

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

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

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

[4] Minimum capital varied by country until May 2010 (CFA millions): Cameroon 1000; Central African Republic 200; Chad 150; Republic of Congo 150; Equatorial Guinea 300; and Gabon 1000. From June 2010, minimum capital is 5 billion CFAF for all the countries.

[5] Single large exposure is limited to 45 percent of capital.

[6] Percentage of deposits represented by the number of banks in violation in the country.

Table 14. CEMAC: Bank Ratings, December 2011[1]
(Number of banks)

	1	2	3A	3B	3C	4A	4B	Not Rated
Country (number of banks)								
Cameroon (13)	1	6	0	1	0	3	0	2
Central African Republic (4)	0	3	0	0	0	0	0	1
Chad (8)	0	5	1	1	0	0	0	1
Republic of Congo (7)	0	4	0	0	0	0	0	3
Equatorial Guinea (4)	0	4	0	0	0	0	0	0
Gabon (9)	1	5	0	0	0	0	0	3
CEMAC (45)	2	27	1	2	0	3	0	10

Source: COBAC.

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

Table 15. CEMAC: Quality of Loan Portfolio, 2010–11

	Gross Loans (Billion CFAF)		Non-Performing Loans (Billion CFAF)		Provisions Against Non-Performing Loans (Billion CFAF)		Share of Non-Performing Loans (Percent of Gross Loans)		Rate of Provisioning (Percent of Non-Performing Loans)	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Cameroon	1601	1871	199	229	178	222	12	12	89	97
Central African Republic	116	126	15	16	15	14	13	12	97	92
Republic of Congo	379	544	4	6	5	6	1	1	112	103
Gabon	818	1161	35	37	31	44	4	3	91	120
Equatorial Guinea	628	836	34	34	40	44	5	4	119	130
Chad	295	328	31	26	26	24	11	8	84	92
CEMAC	3837	4866	318	348	295	355	8	7	93	102

Sources: COBAC and IMF staff calculations.

Table 16. CEMAC: Summary of Stress Test Results
(In percent, unless otherwise indicated)[1]

	CEMAC	Foreign-owned banks	Government-owned banks	Locally owned private banks	
Non-performing loan ratio before before shocks					
Nonperforming loans ratio	7.0	7.2	13.7	4.6	
Adjusted nonperforming loan ratio[2]	10.4	11.0	19.5	6.6	
Capital adequacy ratio before shocks[3]					
Capital adequacy ratio	12.9	14.0	14.5	9.0	
Adjusted capital adequacy ratio before shocks[2]	10.1	11.0	8.8	7.1	
Capital adequacy ratio after shocks					
Credit risk					
Default of the largest single borrower	5.2	6.1	1.2	2.8	
Default of the largest borrowers	0.8	1.3	-1.3	-0.5	
Increase of NPLs by 50%	6.8	7.8	1.3	4.8	
Default of public borrowers (incl. public enterprises)	5.7	5.9	4.1	5.4	
Sectoral shocks					
Trade sector	8.8	9.7	8.1	6.2	
Transportation and communications sector	9.5	10.4	8.4	6.9	
Agriculture and forestry sector	9.7	10.5	8.2	7.1	
Manufacturing sector	9.7	10.6	8.2	7.1	
Exchange rate risk					
40% depreciation against the US$	...	-1.4	13.1	-161.8	
40% appreciation against the US$	9.6	10.7	6.9	6.7	
Interest rate risk					
Increase in interest rates by 500 basis points	5.5	5.9	9.3	3.4	
Return on assets (before shocks)	...	0.2	2.9	-1.8	
Return on assets (after shocks)	...	0.9	4.2	-2.2	
Liquidity risk	Day 1	Day 2	Day 3	Day 4	Day 5
Number of banks in critical liquidity situation[4]	0	0	0	0	8
Public banks	0	0	0	3	20
Foreign banks	0	0	0	0	5

Source: IMF staff estimates.

[1]Seven banks under restructuring and/or conservatorship were included in the stress tests exercise.

[2]This ratio was adjusted to compensate for under-reporting and under-provisioning of NPLs in compliance with COBAC regulations.

[3]The capital adequacy ratio required by the law is 8 percent.

[4]A critical liquidity situation is defined as a situation where liquid assets are smaller than liquid liabilities.

Appendix I. CEMAC: Multilateral Surveillance Framework

(This note was prepared by Christine Dieterich)

CEMAC members agreed in 2001 on a multilateral surveillance framework carried out by the CEMAC Commission, with the objective of preventing excessive fiscal deficits. The framework relies on four mandatory surveillance criteria, complemented by non-binding sub-criteria:

- Basic fiscal balance in percent of nominal GDP ≥ 0 percent, complemented by:
    - Basic structural fiscal balance in percent of nominal GDP (derived from the main criterion by replacing actual oil revenue with the three-year moving average).
    - Basic non-oil fiscal balance in percent of nominal non-oil GDP.
    - Primary non-oil fiscal balance in percent of non-oil GDP.
    - Average annual inflation < 3 percent, complemented by the adjusted indicator of average annual underlying inflation, obtained by stripping out the food sub-index.
    - Stock of domestic and external debt as a percent of nominal GDP ≤ 70 percent
    - Non-accumulation of domestic and external payment arrears, defined as obligations due for more than 90 days.

In addition, the CEMAC Commission reports on member countries' performance regarding the non-binding economic indicators to enhance the diagnostic of the surveillance process, including:

- Ratio of net international reserves to monetary base ≥ 20 percent.
- Primary fiscal balance in percent of nominal GDP.
- Non-oil fiscal revenue in percent of nominal GDP.
- Ratio between the change in the public wage bill and the change in revenue.
- Current account balance net of grants as percent of nominal GDP.
- Ratio of debt service to exports.

The CEMAC Commission monitors members' macroeconomic policies during a semiannual multilateral surveillance mission to member countries. The CEMAC Commission's draft multilateral surveillance report is discussed and amended during a meeting of the "Collège de Surveillance," comprising two country representatives, one representative from the BEAC, and one from the CEMAC Commission. At the end, the report is adopted by the CEMAC Council of Ministers. Non-compliant countries are formally required to develop adjustment plans, but no sanctions are envisaged in the directive.

Appendix II. Assessing Reserve Adequacy of the Oil-Rich CEMAC Region

(This note was prepared by Carol Baker with Mpumelelo Nxumalo)

The CEMAC region has experienced a surge in oil revenue over the last decade. In line with recent trends in reserve adequacy analysis, this note assesses the adequacy of reserves. It examines exchange market pressure events such as the 2008–09 oil price shock episode and reserve loss episodes over the past 20 years, as well as through traditional metrics in a heuristic forward-looking reserve adequacy scenario analysis based on large, permanent oil price shocks. Reserve adequacy for the region as a whole appears ample, suggesting there is room for establishing a regional fund for holding a portion of assets as less liquid, higher-yielding wealth.

End-2010 reserve coverage under traditional benchmarks

For the region as a whole, reserve coverage of standard benchmarks is ample. Reserves cover the conservative threshold—3 months coverage of imports—by a significant margin, with reserve holdings of 19 percent of GDP equivalent to 4.6 months of projected 2011 imports; 93 percent of broad money; and more than 14 times short-term external debt falling due.

CEMAC Reserve Coverage of Traditional Reserve Adequacy Benchmarks, 2010

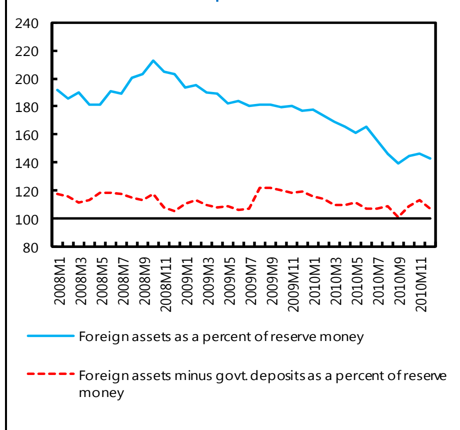
	Benchmark		2010 Reserve holdings	
	percent of GDP	by metric	percent of GDP	by metric
Total imports	10.4	3.0 months	19.3	4.6 months
Broad money	4.1	20 percent	19.3	93 percent
Short-term debt (rem. mat.)	1.3	100 percent	19.3	1,431 percent

Sources: BEAC and authors' calculations.

Use of total imports may understate reserve adequacy given the large share of self-financed oil sector imports[1] and high public investment-related imports. At end-2010 reserve coverage of non-oil imports was 5.8 months, while coverage of (estimated) private sector non-oil imports was 11.6 months—2½ times total import coverage.

CEMAC Foreign Assets and Reserve Money

(In percent)



Sources: BEAC and authors' calculations.

[1] Summary of Baker C.L., and Nxumalo M., Reserve Adequacy in the CEMAC Region—What Can We Learn from the 2008–09 Oil Price Shock? IMF Working Paper (forthcoming).

Reserve Coverage of Imports, 2010
(In months of imports)

Total imports	4.6
Non-oil imports	5.8
Private sector non-oil imports	11.6

Sources: BEAC and authors' calculations.

The BEAC has sufficient reserves to run a currency board. In order to run a currency board, the BEAC would need to hold foreign currency reserves sufficient to convert the entire stock of CFA notes into hard currency. In other words, reserves would need to be equal to or greater than base money (BM). At end-2010 the BEAC held reserves in excess of what is required to run a currency board. In fact, if all member governments converted their CFA deposits held in the BEAC into foreign currency, BEAC reserves would still exceed 100 percent of BM.

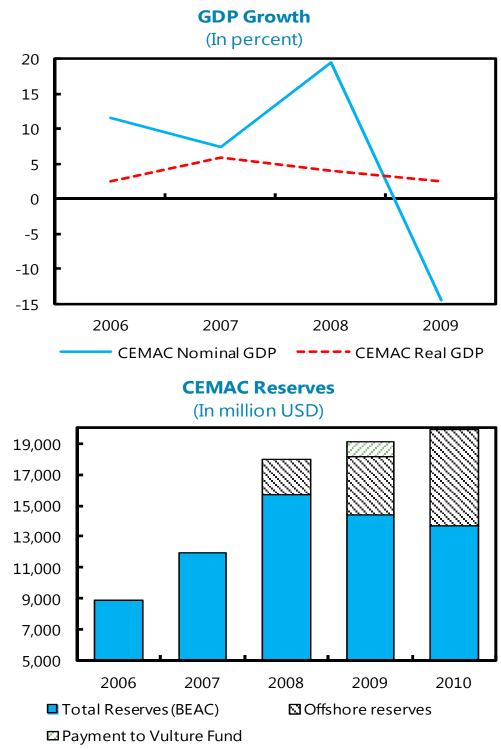
Reserves and absorption during the 2008–09 oil price shock

The 2008–09 oil price shock provides a unique opportunity to study the impact of, and policy reactions to a low probability negative oil price shock. The regional economy remained resilient, with no decline in absorption or non-oil growth, and underlying reserves increased.

Oil price movements in 2008 and 2009 were volatile. Over the first half of 2008, the price of Brent crude increased by 55 percent, peaking at $143.95 a barrel on July 3, 2008. Prices had moderated to $90 a barrel by the time Lehman Brothers filed for bankruptcy on September 15, and then began to free fall. On December 26, prices reached a low for the year of $33.73, a decline of more than 75 percent relative to the peak. In the first quarter of 2009 prices moved mostly sideways, before rising to a range-bound $70 a barrel one year after the peak. Price volatility was high, but the drop in the average price was much more muted, falling by roughly one-third from $97 dollars a barrel in 2008 to $65 dollars a barrel in 2009—above the break-even price for oil production in the region.

Despite the price volatility experienced in 2008, the economies of the CEMAC countries remained robust. The region accumulated $3.6 billion in reserves (a 32 percent increase). The true impact of the crisis was felt in 2009. Nominal GDP fell by 14½ percent relative to 2008, while exports fell by a third ($15 billion) to 12 percent below 2007 levels. At the same time, imports were flat (dollar terms), swinging the current account into deficit. Despite the current account being over financed by foreign direct investment (FDI) and (to a lesser extent) net external borrowing, official reserve holdings at the BEAC dipped slightly as a result of a one-time payment by the Republic of Congo to settle claims with a vulture fund and a sustained portfolio adjustment by the government of Equatorial Guinea to hold official assets offshore. Excluding these two outflows which are unrelated to the price shock, official reserves would have increased by $1 billion.

Reserve and GDP Growth, 2006-10



Sources: IMF AFR database and staff estimates.

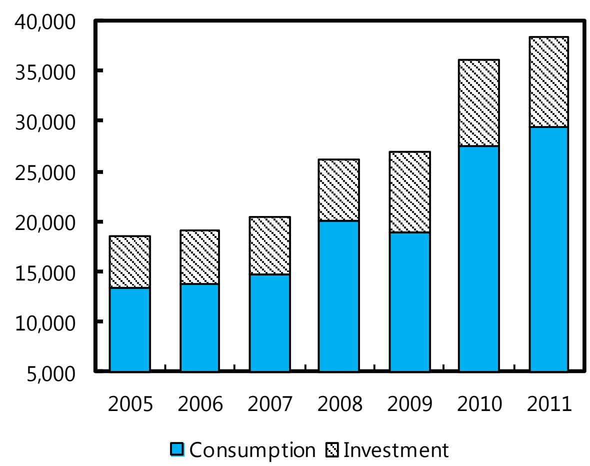
Yet, although the oil economy took a hit, the regional non-oil economy continued to grow. Non-oil growth rose to 6.8 percent in 2009, with five of the six member countries registering positive growth, and inflation fell below 5 percent as global food prices receded.

Given that oil accounted for over 70 percent of fiscal revenue in 2008, government coffers bore the brunt of the price shock. Regional oil revenue fell by 40 percent in 2009 relative to 2008. Yet, given ample policy buffers and large development needs, expenditure in the region rose by 13¼ percent, a spending injection of about 6½ percentage points of GDP. The overall balance swung from a fiscal surplus (10 percent of GDP) registered in 2008 to a small deficit (0.6 percent of GDP) in 2009, which was financed mostly by external financing.

Despite the oil price shock, real domestic absorption in the CEMAC region rose in 2009. This was due to higher capital expenditure—in that sense, the oil price shock did not lead to a crisis. In fact, although real consumption did dip slightly in 2009, the two year average increase in real absorption was above the pre-shock trend. Average prices above the breakeven point provided fiscal space to maintain spending plans, without recourse to additional debt.

Real Absorption (2000=100), 2005-11

(In billion CFAF)



Source: IMF AFR database.

To summarize, the temporary price shock of 2008–09 did not lead to a fall in either reserves or real absorption, and no resources were required for precautionary purposes.

Reserve Value at Risk 1990–2010

Large reserve loss events have been relatively rare in the CEMAC in the past 20 years, and were concentrated in the 1990s. More recent losses have resulted from member countries holding reserves offshore rather than the volatile nature of underlying oil prices. Since 2000, absolute reserve losses have been recorded in two years, 2001 when oil prices fell by 15 percent and 2009, for reasons unrelated to oil prices.

Under standard assumptions regarding the distribution of reserve losses, the expected loss in any given year is small relative to current reserve holdings. There is a 0.1 percent probability that reserves losses exceed $842 million. Such a loss is equivalent to 1.2 percent of 2010 GDP and 6 percent of the end-2010 stock of official reserves. Such a reserve loss would leave reserve coverage ample.

Reserve Coverage Following 0.1% Shock

End 2010 Reserves (In million USD)	13,658
Less $VaR_{0.1\%}$	12,816
In months of imports	4.2
In months of non-oil imports	5.7
In months of private non-oil imports	11.4
In percent of broad money	96.3
In percent of short term debt	1,388

Sources: IMF AFR database and authors' calculations.

Forward Looking Scenario Analysis

Having found that end-2010 reserves are ample relative to traditional metrics and one-time shock events, we now assess reserve adequacy over the medium term, both under the April 2011 IMF staff baseline scenario and in the event of a large, protracted price shock.

Under the baseline, reserves exceed traditional reserve adequacy benchmarks. Under IMF WEO projections (April/May 2011, average oil price, 2011–16, of $106), oil production in the CEMAC region is projected to decline by 20 percent over the medium term. However, strong oil prices will stem the decline in fiscal revenue to 6 percent. Falling exports will contribute to a weakening of the trade balance, and the declining regional current account balance will swing into deficit by 2015. Under this baseline scenario, regional international reserves are projected to rise to about $40 billion (about 38 percent of GDP), mostly reflecting projected fiscal and current account surpluses for the Republic of Congo and Gabon.

Reserves would increasingly exceed traditional reserve adequacy benchmarks. Reserve coverage of total imports would rise to more than 11 months of prospective imports by 2015; more than 150 percent of broad money; and 28 times short-term debt on a remaining maturity basis. Reserve coverage is even higher if offshore holdings are included.

CEMAC Reserve Coverage of Traditional Reserve Adequacy Benchmarks, 2011–15

	Benchmark by metric	Reserve holdings under baseline scenario 2011	2012	2013	2014	2015
Total imports	3 months	6.7	8.2	9.6	10.5	11.2
Non-oil sector imports	-	8.3	10.0	11.5	12.5	12.9
Private non-oil imports	-	15.8	18.8	21.1	22.8	22.7
Broad money	20 percent	106	122	135	147	157
Short-term debt (rem. mat.)	100 percent	2105	1837	2135	2308	2807

Sources: IMF 2011 WEO forecasts and authors' calculations.

Scenario I involves a one-standard-deviation permanent shock to the oil price. We now assess reserve adequacy in the case of a $25 permanent decline in the oil price relative to the baseline with no fiscal adjustment. This amounts to a one-standard-deviation shock. The impact for the region as a whole reduces 2012 oil exports by approximately 20 percent or $8 billion. The regional current account deteriorates by about 5 percentage points of GDP in 2012 from a near balance under the baseline.

Reserve Coverage When Price of Oil Falls by $25 from 2012 to 2015
(In months of imports)

	2010	2011	2012	2013	2014	2015
Total imports	4.6	6.7	6.9	7.0	6.7	6.4
Non-oil imports	5.8	8.3	8.4	8.5	8.2	7.6
Private non-oil sector imports	11.5	15.7	15.6	15.2	14.5	12.9

Sources: IMF AFR database and authors' calculations.

Under such a scenario, reserve coverage of total imports would remain ample at more than six months of imports. This likely underestimates reserve adequacy given that certain countries in the region with weaker fundamentals would be forced to adjust, reducing fiscal and current account deficits.

Scenario II includes a large and protracted shock to the oil price. Given the resilience of reserve coverage, we now construct a tail-risk scenario in which oil prices fall by around 70 percent to $30 a barrel and remain at that level for two years. Such a shock brings oil prices down to near the breakeven point. To assess the maximum impact on reserve coverage, we (unrealistically) assume no policy adjustment. The shock is severe—reserves fall by $20 billion (70 percent) relative to the baseline in 2013 and Equatorial Guinea would reduce offshore reserves holdings by 40 percent. The region would experience a fiscal deficit of 4½ percent of GDP (4½ percent surplus, baseline).

However, despite the severity of the shock, 2013 reserve coverage (unchanged) of total imports is around three months. This result understates the expected coverage, given that even countries with relatively stronger fundamentals and larger fiscal buffers would be forced to reduce absorption (or contract sizable debt). Even in such an extreme scenario, reserve coverage appears to remain ample.

Reserve Coverage When Price of Oil in 2012 and 2013 is $30
(In months of imports)

	2010	2011	2012	2013	2014	2015
Total imports	4.6	6.7	4.8	3.0	4.1	5.0
Non-oil imports	5.8	8.3	5.8	3.6	5.0	6.0
Private non-oil sector imports	11.5	15.7	10.8	6.5	8.8	10.1

Sources: IMF AFR database and authors' calculations.

Conclusion

International reserves of the CEMAC region are large, and reserve adequacy is ample and rising over the medium-term. These results are confirmed by the resilience of reserves during the 2008–09 oil price shock.

Scenario analysis indicates that simulating a balance of payments crisis would require heroic assumptions. While a massive and prolonged negative oil price shock with no adjustment would lead to a severe deterioration in reserve adequacy metrics, they would remain above traditional benchmarks.

These results suggest that thought could be given to holding part of the BEAC's foreign assets in longer-term, higher yielding instruments. Future research should focus on the optimal level of precautionary reserve holdings, and international reserve and wealth management.

Appendix III. CEMAC: Progress in Financial Sector Reform

(This note was prepared by Prosper Youm)

The CEMAC has been slow in reforming the financial sector, with several core recommendations of the 2006 FSAP yet to be implemented. Enhancing the crisis management framework is a reform priority considering the risks from a potential global recession for the financial sector. The draft Special Resolution Regime (SRR) under consideration is a step in the right direction, but more needs to be done to (i) further strengthen the regulator's powers to take prompt action, (ii) allow out-of-court resolution, and (iii) unify the liquidation process.

Several core recommendations from the 2006 FSAP report have yet to be addressed by the CEMAC authorities (Table 1). This includes the need to increase COBAC staffing, strengthen prudential requirements, limit national governments' power in withdrawing licenses, and strengthen the institutional framework of the financial sector to facilitate access to financial services. Progress has been made in increasing the minimum capital requirement, the supervision of microfinance institutions, and the systemic liquidity management.

Considering the potential risk of a global recession for CEMAC's banking sector, reforms to enhance the crisis management framework have priority. An effective crisis management framework consists of (i) sound bank regulation and supervision, (ii) an effective SRR, (iii) an effective Lender of Last Resort (LOLR), and (iv) an accessible fiscal safety net. Many jurisdictions also include an effective and limited Deposit Insurance Scheme (DIS).

While some of these components are in place in the CEMAC or in the process of being developed, some are still missing:

- **Bank regulation and supervision are compromised by inadequate resources.** The COBAC aims to conduct on-site supervision for each bank every other year. In practice, it may take up to four years for a bank to receive a comprehensive or even a thematic inspection. Furthermore, it may take the COBAC a long time to detect deterioration in the soundness of a bank because poor off-site supervision mainly focuses on eliminating data inconsistencies. In addition, monthly bank credit reports detailing lending operations and individual payments delinquencies are provided to the BEAC national branches, but the COBAC receives only the processed data.

- **A Special Resolution Regime (SRR) has been prepared, but its adoption needs to**

be expedited. On the advice of the IMF, the CEMAC authorities have prepared a new region-wide regulation on crisis resolution. The regulation that would strengthen the powers of the COBAC has been awaiting final approval for months. It is expected to (i) allow the authorities to intervene early to resolve banking crises, (ii) define clearly the responsibilities of regional and national bodies and the scope of judicial review, and (iii) prevent shareholders of an insolvent bank from participating in its restructuring. The CEMAC still needs stronger provisions for more effective tools to handle problem banks, in particular mandatory recapitalization, transfer of assets and liabilities, bridge banks, and orderly winding up, including extrajudicial processes.

- **The BEAC does not have de jure the powers of a LOLR.** De facto, the BEAC has had to intervene occasionally as LOLR, mostly by using its standing monetary policy facilities. It has not formally set up internal criteria for its interventions.

- **An accessible fiscal safety net has not been established.** This has played a role in the protracted failure to resolve the financial problems of a systemically important regional banking group.

- **A regional deposit insurance scheme was established in 2009**. The Fonds de Garantie des Dépots en Afrique Centrale (FOGADAC) started accepting contributions in March 2011. The FOGADAC is supervised by COBAC with the oversight of BEAC and banking sector representatives. The scheme, funded by fees from financial institutions, will insure deposits up to CFAF 5 million per account.

Table 1. Implementation of FSAP Recommendations

Recommendations	Status of Implementation
FINANCIAL SECTOR SUPERVISION AND BANKING SECTOR STABILITY	
Increase COBAC's staffing.	Staffing levels continue to be very low and even decreased lately. This acute shortage relative to supervisory demands continues to impede the COBAC's monitoring and enforcement activities.
Bring prudential framework in line with international standards and strengthen their enforcement.	The principal prudential regulations (solvency, large exposures, and connected lending) continue to be out of line with international best practices and poorly enforced, thus encouraging excessive credit concentration and exposing the banking system to credit risk. The enforcement capacity is constrained by staffing shortages.
Increase minimum capital adequacy ratios to reflect CEMAC specific risks and vulnerabilities.	The minimum capital requirements for credit institutions were increased and harmonized. The banking sector was given a transitory period of five years to comply with the new regulation.
Limit powers of national authorities regarding issuance and withdrawal of bank licenses.	This remains a serious limitation for effective crisis resolution that needs to be addressed in the draft regulation on banking crisis resolution.
Streamline the reporting and the regulatory requirements for microfinance institutions.	A special microfinance chart of accounts was introduced in 2010 along with automated IT systems to collect financial data.
SYSTEMIC LIQUIDITY MANAGEMENT	
Centralize government cash holdings at the BEAC.	Government cash holdings are largely centralized at the BEAC.
Reinforce the use of market based instruments for monetary and public debt management.	The phasing out of statutory advances was initially planned over five years, beginning in 2011. Later it was extended over ten years. Notwithstanding this decision, two countries have started issuing treasury bills in the regional market with the BEAC serving as the central depositor.
Harmonize the minimum reserve requirement between member states.	Remains to be done.
Establish a framework to assess the desirable target for international reserves.	In progress. The current monetary programming also needs to be strengthened.
ACCESS TO FINANCIAL SERVICES	
Bring controlled interest rates in line with market fundamentals to foster financial intermediation.	Interest rates are freely set, except the minimum rate on savings passbook accounts.
Develop credit bureaus and centralized information registries to improve creditor information.	The authorities' efforts are supported by a World Bank project, but progress is slow.
Enhance the legal and judicial framework and strengthen financial infrastructure.	Overall effective lending rates are published on a regular basis to promote transparency and competition. There is neither a credit bureau nor a corporate balance-sheet registry regulatory framework.

Appendix IV. CEMAC Risk Assessment Matrix

Nature/Source of Main Risks	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized
A substantial decline in global commodity and oil prices stemming from the Eurozone crisis	• Staff assessment: Medium • Spillovers from Europe could lead to a softening of global growth, which in turn could lower commodity and oil prices.	• Staff assessment: Medium to High • The CEMAC region is highly dependent on commodity exports, especially on hydrocarbons. Commodities account for about 90 percent of goods exports and 50 percent of nominal GDP. • Staff analysis based on the spring 2012 WEO adverse scenario shows that external and fiscal balances would deteriorate, due to declines in oil export receipts and fiscal oil revenues. • Large international reserves, however, create some buffers.
Regional financial sector vulnerabilities	• Staff assessment: Medium • Stress tests suggest that the banking system is generally vulnerable to a wide range of risks, particularly to credit risk. • Overall compliance with the regional prudential ratios is weak. • The tests found that the concentration of lending to large borrowers and to the public sector is the major source of risk.	• Staff assessment: Medium to High • Under the most damaging scenario in the stress test, the recapitalization costs to meet minimum capital requirements would remain limited. • This reflects, to a large extent, the small size of the banking sector and more generally the limited financial intermediation in the CEMAC. • The CEMAC authorities have prepared a new region-wide regulation on crisis resolution, but its adoption is taking longer than anticipated.
Possible widespread noncompliance with the rule for pooling reserves	• Staff assessment: Low • Low interest rates on CFAF-denominated government deposits at the BEAC discourage pooling of reserves. • Recent safeguards concerns have weakened the member states' confidence in the BEAC.	• Staff assessment: High • The common currency, the CFA franc, is pegged to the euro and guaranteed by the French Treasury. In exchange, the BEAC keeps 50 percent of pooled reserves in an Operations Account at the French Treasury. • The BEAC has set up a working group to enhance compliance with the reserve-pooling requirement.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

June 1, 2012

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES—INFORMATIONAL ANNEX

Prepared By

The African Department
(in consultation with other departments)

CONTENTS

RELATIONS BETWEEN CEMAC MEMBER COUNTRIES AND THE FUND

Membership Status

Cameroon, Central African Republic (C.A.R.), Chad, Republic of Congo, and Gabon joined the IMF in 1963, and Equatorial Guinea joined in 1969. All CEMAC members accepted Article VIII of the IMF Articles of Agreement on June 1, 1996.

Relations between the CEMAC Member Countries and the Fund

Cameroon: The last financial arrangement, a Poverty Reduction and Growth Facility (PRGF) arrangement in an amount equivalent to SDR 18.6 million (about US$26.8 million), expired on January 31, 2009. The Executive Board approved on July 2, 2009 a SDR 92.9 million (about US$ 144.1 million) disbursement under the Rapid-Access Component of the Exogenous Shocks Facility. On July 14, 2010 the Board concluded the 2010 Article IV consultation. It also discussed the Second Poverty Reduction Strategy Paper (PRSP) and the Joint IDA-IMF Staff Advisory Note. The 2011 Article IV consultation was concluded on June 24, 2011. Cameroon is on a 12-month consultation cycle.

C.A.R.: The Executive Board approved a three-year PRGF arrangement on December 22, 2006 in an amount equivalent to SDR 36.2 million (about US$54.5 million), subsequently augmented to SDR 69.62 million (125 percent of quota). C.A.R. reached the Completion Point under the enhanced Heavily Indebted Poor Countries (HIPC) initiative and received debt relief under the Multilateral Debt Relief Initiative (MDRI) in June 2009. The last Article IV consultation was concluded on January 30, 2012. Discussions on a new three-year arrangement under the Extended Credit Facility (ECF) are under way. The Executive Board consideration is expected in June 2012.

Chad: The last financial arrangement, a PRGF arrangement in an amount equivalent to SDR 25.2 million (about US$38.2 million), expired on May 31, 2008 with no review completed. A 2009 Staff-Monitored Program (SMP) went off-track due to sizeable overruns on security spending and investment projects. The last Article IV consultation was concluded on September 7, 2011. Chad is on a 12-month consultation cycle.

Republic of Congo: The Executive Board approved a three-year PRGF arrangement for Rep. of Congo in an amount equivalent to SDR 8.5 million (about US$12.5 million) on December 8, 2008. The country reached the Decision Point under the enhanced HIPC initiative on March 8, 2006 and the Completion

Point on January 27, 2010. The last Article IV consultation and fourth review under the ECF arrangement were concluded on January 19, 2011. Congo is on a 12-month consultation cycle.

Equatorial Guinea: The last financial arrangements, an Enhanced Structural Adjustment Facility arrangement in an amount equivalent to SDR 9.9 million and a Structural Adjustment Facility in an amount equivalent to SDR 3.0 million, expired both on February 2, 1996. Equatorial Guinea is not expected to seek IMF financial assistance over the next few years. The country is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on April 22, 2011. Equatorial Guinea is on a 12-month consultation cycle.

Gabon: The three-year Stand-By Arrangement in an amount equivalent to SDR 77.2 million (about US$117 million) expired on May 7, 2010, with only the first three reviews completed. Gabon is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on February 18, 2011. Gabon is on a 12-month consultation cycle.

Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank. The most recent safeguards assessment of the BEAC was completed on July 6, 2009. The findings of this assessment indicated that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control was limited, and that the changing risk profile of the BEAC foreign exchange holdings required further actions to strengthen safeguards at the BEAC. Subsequent to the revelation of Paris office fraud, a series of initial measures and longer-term reforms was agreed between the IMF and the BEAC in order to continue with country programs. The BEAC adopted an action plan for 2010 with the aim of reforming its own governance and strengthening key safeguards. Implementation delays and additional safeguards concerns raised in the first special audit triggered a suspension of IMF disbursements to CEMAC countries from June to early August 2010, after which they resumed. In addition, since 2010, the BEAC and the IMF agreed on additional periodic measures to address the weaknesses highlighted by the special audit and to strengthen governance bodies. A recent safeguards monitoring mission identified a new series of rolling benchmarks to address outstanding safeguards concerns going forward.

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.

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 Executive Board concluded the last discussion on common policies of CEMAC members on July 20, 2011. Such discussions are held on a 12-month cycle.

FSAP Participation and ROSCs

The first regional Financial Sector Assessment Program (FSAP) was carried out January-March 2006. Regional Reports on Observance of Standards and Codes (ROSCs) were done in the areas of monetary and financial policy transparency, banking supervision, and anti-money laundering and combating the financing of terrorism (AML/CFT) in June 2006.

Technical Assistance to the Bank of the Central African States (2009–12)

March-April 2012: MCM advisory mission on central bank accounting, monetary operations, and stress testing.

March 2012: STA TA mission on development and improvement of monetary and financial statistics and financial soundness indicators.

Since October 2011: MCM resident advisor to the COBAC.

July 2011: MCM advisory mission on monetary policy design and implementation.

Since May 2011: MCM resident general advisor to the Governor of the BEAC on governance, accounting, and internal controls.

March, April, and May 2011: MCM TA missions on accounting, reserve management, and banking supervision.

March 2011: STA TA mission on development of monetary and financial database.

January 2011: MCM TA mission on discussing MCM advice in the areas of governance, internal audit and accounting, monetary policy and research, reserve management, and banking supervision.

November 2010: STA participation in the BEAC's workshop on the economic, monetary, and financial database.

October-November 2010: MCM TA mission on discussing TA program to strengthen the BEAC and the COBAC.

January 2010: STA participation in the BEAC's workshop on balance of payments statistics.

July 2009: MCM mission on regional public debt market development.

April, June, September, and November 2009: MCM TA missions on banking supervision.

Technical Assistance to the Central African Economic and Monetary Community Commission (2010–12)

April 2012: FAD and STA participation in the CEMAC's workshop on the design of an implementation strategy for new PFM directives and implementation of the *GFSM 2001* directive.

March 2012: FAD TA mission on the development of technical guides.

March 2012: STA TA mission on the preparation of guidelines for the TOFE directive.

July 2011: FAD mission on assessment of the CEMAC's technical assistance needs.

February and April 2011: FAD and STA participation in workshops on the design of new PFM directives and the TOFE draft.

February 2011: STA participation in the CEMAC's workshop on the analyses of macroeconomic aggregates.

November 2010: STA TA mission on drafting the TOFE directive.

September 2010: FAD TA mission on the strategy to redraft the regional fiscal directives.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 12/65
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June 29, 2012

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

IMF Executive Board Concludes 2012 Discussion on Common Policies of Member Countries of the Central African Economic and Monetary Community

On June 18, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the annual discussions on Common Policies of Member Countries with the Central African Economic and Monetary Community (CEMAC).[1]

Background

The CEMAC economy is dominated by oil. Five of the six CEMAC countries are oil producers, and oil accounts for 41 percent of regional GDP and 86 percent of total goods exports. Channeled through government spending, oil revenue is the main driver of economic activity. However, despite the oil wealth, it is unlikely that the region will meet the Millennium Development Goals by 2015.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Owing to high oil-related inflows, macroeconomic performance was strong in 2011. Real GDP growth in 2011 fell slightly compared to 2010, driven by a decline in oil output. Despite inflation slightly above the convergence criterion of 3 percent and high excess liquidity, the BEAC left its policy rate unchanged. The region's non-oil primary fiscal deficit widened, driven by public investment. Public debt remained low at about 18 percent of GDP, as the scaled-up investment is primarily financed from buoyant oil revenue. Owing to high commodity prices, the current account deficit narrowed despite high import demand from the expansionary fiscal stance. Consequently, international reserves strengthened to about five months of total imports or nearly 100 percent of broad money in 2011.

Compliance with convergence criteria improved. The number of criteria violations declined further from 6 in 2010 to 3 in 2011. The debt criterion was met by all countries. The oil-exporting CEMAC countries, except Cameroon, complied with all fiscal criteria, which are no longer binding because of oil inflows. Equatorial Guinea missed the inflation criterion and the Central African Republic the basic fiscal balance criterion.

The CEMAC is facing challenges from deep-seated structural problems. The ongoing crisis in the euro area has brought to the forefront a currency union's policy challenges stemming from loss of competitiveness, lack of fiscal coordination, and loose economic and financial integration. To that end, the authorities are facing challenges in four areas: (i) ensuring fiscal policy coordination and external sustainability; (ii) improving the conduct of monetary policy; (iii) ensuring financial stability and development; and (iv) enhancing growth and competitiveness. To this end, there is an urgent need to further strengthen the CEMAC's common institutions.

Executive Board Assessment

They welcomed the CEMAC region's good macroeconomic performance in 2011, underpinned by high oil-related inflows. The external position strengthened and international reserves increased. Directors noted that while the region's economic prospects remain favorable, it is vulnerable to external developments and challenges arising from structural weaknesses.

Directors commended the authorities for the progress made in improving the convergence criteria but emphasized the need to address the uncoordinated fiscal policy, financial sector weaknesses, and obstacles to growth and competitiveness. In this context, they stressed the importance of strengthening the regional surveillance framework to ensure fiscal coordination. A more efficient and transparent public financial management and binding fiscal rules, cast in a medium-term fiscal framework, will be critical to ensure fiscal sustainability.

Directors underscored the need to expedite monetary policy reforms. Key priorities should be to strengthen monetary analysis, rationalize monetary policy instruments, harmonize the required reserves ratios, and develop the regional government securities and interbank markets. Directors noted that foreign exchange reserves are adequate and that the real exchange rate appears to be broadly aligned with economic fundamentals in the region. They stressed, however, the importance of compliance with the rule for pooling reserves at the Bank of Central African States and highlighted the need to reform the management of oil savings.

Directors urged the authorities to accelerate financial sector reforms. These should include measures to resolve the situation of financially weak banks, strengthen the prudential and regulatory framework, and further develop the financial sector.

Directors called for stronger efforts to foster further integration, strengthen growth, especially non-oil sector growth, and boost competitiveness. They highlighted the importance of reducing the common external tariff, removing non-tariff barriers to internal and external trade, and addressing regional labor market mobility issues and infrastructure bottlenecks.

Directors encouraged the authorities to further strengthen the governance of the CEMAC's common institutions, notably, making further progress with the BEAC's reform agenda, and enhancing the capacity of the regional banking supervisor (Central African Banking Commission). They considered that it is important that the CEMAC Commission's administrative capacity be commensurate with its role in fostering trade and regional integration. Directors urged the authorities to put in place stringent mechanisms in all regional institutions to ensure transparency and accountability.

The views expressed by Executive Directors today will form part of the Article IV consultation discussions on individual members of the CEMAC that take place until the next Board discussion of CEMAC common policies.

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.

CEMAC: Selected Economic and Financial Indicators, 2007–13

	2007	2008	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
			(Annual percent change)				
National income and prices							
GDP at constant prices	5.9	4.3	2.4	5.1	4.5	4.6	4.0
Oil GDP	-2.2	-0.7	-5.4	-0.6	-3.1	4.4	3.5
Non-oil GDP	12.2	6.2	6.8	6.3	6.6	5.5	6.4
Consumer prices (period average)[1]	1.1	5.7	4.8	2.4	3.1	3.9	3.7
Consumer prices (end of period)[1]	3.0	7.1	3.0	2.8	5.2	3.9	3.9
Nominal effective exchange rate[1]	3.1	3.2	-0.1	-4.1	1.2	…	…
Real effective exchange rate[1]	0.9	5.1	3.2	-4.3	-0.3	…	…
	(Annual changes in percent of beginning-of-period broad money)						
Money and credit							
Net foreign assets	35.6	30.2	-13.5	-4.7	12.6	…	…
Net domestic assets	-20.5	-12.7	20.1	27.8	0.3	…	…
Broad money	14.3	17.5	6.6	23.2	12.9	…	…
			(Percent of GDP, unless otherwise indicated)				
Gross national savings	28.0	28.5	22.1	24.5	25.0	24.1	24.6
Gross domestic investment	23.1	21.2	27.4	28.4	26.9	25.9	25.0
Of which: public	7.9	8.8	13.6	12.0	13.3	12.8	12.0
Government financial operations							
Total revenue, excluding grants	27.8	30.6	26.0	25.6	27.2	26.6	25.8
Government expenditure	19.8	20.8	27.5	25.0	25.5	24.8	24.0
Primary basic fiscal balance[2]	9.7	11.7	1.1	3.1	4.9	6.1	4.7
Basic fiscal balance[3]	8.6	10.7	0.4	2.4	3.9	4.8	3.9
Overall fiscal balance, excluding grants	8.0	9.7	-1.7	0.4	1.5	1.6	1.7
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-18.1	-23.3	-26.2	-25.8	-28.9	-27.5	-23.7
Overall fiscal balance, including grants	8.8	10.2	-0.6	1.2	2.3	3.7	3.4
External sector							
Exports of goods and nonfactor services	56.0	57.4	47.1	52.6	58.6	56.3	54.2
Imports of goods and nonfactor services	35.3	35.2	42.2	42.9	44.5	41.8	38.4
Balance on goods and nonfactor services	20.7	22.2	4.9	9.7	14.1	14.4	15.8
Current account, including grants	4.9	7.3	-5.3	-3.9	-1.9	-1.6	-0.3
External public debt	22.7	15.6	16.1	11.6	12.1	12.3	12.7
Gross official reserves (end of period)							
Millions of U.S. dollars	11,937	15,662	14,354	13,658	15,925	19,543	24,575
Months of imports of goods and services	5.3	7.2	5.7	4.5	5.0	6.4	7.9
Percent of broad money	119.9	125.1	113.4	91.9	94.9	102.3	112.9
Memorandum items:							
Nominal GDP (Billions of CFA francs)	29,559	35,326	30,231	35,986	41,705	46,262	48,630
CFA francs per U.S. dollar, average	479.3	447.8	472.2	495.3	471.9	…	…
Oil prices (US dollars per barrel)	71.1	97.0	61.8	79.0	104.0	114.7	110.0

Sources: Authorities' actual data and IMF staff estimates and projections.

[1] CEMAC data are weighted by GDP in purchasing power parity US dollar.
[2] Excluding grants and foreign-financed investment and interest payments.
[3] Excluding grants and foreign-financed investment.

Statement by Mr. Kossi Assimaidou, Executive Director for Central African Economic and Monetary Community (CEMAC)
June 18, 2012

Introduction

My authorities of the Central African Economic and Monetary Community (CEMAC) would like to thank the Executive Board, Management and Staff for the steadfast support they receive from the Fund in their efforts aimed at implementing needed policies and reforms to strengthen the economic and financial integration's process in the region. In particular, they highly value the technical assistance provided by the Fund to CEMAC's institutions, and the constructive policy discussions and seminars they had last March in the context of the 2012 article IV consultations.

My authorities broadly share the thrust of the staff report whose recommendations will help them ensure greater financial stability and development while enhancing growth and competitiveness.

CEMAC's overall macroeconomic performance was good in 2011 on account of the high oil revenue inflows in several member countries. The authorities are aware that the global economic slowdown, the persistent financial crisis in euro zone, the vulnerabilities of the domestic banking sector and the limited capacities at the regional level could pose potential risks to the regional economies. To mitigate these risks and foster the positive regional economic outlook, they will accelerate their efforts in implementing, with the support of the Fund and other partners, required policies and structural reforms. These efforts are also aimed at safeguarding the currency union, foster fiscal policy coordination, enhance external sustainability and make substantial inroads in economic diversification and poverty reduction.

Recent Economic Developments

The decline in oil output growth in Gabon and the Republic of Congo led the CEMAC real GDP growth to fall to 4.5 percent in 2011 from 5.1per cent in 2010. The oil sector plays a crucial role in the development of CEMAC economies as it contributes to 41 percent to the regional GDP and accounts for 86 percent of total exports. Thanks to the high oil related inflows and other commodity prices, the current account deficit narrowed and international reserves strengthened to cover about five months of total imports. However, regional inflation increased from 2.4 to 3.1 percent slightly above the convergence criterion of 3 percent, mainly due to the rise in food and fuel prices, in a context of accommodative monetary policy. In addition, the non-oil fiscal primary deficit widened owing to large public investment primarily financed by the buoyant oil revenue. This also led the public debt to remain low at about 18 percent of GDP.

CEMAC countries made good progress in their efforts to comply with the regional convergence criteria. As indicated by staff, the number of violations declined from six in 2010 to three in 2011.The authorities agreed on the need to accelerate the reform of the convergence criteria and framework given the macro economic implications of the oil wealth and the need to improve the regional surveillance. In this regard, they intend to organize before the end of 2012 a high-level workshop with IMF technical support to address these issues.

In order to better coordinate and harmonize fiscal policies of member countries, the authorities adopted directives on budget law and the medium-term fiscal framework, public accounting, payroll management, implementation of the Government Finance Statistics Manuel, metadata related to the budget system and transparency and good governance in PFM. The transposition of these directives into national legal framework and their implementation will further enhance the regional surveillance.

Given the dependence of CEMAC countries on oil and other commodities with a volatile world prices, the authorities remain determined to pursue their reform agenda to ensure fiscal and external sustainability, improve the financial sector's stability and its role in the economy and make significant progress in the economic and financial integration process.

Policies and Structural Reforms in 2012

Economic outlook and stability

The CEMAC economic outlook appears positive given the expected rebound in oil production and the large ongoing public investments in member countries financed mainly by the high oil revenue. In this context, overall real GDP growth is projected at 4.5 percent in 2012 while inflation is forecast to decline. The authorities' efforts to further widen the economic diversification will be pursued with a view to achieve, over the medium-term, higher and sustainable growth in the non-oil sector. The authorities are mindful that the region's financial and real sectors will be severely affected by a global economic slowdown resulting from a protracted euro crisis. They, therefore, welcome the policies and programs being implemented by the Euro area authorities, together with assistance from the Fund, to solve this financial crisis and put the member economies on a sustained growth path.

Fiscal consolidation

Despite the capacity constraints they face, the authorities are determined to pursue their fiscal consolidation efforts and anchor public investment in a credible medium-term fiscal strategy. The CEMAC Commission capacity will be further enhanced with a view to strengthen the regional surveillance through an adequate implementation of fiscal directives adopted in 2011. This also will enable the authorities to enforce an efficient and transparent public financial management. To this end, an action plan has been finalized and the training at national levels will be conducted in the second half of 2012.

External sustainability

The authorities agree with staff that the reserves ' level is adequate to support the fixed exchange rate regime. They also share the view that the CEMAC's external position and the REER are broadly consistent with external stability. The authorities are determined to safeguard these achievements through intensified efforts to address weaknesses related to the full compliance with the reserve-pooling requirement and implement needed reforms to improve the oil-savings management. To address the non-compliance by member countries with the regional requirement of a full reserves pooling, a working group made up of senior officials was set up and the authorities are regularly updated on progress made in this regard. Moreover, it is worth noting that member countries lagging behind the compliance with this rule governing the currency union have been reassured that their obligations under this requirement will be fully respected.

Financial sector reforms

The Fund technical assistance through policy advice and resident advisors has helped achieved significant progress in enhancing the BEAC safeguard measures and implementing the central bank's reforms. This assistance has increased the capacity and credibility of the regional central bank. They intend to fully implement the recommendations made by recent safeguard mission.

The authorities agreed that the health of the financial sector is a source of concern given the weaknesses identified on the compliance with the regional prudential ratios. In this regard, the authorities have increased the minimum capital requirements under the review of prudential regulations. They have also established a regional deposit insurance scheme as well as a financial stability committee. Given the delays encountered in the resolution of a systematically important regional banking group, further efforts will be made to strengthen crisis prevention, management and resolution. To improve the institutional environment for the financial sector, significant measures and actions have been made recently, notably the creation of credit bureaus, the establishment of a credit rating agency and a central registry of corporate balance sheets. On enhancing collaterals, member countries are implementing measures to promote land registration and bookkeeping of titles recommendations while broadening the range of assets to be used as collateral.

Structural reforms and Competitiveness

The CEMAC authorities are aware of the need to create more growth and employment opportunities in order to fight poverty and sustain the development of the region. The weak structural competitiveness of the region's economies is a concern. The low level of infrastructure development and low interregional trade and mobility of production factors are the main challenges to non-oil growth in the region. To this end, the authorities are determined to implement the regional economic program (REP) with a view to transform the region into an emerging market by 2025. In addition, efforts to remove barriers to internal and external trade, address labor market mobility issues will be pursued at both national and regional levels. These reforms together with improved governance and business environment will help increase the region competitiveness and enhance growth and economic diversification.

Capacity building

Under the technical assistance of the Fund and other partners including the World Bank, significant progress has been made in strengthening the capacities of CEMAC institutions including the BEAC, COBAC and the Commission. The authorities will speed up their efforts in implementing recommendations and action plans designed to increase efficiency, transparency, governance and accountability of their regional institutions.

Conclusion

Despite the difficult external environment, progress has been by the CEMAC region in stabilizing the macroeconomic situation and advancing in reforms. However, much remains to be done to further enhance the regional integration process and achieve more benefits from the regional agreements. My authorities remain committed to pursue their reform agenda with the continued support of the international community and of the Fund in particular.