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Statement by Mr. Kiekens and Mr. Ábel on Central African Economic and Monetary Community
(Preliminary)
Executive Board Meeting 07/56
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We thank staff for a good report on the CEMAC countries and Mr. Rutayisire for an informative Buff statement.

We agree with staff that CEMAC is at a crossroads. CEMAC's satisfactory track record of monetary stability is an important element of regional integration. However, despite its success in achieving financial stability, CEMAC has not lived up to its full potential of creating integrated multi-country financial markets and trading zones. Significant oil incomes have temporarily boosted fiscal revenues but little progress has been made in economic diversification and reducing oil dependency. Progress toward meeting convergence criteria is slow. Economic links among member countries of the CEMAC are still feeble. Intra-regional trade is still very low and this reflects the reality of political and institutional incoherence. The high oil revenues have made political leaders complacent about the urgency for integration as an instrument for development.

Despite the fact that the terms of trade were favorable in 2006, CEMAC's GDP growth slowed to 1.1 percent, which is significantly lower than the growth rates in the rest of Sub-Saharan Africa and of other oil exporters. We are concerned that while growth declined as oil production slowed, inflation picked up in all CEMAC countries.

We agree with staff that addressing the key problems will require some adjustments in the integration process. This cannot be done without strong political support from the national authorities.

The increasing dependency on oil must be addressed while economic conditions are still favorable. Rapidly rising non-oil fiscal deficits, in the context of fiscal surpluses, indicate limited absorption capacity. Staff has rightly pointed out that traditional convergence criteria must be supplemented by a focus on non-oil primary balances.

Capital inflows have also exposed the weakness of monetary policy and liquidity management. An effective framework must be based on a stronger common reserve policy and active liquidity management. The abolition of automatic central bank financing of the government should make room for debt markets and more effective monetary policy instruments.

As summarized in Box 4 of the Staff Report, we welcome the progress made with regard to the CEMAC regional institutional reform. The authorities should complete the reform process with strong commitment and political support.