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**Statement by Mr. Ge and Ms. Lo on
Central African Economic and Monetary Community
(Preliminary)
Executive Board Meeting 07/56
June 29, 2007**

We welcome staff's comprehensive papers reviewing CEMAC common policies, which will be considered an integral part of each member country's Article IV consultation. Regional economic performances continue to be closely linked with oil sector developments. Lower oil output has slowed GDP growth significantly, while increased oil-related inflows, more favorable terms of trade and debt relief have contributed to better fiscal performances and larger reserves. Inflation has picked up and the REER has appreciated. Widened non-oil deficits point to a higher level of oil dependency. Poverty reduction remains a major challenge. Going forward, the agenda remains challenging with key focus on managing oil inflows, diversifying the economies, and deepening integration. The recent Heads of State meeting agreeing on an institutional reform package as set out in Box 4 brings hope of stronger political commitment to the integration process. We are encouraged to learn from Mr. Rutayisire's helpful Brief that the authorities intend to accelerate implementation of these reforms.

We share the view that a **more active monetary policy** is useful in addressing the excess liquidity and inflationary pressures in the context of higher spending. We welcome BEAC's intention to define liquidity objectives in a framework in line with the FSAP recommendation. To enhance liquidity control and lower the reliance on reserve requirements, expanding the current negative auctions and introducing government bonds would be effective market-based instruments. To this end, we are encouraged by the proposed regional treasury bill market, and, with the help of Fund TA, hope progress can be made in addressing the technical and operational issues. Automatic advances to governments have been undermining the BEAC's full control over liquidity. We welcome the renewed impetus to eliminate these advances, but would like to know from staff if such elimination will have any impact on governments' sources of financing. The early implementation of moving government funds to single treasury accounts at the BEAC will be another important step in facilitating effective liquidity management.

Utilizing **oil wealth for** higher spending, savings, or repaying debt varies among member countries—especially as their oil characteristics differ significantly. However, staff rightly points out that in the context of a monetary union, the current divergences in fiscal policy responses need to be narrowed to better coordinate with monetary policy. On **spending**, fiscal expansion needs to be considered along with absorptive capacities and inflation control. Long-term fiscal sustainability depends on boosting non-oil sector development. On **savings**, we welcome staff’s assessment that the current level of reserves is adequate. The proposed target-setting for the level of monetary reserves and the burden-sharing formula for contributions to the reserve pool are useful suggestions in sustaining the monetary regime. In relation to the investment of oil savings, we note from recent Board discussions that there are some outflows of government foreign deposits, reflecting the need for more attractive terms and the higher remuneration on deposits placed with BEAC. In this connection, involving governments in deciding investment profiles in the Funds for Future Generations (FFGs) can facilitate investment allocations that serve country-specific needs. We hope the TA provided by MCM can strengthen BEAC’s capacity to oversee external managers to enhance the management of the FFGs.

We welcome staff’s assessment that the **exchange rate** level and the fixed regime are viable. While the REER remains in line with fundamentals, its appreciation highlights the need to enhance non-oil competitiveness. We note the large divergence in the REER level, and would like an update from staff on whether the cross-border mobility of capital, goods and labor has increased over the past year to help facilitate price convergence, as suggested in last year’s report.

Economic diversification will play a key role in addressing the dropping competitiveness and depleting oil resources. The Regional Economic Plan focusing on transportation, telecommunications and energy is a right step in boosting the regional business environment and removing structural obstacles to the growth of intraregional trade. We welcome the recent proposals to reduce the common external tariff. Further efforts are needed to harmonize national trade policies with regional agreements, and remove non-tariff barriers. The discussion would have benefited from staff’s assessment of the impact of the potential easing of trade barriers—especially agricultural trade barriers of the industrialized countries—on the region’s non-oil exports and economic diversification in general.

There is a need to accelerate implementation of the 2006 regional FSAP. High credit risk, limited compliance of prudential rules, limited access to finance, and low private sector credit continue to underline weaknesses in the **financial sector**. Priority should be given to the institutional reforms of BEAC and COBAC, and to increasing the autonomy of COBAC’s bank supervisor as well as keeping key prudential norms consistent with international best practices. We would appreciate more background about BEAC’s lowering of the maximum lending rates—contrary to the FSAP recommendation—as described in Box 3.

We wish the authorities success in their regional integration efforts.