FOR AGENDA

SM/08/253

July 25, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Central African Economic and Monetary Community—Staff Report on Common Policies of Member Countries**

Attached for consideration by the Executive Directors is the staff report on common policies of member countries of the Central African Economic and Monetary Community (CEMAC), which is tentatively scheduled for discussion on **Friday, August 8, 2008**. This report is being issued in the context of DEC/13654 (January 9, 2006), which sets out that the Board discussion of the annual staff report on the common policies of the CEMAC will be considered an integral part of the Article IV consultation with each of its members. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the CEMAC countries indicating whether or not they consent to the Fund's publication of this paper; such communications may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Wakeman-Linn (ext. 34145) and Ms. Deléchat (ext. 39681) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank and the European Commission, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

Central African Economic and Monetary Community—Staff Report on Common Policies of Member Countries

Prepared by the Staff of the African Department
(in consultation with other departments)

Approved by Benedicte Vibe Christensen and Anthony Boote

July 25, 2008

Last Article IV consultation. The 2007 Article IV consultation called for more active monetary policy and liquidity management by the BEAC. Given the challenges that oil related inflows pose for macroeconomic management, Directors called for a broadening of regional surveillance to include a focus on the non-oil primary balance in addition to the traditional convergence criteria. Directors also noted that regional arrangements for pooling foreign exchange reserves needed to be revised to allow countries to save part of the inflows in appropriately remunerated long-term funds while maintaining adequate monetary reserves for the region. The CEMAC authorities have been responsive to Fund advice in some areas, especially liquidity and reserves management, but progress in other areas has been slow.

The mission met in Yaoundé between May 27–June 2, 2007, with Mr. Andzembe, Governor of the Bank of Central African States (BEAC), Mr. Andely, Vice-Governor, and other senior officials of the regional institutions, including the CEMAC Commission, the Central African Banking Commission (COBAC), the Central African Development Bank (BDEAC), the Anti-Money Laundering Group (GABAC) and the Financial Markets' Supervisor (COSUMAF).

The staff team comprised Mr. Wakeman-Linn (head), Ms. Deléchat and Mr. Portillo (all AFR), Mr. Kireyev (PDR), and Mr. Laurens (MCM, IMF mission chief for the 2006 regional FSAP). Mr. Nyambal (OED) and Mr. Koyasse (World Bank) also participated in the discussions.

CEMAC members are Cameroon, Chad, Central African Republic, Republic of Congo, Equatorial Guinea and Gabon. The CFAF is pegged to the euro at CFAF 656 per €1.

Contents Page

Figures

Boxes

Appendixes

EXECUTIVE SUMMARY

Growth rebounded in 2007 and the outlook is positive, but not without risks. Real GDP growth should average about 5.5 percent over 2008-2010, but inflation is expected to pick up following domestic food and fuel price increases. Other downside risks to the outlook include possible further social unrest and political instability, and a stalemate in reform implementation. Oil production is projected to continue tapering off over the medium-term and non-oil growth is not sufficient to sustain per capita incomes.

High oil and food price-related macroeconomic volatility highlights the need for enhanced monetary and fiscal policy coordination under the fixed exchange rate regime. To be effective, coordination should take place early in the process of preparing national budgets. Regional guidance on sustainable spending should be accompanied by stronger incentives for governments to save part of their oil revenue at the BEAC.

More active liquidity management by the BEAC has been successful in reducing the liquidity overhang by half, but the monetary policy stance should be tightened further. The BEAC has stepped-up negative auctions and is considering adapting its monetary programming framework to specify liquidity absorption objectives. However, aligning interest rates with euro area reference rates would help contain inflationary expectations. The forthcoming regional public debt market, by helping deepen money markets, should also facilitate greater reliance on market-based monetary policy instruments.

Although the real effective exchange rate remains in line with fundamentals, the continuous deterioration of non-oil competitiveness is a serious concern. To maintain external stability over the long run, member governments need to save or productively invest a larger portion of their oil windfall. Structural reforms to improve regional infrastructure, address labor market rigidities, trade barriers, weak financial sectors and business environments are key to improving non-oil competitiveness.

Financial sector issues were discussed during a two-day conference where policy-makers and key stakeholders agreed on the direction of financial sector reforms. Conference participants adopted a concrete action plan consistent with the recommendations of the 2006 regional FSAP, with measures to enhance stability and development of the sector.

Reforms to regional institutions adopted in April 2007 should be promptly completed to allow for substantive progress in regional integration. These reforms, which aim to strengthen the representativeness and accountability of regional institutions, were resolutely implemented by the BEAC, but the CEMAC Commission's new structure is not yet in place. Implementation of a regional economic program should help foster regional integration by removing infrastructure bottlenecks.

I. Key Issues

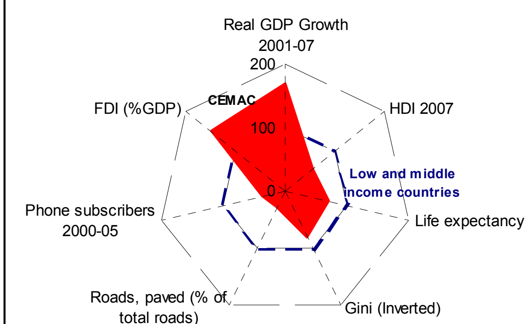
1. **Key challenges facing the CEMAC region are maintaining external stability in the face of significant oil-related macroeconomic volatility, and diversifying the economy to raise non-oil growth.** Due to the region's dependence on oil (about 40 percent of GDP), economic performance is greatly affected by fluctuations in world oil prices and shocks to oil production, a particular challenge for a currency union with a fixed exchange rate (Text Table 1). Although oil production is projected to start tapering off after 2025, oil dependency has increased and some countries exhibit signs of Dutch disease. In spite of the large terms of trade gains since 2000, most countries are not on track to meet the MDGs; physical infrastructure and human development indicators lag behind similar income groups (Figure 1).

Text Table 1. CEMAC: Macroeconomic Volatility
1997–2007 (In percent)

		Mean	Std Dev.	Volatility[1]
Real GDP growth	CEMAC	6.1	4.1	0.68
	WAEMU[2]	3.3	1.8	0.53
	CMA[2]	3.6	1.5	0.41
	SSA[2]	4.9	1.7	0.35
Inflation	CEMAC	2.4	1.8	0.74
	WAEMU[2]	2.5	1.7	0.71
	CMA[2]	5.8	2.2	0.38
	SSA[2]	11.8	3.7	0.31

Source: IMF: World Economic Outlook database.
[1] Standard deviation/mean.
[2] WAEMU: West Africa Economic and Monetary Union (Benin, Burkina-Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo); CMA: Common Monetary Area (Lesotho, Namibia, South Africa, and Swaziland); SSA: sub-Saharan Africa.

Figure 1. CEMAC Relative to Low and Middle Income countries
(Percent of low and middle income countries' averages)



Sources: UN Human Development Indicatios; World Bank, World Development Indicators; IMF World Economic Outlook; and staff calculations.

II. Recent Developments

2. **Macroeconomic performance in 2007 was mixed, with significant differences across countries** (Text Table 2, Figure 2 and Table 1)**.**

Text Table 2. CEMAC: Differences in Macroeconomic Performance Among Members

	Real GDP[1]		Inflation[1]		Non-oil Fiscal Bal.[2]		Current Accnt Bal.[2]	
	2002-06	2007	2002-06	2007	2002-06	2007	2002-06	2007
Cameroon	3.5	3.3	2.9	0.9	-3.6	-3.4	-3.3	-0.6
Central African Republic	-0.2	4.2	2.8	0.9	-5.7	-2.5	-6.6	-7.9
Chad	13.0	-0.1	2.8	-8.8	-16.1	-27.2	-41.8	-1.4
Congo, Republic of	4.6	-1.6	3.1	2.6	-50.9	-60.7	-0.2	-19.7
Equatorial Guinea	13.4	12.4	5.8	3.6	-63.6	-76.2	-11.5	3.6
Gabon	1.5	5.6	0.5	5.0	-20.6	-19.0	14.4	14.8
CEMAC	5.7	4.0	2.8	0.8	-14.1	-18.6	-2.6	0.2

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

- *Regional growth rebounded to 4.0 percent*, due to significant improvement in several non-oil sectors (manganese and timber in Gabon, services and manufacturing in

Congo). Oil GDP stagnated, due to a large decline in Congo following an accident at a major oil field, and continued decline in Chad's oil production (Table 2).

- *Average inflation was unexpectedly low (0.8 percent in 2007)*, mostly reflecting one time developments (food price developments in Chad, partial pass-through of higher oil prices in several countries). Food price inflation appears to have accelerated during the last quarter of 2007 and so far in 2008 in Cameroon, Equatorial Guinea, and Gabon.

- *Reflecting the continued strength of the euro, the region's real effective exchange rate (REER) appreciated by 2 percent in 2007*. It now stands at 86 percent of its pre-1994 devaluation level. Regional averages mask large differences across countries, with Gabon and Equatorial Guinea experiencing larger appreciation (7.1 and 5.0 percent, respectively, Table 3).

- *In spite of record oil prices, the current account surplus declined*, mainly reflecting the large deterioration of the Republic of Congo's trade balance following the oil platform accident. Higher capital inflows contributed to an increase in foreign reserves of about US$ 3 billion in 2007. Reserves cover about 5 months of imports (Table 4).

- *There has been an increase in non-repatriation of foreign exchange, against the BEAC rules.* In 2007 Equatorial Guinea placed most of its foreign exchange receipts in offshore accounts, and Gabon will place US$50 million a year in an account managed by the World Bank to mitigate risks associated with repayment of its bullet eurobond.[1]

- *The region's fiscal stance became more expansionary.* The overall surplus (excluding grants) declined from 10.1 percent of GDP in 2006 to 7.9 percent in 2007, reflecting a worsening in non-oil fiscal deficits (Tables 5a and 5b).

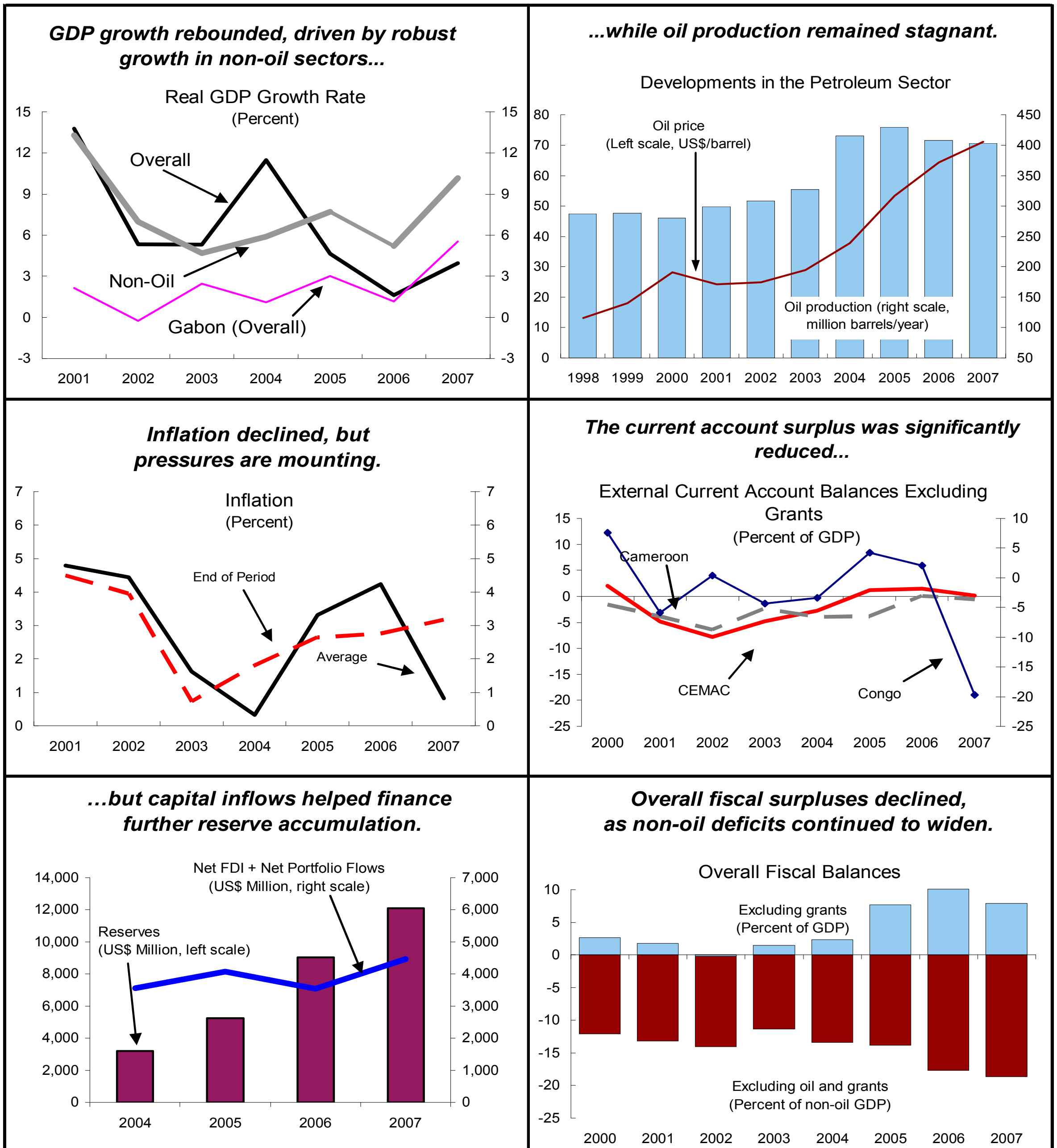
- *There has been some progress in regional convergence.* The declines in public debt and inflation improved compliance with the convergence criteria and the total number of violations declined from 8 in 2006 to 5 in 2007 (Table 6).

3. Monetary policy became more active in 2007, but the policy stance should be tightened further (also see Figure 4**).** Monetary aggregates grew at a slower rate in 2007 (12 percent), due to the lower reserve accumulation and an increase in government deposits at the central bank and with commercial banks (Tables 7–9). In May 2007 the BEAC raised interest rates on their deposit auctions and has accepted all bids by banks since then. As a

[1] Gabonese authorities are working with the BEAC to ensure these transactions go through the BEAC's balance sheet and comply with the reserve pooling requirement.

result, bank balances at the BEAC in excess of their required reserves declined to 17 percent of total deposits (down from 34 percent in 2006). Despite the increase, BEAC deposit rates remain negative in real terms and below ECB deposit rates. Although it remains very low (7.6 percent of GDP), credit to the private sector grew by 14 percent, driven by credit expansion in the Republic of Congo, Equatorial Guinea and Gabon.

Figure 2. CEMAC: Recent Economic Developments



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

III. Regional Policy Developments and Report on the Discussions

4. **The 2008 consultation saw a notable improvement in the quality of the surveillance dialogue.** A number of important recommendations from past consultations and the 2006 regional FSAP were implemented in 2007, owing to stronger ownership by the regional institutions, particularly the BEAC. As a number of staff recommendations will need to be implemented by national governments rather than by regional bodies, the regional authorities agreed that the consultation's findings should be presented to the CEMAC Council of Ministers.

5. **Discussions with the CEMAC institutions were organized around the key challenges to external stability and long-run growth**:

- **Enhancing the region's ability to cope with macroeconomic volatility under the fixed exchange rate regime,** through better coordination of fiscal and monetary policies, and implementation of a monetary policy framework that would provide sufficient incentives for oil savings, as well as stepped-up liquidity management.

- **Maintaining financial sector stability and deepening regional financial markets for private sector development**, following up on implementation of the 2006 regional FSAP recommendations.

- **Reaping the benefits of regional integration for sustainable growth,** using a regional approach to removing structural obstacles to diversification and competitiveness.

A. Managing Macroeconomic Volatility

Short- and medium-term outlook

6. **The authorities agreed that a coordinated policy response to the increase in oil and food prices in the region is needed to avoid undermining regional integration or creating incentives for smuggling.** While the overall impact on the balance of payments is expected to be positive for all CEMAC members except the Central African Republic, the social implications can be dramatic (Text Table 3). Staff emphasized that untargeted subsidies and administrative measures such as price controls should be avoided, as they would undermine efforts to enhance regional food production. Over time, permanent shocks should be allowed to fully pass-through to domestic prices. Staff also emphasized that

Text Table 3. CEMAC: Impact of 2008 Food and Oil Price Increases on Trade Balance (In percent of 2007 GDP)

	Food	Oil
Cameroon	-0.7	5.3
Central AfricanRepublic	-0.8	-1.8
Chad	-0.3	22.8
Congo	-0.6	33.1
Equatorial Guinea	-0.3	51.8
Gabon	-0.3	26.1
CEMAC	**-0.5**	**23.1**

Source: UN Comtrade; IMF, *World Economic Outlook;* and staff calculations.

sensible near-term measures—such as a reduction in external tariffs on key food items and targeted subsidies on items most vital for the poor—should be coordinated at the regional level, so as not to undermine regional integration or create smuggling incentives. The CEMAC Commission noted that it is currently undertaking a survey of unilateral measures taken by each individual country, especially regarding amendments to the Common External Tariff (CET), to prepare concrete proposals for consideration by the CEMAC Council of Ministers.

7. **The short-term outlook is mixed, with downside risks linked to the impact of the fuel and food price crisis**. Staff and the authorities agreed that growth should strengthen to 5.2 percent in 2008, with a rebound in oil production in the Republic of Congo and strong growth in Cameroon. Inflation is now projected to be 4.5 percent in 2008, above the 3 percent regional convergence criterion, but the BEAC is concerned that it could edge up to 6 percent, particularly if high world oil prices are fully passed through to domestic prices. Other risks include further possible social unrest and political instability, and a stalemate in the implementation of reforms. Over the medium-term, oil-related GDP growth is expected to be highly volatile and declining, and, in the absence of major structural reforms, the authorities agreed that projected non-oil growth is insufficient to allow for meaningful progress toward the Millennium Development Goals (Table 10 and Text table 4).

Text Table 4. CEMAC: Medium Term Macroeconomic Projections

	2007	2008	2009	2010	2011	2012
Real GDP growth	4.0	5.2	6.1	4.9	3.3	2.8
Non-Oil real GDP growth	6.4	6.2	6.1	6.1	5.6	5.5
Inflation (average)	0.8	4.5	3.9	3.2	2.9	2.7
Fiscal balance (excl. grants, in percent of GDP)	7.9	13.0	16.1	15.9	13.9	12.3
Non-Oil fiscal balance (excl. grants, in percent of Non-Oil GDP)	-18.6	-18.8	-19.3	-17.6	-14.7	-13.2
Current account balance, including grants (in percent of GDP)	1.2	8.7	10.4	9.5	7.2	4.5

Sources: IMF African Department database; World Economic Outlook; and IMF staff estimates.

Coordination between fiscal and monetary policy

8. **The authorities agreed that the regional surveillance framework should be enhanced to ensure effective coordination of fiscal and monetary policy.** Staff presented the results of a study showing that governments are the main source of liquidity creation in the region, and that non-oil fiscal deficits are an important determinant of regional inflation (Box 1).[2] In an environment of oil-related surpluses, staff noted that the traditional fiscal convergence criterion is non-binding and a misleading signal of the fiscal stance. Despite implementation difficulties linked to the need to define country-specific sustainable benchmarks, non-oil fiscal deficits as a share of non-oil GDP are a more appropriate indicator of the fiscal impulse and should be the primary fiscal criterion monitored by

[2] See Selected Issues Paper [SM/08/254], Chapter 1.

regional institutions. The authorities agreed in principle, but noted that setting appropriate target non-oil fiscal deficits for each country would be challenging.

Box 1. Sources of Inflation in the CEMAC

An empirical study reveals that, against the backdrop of an accommodative monetary policy, the main drivers of regional inflation have been the non-oil fiscal balance (as a percentage of non-oil GDP), imported inflation and domestic supply shocks (Table 1).

Table 1. CEMAC: Inflation Variance Decomposition (1998:1-2007:4)[1]

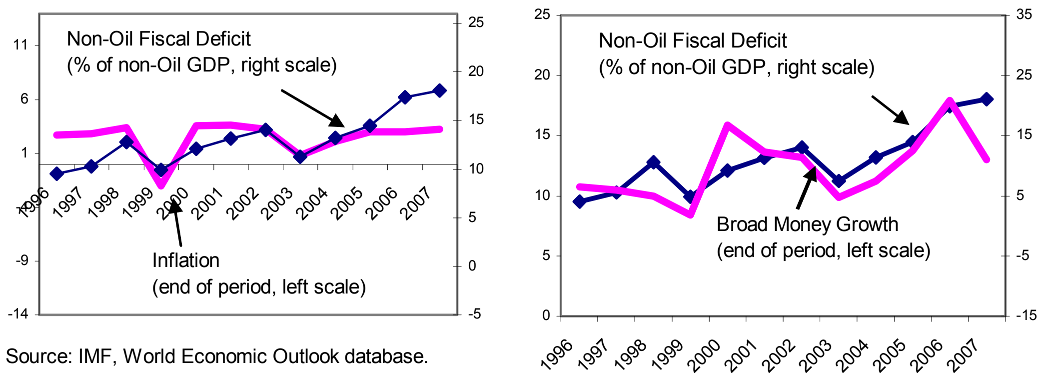
	Non-oil Fiscal deficits	Imported inflation	Supply shocks
Inflation	38.9%	28.3%	32.7%

Source: World Economic Outlook; IMF Staff estimates

[1]Decomposition of the variance of quarterly inflation according to an estimated DSGE model for the CEMAC region.

The non-oil fiscal balance has affected inflation dynamics mainly through the monetary expansion associated with greater spending of oil revenues in the context of the fixed exchange rate regime. These results, derived from estimation of a dynamic stochastic general equilibrium model (DSGE), emphasize the need for sustainable fiscal policies, as well as greater coordination with regional monetary policy.

Figure 1. CEMAC: The Inflationary Impact of the Non-Oil Fiscal Stance



Source: IMF, World Economic Outlook database.

9. Beyond observance of formal convergence criteria, staff added that effective *ex ante* coordination is also essential. This coordination, which could take place through the BEAC's revamped monetary programming exercise, is essential to ensure that fiscal policy becomes more supportive of reducing macroeconomic volatility. It was agreed that, for maximum effectiveness, such coordination should take place early in the preparation of national budgets.

10. Improvements to the regional surveillance framework are welcome, but stronger ownership by CEMAC member countries would make it more effective. The regional authorities pointed out that the introduction of a formal requirement for member countries to prepare triennial convergence programs and the creation of national surveillance cells to liaise between country governments and regional institutions aim at strengthening regional surveillance. Staff agreed, urging all CEMAC members to design medium-term expenditure frameworks following regional guidance on sustainable fiscal policies. Staff noted that the CEMAC Commission should be allocated sufficient means for conducting regional surveillance, including through full transfer of the Regional Integration Tax (TCI) by member states. In turn, the Commission should be more aggressive in encouraging policy convergence and economic integration. The CEMAC Commission representatives agreed and noted that the June CEMAC heads of state meeting should approve the Commission's new structure and provide it with more resources.

Reserves and fiscal savings

11. **Staff urged the BEAC to be more proactive in increasing CEMAC countries' incentives to repatriate their foreign exchange holdings; offering financial instruments with more attractive remuneration than currently available was critical.** The authorities presented the findings of a BEAC study on the optimum level of reserves, which indicated that current and future expected reserve levels are consistently above benchmark measures of reserve adequacy—months of imports, short term debt, domestic monetary liabilities—under all reasonable scenarios. Staff welcomed the note, noting that it provides a good basis for the determination of a strategic assets allocation (SAA) of foreign reserves. In view of the increase in non-repatriation of foreign exchange by some member countries, the authorities agreed that the study should be promptly submitted to the Monetary Policy Committee (MPC), with proposals for new instruments for the investment portfolio, as well as a time-bound action plan for the implementation of the SAA. The investment portfolio should accommodate CEMAC countries' savings needs and preferences, and allow them to reap the full returns on the investments while bearing the associated risks. For transparency and efficiency reasons it was agreed that the investment funds should be centralized at the BEAC.

12. **Staff welcomed the definition by the BEAC of a target for liquid reserves that would allow sufficient coverage for balance of payments needs.** It shared the BEAC's view that monetary reserves should be sufficient to cover oil-related current account fluctuations. At about 5 months of imports, staff agreed with the BEAC that the current level was about adequate given historic current account and FDI fluctuations (Text Table 5). Staff also noted that the BEAC should agree with CEMAC member countries on an equitable burden-sharing formula to ensure replenishment of the liquid reserve pool.

13. **The authorities agreed that BEAC's reserve management capacity should be further strengthened.** They noted that the new Operations Account Convention with France reduces the share of reserves that can be invested in that account to 50 percent by July 2009.[3] In view of the increased pressure placed on BEAC's trading room, staff recommends that the

[3] Under the new Convention, the BEAC could continue to deposit all of its reserves at the French Treasury, but deposits in excess of 50 percent of total reserves would receive a lower rate of remuneration.

BEAC develop the capacity to rely on external managers from the private sector once a strategic asset allocation (SAA), together with clearly identified risk profiles for the investment portfolio, have been defined. Meanwhile, reliance on external managers from the public sector—such as the World Bank or the BIS—could help develop in-house reserve management skills. The BEAC also welcomed ongoing Fund technical assistance in this area.

Text Table 5. Comparisons of the Variability of Selected (net) Inflows, and the Implied Reserve Need

	Current Account 1/		FDI 1 /	
	For average member		For average member	
	St. dev.[2]	Implied Reserve need[3]	St. dev.[2]	Implied Reserve need[3]
CEMAC	14.7	6.8	10.2	4.3
WAEMU	4.1	2.9	1.2	0.8
CMA	5.9	2.1	2.0	0.7
CMA (excl. South Africa)	6.9	2.1	2.2	0.7
Comoros	6.7	4.4	0.3	0.2
ECCU	6.7	2.3	6.1	2.1
Sub Saharan Africa	6.6	3.8	3.6	2.1

Source: IFS database.
[1]As a share of GDP.
[2]Standard deviation, 1991-2007.
[3]Reserve coverage in months of imports needed to cover a two standard deviation shock. Based on average import shares to GDP during 1991-2006.
Updated from Martijn, J.K., and C. Deléchat, 2008, "Reserve Adequacy in the CFA Franc Zo in *The CFA Franc Zone, Common Currency, Uncommon Challenges*, A.-M. Gulde and C. Tsangarides, eds, Washington, International Monetary Fund.

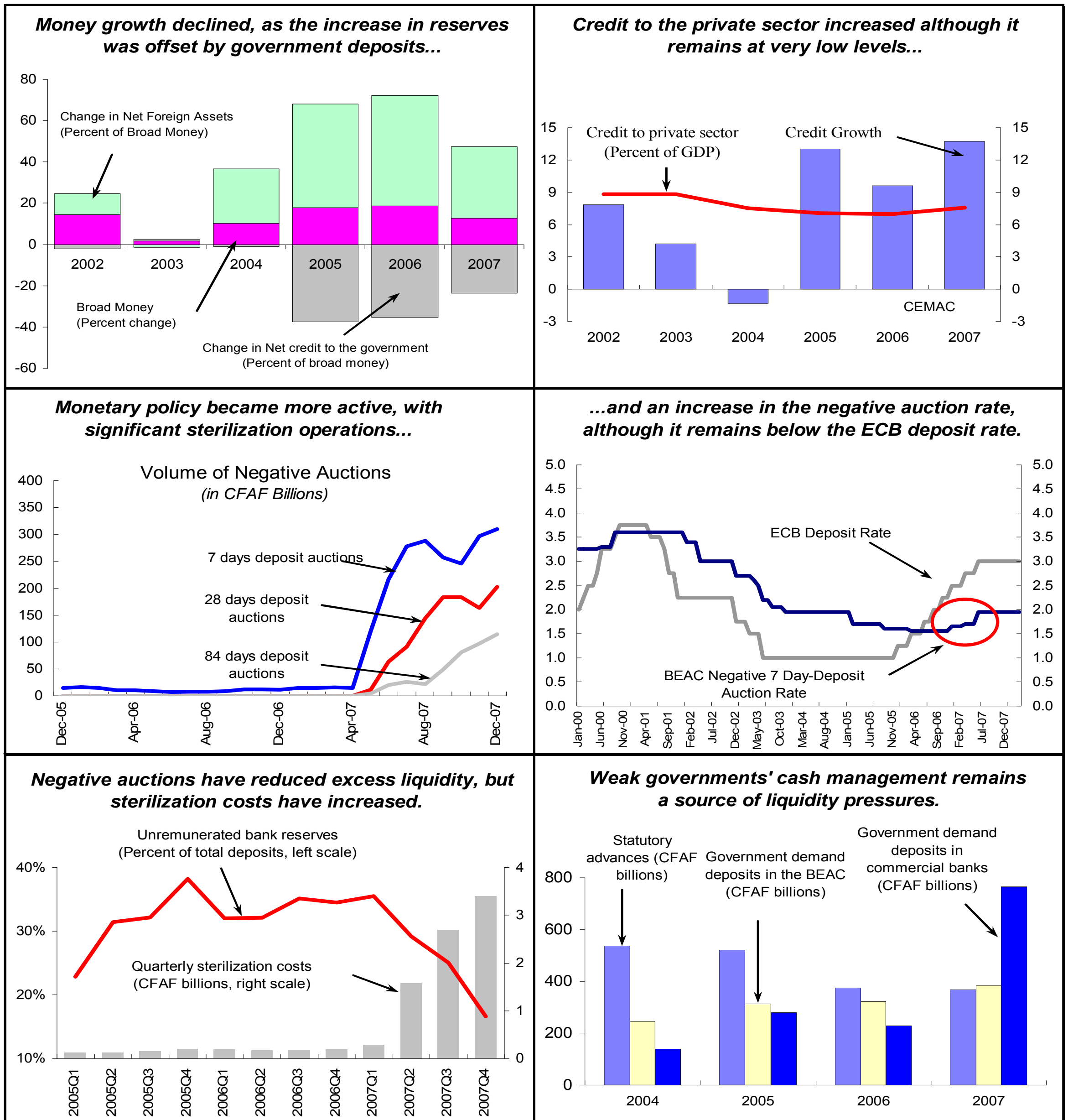
Monetary policy framework and liquidity management

14. **In a context of limited capital mobility, systemic liquidity management by the BEAC is conducted within the framework of the cooperation arrangement with France and the related fixed parity with the euro**. It aims at ensuring adequate liquidity conditions for the smooth operations of the money market, while also ensuring that local money market conditions are in line with condition in the euro zone money market. Under the framework in place since mid-2007, the BEAC accepts most deposit bids by banks during its weekly auctions, and the interest rate on auctioned deposits has become the relevant policy rate. Staff welcomed the BEAC's active absorption of excess liquidity since the new framework has been in place, as it has succeeded in halving commercial banks' excess reserves in 2007, in combination with increases in reserve requirements (Figure 3 and Table 11). However staff noted that the monetary policy stance could be tightened further: auctioned deposit rates are below ECB deposit rates and negative in real terms, and the level of liquid assets in the banking system remains a potential source of inflationary pressures.[4] Staff argued that higher interest rates—in line with ECB rates—are required to signal a monetary policy tightening

[4] As noted in the 2006 regional FSAP, the capital account seems to be less open than applicable foreign exchange regulations would suggest. De facto restrictions prevent CEMAC residents from benefiting from higher ECB rates.

and help contain inflationary expectations, and that rates below those of the anchor currency could only be distortionary. The authorities remained unpersuaded, highlighting that current price pressures reflect the increase in food and fuel prices and the expansionary fiscal stance in some member countries.

Figure 3. CEMAC: Monetary Policy Challenges



Source: BEAC; IMF, *International Financial Statistics;* and IMF staff calculations.

15. **Staff welcomed BEAC's ongoing work to adapt monetary programming to an environment of excess liquidity, and noted that the market-based orientation of monetary policy should also be enhanced.** The authorities explained that the revised

monetary programming framework would allow them to set objectives for liquidity withdrawals (instead of the current refinancing ceilings), an important recommendation of the 2006 regional FSAP.[5] Staff encouraged the BEAC to implement the revised framework soon, noting that the current operational setup for liquidity withdrawals—whereby the BEAC accepts all deposit bids by banks—stifles the interbank money market. Staff suggested the BEAC consider shifting to a mechanism by which it would aim to fix the amount of liquidity and let the interest rate be determined by market forces. The authorities agreed that such an arrangement would encourage participation in and development of the money market, but could only be implemented effectively after they have successfully strengthened their liquidity forecasting framework.

16. Improved cash management by national government should also contribute to reducing inflationary pressures. The authorities argued that the new automatized payment system for large settlements (SYGMA), in place since November 2007, will improve cash management by national Treasuries and liquidity forecasting by the BEAC, as it will facilitate the centralization of government cash balances with the BEAC. Staff agreed, and emphasized the importance of all member countries participating in the payments system as soon as possible, as only three national Treasuries have been able to participate so far.

17. The remaining steps for establishing a regional government debt market in the CEMAC by early 2009 were discussed. Preparatory work is well-advanced, but staff noted that governments' treasury management functions should be further strengthened, and that countries that have not done so should prepare debt issuance and debt management strategies, in line with current BEAC guidelines. Staff also emphasized that the transition period during which statutory advances will coexist with securities issuance should be kept to a minimum: regular issuance schedules for government securities at different maturities are a key precondition for establishing a yield curve and developing secondary market trading. The authorities noted that CEMAC members with weaker fiscal positions might need to continue to rely on statutory advances for some time. Staff suggested that it would be preferable to accommodate their specific needs through a separate mechanism, rather than delaying the effective convergence to treasury bill financing for most governments.

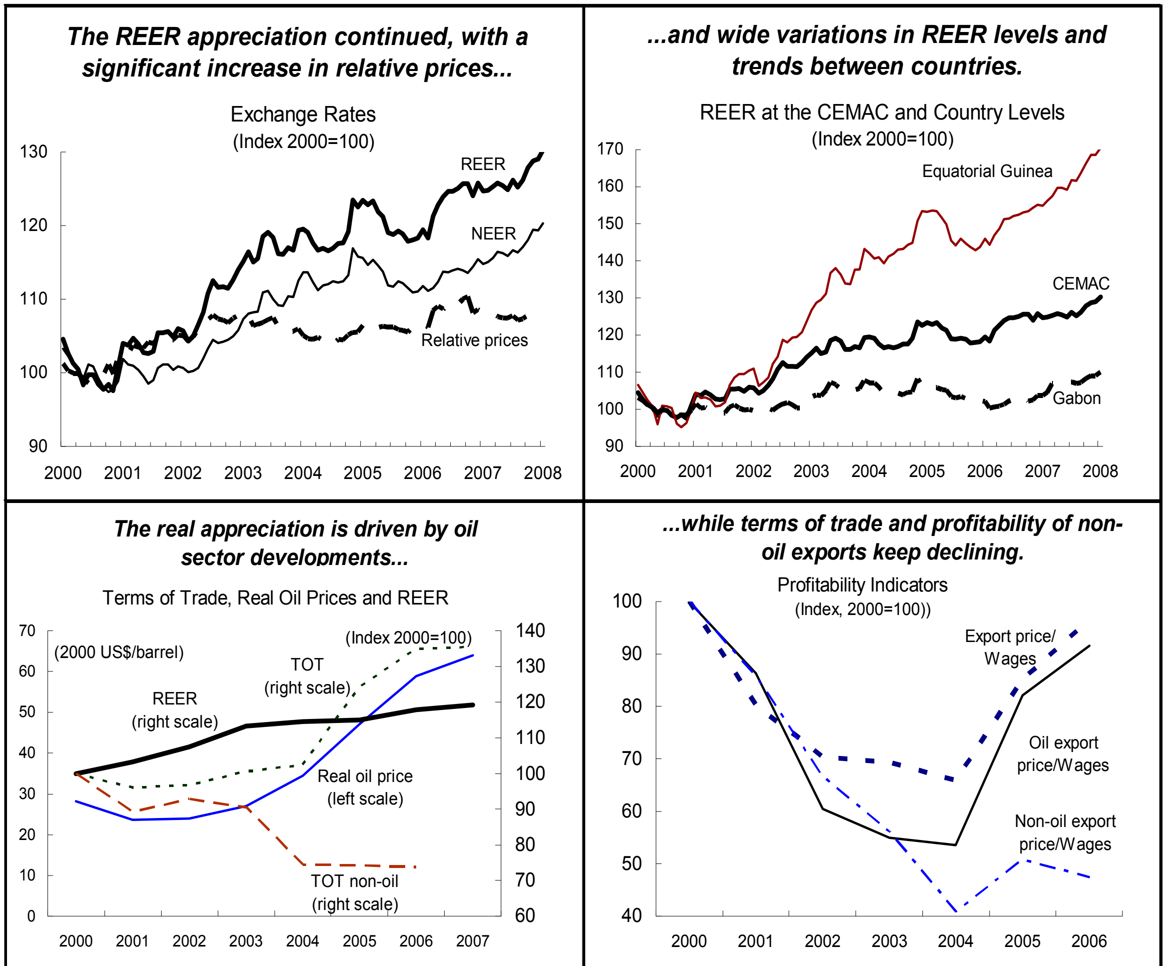
External stability and competitiveness

18. **External stability of the region critically depends on its ability to withstand exogenous shocks**. Given adequate reserve coverage, current account surpluses, and limited capital outflows, it was agreed the external position does not exhibit particular short-term vulnerabilities. The fixed exchange rate regime has helped maintain low inflation and provides a transparent anchor for economic policies.

[5] Chapter 2 of [SM/08/254] analyzes the rationale for banks' holdings of unremunerated reserves and the link between excess liquidity and credit growth in the CEMAC.

19. **Staff and the authorities held a comprehensive discussion of external stability and the real effective exchange rate (REER).** Staff presented the results of an analysis based on two complementary methodologies, the Fundamental Equilibrium Exchange Rate (FEER), and a new external sustainability/macro-balance approach similar to that used for WAEMU countries, but adapted to the situation of oil exporters.[6] Notwithstanding continued appreciation, the approaches indicate that the real effective exchange rate (REER) remains in line with its fundamental determinants and consistent with medium-term sustainability (Figure 4 and Box 2). However, given the exhaustibility of oil resources (Figure 5), the long-run sustainability of the exchange rate depends on the willingness of member governments to save or productively invest a larger portion of the oil windfall. Limited absorption capacities and short oil production horizons make it essential to generate adequate savings to maintain

Figure 4. CEMAC: Real Exchange Rates Developments



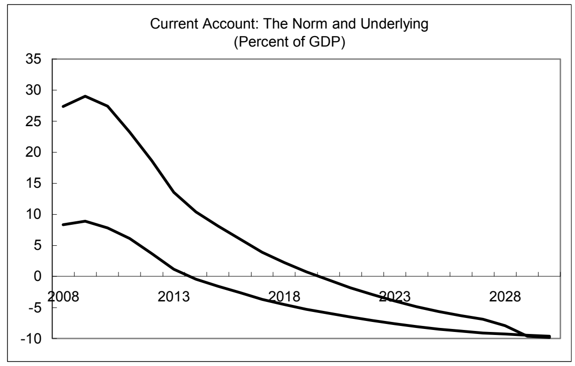
Sources: World Bank, Doing Business 2006; UN COMTRADE database; IMF, Direction of Trade; World Economic Outlook database; and IMF staff estimates and projections.

[6] SM/08/254 also see Chapter 3 of the accompanying Selected Issues Paper.

consumption levels until income generated by the non-oil economy can compensate for declining oil revenue.

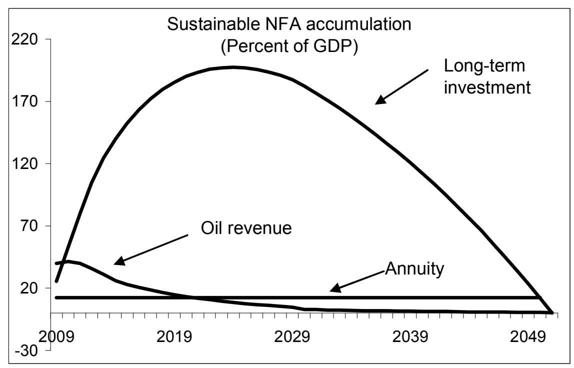
Box 2. CEMAC: Exchange Rate Assessment

The exchange rate level has been assessed under the standard fundamental equilibrium exchange rate approach (FEER) and the permanent income hypothesis (PIH) approach, adapted to the case of oil-exporting developing countries.



- The FEER approach suggests that the REER remains in line with fundamentals. An update of the analysis in SM/07/211 shows a minor and insignificant overvaluation of the REER as compared to the calculated equilibrium real exchange rate (EREER) at end-2007.

- The consumption smoothing approach based on the PIH suggests than on current policies the exchange rate is not sustainable in the long run. To preserve external stability, CEMAC should run current account surpluses that are substantially higher than currently projected. Although the gap between the CA norm and the underlying CA suggests a substantial overvaluation, it can not be closed by any reasonable exchange rate adjustment.



- Exchange rate sustainability in the long-run requires that CEMAC members save and/or productively invest a substantially larger portion of their oil revenue. Compared with the currently projected 7 percent of GDP average annual saving, in the next five years, CEMAC countries should save at least 25 percent of GDP. Provided these savings are invested in financial assets with a sufficient rate of return, CEMAC countries should be able to sustain imports and consumption in the long run, with little or no need for the exchange rate adjustment. Given high development needs but bearing in mind limited absorption capacities, higher investment in physical assets such as key infrastructure projects is also needed to raise non-oil GDP growth.

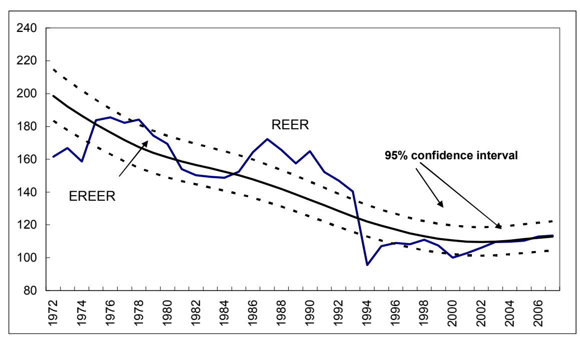
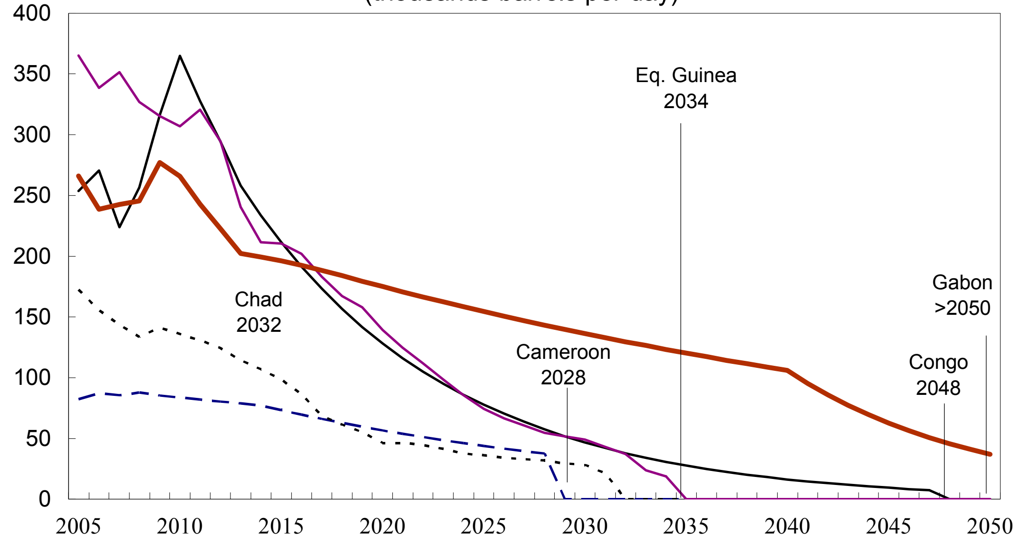


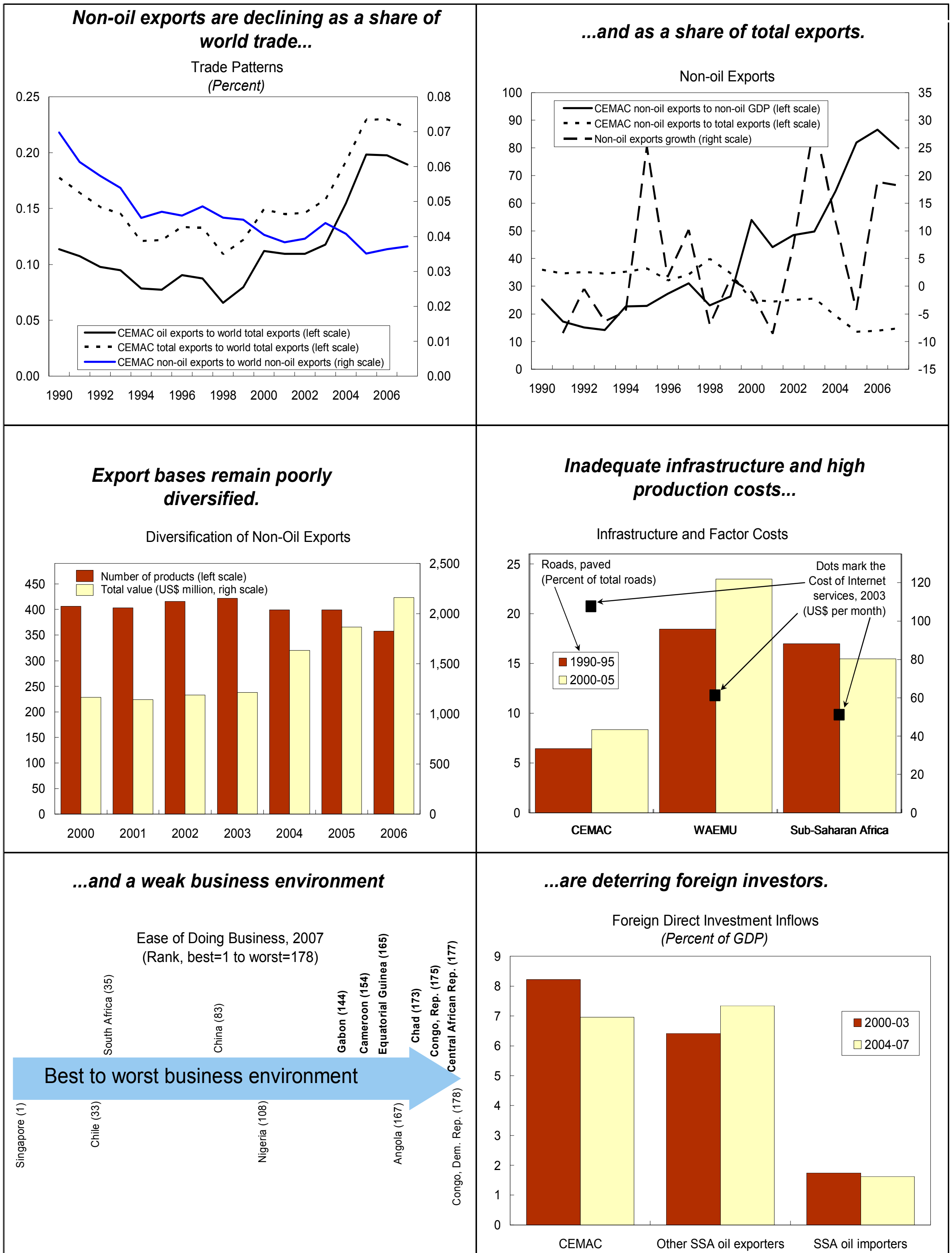
Figure 5. CEMAC: Oil Production Horizons
(thousands barrels per day)



Source: CEMAC country teams.

20. **Although the real appreciation reflects oil sector developments, staff and the authorities concurred that the continuous deterioration of non-oil sector competitiveness is a serious concern.** Although data limitations prevent a full analysis, there are signs of Dutch Disease. Oil dependency is increasing (Table 12), and terms of trade and profitability of non-oil exports are declining (see Figure 4), and non-oil export bases remain narrow. Weak infrastructures, high production costs and poor business environments deter investment (Figure 6). The authorities agreed that an acceleration of non-oil growth was needed, and would require speeding up structural reforms aimed at reducing factor costs, fostering investment in the non-oil sector, and improving the business climate and governance.

Figure 6. CEMAC: Competitiveness of the Non-oil Sector



Source: UN COMTRADE database; World Bank, World Development Indicators and Doing Business 2008; and IMF staff calculations.

B. Financial Sector Stability and Development

21. **The authorities noted that COBAC has adopted an action plan in response to the 2006 regional FSAP recommendations.** The most significant actions include (i) a strengthening of staffing levels; (ii) the preparation of a regulation that would give COBAC the power to set the statutory minimum capital for financial institutions; and (iii) the preparation of a regulation on banks' corporate governance. To strengthen anti-money laundering and combat the financing of terrorism, five CEMAC countries have created National Financial Intelligence Units.

22. **Despite these achievements, bank compliance with prudential norms continues to remain uneven and COBAC's capacity to adequately supervise the financial sector suffers from resources limitations** (Text Table 6 and Tables 13-15). While the average risk-weighted capital adequacy ratio is above the 8 percent minimum, less than half of CEMAC banks comply with all prudential norms based on capital. Despite increased staffing, there is still a gap between COBAC's missions and its resources, and staffing levels are below the minimum target that was proposed by the 2006 FSAP mission. COBAC's inability to ensure adequate supervision of the microfinance sector two years after relevant regulations were adopted is another source of concern in view of mounting financial risks in the sector.

Text Table 6. CEMAC: Selected Banking Sector Indicators, 2006–08
(In percent, unless otherwise noted)

	Dec-06	Dec-07	Mar-08
Capital adequacy			
Risk weighted capital adequacy ratio (CAR)	16,2	14,1	13,8
Capital/assets	10.5	9.4	10,9
Asset quality, profitability and liquidity			
Gross NPL/gross loans	12.3	11.1	13,4
Net NPLs/gross loans	1,7	1,4	4,0
Average Return on Assets (ROA)	1.8	1.8	
Liquid assets/demand deposits	77.0	86.4	56,0
Banks' compliance with prudential norms[1]			
Risk weighted capital adequacy ratio (CAR)	27/34	32/37	30/37
Limit to single large exposures	15/34	13/37	13/37
Capital adequacy[2]	14/34	13/37	15/37
Banks' ratings[1]			
Solid and Good	26/32	27/32	27/32
Slightly Fragile and Moderately Fragile	3/32	4/32	4/32
Very Fragile and Critical	3/32	1/32	1/32

Source: COBAC.
[1]Number of compliant banks/total number of banks.
[2]Number of banks which comply with all prudential norms which are based on capital.

23. **A conference was held at the end of the mission to take stock of the implementation of the 2006 FSAP and build consensus among policy-makers and key stakeholders on the direction for financial sector reforms.** Representatives of sub-regional institutions, national governments, private sector and development partners participated in

the Conference. They agreed on a comprehensive list of actions and conditions for deepening and accelerating financial sector development within CEMAC, which follow up on the 2006 FSAP recommendations, and which were endorsed by the BEAC Governor (Box 3). These proposals are expected to be discussed at an upcoming meeting of the CEMAC Ministerial Committee.

Box 3. Conference on Financial Sector Development in the CEMAC

Conference discussions were guided by the conclusions and recommendations of the 2006 regional FSAP. Specific measures were endorsed, to enhance the financial sector's contribution to the long-term growth and development:

Reform Areas	Key Measures
I. Monetary policy and liquidity management	
Ensure effective ex ante coordination of fiscal and monetary policies.	Develop an indicator of non-oil fiscal deficit as a percentage of non-oil GDP, and use it as the main indicator of fiscal stance.
Implement reversible monetary programming	(i) Build capacity for forecasting macroeconomic developments and monetary aggregates; (ii) define objectives for liquidity absorption; (iii) hold in-depth discussions with member states on fiscal policies when preparing the monetary program.
Adapt monetary policy instruments to facilitate the development of the interbank money market.	Build capacities for short-term liquidity forecasting with a view to establish a framework whereby the BEAC announces amounts for liquidity absorption operations and lets the rate be market-determined.
Reinforce the range of fiscal savings vehicles offered to member states.	Create instruments providing a yield-to-risk ratio reflecting the yield-to-risk ratio of investments.
II. Financial markets deepening	
Strive to unify the two capital markets.	(i) Make the COSUMAF the sole regulatory agency; (ii) Make practical arrangements for bringing closer the two stock markets.
Facilitate the establishment of the regional government securities markets.	(i) Improve treasury cash management; (ii) develop public debt management strategies; (iii) encourage all national treasuries to become direct members of the large value payment system; (iv) develop periodic debt issuance programs; (v) minimize the period during which statutory advances are maintained.
III. Access to financial services	
Improve information on credit and credit risks.	(i) Create a credit bureau; (ii) reinforce business and land registers; (iii) improve business financial and accounting information.
Reinforce the legal and judicial systems.	(i) Transpose OHADA framework into national legal systems; (ii) increase the efficiency of execution procedures; (iii) revise OHADA Uniform Acts in the areas of operational requirements for court experts and bankruptcy trustees; (iv) strengthen judges' training in economic and financial matters.
IV. Supervision of banks and microfinance institutions	
Facilitate the pricing of banking risk and the mobilization of savings.	(i) Abolish the maximum lending rate, (ii) Find the optimal minimum deposit rate that would allow for better mobilization of savings.
Reinforce the community character of financial supervision.	Entrust COBAC with all powers regarding the granting and withdrawal of licenses, the definition and implementation of prudential norms, and crisis management.
Reinforce the financial base of banks to help them better absorb shocks.	Entrust COBAC with the power to set the banks' minimum statutory capital and raise the minimum risk-weighted adequacy ratio.
Reinforce the initial conditions for efficient banking supervision.	Adopt without delay the rules of corporate governance for banking institutions.
Establish efficient supervisory mechanisms for the microfinance sector.	(i) Strengthen the role of apex organizations on affiliated institutions and the role of external auditors; (ii) strengthen off-site inspection; (iii) involve Microfinance Units in Ministries of Finance in the supervision of independent institutions.

C. Reaping the Benefits of Regional Integration for Sustainable Growth

24. **The authorities described the reforms to regional institutions adopted in April 2007,** which aimed at strengthening the representativeness and accountability of regional institutions. The BEAC Board and capital were enlarged to ensure representation of all member states, a Monetary Policy Committee was created and a strategic business plan to strengthen core BEAC operations is being implemented. Staff welcomed these developments, while noting that the CEMAC Commission has yet to complete its transition to a stronger institution, and the Banking Commission remains understaffed and lacks independence.

25. **The regional institutions' reforms pave the way for more substantive progress toward a common market.** It was agreed that obstacles to economic diversification such as infrastructure bottlenecks, poor business environments, and low intra-regional and external trade, have to be addressed in a coordinated manner. The preparation of a Regional Economic Program to tackle these obstacles holds promise, but, given limited implementation capacity, staff recommended priority be given to critical infrastructure projects.

Intraregional and international trade

26. **Staff urged the authorities to move expeditiously on the unfinished trade reform agenda.** To reap the full benefits of regional integration, CEMAC countries should finalize the installation and interconnection of the ASYCUDA system, abstain from double taxation, remove the remaining exemptions, surcharges and export taxes, harmonize the implementation of rules of origin, and enhance trade facilitation. Staff welcomed the political commitment to further liberalize the common external tariff (CET), reduce the number of bands, and eliminate the maximum rate, and encouraged the authorities to finalize the impact studies and proceed with implementation of these measures. The CEMAC Commission representatives agreed and noted that they were preparing a study on the transit and reexport regime with a view to eliminate double taxation. On the CET, they indicated that the issue should be taken up at the forthcoming CEMAC Council of Ministers' meeting.

27. **Staff shared the authorities' view that an Economic Partnership Agreement (EPA) with the European Union could have long-term advantages for the region.** However, to avoid an EPA leading to trade diversion, it urged the authorities to use this as an opportunity for multilateral trade liberalization on a most-favored nation basis. A study quantifying the revenue losses arising from trade liberalization should be finalized as soon as possible. It was agreed that the objective to reach a full agreement by end-2008 is ambitious, and staff expressed concern about the implications for regional integration should the interim agreement between the EU and Cameroon become effective before the end of the regional negotiations.

D. Data Issues

28. **The authorities noted the recent adoption by the CEMAC Council of Ministers of a medium-term regional statistics program to improve the quality of regional surveillance.** While data provision is broadly adequate for Fund surveillance, serious data weaknesses, in particular the lack of reliable inflation data for all countries, reduce the BEAC's capacity to pursue price stability and accurately monitor competitiveness developments. Staff welcomed the focus of the program on inflation, national accounts and external trade data, and urged its aggressive implementation. Regional authorities also envisage establishing a competitiveness database to monitor non-oil sector developments.

IV. Staff Appraisal

29. **Regional authorities have successfully built on the reform momentum since the CEMAC heads of state approved institutional reforms in April 2007 and the quality of the surveillance dialogue has notably improved.** Recent progress in reforming regional institutions and advancing toward common market objectives is commendable. At the same time, a number of important recommendations from past consultations and the 2006 regional FSAP were implemented.

30. **Maintaining internal and external stability under substantial oil and food price-related macroeconomic volatility is a key challenge for the regional authorities.** Under the fixed exchange rate regime, effective coordination between the regional monetary policy and national fiscal policies becomes essential. The authorities are urged to ensure that this coordination takes place early in the process of preparing national budgets. Given the close link between non-oil deficits and regional inflation, the traditional fiscal convergence criterion should be replaced by the non-oil fiscal deficit as a share of non-oil GDP, with appropriate (i.e., sustainable) targets set for each country. Regarding the policy response to the increase in food and oil prices, while taking appropriate measures to cushion the most vulnerable against these shocks, the authorities should avoid untargeted subsidies and administrative measures such as price controls and export bans, while permanent shocks should be allowed to at least eventually fully pass-through to domestic prices.

31. **While the REER remains consistent with its fundamental determinants and with external sustainability, long-term external stability and competitiveness hinges on successful economic diversification and greater non-oil growth.** As oil production is projected to continue tapering off, member governments must save or productively invest a larger portion of their oil windfall. At the same time, the authorities should aggressively pursue a coordinated approach to removing obstacles to economic diversification such as infrastructure bottlenecks, poor business environments, and barriers to intra-regional and external trade.

32. **The BEAC should provide member countries with stronger incentives to save their oil revenue.** Staff welcomes the BEAC study on optimum reserves as a good basis for

defining liquidity and investment portfolios. The terms of the investment portfolios should accommodate CEMAC countries' savings needs and preferences, and allow them to reap the full returns on the investments while bearing the associated risks. The BEAC should also work closely with CEMAC member countries to agree on an equitable burden sharing formula to replenish the liquid reserve pool whenever necessary.

33. **The BEAC has successfully absorbed excess liquidity since mid-2007, but the monetary policy stance could be tightened**. Interest rates should be raised and more closely aligned with ECB rates, which could help contain inflationary expectations. The BEAC is encouraged to move aggressively to strengthen liquidity forecasting capacity. This will enable them to revise the monetary programming framework by setting objectives for liquidity withdrawals while letting markets freely determine the interest rate.

34. **Preparatory work to establish a regional public debt market is well-advanced and operations should start in 2009.** However, further steps need to be taken to improve treasury management and develop debt management strategies. The transition period during which the statutory advances would coexist with securities issuance should be kept to a minimum.

35. **The regional and national authorities are urged to promptly implement the recommendations endorsed by the conference on financial market development.** These measures, which are consistent with the FSAP recommendations, should be discussed and endorsed by the Monetary Policy Committee and the Council of Ministers at the earliest opportunity.

36. **Reforms to regional institutions adopted in April 2007 should be promptly completed to allow for concrete progress toward common market objectives.** Staff welcomes the steps adopted to enhance the representativeness and accountability of the BEAC, and urges rapid implementation of the reforms to the CEMAC Commission and the Banking Commission. A Regional Economic Program to be finalized in the coming months could help improve regional infrastructure, but it is important that its focus be in line with implementation capacities. The authorities are urged to promptly adopt other measures, such as the introduction of the CEMAC passport and the removals of barriers to the free movement of member-country citizens within CEMAC borders. Such measures would send a positive signal to international markets about the region's commitment to further integration.

37. It is proposed that the next consultation on CEMAC common policies in the context of Article IV obligations of member countries follow the standard 12-month cycle.

Table 1. CEMAC: Selected Economic and Financial Indicators, 2003–08

	2003	2004	2005	2006	2007 Est.	2008 Proj.
	(Annual percentage change)					
National income and prices						
GDP at constant prices	5.3	11.5	4.6	1.6	4.0	5.2
Oil GDP 1/	31.1	44.7	-0.9	0.2	-4.4	2.8
Non-oil GDP 1/	4.7	5.9	7.7	5.2	10.3	8.5
Consumer prices (average)	1.6	0.3	3.4	4.2	0.8	4.5
Consumer prices (end of period)	0.7	1.8	2.7	2.8	3.2	4.3
Nominal effective exchange rate	5.8	3.0	0.0	0.3	2.9	...
Real effective exchange rate	5.5	1.9	1.7	2.4	2.0	...
	(Annual changes in percent of beginning-of-period broad money)					
Money and credit						
Net foreign assets	-1.4	26.4	50.4	53.3	36.0	...
Net domestic assets	3.1	-16.1	-32.6	-34.6	-23.6	...
Broad money	1.7	10.3	17.8	18.7	12.4	...
	(In percent of GDP, unless otherwise indicated)					
National accounts						
Gross domestic savings	33.5	35.7	41.5	41.1	38.9	43.2
Gross domestic investment	26.9	24.1	21.8	21.9	23.1	20.5
Government financial operations						
Total revenue, excluding grants	20.6	21.1	25.0	29.1	29.0	30.8
Government expenditure	19.1	18.7	17.3	19.0	21.0	17.7
Primary basic fiscal balance 2/	6.3	6.9	11.7	14.4	12.0	16.5
Basic fiscal balance 3/	3.2	4.3	9.4	12.7	10.7	15.5
Overall fiscal balance, excluding grants	1.5	2.4	7.7	10.1	7.9	13.0
Non-oil overall fiscal balance, excluding grants 4	-11.4	-13.4	-13.9	-17.7	-18.6	-18.8
Overall fiscal balance, including grants	2.5	3.0	8.5	20.6	8.8	13.7
External sector						
Exports of goods and nonfactor services	44.0	49.6	55.0	57.1	55.8	60.2
Imports of goods and nonfactor services	38.2	38.7	36.0	39.3	41.6	37.0
Balance on goods and nonfactor services	5.8	10.9	19.0	17.7	14.1	23.2
Current account, including grants	-7.4	-4.7	3.1	3.4	1.2	8.7
External public debt	68.7	60.3	39.4	27.2	25.0	16.1
Gross official reserves (end of period, in millions of U.S. dollars)	1,908.3	3,188.7	5,235.4	9,032.1	12,087.0	...
In months of imports of goods and services	1.6	2.3	3.1	4.4	4.6	...
Memorandum items:						
Nominal GDP (in billions of CFA francs)	17,452	20,173	24,312	26,967	28,311	36,125
CFA francs per U.S. dollar, average	581.2	528.3	527.5	522.9	479.3	...
Oil prices (in U.S. dollars per barrel)	28.9	37.8	53.4	64.3	71.1	116.5
Oil prices (in CFA francs per barrel)	16,793	19,947	28,143	33,608	34,089	...

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

1/ The weighted average of oil and non-oil real GDP growth rates does not always add up to real GDP growth because of the nonadditivity of the underlying index.

2/ Excluding grants and foreign-financed investment and interest payments.

3/ Excluding grants and foreign-financed investment.

4/ In percent of non-oil GDP.

Table 2. CEMAC: National Accounts, 2003–08

	2003	2004	2005	2006	2007 Est.	2008 Proj.
	(Annual percentage change)					
Real GDP						
Cameroon 1/	4.0	3.7	2.3	3.2	3.3	4.5
Central African Republic	-7.6	1.0	2.4	4.0	4.2	4.9
Chad	14.7	33.6	7.9	0.2	-0.1	-0.2
Congo, Republic of	0.8	3.5	7.8	6.2	-1.6	9.1
Equatorial Guinea	13.1	32.2	6.9	-5.6	12.4	10.1
Gabon	2.5	1.4	3.0	1.2	5.6	4.4
CEMAC	5.3	11.5	4.6	1.6	4.0	5.2
Nominal GDP						
Cameroon 1/	4.4	5.3	5.0	7.3	5.4	10.5
Central African Republic	-8.8	1.3	6.2	8.4	6.3	9.9
Chad	14.8	46.6	32.8	6.3	2.2	20.8
Congo, Republic of	-3.5	20.9	30.7	25.9	-9.4	50.7
Equatorial Guinea	14.2	50.1	53.4	12.8	12.1	50.4
Gabon	2.4	7.4	20.5	9.2	11.1	29.0
CEMAC	4.3	15.5	20.5	10.9	4.6	15.8
Real non-oil GDP						
Cameroon 1/	4.9	4.9	3.2	2.9	3.9	4.6
Central African Republic	-7.6	1.0	2.4	4.0	4.2	4.9
Chad	6.0	2.1	10.9	4.7	3.7	2.0
Congo, Republic of	5.4	5.0	5.4	5.9	6.6	6.9
Equatorial Guinea	11.7	20.0	23.1	12.1	43.0	31.3
Gabon	0.4	2.3	4.3	4.9	6.2	4.4
CEMAC	4.7	5.9	7.7	5.2	10.3	8.5
Consumer price inflation 2/						
Cameroon 1/	0.6	0.3	2.0	5.1	0.9	4.1
Central African Republic	4.4	-2.2	2.9	6.7	0.9	7.4
Chad	-1.8	-5.4	7.9	7.9	-8.8	3.0
Congo, Republic of	1.7	3.7	2.5	4.7	2.6	4.0
Equatorial Guinea	7.3	4.2	5.7	4.5	3.6	6.6
Gabon	2.1	0.4	1.2	-1.4	5.0	4.3
CEMAC	1.6	0.3	3.4	4.2	0.8	4.5
	(In percent of GDP)					
Gross domestic saving						
Cameroon 1/	17.8	18.5	18.1	18.9	18.5	19.0
Central African Republic	1.6	0.0	0.1	1.4	1.5	0.7
Chad	19.1	17.0	23.6	20.0	22.4	29.6
Congo, Republic of	47.1	42.7	51.6	47.5	28.8	44.7
Equatorial Guinea	79.8	83.5	87.3	86.0	86.2	81.7
Gabon	48.1	54.6	58.3	57.4	55.0	60.2
CEMAC 3/	33.5	35.7	41.5	41.1	38.9	43.2
Gross domestic investment						
Cameroon 1/	17.5	18.9	19.1	16.8	17.4	18.2
Central African Republic	6.1	6.2	8.9	9.2	8.9	10.2
Chad	55.6	25.8	16.4	15.2	16.2	13.6
Congo, Republic of	26.1	22.5	21.6	22.9	26.2	18.5
Equatorial Guinea	59.4	45.1	38.2	41.7	41.1	31.2
Gabon	23.9	24.4	21.3	24.5	26.2	24.7
CEMAC	26.9	24.1	21.8	21.9	23.1	20.5

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

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

2/ Annual average.

3/ In 2004, excluding Equatorial Guinea

Table 3. CEMAC: Nominal and Real Effective Exchange Rates, 2003–2007 1/
(Annual percentage changes)

	2003	2004	2005	2006	2007
	Index (2000=100)				
Nominal effective exchange rate					
Cameroon	108.6	110.8	110.1	110.3	113.0
Central African Republic	106.3	108.1	107.9	108.1	110.1
Chad	109.3	113.2	112.8	113.3	116.8
Congo, Republic of	112.8	116.6	116.2	115.8	118.7
Equatorial Guinea	114.0	119.8	119.6	120.2	126.2
Gabon	106.3	108.5	108.1	108.3	110.6
CEMAC	109.1	112.4	112.4	112.7	116.0
	(Annual percentage changes)				
Cameroon	4.7	2.0	-0.7	0.2	2.4
Central African Republic	4.2	1.7	-0.2	0.2	1.9
Chad	7.0	3.6	-0.3	0.4	3.1
Congo, Republic of	7.3	3.4	-0.4	-0.4	2.5
Equatorial Guinea	11.4	5.1	-0.1	0.4	5.0
Gabon	4.6	2.1	-0.3	0.2	2.1
CEMAC	5.8	3.0	0.0	0.3	2.9
	Index (2000=100)				
Real effective exchange rate					
Cameroon	110.5	110.6	109.7	113.2	113.4
Central African Republic	123.3	122.3	122.3	129.3	129.4
Chad	119.1	114.2	119.8	126.7	116.7
Congo, Republic of	111.2	116.1	115.4	117.3	120.3
Equatorial Guinea	134.4	143.8	147.7	150.8	161.5
Gabon	105.3	105.4	104.1	102.1	107.1
CEMAC	113.1	115.3	117.3	120.1	122.4
	(Annual percentage changes)				
Cameroon	3.2	0.1	-0.8	3.3	0.1
Central African Republic	6.2	-0.9	0.0	5.7	0.1
Chad	2.9	-4.1	4.9	5.7	-7.9
Congo, Republic of	6.5	4.5	-0.6	1.6	2.6
Equatorial Guinea	16.9	7.0	2.7	2.1	7.1
Gabon	4.8	0.1	-1.2	-1.9	5.0
CEMAC	5.5	1.9	1.7	2.4	2.0

Sources: IMF, Information Notice System; and staff estimates.
1/ CEMAC data is weighted by nominal GDP.

Table 4. CEMAC: Balance of Payments, 2003–2008 1/
(In billions of CFA francs)

	2003	2004	2005	2006	2007 Est.	2008 Proj.
Balance on current account	-1,297	-942	757	921	343	3,161
Balance on goods and services	1,006	2,203	4,610	4,783	4,001	8,396
Exports of goods	6,853	9,116	12,456	14,277	14,617	20,431
Exports of services	822	889	914	1,115	1,170	1,320
Imports of goods	-3,648	-4,048	-4,639	-5,769	-6,377	-7,212
Imports of services	-3,022	-3,753	-4,121	-4,840	-5,410	-6,143
Income, net	-2,432	-3,281	-4,023	-4,008	-3,788	-5,305
Income credits	238	156	99	117	219	385
Income debits	-2,578	-3,283	-4,327	-4,430	-3,659	-3,372
Of which						
Investment income, debit: interest (accrued;-sign	-853	-413	-343	-236	-182	-169
Interest paid on public debt	-377	-381	-335	-228	-175	-164
Interest paid on nonpublic debt	-477	-34	-9	-11	-8	-5
Current transfers, net	129	136	170	147	129	70
Private current transfers, net	-16	12	-23	-47	-102	-155
Official current transfers, net	144	124	193	193	231	225
Balance on capital and financial account	1,406	1,149	35	-877	-278	-2,680
Balance on capital account (incl. capital transfers)	12	240	78	2,771	-1,498	-148
Balance on financial account (incl. reserves)	1,478	450	-776	-4,204	913	-3,146
Direct investment, net	2,015	1,919	1,442	2,124	2,248	1,605
Portfolio investment, net	58	237	431	212	665	214
Other investment, net	-650	-1,129	-1,275	-4,941	-1,207	-1,843
Reserve assets (accumulation -)	54	-577	-1,374	-1,599	-794	-3,121
Errors and omissions, net	-248	136	-43	512	242	0
Memorandum item:						
Nominal GDP	17,452	20,173	24,312	26,967	28,311	36,125

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

Table 5a. CEMAC: Fiscal Balances, 2003–08
(In percent of GDP)

	2003	2004	2005	2006	2007 Est	2008 Proj.
Overall fiscal balance (excluding grants)						
Cameroon 1/	0.7	-0.8	3.0	4.7	3.3	3.1
Central African Republic	-4.8	-5.6	-8.7	-4.4	-2.5	-4.6
Chad	-14.0	-6.0	-3.7	0.5	1.0	2.1
Congo, Republic of	-0.1	3.3	15.4	16.9	10.7	27.9
Equatorial Guinea	11.7	12.5	22.5	26.3	21.4	25.0
Gabon	7.4	8.2	8.6	8.6	7.8	12.4
CEMAC	1.5	2.4	7.7	10.1	7.9	13.0
Overall fiscal balance (including grants)						
Cameroon 1/	1.2	-0.5	3.6	33.1	4.5	3.9
Central African Republic	-3.3	-2.2	-4.5	9.0	1.6	-0.2
Chad	-6.3	-3.0	-0.4	2.4	3.4	4.2
Congo, Republic of	0.4	3.6	15.6	17.1	11.1	28.4
Equatorial Guinea	11.7	12.5	22.5	26.3	21.4	25.0
Gabon	7.4	8.3	8.6	8.6	7.8	12.5
CEMAC	2.5	3.0	8.5	20.6	8.8	13.7
Basic balance 2/						
Cameroon 1/	1.1	0.0	3.5	5.4	3.9	4.4
Central African Republic	-4.4	-5.2	-8.2	-4.0	-2.5	-4.2
Chad	-12.2	-3.9	-1.5	3.2	5.4	6.2
Congo, Republic of	5.3	8.6	20.2	25.7	20.9	34.6
Equatorial Guinea	11.7	12.5	22.5	26.3	21.4	25.0
Gabon	10.8	11.9	11.8	12.4	11.3	15.3
CEMAC	3.2	4.3	9.4	12.7	10.7	15.5
Government revenue (excluding grants)						
Cameroon 1/	16.1	15.2	17.6	19.3	18.9	20.6
Central African Republic	8.1	8.3	8.2	9.5	10.2	10.2
Chad	7.8	8.5	9.4	16.9	22.4	19.4
Congo, Republic of	29.7	30.0	38.6	44.3	42.7	47.4
Equatorial Guinea	27.3	31.9	37.9	45.7	46.0	42.9
Gabon	30.1	30.8	31.3	31.7	29.5	29.9
CEMAC	20.6	21.1	25.0	29.1	29.0	30.8
Government expenditure						
Cameroon 1/	15.4	16.0	14.6	14.5	15.6	17.5
Central African Republic	12.9	13.9	16.9	13.9	12.7	14.8
Chad	21.9	14.4	13.1	16.5	21.4	17.3
Congo, Republic of	29.8	26.7	23.2	27.4	32.0	19.6
Equatorial Guinea	15.6	19.3	15.3	19.4	24.6	17.8
Gabon	22.8	22.6	22.8	22.5	21.0	17.1
CEMAC	19.1	18.7	17.3	19.0	21.0	17.7

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

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

2/ Overall budget balance excluding grants and foreign-financed investment.

Table 5b. CEMAC: Fiscal Non-Oil Balances, 2003–08
(In percent of Non-Oil GDP)

	2003	2004	2005	2006	2007 Est.	2008 Proj.
Overall fiscal balance (excluding grants)						
Cameroon	-3.6	-5.2	-2.2	-2.4	-3.4	-5.8
Central African Republic	-4.8	-5.6	-8.7	-4.4	-2.5	-4.7
Chad	-16.4	-14.5	-14.9	-22.1	-27.2	-26.8
Congo, Republic of	-41.8	-42.1	-45.6	-66.6	-60.7	-54.7
Equatorial Guinea	-47.9	-82.0	-67.4	-78.2	-76.2	-58.8
Gabon	-15.9	-15.1	-23.4	-24.2	-19.0	-16.3
CEMAC	-11.4	-13.4	-13.9	-17.7	-18.6	-18.8
Overall fiscal balance (including grants)						
Cameroon	-3.1	-4.9	-1.6	29.2	-2.1	-4.8
Central African Republic	-3.3	-2.2	-4.5	9.0	1.6	-0.2
Chad	-7.4	-9.6	-8.6	-18.5	-23.1	-22.6
Congo, Republic of	-40.8	-41.3	-45.1	-66.2	-59.6	-52.8
Equatorial Guinea	-47.5	-81.7	-65.6	-77.9	-75.5	-58.8
Gabon	-15.8	-15.0	-23.3	-24.2	-19.0	-16.1
CEMAC	-9.9	-12.5	-12.5	0.5	-17.1	-17.5
Basic balance 1/						
Cameroon	-3.1	-4.3	-1.6	-1.6	-2.7	-4.3
Central African Republic	-4.4	-5.2	-8.2	-4.0	-2.5	-4.3
Chad	-14.3	-11.1	-10.7	-17.0	-19.7	-18.7
Congo, Republic of	-30.8	-30.0	-32.3	-38.8	-34.0	-30.7
Equatorial Guinea	-47.9	-82.0	-67.4	-78.2	-76.2	-58.8
Gabon	-9.9	-8.4	-16.8	-16.4	-11.9	-9.7
CEMAC	-9.0	-10.6	-11.0	-13.2	-14.1	-14.2
Government revenue (excluding grants)						
Cameroon	12.8	11.9	13.8	13.8	13.8	14.2
Central African Republic	8.1	8.3	8.2	9.5	10.2	10.5
Chad	9.1	9.3	9.7	8.8	9.9	7.6
Congo, Republic of	17.9	19.5	19.1	20.5	23.4	15.0
Equatorial Guinea	18.0	18.7	18.0	18.3	20.8	14.6
Gabon	23.5	25.8	23.8	23.5	24.4	23.4
CEMAC	14.4	14.5	15.2	15.4	16.2	14.9
Government expenditure						
Cameroon	16.4	17.1	15.9	16.2	17.2	19.9
Central African Republic	12.9	13.9	16.9	13.9	12.7	15.1
Chad	25.5	23.9	24.5	30.9	37.2	34.4
Congo, Republic of	59.7	61.6	64.7	87.2	84.2	69.7
Equatorial Guinea	65.9	100.7	85.4	96.5	97.1	73.4
Gabon	39.3	40.9	47.2	46.3	42.0	38.9
CEMAC	25.8	27.9	29.1	32.9	34.6	33.6

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

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

Table 6. CEMAC: Compliance with Convergence Criteria, 2002-07 1/

(In percent of GDP, unless otherwise indicated)

	2003	2004	2005	2006	2007 Est.	2008 Proj.
Basic fiscal balance (criterion: nonnegative) 2/						
Cameroon	1.1	0.0	3.5	5.4	3.9	4.4
Central African Republic	-4.4	-5.2	-8.2	-4.0	-2.5	-4.2
Chad	-12.2	-3.9	-1.5	3.2	5.4	6.2
Congo, Republic of	5.3	8.6	20.2	25.7	20.9	34.6
Equatorial Guinea	11.7	12.5	22.5	26.3	21.4	25.0
Gabon	10.8	11.9	11.8	12.4	11.3	15.3
Number of countries violating	*2*	*2*	*2*	*1*	*1*	*1*
Consumer price inflation (annual percentage change; criterion: not higher than 3 percent)						
Cameroon	0.6	0.3	2.0	5.1	0.9	4.1
Central African Republic	4.4	-2.2	2.9	6.7	0.9	7.4
Chad	-1.8	-5.4	7.9	7.9	-8.8	3.0
Congo, Republic of	1.7	3.7	2.5	4.7	2.6	4.0
Equatorial Guinea	7.3	4.2	5.7	4.5	3.6	6.6
Gabon	2.1	0.4	1.2	-1.4	5.0	4.3
Number of countries violating	*2*	*2*	*2*	*5*	*2*	*6*
Level of public debt 3/ (criterion: not higher than 70 percent of GDP)						
Cameroon	47.3	44.2	37.4	6.0	5.5	5.9
Central African Republic	98.5	92.9	90.6	79.4	72.7	66.8
Chad	50.5	36.9	27.7	27.5	29.3	22.3
Congo, Republic of	222.6	214.5	103.7	85.8	77.6	47.3
Equatorial Guinea	10.4	6.6	3.3	1.8	1.3	0.8
Gabon	59.0	40.9	29.7	34.1	36.8	13.9
Number of countries violating	*2*	*2*	*2*	*2*	*2*	*0*
Net change in government arrears 4/ (criterion: non-positive)						
Cameroon	-0.4	0.4	-0.8	-1.8	-0.8	-0.3
Central African Republic	4.6	3.1	3.8	-7.8	-1.6	-0.5
Chad	0.2	0.9	0.1	-0.2	-0.8	-0.6
Congo, Republic of	6.1	-67.0	-1.8	-1.9	-7.4	-1.9
Equatorial Guinea	0.0	0.0	0.0	0.0	0.0	0.0
Gabon	0.3	-10.0	-0.8	-0.7	-0.7	-0.4
Number of countries violating	*4*	*3*	*2*	*0*	*0*	*0*
Total number of criteria violations	10	9	8	8	5	7
Cameroon	0	1	0	1	0	1
Central African Republic	4	3	3	3	2	2
Chad	2	2	3	1	0	1
Congo, Republic of	2	2	1	2	1	1
Equatorial Guinea	1	1	1	1	1	1
Gabon	1	0	0	0	1	1

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

1/ Revised set of criteria as valid from 2002 onward.
2/ Overall budget balance, excluding grants and foreign-financed investment.
3/ External debt only. The CEMAC's convergence criterion also includes domestic debt, on which the World Economic Outlook database provides insufficient information.
4/ External and domestic arrears.

Table 7. CEMAC: Monetary Survey, 2003–07

	2003	2004	2005	2006	2007			
	Dec.	Dec.	Dec	Dec	Mar	Jun	Sep	Dec
	(In billions of CFA francs)							
Net foreign assets	818	1,523	3,009	4,860	5,142	5,314	5,563	6,345
Bank of Central African States (BEAC)	675	1,233	2,626	4,382	4,635	4,929	5,125	5,276
Foreign assets	991	1,536	2,911	4,499	4,756	5,039	5,231	5,386
Of which								
Operations account	814	1,306	2,647	4,166	4,312	4,600	3,551	3,687
Foreign liabilities	-316	-303	-285	-116	-121	-110	-107	-110
Commercial banks	142	290	383	478	508	385	438	1,069
Foreign assets	274	437	511	630	668	587	627	1,300
Foreign liabilities	-132	-147	-128	-151	-160	-202	-189	-231
Net domestic assets	1,855	1,425	463	-739	-961	-1,088	-1,237	-1,712
Net credit to government	908	537	-570	-1,795	-1,935	-2,234	-2,306	-2,773
BEAC	769	417	-526	-1,827	-1,966	-2,182	-2,249	-2,264
Advances	631	629	544	402	409	435	397	367
Consolidated debt	107	83	74	53	75	76	76	77
Other	299	290	268	105	103	96	87	82
Government deposits	-269	-585	-1,412	-2,386	-2,552	-2,789	-2,809	-2,789
Commercial banks	138	121	-44	32	31	-52	-57	-510
Net credit to public agencies	-104	-118	-139	-183	-238	-214	-281	-236
Net credit to private sector	1,539	1,519	1,716	1,881	1,925	2,055	2,171	2,138
Other items, net	-487	-513	-545	-641	-713	-695	-821	-841
Broad money	2,673	2,948	3,472	4,121	4,182	4,225	4,325	4,633
Currency outside banks	771	856	980	1,122	1,053	1,045	1,068	1,200
Bank deposits	1,902	2,092	2,491	2,999	3,129	3,180	3,258	3,433
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)							
Net foreign assets	-1.4	26.4	50.4	53.3	6.8	11.0	17.0	36.0
Net domestic assets	3.1	-16.1	-32.6	-34.6	-5.4	-8.5	-12.1	-23.6
Credit to government	0.9	-1.1	-37.6	-35.3	-3.4	-10.7	-12.4	-23.7
Credit to the private sector	2.4	-1.1	6.7	4.7	1.1	4.2	7.0	6.2
Other	-0.2	-13.9	-1.8	-4.1	-3.1	-2.0	-6.7	-6.1
Broad money	1.7	10.3	17.8	18.7	1.5	2.5	4.9	12.4
Velocity (GDP/broad money)	6.5	9.4	7.0	6.5	6.5	6.5	6.5	6.1
	(In percent of GDP)							
Broad Money/GDP	15.3	14.6	14.3	15.3	15.3	15.3	15.5	16.4
Private bank Deposits/GDP	10.0	9.7	9.6	10.3	10.6	10.7	10.8	11.2
Credit to the private sector/GDP	8.8	7.5	7.1	7.0	7.1	7.4	7.8	7.6

Sources: BEAC; and staff estimates.

Table 8. CEMAC: Summary Accounts of Central Bank, 2003–07

	2003	2004	2005	2006	2007			
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
			(In billions of CFA francs)					
Net foreign assets	675	1,233	2,626	4,382	4,635	4,929	5,125	5,276
Assets 1/	991	1,536	2,911	4,499	4,756	5,039	5,231	5,386
Of which								
Operations account	814	1,306	2,647	4,166	4,312	4,600	3,551	3,687
Liabilities	-316	-303	-285	-116	-121	-110	-107	-110
Net domestic assets	613	283	-704	-2,038	-2,209	-2,425	-2,506	-2,513
Net credit to government	769	417	-526	-1,827	-1,966	-2,182	-2,249	-2,264
Claims	1,038	1,002	886	559	587	607	560	526
Consolidated debt	107	83	74	53	75	76	76	77
Advances	631	629	544	402	409	435	397	367
Cameroon	257	253	176	166	175	178	130	80
Central African Republic	17	25	32	36	16	16	16	16
Chad	31	42	45	7	17	17	18	18
Congo, Republic of	161	161	155	131	140	148	140	154
Equatorial Guinea	0	0	0	0	0	0	0	0
Gabon	165	148	135	61	61	76	93	99
Other claims	299	290	268	105	103	96	87	82
Government deposits	-269	-585	-1,412	-2,386	-2,552	-2,789	-2,809	-2,789
Net claims on financial institutions	13	12	15	9	9	4	4	6
Other items, net	-169	-147	-193	-220	-252	-247	-261	-256
Base money	1,288	1,516	1,922	2,345	2,426	2,504	2,618	2,763
Currency in circulation	771	856	980	1,122	1,053	1,045	1,068	1,200
Banks' reserves 2/	493	634	903	1,165	1,305	1,387	1,479	1,497
Other institutions' reserves	25	26	38	57	68	72	72	66
Memorandum items:								
			(In percent)					
Currency cover ratio 3/	66.3	74.6	88.2	95.9	96.5	96.1	97.2	97.9
Base money/deposits	68.6	73.3	78.3	79.7	79.2	80.5	82.2	82.0
			0					

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

1/ Gross foreign reserves, including gold, foreign currency reserves, IMF reserve position, and balance of the operations account at the French Treasury.
2/ Includes cash in vault and deposits of commercial banks with the BEAC.
3/ Gross operations account official reserves as a percentage of base money.

Table 9. CEMAC: Summary Accounts of Commercial Banks, 2003–07

	2003	2004	2005	2006	2007			
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
	(In billions of CFA francs)							
Net foreign assets	142	290	383	478	508	385	438	1,069
Assets	274	437	511	630	668	587	627	1,300
Liabilities	-132	-147	-128	-151	-160	-202	-189	-231
Net domestic assets	1,255	1,155	1,182	1,308	1,257	1,341	1,273	807
Net credit to public sector	34	3	-183	-152	-207	-266	-339	-746
Cameroon 1/	17	2	9	-38	-47	-95	-127	-128
Central African Republic	3	0	4	9	10	9	6	7
Chad	-13	-4	-18	2	-2	-10	-13	-21
Congo, Republic of	2	12	-37	-9	-19	-32	-17	-15
Equatorial Guinea	-32	-30	-128	-111	-154	-147	-187	-122
Gabon	58	23	-13	-4	6	8	-5	-467
Claims	284	290	273	299	301	294	287	291
Liabilities	250	287	456	451	508	560	626	1,037
Credit to the economy	1,539	1,519	1,716	1,881	1,925	2,055	2,171	2,138
Cameroon 1/	845	847	914	937	930	935	976	1,020
Central African Republic	49	56	54	56	55	59	60	59
Chad	98	93	130	137	150	149	129	122
Congo, Republic of	82	85	86	97	111	106	109	114
Equatorial Guinea	52	63	94	129	112	171	263	184
Gabon	413	375	418	507	552	615	604	595
Other items, net	-318	-367	-352	-421	-461	-448	-559	-585
Net refinancing from central ban	-480	-621	-888	-1,157	-1,297	-1,383	-1,475	-1,491
Borrowing	13	12	15	9	9	4	4	6
Cameroon 1/	0	0	0	0	0	0	0	0
Central African Republic	2	4	0	0	0	0	0	0
Chad	10	8	15	9	9	4	4	3
Congo, Republic of	1	0	-5	0	0	0	0	3
Equatorial Guinea	0	0	5	0	0	0	0	0
Gabon	0	0	0	0	0	0	0	0
Reserves	493	634	903	1,165	1,305	1,387	1,479	1,497
Cameroon 1/	260	325	368	521	552	618	704	678
Central African Republic	2	2	8	3	7	5	6	9
Chad	20	30	32	74	46	61	66	76
Congo, Republic of	37	52	136	138	166	252	236	205
Equatorial Guinea	84	105	210	213	322	216	244	280
Gabon	89	119	149	216	213	236	251	249
Deposits	1,877	2,066	2,453	2,943	3,062	3,109	3,186	3,368
Demand deposits	929	1,059	1,318	1,665	1,776	1,829	1,868	2,038
Public enterprises	62	78	92	132	139	118	144	165
Private sector	867	981	1,226	1,534	1,637	1,711	1,724	1,873
Term deposits	949	1,007	1,136	1,277	1,286	1,280	1,318	1,330
Public enterprises	79	41	33	30	34	28	24	26
Private sector	870	966	1,102	1,247	1,252	1,252	1,295	1,304
Memorandum items:								
	(in percent)							
Reserves/deposits	26.2	30.7	36.8	39.6	42.6	44.6	46.4	44.5
Credit to the economy/deposit	82.0	73.5	70.0	63.9	62.9	66.1	68.1	63.5

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

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

Table 10. CEMAC: Summary Medium-Term Projections, 2003-10

	2005	2006	2007	2008	2009	2010	2011	2012
	(Annual percentage change)							
National income and prices								
Real GDP	4.6	1.6	4.0	5.2	6.1	4.9	3.3	2.8
GDP deflator	15.5	9.0	1.0	21.0	5.5	-0.6	-2.2	-2.2
Consumer prices (average)	3.4	4.2	0.8	4.5	3.9	3.2	2.9	2.7
External sector								
Exports, f.o.b	33.8	16.1	11.9	55.5	15.4	2.2	-4.2	-5.4
Export volume	-0.5	-5.5	0.5	-0.5	5.3	1.9	-1.9	-3.7
Imports, c.i.f.	12.4	22.2	21.2	27.9	14.6	6.8	4.3	1.0
Import volume	7.6	15.7	10.9	13.3	16.7	7.9	1.9	-2.4
Terms of trade	21.6	9.4	0.4	10.7	-0.7	-3.3	-10.0	-1.1
	(In percent of GDP; unless otherwise specified)							
Central government								
Overall balance, excluding grants	7.7	10.1	7.9	13.0	16.1	15.9	13.9	12.3
Overall balance, excluding grants 1/	12.9	17.5	13.1	24.7	31.6	30.1	24.6	20.3
Non-oil overall balance 1/	-13.9	-17.7	-18.6	-18.8	-19.3	-17.6	-14.7	-13.2
Total revenue and grants	25.7	39.7	29.9	31.5	33.5	33.4	32.2	31.2
Total expenditure and net lending	17.3	19.0	21.0	17.7	16.7	16.8	17.6	18.3
External sector								
Current account balance, including grai	3.1	3.4	1.2	8.7	10.4	9.5	7.2	4.5
Trade balance	19.0	17.7	14.1	23.2	23.9	21.5	17.0	13.3
Gross official reserves (end of period, in millions of US dollars)	5235.4	9032.1	12087.0	...	...	...		

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

1/ In percent of non-oil GDP.

Table 11. CEMAC: Money Market Volumes, 2000–07
(In billions of CFA francs)

	Injections of Liquidity								Absorptions of Liquidity								Volume Traded on Interbank Market							
	2000	2001	2002	2003	2004	2005	2006	2007	2000	2001	2002	2003	2004	2005	2006	2007	2000	2001	2002	2003	2004	2005	2006	2007
Cameroon	25.5	14.1	2.6	1.2	1.2	2.3	3.5	5.3	550.0	1,086.9	1,473.8	963.9	455.5	75.9	45.7	1,691.3	78.4	124.7	74.4	82.1	51.5	61.5	39.7	15.8
Central African Republic	47.8	28.8	28.1	22.1	16.2	14.4	0.8	0.1	0.2	2.1	0.3	3.2	0.6	4.7	10.3	15.4	0.1	4.0	1.5	0.0	0.5	0.0	0.3	0.0
Chad	112.7	97.0	39.8	45.4	131.1	126.8	221.7	67.6	2.4	8.5	18.3	31.8	18.0	5.7	0.0	26.8	2.2	11.0	0.0	0.0	0.7	0.0	0.0	0.5
Congo, Republic of	81.8	29.7	7.0	6.0	6.6	0.0	0.0	13.5	98.3	402.5	228.0	211.5	145.1	11.2	20.0	790.3	0.0	0.0	12.0	18.5	27.0	0.0	12.0	0.0
Equatorial Guinea	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	47.2	92.4	76.1	30.7	58.9	18.2	382.9	48.3	96.5	38.0	0.0	3.5	97.0	115.0	0.0
Gabon	12.9	3.0	27.4	14.7	0.0	0.0	0.0	0.0	258.4	203.1	100.0	108.5	320.7	123.0	31.0	622.7	47.4	46.7	31.2	9.5	7.0	1.0	4.0	4.0
CEMAC	280.6	172.6	105.0	89.4	155.2	143.5	226.0	86.5	909.3	1,750.3	1,912.8	1,395.1	970.5	279.4	125.2	3,529.3	176.4	282.9	157.1	110.1	90.2	159.5	171.0	20.3

Source: Bank of Central African States (BEAC).

Table 12. CEMAC: Relative Size of CEMAC Economies and Importance of Oil Sector, 2003–2008

	2003	2004	2005	2006	2007 Est.	2008 Proj.
Nominal GDP	(In percent of CEMAC's nominal GDP)					
Cameroon 1/	45.4	41.3	36.0	34.8	34.9	30.3
Central African Republic	3.8	3.3	2.9	2.9	2.9	2.5
Chad	9.1	11.6	12.7	12.2	11.9	11.3
Congo, Republic of	11.6	12.2	13.2	15.0	12.9	15.3
Equatorial Guinea	9.9	12.8	16.3	16.6	17.7	20.9
Gabon	20.2	18.8	18.8	18.5	19.6	19.8
Nominal oil GDP	(In percent of CEMAC's nominal GDP)					
Cameroon 1/	2.8	2.7	3.0	3.5	3.3	3.7
Chad	1.3	4.6	6.0	5.7	5.0	5.6
Congo, Republic of	5.8	6.9	8.5	10.3	8.0	11.0
Equatorial Guinea	7.5	10.4	13.4	13.3	13.2	15.8
Gabon	8.5	8.4	9.7	9.5	9.8	11.1
CEMAC	26.0	32.9	40.6	42.3	39.4	47.3
Nominal oil GDP	(In percent of country's total nominal GDP)					
Cameroon 1/	6.1	6.5	8.4	10.2	9.6	12.4
Chad	14.3	39.5	46.8	46.7	42.4	49.7
Congo, Republic of	50.0	56.6	64.1	68.6	62.0	71.9
Equatorial Guinea	76.3	80.8	82.0	79.9	74.7	75.7
Gabon	42.1	44.9	51.8	51.5	49.9	56.1
CEMAC	26.0	32.9	40.6	42.3	39.4	47.3
Oil exports	(In percent of value of country's total goods exports)					
Cameroon 1/	39.7	42.1	51.0	51.0	51.8	58.8
Chad	39.2	79.2	86.7	87.1	86.0	88.2
Congo, Republic of	81.9	83.8	92.8	93.8	92.3	94.2
Equatorial Guinea	97.4	98.3	99.0	99.0	99.1	99.3
Gabon	83.9	80.4	86.2	84.2	82.3	83.7
CEMAC	74.5	79.5	86.8	86.1	85.5	88.5
Fiscal oil revenue	(In percent of value of country's fiscal revenue)					
Cameroon 1/	25.5	26.7	28.5	35.5	33.8	39.7
Chad	0.0	33.3	45.0	72.3	74.5	80.3
Congo, Republic of	69.8	71.9	82.3	85.5	79.1	91.1
Equatorial Guinea	84.4	88.7	91.5	92.0	88.5	91.7
Gabon	54.9	53.8	63.3	64.0	58.6	65.5
CEMAC	48.1	54.0	63.8	69.6	66.1	74.5

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

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

Table 13. CEMAC: Bank Ratings, December 2007 [1]

(Number of banks)

	1	2	3A	3B	3C	4A	4B	Not Rated
				(Number of banks)				
Cameroon (12)	2	7	0	0	1	0	1	1
Central African Republic (4)	0	3	0	0	0	0	0	1
Chad (7)	0	4	0	2	0	0	0	1
Congo, Republic of (5)	0	3	0	0	0	0	0	2
Equatorial Guinea (4)	0	3	0	0	0	0	0	1
Gabon (7)	0	5	1	0	0	0	0	1
CEMAC (39)	2	25	1	2	1	0	1	7

Source: Banking Commission of Central Africa (COBAC).

1/ Ratings: 1=strong; 2=good; 3A=fragile; 3B=moderately fragile; 3C=highly fragile; 4A=critical; and 4B=highly critical. Data for CEMAC is of december 2007

Table 14. CEMAC: Violations of Main Prudential Ratios, 2002- 07

	Capital Adequacy					Liquidity [1]				Fixed Assets Coverage [2]					Maturity Transformation [3]					Minimum Capital [4]					Limit on Single Large Exposure [5]				
	2003	2004	2005	2006	2007	2003	2005	2006	2007	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
	6%	7%	8%			min 100%				min. 100%					min 50%														
	(Number of banks in violation)																												
Country (number of banks)																													
Cameroon (12) in 2007	1	3	3	4	2	0	1	0	0	2	4	5	5	4	3	5	4	3	2	1	2	2	2	2	7	8	5	7	6
Central African Republic (4) in 2007	1	1	1	1	0	2	0	0	0	1	1	1	1	1	1	1	1	1	0	1	1	1	1	0	2	2	1	3	2
Chad (7) in 2007	1	2	3	1	1	1	1	0	0	2	3	3	3	3	1	2	3	2	3	0	2	2	0	1	4	5	6	6	5
Congo, Republic (5) in 2007	3	2	0	0	0	0	0	0	0	3	2	2	1	1	2	2	2	1	0	1	1	0	0	0	4	3	2	4	4
Equatorial Guinea (4) in 2007	0	0	1	0	1	0	0	0	0	0	0	0	1	2	0	0	0	1	1	0	0	0	0	1	1	2	3	3	4
Gabon (7) in 2007	0	1	0	0	0	0	0	0	1	1	1	0	1	0	0	0	0	0	1	1	1	0	0	1	1	1	1	2	2
CEMAC (39) in 2007	6	9	8	6	4	3	2	0	1	9	11	11	12	11	7	10	10	8	7	4	7	5	3	5	19	21	18	25	23
	(In percent of deposits) [6]																												
Cameroon (12) in 2007	2	14	14	29	4	0	9	0	0	20	32	31	29	20	20	34	29	20	4	2	11	4	5	4	77	70	21	54	55
Central African Republic (4) in 2007	44	37	43	42	0	81	0	0	0	44	37	41	42	31	44	37	41	42	0	44	37	42	42	0	81	76	41	100	80
Chad (7) in 2007	14	34	33	13	15	15	30	0	0	37	50	48	38	36	14	34	62	37	36	0	34	14	0	15	71	97	65	99	79
Congo, Republic (5) in 2007	79	47	0	0	0	0	0	0	0	79	39	47	15	55	58	39	47	15	0	24	18	0	0	0	100	72	56	100	100
Equatorial Guinea (4) in 2007	0	0	16	0	4	0	0	0	0	0	0	0	0	39	0	0	0	0	4	0	0	0	0	4	51	89	100	100	100
Gabon (7) in 2007	0	1	0	0	0	0	0	0	0	24	1	0	39	0	0	0	0	0	39	0	0	0	0	2	7	1	1	60	41

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

1/ Short term assets of up to one month (remaining maturity) over short term liabilities of up to one month (remaining maturity).
2/ Net capital and other premanent resources over fixed assets.
3/ Long term assets of more than five years over long term liabilities of more than five years.
4/ Minimum capital varies by country (in million CFA): Cameroon 1000; Central African Republic 200; Chad 150; Republic of Congo 150; Equatorial Guinea 300; Gabon 1000.
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 15. CEMAC: Quality of Loan Portfolio, 2002–07
(In billions of CFA francs; unless otherwise indicated)

	Gross Loans				Nonperforming loans				Provisions				Rate of Nonperforming Loans [1]				Rate of Provisions [2]			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
Cameroon	873.6	964.2	1,005.2	1,081.9	114.2	121.0	123.1	135.7	97.5	103.3	110.2	125.1	13.1	12.6	12.3	12.5	85.3	85.4	89.5	92.2
Central African Republic	60.2	62.1	69.4	74.8	20.8	21.3	22.8	22.7	15.5	16.6	17.3	18.9	34.6	34.2	32.9	30.3	74.6	77.9	76.0	83.3
Chad	112.3	147.6	160.0	155.0	22.4	20.2	19.8	17.3	15.1	16.0	16.2	14.6	20.0	13.7	12.4	11.2	67.1	78.9	81.8	84.4
Congo, Republic of	107.0	90.5	102.2	115.9	7.0	3.1	1.4	3.1	1.9	2.6	0.9	2.5	6.5	3.4	1.4	2.7	27.6	84.2	66.5	80.6
Equatorial Guinea	95.4	116.1	154.5	214.3	12.9	20.0	22.1	24.2	9.2	13.4	18.7	22.8	13.5	17.2	14.3	11.3	71.4	67.0	84.8	94.2
Gabon	463.1	473.2	557.5	650.1	73.0	67.6	61.8	52.1	57.2	54.2	52.2	39.1	15.8	14.3	11.1	8.0	78.4	80.2	84.5	75.0
CEMAC	1,711.6	1,853.7	2,048.8	2,292.0	250.2	253.1	251.0	255.1	196.3	206.0	215.7	223.0	14.6	13.7	12.3	11.1	78.5	81.4	85.9	87.4

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

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

Appendix I

Relations of CEMAC Member Countries and the Fund

I. Membership Status

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

II. Relations of the CEMAC Member Countries and the Fund

Cameroon: The Executive Board approved a three-year PRGF arrangement on October 24, 2005 in an amount equivalent to SDR 18.57 million (about US$26.8 million). The fifth review was completed on June 27th, 2008. Cameroon reached the Completion Point under the enhanced HIPC Initiative on April 28, 2006. The last Article IV consultation was concluded on June 18, 2007. Cameroon is on a 24-month consultation cycle.

Central African Republic (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$58.4 million). The second review was completed on June 18th, 2008, and access was increased by SDR 8.355 million (about US$13.5 million) to help the country address the impact of rising food and oil prices. CAR reached the decision point under the enhanced HIPC initiative at the time of the first PRGF review (Sept. 2007). The last Article IV consultation was concluded on September 28th, 2007. The C.A.R. is on a standard 24-month consultation cycle.

Chad: An Executive Board approved a three-year PRGF arrangement for Chad on February 16, 2005 in an amount equivalent to SDR 25.2 million (about US$38.2 million). The first and second reviews under the PRGF have been delayed and the PRGF-arrangement was recently extended until May 2008. The country reached the Decision Point under the enhanced HIPC initiative in May 2001 and has benefited from interim debt relief assistance. The last Article IV consultation was concluded on December 18, 2006. Chad is on a 24-month consultation cycle.

Congo: The Executive Board approved a three-year PRGF arrangement for Congo in an amount equivalent to SDR 54.99 million (about US$84.4 million) in December 2004. The second review was completed on July 14, 2006, but the third PRGF review could not be concluded in October 2006. A staff monitored program is currentlty in place. The country reached the Decision Point under the enhanced HIPC initiative on March 8, 2006. The last Article IV consultation was concluded on April 25th, 2007. Congo is on a 12-month consultation cycle.

Equatorial Guinea: The last financial arrangement, an ESAF, expired in 1996. Equatorial Guinea is not expected to seek Fund financial assistance over the next few years. The country is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on June 8th, 2007. Equatorial Guinea is on a 12-month consultation cycle.

Gabon: A 3-year stand-by arrangement was approved by the Board on May 7, 2007. The first review was completed in December 19, 2007. Gabon is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on [July 28] 2008. Gabon is on a 24-month consultation cycle.

III. Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on August 30, 2004. The assessment found that the Bank has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, and recommended further enhancements in the areas of external and internal audits, and financial reporting.

Latest monitoring results indicate the existence of certain vulnerabilities including in the system of internal controls. These and other aspects of the BEAC safeguards framework are being reviewed in the context of the 2008 update safeguards assessment of BEAC that is underway.

IV. Exchange System

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

V. Article IV Consultation

Following an Executive Board decision in January 2006, discussions with monetary unions have been formalized and are part of the Article IV consultations with member countries. The discussions reported here are thus in relation with Article IV consultations with the six CEMAC member countries. The Executive Board concluded the last Article IV consultation with the CEMAC on June 29th, 2007. Such consultations are held on a 12-month cycle.

VI. FSAP Participation and ROSCs

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

VII. Technical Assistance to BEAC

December 2007: STA participation in BEAC's workshop on monetary statistics.

July 2007: Visit by MCM experts on issues regarding the BEAC's management of its foreign assets.

2006-March 2007: Continuation of visits by MCM experts on banking supervision, payments and settlements systems, and internal audit and accounting.

2000–2005: Visits by MFD experts on banking supervision, payments and settlements systems and internal audit.

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

2002–present: Visits by MFD foreign exchange reserve management experts.

2004: MFD AMLT and CFT advisor.

2005: MFD mission on internal audit.

2002: STA participation in BEAC's workshop in monetary statistics.

2001, 2004: IMF safeguards assessments.

2001: STA mission on monetary and financial statistics (preparation of the IFS page for CEMAC).

Appendix II

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Draft Public Information Notice (PIN) No.
FOR IMMEDIATE RELEASE

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

IMF Concludes 2008 Discussion on Common Policies of Member Countries with CEMAC

On [August 8th], 2008, the Executive Board of the International Monetary Fund (IMF) concluded the discussions on Common Policies of Member Countries with CEMAC.[1]

Background

The CEMAC region experienced a rebound in economic activity in 2007 but continues to face medium-term growth and development challenges. Growth reached 4.0 percent, due to significant to improvements in several non-oil sectors, notably in Gabon, Congo and Equatorial Guinea. Oil GDP stagnated, due to a large drop in Congo following an accident at a major oil field, and continued decline in Chad's oil production. Medium term prospects are mixed, as oil production is expected to start tapering off after 2025 but oil dependency has increased. Without decisive action to remove infrastructure bottlenecks, address labor market rigidities, trade barriers, weak financial sectors and business environments, projected non-oil growth will be insufficient to allow for meaningful progress toward the Millenium Development Goals. In

[1]The IMF holds annual regional discussions with the CEMAC region. A staff team visits the region, collects economic and financial information, and discusses with officials the region's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the region's authorities. This PIN summarizes the views of the Executive Board as expressed during the [July 25th, 2008] Executive Board discussion based on the staff report.

spite of the large terms of trade gains since 2000, the region's human development indicators lag behind similar income groups.

Average inflation was low at 0.8 percent in 2007 but pressures due to higher oil and food prices are building up. In 2008, average inflation is projected to be about 4.4 but could edge up to 6 percent, mainly depending on the extent to which oil and food price increases are allowed to pass through to domestic prices. In spite of low inflation, the real effective exchange rate appreciated further in 2007 (by 2 percentage points) as a result of the continued strength of the euro; it now stands at 86 percent of its pre-1994 devaluation level. However, regional averages mask large differences across countries, with Gabon and Equatorial Guinea experiencing larger appreciations.

Fiscal and current account balances deteriorated somewhat in 2007, but should regain strength in 2008 as Congo's oil production normalizes and the other oil-producing countries benefit from higher oil revenues. The overall fiscal surplus excluding grants decreased to 7.9 percent of GDP in 2007 from 10.1 percent in 2006--reflecting smaller surpluses in Cameroon and especially Congo and Equatorial Guinea--while external debt declined to 23 percent of GDP. In spite of record oil prices, the current account surplus declined, mainly reflecting Congo's large deterioration in its trade balance as as result of the oil field accident. Higher capital inflows helped finance further reserve accumulation of about US$ 3 billion in 2007.

Monetary policy became considerably more active in 2007. Monetary aggregates grew at a slower rate (12 percent), due to a lower rate of reserve accumulation and an increase in government deposits at the central bank and with commercial banks. Although it remains very low (7.6 percent of GDP), credit to the private sector grew by 14 percent, driven by credit expansion in Congo, Equatorial Guinea and Gabon. The BEAC raised interest rates on its deposit auctions and accepted all bids by banks, which succeeded in halving the level of excess reserves held by commercial banks at the BEAC.

Overall, the outlook for 2008 is mixed, with downside risks linked to the impact of the fuel and food price crisis. Growth should strengthen to 5 percent, reflecting a rebound in oil production in Congo and higher growth in Cameroon, but inflation could be in the 4-6 percent range. Other downside risks could include further social unrest and political instability.

Reforms approved in April 2007 to strengthen the accountability and representativeness of regional institutions should be promptly completed to allow for concrete progress toward the common market objectives. Although the reforms were resolutely implemented by the BEAC, other regional bodies have yet to complete their transition and continue to lack human and financial resources to fulfill their mandate. Implementation of a Regional Economic Program, to be finalized by July 2008, could help remove infrastructure bottlenecks. Financial sector development issues were addressed at the occasion of a two-day conference in June, held jointly by the IMF and the BEAC in Yaounde. Participants representing all key stakeholders agreed on a comprehensive list of actions and conditions for deepening and accelerating financial sector development within the CEMAC, which follow up on the 2006 regional FSAP.

Executive Board Assessment

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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.

CEMAC: Selected Economic and Financial Indicators, 2003–08

	2003	2004	2005	2006	2007 Est.	2008 Proj.
	(Annual percentage change)					
National income and prices						
GDP at constant prices	5.3	11.5	4.6	1.6	4.0	5.2
Oil GDP[1]	31.1	44.7	-0.9	0.2	-4.4	2.8
Non-oil GDP[1]	4.7	5.9	7.7	5.2	10.3	8.5
Consumer prices (average)	1.6	0.3	3.4	4.2	0.8	4.5
Terms of trade	3.7	1.1	21.6	9.4	0.4	10.7
Nominal effective exchange rate	5.8	3.0	0.0	0.3	2.9	…
Real effective exchange rate	5.5	1.9	1.7	2.4	2.0	…
	(Annual changes in percent of beginning-of-period broad money)					
Money and credit						
Net foreign assets	-1.4	26.4	50.4	53.3	36.0	…
Net domestic assets	3.1	-16.1	-32.6	-34.6	-23.6	…
Broad money	1.7	10.3	17.8	18.7	12.4	…
	(In percent of GDP, unless otherwise indicated)					
National accounts						
Gross domestic savings	33.5	35.7	41.5	41.1	38.9	43.2
Gross domestic investment	26.9	24.1	21.8	21.9	23.1	20.5
Government financial operations						
Total revenue, excluding grants	20.6	21.1	25.0	29.1	29.0	30.8
Government expenditure	19.1	18.7	17.3	19.0	21.0	17.7
Primary basic fiscal balance[2]	6.3	6.9	11.7	14.4	12.0	16.5
Basic fiscal balance[3]	3.2	4.3	9.4	12.7	10.7	15.5
Overall fiscal balance, excluding grants	1.5	2.4	7.7	10.1	7.9	13.0
Non-oil overall fiscal balance, excluding grants[4]	-11.4	-13.4	-13.9	-17.7	-18.6	-18.8
Overall fiscal balance, including grants	2.5	3.0	8.5	20.6	8.8	13.7
External sector						
Exports of goods and nonfactor services	44.0	49.6	55.0	57.1	55.8	60.2
Imports of goods and nonfactor services	38.2	38.7	36.0	39.3	41.6	37.0
Balance on goods and nonfactor services	5.8	10.9	19.0	17.7	14.1	23.2
Current account, including grants	-7.4	-4.7	3.1	3.4	1.2	8.7
External public debt	68.7	60.3	39.4	27.2	25.0	16.1
Gross official reserves (end of period, in millions of U.S. dollars)	1,908.3	3,188.7	5,235.4	9,032.1	12,087.0	…
In months of imports of goods and services	1.6	2.3	3.1	4.4	4.6	…
Memorandum items:						
Nominal GDP (in billions of CFA francs)	17,452	20,173	24,312	26,967	28,311	36,125
CFA francs per U.S. dollar, average	581.2	528.3	527.5	522.9	479.3	...
Oil prices (in U.S. dollars per barrel)	28.9	37.8	53.4	64.3	71.1	116.5
Oil prices (in CFA francs per barrel)	16,793	19,947	28,143	33,608	34,089	...

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

[1]The weighted average of oil and non-oil real GDP growth rates does not always add up to real GDP growth because of the nonadditivity of the underlying index.

[2]Excluding grants and foreign-financed investment and interest payments.

[3]Excluding grants and foreign-financed investment.

[4]In percent of non-oil GDP.