

BUFF/08/129

August 11, 2008

**The Acting Chair's Summing Up
Central African Economic and Monetary Community—Staff Report on Common
Policies of Member Countries
Executive Board Meeting 08/74
August 8, 2008**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the improved surveillance dialogue with the Central African Economic and Monetary Community (CEMAC) and CEMAC's recent progress in reforming regional institutions and advancing toward common market objectives.

Directors welcomed the improvement in macroeconomic conditions in CEMAC, including the strengthening of external reserves and the decline in external debt, while noting the uneven performance across countries. They called for more tangible progress toward the Millennium Development Goals. In this regard, a key challenge will be to develop the non-oil sectors of the economy and strengthen non-oil economic growth, while consolidating macroeconomic stability.

Directors reiterated that key reforms, such as liberalizing labor markets, deepening financial sectors, promoting a more open trade regime, and improving governance and the business environment, would be instrumental in diversifying exports and spurring private-sector-led growth. Directors encouraged the authorities to move forward on the trade reform agenda, most notably by further liberalizing the common external tariff and enhancing trade facilitation.

Directors highlighted the need to strengthen and adapt regional surveillance. They called for better coordination between monetary and fiscal policies, including at the early stage of preparation of national budgets, while advising member countries to develop medium-term expenditure frameworks with regional guidance. Many Directors considered the non-oil fiscal deficit to be a more appropriate indicator of the fiscal stance, given its impact on inflation, and recommended that it be the primary fiscal criterion monitored by regional institutions. Several other Directors, however, were of the view that the non-oil fiscal deficit is difficult to measure, and that use of such a criterion would unfairly treat countries that are not major oil producers.

Directors expressed concern over the impact of higher food and fuel prices on inflation and on the poor. They emphasized the importance of a regionally coordinated policy response to avoid undermining regional integration. They advised that permanent price

shocks be fully passed through to domestic prices, accompanied by well-targeted measures to protect the poor.

Directors welcomed the BEAC's more active liquidity management, noting its success in reducing excess liquidity in the banking system. They encouraged the BEAC to strengthen its monetary policy framework, including through the development of money markets and a switch to market-determined interest rates. A number of Directors recommended that interest rates be raised and be closer aligned to ECB rates in order to anchor inflationary expectations.

Directors noted that improved cash management by member governments would contribute to reducing inflationary pressures. They welcomed the ongoing work to establish the regional government debt market.

Directors noted the importance of adapting regional institutions to the savings needs of member countries. They welcomed the increase in BEAC's remuneration of government deposits. The development of an investment portfolio at the BEAC, following a well-defined strategic asset allocation and consistent with an optimum level of liquid reserves, should increase incentives for repatriation of foreign exchange holdings by member countries.

Directors agreed that the real effective exchange rate remains in line with its fundamental equilibrium level. They considered that the fixed exchange rate regime remains appropriate, given adequate foreign reserves and projected current account surpluses. Given the exhaustibility of oil resources, Directors encouraged member countries to save and invest a larger portion of the oil revenue windfall, and to address urgently the long-standing structural bottlenecks to non-oil sector competitiveness.

Directors welcomed the consultation's emphasis on financial sector issues and the success of the conference on Financial Sector Development in the CEMAC. They noted the comprehensive list of financial sector reform measures agreed by key stakeholders, which are consistent with the FSAP recommendations, and expressed satisfaction that the BEAC has already adopted some of these measures.

Directors welcomed the progress made in implementing the CEMAC institutional reforms that were adopted last year, including the enlargement of the BEAC Board and capital and the creation of the BEAC's Monetary Policy Committee. Directors encouraged the regional authorities to finalize the Regional Economic Program, with emphasis on critical infrastructure projects, and called for greater progress in fostering regional integration.

Directors agreed that the quality of regional surveillance would benefit from improved and harmonized national statistics—particularly on inflation, the balance of payments, and competitiveness—and from more timely publication of data. Directors

welcomed the recent adoption of a medium term regional statistics program and encouraged its rapid implementation.

The views expressed by Executive Directors today will form part of the Article IV consultation discussions on individual members of the CEMAC that take place until the next Board discussion of CEMAC economic policies. The next consultation with the CEMAC will be held on the standard 12-month cycle.