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August 7, 2008

Statement by Mr. He and Mr. Yung on CEMAC
(Preliminary)
Executive Board Meeting 08/74
August 8, 2008

We thank staff for the well-prepared reports—reflecting the fruitful dialogue between the CEMAC authorities and staff—and Mr. Rutayisire for his informative Buff statement.

We commend the authorities' commitment to reforming regional institutions and advancing toward common market objectives. The CEMAC's economic performance in 2007 was mixed, with significant differences across member countries. Overall, oil—the region's dominant export sector—generates a significant share of governments' revenue. The recent spike in international oil prices has provided an opportunity for the region to accumulate reserves from higher capital inflows. However, as oil production in the region is projected to start tapering off after 2025, oil-related growth is expected to be volatile and on the decline. In this regard, the region's longer-term prospects largely depend on its capability to diversify the economy and accumulate adequate savings so that future income flows from the non-oil sector and investments can compensate for shrinking oil revenue over time. As we agree with the thrust of staff's assessment, our comments are limited to a few issues, for emphasis.

To help relieve social pressures from mounting inflation risks, we can understand that short-term measures—such as reducing external tariffs on key food items— are difficult to avoid, at least at this juncture. We hope these administrative measures or untargeted subsidies are temporary and will not distort the smooth functioning of the markets in the longer run. It is also important to ensure proper coordinated responses at the regional level. Uncoordinated efforts may undermine the regional integration in process or create unproductive incentives such as smuggling, as staff rightly points out.

Non-oil fiscal deficits are an important determinant of regional inflation. The Selected Issues paper explains staff's findings in a clear and concise manner. Staff considers that non-oil fiscal deficits as a share of non-oil GDP is a more appropriate indicator of the fiscal impulse and should replace the traditional fiscal convergence criterion. We fully share staff's view on the relevance of monitoring non-oil fiscal deficits. However, we also realize how challenging it would be to select appropriate target non-oil fiscal deficits acceptable to each member country. *Would staff share with us the feasible methods to help determine the appropriate target for each member country?* Without a commonly agreed method, we believe that it may be difficult for the authorities to implement such a proposal in the region.

We reckon that the CEMAC region's capability to save, and productively invest, oil windfalls is crucial to its stability over the long run. Hence we join staff in urging the BEAC to be more proactive in increasing member countries' incentives to save their oil revenue by offering financial instruments with more attractive remuneration than currently available. At the same time, we see further room to strengthen the BEAC's reserve management capacity. We expect that the on-going technical assistance can contribute further to this.

We fully share the serious concern on the continuing deterioration in non-oil sector competitiveness and the increasing dependence on oil in the CEMAC region. Declining terms of trade and profitability of non-oil exports and narrow non-oil export bases are worrying signs. In addition, physical infrastructure and human development indicators lag behind similar groups of countries. In this regard, prioritization of spending in favor of physical capacity building for diversification and long-term growth is essential. *We would appreciate staff's view on the intertemporal choice of savings.* We also encourage the authorities to accelerate the non-oil growth by speeding up structural reforms, fostering investment in the non-oil sector, and improving the business climate and governance. It is also advisable for the authorities to pursue a coordinated approach to removing obstacles to economic diversification.

The fixed exchange rate regime has helped maintain inflation and provides a transparent anchor for economic policies in the CEMAC region. We agree that the REER remains consistent with its fundamental determinants and with external sustainability. Nevertheless, long-term external stability still hinges on successful economic diversification and greater non-oil growth.

With these remarks, we wish the authorities success with their macroeconomic management and regional integration efforts.