GRAY/08/2919

August 8, 2008

Statement by Mr. Nogueira Batista and Ms. Florestal on CEMAC
(Preliminary)
Executive Board Meeting 08/74
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The oil boom is giving the CEMAC countries an opportunity to achieve rapid growth and to increase the degree of attainment of the MDGs through sensible investments in human capital, infrastructure and other business enhancing initiatives. Despite the relatively high level of volatility in growth and inflation, the CEMAC region has fared better on average than several other sub-regions in Africa (Ref. Text Table 1). At the same time, the large reliance of all but one country on the petroleum sector for foreign exchange and fiscal revenues is worrisome even if oil reserves are to peak in the next two years and only be depleted entirely in about twenty to thirty years for most member countries. We welcome CEMAC's governments' pledge to enhance efforts to increase their absorptive capacity, their commitment to promote greater integration and their engagement to seek greater diversification for their economies. Differences in several macroeconomic indicators among member countries seem to be due to idiosyncratic characteristics. Therefore, the finalization and implementation of the Regional Economic Program (set now for end of 2008) is of utmost importance in strengthening the economic and monetary community.

We understand that present fiscal convergence criteria are not binding for most countries of the CEMAC. However, we are not convinced that presently the fiscal convergence criteria should be modified to cover only non-oil fiscal deficits. As Mr. Rutayisire pointed out in his helpful Buff statement, "setting convergence targets for non-oil fiscal deficits is bound to force countries to save the bulk of their oil resources" while rapid diversification of the economic base can be achieved by most member countries only if massive investments are made with the oil windfalls. Moreover, this approach would introduce bias and unfairness given that at least two countries' (CAR and Cameroon) economies are not dominated by the oil sector and that one of them –CAR, which is not an oil producer – has not been able to respect the basic fiscal balance convergence criteria at all in recent years. Moreover, for two other economies (Congo and Equatorial Guinea), non oil revenues represent less than ten percent of total fiscal revenues.

Staff recommends that CEMAC countries "save or productively invest a larger portion of their oil windfalls" while noting the limited absorption capacities of member countries. We would have preferred a stronger emphasis in the staff report on measures to increase absorptive capacity. Saving more today to finance greater imports tomorrow is not the solution. We are prone to think that the provisions of mandatory government deposits at the BEAC already provide an adequate base for savings by member countries particularly through the FFG. Ensuring compliance to the mandatory repatriation rule should be a key priority. The recent increase of remuneration of these deposits, which reduces the gap with market returns, should help in this regard. A related issue is that of adequate international reserve levels. While we welcome staff's conclusion of the adequacy of its present level, we would have liked to know more about the similarities and/or differences between staff's assessment and the BEAC's study on the optimum level of reserves particularly for the future.

The BEAC has been able to decrease significantly excess liquidity in 2007. As staff points out in one of the issues paper, "phasing out statutory advances would have the advantage of eliminating another source of liquidity creation". However, appropriate timing and sequencing of measures are critical. Adequate account has to be taken of each country's capacity to improve treasury management and develop debt management strategies in a short lapse of time.

The recent removal of the interest rate ceiling is important in signaling the authorities' determination to move towards more market-based policies. We would have liked to see a clarification of the reasons for the elimination of the penalties for outstanding advances at the BEAC that staff mentions in the useful update.

Coordinated responses to the food price hikes are recommended and the survey being taken by the CEMAC Commission is a sensible step towards the harmonization of responses. While in general, like staff, we would tend to prefer targeted subsidies, we wonder if there are structures in place for such endeavors in all CEMAC countries and if substantial savings are anticipated by going in that direction as opposed to maintaining existing near-term measures.

We recognize that it should be a country's responsibility to ensure that its transactions are in conformity with its national legislation and international conventions it would have adhered to. We remain, nevertheless, rather surprised that the World Bank engaged in a transaction with Gabon irrespective of its non observance of the reserve pooling compliance policy.