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November 12, 2009

Statement by Mr. Talbot and Mr. Ward on CEMAC
(Preliminary)
Executive Board Meeting 09/113
November 13, 2009

We thank staff for their concise and informative paper on the Common Policies of CEMAC Member Countries, and Mr Rutayisire for his helpful buff statement. It is encouraging to see that the staff and authorities had fruitful discussions and managed to reach consensus on the majority of issues. We also welcome staff's continuing support to the authorities, including through the MCM resident advisor.

The global crisis has had a significant negative impact on the volume and prices of exports from CEMAC countries, and consequently resulted in a deterioration of current account and fiscal positions. Despite the Community exporting a range of commodities, prices have collapsed across almost all of these and led to a reduction in the terms of trade of more than 30 percent. The extent of the shock is clear from the fact that the Community has moved from a record fiscal surplus to a record fiscal deficit in the space of one year.

Notwithstanding these challenges, the relatively robust positions of individual member countries prior to the crisis have helped the Community weather the impact of the crisis better than would have otherwise been the case and the authorities are to be commended for action taken to date. The loosening of fiscal policy relative to pre-crisis plans should further help to mitigate difficulties, although we agree with staff that the authorities should anticipate significant fiscal tightening in the next few years once recovery is well-rooted in order to reduce the non-oil deficit to a sustainable level.

The non-oil sector is central to drive growth in future years, especially given the projected decline in oil production. We welcome the CEMAC authorities' active efforts to reduce the region's dependence on the oil sector in the long-term, and both authorities' and staff's views that long-run sustainability should be gauged in terms of non-oil fiscal deficits. *However, could staff clarify whether it is the case that the long-run sustainable norm for Equatorial Guinea should be as large as minus 18.5 percent given the particularly sharp decline in projected oil production for the country as set out in figure 4?*

We note from Mr Rutayisire's statement that the regional authorities recently agreed changes to allow the use of SDR resources by national authorities. Given the non-concessional nature of SDR resources, we would support Staff's suggestion to use these resources to allow countries to mitigate short-term financing constraints, where additional spending would be consistent with prudent macroeconomic policies (and where the budget could support non-concessional financing), rather than, for example, simply using these resources to finance recurrent spending. *Could Staff clarify what the recent changes mean for the potential use of these resources?*

We support the CEMAC Multilateral Surveillance Framework to monitor convergence and welcome Table 6 in the paper which usefully sets out performance to date. While breaches of criteria have increased in 2008 and 2009 (particularly on inflation targets) due to the twin crises, it is important that members focus on meeting targets again over the medium term. In the absence of any sanctions, we hope that peer review by the Community will help to hold member countries to account.

It is concerning to see that weaknesses in the foreign reserves management and possible violations of investment rules have resulted in avoidable losses, and so we support the staff's view that safeguards need to be improved and reserves management strengthened to prevent similar violations in the future. *Could staff also comment on the current appropriateness of BEAC's investment rules?*

We welcome the external stability analysis in the Staff paper. We agree that the forward-looking analysis on the decline in oil production emphasises the need for a tighter fiscal position to ensure sustainability in the fixed exchange rate. Improved efficiency in spending should help secure greater stability; however, going forward it will be important for the authorities to monitor progress carefully.

On financial sector stability, it is encouraging to see the authorities are now taking action on institutions with significant recapitalization needs. However, it is concerning to see that there have been postponements in resolving and mitigating negative spillovers from the fourth case, particularly given the possible involvement of fraudulent loans. We also share staff's doubts regarding the lack of capacity within COBAC to inspect adequately and on a timely basis the various institutions in the banking sector. *Will staff be providing technical assistance to the authorities to help them resolve issues relating to the intended introduction of regional deposit insurance for small depositors?*

Finally, we welcome the update on the issue relating to fraud at the Paris office of the BEAC and the authorities' efforts to initiate legal actions and to take steps to address existing weaknesses relating to the governance and management of funds and so prevent a recurrence of activities. This is clearly an issue of grave concern that poses significant risks and challenges to the Fund's ability to provide support to member countries. We support the

necessary short-term remedial actions outlined by the Staff as a precursor to the completion of further reviews, or the agreement of new programmes, and urge the authorities to take these steps as soon as possible. *However, longer-term measures should also be taken forward as swiftly as possible and we would welcome further information on what is being proposed for these. We would also welcome staff's comments on whether the requested short-term actions have been forthcoming from relevant authorities, for example, ahead of the Republic of Congo's second review under the PRGF which is due before the end of November.*