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November 12, 2009

**Statement by Mr. von Stenglin and Ms. Meyer on CEMAC
(Preliminary)
Executive Board Meeting 09/113
November 13, 2009**

We thank the staff for their informative report and Mr. Rutayisire for his helpful buff statement. We broadly concur with the staff's analysis and recommendations.

Plummeting oil prices in the last 12 months have dramatically changed the economic environment and outlook for CEMAC countries. Last year, near-term considerations focused on the macroeconomic consequences of surging oil revenues, while this year governments had to deal with a sudden and considerable retightening of budget constraints.

1. **We welcome the staff's assessment that the macroeconomic policy response to the global financial crisis appears to have been appropriate and commend the authorities in this regard.** We understand, however, that there is concern about the fiscal stance of one of the CEMAC countries during the crisis. It would be interesting to learn from the staff to what extent the CEMAC Multilateral Surveillance Framework will apply in this context.

2. **The crisis has dramatically emphasised the need for tackling the problems arising from the volatility of oil-related export earnings and reaffirms key recommendations made at last year's consultation and before.** Strengthening the public financial position and diversifying the CEMAC countries' economies remain key necessities to insure against volatile oil prices. The staff's forward looking assessment of declining oil production and the related assertion that, under current policies, the exchange rate is 20-40% above its long-run sustainable level, indicates a lack of competitiveness and unsustainable public finances. We therefore encourage authorities not only to bring their budgets into line with longer-term challenges, but also to step-up their efforts toward strengthening the resilience of the economy by encouraging financial development, improving the investment climate and raising the performance of key institutions, including BEAC. These are long-standing issues, and we welcome Mr. Rutayisire's statement that CEMAC aims for

deepening its collaboration with the Fund and to seek its technical advise.

3. The case for actions on the institutional environment is impressively made by the serious governance problems at the BEAC. The failure of the internal controls, which led to significant losses due to fraud and non-compliance with investment rules, raises serious doubts about the institution's capacity to operate as a fiscal agent, concerning reserve management and, importantly, Fund transactions. We welcome that the authorities have finally provided adequate information and have taken initial steps to address the staff's concerns. We urge the authorities to address the governance problems in a resolute and prompt manner in close cooperation with the staff and that they spare no effort in resolving remaining issues. Against this background, we welcome Mr. Rutayisire's statement that CEMAC's Heads of State will address the issue of strengthening BEAC's internal control mechanisms in the coming days. We agree with Mr. Talbot and Mr. Ward that the implementation of necessary corrective measures is a precursor to the completion of further reviews, or the agreement of new programs of CEMAC countries.

4. Concerning the SDR allocated to the BEAC, it should be kept in mind that they are a rather costly means of financing and that they should be mobilized only for short-term purposes and as a last-resort financing source. In contrast, the fiscal needs in the region are long-term, and foreign currency assets are still relatively abundant in the CEMAC region. Thus, we do not concur with the staff's view that SDRs should be used for this purpose.

5. Financial stability issues should be addressed more decisively by the authorities. We welcome the progress made in updating the prudential and regulatory framework. There should be a swift implementation of the plans to strengthen the regional financial supervisor, COBAC, in terms of qualified staff, and a timely execution of its decisions. The slow action on a major financial group's difficulties, which date back to 2002, is regrettable. Sound financial market regulation is a key factor of a sustainable and sound integration of regional financial markets.