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November 12, 2009

Statement by Mr. Mojarrad and Mr. Ghassemi on CEMAC
(Preliminary)
Executive Board Meeting 09/113
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We thank staff for a concise report and Mr. Rutayisire for his very helpful statement.

1. The CEMAC economies have been severely affected by the global crisis, mainly through the sharp contraction in global demand and the drop in commodity prices. While the level of official reserves remains comfortable and the inflation low, the region's performance is expected to deteriorate significantly in 2009, with a slowdown in growth, a shift to a record current account deficit, and a widening of the fiscal deficit. The regional and national authorities have, in general, adopted appropriate policy responses, and the near term outlook is cautiously optimistic. Looking forward, the authorities need to maintain long-run fiscal sustainability to support growth and reduce poverty, while implementing structural reforms to improve infrastructure, strengthen the business environment, and promote regional integration. We broadly agree with staff assessment and policy recommendations.

2. Given the need for fiscal stimulus in the face of exogenous shock, as elsewhere, and the available fiscal space for most of CEMAC countries, the accommodative fiscal policies in 2009 were appropriate. We welcome the adoption of the non-oil basic balance as a supplementary convergence criterion, and support staff recommendation to elaborate country-specific targets. While implementation will remain challenging, given the diverse situations and trends of non-oil fiscal balances in CEMAC countries, we are assured by Mr. Rutayisire that the authorities remain committed to fiscal adjustment once the recovery takes hold. This said, it would be useful to determine the path toward convergence in the form of indicative annual fiscal adjustments over the medium-term. The long-term sustainable norm shown in Text Table 2 provides a basis for this purpose. Under the circumstances, close coordination between relevant regional and national authorities remains crucial.

3. The BEAC's accommodative monetary policy has been appropriate, given the declining inflation, weaker demand, and comfortable reserve coverage. We welcome the authorities' ongoing efforts toward a more transparent and market-based approach, including the planned introduction of a public debt market in early 2010, allowing BEAC to use government securities for liquidity management. The Fund's technical assistance in this regard would facilitate the planned transition. In view of the currency union's pegged exchange rate and the diverse national fiscal policies, it is encouraging to note the growing support for regional convergence and

strengthened monetary and fiscal policy coordination, especially during budget preparation. We note the indication that the exchange rate is broadly in line with current fundamentals.

4. Strengthening the pooling of reserves is key to supporting the currency union, and we welcome the steps taken to encourage national governments to fully repatriate foreign exchange earnings. The preparation of an asset allocation policy by BEAC, to be followed by the establishment of investment portfolios for member countries, is a step in the right direction. It would need to be supported by strengthened internal controls, enhanced guidelines on optimal reserve management, and effective asset management.

5. We welcome the recent steps aimed at strengthening bank supervision and prudential and regulatory framework in line with the 2006 FSAP recommendations, including establishment of a Financial Stability Committee to analyze financial system vulnerabilities. Early action to strengthen the Central African Banking Commission's human resources will be highly important. It is also crucial to promptly resolve the solvency and liquidity problems of a systemically important financial group through close cooperation among regional and national bodies. Non-performing loans may increase in the context of economic downturn and weak compliance, especially with the limit on single borrower exposure, and should be closely monitored. We also support the plan to introduce a regional deposit insurance for small depositors, which can benefit from the Fund's technical assistance.

6. The recent fraudulent transactions at the BEAC's Paris branch are regrettable and call for strengthening further the bank's overall governance structure and safeguards. Mr. Rutayisire reassures that the fraud has had no impact on the bank's reserves management; and that the authorities have taken wide-ranging remedial and other necessary measures. It is encouraging that an action plan for governance reform will be discussed by the BEAC's Executive Board in December 2009, as indicated by Mr. Rutayisire, and we welcome the intention to modify the central bank's charter and strengthen the mandate of the internal control unit. We welcome the steps taken to address safeguards issues in close collaboration with Fund staff, as highlighted in Supplement 1, and we encourage the authorities to pursue additional remedial actions.

7. We welcome the authorities' commitment to promoting regional integration, as underscored by Mr. Rutayisire. Implementation of the Regional Economic Program should be facilitated by the recently enhanced status of CEMAC Commission, and a credible action plan that could attract donor support. We welcome the authorities' plan aimed at reducing the Common External Tariff in line with that in the West African Economic and Monetary Union; and finalizing discussions on an Economic Partnership Agreement with the European Union. We are also encouraged by other programs toward strengthening intra-regional cooperation, including the increase in the number of cross-border bank subsidiaries; the reform of region-wide payment systems; the increase in cross-border loan syndication; and the increase in the lending capacity of the Development Bank of Central African States.

We wish the authorities every success in their endeavors.