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November 12, 2009

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

1. In the adverse external environment the regional convergence for CEMAC has become even more challenging. While in 2008 the countries could not comply with the convergence criterion on inflation, this year the difficulties have come from the fiscal side. Like the staff, we believe that the temporary deviation from the fiscal adjustment path has been warranted. In the medium term a course towards fiscal consolidation should be restored in order to preserve fiscal sustainability. We would like to better understand whether a coordinated shift towards fiscal tightening would be pursued by the authorities, and if so, how it would be implemented within the existing multilateral policy framework, and what the associated risks could be.
2. There is a number of areas that require focused efforts from the BEAC. Besides transiting to a more transparent and market-based monetary policy framework, the monetary authorities should address the longstanding problems in the foreign reserves management, which impede full repatriation of foreign exchange earnings. In dealing with this issue, transparency of the reserve management framework is as important as the financial incentives. The monetary authorities are rightly focused now on setting a clear framework for splitting the assets between liquidity and investment funds.
3. We are concerned about the weaknesses in the BEAC's governance structure, which made for the fraud in the operations of its Paris office. The authorities initiated the investigation of the matter and undertook disciplinary procedures. However, deeper reforms of the BEAC's governance and organization are absolutely necessary, and we encourage the authorities to implement those reforms. We note the divergence in the staff's and the authorities' judgment, expressed in the Buff statement, on whether the revealed weaknesses in the BEAC's governance structure can hamper the BEAC's ability to safeguard Fund resources and we would appreciate further comments.
4. In dealing with financial stability issues, close cooperation between the COBAC and

the national authorities is crucial. We are interested to hear the staff's view on the reasons why Chad's government does not support the COBAC's decision related to the restructuring plan of the Chadian subsidiary of the problematic banking group.

5. Like the staff, we urge the authorities to recruit and train the personnel for banking supervision as soon as possible in order to keep up with the pace of financial sector development. The staff could help the authorities to find the interim solutions. We also support the authorities' request for technical assistance on introduction of a deposit insurance scheme. As the introduction requires a number of preparatory measures, the authorities might need to postpone it.

6. We wish the authorities every success on their way towards regional integration.