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**Statement by Mrs. Zajdel-Kurowska and Mr. Gasiorowski on CEMAC**
**(Preliminary)**
**Executive Board Meeting 09/113**
**November 13, 2009**

The global crisis has a significant impact on the region, as seen by the record current account deficit, lower economic growth and subdued inflation. The fiscal policy response seems adequate in the short-term as countries have mostly kept their spending at planned levels while revenues have fallen. However, the authorities should not loose sight of long-term sustainability issues. We are very concerned about the large fraud discovered at the BEAC's Paris office. We agree with staff's recommendation for strong remedial measures and urge the authorities to deal with this matter in an exemplary way.

1. CEMAC's economic growth is at its lowest in nine years. We would like to know to what extent this crisis - and the subsequent policy response - has brought closer the economic convergence of member countries. The major worry is the poor performance of the non-oil sector. In that respect, urgent structural reforms are needed to improve productivity, to diversify production and to enhance regional cooperation.

2. We are concerned that the non-oil primary deficits (NOPD) are widening, while they were already unsustainable at the onset of the crisis. Therefore, we welcome both the inclusion of the NOPD as a new convergence criterion and the announced fiscal tightening in 2010. What are the specific measures foreseen to achieve this consolidation? Further, we recall that last year's Selected Issues chapter identified the fiscal stance as an important driver of inflation. Since deficits are currently rising while inflation is falling, is there an intention by staff to revisit this issue?

3. On the monetary side, it remains difficult to judge whether the accommodative policy stance has had any impact so far, but it is mostly structural changes that require attention. A more market-based liquidity framework and the introduction of a public debt market are steps that will contribute to enhancing the effectiveness of monetary policy. In the same vein, we

would advice to be cautious in interpreting results of the forward looking analysis of the REER. Staff rightly note that the analysis has to assume the declining oil production. Nevertheless, the lower oil production would most probably imply a structural break in the economy thus calling for a better judgment.

4. The most important and urgent measures are to significantly improve governance at the BEAC, especially in light of recent events. First, the mandate of the central bank should be specified to clarify the types of credit that do not correspond to the provision of short-term liquidity. Second, the low level of repatriation of foreign exchange earnings is symptomatic of the low returns. In that context, a report noted that a single country represents 60 percent of all deposits and 40 percent of the reserves at BEAC. Could staff explain what consequences for efficiency and governance this dominance by one country could have? Third, the recently discovered large fraud raises serious doubts about the governance structure and political interference. Addressing these issues decisively is crucial for safeguarding Fund resources. We agree with the staff's proposed remedial measures and will make sure that this is addressed in the next program reviews (i.e, the Republic of Congo is scheduled shortly). In parallel, we expect the Fund to continue to support the authorities in their endeavors to strengthen control measures at the BEAC. We would also welcome staff's explanation as to how and when they were first informed about these irregular activities.

5. The safeguards issues, together with lack of binding rules for enforcement of the fiscal prudence within the CEMAC raises the question on the appropriateness of the staff’s suggestion to change the existing regulations on the SDR allocations.

6. The financial sector is a cause for concern too, and we urge the authorities to take decisive action in this area. Financial difficulties, in particular large recapitalization needs threaten financial sector stability and represent significant potential fiscal liabilities in the context of current, unsustainable fiscal policies. These financial difficulties must be dealt with swiftly, within a proper framework, and without political interference. The efforts to improve prudential regulation need to be combined with enhanced administrative capacity.