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

Despite contraction in external demand, slowdown in GDP growth and widening deficits, the near-term outlook for recovery and growth is positive. Challenges remain, not the least of which is the need to develop the non-oil economy and return to sustainable fiscal paths. In addition, the structural impediments to growth in the region are well-known and efforts to continue regional infrastructure development and improve the business climate are of critical importance to long-run growth and productivity. Overall, we agree with the staff's analysis and recommendations and urge the authorities to make concerted progress addressing BEAC governance issues.

Macroeconomic Policies

The crisis has clearly highlighted weaknesses in the CEMAC country economies. Had countries developed stronger counter-cyclical management of oil revenues, these funds could have been used to aid in recapitalizing the BDEAC and provided additional room for fiscal stimulus. We encourage the authorities to develop this framework. Additionally, we are very supportive of the authorities' intentions to enhance monetary policy management, as referenced in Mr. Rutayisire's statement. Introduction of a public debt market and improvement of the payments system will improve transparency and liquidity management by the monetary authorities. More broadly, the staff's views on whether market integration is progressing satisfactorily with the Regional Economic Program would be welcome.

Countries with adequate financing eased fiscal policy appropriately in order to support growth in light of the global downturn. While a more expansive fiscal stance is appropriate in the near term, fiscal consolidation is critical to medium-term sustainability. We echo the staff's concerns about Equatorial Guinea's dramatic departure from fiscal sustainability and encourage the authorities to address this issue. Going forward, the key challenge will be to improve the efficiency of spending in order to create space for necessary social and productivity enhancing expenditures.

Regarding the proposed use of the SDR allocation, we agree with Messrs. Talbot and Ward that it should be used only to mitigate short-term financing constraints in the context of otherwise prudent macroeconomic policies rather than using these resources to finance recurrent spending, particularly when debt levels cannot sustainably support non-concessional finance.

Financial Sector

While there has been some progress strengthening the prudential and regulatory framework, weaknesses in the banking sector still present an obstacle to the development of the private sector and put financial stability in jeopardy. The staff's findings that structural problems have deepened is disconcerting. Despite the recent actions taken by COBAC regarding supervision, more work and a stronger commitment to reform is needed, particularly regarding the urgent staffing constraints at COBAC and the need to address identified vulnerabilities in the banking sector. In this regard, we welcome the authorities request for further technical assistance from the Fund in this area.

BEAC Governance Issues

We are pleased that the BEAC authorities have acted quickly to address the recently discovered fraud at BEAC's Paris office, strengthen controls, and reform BEAC's governance. Governance reforms have been on the agenda for awhile and we hope that this incident provides the incentive needed to pursue fundamental improvements in internal controls, auditing procedures, and oversight.

We commend the new Gabonese authorities for recalling BEAC's previous governor and holding accountable all Gabonese officials involved in the fraudulent activities. We hope that the new Gabonese governor, as well as BEAC's new executive team, send a clear message that such practices, which compromise BEAC's credibility in safeguarding IMF funds, will not be tolerated in the future.

We note that the BEAC and CEMAC authorities are working closely with the Fund to resolve the safeguard issues and that initial actions were taken to ensure that CEMAC country reviews can be presented to the Board. This is a welcome step forward, particularly since we will be reviewing the Republic of Congo on November 30. We encourage the staff to provide an update on BEAC's progress in addressing governance issues in any future reports on CEMAC countries.