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November 12, 2009

**Statement by Mr. O'Sullivan and Mr. Sajkunovic on CEMAC
(Preliminary)
Executive Board Meeting 09/113
November 13, 2009**

We thank staff for their report on the common policies of the members of the Central African Economic and Monetary Community (CEMAC) and Mr. Rutayisire for his helpful buff statement. We welcome this regional complement to the individual Article IV consultations with the CEMAC member states.

Over the past year, the decline in commodity prices and demand due to the global recession has severely impacted the region. For the most part, the authorities have responded appropriately to the challenges via countercyclical fiscal measures and an accommodative monetary stance. However, given the initial challenges surrounding fiscal sustainability in many member states, medium-term fiscal consolidation will be one of the most important policy challenges for the region. We are therefore pleased to see Mr. Rutayisire reassurances in his statement that the authorities remain committed to fiscal adjustment once the recovery takes hold and the agreement to focus greater attention on the non-oil primary balance in policy planning.

We also support the recent efforts to improve co-ordination of monetary and fiscal policy, as this remains vital to reducing macroeconomic volatility and ensuring the credibility of the currency union and the exchange rate peg.

On the exchange rate, we note that the REER seems to be broadly in line with fundamentals, but that long-term term picture is more opaque. We view the keys to long-term external stability as being greater internal policy coherence, regional integration and a reduction in the region's dependency on the oil sector. As such, an immediate developmental challenge will be to accelerate structural and other reforms to diversify the region's economy, enhance growth prospects and competitiveness, and further advance regional integration policies and trade (which remains low). In this respect, we urge the authorities to accelerate measures to improve the business enabling environment, particularly by reducing red tape, investing in infrastructure (including regional transportation links), and improving governance.

The recent steps undertaken by the authorities to improve financial sector oversight and

stability are welcome. However, we continue to be concerned about a number of weaknesses in the banking sector. We would welcome staff comments on two specific areas. First, we have taken note of the acute shortage of bank inspectors and supervisors as well as the authorities intentions to address this issue by 2011. *Why will it take so long to address this critical issue? Is it a question of capacity where TA (including from the Fund) could be engaged to accelerate the timeframe?* Second, we have also taken note of the large number of banks in the region breaching the limit on exposure to a single borrower, particularly in Chad, Cameroon and the Central African Republic. *What is driving this high concentration of exposure?*

Finally, with respect to the BEAC we welcome the corrective measures that have been taken by the authorities to resolve the immediate safeguard issues identified in the aftermath of the case of fraud. We look forward to further remedial actions over the medium-term as well as further updates on this important issue from staff as more information becomes available.

With these comments we wish the CEMAC authorities well.