

# IMF Executive Board Concludes 2012 Discussion on Common Policies of Member Countries of the Central African Economic and Monetary Community

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On June 18, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the annual discussions on Common Policies of Member Countries with the Central African Economic and Monetary Community (CEMAC).

## Background

The CEMAC economy is dominated by oil. Five of the six CEMAC countries are oil producers, and oil accounts for 41 percent of regional GDP and 86 percent of total goods exports. Channeled through government spending, oil revenue is the main driver of economic activity. However, despite the oil wealth, it is unlikely that the region will meet the Millennium Development Goals by 2015.

Owing to high oil-related inflows, macroeconomic performance was strong in 2011. Real GDP growth in 2011 fell slightly compared to 2010, driven by a decline in oil output. Despite inflation slightly above the convergence criterion of 3 percent and high excess liquidity, the Banque des Etats de l'Afrique Centrale (BEAC) left its policy rate unchanged. The region's non-oil primary fiscal deficit widened, driven by public investment. Public debt remained low at about 18 percent of GDP, as the scaled-up investment is primarily financed from buoyant oil revenue. Owing to high commodity prices, the current account deficit narrowed despite high import demand

from the expansionary fiscal stance. Consequently, international reserves strengthened to about five months of total imports or nearly 100 percent of broad money in 2011.

While progress has been made in improving the convergence criteria, the CEMAC is facing challenges from deep-seated structural problems. The ongoing crisis in the euro area has brought to the forefront a currency union's policy challenges stemming from loss of competitiveness, lack of fiscal coordination, and loose economic and financial integration. To that end, the authorities are facing challenges in four areas: (i) ensuring fiscal policy coordination and external sustainability; (ii) improving the conduct of monetary policy; (iii) ensuring financial stability and development; and (iv) enhancing growth and competitiveness. To this end, there is an urgent need to further strengthen the CEMAC's common institutions.

### **Executive Board Assessment**

Directors welcomed the CEMAC region's good macroeconomic **performance in 2011, underpinned by high oil-related inflows**. The external position strengthened and international reserves increased. Directors noted that while the region's economic prospects remain favorable, it is vulnerable to external developments and challenges arising from structural weaknesses.

Directors commended the authorities for the progress made in improving the convergence criteria but emphasized the need to address the uncoordinated fiscal policy, financial sector weaknesses, and obstacles to growth and competitiveness. In this context, they stressed the importance of strengthening the regional surveillance framework to ensure fiscal coordination. A more efficient and transparent public financial management and binding fiscal rules, cast in a medium-term fiscal framework, will be critical to ensure fiscal sustainability.

Directors underscored the need to expedite monetary policy reforms. Key priorities should be to strengthen monetary analysis, rationalize monetary policy instruments, harmonize the required reserves ratios, and develop the regional government securities and interbank markets. Directors noted that foreign exchange reserves are adequate and that the real exchange rate appears to be broadly aligned with economic fundamentals in the region. They stressed, however, the importance of compliance with the rule for pooling reserves at the Bank of Central African States and highlighted the need to reform the management of oil savings.

Directors urged the authorities to accelerate financial sector reforms. These should include measures to resolve the situation of financially weak banks, strengthen the prudential and regulatory framework, and further develop the financial sector.

Directors called for stronger efforts to foster further integration, strengthen growth, especially non-oil sector growth, and boost competitiveness. They highlighted the importance of reducing the common external tariff, removing

non-tariff barriers to internal and external trade, and addressing regional labor market mobility issues and infrastructure bottlenecks.

Directors encouraged the authorities to further strengthen the governance of the CEMAC's common institutions, notably, making further progress with the BEAC's reform agenda, and enhancing the capacity of the regional banking supervisor (Central African Banking Commission). They considered that it is important that the CEMAC Commission's administrative capacity be commensurate with its role in fostering trade and regional integration. Directors urged the authorities to put in place stringent mechanisms in all regional institutions to ensure transparency and accountability.

The views expressed by Executive Directors today will form part of the Article IV consultation discussions on individual members of the CEMAC that take place until the next Board discussion of CEMAC common policies.

#### CEMAC: Selected Economic and Financial Indicators, 2007–13

	2007	2008	2009	2010	2011	2012	2013
					Est.	Proj.	Proj.
	(Annual percent change)						
National income and prices							
GDP at constant prices	5.9	4.3	2.4	5.1	4.5	4.6	4.0
Oil GDP	-2.2	-0.7	-5.4	-0.6	-3.1	4.4	3.5
Non-oil GDP	12.2	6.2	6.8	6.3	6.6	5.5	6.4
Consumer prices (period average) <sup>1</sup>	1.1	5.7	4.8	2.4	3.1	3.9	3.7
Consumer prices (end of period) <sup>1</sup>	3.0	7.1	3.0	2.8	5.2	3.9	3.9
Nominal effective exchange rate <sup>1</sup>	3.1	3.2	-0.1	-4.1	1.2	...	...
Real effective exchange rate <sup>1</sup>	0.9	5.1	3.2	-4.3	-0.3	...	...
	(Annual changes in percent of beginning-of-period broad money)						
Money and credit							
Net foreign assets	35.6	30.2	-13.5	-4.7	12.6	...	...
Net domestic assets	-20.5	-12.7	20.1	27.8	0.3	...	...
Broad money	14.3	17.5	6.6	23.2	12.9	...	...

(Percent of GDP, unless otherwise indicated)

Gross national savings	28.0	28.5	22.1	24.5	25.0	24.1	24.6
Gross domestic investment	23.1	21.2	27.4	28.4	26.9	25.9	25.0
Of which: public	7.9	8.8	13.6	12.0	13.3	12.8	12.0
Government financial operations							
Total revenue, excluding grants	27.8	30.6	26.0	25.6	27.2	26.6	25.8
Government expenditure	19.8	20.8	27.5	25.0	25.5	24.8	24.0
Primary basic fiscal balance <sup>2</sup>	9.7	11.7	1.1	3.1	4.9	6.1	4.7
Basic fiscal balance <sup>3</sup>	8.6	10.7	0.4	2.4	3.9	4.8	3.9
Overall fiscal balance, excluding grants	8.0	9.7	-1.7	0.4	1.5	1.6	1.7
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-18.1	-23.3	-26.2	-25.8	-28.9	-27.5	-23.7
Overall fiscal balance, including grants	8.8	10.2	-0.6	1.2	2.3	3.7	3.4
External sector							
Exports of goods and nonfactor services	56.0	57.4	47.1	52.6	58.6	56.3	54.2
Imports of goods and nonfactor services	35.3	35.2	42.2	42.9	44.5	41.8	38.4
Balance on goods and nonfactor services	20.7	22.2	4.9	9.7	14.1	14.4	15.8
Current account, including grants	4.9	7.3	-5.3	-3.9	-1.9	-1.6	-0.3
External public debt	22.7	15.6	16.1	11.6	12.1	12.3	12.7
Gross official reserves (end of period)							
Millions of U.S. dollars	11,937	15,662	14,354	13,658	15,925	19,543	24,575
Months of imports of goods and services	5.3	7.2	5.7	4.5	5.0	6.4	7.9
Percent of broad money	119.9	125.1	113.4	91.9	94.9	102.3	112.9
<i>Memorandum items:</i>							
Nominal GDP (Billions of CFA francs)	29,559	35,326	30,231	35,986	41,705	46,262	48,630
CFA francs per U.S. dollar, average	479.3	447.8	472.2	495.3	471.9	...	...

Oil prices (US dollars per barrel)      71.1      97.0      61.8      79.0      104.0      114.7      110.0

Sources: Authorities' actual data and IMF staff estimates and projections.

<sup>1</sup> CEMAC data are weighted by GDP in purchasing power parity US dollar.

<sup>2</sup> Excluding grants and foreign-financed investment and interest payments.

<sup>3</sup> Excluding grants and foreign-financed investment.

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