

Central African Economic and Monetary Community—Paper on Recent Developments and Regional Policy Issues; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director on Recent Developments and Regional Policy Issues in the Central African Economic and Monetary Community

As a supplement to the Article IV consultations with Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon, the IMF has regular discussions of developments and regional policy issues in the Central African Economic and Monetary Community (CEMAC). In this context, the following documents have been released and are included in this package:

- the paper on recent developments and regional policy issues in the **Central African Economic and Monetary Community**, prepared by a staff team of the IMF, following discussions that ended on **March 22, 2002**, with officials of the CEMAC on economic developments and policies. **Based on information available at the time of these discussions, the paper was completed on May 31, 2002.** The views expressed in the paper are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- the Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during the **June 14, 2002** Executive Board discussion of the paper.
- a statement by the Executive Director on recent developments and regional policy issues in the CEMAC.

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**Central African Economic and Monetary Community:
Recent Developments and Regional Policy Issues**

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs,
Policy Development and Review, Research, and Statistics Departments)

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May 31, 2002

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Executive Summary

- **The CEMAC region benefited in 2000-2001 from favorable world oil prices.** This helped to improve the public finances and to strengthen the BEAC's reserve position. **But inflation increased to 4 percent in 2001, due to pressures from high domestic demand growth,** which rose by 12 percent in real terms, and was fed by growth in credit to governments.
- **Prospects for 2002 are for continued strong growth in domestic demand and an opening up of trade imbalances.** GDP growth is likely to remain strong, and inflation to increase further.
- **The regional monetary policy of the BEAC needs to respond to the inflationary pressures, by mopping up liquidity.** However, incomplete integration of financial markets and the obligation to provide statutory monetary financing to governments make monetary control difficult. Reforms (to the payments system, and the elimination of monetary financing of government deficits) are underway to improve the effectiveness of the BEAC's instruments and the financial integration of the region.
- **The banking system is in better shape than in recent years,** but still does not operate in an integrated fashion across national borders despite the possibility of obtaining a regional banking license. The regional banking supervisory agency, the COBAC, needs to be strengthened to prevent renewed problems and to encourage regional financial integration. The ad hoc attachment of commercial bank accounts needs to be addressed by changes to Cameroon's business law, and the immunity status of the BEAC needs to be clarified.
- **Regional surveillance over fiscal policies could be improved by taking into account the volatility of oil prices.** Further fiscal consolidation is needed to provide firm support to the common exchange rate regime. Convergence criteria should be adjusted for movements in oil prices, because otherwise they are too lax when prices are high. Countries must also be induced to increase national saving before oil reserves become depleted. Though funds for future generations may help in the process, they need to be designed to embody adequate safeguards, and to ensure consistency with the obligation to pool external assets in the monetary union.
- **The CEMAC has initiated a number of projects that aim at furthering regional integration, including trade liberalization, the harmonization of taxation, facilitating movements of persons and inputs to production, enhancing multilateral surveillance, and implementing sectoral reforms.** While efforts have borne fruit in some areas, in others progress has been slow and there has not been sufficient political will to implement agreed measures. The common external tariff rates need to be fully implemented, and barriers to regional trade dismantled.

I. INTRODUCTION

1. This paper reports on the staff's discussions with senior officials of the Central Bank of Central African States (BEAC), the Regional Banking Commission (COBAC), and the Executive Secretariat of the Central African Economic and Monetary Community (CEMAC) that were held in Yaoundé (Cameroon) during March 19-22, 2002.¹ It provides a regional dimension to the Executive Board's discussions of Article IV consultations with the six member countries of the CEMAC: Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon.

2. The Executive Board discussed the regional dimension of Article IV consultations with the six member countries of the CEMAC in May 2001 (SM/01/111, 4/17/01). Directors noted that in 2000 sharp increases in export earnings and government revenue in the oil-producing member countries had led to a large reduction in fiscal and external imbalances, as well as to a strong recovery in the BEAC's international reserves. They observed, however, that an acceleration of the pace of economic integration would enhance CEMAC credibility, and encouraged the authorities to establish a solid framework for close coordination of fiscal and structural policies. Directors also urged the BEAC to improve the conduct of monetary policy, and to take steps to strengthen the functioning of the regional interbank money market. At the same time, they expressed concern about the continuing fragility of the banking sector, and underscored the importance of strengthening COBAC and keeping it free from political interference.

3. This paper is organized as follows. Section II summarizes recent economic developments and prospects. Section III discusses regional integration and multilateral surveillance, in particular issues arising in the context of managing oil revenues, monetary policy, and financial sector reform. The main conclusions drawn by the staff are summarized in section IV.

II. RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

A. Developments in 2001

4. **Oil market developments continued to dominate the short-term economic performance of the region. In the wake of high oil prices for most of the year, domestic consumption and investment expanded strongly, supported by an accommodating monetary policy. As a consequence, consumer prices rose by almost 4 percent, and the**

¹ The mission met with Mr. Nkuété, Executive Secretary of the CEMAC, Messrs. Mamalépot and Andély, Governor and Vice Governor of the BEAC, and Mr. Madji, General Secretary of the COBAC. The staff team consisted of Messrs. Masson, van den Boogaerde, Wiegand (all AFR) and Durand (MAE). Mr. Keller, the Fund Resident Representative in Yaoundé, assisted the mission. Mr. Ryba represented the World Bank in meetings with the COBAC.

CEMAC's external balance deteriorated (Table 1 and Figure 1). Real GDP in the region grew by 5.4 percent, higher than in the rest of sub-Saharan Africa (Table 2), following 3 percent growth in 2000. This translated into healthy growth of 2.7 percent in real GDP per capita in 2001. Regional growth was broadly based, but strongest in Cameroon, Chad, and Equatorial Guinea (Table 3). Both oil and non-oil GDP increased by 5.4 percent; the former in particular continued to expand rapidly in Equatorial Guinea. Petroleum constitutes more than two thirds of the CEMAC-countries' export receipts and about half of their fiscal revenues (Table 4), and in Chad and the Republic of Congo, non-oil GDP growth reflects almost entirely investments in the petroleum sector, and thus is closely linked to future oil GDP. However, Cameroon, the largest CEMAC economy, recorded broad based, private sector driven non-oil growth of 5.5 percent.²

5. **Although the fiscal position remained strong in 2001, expenditures tended to be procyclical,** with total government revenue increasing from 22.4 to 24 percent of GDP and total government expenditure rising from 19.6 percent to 21.2 percent of GDP (Table 5). After a strong increase in oil receipts in 2000, most of the revenue growth in 2001 was due to improved non-oil revenue collections in all CEMAC countries. The overall fiscal balance remained roughly constant at about 2¾ percent of GDP, as the increase in the primary surplus to 11 percent of GDP was offset by higher interest payments.

6. **The expansion of net bank credit to the government was equivalent to almost 12 percent of beginning-of-period broad money during 2001.** This credit growth was fed by statutory advances from the BEAC to the national treasuries in Cameroon, Gabon, and the Republic of Congo, the permissible level of which increased automatically as a result of a rise in their fiscal oil revenues in 2000.³ Moreover, the Gabonese and Congolese governments drew down deposits with commercial banks that they had built up in the previous year (Tables 6-8). Governments used these additional resources to reduce domestic and external arrears (Cameroon, Gabon, Congo), service larger-than-usual external debt payments (Gabon), and finance the cost of bank restructuring (Congo). As credit to the private sector expanded during 2001 by almost 10.7 percent (6.2 percent as a percentage of beginning-of-period broad money), in particular in Equatorial Guinea, Chad, Gabon and Cameroon, net domestic assets rose by 31 percent (18.6 percent as a percentage of beginning-of-period broad money).

7. **The surge in demand, financed by rapid credit growth, contributed to a substantial deterioration in the CEMAC's external position.** Imports as a share of GDP increased by almost 5 percentage points, while the export share fell by 1½ percentage points

² The overall economic performance of the region is mainly driven by Cameroon and Gabon, which account for 48 percent and 23 percent of the region's nominal GDP, respectively.

³ At present, a country government may in a given year draw up to 20 percent of the previous year's fiscal revenue, including oil receipts, as credit from the BEAC.

as a result of weaker prices for oil and wood than in 2000 (Table 1). As a consequence, both the trade and the current account balances worsened, thus contributing to a loss in the BEAC's international reserves, with the currency cover ratio falling from 77 percent at end-March to 65 percent at end-December (Figure 2 and Table 7). Excess demand led to high inflation in some member countries, notably Chad and Equatorial Guinea, and the zone-wide consumer price index rose by 3.9 percent in 2001. This contributed to **an appreciation of 5.9 percent in the real effective exchange rate, in spite of a depreciation of the CFA Franc against the US Dollar (Figure 3 and Table 9)**. Moreover, the modest fall in petroleum prices during the last four months of the year, albeit from a high level, resulted in a 2.2 percent deterioration in the terms of trade for the whole year (Figure 4 and Table 10).

8. **In spite of the commercial banks' excess liquidity and falling international reserves, the BEAC lowered its bank refinancing rate by half a percentage point to 6.5 percent in September 2001**, while the interest rate on short term (28-day) deposits was lowered by 20 basis points to 3.46 percent in January 2002 (Table 6). The BEAC thereby followed developments in Europe, where interest rates had fallen by almost one percentage point in 2001, squeezing the BEAC's profit margin on commercial bank deposits in the process (Figure 5).⁴ In the absence of the instruments necessary to use open market operations to mop up liquidity, the BEAC introduced statutory reserve requirements in September, stipulating that one percent of sight deposits and ½ percent of savings deposits be held in an account with the BEAC and earn an interest rate of 1.6 percent. Between September and December, the remuneration rate was reduced to 1.1 percent, and at end-December, the reserve requirement ratios were further increased to 2.5 and 1.5 percent, respectively. The BEAC has indicated that it intends to continue employing reserve requirement ratios as the main tool of liquidity management.

B. Prospects for 2002

9. Under the assumption of an annual average oil price of US\$ 20 per barrel – which, in view of recent developments, looks rather low – **real GDP is projected to grow by about 5 percent in 2002**. Oil production should continue to increase in Equatorial Guinea but contract in Cameroon, Gabon and the Republic of Congo. Non-oil GDP is projected to expand by about 5½ percent, led by a continuing investment-driven recovery in Gabon from the sharp recession in 1999, large investments in the petroleum sector in Chad, and a continuation of the broad-based expansion that Cameroon has experienced since 1995. Construction of the Doba-Kribi pipeline will continue to stimulate activity in Chad and Cameroon. As a result of persistently high inflation rates in Equatorial Guinea and Chad as well as a temporary spike in Congo due to the liberalization of oil prices, inflation could increase to 4½ percent on average in 2002, and 5½ percent during the year, in particular if monetary policy continues to be accommodating. **Both external and fiscal balances are projected to deteriorate**. The trade balance is projected to worsen from 10.7 percent to

⁴ The BEAC earns the European money market rate on most of its reserves.

8.5 percent of GDP, while the effect on the current account may be mitigated by lower income repatriations by foreign oil producers (Table 11). To the extent that fiscal discipline would loosen, even sharper imbalances could emerge, though higher than assumed oil prices could lead to a better outcome.

III. MAIN POLICY ISSUES AND REPORT OF THE DISCUSSIONS

A. Regional Surveillance over Macroeconomic Policies

10. **Regional surveillance in the CEMAC area has been noticeably reinforced over the years.** Until 2000, it consisted mainly of an ex-post report on economic developments. Starting in 2000, the surveillance became more normative. Each member state prepared reports on a semi-annual basis that were reviewed by the convergence council and endorsed by the Council of Ministers. At end-2001, a new framework was introduced that includes three-year forward looking convergence programs, an annual report on the convergence strategy prepared by the CEMAC secretariat, and the adoption of convergence criteria. Starting in July 2002, the CEMAC will evaluate for each member country the degree to which it respected four convergence criteria in the previous year: a non-negative basic fiscal balance (excluding grants and externally financed investment expenditures); consumer price inflation of no more than 3 percent; a level of external and domestic public debt of no more than 70 percent of GDP; and the non-accumulation of external or domestic payments arrears. **Staff expressed the view that the new criteria were broadly appropriate, except for the fiscal deficit criterion since it does not account for the size and volatility of oil revenues (see section III.B below).**

11. Applying the new criteria to the most recent data suggests that **the major oil exporters have easily met the deficit criterion in the past year, but that inflation is in excess of the target in CAR, Chad, and Equatorial Guinea, while high external debt continues to be a problem for Cameroon, the CAR, Chad, and Congo (Tables 12 and 13).** While welcoming the progress made in meeting some of the criteria, the staff cautioned that excess demand pressures leading to higher inflation needed to be addressed. In addition, in light of high levels of external debt, the projected deterioration of the external position was cause for concern.

12. **Though conventional measures of the zone's external competitiveness seem to be adequate at present, some countries in the region have the symptoms of "Dutch disease" in that their exports consist almost solely of oil, and the nonoil production sector is small.** To date, the gains in competitiveness from the 1994 devaluation seem to have been maintained in Cameroon, the only country having substantial non-commodity exports, with only a modest recent appreciation of the real exchange rate. However, price increases have been markedly higher in some other economies (in particular, Equatorial Guinea and Chad), and official reserves have declined. Moreover, in this context, a possible appreciation of the Euro against the US dollar could harm the competitiveness of the region and pose difficult

challenges for the conduct of macroeconomic policy. **The staff believes that excess demand pressures need to be contained by more restrictive monetary and fiscal policies.**

However, the authorities were of the view that the uptick of inflation in 2001 was due to a number of sectoral bottlenecks or weather-related supply shocks, which should not be repeated in 2002.

B. Managing Oil Revenues

13. Oil receipts constitute a significant part of fiscal revenue in four out of six CEMAC member countries. A fifth country, Chad, will begin producing oil in 2004. Two main challenges for the management of public finances arise in this context. First, as international oil prices are highly volatile, oil receipts are subject to large fluctuations outside the control of the government. Second, oil reserves are exhaustible and will be depleted at some point. This suggests, in particular for countries with declining oil production, the need for a very cautious fiscal stance, and to save some of today's oil receipts for future consumption.

14. In view of these features, the treatment of fiscal policy within CEMAC's macroeconomic surveillance exercise appears inadequate. The CEMAC's fiscal target is a basic balance that is at least zero (see section A). In case a country misses that target, the CEMAC Executive Secretariat reports the deviation to the council of ministers. The council can refrain from publicly criticizing the country's performance, however, if the slippage has been caused by factors outside the control of the government, such as low oil prices. This procedure contains the risk that in times of depressed oil prices, slippages are accepted as being the result of exceptional circumstances, while in times of high oil prices, tendencies toward fiscal profligacy are not constrained. The magnitude of oil revenues (Table 4) is such that for CEMAC as a whole, if the oil price in 2001 had been US\$5.00/barrel lower, government oil revenues would have been 2.7 percent of GDP below those actually observed, while for several countries in the region, the shortfall as a ratio to GDP would have been substantially greater than this.

15. There was wide agreement between the mission and the staffs of both the CEMAC Executive Secretariat and the BEAC that the CEMAC's fiscal surveillance criterion should be changed to avoid such inconsistencies. While the discussions did not cover specific proposals, the mission suggested that an appropriate modification could reflect the following elements: first, to obtain a more reliable idea of the countries' short- to medium-term fiscal stance, the fiscal balance could be calculated on the basis of a long-term average oil price rather than current prices. Second, to the extent that long-term sustainable management of oil wealth is considered an objective of fiscal policy, the fiscal target should also reflect the need to set some of today's oil receipts aside for future consumption. As Box 1 illustrates, the fiscal policy stance of some oil producing countries looks less favorable in recent years once these aspects are taken into account.

16. The mission also discussed with the authorities options to improve the management of oil wealth. They indicated that to this end the BEAC had, in 2001, established the legal

framework for two funds, one to help achieve the short-term stabilization of oil receipts and another to accumulate long-term savings for future generations.⁵ In doing so, the BEAC was also attempting to induce countries to pool their oil revenues and hold them with the BEAC or the French Treasury, as with other foreign currency assets. Thus far, however, no country had placed any resources in either fund, which the BEAC staff felt could be partly due to the novelty of these instruments. However, more important reasons seem to be countries' reluctance to lose control over their accumulated oil revenues, and their concern about the low rate of return offered by the BEAC.⁶

17. In particular, there appear to be unresolved issues concerning the **management and types of assets that the funds would hold and their rate of return, and these could hinder the attractiveness of the funds**. In particular, the rules of the Union Monétaire de l'Afrique Centrale (UMAC) require that foreign assets be kept partly with the BEAC (35 percent), and partly with the latter's operations account with the French Treasury (65 percent).⁷ If the funds' assets are classified as foreign exchange reserves, they presumably should be held in short-term, liquid assets, while an investment fund with a horizon of several decades might well hold longer-term assets that included equities as well as bonds with the objective of earning a higher average return. The authorities explained that in any case the statutes of the BEAC needed to be modified to reflect current reserve management practices. However, it was not clear how to reconcile long-term investment objectives with the pooling of reserves, since the obligation to pool reserves was not consistent with a separate investment of foreign exchange owned by a country's fund for future generations. At present, the reserve cover ratio at 65 percent is well over the statutory

⁵ Countries can pay 50 percent of their "excess" oil receipts into the stabilization fund, where excess receipts are defined as revenues that materialize only because the oil price rises above its 5-year average value. Conversely, if the oil price falls below its 5-year average value, countries can draw 50 percent of the resulting revenue shortfall from the stabilization fund. A country's net balance in the stabilization fund must be positive, however. In the savings fund, countries are supposed to deposit up to 10 percent of their annual oil receipts. The BEAC has offered to pay on both funds the same interest rate it pays on short-term government deposits held at the BEAC. In 2001, this would have implied a nominal interest rate of about 3.5 percent, which is low compared to the rates of return long-term funds can earn in international capital markets.

⁶ In Chad, national legislation setting up oil funds is inconsistent with the framework set up by the BEAC.

⁷ Article 11 of the BEAC's statutes states: "In order to ensure the external convertibility of their currency, the member States agree to pool their external assets in a foreign exchange reserve fund." Article 11 also imposes restrictions on the form in which reserves can be held by the BEAC, namely, that their maturity cannot exceed 2 years.

minimum (20 percent), suggesting that if countries did accumulate oil revenues in the form of funds, the latter could be invested with a longer-term horizon.

18. Apart from these issues, there are **other key questions concerning the effect of a fund on a country's overall budgetary position**, including the extent to which rules placing constraints on its spending of oil revenues (and investment returns) embodied in the funds can be effective. These questions, identified in studies of the experiences of other countries with savings funds for non-renewable resources,⁸ are based on the following observations:

- Because money is fungible, establishing a separate fund may not increase total government (or national) saving, if government spending rises in the regular budget. Of course, government spending may be constrained by financing availability, but a country with a large investment fund is likely to be well received by potential lenders. Thus, the very existence of a large fund could in fact create additional spending pressure on politicians.
- If oil revenue funds are poorly integrated with the budget they can lead to a loss of fiscal control. For instance, if the expenditures of the fund are earmarked for specific social programs or infrastructure investments, they may parallel or duplicate those in the budget, leading to inefficiency and waste. Unless effective controls are in place, the funds may also provide additional opportunities for corruption and rent-seeking.
- Country experiences with oil funds have been mixed.⁹ While in some countries with a prior tradition of strong fiscal management, the funds served their intended purpose of helping to insulate the country from the boom/bust cycles associated with oil revenues; in others with inadequate controls or insufficient fiscal discipline, oil revenues and overall government spending rose in parallel and the funds failed in their insulation objective. Moreover, in several countries, subsequent changes in legislation or poor management led to assets being diverted from their originally intended use. In the light of the above concerns, **the funds for future generations if not set up properly may be a hindrance, not a help, in addressing the problems created by volatile and nonrenewable oil revenues.**

19. The above considerations underlie several suggestions relating to the establishment and management of oil funds by the countries of the CEMAC.

⁸ Jeffrey Davis, Rolando Ossowski, James Daniel, and Steven Barnett, *Stabilization and Savings Funds for Nonrenewable Resources*, Occasional Paper No. 205 (Washington, DC, International Monetary Fund, 2001), and "Oil Funds: Problems Posed as Solutions?" *Finance and Development*, December 2001, pp. 56-59.

⁹ They are surveyed in Davis et al., op. cit.

- The convergence criterion for the basic budgetary balance should be augmented by a criterion for the **sustainable, non-oil budget position**. Countries with oil revenues can afford to spend more year-by-year, but only to the extent that investing their oil revenues provides a permanent flow of income. The present value of future oil revenue, multiplied by an estimate of a normal rate of return on investment, provides a measure of permanent income, which can be used with non-oil revenues to finance sustainable spending.¹⁰
- Stabilization funds can be exhausted by a sustained period of low prices; use of such funds could be complemented by **greater use of hedging instruments** to guarantee the value of future oil receipts.
- Those countries that have already decided to set up funds should seek to **ensure that the funds' investments yield a risk-adjusted return that is adequate when compared to international benchmarks**.
- For countries where the requisite fiscal discipline does not yet exist, establishment of a fund may provide some presumption that national saving will increase. But **safeguards are essential to ensure that investments are sound and to prevent misuse of the resources**. This may well include management of the funds by investment professionals outside the country, as well as some role for the BEAC to ensure compliance of national governments with safeguards. However, the BEAC needs to make its management of the funds and the returns offered on them attractive to member countries.

C. Regional Monetary Policy

20. **The overriding objective of the regional central bank, the BEAC, is to ensure the stability of the common currency.** A supplementary objective is to support the economic policies of member countries.¹¹ The context for the monetary union arrangement leaves little scope for an independent monetary policy, however, because the CFA franc has been pegged to the euro since its creation on January 1, 1999, as the common currency for 11 (now 12) of

¹⁰ An alternative approach with similar implications would maintain the value of government net wealth (including unexploited oil revenues).

¹¹ Article 1 of the BEAC's statutes states (when translated into English): "The Bank issues the currency of the Union and guarantees its stability. Without undermining this objective, the Bank provides support to the economic policies within the Union. The mission of the Bank is: to define and conduct the monetary policy for the countries of the Union; to buy and sell foreign currency; to hold and manage the exchange reserves of member countries; to ensure the smooth functioning of the payments system of the Union."

the 15 EU countries, and the successor to the French franc.¹² Since capital flows to the euro area are in principle free of controls, the CEMAC is in a quasi-monetary union with the euro area, and the actions of the European Central Bank largely determine the stance of monetary policy in the region. In practice, however, mobility of capital between the two regions is not perfect, since transferring funds is not costless. Moreover, if there are doubts about the maintenance of the parity (as there were briefly in the public's mind at the time of the euro's introduction), there might be a currency risk premium embodied in CFA franc interest rates (as well as a premium for other risks). As a result, the BEAC's interest rates do not always move simultaneously or one-for-one with euro area rates, though they tend to follow the same pattern (Figure 4). In practice, there is no scope for maintaining CEMAC interest rates below those in the euro-zone in order to support other objectives of regional monetary policy, though the (positive) differential can in the short run be influenced by the BEAC. Via effective use of this instrument, the BEAC could affect domestic credit expansion and the level of foreign exchange reserves.

21. In September 2001, the BEAC simultaneously lowered interest rates on banks' deposits with the central bank, and introduced required reserve ratios. The BEAC authorities explained to the mission that this move was intended to reflect the situation of falling interest rates in the euro zone, and excess liquidity on the part of the banks in the region which the BEAC needed to mop up. Given the extent of this excess liquidity, it was difficult for the BEAC to follow a restrictive monetary policy stance using its traditional instruments. In the staff's view, the resulting monetary policy was still too expansionary, leading to growth of the banking system's net domestic credit to the economy by 17 percent in 2001. This helped fuel an increase in real domestic demand, which rose by 10.7 percent, far in excess of the rate of growth of real GDP.

22. To ensure consistency between the regional objectives and national economic and financial developments the BEAC conducts an annual financial programming exercise. This exercise sets specific targets for credit to each government consistent with a targeted level of net domestic assets and gross foreign assets of the BEAC. The BEAC constructs the region's monetary program using country-by-country projections; officials explained to the staff that this was necessary to ensure consistency with IMF-supported programs (most of the countries in the region either have such programs or are in the process of reaching understandings with the Fund). The demand for money is projected to grow roughly in line with nominal income, and a ceiling for domestic credit is calculated given a specific target for foreign assets.

23. **However, in the staff's view, the monetary programming exercise and the rules for access to central bank credit by governments do not provide sufficiently flexible**

¹² Since the devaluation of January 1994, 100 CFA francs = 1 FF. With the conversion rate of the French franc established at 6.55957 FF = 1 euro, the parity of the CFA franc has become 655.957 CFA francs = 1 euro.

monetary policy instruments. The amount that governments can draw is not influenced by the overall credit ceiling derived from the exercise but is determined instead according to the BEAC's statutes by a fixed formula, namely 20 percent of the country's tax revenues in the previous year. Thus, setting a total credit ceiling implies a notional limit for the extension of credit to the private sector. However, in practice BEAC officials made clear that refinancing ceilings on the banks are not binding, since they did not want to force a one-to-one crowding out of the private sector in response to government access to central bank credit. The staff observed that in these circumstances the policy instruments of the BEAC are not sufficiently effective. The lack of a well-functioning interbank money market limits the possibility of using indirect instruments of monetary policy, in particular open-market operations, to affect bank liquidity of the region (see below).

24. **There are two reforms underway that would help to improve the effectiveness of monetary policy.** First, the introduction of non-zero reserve requirements in September, 2001—initially at a level equal to 1.5 percent of sight deposits and 0.5 percent of term deposits, and increased in December, 2001, to 2.5 percent and 1.5 percent, respectively—is intended to help mop up banks' excess liquidity, and the authorities indicated that to this end they expected to increase the reserve ratios further. When this occurs, the BEAC would be able, by changing the terms at which banks obtain refinancing from the central bank, to affect the level of interest rates, which is difficult to do at present. A further positive outcome could be the more active use by banks of the interbank market, since not all of them would be in a situation of excess liquidity at any given period. However, some problems would remain: **the difficulty in assessing counterparty risk no doubt explains some of the current reluctance of banks to lend to other banks, while it would be desirable to increase the remuneration on required reserves** so that they would not constitute an onerous tax on banks, as the region's banking systems remain vulnerable following their recent emergence from crisis.

25. A second reform is the planned elimination of the BEAC's monetary financing of government deficits. The elimination is scheduled to take 10 years, with a one-tenth reduction in the refinancing ceilings occurring each year, starting January 1, 2003. **While the envisaged elimination of monetary financing is a positive step, the authorities agreed with the mission that proper preparation will be required.** In particular, it will be important to design country-based government securities issuance programs which when implemented will ensure better-developed markets for treasury bills and bonds issued by member governments, which will in turn facilitate the conduct of monetary policy.¹³ The project to establish, in Libreville, Gabon, a regional securities market on which stocks and bonds would be traded would help achieve this objective, though staff noted that Cameroon's decision to proceed with its own securities exchange in Douala risked fragmenting an already small market. A new-issue calendar would facilitate orderly market access by governments.

¹³ The Guidelines for Public Debt Management published jointly by the Fund and the Bank may be helpful in this endeavor.

Staff emphasized that it would be important to strengthen regional surveillance over government deficits in order to enhance market discipline, and expressed concern about the existence of a guarantee of government debt by the BEAC, even if limited in scope, since it could lead to confusion among investors and free-riding on the part of governments. Technical and legal issues needing to be addressed include the taxation of interest income, the holding of bonds by non-residents, the reinforcement of debt management capabilities of governments, and the use of government bonds as collateral and in repurchase operations. **The elimination of monetary financing of deficits should also be accompanied by a reconsideration of the monetary programming exercise, and a more determined attempt to limit credit expansion of the banking system.**

26. **Staff argued that though the time remaining to prepare the reform seemed short, the actual transition phase seemed long.** The BEAC authorities explained that they were planning to hold a seminar (at which they wished the Fund to participate) to study these issues, as well as related training courses. They fully agreed with the staff that adequate preparation was essential before the elimination of monetary financing could be put in place. They also noted that if the reform proceeded smoothly, it could be completed before the 10 years of the planned transition period had elapsed; the initial BEAC guarantee of government securities (up to the amount of the refinancing ceiling that had been eliminated) would apply only for a three-year period.

27. **The mission also discussed with the BEAC authorities how transparency could be enhanced, including greater communication vis-à-vis the public regarding the rationale for monetary policy actions.** The staff observed that the policy moves taken in September 2001 (described above) as well as the reform of the foreign exchange controls (see paragraph below) might have been more effective if more information had been provided to the public and the banks. The authorities stressed that their policy was to strongly favor transparency and that efforts in this direction would be intensified as needed to ensure a full understanding on the part of all interested parties.

D. Financial System Issues and Regional Integration

The interbank market and its role in the implementation of the regional monetary policy

28. The financial system of the CEMAC zone is still dominated by banks, which highlights the pivotal role that they could play in transferring liquidity from one country to another, thereby smoothing the effects of seasonal fluctuations, for instance on crop financing. The effectiveness of the BEAC's monetary policy would also be greatly facilitated by intra-regional transfers which would reduce the need for the BEAC to mop up liquidity in some countries while injecting liquidity in others.

29. Despite some progress the inter-bank market does not yet provide an effective channel for such inter-bank transactions. As illustrated in Table 14, the volume of liquidity traded between banks was equivalent to only 15 percent of BEAC interventions to absorb or

inject liquidity in 2000-2001. Both rates and volumes traded show erratic movements, suggesting thinness of the market. Furthermore, although roughly 60 percent of transactions in 2001 involved banks in different countries, incomplete regional integration of the money market was evidenced by a preponderance of transactions between banks in Cameroon, Gabon, and more recently Equatorial Guinea.

30. There are several reasons for the low level of interbank activity. First, there is an absence of usable collateral to guarantee the trades. Although banks have the opportunity to obtain certificates of deposit from the BEAC, they are not used as collateral as they are not dematerialized or tradable, and there is no agreement on their use in repurchase agreements. Second, transfers resulting from these trades are executed through the BEAC network and may incur unpredictable delays in settlement, which could act as a deterrent to short maturity lending. Finally, in the absence of collateral, unaffiliated banks are reluctant to lend to one another because of credit-worthiness concerns. As a result, trades are more likely to take place between banks belonging to the same group.

31. The BEAC officials observed that several factors may improve the effectiveness of the interbank market in the future.

- The phasing out of government financing by the BEAC and the related issuance of tradable government bonds or bills could provide the market with some tradable collateral.
- The payment system reform project undertaken by the BEAC with IMF and World Bank support is making good progress. The design phase of the project is now finished and the implementation phase is due to begin very soon.
- The adoption by the banks' supervisory authority—COBAC—of a single regional licensing system (*agrément unique*) is likely to facilitate cross border transfers of liquidity through branches of the same institutions. In this context, the mission observed that a simplification of the complex procedures that are required currently for a bank to open a branch in a country different from its headquarters—which require approval by the Minister of Finance of the host country and require branches to hold their own minimum capital—could help accelerate the process.
- The COBAC's intention to make available to all banks its ratings reports will likely boost market development through better knowledge by banks of their potential counterparts.¹⁴ The mission agreed that making ratings public would be helpful, but to

¹⁴ In 2000 COBAC introduced a CAMEL type rating system for commercial banks. Five factors are used in assessing the standing of a credit institution: capital adequacy, liquidity, quality of loan portfolio, management and internal control systems, and profitability. These components are building blocks that, when evaluated in quantitative terms, make it possible to determine the institution's profile. The weighting of these factors reflects their importance
(continued)

ensure a regularly updated rating system would likely require more frequent on-site bank examinations than have occurred to date.

32. **While welcoming the above initiatives, the mission noted that most of them would take quite some time to produce tangible results and suggested that other steps could be taken in the short term to tighten liquidity.** First, the BEAC could raise the ratio of required reserves to absorb global excess liquidity, and increase the spread between its deposit and lending rates to make it less attractive for banks to borrow from or deposit with the BEAC. Second, technical measures such as asking banks to display electronically their borrowing and lending rates for different maturities would improve the dissemination of real time information. Third, consideration should be given to issuance of central bank paper which could be used as collateral. Finally, maintaining a sound banking system will be essential to establish confidence among market participants. This aspect is treated below.

Financial system soundness and regional integration

33. As of end-December, 2001, the banking system in the CEMAC zone was comprised of 32 active banks, including one recently created bank which has not yet started operations. The banking system of the zone holds aggregate assets of CFA 2,500 billion (about \$3 billion), of which CFA 1,500 billion (about \$1.8 billion) is in the form of loans.

34. The mission noted that the soundness of the banking system, measured by the degree of banks' compliance with key financial ratios, was better than at the time of last year's consultation (Table 15). However, important weaknesses remain, while the overall situation varies significantly across countries, pointing to a low level of integration. While the number of banks violating the solvency ratio has decreased from 11 to 7, their market share is still significant: 25 percent in Chad, 36 percent in the CAR, and 57 percent in the Congo. Moreover, 7 banks (3 in Cameroon, 2 in Congo and 1 each in CAR and Chad) do not yet

for banking supervision. When a ranking pertains to quantitative data, the score obtained depends upon the gap between the ratio observed and the standard determined by the regulations in force or by sound management practices. For assessing qualitative aspects, a grading scale has been developed whereby quantitative values can be assigned to the on-site assessments of the internal control and management system. Under this new system (the Sysco rating), capital adequacy counts for 30 percent; quality of the portfolio, 20 percent; quality of management and internal control, 20 percent; earnings, 10 percent; and liquidity, 20 percent. Banks are rated into one of four categories: 1) strong, 2) good, 3) fragile, and 4) critical. When all regulatory minimums have been observed and the control mechanism and profitability level are acceptable, the institution receives a rating of 2). In 2001, a bank's scores were communicated to its management only. In 2002, the scores will be shared amongst all the banks, and in 2003 COBAC intends to make the ratings public.

meet the minimum capital requirement.¹⁵ (In Congo and CAR the banks involved represent, respectively, 57 percent and 36 percent of total deposits). Finally, 10 banks did not comply with the risk concentration ratio at end-2001.

35. Thus, while risks remain, there have been some positive developments. The arrival of new private shareholders has allowed the public sector to dispose of its majority shareholdings although there continues to be government participation in some banks. Profitability has been restored throughout the system, with banks in Cameroon and Gabon displaying the highest profit (by far). The spread between deposit and lending rates, which averages 11.6 percent, remains high, varying from 8.6 percent in CAR to 15.3 percent in Chad (Figure 6). The rate of non-performing loans also continues to be high, and the provisions made (less than 80 percent) absorb a significant part of the spread (Table 16 and Figure 7), as operating costs have been kept under control.

36. Overall, 16 banks received a COBAC Sysco rating of “good” or above, 11 banks were considered to be in a “fragile” or “critical” condition, while 5 banks were not rated because they were created too recently (Table 17). The banks regarded as being in fragile or critical condition were located in 4 countries: Cameroon (3 banks out of 10), CAR (2 out of 3), Chad (4 out of 6) and Congo (2 out of 4).

37. **In the view of the staff, strengthening banking supervision further is essential to improve compliance with key financial ratios and to maintain the progress already made in putting the banking system on a sound footing; this implies allocating more resources to the COBAC, and adapting international prudential norms to the regional context.** The COBAC has a recognized successful track record in analyzing banking sector problems and taking corrective measures as needed. Following the 2000 Cameroon FSAP, the COBAC has proposed new draft regulations and made other changes to adapt its supervisory practices (Box 2).

38. The updated assessment of the COBAC’s compliance with the “Core Principles for Effective Banking Supervision” undertaken in conjunction with the FSAP for Gabon confirmed a high degree of professionalism and a significant degree of compliance with the Core Principles. Notwithstanding the overall positive assessment, the review noted some concerns:

- **A major problem, impacting on its ability to comply with a number of core principles, relates to insufficient staffing of the COBAC.** In the past, the lack of staff has contributed to weaknesses in off-site supervision and, unless adequately

¹⁵ The minimum capital required to open a bank still varies from country to country: it is set at CFA 1 billion in Gabon and Cameroon, CFA 300 million in Equatorial Guinea, CFA 200 million in CAR, and CFA 150 million in Congo.

addressed, other improvements in the regulatory framework are not likely to lead to the desired outcome. In the absence of a global increase in resources for the COBAC, any improvements in off-site supervision might be achieved at the cost of less stringent on-site control.

- There is currently **no specific control over market and foreign exchange risks**, though regulation of foreign exchange positions is planned for 2002.
- The required solvency ratio will increase in steps during 2002-04 from 5 to 8 percent, but even **the new ratio will not make any allowance for operational risks**. Such risks, for example those due to lack of internal controls and poor corporate governance, or the non-diversified production structures of the region's economies, are prevalent and would suggest higher capital requirements than the minimum suggested by the Basel Committee.

39. **The issue of COBAC resources thus needs to be resolved.** Though by statute the BEAC is required to finance the COBAC, current administrative arrangements do not seem to work well. The Governor of the BEAC noted that a training program was underway that should allow transfer of more competent staff to the COBAC by end-2002; this should satisfy some of its needs. The mission suggested that a more formal procedure whereby the COBAC would present its budget directly to BEAC's board could be more effective. Moreover, in case of refusal by the BEAC's board to grant COBAC the resources it deemed appropriate, the COBAC should have a way to appeal to the Council of Ministers.

Legal environment for banking activity

40. Harmonization of the legal environment as provided for by the OHADA treaty¹⁶ is essential to foster regional integration and to ensure financial sector soundness. Although the OHADA treaty harmonizes legislation, actual implementation varies from country to country. In particular, a major problem involves the OHADA provisions for third-party attachment of funds by judicial order (*saisie-attribution*), particularly as they have been implemented in Cameroon.¹⁷ In that country, shortcomings in the national legislation implementing the OHADA Uniform Act, as well as improper legal handling, have opened

¹⁶ The OHADA (Organization for the Harmonization of Business Law in Africa) treaty, signed on October 17, 1993, was ratified by 14 countries in west and central Africa, aims at harmonizing business law in the franc zone countries

¹⁷ Third-party attachment is defined in Article 153 of the OHADA Uniform Act as a procedure whereby "any creditor in possession of a writ of execution showing a debt due for immediate payment may, in order to secure payment of the debt, attach money in the hands of a third party to cover the debts owed by his debtor, subject to the special provisions relating to the attachment of earnings."

the door to the use of the *saisie-attribution* procedure of as a way of extorting money from innocent parties. **Although the OHADA treaty applies to 14 countries, most cases of abusive attachment of commercial banks' assets have occurred in Cameroon, where it has attained such proportions as to present a potential problem for the health of the banking system.**¹⁸

41. The Cameroonian authorities have committed themselves to addressing the issue, and good progress has already been made in Cameroon in several areas. However, the role of the BEAC has also come under scrutiny, since it was invariably the *tiers saisi* (the institution where funds of the commercial banks have been seized). The BEAC has attempted to address the immunity status of its national branches by standardizing the agreements signed with member states that define the BEAC's diplomatic status with respect to the enforcement of national laws.¹⁹ The proposed new agreement incorporates provisions to better protect banks' deposits with BEAC from seizure; Article 4, paragraph 4 of the new text stipulates that banks' funds can only be seized when a final judgment has been made on the substance of the matter at issue. The new agreement has now been approved by four out of the six CEMAC countries, and is pending in Cameroon.

42. Given the importance of the issue for the soundness of the financial system in the region's largest economy, the mission devoted considerable attention to the topic of *saisie-attribution* in its discussions with the regional authorities. **Progress is being made in addressing the loopholes that permit ad hoc seizure of banks' assets, but in the staff's view, some details of the proposed solutions need to be examined further.**

- It is still not clear whether the abuse is attributable to the nature of the *saisie-attribution* or whether it results from a more general problem of judicial governance in Cameroon. This makes the initiatives of the Cameroon government to address the problem all the more important.
- While it would be desirable for the BEAC to be able to protect banks from abusive requests, the new agreement could extend this protection from seizure to other cases where it might not be desirable. In particular, there is the danger that money could not

¹⁸ There have been 92 cases involving CFA 9 billion in Cameroon (the equivalent of about 5 percent of reserves held by Cameroonian banks with the BEAC at end-2001), 4 cases involving CFA 191 million in Gabon, 3 cases involving CFA 27 million in Chad, and one case involving CFA 42 million in Congo.

¹⁹ These agreements are called *accords de siège* in French. The Governor of the BEAC stressed that the objective was in no way to put the BEAC above national laws, but rather to make precise its role in enforcing them.

be promptly seized from BEAC in other cases where time²⁰ is the essence of efficiency, such as money laundering cases.

Money laundering

43. The authorities explained that there is no national legislation dealing with anti-money-laundering (AML). The BEAC has recently taken the initiative in this domain, and the problem will be dealt with at the regional level in order to enhance integration and efficiency. Draft legislation is being prepared, and an anti-money-laundering task force (GABAC²¹) has been created. GABAC is administratively under the responsibility of the CEMAC Secretariat but its financing has yet to be arranged.

44. The mission urged the authorities to have the AML legislation passed as soon as possible and stressed the need for the BEAC to provide GABAC with financial resources and technical assistance so that it can become operational. The scope of the law should ideally also encompass terrorist financing, and it should not leave the BEAC and national treasuries out of its field of application. Financial Intelligence Units (FIUs) should be created at the national level to make GABAC effective in its fight against money laundering.

E. Trade, Tax and Sectoral Policies, and Other Regional Integration Issues

Trade policy

45. A **common external tariff** was introduced in 1994 with four rates (5, 10, 20, and 30 percent), together with the removal of all intrazone tariff and nontariff trade barriers immediately for locally produced primary products and over a three-year period for eligible industrial products, in order to reduce external protection, simplify the tariff system, and promote regional integration (see Box 3 for a review of progress on regional integration initiatives). However, the tariff reform is imperfectly applied by member states, including through the use of diverging nomenclatures, deviations from the rate structure, and application of a large number of country-specific levies and surcharges. Also, most CEMAC countries maintain nontariff barriers covering at least one important sector of the economy. These include state trading monopolies, licensing/document requirements, import and export bans, and quotas. **Staff pressed for the elimination of the protectionist policies that are contrary to the goal of establishing an outward looking customs union.** The authorities replied that exceptional circumstances (including civil unrest and lack of personnel) in a number of member countries had been the main cause for the delays. The CEMAC secretariat intends to remedy this. With the assistance of development partners,²² a full

²⁰ Obtaining a final judgment in Cameroon may take up to 20 years.

²¹ Groupe Anti Blanchiment en Afrique Centrale.

²² The European Union, France, the World Bank, and the Fund.

review of the existing situation is being undertaken, and an action plan is scheduled to be prepared and adopted around mid-2002 to bring member states into conformity with the common external tariff regulations. The CEMAC authorities indicated that they hope to achieve full conformity by year-end 2002. The next step envisaged by the secretariat is to introduce a three-rate tariff structure by eliminating the top rate of 30 percent.

46. As for **access to foreign markets**, since oil is by far the most important export product in the community, trade barriers in export markets have not been a major issue. However, the prices of certain commodities produced in the community, notably cotton, have remained structurally depressed because of subsidies in industrial countries. Preparations for discussions for an economic partnership with the European Union under the ACP are made in the framework of a group including the six member states of CEMAC and São Tomé and Príncipe. Angola and the Democratic Republic of the Congo have also been invited to join.

47. Concerning **intracommunity trade**, a preferential tariff (*tarif préférentiel généralisé*—TPG) was adopted in 1994 with a uniform rate of 20 percent, lowered to 10 percent in 1996, and further to a zero rate in 2000. However, its application across member states is highly uneven, with most states maintaining tariffs on internal trade. Also, country specific temporary surtaxes on industrial products (up to a maximum of 30 percent) adopted in 1994 for 6 years are still applied by most member states two years after they should have been abolished.

48. Recorded intra-regional trade among countries of the CEMAC is estimated to be about 6 percent of their total trade.²³ On top of remaining tariff and non-tariff barriers, trade among CEMAC member countries is also hampered by the large geographical size of the community, low population density, and very poor transportation infrastructure. Nevertheless, opportunities for increasing intra-regional trade exist, and could be facilitated by the appropriate sectoral policies and allocation of production through market signals according to comparative advantage, on top of rapidly harmonizing the tariff dismantling. **The political will needs to be created to provide impetus toward increasing trade among member countries, to defend the community well-being against narrower national interests, and to resist pressures for protectionism.** In particular, governments need to make further progress in removing remaining quantitative restrictions and surcharges, fully harmonizing the import classifications, ending a general preferential tariff, and eliminating duties on intraregional trade and surcharges imposed by some countries.

49. An important corollary to a customs union is the **harmonization and progressive reduction of exemptions**, in particular these granted through the various investment or other codes. A regional **investment charter** has been in place for several years, but it excludes the petroleum, mining, and forestry sectors. Furthermore, the staff noted that its application is highly imperfect, with states maintaining a large number of country-specific exemptions.

²³ Informal cross-border trade is also thought to be important, but hard to estimate.

Tax harmonization

50. In order not to undermine the benefits of the customs union through fiscal externalities due to diverging direct and indirect tax regulations in member countries, and to improve multilateral surveillance, CEMAC is pursuing its efforts at tax harmonization. The **indirect tax** harmonization program started in 1996 with the gradual elimination of the turnover tax in member states and its replacement by a harmonized value added tax (VAT). This was completed in 1999.²⁴ VAT harmonization includes a single VAT rate of 18 percent in five member states,²⁵ with limited exemptions agreed at the regional level.²⁶ **Direct tax** harmonization includes income and corporate taxes.²⁷ Work is ongoing to establish a common tax base for petroleum taxation, and a common tourism and forestry taxation is under study. An attempt by the secretariat to harmonize taxation of the informal sector was not adopted by member states. While welcoming the significant progress so far, **staff indicated that further work is needed to finalize the complete implementation of the tax harmonization program, including petroleum taxation, small businesses and informal sector taxation, and tax procedures and methods.**

Sectoral policies

51. Staff noted that preparations for regional **sectoral policies** were off to a slow start; studies aimed at formulating common policies are still embryonic in the areas of energy, transportation, mining, forestry, communications, and the environment. Moreover, **structural projects** to foster a more balanced development across the union have not yet been started. The staff pointed to the importance of an evenhanded development of the community through a reduction of regional disparities and improved communication links and access; it urged that these problems be given high priority.

52. The promotion of regional **competition** and the free movement of people and merchandise, together with the right of settlement throughout the region, though explicitly recognized by the treaty, has encountered some delays in implementation. The staff noted that, in practice, cumbersome border controls and police checks have not yet been streamlined, and that certain member states are still discriminating against non-national citizens of the community. The Executive Secretariat's representatives were generally less apprehensive than the staff and noted the progress in some areas: projects are underway aimed at introducing a regional passport and regional license plates for vehicles, at

²⁴ Except for Equatorial Guinea.

²⁵ Equatorial Guinea applies a rate of 12 percent and Cameroon adds an 0.7 percent communal tax to the 18 percent VAT rate.

²⁶ Unfortunately, countries have imposed their own national exemptions.

²⁷ For the latter, the rates range from 25 to 40 percent.

harmonizing vehicle insurance certificates, and at adopting regional codes for road, river, maritime, and air transport. Moreover, in light of the demise of the regional airline Air Afrique, the CEMAC Heads of State Council decided in December 2001 to create a sub regional airline. Staff urged that the errors of the past not be repeated and that the airline be set up as a private venture, without political interference.

Financing of CEMAC institutions

53. The staff noted that the preparation and execution of CEMAC's budget is not yet in line with generally accepted accounting and transparency standards, partly due to the absence of an administrative, financial, and accounting procedures manual. Also, budget preparation does not distinguish clearly between allocations for operating outlays and those necessary to fulfill the Commission's action program.

54. CEMAC's own resources consist of the *Taxe Communautaire d'Intégration* (TCI), an import surcharge of one percent levied by member states on all imports from outside the union. Thirty percent of the proceeds of the TCI can be used for the payment of operating expenditures, with the remaining 70 percent set aside into a reserve fund. Concerning the latter, sixty percent should be for structural projects, and the other 40 percent for compensation of fiscal losses sustained by member states due to the lowering of tariffs, or other uses decided upon by the Council of Ministers. This levy should yield about CFAF 14 billion (0.35 percent of regional GDP) annually. However, most member states either do not yet collect the levy, or fail to transfer it to the CEMAC institutions. Hence, operating outlays, amounting to approximately CFAF 3.5 billion annually, are essentially covered by annual equal contributions by member states. So far, there have not been any payments into the reserve fund, no disbursements for structural projects, and the modalities for the payment of compensations for revenue shortfalls due to the reduction in tariffs were not yet defined. Staff urged the authorities to set up the mechanisms for a full collection of the TCI by and from member states, so as to cover the CEMAC institutions' operating outlays and start on meaningful structural projects for a more evenhanded development of the community. However, greater availability of financing should be accompanied by strict controls over administrative expenditures.

IV. STAFF APPRAISAL

55. Like its West African counterpart in the franc zone (WAEMU), the CEMAC is pursuing an agenda of intensified regional surveillance and integration. New macroeconomic convergence criteria have recently been put in place and new procedures for implementing them introduced, but it is as yet too early to evaluate their effectiveness. **The convergence criteria that place ceilings on inflation, public debt, and the accumulation of reserves seem broadly appropriate, and countries need to make greater efforts to meet these objectives.** However, the objective of a zero or positive basic fiscal balance does not address the very large influence on fiscal positions of volatile oil revenues. **The fiscal criteria thus**

do not provide an adequate framework for monitoring and evaluating fiscal developments. Since the latter are key to macroeconomic cooperation in the region, **it will be necessary to further refine the tools for regional surveillance, in particular by accounting for changes in international oil prices and variations in domestic oil production.**

56. During 2000 and 2001, relatively favorable oil prices allowed countries to run procyclical fiscal policies while satisfying or approaching the target of overall balance in the basic fiscal position (excluding grants and investment financed from abroad). However, a more detailed analysis that used an average of oil prices over several years to calculate fiscal receipts from oil would have suggested a deteriorating fiscal stance in several countries. In addition, some countries (in particular, Equatorial Guinea, and in 2004, Chad) will benefit in coming years from increasing oil production as new fields come on stream. Since the capacity to invest these substantial oil revenues domestically is limited and some of it needs to be set aside for future consumption, a way needs to be found to increase national saving in the meantime. An appropriate overall strategy of managing government revenues and expenditures, including adequate controls to contain spending pressures, would be needed to generate the necessary budgetary savings and ensure that it is not offset by deficits elsewhere. **Oil revenue funds (which are planned in each of the oil producing countries of the region) could be an effective vehicle for investing these savings, if they are properly managed to ensure sound investments and prevent the misuse of funds.** Ways need to be found to introduce proper safeguards and to balance the need for investment abroad of some of these funds, at an adequate return, with the requirement of the monetary union for pooling foreign exchange reserves to meet the need for short-term, liquid assets.

57. While the monetary union linking the six countries of the region has existed for more than 50 years, regional monetary integration is still incomplete as the regional money market is limited in scope, there are obstacles to banks operating in several countries, and the payments system is inefficient. Though there are initiatives underway that aim at addressing these problems, **greater efforts need to be made to develop a regional financial infrastructure.**

58. The imperfect integration of financial markets in the region also presents problems for the implementation of a regional monetary policy, in that the BEAC needs to mop up liquidity in some countries while increasing it in others. In practice, this has led to a general excess of liquidity. The introduction of required reserves has helped to address this situation, but at their current level, liquidity is still excessive. **Higher reserve requirements, accompanied by higher remuneration on the reserves so as not to tax the banks unduly, would be appropriate.**

59. The planned elimination of the (automatic) monetary financing of government deficits should also lead to an improvement in monetary policy by making it less procyclical. **The elimination of monetary financing will need to be adequately prepared by putting in place supporting policies and regulations. Once they are in place a shorter transition period than the 10 years that are currently contemplated should be considered.**

60. As concerns harmonization of structural policies, there has been a major initiative to create a true regional common market by introducing a common external tariff and removing internal barriers to trade and factor mobility. However, progress has been slow: though decisions furthering regional integration exist on paper, the implementation of the agreed measures to achieve this has not been complete or uniform across countries, and barriers to trade and to the mobility of persons and capital remain. It is clear that to make further progress towards regional integration **each country needs to find the political will to place regional objectives above narrow national interests** and resist calls for protection. In this context, **regional institutions should be further strengthened**; though the central bank has the authority and means to carry out its mandate, the same is not true of the other regional institutions. In particular, the Executive Secretariat of the CEMAC has been charged with regional surveillance and the oversight of the new money-laundering organization (GABAC), but is understaffed to carry out its missions.

61. Similarly, the **banking supervisory agency, the COBAC, needs to be given greater financial resources** in order to hire necessary staff. An effective supervisor is needed to prevent further problems of the scale of those that have plagued it over the last decade. A major problem that affects one country, Cameroon, has resulted from the implementation of the *saisie-attribution* procedure of the harmonized business law. While primarily needing to be addressed through measures taken by the Cameroonian authorities, changes in the immunity status of the BEAC may also be part of the solution. However, any such changes should not prevent the BEAC from contributing fully to other important tasks, for instance in the anti-money-laundering area.

Box 1. The Effect of Oil Prices and Production on the Basic Fiscal Balance, 1994-2001^{1/}

The effect of the volatility of oil prices and the exhaustibility oil production on the fiscal balances of the CEMAC's oil producing countries is illustrated in the table below. First, panel 1 displays the countries' basic fiscal balances (i.e., the overall balance excluding grants and foreign financed investment). The CEMAC's annual macroeconomic surveillance exercise requests a country to achieve a basic balance of at least zero. Years in which a country fell short of this target are shaded. The results seem to indicate a tightening of the fiscal stance from 1998 onwards. It is eye-catching, however, that in 1998, when oil prices stood at a long-term low, all four petroleum producing countries failed to comply with the CEMAC's target, while in 2000 and 2001, when oil prices were significantly above their long-term average level, all countries complied.

Panel 2 displays "hypothetical" basic balances based on (i) a Brent oil prices of US\$19.5 per barrel (the WEO's current long-term projection) and (ii) the assumption that in the years under consideration, countries receive their average long-term share in the value of total oil production. Once these factors are being controlled for, the fiscal stance in 1998 was about as strict or loose as in 1997 or 1999. Moreover, Cameroon would have failed to achieve the fiscal target for 2000. In general, a tendency towards fiscal tightening from 1998 onwards can still be identified, however.

Panel 3 shows the deviation of the basic balance from a scenario where oil wealth is managed in a sustainable manner, i.e., a sufficient part of oil receipts is saved to keep oil income per capita constant for the (indefinite) future, based on Fund staff projections about future oil receipts and a real discount rate of 5 percent. Thus, in recent years, no countries except Equatorial Guinea spent more of their oil receipts than the maximum consistent with sustainability. In Gabon, the fiscal stance appears to have deteriorated significantly between 1999 and 2001. This conclusion is opposite to that one would have drawn from the CEMAC's surveillance exercise as displayed in panel 1.

Box 1. The Effect of Oil Prices and Production on the Basic Fiscal Balance, 1994-2001 (concluded)

	1994	1995	1996	1997	1998	1999	2000	2001
Brent Oil Price (in US dollar per barrel)	15.9	17.2	20.4	19.3	13.1	18.0	28.2	24.3
1. Basic fiscal balance								
Cameroon 2/	-6.7	-5.6	-2.1	-1.0	-0.2	-0.6	0.5	2.7
Congo	-12.4	-7.1	-6.9	-6.1	-15.9	-0.6	7.2	10.6
Equatorial Guinea	-2.5	-4.8	-5.3	3.0	-0.5	3.7	7.8	13.4
Gabon	1.8	6.5	6.2	11.1	-1.3	4.4	14.1	11.8
2. Basic fiscal balance with constant oil prices 3/								
Cameroon	-5.6	-4.9	-2.8	-1.8	0.1	-1.1	-2.4	0.4
Congo	-10.3	-5.0	-10.0	-10.3	-5.5	-1.5	1.5	4.2
Equatorial Guinea	-2.2	-1.2	-2.9	11.7	11.3	12.1	8.1	13.1
Gabon	7.1	5.8	5.8	6.7	-1.8	7.3	4.0	1.9
3. Basic fiscal balance with sustainable savings rate 4/								
Cameroon	-7.0	-6.7	-4.2	-3.5	-2.0	-3.4	-4.9	-2.2
Congo	-13.3	-6.6	-12.3	-17.2	-15.0	-8.9	-6.3	-3.7
Equatorial Guinea 5/	-2.2	-1.2	-2.9	11.7	11.3	6.3	1.8	2.3
Gabon	-5.3	-5.0	-4.0	-4.9	15.2	-4.3	-5.5	-8.5

Sources: WEO, December 2001; and staff calculations and projections.

1/ For details, see Johannes Wiegand (2002), "Fiscal Surveillance Criteria for Oil-Exporting Developing Countries – the Example of the CEMAC"; Policy Note, International Monetary Fund, mimeo.

2/ The Cameroonian fiscal year is not identical with the calendar year, but runs from end-June to end-June. For this exercise, a fiscal aggregate for Cameroon in 2000, e.g., was thus calculated as the mean of the aggregate's values in the fiscal years in 1999/2000 and 2000/2001.

3/ Assumptions: (i) oil price of 19.5 US dollar per barrel; (ii) government revenue from oil is equal to its long-term average share of the value of petroleum production.

4/ Assumptions: (i) oil wealth per capita is held constant; (ii) real discount rate of 5 percent.

5/ Under the above assumptions, Equatorial Guinea should have started saving part of its oil wealth only in 1999. For 1994 to 1998, the sustainable fiscal balance is therefore identical with the one in block (2.).

Box 2. COBAC: Recent and Prospective Changes in Prudential Regulations for the Banking System

The COBAC has recently adopted new regulations with respect to the solvency ratio, provisioning, and connected lending. Other regulations are currently under discussion, in particular, regulations with respect to internal control and audit. The main changes that have been implemented or are still forthcoming include:

- *Solvency Ratio (capital adequacy ratio):* Starting in 2001, bank assets are divided into groups of 0, 20, 50, 75 and 100 percent of risk weight. Interbank lending will be risk weighted according to the Sysco rating system (see below). Government debt is weighted according to compliance of governments with the four macroeconomic convergence criteria set up under the monetary union. Furthermore, loans to companies that have obtained a classification agreement from BEAC confirming their financial strength are risk weighted at 50 percent. Under the new regulation, the solvency ratio will be increased from five to eight percent in annual steps, starting in 2002.
- *Provisioning rules:* Formal rules were introduced in 2000. Only required provisions are tax deductible. There are no provisioning requirements for payments that are up to 90 days late, but accrued interest cannot be recorded as interest income. Provisioning rules for payments that are late by 90 days or more are:

	First Year	Second Year	Third Year	Fourth Year
Uncollateralized and nonguaranteed loans	25 percent	75 percent	100 percent	100 percent
Collateralized or guaranteed loans	15 percent	45 percent	75 percent	100 percent

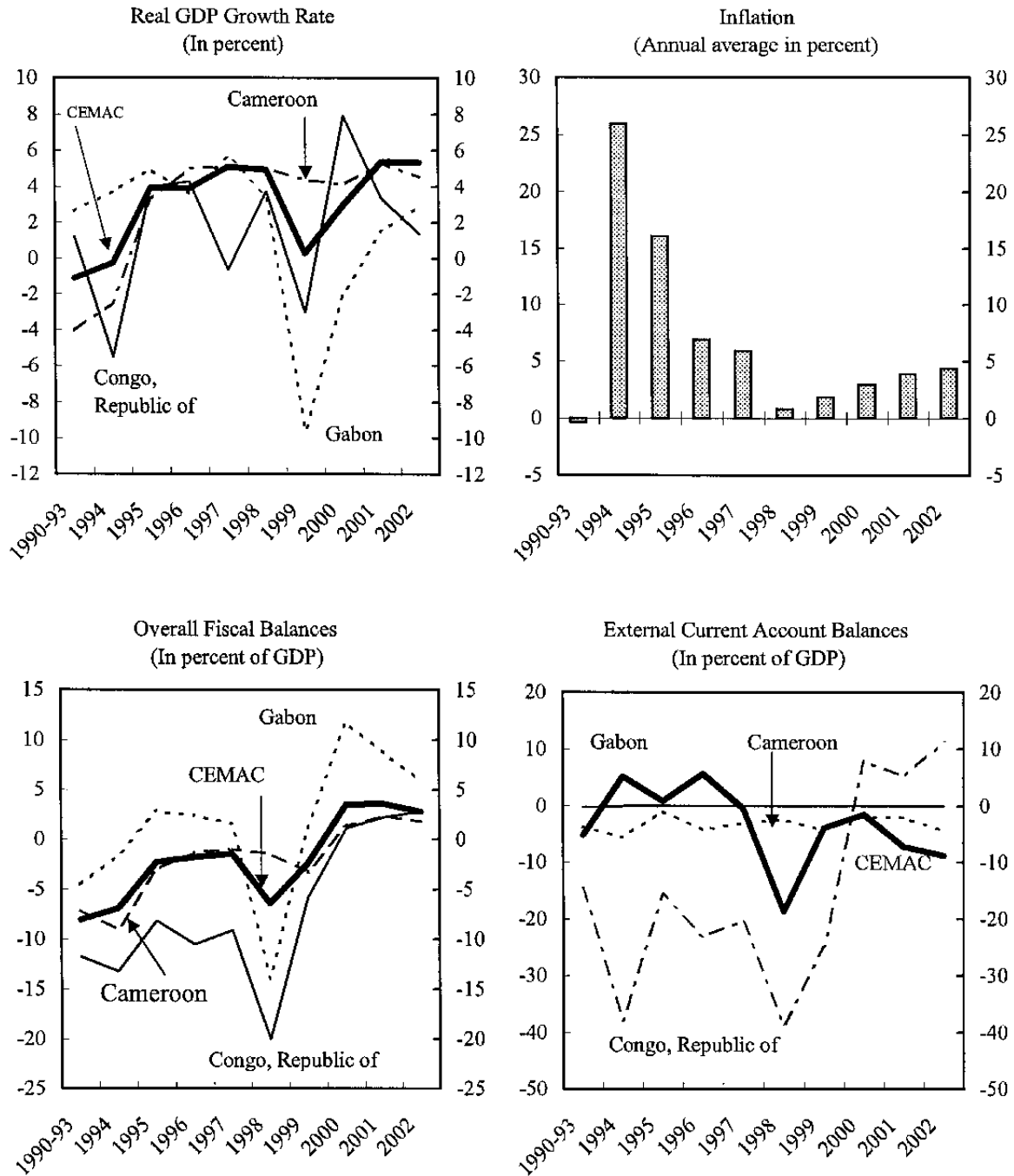
- *Connected lending, large exposure and coverage of fixed assets:* Procedures have been established with respect to the granting of loans to the banks' shareholders, associates, managers and employees. Total connected lending has been limited (as per 1/1/2002) to 15 percent of capital. The exposure limit has been set to 45 percent of capital for an individual client, and 800 percent of capital for the total of large exposures (loans larger than 15 percent of capital). Banks' fixed assets cannot exceed eligible capital (*fonds propres net*).

Box 3. CEMAC: Regional Integration Initiatives, Progress Achieved (March 2002)	
1. Trade liberalization and customs regulations	
Customs Duties	Common external tariff in place since 1994, with 4 rates (5, 10, 20, et 30%); application imperfect (including numerous tariff reclassifications, exemptions et distortions in the nomenclature) Project to adopt 3 rates (5, 10, et 20%)
Tariff abatements for intra-community goods	<u>Tarif Préférentiel Généralisé (TPG)</u> adopted in 1994 with a rate of 20%, reduced to 10% in 1996, et to 0% in 2000—not applied uniformly <u>Temporary surtax</u> of 30% for 6 years (1994-2000) applied to certain industrial products—should have been eliminated, but still applied selectively. Problems also with tax-free zones.
Compensation for loss of customs revenue due to the decline in tariffs on external and intra-community trade	To be paid by the development fund; Modalities still to be agreed and text to be adopted.
Rules of origin	Harmonized (WTO rules), including transfer certificate for intra-community goods— Problems in its application
Agreement to comply with WTO rules	Harmonized
Customs Code	Harmonized
Harmonization of financial administrations	Project, including an intergovernmental customs school
Customs regulations	Adopted
Customs Statistics	Central server for customs statistics created.
2. Domestic taxation	
Turnover tax (TCA)	Abolished (between 1996 and 1999), except in Equatorial Guinea
Value added tax (VAT)	Introduced in 1999 to replace TCA and harmonized (except in Equatorial Guinea)—single rate at 18% in 5 countries, 1 country at 12%, and Cameroon adds a 0.7% surtax for local communities
Corporate taxation	Harmonized since 1972—rates varying between 25% (Equatorial Guinea) and 40%; update finalized and adopted in July 2000.
OHADA accounting framework	Need for harmonization and awareness

	campaign
Investment Charter	Adopted—excludes the petroleum, forestry, and mining sectors
Personal taxation	Harmonized, but needs an update
Informal sector taxation	No harmonization yet
Taxation of savings and dividend income	IRVM—study established to harmonize
Common basis for petroleum taxation	Commission set up in December 2001
Taxation of tourism and forestry	Study ongoing
3. Free movement of people, merchandise et capital	
Regional passport	Under preparation—to be introduced in July 2002
Harmonized regional automobile insurance	Being prepared, including a compensatory system
Common vehicle registration plates	To be introduced in 2002, including to limit theft
Road, waterway and maritime navigation, and air navigation codes	Studies ongoing
Regional airline company	Decision for its creation taken
Regional reinsurance company	Under study (private venture)
Regional trunk roads	Under study
Right of establishment and residency	Under study
Harmonization of framework for universities	Under study
4. Surveillance	
<ul style="list-style-type: none"> • Undertaken since 1994 by BEAC/CEMAC (Convergence Council)— ex-post surveillance • Since 2000, normative multilateral surveillance: semi-annual reports prepared in each member State, forwarded to a regional committee, reviewed by the surveillance council, and ultimately approved by the Council of Ministers; • Since 2002, preparation of three-year convergence programs; first rank surveillance criteria (with sanctions for non-compliance) and secondary criteria; also, preparation of an annual rapport of the convergence strategy. 	
5. Sectoral Policies	
Infrastructure	<ul style="list-style-type: none"> - Telecommunications institute; - Regional center for the maintenance of telecommunications equipment; - Regional school for financial administrations;

Agriculture and Industry	<ul style="list-style-type: none">- Regional food security plan (with the FAO)- Study on the coordination of industrial strategy
Services	<ul style="list-style-type: none">- Permanent tourism commission- Regional tourism school.
Trade policy	<ul style="list-style-type: none">- Directive on anticompetitive practices- Directive on state trade practices
Fight against crime and terrorism (with the assistance of Interpol)	<ul style="list-style-type: none">- GABAC established—need to harmonize national legislations.

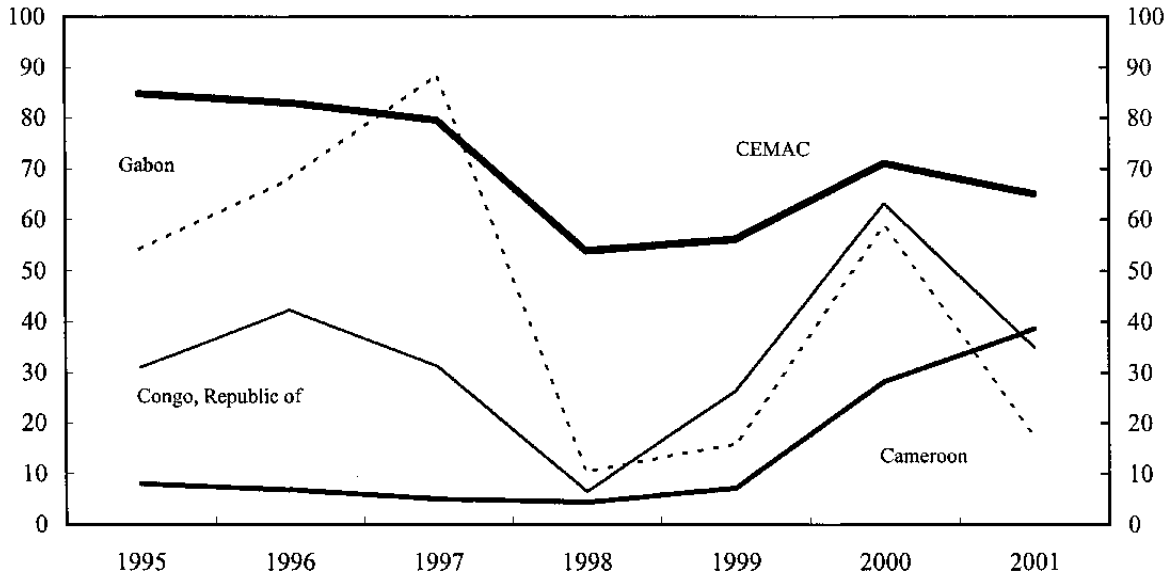
Figure 1. CEMAC: Selected Macroeconomic Indicators, 1990–2002 1/



Sources: IMF, World Economic Outlook database, December 2001; and staff estimates and projections.

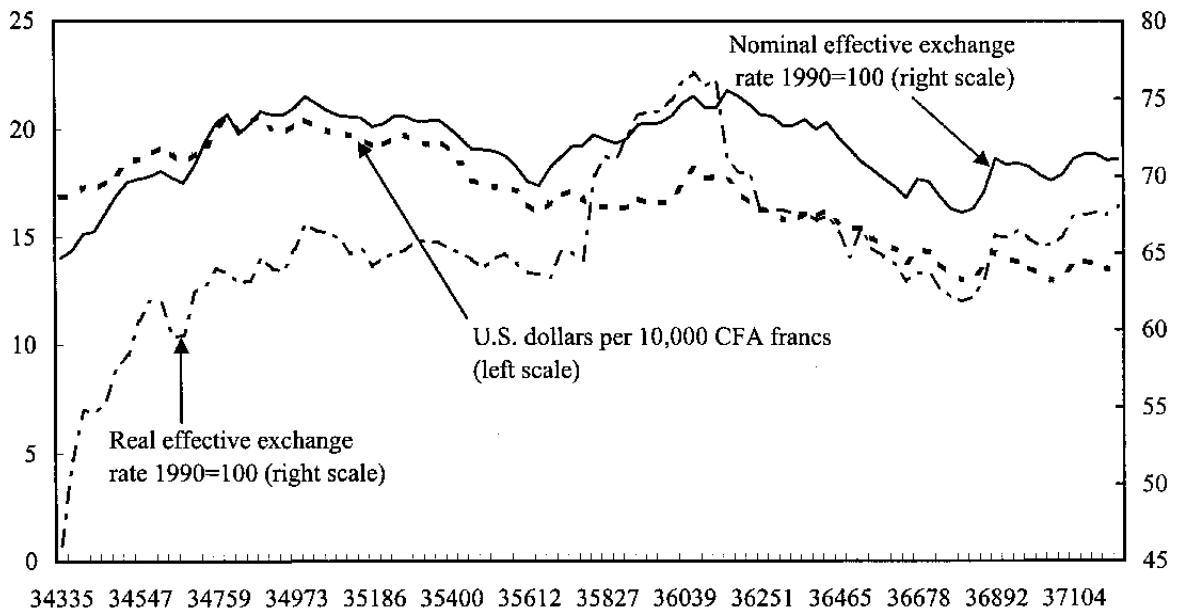
1/ Cameroon, Gabon, and Republic of Congo are the largest economies in the zone.

Figure 2. CEMAC: Currency Cover Ratio, 1995–2001 1/
(In percent)



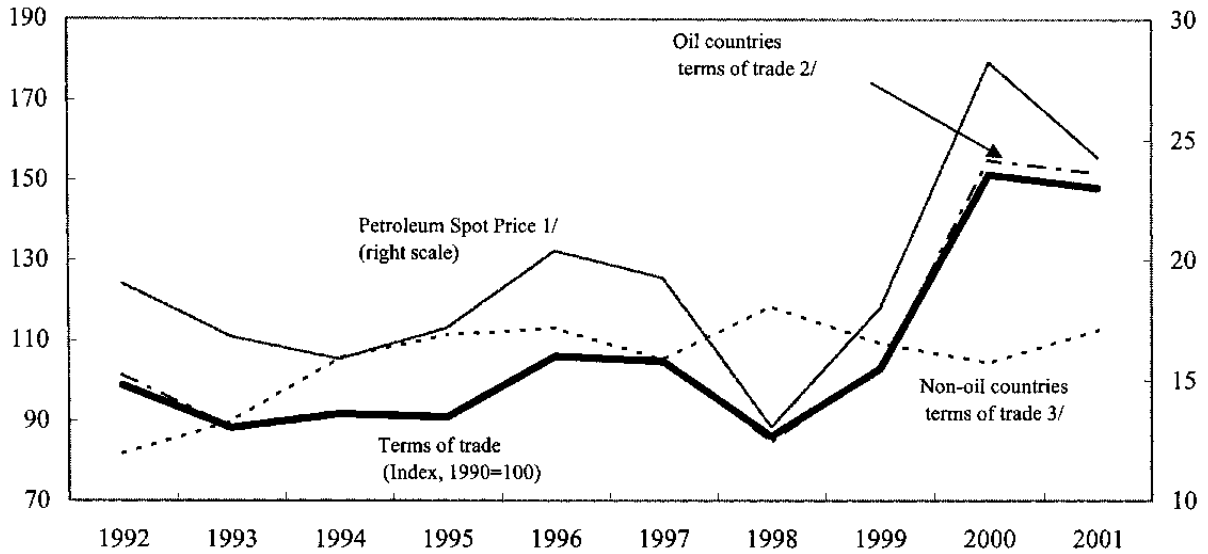
1/ Data as of October 2001; gross official reserves as a percentage of base money.

Figure 3. CEMAC: Nominal and Real Effective Exchange Rates and U.S. dollar Exchange Rate, January 1994–December 2001



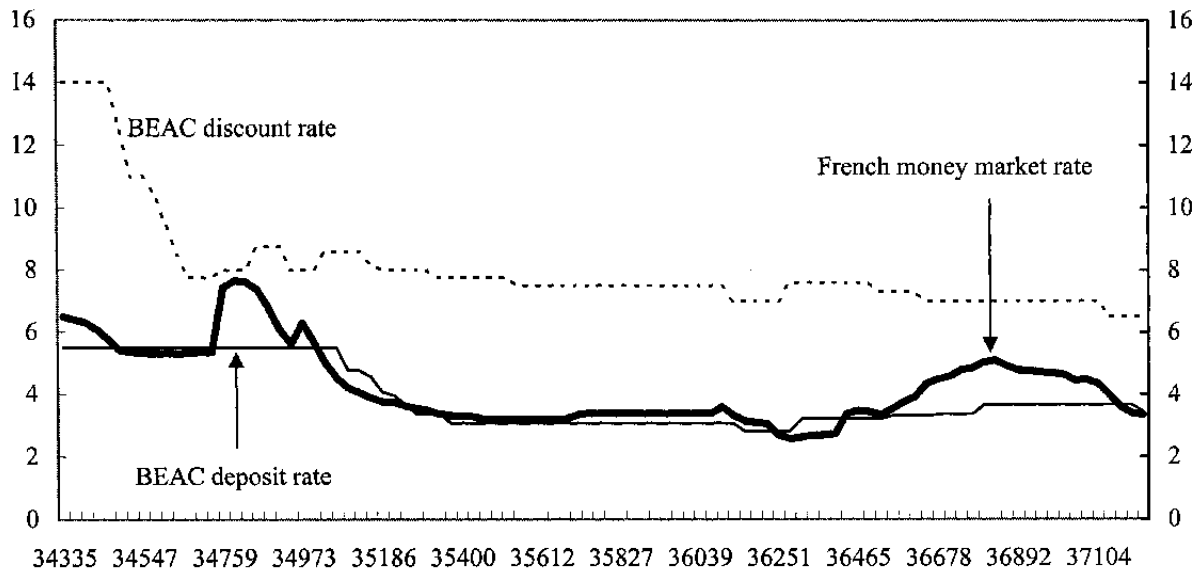
Sources: IMF, Information Notice System; and Bank of Central African States.

Figure 4. CEMAC: Terms of Trade and Petroleum Prices, 1992–2001



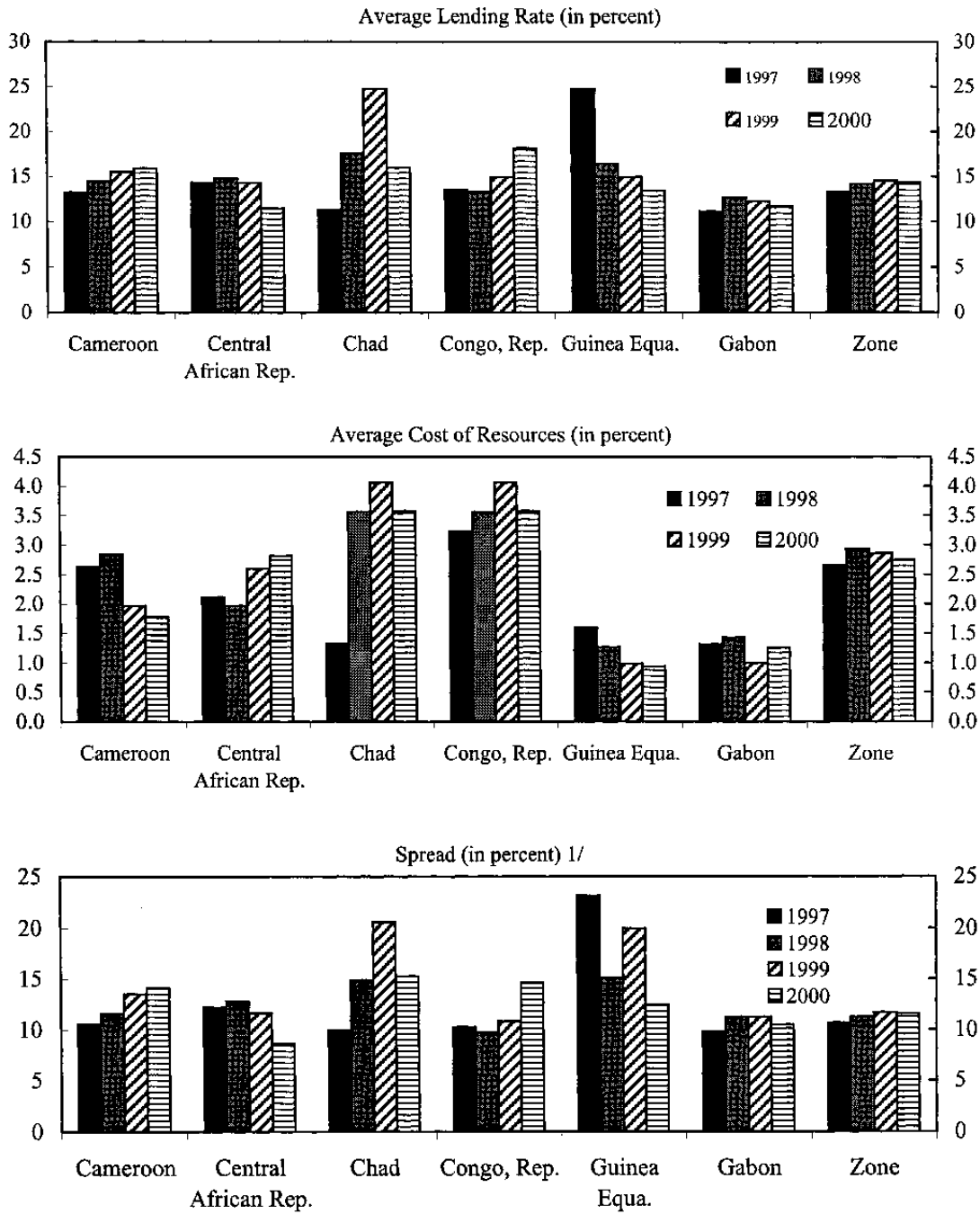
- 1/ Average petroleum spot price of U.K., Dubai, and West Texas crude in U.S. dollars (WEO).
- 2/ Cameroon, Republic of Congo, Equatorial Guinea, and Gabon.
- 3/ Chad and Central African Republic.

Figure 5. CEMAC: French Money Market Rate and BEAC Discount and Deposit Rates, January 1994–December 2001
(In percent)



Sources: IMF, Information Notice System; and Bank of Central African States.

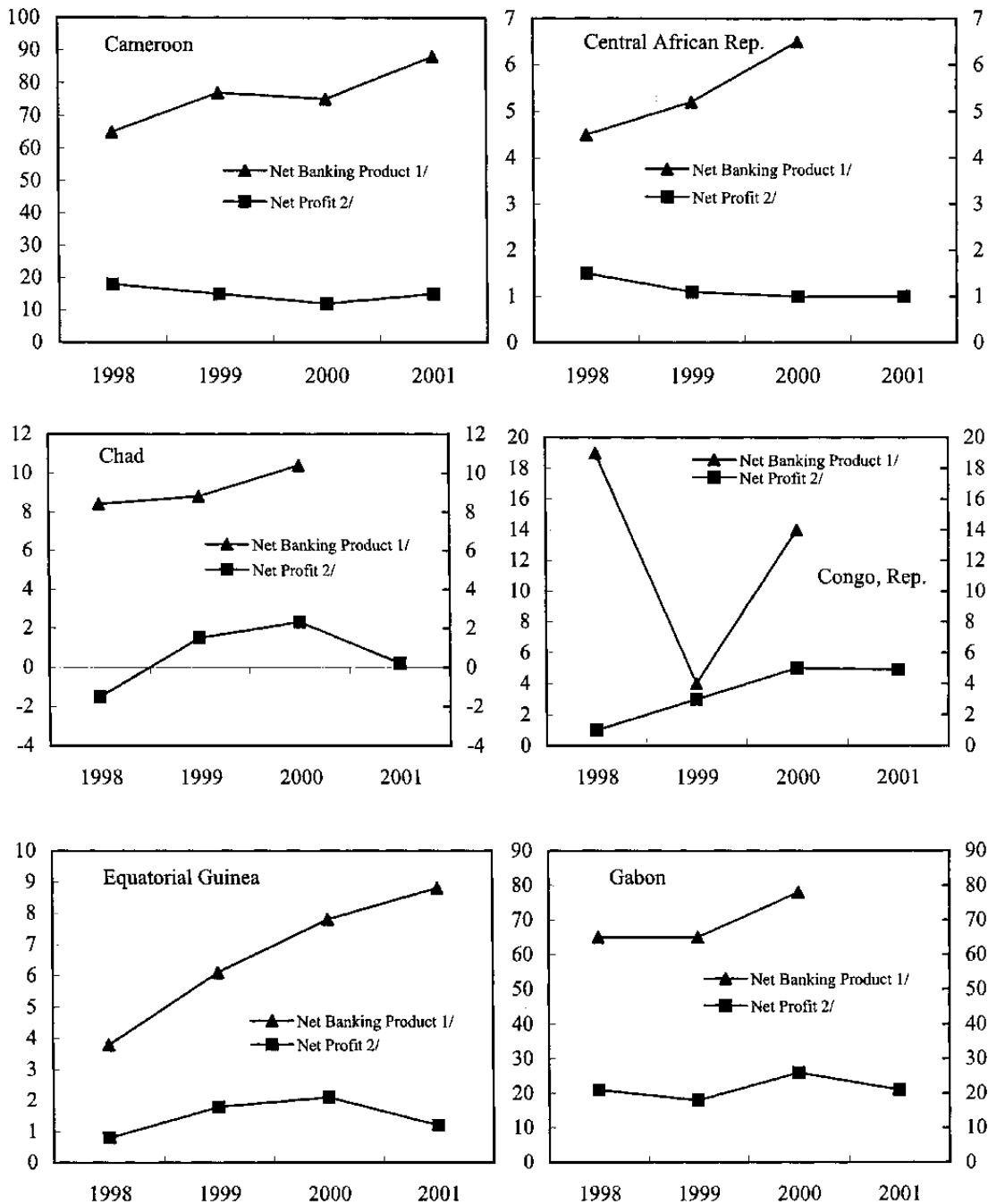
Figure 6. CEMAC: Analysis of Spreads in the Banking System, 1997–2000



Source: BEAC.

1/ Lending rate minus cost of resources.

Figure 7. CEMAC: Evolution of Net Profit and Net Banking Product, 1998–2001
(In billions of CFA francs)



Source: COBAC.

1/ Result of banking operations less cost of resources.

2/ Net banking product less provisions and operating costs.

Table 1. CEMAC: Selected Economic and Financial Indicators, 1997–2002

	1997	1998	1999	2000	2001 Est.	2002 Proj.
	(Annual percentage change)					
National Income and prices						
GDP at current prices	8.4	-2.0	8.4	21.0	4.3	1.4
GDP at constant prices	5.1	4.9	0.3	3.0	5.4	5.4
Oil GDP	8.0	2.6	0.3	-3.3	5.4	3.8
Non-oil GDP	4.5	5.4	0.3	4.2	5.4	5.6
Consumer prices (average)	5.9	0.8	1.9	3.0	3.9	4.4
Consumer prices (end of period)	7.1	1.1	1.7	0.6	6.3	5.4
Terms of trade	-1.1	-17.8	19.5	47.2	-2.2	-22.1
Nominal effective exchange rate	-3.1	1.8	0.0	-4.2	1.5	...
Real effective exchange rate	-0.8	4.2	-2.8	-5.1	5.9	...
	(Annual changes in percent of beginning- of-period broad money)					
Money and credit						
Net foreign assets	2.2	-11.8	4.5	38.4	-11.3	...
Net domestic assets	8.5	11.5	4.8	-15.4	18.6	...
Broad money	10.6	-0.3	9.3	23.0	7.2	...
	(In percent of GDP, unless otherwise indicated)					
National accounts						
Gross domestic savings	30.4	23.4	27.4	37.6	36.1	33.2
Gross domestic investment	22.1	25.3	21.8	20.4	25.4	24.6
Government financial operations						
Total revenue, excluding grants	20.9	20.4	19.1	22.4	24.0	22.3
Government expenditure	23.2	28.1	22.6	19.6	21.2	21.0
Primary fiscal balance 1/	8.4	4.3	5.9	10.3	11.0	8.5
Basic fiscal balance 2/	2.1	-2.1	0.2	5.8	6.3	5.2
Overall fiscal balance, excluding grants	-2.3	-7.7	-3.5	2.8	2.8	1.3
Overall fiscal balance, including grants	-1.4	-6.4	-2.4	3.5	3.6	2.8
External sector						
Exports of goods and services	38.3	32.4	35.5	45.9	44.3	40.3
Imports of goods and services	30.0	34.3	29.8	28.7	33.5	31.7
Trade balance	8.3	-2.0	5.6	17.1	10.7	8.5
Current account, including grants	-0.4	-18.7	-3.9	-1.5	-7.2	-8.8
External public debt	100.5	103.4	102.1	89.0	84.8	70.1
Gross official reserves (end of period, in millions of US dollars)	876.3	552.0	595.2	1,318.9	1,157.6	...
Memorandum items:						
CFA francs per U.S. dollar, average	583.7	590.0	615.7	712.0	732.5	717.6
Oil prices (in U.S. dollars per barrel)	19.3	13.1	18.0	28.2	24.3	20.0

Sources: IMF, World Economic Outlook database, January 2002; and staff estimates and projections.

1/ Excluding grants and foreign financed investment and interest payments.

2/ Excluding grants and foreign financed investment.

Table 2. Sub-Saharan Africa: Cross-Group Comparisons, 1997–2002

	1997	1998	1999	2000	2001 Est.	2002 Proj.
	(Annual percentage changes)					
Real GDP						
CEMAC	5.1	4.9	0.3	3.0	5.4	5.4
WAEMU 1/	5.3	5.2	3.5	1.9	2.7	4.9
Sub-Saharan Africa 2/	3.7	2.6	2.5	3.0	3.5	4.2
Inflation, (period average)						
CEMAC	5.9	0.8	1.9	3.0	3.9	4.4
WAEMU 1/	3.6	3.6	0.6	1.4	3.1	2.7
Sub-Saharan Africa 2/	17.4	12.9	14.5	17.5	15.6	9.0
Terms of trade						
CEMAC	-1.1	-17.8	19.5	47.2	-2.2	-22.1
WAEMU 1/	-3.2	3.1	-4.8	-8.6	0.9	0.0
Sub-Saharan Africa 2/	0.0	-3.4	4.0	9.7	-4.1	-1.9
	(In percent of GDP, unless otherwise indicated)					
Domestic investment						
CEMAC	22.1	25.3	21.8	20.4	25.4	24.6
WAEMU 1/	17.5	18.2	18.0	17.4	18.4	18.7
Sub-Saharan Africa 2/	17.0	18.0	17.8	17.6	17.7	18.1
Overall fiscal balance including grants						
CEMAC	-1.4	-6.4	-2.4	3.5	3.6	2.8
WAEMU 1/	-1.8	-2.0	-2.6	-2.3	-3.0	-2.0
Sub-Saharan Africa 2/	-3.4	-3.8	-3.5	-2.3	-2.2	-2.0
Current account balance including grants						
CEMAC	-0.4	-18.7	-3.9	-1.5	-7.2	-8.8
WAEMU 1/	-6.0	-5.6	-5.8	-7.0	-7.4	-6.8
Sub-Saharan Africa 2/	-3.1	-5.8	-4.5	-1.6	-2.9	-2.9
External public debt						
CEMAC	100.5	103.4	102.1	89.0	84.8	70.1
WAEMU 1/	80.4	78.3	78.7	86.0	86.4	82.1
Sub-Saharan Africa 2/	46.8	50.8	50.3	48.6	49.0	44.9
Currency cover ratio 3/						
CEMAC	79.6	53.9	56.2	71.1	65.0	...
WAEMU 1/	102.4	98.3	104.5	117.7

Sources: IMF, World Economic Outlook database, January 2002; and staff estimates and projections.

1/ West African Economic and Monetary Union.

2/ Sub-Saharan Africa, excluding Eritrea, Liberia, and Somalia.

3/ Gross official reserves as a percentage of base money.

Table 3. CEMAC: National Accounts, 1997–2002

	1997	1998	1999	2000	2001 Est.	2002 Proj.
	(Annual percentage change)					
Real GDP						
Cameroon 1/	5.1	5.0	4.4	4.2	5.3	4.6
Central African Republic	3.9	5.5	3.5	2.6	1.2	3.9
Chad	4.2	7.7	2.3	1.0	8.9	10.8
Congo, Republic of	-0.6	3.7	-3.0	7.9	3.3	1.4
Equatorial Guinea	71.2	22.0	50.1	16.1	45.5	30.4
Gabon	5.7	3.5	-9.6	-1.9	1.5	2.9
CEMAC	5.1	4.9	0.3	3.0	5.4	5.4
Nominal GDP						
Cameroon 1/	7.9	6.2	3.2	7.8	8.5	4.7
Central African Republic	6.7	8.3	4.8	5.9	4.2	6.2
Chad	7.0	13.5	-3.6	4.1	17.3	15.2
Congo, Republic of	4.3	-15.2	26.0	57.9	-7.9	-9.6
Equatorial Guinea	119.2	-7.5	99.7	76.6	30.2	8.8
Gabon	6.7	-14.9	7.4	26.0	-5.3	-6.2
CEMAC	8.4	-2.0	8.4	21.0	4.3	1.4
Consumer price inflation						
Cameroon 1/	5.2	0.0	2.9	0.8	2.8	3.2
Central African Republic	1.6	-1.9	-1.5	3.1	3.7	2.1
Chad	5.6	4.3	-8.4	3.7	12.4	4.0
Congo, Republic of	13.2	1.8	3.1	0.4	-0.5	8.0
Equatorial Guinea	3.0	3.0	6.5	6.0	12.0	9.0
Gabon	4.1	2.3	-0.7	1.0	2.6	2.0
CEMAC	5.9	0.8	1.9	3.0	3.9	4.4
	(In percent of GDP)					
Gross domestic saving						
Cameroon 1/	19.1	19.2	18.4	20.3	20.5	17.1
Central African Republic	6.4	12.6	8.7	7.6	5.8	6.8
Chad	2.3	5.0	-3.0	1.6	0.6	3.6
Congo, Republic of	37.8	30.3	41.0	60.7	57.1	60.5
Equatorial Guinea	43.1	19.8	64.9	74.2	85.6	85.2
Gabon	56.1	38.5	45.1	56.9	52.8	47.2
CEMAC	30.4	23.4	27.4	37.6	36.1	33.2
Gross domestic investment						
Cameroon 1/	16.2	17.5	18.7	16.4	17.8	18.5
Central African Republic	9.7	16.6	14.2	11.9	10.5	11.8
Chad	14.8	15.9	9.6	17.0	42.6	51.9
Congo, Republic of	22.4	26.7	27.8	24.0	23.6	27.6
Equatorial Guinea	65.7	91.6	54.7	39.6	60.9	19.3
Gabon	31.5	39.1	24.2	22.1	24.8	29.3
CEMAC	22.1	25.3	21.8	20.4	25.4	24.6

Sources: IMF, World Economic Outlook database, January 2002; and staff estimates and projections.

1/ Fiscal year July 1–June 30.

Table 4. CEMAC: Relative Size of the CEMAC Economies and Importance of the Oil Sector, 1997-2002

	1997	1998	1999	2000	2001 Est.	2002 Proj.
Nominal GDP	(In percent of the CEMAC's nominal GDP)					
Cameroon	45.9	46.0	47.8	48.4	48.3	48.0
Central African Republic	5.8	5.9	6.0	6.0	5.8	5.7
Chad	7.5	7.7	7.9	7.7	8.0	8.4
Congo, Republic of	11.0	10.9	10.5	11.0	10.8	10.4
Equatorial Guinea	1.5	1.8	2.6	3.0	4.1	5.1
Gabon	28.2	27.8	25.1	23.9	23.0	22.4
Nominal Oil GDP	(In billions of CFA francs)					
Cameroon	512	429	338	818	988	692
Congo, Republic of	667	420	773	1502	1214	956
Equatorial Guinea	187	165	413	815	1082	1174
Gabon	1290	742	1067	1736	1450	1083
CEMAC	2657	1755	2591	4872	4803	4057
Nominal Oil GDP	(In percent of country's total nominal GDP)					
Cameroon	10.4	8.2	6.3	14.0	15.6	10.5
Congo, Republic of	49.2	36.5	53.4	65.6	57.5	50.2
Equatorial Guinea	64.5	61.4	76.8	86.0	87.7	87.4
Gabon	41.5	28.1	37.6	48.5	42.8	34.1
CEMAC	23.9	16.1	21.9	34.0	32.1	26.8
Oil exports	(In percent of the value of country's total exports)					
Cameroon	40.9	32.9	31.4	55.4	33.6	35.5
Congo, Republic of	79.6	87.6	91.8	93.7	93.1	92.6
Equatorial Guinea	81.3	87.7	80.1	89.1	96.7	92.3
Gabon	78.3	74.1	74.2	80.0	78.2	72.0
CEMAC	65.9	60.4	65.1	76.7	71.8	70.9
Fiscal oil revenue	(In percent of country's total fiscal revenue excluding grants)					
Cameroon	27.4	24.1	15.9	29.7	33.7	22.7
Congo, Republic of	76.9	53.1	71.7	77.4	72.1	57.0
Equatorial Guinea	59.5	69.3	74.2	83.5	82.5	81.8
Gabon	62.5	54.6	45.3	67.5	65.7	45.1
CEMAC	50.5	40.1	37.2	54.4	53.8	40.1

Sources: IMF, World Economic Outlook database, January 2002; and staff estimates and projections.

Table 5. CEMAC: Fiscal Balances, 1997–2002

(In percent of GDP)

	1997	1998	1999	2000	2001 Est.	2002 Proj.
Overall fiscal balance (excluding grants)						
Cameroon 1/	-1.0	-1.7	-3.4	1.4	2.0	1.3
Central African Republic	-8.2	-10.7	-10.8	-8.6	-9.4	-10.2
Chad	-10.3	-7.6	-10.5	-12.3	-12.9	-19.1
Congo, Republic of	-9.2	-20.3	-6.3	0.8	2.1	1.4
Equatorial Guinea	1.4	-2.1	0.1	6.9	13.4	17.6
Gabon	1.6	-14.0	1.2	11.8	8.8	5.9
CEMAC	-2.3	-7.7	-3.5	2.8	2.8	1.3
Overall fiscal balance (including grants)						
Cameroon 1/	-1.0	-1.4	-3.2	1.4	2.4	1.8
Central African Republic	-1.6	0.0	-0.5	-1.8	-1.7	-1.0
Chad	-3.9	-2.5	-5.9	-7.5	-9.1	-12.0
Congo, Republic of	-9.1	-20.0	-5.9	1.1	2.3	2.8
Equatorial Guinea	2.4	-1.4	0.4	6.9	13.4	17.7
Gabon	1.6	-14.0	1.2	11.8	8.8	5.9
CEMAC	-1.4	-6.4	-2.4	3.5	3.6	2.8
Basic balance 2/						
Cameroon 1/	-0.4	0.0	-1.2	2.3	3.2	2.6
Central African Republic	-1.8	-0.7	-1.8	-1.9	-1.0	-0.2
Chad	-1.0	-0.2	-3.2	-3.0	-3.6	-4.7
Congo, Republic of	-6.1	-15.9	-0.6	7.2	10.6	5.2
Equatorial Guinea	3.0	-0.5	3.7	7.8	13.4	18.0
Gabon	11.1	-1.3	4.4	14.1	11.8	10.5
CEMAC	2.1	-2.1	0.2	5.8	6.3	5.2
Government revenue (excluding grants)						
Cameroon 1/	15.1	16.2	15.5	18.8	20.6	19.4
Central African Republic	7.9	9.1	9.2	8.8	8.8	9.9
Chad	7.8	7.6	8.1	8.0	7.8	7.9
Congo, Republic of	28.5	22.6	26.5	26.3	29.7	28.7
Equatorial Guinea	18.0	28.0	15.9	17.8	24.5	27.4
Gabon	33.1	34.5	28.7	33.8	35.5	31.4
CEMAC	20.9	20.4	19.1	22.4	24.0	22.3
Government expenditure						
Cameroon 1/	16.1	17.9	18.9	17.4	18.6	18.0
Central African Republic	16.1	19.8	20.0	17.5	18.2	20.1
Chad	18.1	15.2	18.6	20.3	20.8	27.1
Congo, Republic of	37.7	42.9	32.8	25.5	27.6	27.3
Equatorial Guinea	16.6	30.0	15.8	10.9	11.1	9.8
Gabon	31.5	48.5	27.5	22.0	26.7	25.5
CEMAC	23.2	28.1	22.6	19.6	21.2	21.0

Sources: IMF, World Economic Outlook database, January 2002; and staff estimates and projections.

1/ Fiscal year July 1–June 30.

2/ Overall budget balance excluding grants and foreign financed investment.

Table 6. CEMAC: Monetary Survey, 1997-2001

	1997	1998	1999	2000	2001			
					Mar. Prel.	June Prel.	Sep. Prel.	Dec. Prel.
(In billions of CFA francs)								
Net foreign assets	309	122	193	862	802	651	642	619
Bank of Central African States (BEAC)	308	85	116	588	593	470	485	486
Foreign assets	525	310	389	930	948	842	858	851
<i>Of which</i>								
Operations account	385	181	252	787	799	682	689	680
Foreign liabilities	-217	-226	-273	-342	-355	-372	-373	-365
Commercial banks	1	37	77	274	209	181	157	133
Foreign assets	140	153	236	428	299	279	260	246
Foreign liabilities	-139	-116	-159	-153	-89	-97	-103	-112
Net domestic assets	1288	1472	1549	1280	1311	1500	1599	1678
Net credit to government	800	933	947	679	725	821	877	931
BEAC	543	698	752	619	611	726	784	807
Advances	213	366	395	360	331	438	521	570
Consolidated debt	238	217	195	174	173	167	161	156
Other	199	222	268	332	342	358	359	357
Government deposits	-107	-106	-106	-247	-235	-238	-257	-275
Commercial banks	257	235	195	60	114	96	94	123
Net credit to public agencies	-36	-47	-54	-82	-102	-108	-98	-83
Net credit to the private sector	919	1049	1147	1235	1197	1265	1321	1367
Other items, net	-395	-463	-491	-551	-509	-479	-501	-537
Broad money	1597	1593	1742	2142	2113	2151	2241	2297
Currency outside banks	558	558	606	690	664	673	682	762
Bank deposits	1039	1035	1135	1452	1449	1478	1559	1535
(Annual change in percent of beginning-of-period broad money)								
Net foreign assets	2.2	-11.8	4.5	38.4	-2.8	-9.8	-10.3	-11.3
Net domestic assets	8.5	11.5	4.8	-15.4	1.4	10.2	14.9	18.6
Credit to government	1.2	8.3	0.9	-15.4	2.2	6.6	9.3	11.7
Credit to the private sector	5.2	8.1	6.2	5.0	-1.8	1.4	4.0	6.2
Other	2.1	-5.0	-2.3	-5.0	1.0	2.2	1.6	0.6
Broad money	10.6	-0.3	9.3	23.0	-1.4	0.4	4.6	7.2
Velocity	6.4	7.0	6.3	7.1	7.5	8.1	8.2	8.4
Memorandum items:	(In percent)							
BEAC interest rates								
Repurchase rate (TIPP)	9.50	9.00	9.60	9.00	9.00	9.00	8.50	8.50
Bank refinancing rate (TIAO)	7.50	7.00	7.60	7.00	7.00	7.00	6.50	6.50
Certificate of deposit (28-day maturity) 1/	3.06	2.81	3.21	3.66	3.66	3.66	3.66	3.46
French money market rate	3.36	3.28	3.44	4.93	4.71	4.45	3.98	3.34

Sources: BEAC; and staff estimates.

1/ The special deposit system was replaced by the auctioning of BEAC certificates in February 1996.

Table 7. CEMAC: Summary Accounts of the Central Bank, 1997–2001

	1997	1998	1999	2000	2001			
					March Prel.	June Prel.	Sep. Prel.	Dec. Prel.
(In billions of CFA francs)								
Net foreign assets	308	85	116	588	593	470	485	486
Assets 1/	525	310	389	930	948	842	858	851
<i>Of which</i>								
Operations account	385	181	252	787	799	682	689	680
Liabilities	-217	-226	-273	-342	-355	-372	-373	-365
Net domestic assets	413	604	628	466	448	558	609	626
Net credit to government	543	698	752	619	611	726	784	807
Claims	651	804	857	866	846	963	1041	1082
Consolidated debt	238	217	195	174	173	167	161	156
Advances	213	366	395	360	331	438	521	570
Cameroon	100	111	135	149	149	158	176	220
Central African Republic	10	11	11	12	12	14	18	17
Chad	11	11	11	17	18	18	18	18
Congo, Republic of	67	82	82	82	79	121	123	123
Equatorial Guinea	4	4	12	8	0	0	0	0
Gabon	21	146	143	93	73	128	187	191
Other claims	199	222	268	332	342	358	359	357
Government deposits	-107	-106	-106	-247	-235	-238	-257	-275
Net claims on financial institutions	17	49	32	16	16	17	13	16
Other items, net	-147	-143	-156	-169	-179	-185	-187	-196
Base money	721	688	744	1053	1041	1028	1094	1112
Currency in circulation	558	558	606	690	664	673	682	762
Banks' reserves 2/	151	124	126	345	355	337	390	331
Other institutions' reserves	12	6	11	19	22	18	22	19
Memorandum items:	(In percent)							
Currency cover ratio	79.6	53.9	56.2	71.1	76.6	69.7	67.0	65.0
Base money/deposits	70.0	66.6	66.0	73.3	72.6	70.2	71.1	73.2

Sources: Bank of Central African States (BEAC); and staff estimates.

1/ Gross foreign reserves, including gold, foreign currency reserves, IMF reserve position, and balance of the operations account at the French Treasury.

2/ Includes cash in vault and deposits of commercial banks with the BEAC.

Table 8. CEMAC: Summary Accounts of the Commercial Banks, 1997–2001

	1997	1998	1999	2000	2001			
					March Prel.	June Prel.	Sep. Prel.	Dec. Prel.
	(In billions of CFA francs)							
Net foreign assets	1	37	77	274	209	181	157	133
Assets	140	153	236	428	299	279	260	246
Liabilities	-139	-116	-159	-153	-89	-97	-103	-112
Net domestic assets	892	917	953	831	879	959	1003	1067
Net credit to the public sector	221	188	141	-22	12	-12	-5	41
Cameroon	116	88	72	51	31	28	28	51
Central African Republic	-3	-1	-2	0	5	5	5	6
Chad	-22	-19	-22	-20	-24	-9	-15	-13
Congo, Republic of	8	11	-5	-30	-18	-2	1	3
Equatorial Guinea	-1	-5	-10	-5	-13	-21	-20	-25
Gabon	123	114	109	-19	18	-14	-5	17
Claims	351	344	338	304	288	287	285	288
Liabilities	130	157	197	326	276	300	289	248
Credit to the economy	919	1049	1147	1235	1197	1265	1321	1367
Cameroon	400	498	541	638	621	640	677	696
Central African Republic	31	36	43	39	41	39	41	42
Chad	50	54	49	54	69	65	62	65
Congo, Republic of	119	130	173	120	86	86	98	109
Equatorial Guinea	13	15	21	27	28	31	32	37
Gabon	306	316	319	357	355	404	413	419
Other items, net	-248	-320	-336	-382	-330	-294	-314	-341
Net refinancing from the central bank	-136	-79	-98	-333	-346	-324	-380	-318
Borrowing	15	44	29	11	10	13	10	12
Cameroon	4	14	2	1	1	1	1	0
Central African Republic	1	5	5	3	2	3	1	2
Chad	5	11	4	1	4	7	6	5
Congo, Republic of	5	7	6	6	2	2	2	2
Equatorial Guinea	0	0	0	0	0	0	0	0
Gabon	0	8	12	0	0	0	0	3
Reserves	151	124	126	345	355	337	390	331
Cameroon	71	69	63	142	187	211	255	201
Central African Republic	2	1	1	1	3	1	2	1
Chad	13	10	10	10	10	14	12	13
Congo, Republic of	16	14	13	106	68	34	34	30
Equatorial Guinea	4	3	5	10	16	10	17	29
Gabon	44	27	35	76	71	67	70	56
Deposits	1030	1033	1127	1438	1434	1465	1540	1519
Demand deposits	536	543	594	805	743	733	800	782
Public enterprises	63	54	48	138	89	47	82	75
Private sector	473	489	546	667	654	686	718	707
Term deposits	493	490	533	633	691	732	740	737
Public enterprises	47	34	34	32	36	36	48	50
Private sector	446	455	499	601	655	696	691	687
Memorandum items:	(In percent)							
Reserves/deposits	14.6	12.0	11.2	24.0	24.8	23.0	25.3	21.8
Credit to the economy/deposits	89.3	101.5	101.8	85.9	83.5	86.4	85.8	90.0

Sources: Bank of Central African States (BEAC); and staff estimates.

Table 9. CEMAC: Nominal and Real Effective Exchange Rates, 1996–2001

(Annual percentage changes)

	1996	1997	1998	1999	2000	2001 Est.
Nominal effective exchange rate						
Cameroon	0.7	-3.9	2.3	2.0	-5.5	1.6
Central African Republic	5.0	-0.5	1.1	-0.3	0.1	2.8
Chad	0.1	-4.4	1.5	3.7	-5.2	1.6
Congo, Republic of	0.2	-3.0	1.7	-1.3	-4.5	1.0
Equatorial Guinea	-0.5	-3.2	1.7	-1.4	-4.4	0.7
Gabon	0.5	-3.4	2.5	-2.5	-5.5	1.4
CEMAC	1.0	-3.1	1.8	0.0	-4.2	1.5
Real effective exchange rate						
Cameroon	2.0	-4.5	4.5	5.9	-10.9	3.4
Central African Republic	2.3	-3.0	-2.5	-4.6	-2.8	4.6
Chad	6.2	-1.2	3.6	-6.0	-3.6	20.4
Congo, Republic of	4.9	7.7	2.2	0.5	-5.9	-0.4
Equatorial Guinea	0.8	-2.2	13.9	-8.4	-0.4	5.9
Gabon	-1.0	-1.5	3.4	-4.0	-7.2	1.7
CEMAC	2.6	-0.8	4.2	-2.8	-5.1	5.9

Sources: Information Notice System; and staff estimates, as of October 2001.

Table 10. CEMAC: Terms of Trade, 1996–2001

(Annual percentage changes)

	1996	1997	1998	1999	2000	2001 Est.
Cameroon	-8.6	5.1	-4.5	-15.7	41.4	4.5
Central African Republic	-4.2	-12.1	17.7	-7.2	-8.3	-8.8
Chad	5.7	-4.9	8.7	-6.9	-2.5	11.7
Congo, Republic of	40.7	-12.5	-20.7	21.9	51.0	-10.0
Equatorial Guinea	0.7	13.1	-26.2	62.4	41.6	-2.4
Gabon	21.2	-3.6	-29.0	37.9	43.0	-16.9
CEMAC	16.6	-1.1	-17.8	19.5	47.2	-2.2
Oil producing countries	17.8	-1.0	-19.6	21.9	50.2	-2.3
Non-oil producing countries	1.5	-7.0	12.7	-7.8	-4.5	7.9

Sources: IMF, World Economic Outlook database, January 2002; and staff estimates and projections.

Table 11. CEMAC: Balance of Payments, 1997–2002 1/ 2/

(In billions of CFA francs)

	1997	1998	1999	2000	2001 Est.	2002 Proj.
Balance on current account	-47	-2039	-457	-212	-1070	-1339
Balance on goods and services	2061	-569	1750	4296	3033	2279
Exports of goods	6095	4069	5745	8940	8736	7942
Exports of services	697	364	354	446	395	403
Imports of goods	-2255	-2625	-2248	-2576	-3534	-3709
Imports of services	-2476	-2376	-2100	-2513	-2563	-2357
Income, net	-1731	-1156	-1654	-3838	-3196	-2668
Income credits	23	24	24	33	35	35
Income debits	-1753	-1180	-1678	-3871	-3230	-2703
<i>Of which</i>						
Investment income, debit: interest (accrued; -sign)	-1734	-1170	-1434	-3230	-2352	-1778
Interest on public debt (scheduled; -sign)	-484	-538	-527	-572	-823	-430
To multilateral creditors (scheduled; -sign)	-88	-88	-93	-105	-129	-85
To bilateral creditors (scheduled; -sign)	-383	-440	-424	-454	-669	-339
To banks (scheduled; -sign)	-12	-10	-10	-14	-26	-6
Interest on nonpublic debt (scheduled; -sign)	-1219	-610	-899	-2650	-1520	-1333
Current transfers, net	-369	-313	-318	-82	-84	-81
Private current transfers, net (excl. capital transfers)	-405	-344	-332	-105	-100	-96
Official current transfers, net (excl. capital transfer)	36	31	14	24	16	15
Balance on capital and financial account	104	2129	502	328	1070	1339
Balance on capital account (incl. capital transfers)	483	784	822	1842	208	543
Balance on financial account (incl. Reserves)	-379	1345	-320	-1514	862	796
Direct investment, net	247	741	488	1143	1270	1478
Portfolio investment, net	0	0	0	-1259	0	0
Other investment, net	-562	146	-786	-1030	-527	-509
Reserve assets 3/	-65	458	-22	-369	119	-174
Errors and omissions, net	-57	-90	-45	-116	0	0

Sources: IMF, World Economic Outlook database, January 2002; and staff estimates and projections.

1/ The computation does not take into account intrazone economic transactions.

2/ Cameroon's balance of payment is aggregated on the basis of its fiscal year - July to June- and not on the basis of the calendar year, as for the other CEMAC countries.

3/ Includes reserve position in the Fund (accumulation -).

Table 12. CEMAC: Compliance with Convergence Criteria, 1997-2002 1/

	1997	1998	1999	2000	2001 Est.	2002 Proj.
Basic fiscal balance 2/	(As a percentage of GDP; criterion: non-negative)					
Cameroon	-0.4	0.0	-1.2	2.3	3.2	2.6
Central African Republic	-1.8	-0.7	-1.8	-1.9	-1.0	-0.2
Chad	-1.0	-0.2	-3.2	-3.0	-3.6	-4.7
Congo, Republic of	-6.1	-15.9	-0.6	7.2	10.6	5.2
Equatorial Guinea	3.0	-0.5	3.7	7.8	13.4	18.0
Gabon	11.1	-1.3	4.4	14.1	11.8	10.5
Number of countries violating	4	5	4	2	2	2
Consumer price inflation	(In percent; criterion: not larger than 3 percent)					
Cameroon	5.2	0.0	2.9	0.8	2.8	3.2
Central African Republic	1.6	-1.9	-1.5	3.1	3.7	2.1
Chad	5.6	4.3	-8.4	3.7	12.4	4.0
Congo, Republic of	13.2	1.8	3.1	0.4	-0.5	8.0
Equatorial Guinea	3.0	3.0	6.5	6.0	12.0	9.0
Gabon	4.1	2.3	-0.7	1.0	2.6	2.0
Number of countries violating	4	1	2	3	3	4
Level of public debt 3/	(As a percentage of GDP; criterion: not larger than 70 percent)					
Cameroon	98.6	92.1	98.2	91.2	82.0	62.0
Central African Republic	92.1	86.5	77.1	78.6	79.7	74.8
Chad	58.9	59.3	68.7	71.1	76.4	72.1
Congo, Republic of	220.0	264.4	218.4	165.1	185.6	167.8
Equatorial Guinea	45.2	50.0	27.8	16.7	12.1	6.2
Gabon	69.9	81.8	81.2	62.9	57.8	53.4
Number of countries violating	3	4	4	4	4	3
Net change in government arrears 4/	(As a percentage of GDP; criterion: non-positive)					
Cameroon	0.4	-9.8	-0.9	-1.8	-2.9	-9.3
Central African Republic	3.6	-11.3	-0.5	-0.4	-1.2	-4.9
Chad	1.3	-0.6	-0.5	-0.3	-0.7	-0.4
Congo, Republic of	-4.2	30.8	20.3	11.7	-8.2	-62.3
Equatorial Guinea	-0.3	-2.9	5.9	-1.3	-0.6	-4.0
Gabon	-1.7	8.0	5.1	-15.3	-0.8	-0.8
Number of countries violating	3	2	3	1	0	0
Total number of criteria violations	14	12	13	10	9	9
Cameroon	4	1	2	1	1	1
Central African Republic	3	2	2	3	3	2
Chad	3	2	1	3	3	3
Congo, Republic of	3	3	4	2	1	2
Equatorial Guinea	0	1	2	1	1	1
Gabon	1	3	2	0	0	0

Sources: IMF, World Economic Outlook database, January 2002; and staff estimates and projections.

1/ Revised set of criteria as valid from 2002 onwards.

2/ Overall budget balance excluding grants and foreign financed investment.

3/ External debt only. The CEMAC's convergence criterion also includes domestic debt, on which the WEO datab provides insufficient information.

4/ External and domestic arrears.

Table 13. CEMAC: External Debt, 1997–2002

	1997	1998	1999	2000	2001 Est.	2002 Proj.
	(In percent of GDP)					
External public debt						
Cameroon 1/	98.6	92.1	98.2	91.2	82.0	62.0
Central African Republic	92.1	86.5	77.1	78.6	79.7	74.8
Chad	58.9	59.3	68.7	71.1	76.4	72.1
Congo, Republic of	220.0	264.4	218.4	165.1	185.6	167.8
Equatorial Guinea	45.2	50.0	27.8	16.7	12.1	6.2
Gabon	69.9	81.8	81.2	62.9	57.8	53.4
CEMAC	100.5	103.4	102.1	89.0	84.8	70.1
	(In percent of exports of goods and services)					
External public debt						
Cameroon 1/	494.7	445.0	536.6	380.0	327.4	303.0
Central African Republic	564.4	562.9	522.2	485.4	556.8	486.5
Chad	366.0	390.7	571.7	550.7	641.8	767.4
Congo, Republic of	308.4	376.4	330.4	216.7	244.9	214.4
Equatorial Guinea	45.1	49.6	29.7	17.5	11.9	5.8
Gabon	121.4	192.3	149.7	98.5	101.5	108.1
CEMAC	262.4	319.4	287.9	194.1	191.6	174.1
	(In percent of government revenue)					
Debt service						
Cameroon 1/	31.0	53.4	29.5	54.5	48.3	47.5
Central African Republic	8.7	17.1	9.5	9.3	11.1	49.1
Chad	0.0	0.0	0.0	42.5	37.4	32.1
Congo, Republic of	59.6	1.7	22.2	23.7	24.4	30.3
Equatorial Guinea	20.4	14.7	12.7	6.9	3.2	2.0
Gabon	35.8	17.4	16.8	32.3	38.7	36.8
CEMAC	25.9	17.4	15.1	28.2	27.2	33.0

Sources: IMF, World Economic Outlook database, January 2002; and staff estimates and projections.

Table 14. CEMAC: Money Market Volumes, 1999–2001

	Central bank						Volume traded on interbank market		
	Injections of Liquidity			Absortions of liquidity			1999	2000	2001
	1999	2000	2001 Est.	1999	2000	2001 Est.			
(In billions of CFA francs)									
Cameroon	60.6	25.5	14.1	101.6	550.0	1,086.9	99.7	78.4	124.7
Central African Republic	43.1	47.8	28.8	0.5	0.2	2.1	0.0	0.1	3.8
Chad	189.6	112.7	97.0	15.0	2.4	8.5	30.4	2.2	11.0
Congo, Republic of	80.7	81.8	29.7	36.8	98.3	402.5	0.0	0.0	0.0
Equatorial Guinea	0.0	0.0	0.0	0.0	0.0	47.2	28.2	48.3	96.5
Gabon	144.1	12.9	3.0	0.9	258.4	203.1	95.9	47.4	46.7
CEMAC	518.1	280.6	172.6	154.8	909.3	1,750.2	254.2	176.4	282.7

Source: BEAC.

Table 15. CEMAC: Summary of Violations of Main Prudential Ratios, 2000–01

	Solvency		Liquidity		Fixed Assets Coverage		Maturity Mismatch		Minimum Capital		Risk Concentration	
	2000	2001 Est.	2000	2001 Est.	2000	2001 Est.	2000	2001 Est.	2000	2001 Est.	2000	2001 Est.
	(Number of banks in violation) 1/											
Country (number of banks)												
Cameroon (10)	3	3	2	1	2	3	4	5	3	3	6	6
Central African Republic (3)	1	1	0	2	2	1	2	2	1	1	1	1
Chad (6)	1	1	1	0	3	3	1	2	1	1	0	1
Congo, Republic of (4)	4	2	2	3	4	3	4	2	4	2	3	1
Equatorial Guinea (3)	0	0	0	0	1	1	0	0	0	0	1	1
Gabon (6)	2	0	1	1	2	1	2	0	2	0	3	0
CEMAC (32)	11	7	6	7	14	12	13	11	11	7	14	10
	(In percent of deposits) 2/											
Cameroon (10)	18	10	3	2	9	3	49	3	18	10	62	22
Central African Republic (3)	37	36	0	54	83	36	83	82	37	36	37	36
Chad (6)	27	25	12	0	73	91	27	39	27	25	0	14
Congo, Republic of (4)	54	57	34	82	28	75	54	57	54	57	48	20
Equatorial Guinea (3)	0	0	0	0	65	58	0	0	0	0	35	33
Gabon (6)	19	0	0	19	23	25	23	0	19	0	40	0

Sources: COBAC and staff calculations.

1/ Number of banks in violation in the country.

2/ Percentage of deposits represented by the number of banks in violation in the country.

3/ Percentage of total deposits represented by the number of banks in violation in the region.

Table 16. CEMAC: Quality of Loan Portfolio, 1999–2001

	Gross Loans			Nonperforming Loans			Provisions			Rate of Nonperforming Loans 1/			Rate of Provisions 2/		
	1999	2000	2001 Est.	1999	2000	2001 Est.	1999	2000	2001 Est.	1999	2000	2001 Est.	1999	2000	2001 Est.
	(In billions of CFA francs)									(In percent)					
Cameroon	538.4	632.5	702.5	111.8	109.6	110.0	84.4	81.7	86.0	20.8	17.3	15.7	75.5	74.5	78.2
Central African Republic	45.3	45.6	52.2	10.2	11.7	15.3	8.9	9.2	11.8	22.5	25.6	29.4	86.7	78.9	76.7
Chad	61.0	71.7	86.2	17.4	21.5	17.8	11.4	15.5	12.9	28.5	29.9	20.7	65.5	72.1	72.5
Congo, Republic of	189.7	176.9	121.5	80.5	106.8	48.2	78.8	103.6	40.5	42.5	60.4	39.7	97.8	97.0	84.0
Equatorial Guinea	23.8	31.4	40.6	2.0	3.1	4.2	1.9	2.7	3.7	8.4	9.8	10.5	96.7	86.2	86.0
Gabon	445.7	432.8	495.5	41.7	28.6	43.0	15.1	18.5	27.2	9.4	6.6	8.7	36.1	64.7	63.2
CEMAC	1,304.0	1,390.9	1,498.4	263.6	281.3	238.6	200.4	231.2	182.0	20.2	20.2	15.9	76.0	82.2	76.3

Sources: COBAC and staff calculations.

1/ In percent of gross loans.

2/ In percent of nonperforming loans.

Table 17. CEMAC: Bank Ratings, 2001

	Ratings 1/								NC 2/
	1	2	3A	3B	3C	4A	4B	4C	
	(Number of banks)								
Cameroon (10)	0	5	1	1	0	0	1	0	2
Central African Republic (3)	0	1	0	2	0	0	0	0	0
Chad (6)	0	2	0	4	0	0	0	0	0
Congo, Republic of (4)	0	1	0	0	1	0	0	1	1
Equatorial Guinea (3)	1	1	0	0	0	0	0	0	1
Gabon (6)	0	5	0	0	0	0	0	0	1
CEMAC (32)	1	15	1	7	1	0	1	1	5

Source: COBAC.

1/ Ratings: 1=strong (69.9 to 100 points); 2=good (39.2 to 69.8 points); 3A=fragile (34.4 to 39.1 points); 3B=moderately fragile (8.9 to 34.3 points); 3C=highly fragile (-6.0 to 8.8 points); 4A=critical (-15.6 to -6.1); 4B=highly critical (-15.6 to -6.1 points); 4C=irreparable (-100 to -55.4).

2/ Nonrated banks.



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IMF Concludes Discussion on Recent Developments and Regional Policy Issues with the Central African Economic and Monetary Community

On June 14, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the discussion on recent developments and regional policy issues with the Central African Economic and Monetary Community (CEMAC).¹

Background

The Bank of Central African States' (BEAC) public finances and external reserves position improved and real GDP growth picked up in 2000–01, thanks to favorable world oil prices. The CPI inflation rate increased to 4 percent in 2001, reflecting mainly domestic demand pressures, in part fed by growth in bank credit to governments. Prospects for 2002 are for continued strong growth in both real GDP and domestic demand. Regional monetary policy of the BEAC will therefore need to address any inflationary pressures by mopping up liquidity. However, monetary control is made difficult by the incomplete integration of financial markets and BEAC's obligation to provide statutory monetary financing to governments. Reforms to the payments system and the elimination of monetary financing of government deficits are underway to improve the effectiveness of the BEAC's instruments and facilitate the financial integration of the region.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The banking system is improving but still does not operate in an integrated fashion across national borders despite the possibility of obtaining a regional banking license. The regional banking supervisory agency, the COBAC, is in the process of further strengthening its role in supervising the financial system and encouraging regional financial integration.

Regional surveillance over fiscal policies could be improved by taking into account the volatility of oil prices. Further fiscal consolidation is needed to provide firm support to the common exchange rate regime. Convergence criteria should be adjusted for movements in oil prices, otherwise they become too lax when prices are high. Countries must also be induced to increase national saving before oil reserves become depleted. Though funds for future generations may help in the process, they need to be designed to embody adequate safeguards to ensure that investments are sound and the resources are well used.

The CEMAC has initiated a number of projects that aim at promoting regional integration, including trade liberalization, the common external tariff rates, the harmonization of taxation, facilitating movements of persons and inputs to production, enhancing multilateral surveillance, and implementing sectoral reforms. While efforts have borne fruit in some areas, in others progress has been slow.

Executive Board Assessment

Executive Directors commended the authorities of the CEMAC countries for their continued efforts to intensify regional economic integration and surveillance and to harmonize macroeconomic policies. They welcomed, in particular, the adoption of new convergence criteria and of a framework for surveillance over macroeconomic policies—while noting the need to build on this progress by strengthening aspects of implementation. Directors considered that the Fund's dialogue with CEMAC was a valuable complement to its bilateral surveillance over the member countries of the region.

Directors noted that developments in world oil markets had permitted CEMAC countries to sustain satisfactory—albeit somewhat uneven—economic growth, and to substantially increase their international reserves. Nonetheless, they considered that domestic demand had been allowed to grow too strongly—reflecting a rapid expansion in credit granted by the regional Central Bank and a procyclical fiscal policy. This had led to a rise in inflation and a deterioration in the external balance. Directors believed that the international reserve position and external competitiveness of the region remained broadly adequate. However, they stressed that the current macroeconomic situation warrants a tightening of financial policies.

Directors underscored that discipline in the public finances must be the foundation of price and exchange rate stability. While recognizing that the current fiscal position is strong, they considered that the management of the public finances could be improved. In particular, they urged that the relevant convergence criteria be adjusted to take into account the importance of oil revenues for most of the economies in the region: at present, a significant increase in the world oil price resulted in a procyclical rise in public expenditure. They suggested, for example, that fiscal goals could be based on a longer-term trend of oil prices, instead of the current price.

In this connection, Directors saw potential merit in the planned establishment of an oil revenue stabilization fund, which could serve as a buffer against oil price fluctuations. For such a fund to be effective, it would be crucial to ensure that regional surveillance over fiscal policy avoids procyclical spending and takes into account developments in the non-oil deficit. In addition, several Directors supported the creation of a long-term savings fund as one of the routes available to benefit future generations—provided it were set up with appropriate safeguards and offered adequate returns.

Turning to monetary policy, Directors welcomed the plan to phase out statutory central bank financing of government deficits, although it was questioned whether 10 years was not too long a time frame for doing so. Directors noted that regional financial markets are not well developed, which inhibits the use of open market operations and other indirect monetary policy instruments. They believed that the sale of government bonds to substitute for central bank financing would help develop domestic money and capital markets and thus further strengthen monetary control. However, they noted that this reform would require a number of legal and institutional changes and would need to be prepared carefully. Directors also supported the increase of commercial bank reserve requirements, provided these are adequately remunerated, as an important step to enhance the effectiveness of monetary policy by reducing excess liquidity. Changes along these lines would allow the regional central bank to pursue its goals more effectively and counter the recent unduly rapid growth of credit.

Regional financial integration also requires a well functioning banking system. Directors noted that, while progress has been made in strengthening bank soundness in recent years, there is scope for further improvements. They commended the authorities for their efforts to put in place an efficient regional payments system. Nonetheless, they stressed the need to go further in making effective the common banking license and developing a well-functioning interbank market—thereby creating a fully-fledged regional monetary zone. Directors also welcomed the authorities' determination to address problems of the arbitrary attachment of bank deposits. They urged further steps to strengthen the financial framework and infrastructure; and they called for additional resources to be provided to the regional supervisory agency (COBAC) to enable it to execute its functions effectively.

Directors noted that much remained to be done to implement fully the goal of a single market in the region. Thus, they welcomed the member countries' decision to further liberalize trade through a simplification of the present structure of the common external tariff and a reduction of average tariff rates. Directors stressed the importance of reducing barriers to trade in order to achieve an outward-looking customs union; and they welcomed a project to take stock of remaining regional barriers with the help of donor countries. Member countries, they emphasized, needed to fully implement the agreements they had reached—demonstrating the commitment to put regional integration goals above sectoral interests. Several Directors also noted that the region's exports of cotton were adversely affected by subsidies in advanced economies.

Directors underscored the importance of technical assistance to CEMAC members—especially in the areas of trade reform and monetary management—to strengthen the regional integration process.

Directors welcomed the amendment of the CEMAC Treaty to create an action group to combat money laundering and the financing of terrorism, and urged speedy passage and implementation of the proposed regional law addressing these activities.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

CEMAC: Selected Economic and Financial Indicators

	1997	1998	1999	2000	Prel. 2001	Proj. 2002
	(Annual percentage change)					
National income and prices						
GDP at constant prices	5.1	4.9	0.3	3.0	5.4	5.4
Oil GDP	8.0	2.6	0.3	-3.3	5.4	3.8
Non-oil GDP	4.5	5.4	0.3	4.2	5.4	5.6
Consumer prices (period average)	5.9	0.8	1.9	3.0	3.9	4.4
Terms of trade	-1.1	-17.8	19.5	47.2	-2.2	-22.1
Real effective exchange rate	0.8	4.2	-2.8	-5.1	5.9	...
	(Annual changes in percent of beginning-of-period broad money)					
Money and credit						
Net foreign assets	2.2	-11.8	4.5	38.4	-11.3	...
Net domestic assets	8.5	11.5	4.8	-15.4	18.6	...
Broad money	10.6	-0.3	9.3	23.0	7.2	...
	(In percent of GDP, unless otherwise indicated)					
National accounts						
Gross domestic savings	30.4	23.4	27.4	37.6	36.1	33.2
Gross domestic investment	22.1	25.3	21.8	20.4	25.4	24.6
Government financial operations						
Total revenue, excluding grants	20.9	20.4	19.1	22.4	24.0	22.3
Total expenditure	23.2	28.1	22.6	19.6	21.2	21.0
Overall balance, including grants	-1.4	-6.4	-2.4	3.5	3.6	2.8
External sector						
	(In billions of U.S. dollars)					
Exports of goods and services	11.6	7.5	9.9	13.2	12.5	11.6
Imports of goods and services	8.1	8.5	7.1	7.1	8.3	8.5
Current account, including grants	-0.01	-3.5	-0.7	-0.3	-1.5	-1.9
In percent of GDP	-0.4	-18.7	-3.9	-1.5	-7.2	-8.8
External public debt	19.20	19.1	19.6	17.9	17.3	14.8
In percent of GDP	100.5	103.4	102.1	89.0	84.8	70.1
Gross official reserves	0.88	0.55	0.60	1.32	1.16	...

Memorandum items:

CFA francs per U.S. dollar, average	583.7	590.0	615.7	712.0	732.5	...
Oil prices (in U.S. dollars per barrel)	19.3	13.1	18.0	28.2	24.3	20.0

Sources: IMF, World Economic Outlook database, January 2002; and IMF staff estimates and projections.

**Statement by Alexandre Barro Chambrier, Executive Director on Recent
Developments and Regional Policy Issues in the
Central African Economic and Monetary Community
June 14, 2002**

Introduction

We welcome this report on the periodic staff discussions with the representatives of the Central African Economic and Monetary Community (CEMAC), made in the context of regional surveillance. My authorities appreciate the useful exchange of views with staff on economic and financial developments in the region. They view the report as a good supplement to the Article IV Consultation report on the respective countries forming the CEMAC. This informative document highlights recent developments within the region and the main regional policy issues. The staff's comprehensive paper also underscores progress made to enhance macro-economic convergence, improve the supervision of the banking sector, and promote intra-regional trade. The report also makes useful contributions to the discussions on the management of oil revenues, the need to reduce exposure to the volatility of oil prices, and the diversification of the production base, important issues to the CEMAC, as almost all the members are oil-exporting countries. Overall, the staff's contributions and proposals come at an important period where CEMAC is engaged in deepening regional integration through trade liberalization, the harmonization of taxation, the facilitation of movements of persons and inputs to production, the enhancement of multilateral surveillance and the implementation of sectoral reforms.

Institutional Background

The treaty establishing the CEMAC entered into force in August 1999. All the six countries forming that regional arrangement belong to CFA Franc Zone. Their currency peg thus shifted from the French Franc to the Euro in January 1999. The CEMAC framework entrusts the regional central bank (BEAC) with monetary policy and the banking commission (COBAC) with the supervision of the banking system. The CEMAC treaty pursues many objectives including: (i) monetary cooperation among member countries; (ii) a single domestic market and a full-fledged customs union; (iii) harmonization of legal and regulatory mechanisms; (iv) convergence of fiscal policies; and (v) common sectoral policies. In addition, in order to strengthen the statistical apparatus to improve the multilateral surveillance of economic policies in the CEMAC, efforts are made to strengthen AFRISTAT.

Recent Economic Developments of CEMAC Countries and Prospects for 2002

In the context of high oil prices, **CEMAC's economic performance improved** in 2001. Real GDP in the region grew by 5.4 percent, higher than in the rest of sub-Saharan Africa, following 3 percent growth in 2000. However, growth performance was uneven, weaker in Cameroon, Chad and Equatorial Guinea but lower in Central African Republic and Gabon. Despite an expansion in government expenditures, the **fiscal positions remain strong**. Inflationary pressures increased due to excess demand.

Economic prospects for 2002 remain favorable. Real GDP is expected to grow by about 5 percent, with inflation expected to be contained. The trade surplus is expected to remain strong at 8.5 percent of GDP, although lower than last year.

Managing Oil Revenues

The BEAC has set up two funds, one to help achieve the short-term stabilization of oil receipts and another to accumulate long-term savings for future generations. Staff has highlighted the difficulties related to the management of the Fund and has drawn attention to the types of assets that the funds would hold as well as their rate of return and their effect on a country's overall budgetary position. However, it should be noted that while the authorities are broadly in agreement with the principles setting up those funds, in practice it is much more complex. There are first of all difficulties at the national level for the setting up of those funds, due to the enormous pressures to meet immediate pressing social and infrastructural needs. There is also the problem of the financial framework which should be strengthened so as to ensure the effectiveness of such funds. Issues such as rates of return and drawings from the funds need still to be agreed on.

Regional Policy Issues and Coordination

Economic developments and prospects will still depend on the evolution of oil prices. Petroleum accounts for more than two thirds of the CEMAC countries' exports receipts and about half of their fiscal revenues. An appropriate mix of good macroeconomic management and structural reforms can help CEMAC countries alleviate their vulnerability to oil prices change. From a regional perspective, the coordination of macroeconomic policies among countries sharing a common currency is key to reaping the full benefits of the monetary community. For this purpose, my authorities recognize the need to strengthen regional surveillance over macroeconomic policies and to conduct a prudent regional monetary policy to maintain macroeconomic stability. They are also aware that strong policy actions and initiatives are crucial to deepen regional integration within the region. Recent developments, in particular in the areas of macro-surveillance, banking and financial sectors, trade, tax and sectoral policies testify in favor of the authorities' willingness to push ahead the regional agenda.

Strengthening Regional Surveillance in CEMAC: Designing Convergence Criteria

To improve macroeconomic policies among the members, CEMAC authorities strengthened macroeconomic convergence within the region by adopting convergence criteria. The recent setting up of a new convergence framework covering fiscal balance, inflation rate, public debt and the payment arrears is the recognition that my authorities are determined to maintain macroeconomic stability and preserve the gains in external competitiveness. Progress was made to meet most of the convergence criteria.

Regional Monetary Policy

Monetary policy is geared towards supporting the fixed parity of the CFA franc to the euro, and its convertibility through ensuring price stability and maintaining an appropriate level of

of excess liquidity may have fed inflationary pressures. However, we should bear in mind that another objective of the central bank's policy is to support the economic policies of member countries

In the context of excess liquidity and the lack of a well-functioning interbank money market, the use of indirect monetary instruments, as tools for liquidity management, can be difficult. Therefore, cognizant of the need to improve the **effectiveness of the monetary policy**, my authorities have recently undertaken a number of initiatives. Of a particular importance is the **financial programming exercise** that the BEAC conducts on an annual basis with the view to harmonize the regional objectives and the national economic and financial developments. The practice consists in setting specific targets for credit to each government consistent with a targeted level of net domestic assets and gross foreign assets of the BEAC. While we recognize that there are some limitations to the effectiveness of such exercise as emphasized in the staff's report, we are of the view that it is a step further to reinforce regional monetary policy.

In addition, **two major reforms are also underway** to enhance the effectiveness of monetary policy. First, in September 2001, the BEAC introduced a **non-zero reserves requirements** at a level equal to 2.5 percent of sight deposits and 1.5 percent of term deposits. The use of this instrument may help to mop up existing banks' excess liquidity. However, like the staff, we see a need for an operational money market for an efficient management of liquidity. Indeed, my authorities are cognizant that the more active use by banks of the interbank market is key for the effectiveness of the regional monetary policy. Second, the planned **elimination of the BEAC's monetary financing of government deficits** is also an important step for strengthening monetary policy within the region. However, CEMAC's authorities are in agreement with the staff that to facilitate the conduct and the effectiveness of monetary, there is a need to develop markets for treasury bills and bonds issued by member governments. In this regard, a regional securities market on which stocks and bonds would be traded would help achieve this objective.

Foreign Exchange Management and External Competitiveness

As noted above a primary goal of the CEMAC is to ensure the maintenance of the parity with the euro. Policies have been geared towards that objective, as well as to ensure that the CFAF maintained its external competitiveness, through appropriate monetary policy. In this regard, the authorities are also taking steps to dampen excess demand in the region. My authorities have also set inflation rate target as a key convergence criteria to prevent such developments. By doing so, they have shown their commitment to price stability and are ready to take additional measures, if needed.

Financial System and Banking Sector Issues

A major characteristic of CEMAC's financial system is the predominance of banks. As of end-December 2001, the banking system in the CEMAC zone was comprised of 32 banks. From a regional perspective, intra-regional transfers between banks from a country to another have the advantages of smoothing the effects of seasonal fluctuations and to facilitate the implementation of the regional monetary policy. However, the low level of interbank activity

does not provide an effective channel for such inter-bank transactions. In this regard, my authorities have undertaken a number of initiatives to improve the effectiveness of the interbank market, including the issuance of tradable government bonds, the payment system reform project, a single regional licensing system. They are cognizant that these initiatives need some time to produce tangible results.

The strength of the **banking sector continued to improve** as reflected by the degree of banks' compliance with key financial ratios in 2001. The banking sector enjoyed positive developments, including the arrival of new private shareholders and the restoration of profitability of the system.

Banking Supervision and the Legal Environment for Banking Activity

The **banking commission**, or **COBAC**, is in charge of financial supervision within the community. As mentioned by the staff, COBAC has gained credibility in the region. A noticeable progress has been achieved in the reform of the banking sector. COBAC is also in compliance with the "Core Principles for Effective Banking Supervision".

With regard to the staffing issue, my authorities agree that insufficient staffing may be a constraint to the effectiveness of supervision. As indicated in the staff report, CEMAC's authorities are willing to address this issue through training programs. In addition, a recruitment program has started in January 2002 to provide the banking commission with additional staffing.

The **OHADA treaty** aiming at harmonizing legislation and business law in the CFA zone is implemented in most of the countries.

With regard to the issue of *saisie-attribution*, CEMAC authorities recognize the importance of this issue for the soundness of the financial system in the region. It is important to note that it was the BEAC that first drew attention to this problem. Progress is being made to address the issue. The BEAC agreed on the need to protect the assets of the national branches. It is committed to protect banks from abusive requests. In this regard, the BEAC has taken steps to introduce a new provision in the agreements signed with member states that define the BEAC's immunity status and to protect it against arbitrary seizure.

Money Laundering

On December 14, 2000, the Head of States amended the CEMAC treaty to create an action group to combat money laundering and terrorism activities financing. The action group established its headquarters in Bangui (Central African Republic). A regional law on combating money laundering and terrorism should be passed before the end of the year 2002. Under the articles of this law, a national unit on intelligence and financial information will be created in each member country. The Director will be appointed at the next summit.

Trade Policy

Since the 1994 devaluation, CEMAC has made progress toward regional integration, in establishing a common trade policy and opening up trade among its members. A **common external tariff** (CET) was established in 1994. With the view to reduce external protection, simplify the tariff system, and promote regional integration, all intrazone tariff and nontariff trade barriers for locally produced primary products were removed. A **preferential tariff** was adopted in 1994 to facilitate intracommunity trade. While we share staff's view that CEMAC should push ahead for the elimination of remaining protectionist measures, it is important to note that my authorities have already undertaken steps in that direction. Indeed, an action plan is underway to bring member states into conformity with the CET regulations. We also recognize that there is a need to reduce the scope of exemptions and introducing gradually further tax and trade reforms so as to strengthen regional integration within CEMAC's countries.

Tax Harmonization

In this area, CEMAC has made important progress. The tax harmonization process has proceeded gradually with the introduction of a **single VAT rate** in five member states. The authorities are also working to establish a common tax base for petroleum taxation, and a common tourism and forestry taxation.

Conclusion and Challenges Ahead

As the bulk of the CEMAC countries' revenue comes from a few commodities, namely, oil, timber and cotton, those countries remain therefore vulnerable to external shocks. In spite of the exposure to adverse exogenous factors, CEMAC countries have registered significant economic progress since the 1994 devaluation. However, the authorities are fully aware that key challenges lie ahead in particular in the areas of the management of oil revenues and the diversification of the economies away from their strong dependence on oil revenues. Broadening the sources of growth and competitiveness will be key to fight poverty within the region.