INTERNATIONAL MONETARY FUND

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CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

November, 2013

STAFF REPORT ON COMMON POLICIES FOR MEMBER COUNTRIES

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 discussions on common policies for member countries forming the Central African Economic and Monetary Community (CEMAC), the following documents have been released and are included in this package:

- The **Staff Report** on common policies of member countries of the CEMAC, prepared by a staff team of the IMF for the Executive Board's consideration on October 23, 2013, following discussions that ended on July 23, 2013 with the officials of CEMAC on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 8, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its October 23, 2013 consideration of the staff report.
- A **Statement by the Executive Director** on the common policies of member countries of CEMAC.

The publication policy of staff reports and other documents allows for the deletion of market-sensitive information.

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October 8, 2013

KEY ISSUES

Context. Strong area-wide economic performance in 2012 was largely driven by public investment financed by high oil revenues. GDP growth is expected to slow down in 2013 due to a decline in oil production, moderation in public investment and the political crisis in Central African Republic. Albeit robust in recent years, economic growth has been insufficient to significantly improve income per capita. While macroeconomic stability has been maintained, with moderate inflation, the region's main challenge is to implement structural policies necessary to help promote sustainable and inclusive growth. The region remains vulnerable to a possible decline in oil prices.

Key policy recommendations:

- **Policy mix.** The fiscal stance should be more cautious in some countries where policy buffers are insufficient to withstand shocks. The recent easing of monetary policy has been appropriate given the positive inflation outlook. Reserves coverage remains adequate and the real effective exchange rate is broadly in line with fundamentals but the issue of only partial repatriation of foreign exchange reserves by some member states needs be resolved.
- **Fiscal policy coordination.** The fiscal surveillance framework should be revised to limit pro-cyclicality and better ensure long-term fiscal sustainability of oil rich countries.
- **Monetary policy framework.** In the context of the peg of the CFA Franc to the euro, the operational framework for monetary policy needs to be revised to improve management of systemic liquidity and make it an efficient tool of macroeconomic management.
- **Financial sector.** To reduce risks to financial sector stability, strengthening the capacity of the regional regulator, strictly enforcing prudential requirements and expediting the restructuring of unviable institutions are among key priorities. Financial deepening requires structural financial sector reforms related to credit information, security of collaterals, creditor rights and payment system.
- **Growth.** More effective regional integration could help boost and sustain diversified and inclusive growth. Reinforcing regional institutions and improving the coordination of national development plans are needed to optimize the region's potential. Regional efforts to boost private sector investment should aim at improving governance and the business climate, one of the most challenging in Africa.

Approved By
Anne-Marie Gulde-Wolf and Dhaneshwar Ghura

Discussions were held July 9–23, 2013 with the regional central bank (Banque Centrale des Etats d'Afrique Centrale, BEAC), the Banking Commission (Commission Bancaire, COBAC), the CEMAC Commission and the Central African Development Bank.
The staff team comprised Mr. Toujas-Bernate (head), Messrs. Gijon and Youm, and Mesdames Yontcheva (Resident Representative), Zdzienicka (all AFR), and Radzewicz-Bak (MCM). Mr. Bah (OED), as well as World Bank and African Development Bank staff joined the discussions. Other contributors to this report include Mr. Alex Segura-Urbigo, and Mesdames Christine Richmond and Malin Hu (all FAD), Bin Li (RES) and Mr. Tweneboah (AFR).
CEMAC countries include Cameroon, Chad, Central African Republic, Equatorial Guinea, Gabon, and Republic of Congo.

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INTRODUCTION

1. **The CEMAC region has recorded a fairly strong overall economic performance, supported by high oil production and revenues, but continues to face substantial development challenges**. Oil producing countries (five of the six CEMAC countries) have embarked on ambitious public investment programs to fill infrastructures gaps, which have boosted non-oil GDP growth in the last few years. The peg of the exchange rate to the euro has continued to contribute to stable and moderate inflation. Yet, despite large spending out of oil wealth, poverty, income inequality and formal unemployment (especially youth unemployment) remain high, and meeting most of the Millennium Development Goals by 2015 seems unlikely. Moreover, oil-related surpluses have posed challenges for macroeconomic policymaking, with a tendency of fiscal policies to be procyclical and very large liquidity being accumulated in the financial sector. The business environment, one of the most difficult in Africa, severely constrains private investment. The region's main challenge is to implement the necessary structural policies that would help promote sustainable and inclusive growth, while adapting the macro policies framework to maintain macro financial stability and improve resilience to possible shocks. Regional institutions still face substantial capacity constraints and need to be strengthened to ensure that reform efforts are better supported and coordinated.

2. **While the direction of policies has been in line with previous IMF advice, implementation has been slow or limited.** Past challenges in the transparency and efficiency of CEMAC institutions prompted the launch of an ambitious institutional reform agenda. However, the pace of reform has remained slow. The issue of only-partial repatriation of foreign exchange assets by some member states remains unresolved, the monetary policy framework has been left unchanged and preparation for possible reform of the surveillance framework has not advanced. Further building on past advice, policy discussions focused on boosting reform efforts and making regional institutions a more efficient vehicle to promote inclusive growth and economic development, while preserving financial stability.

RECENT ECONOMIC DEVELOPMENTS, MEDIUM-TERM OUTLOOK AND RISKS

3. **CEMAC's strong economic growth in 2012 was largely driven by public investment.** Supported by high oil revenues, an increase in public investment programs in most member countries (Cameroon, Chad, Congo, Equatorial Guinea and Gabon) and buoyant domestic consumption contributed to a 6 ½ percent growth in the non-oil sectors, while oil production growth fell by around 1 percent. As a result, overall GDP growth reached 5½ percent. Inflation remained moderate, slightly below the regional convergence ceiling of 3 percent.

4. **The regional aggregate fiscal position deteriorated in 2012 and turned into a deficit.** The continuation of expansionary fiscal policies led to the deterioration of the area's fiscal position, with a regional overall fiscal deficit (excluding grants) of 1.6 percent of GDP and a

non-oil primary deficit of 30.7 percent of NOGDP. With all but one country (Chad) having benefitted from debt relief, the average nominal debt for the region now stands at about 13.4 percent of GDP, well below the 70 percent of GDP ceiling set by the regional surveillance framework for individual countries. The debt sustainability analyses (DSAs) for the individual countries show only low risk of debt distress.

5. The external current account deteriorated in 2012 but the external position remains sound. The current account balance deficit was around 1.4 percent of GDP due to a spike in income outflows (mainly transfers of profits by foreign oil companies). Foreign reserves, however, increased to US$17.5 billion (or 5.7 months of imports) at end-2012.

6. Monetary policy eased in July 2013, as inflation abated and growth in monetary aggregates slowed. After maintaining a passive but relatively tight monetary policy stance throughout 2012, the BEAC decided to lower its main policy rate by 50 bps in July 2013. The decision reflected a better outlook for inflation, which continues to decline below the regional convergence ceiling of 3 percent due to lower food prices and a slower increase in base money. Nevertheless, excess liquidity in the system remains high, and this, combined with the lack of instruments for liquidity withdrawal, undermine the potential effectiveness of the current monetary policy operational framework.

7. Macroeconomic performance is expected to remain relatively strong in 2013 despite a sharp decline in growth in some countries. GDP growth should continue to be driven by public investment and consumption. However, a drop in oil production, moderation in capital expenditure and the political crisis in Central African Republic are likely to bring down regional growth to around 3 ½ percent. Regional inflation has remained moderate (2.2 percent y-o-y in August 2013) and is expected to remain under control, owing to low food prices increase. Despite a scaling down of public investment programs in Chad, Congo and Equatorial Guinea, strong capital expenditure growth will continue in Cameroon, and Gabon. This should result in a slight deterioration of the regional fiscal balance to a deficit of around 1.8 percent of GDP. The current account deficit is expected to deteriorate slightly due to lower exports of goods (of which nearly 90 percent are hydrocarbons), and still high imports, while transfers of profits by foreign investors would decline. Growth of bank deposits continued to be strong in the early months of 2013, while private sector credit growth has been more moderate, resulting in a further increase in systemic liquidity.

8. The crisis in the Central African Republic (CAR) represents a major political challenge for the CEMAC, but economic spillovers should be limited. The political insecurity since early 2013 caused substantial economic disruption resulting in a sharp fall in GDP this year. However, the CAR's relatively modest trade with the other member countries and its small share of regional GDP are expected to limit the economic fallout for the sub-region.

9. Growth in the CEMAC region is expected to remain solid in the medium term at around 4½ percent. This assumes the implementation of growth-enhancing reforms to spur private investment while the scaled-up public investment program would gradually taper off.

Inflation is projected to remain moderate below the regional ceiling of 3 percent due to a less expansionary fiscal stance and lower food prices. The overall fiscal balance would remain in deficit (½ to 1 ½ percent of GDP), with a trend decline in oil revenues being partly offset by a substantial adjustment in the non-oil deficit which should be cut by half by 2018, due to the scaling back of public investment in Equatorial Guinea, Congo and Chad. This would result in a substantial decline of the non-oil primary deficit (including grants) from 25.8 percent of non-oil GDP in 2013 to 14.8 percent in 2018. The current account deficit is projected to worsen to 2–4 ½ percent of GDP due to the trend decline in oil prices and continuously large imports associated with investment (public and private).

10. Although macroeconomic performance has been good in recent years, CEMAC is still facing important risks (see Risk Assessment Matrix). The sub-region remains largely dependent on oil revenues. A substantial and prolonged drop in oil and other commodity prices potentially linked to a slowdown in global growth is the greatest risk for the CEMAC (Annex 1). Such a decline would significantly impact the fiscal and current account balances and would force a more sudden and faster decline in public investment. Moreover, the region's heightened security risks could also have a negative impact on growth. Without increased momentum of reform, the medium-term growth potential would be more limited and impede achievement of development goals.

Figure 1. CEMAC Nominal GDP, 2012
(CFAF, Billions)

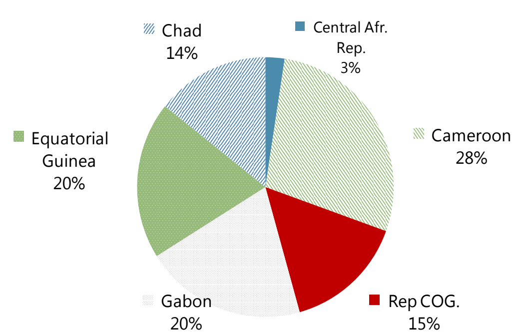
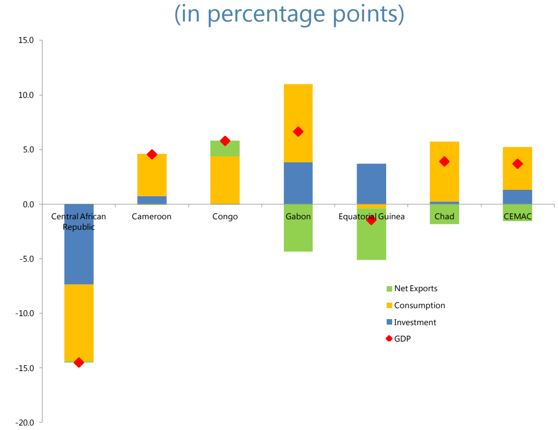


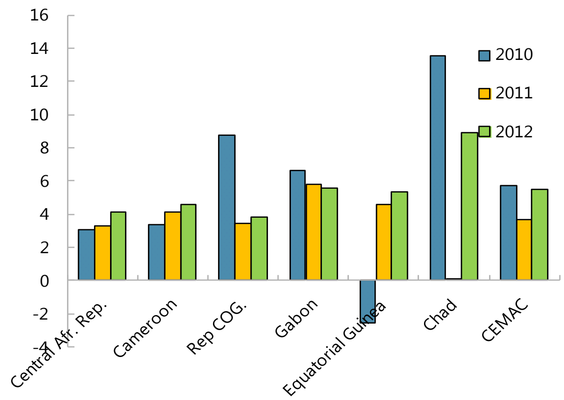
Figure 2. GDP Growth Contribution, 2013
(in percentage points)



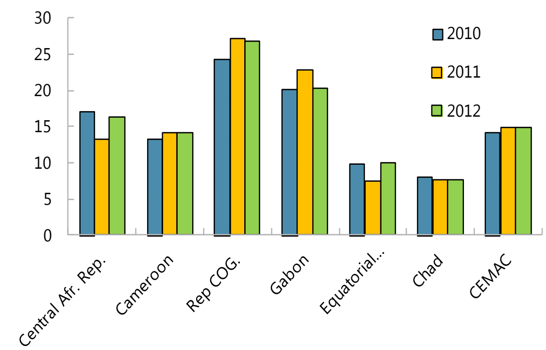
Sources: WEO Database and IMF Staff Estimates

Figure 3. CEMAC Selected Economic Indicators, 2010–12

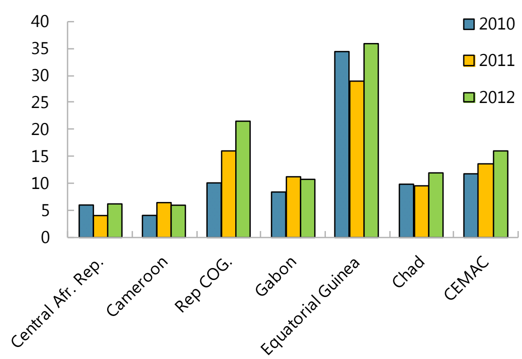
Real GDP Growth, 2010–12
(Percent)



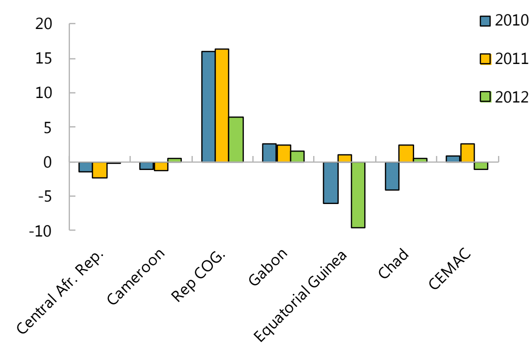
Non-oil Revenue, 2010–12
(Percent of Non-oil GDP)



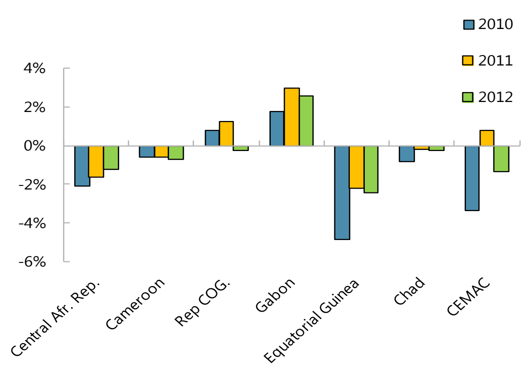
Capital Expenditure, 2010–12
(Percent of GDP)



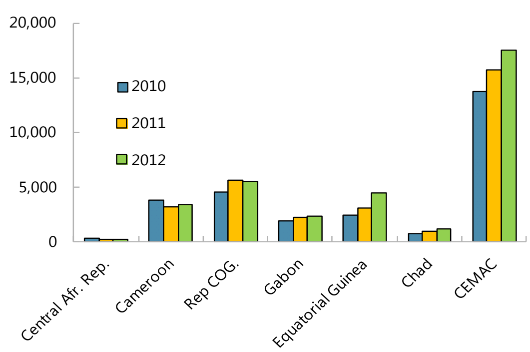
Overall Fiscal Balance, 2010–12
(Percent of GDP)



Current Account, 2010–12
(Percent of GDP)

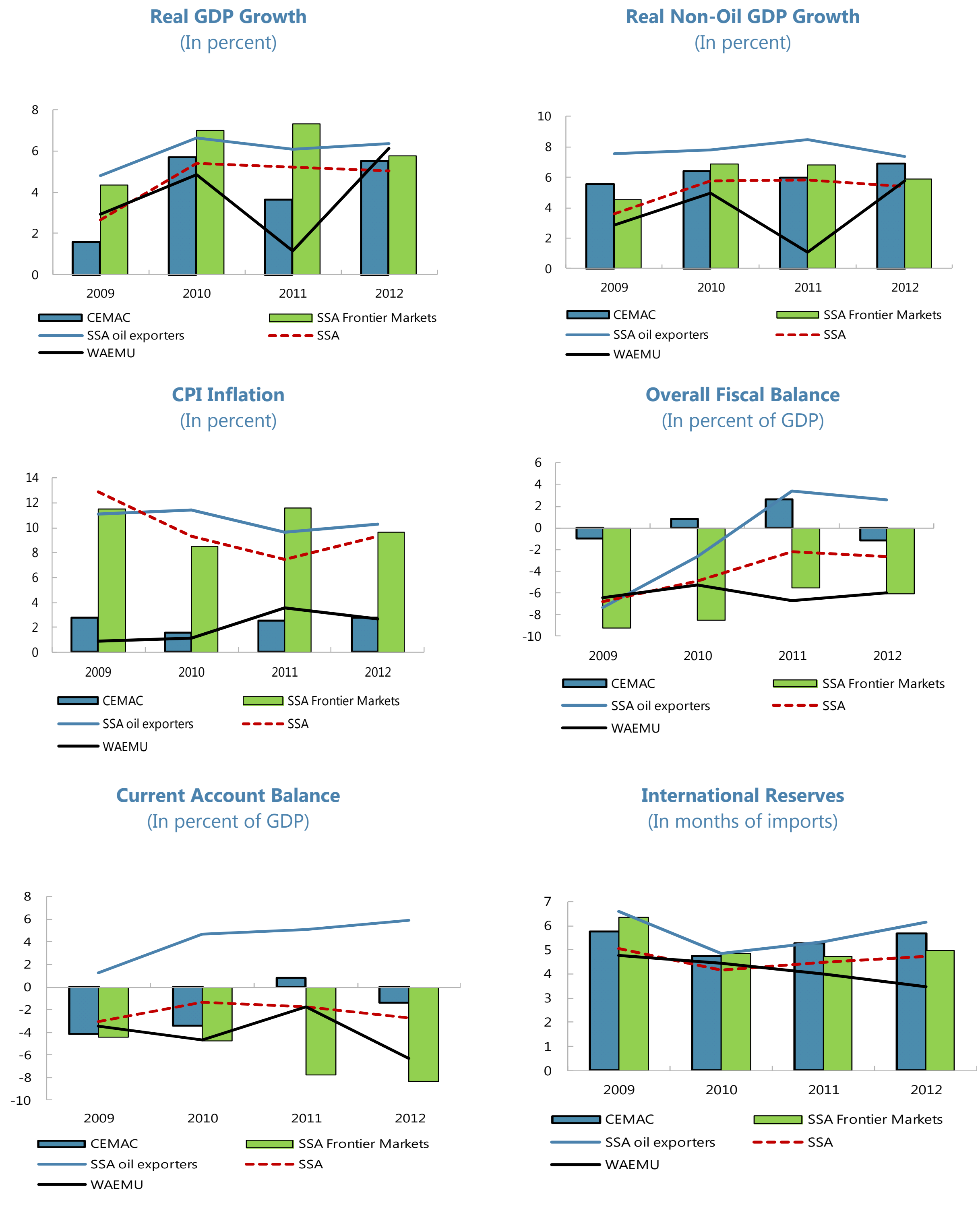


International Reserves, 2010–12
(Million USD)



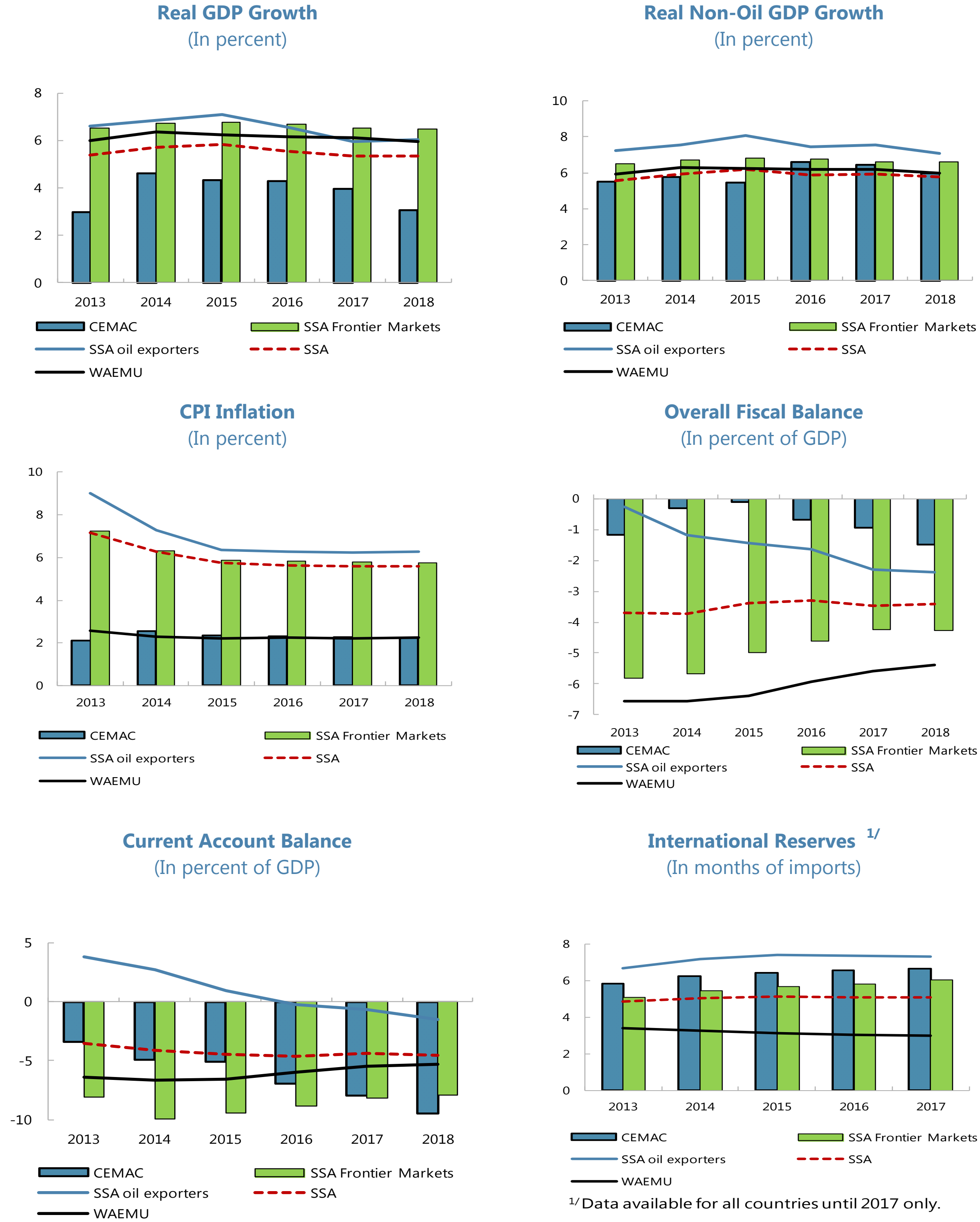
Sources: Country authorities and IMF Staff Estimates.

Figure 4. Recent Economic Developments, 2009–12



Source: IMF Regional Economic Outlook, October, 2013.

Figure 5. Medium-term Outlook, 2013–18



Source: IMF Regional Economic Outlook, October, 2013.

Risk Assessment Matrix

	Source of risk	Relative probability	Description of risk
Short term	**Global risk** Financial stress in the euro area re-emerges (triggered by stalled or incomplete delivery of national and euro area policy commitments).	**Medium**	• The consequences would include further financial fragmentation and continued impairment of credit transmission, strains in cost of market access for peripheral sovereigns, and negative shocks to growth that could lead to a protracted period of slow growth in the medium-term. It could lead to a global slowdown (including in emerging markets) and a decline in oil and other commodities prices and affect export and fiscal revenues in CEMAC oil exporters. • Reduced aid from Europe could affect social programs in the poorest CEMAC countries.
	Political instability Consequences of continued instability in the region (CAR, Chad, and Gulf of Guinea) as well as in neighboring countries (northern Nigeria, Mali, and Libya).	**Low to medium**	• The continuation or worsening of the crisis in the CAR and the displacement of populations to neighboring CEMAC member countries could lead to instability. • The continuation or worsening of the crisis in northern Nigeria could lead to the displacement population and greater instability could affect CEMAC countries (especially Cameroon). • The rise in piracy in the Gulf of Guinea could affect marine shipping, especially of petroleum products exported by countries in the sub-region. • A possible return of instability in Chad could also cause a degree of instability in other CEMAC member countries. • Greater political instability could lead to higher spending on security and could deteriorate the fiscal balances.
	Food prices in the region	**Low**	• Drought in the Sahel could trigger a sudden rise in food prices, which would affect the poorest segments of the population in the poorest CEMAC countries. Food shortages could cause social and political unrest. • Increased spending to meet the demand for food could jeopardize the fiscal balances.
Short to medium term	**Global risk** Deeper than expected slowdown in emerging markets (reflecting lower than anticipated potential growth).	**Medium**	• Disappointing activity in emerging markets would bring about a reassessment that the cycle is more mature, that trend growth will be lower, and quasi-fiscal activities are more pervasive than previously thought. This, in turn, will also result in a substantial drop in commodity prices. • Projects financed by emerging creditors may be delayed or cancelled.
Medium term	**Excessive expansionary fiscal policy in the CEMAC** • Faster/slower implementation of national investment plans could lead to a considerable but unsteady increase/decrease in investment expenditure. • Despite the rise in oil prices since 2009, the excessively high spending is eroding medium-term sustainability in certain countries.	**Medium**	• An increase in investment expenditure not aligned with increased administrative and absorptive capacity could lead to capital misuse (i.e. unproductive projects, corruption). • A sudden decline in investment expenditure could cause excessive slowdown in economic activity. • Over investment could lead to excessive debt in some countries (Cameroon and Chad). • Misguided investment decisions would not be able to boost growth, which could remain weak. This would constrain poverty reduction efforts. • Weaker growth would further erode the sustainability of public finances in the medium term.
	Delays in implementing major regional and national reforms. • The CEMAC's institutional reforms are stalled • The national implementation of regional policies is delayed (regional reform of fiscal policy, reform of business environment).	**Medium**	• The absence of reforms would not resolve CEMAC/BEAC governance issues. • Inaction could derail financial sector reform and create conditions for a banking crisis in some countries. Therefore, the high spending required to resolve the financial crisis could increase budget deficits in some countries (Cameroon and Gabon).

POLICY DISCUSSIONS

Discussions focused on four key areas: (a) adapt the fiscal surveillance framework to ensure external viability; (b) streamline the implementation of monetary policy; (c) ensure financial sector stability and development; and (d) improve growth potential. The need to strengthen regional institutions to address these challenges was discussed with the representatives of the main regional institutions (BEAC, COBAC, CEMAC Commission and BDEAC).

A. Adapt Regional Surveillance Framework to Ensure External Viability

A sustainable external position

11. The external position of the zone has deteriorated slightly, but the exchange rate remains broadly in line with regional fundamentals. The real effective exchange rate was up slightly as a result of fluctuations in the nominal effective exchange rate and a larger price differential vis-à-vis the zone's major trading partners. However, according to various analyses, the current account balance and the real effective exchange rate continue to be in line with the CEMAC's fundamentals, with no indication of major issues in price competitiveness (see Annex 2). The projected improvement in the capital account, with larger non-debt creating inflows, would help sustain the expected deterioration in the current account. Official reserves coverage appears adequate, but not excessive according to different metrics.

Staff advice

12. While the reserve coverage appears adequate, the only-partial compliance of several member states with the reserves pooling requirement constitutes a potential risk for the union. Limited data are made available by member countries on their external assets held abroad outside the regional reserves pooling arrangement, but these assets are presumed to be substantial. A working group headed by BEAC with member countries representatives (including from France) has held consultations and put forward some proposals to solve this issue. Staff is working on a complementary study to help to design better mechanisms that could be fully enforced.

Figure 6. CEMAC and WAEMU real and nominal effective exchange rates (2007–12, 2005=100)

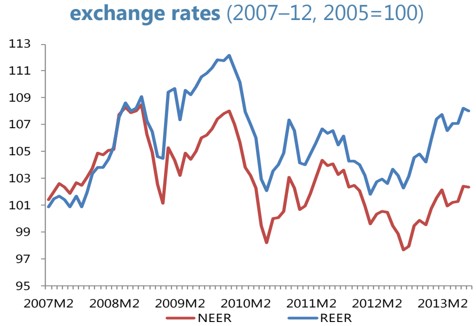
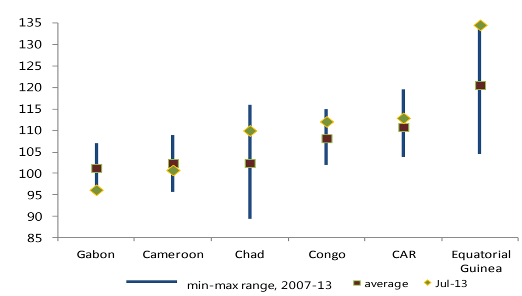


Figure 7. Real effective exchange rate of CEMAC countries(2007–12; 2005 = 100)



Source: IMF Staff Estimates.

Authorities' views

13. The BEAC considered that the only-partial repatriation of reserves does not endanger the area's stability. The authorities considered that countries would always repatriate enough assets to support the peg in the event of a crisis. Moreover, the authorities noted that member states and the BEAC are working to find ways to fix this issue. They expected that the on-going IMF study on reserves pooling would help to explore more options that would satisfy the BEAC and non-compliant member states.

The fiscal surveillance framework needs to be adapted

14. The CEMAC area shares a number of characteristics with other currency unions but it is the only one with substantial natural resources. As recent IMF work has shown (IMF, 2012)[1], natural resources provide a unique opportunity to boost development but also make fiscal management more challenging. In particular, resource revenues are subject to volatility and exhaustibility issues that need to be carefully addressed. In the context of a monetary union, this challenge is even more complex because fiscal policy management at the individual country level can have implications for the stability of the zone.

15. CEMAC's current fiscal surveillance framework has some weaknesses. It involves a budget balance rule based on the basic fiscal balance.[2] As such, the current framework does not provide a sufficiently strong basis to assess the fiscal stance and anchor long-term sustainability in the context of volatile and exhaustible oil resources. The focus on the basic balance has likely contributed to procyclical policies (see Annex 3).[3] Moreover, it could hide unsustainable debt dynamics.

Staff advice

16. The CEMAC's fiscal surveillance framework could be adapted to meet current challenges. Staff identified potential ways of reforming fiscal convergence rules to address current weaknesses, while ensuring sustainability, reducing pro-cyclicality, and keeping them simple and transparent (see Annex 4). One option would be to use a non-resource primary balance and adjust this criterion to a sustainable fiscal framework that takes into account the temporary need to scale-up investment expenditure for development purposes. A second option could be based on a structural primary fiscal balance with a price smoothing rule to mitigate the transmission of externally-driven resource price volatility. Different rules would have to be calibrated at the individual country level, given the differences in resource wealth among CEMAC countries.

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[1] IMF 2012, *Macroeconomic Policy Frameworks for Resource-Rich Developing Countries*.

[2] The basic fiscal balance is defined as total revenue (net of grants) minus total expenditure excluding foreign-financed capital spending.

[3] The primary and secondary convergence criteria do not provide an effective anchor for sustainable fiscal policies, nor do they align them with the objective of long-term external sustainability (see Annex 4).

CEMAC: Compliance with Convergence Criteria, 2009–2013

	2009	2010	2011	2012 Est.	2013 Proj.
Basic fiscal balance[1] (≥ 0)					
Number of countries violating	4	4	2	3	4
Consumer price inflation (≤ 3%)					
Number of countries violating	4	2	1	3	3
Level of public debt[2] (≤ 70% GDP)					
Number of countries violating	0	0	0	0	0
Non-accumulation of government arrears[3] (≤ 0)					
Number of countries violating	0	0	1	0	1

Sources: Country authorities' actual data and IMF Staff Projections.

[1] Overall budget balance, excluding grants and foreign-financed investment.

[2] External debt only. Calculated by converting the foreign-currency denominated external debt in CFA francs using end-year exchange rates.
The CEMAC's convergence criterion also includes domestic debt, on which the World Economic Outlook database provides insufficient information.

[3] External and domestic arrears.

17. The introduction of new fiscal rules should be supplemented by the creation of oil stabilization funds. These funds could provide a buffer against potentially large and negative oil price shocks, avoiding sudden and substantial adjustments in public spending that could have an adverse economic impact. Preliminary staff estimates consider that CEMAC's optimal stabilization fund should be between US$4 and US$11 billion (4 to 12 percent of GDP) (see Annex 4).

18. When assessed based on a structural primary fiscal balance indicator, the regional fiscal stance would need to be more cautious. The structural primary fiscal balance using a 5-year moving average price smoothing rule turned into a deficit of about 2 ½ percent of GDP for the CEMAC as a whole in 2012, after having been in surplus or close to zero in previous years. Such a position, if maintained, would not allow sufficient savings to be accumulated in order to protect against downturns in oil prices. Authorities in the region should therefore aim at bringing the structural primary balance back to zero or surplus, as currently projected by 2014.

19. The convergence criterion on public debt could also be revised downward. The current ceiling of 70 percent of GDP appears to be high, as analysis by Fund staff in the context of the Debt Sustainability Framework suggests that risks of debt distress in LICs are high when public debt reaches such level. Further analysis will be needed, however, to determine what could be an appropriate ceiling for public debt in CEMAC countries, given the characteristics of these economies. Although the current levels of government debt do not pose immediate concerns, designing a comprehensive regional medium-term strategy that would propose the optimal composition of debt in CEMAC would be desirable. It would help the authorities to balance the cost-risk objectives by facilitating decisions on: (i) the optimal amounts of debt issuance to ensure adequate liquidity of instruments, (ii) the optimal debt maturity to minimize the roll-over risk, and (iii) the optimal mix of instruments (floating vs. fixed). As such, implementing a medium-term debt strategy at the regional level is expected to play supportive role in strengthening the regional debt market by setting harmonized rules for government debt issuance, while preventing crowding-out one country by another when issuing debt at the common market.

20. Compliance with the regional surveillance framework should be strengthened. Staff considered that implementation of new surveillance criteria would lack traction without strengthening monitoring capacities of regional authorities including by greater dissemination and transparency of surveillance outcomes. Drawing from experience in other currency unions, regional institutions should seek to have a greater involvement in the national budget processes ex-ante, instead of relying only on sanctions in cases of breaches.

Authorities' views

21. The CEMAC commission and the BEAC agreed on the need to review the convergence criteria. However, they considered that any effective reform should strike the right balance between calibrating fiscal rules in each country to reflect the large structural differences among the area's economies and keeping the rules simple and transparent. Furthermore, the relevance of the convergence criterion with respect to debt (currently capped at 70 percent of GDP) will also need to be reviewed, in a context where debt relief in most of the CEMAC countries has made this criterion non-binding. The authorities would like to explore —with Fund staff support— ways to assess an optimal regional debt level to ensure that debt dynamics remain sustainable, while bearing in mind the pressing investment needs.

22. The authorities also pointed out that the implementation of CEMAC's public financial management (PFM) directives at the country-level should reinforce the surveillance framework. Significant progress has been made in the development of a medium-term regional fiscal framework. This should provide a good basis for enhanced involvement of the CEMAC Commission in the coordination of fiscal policies. However, the authorities also noted significant differences in the pace of the implementation of reforms at the national level and the full implementation of the directives was likely to be delayed beyond the original deadline of end-2013.

B. Enhancing Regional Monetary Policy

23. The common monetary policy is anchored on the fixed exchange rate against the euro, with free capital flows between the countries in the CEMAC zone, and remaining capital controls with non-CEMAC countries. The peg is supported by the bilateral agreement between the CEMAC and the French Treasury, with the latter guarantying the convertibility of the CFAF. The fixed exchange rate reduces the scope for conducting an independent monetary policy, although the persistence of limited capital mobility and the existing capital controls provide some narrow space for monetary policy actions. Liquidity management remains largely country-based due to the lack of integration of the money market, which resulted in imposing differentiated reserve requirements to each CEMAC country. The lack of active interbank money market and high credit risk have prompted the banks to hold the excess liquidity at the BEAC. The exceptionally low level of financial intermediation hinders channels of monetary transmission, but has also contributed to limiting the impact of excessive liquidity on inflation.

24. The authorities lowered the main policy rate in July 2013 as a response to declining inflationary pressure and an anticipated slowdown in economic activity in 2013. After the strong growth in monetary aggregates observed in 2012 and a record high increase in excess liquidity in the system (51 percent over the year), the growth in base money slightly decelerated in the first quarter of 2013 and inflationary pressure abated. As a result, inflation is expected to remain below the regional convergence criterion of 3 percent throughout the year. Consequently, in July the BEAC announced a 50 basis points rate cut, which reduced the spread between the BEAC and European Central Bank (ECB) policy rates to 300 basis points.

Figure 8. CEMAC and ECB Real Policy Rate
(Jan 2008- Aug 2013)

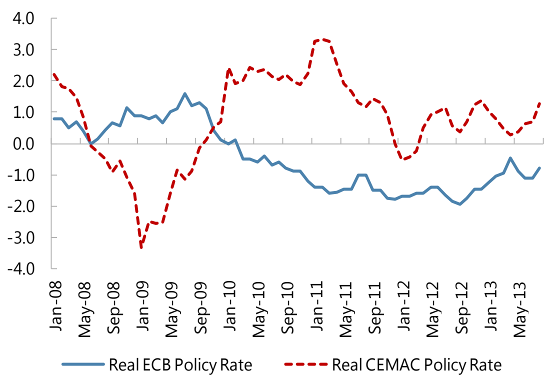
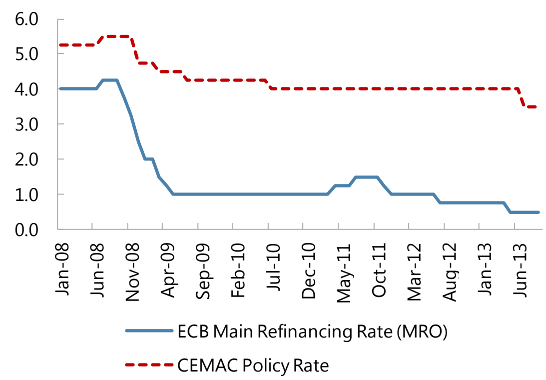


Figure 9. CEMAC and ECB Policy Rate
(Jan 2008- Aug 2013)



Sources: IMF staff estimates.

25. The potential effectiveness of monetary policy is hindered by persistent excess liquidity in the system, limited monetary policy instruments, and the lack of an active interbank money market. Despite deceleration in monetary aggregates, excess liquidity in the banking system remains exceptionally high (at 37 percent of the total deposit base at end-2012). The authorities lack a framework for liquidity forecasting and effective tools for liquidity absorption. The high counterparty risk, inadequate financial market infrastructure, and scarcity of collateral impede bilateral transactions between the banks. In the absence of an active interbank money market, the monetary policy transmission mechanisms remain undermined and pose challenges for the effective conduct of monetary policy.[4]

[4] MCM has conducted two Technical Assistance missions in 2011 and 2012, covering broadly aspects of monetary policy reform agenda.

Figure 10. CEMAC: Liquidity operations of BEAC Jan 2007–April 2013 (in millions of CFAF)

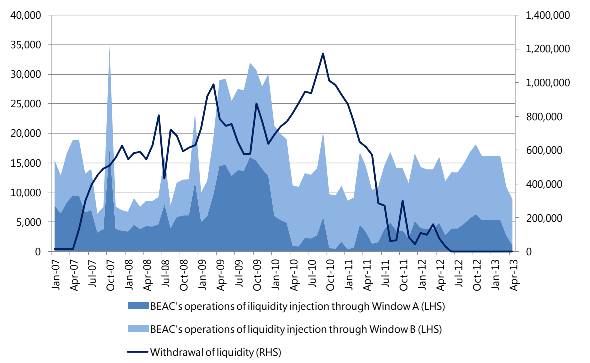
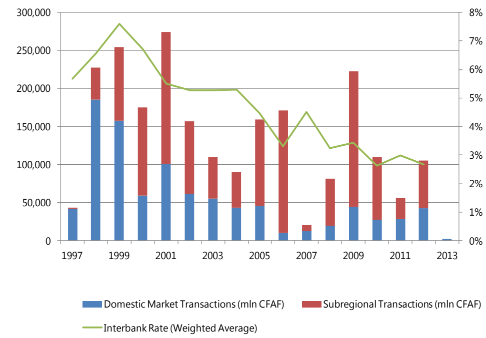


Figure 11. CEMAC: Interbank Money Market Transactions, 1997–Feb. 2013



Sources: Country Authorities and IMF Staff Estimates.

Staff advice

26. The persistent excess liquidity combined with inefficient liquidity management reflects the inadequacy of the current framework for monetary policy. The revisions to the framework should be broad-based and cover:

i. ***Redefining the ultimate objective of monetary policy.*** In this context, the BEAC's charter[5] should be revised in order to ensure that monetary policy's ultimate goal is specific and has clear reference to exchange rate and price stability.

ii. ***Establishing an analytical framework for monitoring and forecasting systemic liquidity.*** The new framework should allow for collecting information on the amount of liquidity to be withdrawn from /or injected into the system. To this end, the new framework should focus on forecasting the main items of the BEAC's balance sheet, rather than use the current approach of monetary programming. The BEAC will need to build on technical assistance and improved staffing policies to achieve this objective.

iii. ***Modifying the operational framework for liquidity management towards market-based instruments.*** Since the current framework was designed during systemic liquidity shortages, it lacks effective instruments for liquidity absorption. Thus, the authorities should aim at redesigning monetary instruments and establishing operations that would allow for sizable liquidity withdrawals from the

[5] The BEAC's mandate is to "support general economic policies conducted within the region" (Article 21 of the CEMAC Articles of Agreement). The framework for monetary policy is different from the one that exists in the West African Economic and Monetary Union, where price stability is an ultimate objective of monetary policy.

system, while encouraging market-based operations (e.g. issuance of Central Bank bills, opening access to a deposit facility, and conducting deposit auctions or repo operations with T-Bills).

iv. ***Implementing policies with the objective of developing an active interbank money market.*** These policies should concentrate on: (i) reducing counterparty risk in the banking sector by addressing the issue of unviable banks; (ii) improving the financial market infrastructure by establishing an electronic platform allowing for two-way quotations; (iii) broadening eligible assets that can be accepted as collateral; and (iv) establishing principles for market conduct. It should be noted, however, that more active liquidity management will have implications for the BEAC's balance sheet, which would require establishing arrangements with national ministries of finance to cover potential losses related to monetary policy implementation.

Authorities' views

27. The authorities acknowledged the need to undertake monetary policy reforms in order to curb excess liquidity, strengthen activity on the interbank money market, and improve the monetary policy transmission mechanisms. They pointed to impediments in deepening short-term government debt market, including creating an active secondary market, which would facilitate implementation of monetary policy. They agreed that broader conceptual work needs to be undertaken to validate the theoretical basis for the current monetary policy framework and identify transmission channels to the real economy. The authorities requested IMF technical assistance to support their reform efforts in revising the current monetary policy.

C. Ensuring Financial Stability and Development

28. Despite significant growth in financial sector assets in 2012, the financial sector in CEMAC remains small in relation to the economy, and progress in financial deepening is slow (Annex 5). Strong growth in domestic deposits, reflecting rising inflows from oil revenues, allowed for expansion of banks' balance sheets. However, as the number of creditworthy customers and sound projects is relatively limited, credit growth was considerably slower than growth in deposits. Banks have been hurt by poor performance of past loans, large portion of which are provided to connected parties, as well as a lack of adequate financial infrastructure which would support their lending activities and contain credit risk.[6] The activities of microfinance institutions, which contribute to improved access to finance for low-income households and SMEs, have started to gain systemic importance in some countries, but on average, access to finance in the region is lagging behind the median for SSA and LICs.

[6] As a result, liquidity in the banking sector increased rapidly, much of which is held at the BEAC reserve account (see earlier discussion and recommendations in the monetary policy section).

29. The banking sector appears to be vulnerable to a range of risks, particularly to credit and operational risks. The banks' exposures stemming from lending to connected parties were found to be especially high in three countries (Cameroon, Gabon, and Equatorial Guinea), with a number of banks exceeding the prudential limit. In Cameroon, non-performing loans (NPLs) stemming from loans granted to connected parties caused significant impairment of the banks' net equity. Similarly, the banks' total exposures through lending to a single largest borrower remain excessive, even though the relevant prudential limit in the region is relatively lax (at 45 percent of net equity). Weaknesses in reporting and controlling operational risk make banks transactions vulnerable to disruptions.

30. Overall soundness of the financial sector in the CEMAC region is a source of concern, but the situation varies considerably across countries and banks. While the system-wide indicators on asset quality and the solvency ratio deteriorated in 2012, there is significant disparity in the NPLs and solvency ratios across the countries, as well as among the individual banks. The number of unviable and undercapitalized banks increased in 2012 from 5 to 8 institutions and their total assets slightly exceeded 10 percent of aggregated regional GDP.[7] The potential spillovers to other banks and non-bank financial institutions seem to be rather limited, as the lack of active interbank market and still relatively small cross-sectoral linkages reduce risks of contagion.

31. Weaknesses in the regulatory and supervisory framework for banks and limited resources pose considerable challenges to the regional bank supervisor (COBAC). Although banks are regulated under a regional banking union, and common regulations and prudential requirements apply, overall compliance with the main prudential ratios and limits remains rather weak. Efforts have been made in the area of regulation, common prudential rules, accounting, and reporting for MFIs. However, given the large number of MFIs in the region, the supervision and regulation of this sector stretch already scarce human resources of regional supervisor and remain a challenge.

32. In accordance with safeguards policy requirements for regional central banks, a 2013 quadrennial safeguards assessment of the BEAC is substantially complete. The assessment occurs against the backdrop of the extensive plans and measures initiated to address governance challenges and control failures that emerged in 2009. For its part, the BEAC adopted an action plan with the aim of reforming its governance, strengthening key safeguards, and building capacity. In addition, a series of safeguards "rolling measures" were agreed between the BEAC and the IMF, as a basis since 2009 to move forward with new IMF program requests and periodic reviews for BEAC members using IMF resources. The 2013 assessment found that the BEAC has made some progress in reinforcing its safeguards framework, but risks remain elevated and further measures are needed to restore governance and control.

[7] One systemically important institution, which reported negative equity in December 2012, is subject to on-site examination. Although the data at end-March 2013 shows improvement due to reclassification of provisions, staff was unable to draw on the new findings from the on-site inspection during the mission.

Staff advice

33. In the short-term, the authorities should focus on addressing issues related to financial stability:

i. ***Expediting the process of restructuring unviable institutions*** More specifically, (a) the draft regulation on distressed banks should be finalized and adopted as soon as possible; and (b) broad-based early warning indicators should be established in order to alert the supervisors about a deteriorating situation in a bank.

ii. ***Improving the regulatory framework for banking supervision.*** The regulatory framework should be improved by drafting and adopting new regulations, in particular on: (a) classification and provisioning rules for credit risk exposures; (b) consolidated and cross-border supervision, while the law on licensing procedures and lending to connected parties should be revised.

iii. ***Strengthening enforcement of prudential ratios.*** COBAC's human resources require strengthening and the process of transitioning to a new accounting system (Sysco II) with an improved IT system for data validation needs to be accelerated. Measures toward improving follow-up by off-site supervisors on misreporting by banks, and increasing the frequency of on-site examinations should be taken.

iv. ***Reducing credit risks related to connected parties and large exposure to a single borrower.*** The related high credit risk should be strictly monitored and special measures should be put in place: (a) the reporting procedures need to be revised and changed in order to capture gross exposures to connected parties; (b) in terms of exposure to a single borrower, a gradual increase in capital requirements to offset credit concentration to a single party or gradual reduction in the limit on such exposures to 25 percent of risk-adjusted net equity should be implemented.

v. ***Containing operational risk.*** Operational risk should be better monitored, and the requirements regarding measuring, controlling and reporting on the operational risk should be tightened, while the payment system reform should be expedited.

34. In the medium-term, the authorities should primarily focus on issues related to structural reforms in the financial sector, such as: (i) establishing a credit information bureau and rating system by the BEAC in order to improve transparency, limit credit risk related to lending to new borrowers and reduce time needed to screen new credit applications; (ii) improving the security of collateral through expediting implementation of the regional Ohada legislation; (iii) enhancing the financial infrastructure (e.g. the payment system) by gradually moving towards the RTGS; and (iv) undertaking judicial reforms to address lengthy and inefficient court proceedings. In this context, the existing uncertainties in each country's civil procedures, and governance issues in the judicial systems should be immediately addressed.

35. The BEAC has made some progress in reinforcing its safeguards framework, but risks remain elevated and further reforms are needed to fully restore credibility. Although the audit mechanisms have improved, the implementation of the BEAC Reform Plan, initially adopted in 2011, is slower than planned and its target completion date has been delayed to 2014. Governance at the BEAC continues to be undermined by a legal framework that does not adequately protect institutional autonomy and country representation practices that constrain the general proper conduct of BEAC operations, such as timely recruitment and training of staff, and impede the effectiveness of its oversight bodies and collegiate decision-making. The assessment also indicate that continued weaknesses in governance are exacerbated by a number of risks, including a less secure environment for the accounting and IT systems that raise concerns about the quality of financial controls and information. The lack of additional qualified human resources in the BEAC is a major constraint for the successful implementation of planned reforms. While additional measures are needed to address immediate vulnerabilities, this should be coupled with further capacity building and recruitment and training of additional qualified staff, including through annual competitive recruitment campaigns and activation of the BEAC training center.

Authorities' views

36. The authorities believe that the risks in the banking sector are concentrated in just a few institutions. In their view, the largest risk in the CEMAC banking sector stems from lending to connected parties. The COBAC has been following the situation in all the problem banks, but faces difficulties due to overstretched human resources, the postponed discussion on a new regulation on crisis management, and weaknesses in the regional judicial system that contribute to delays in its decision-making. The COBAC recognizes that there is an urgent need to fill the regulatory gaps, particularly in relation to consolidated and cross-border reporting and supervision. It also acknowledges the need to strengthen cooperation with BEAC and the national authorities, the latter through signing formal MOUs.

37. BEAC's governance reform is advancing but progress is slow. The authorities considered that important progress has been made in many areas (e.g. internal accounting and IT) but the BEAC has not had enough human resources to envisage a faster implementation of reform. They considered that the new procurement system adopted in 2010 has proved very cumbersome and has delayed important hiring decisions.

D. Strengthening Regional Integration to Promote Growth

38. Regional trade remains very limited. Recorded intra-regional trade levels are around 1½ percent of total trade and well below other African regional integration initiatives. CEMAC could potential gain by boosting regional integration and trade. A recent study estimated that growth benefits from greater integration would be significant and increase regional GDP by up to two percentage points.[8]

39. Furthermore, progress toward greater integration has been limited because key institutions promoting regional policies are very constrained. Many institutions (i.e. BEAC, COBAC and CEMAC commission) are understaffed with budgeted positions not filled.[9] Furthermore, the political instability in the CAR has severely disrupted the activities of the CEMAC Commission, the key institution to coordinate regional policies. The commission also faces serious financial constraints. Its resources come from a regional tax, the TCI (i.e. *taxe communautaire d'intégration*, in French), collected by member states and transferred to the Commission. These transfers, however, have been irregular and the collected revenue from the TCI usually remains below budget projections.

40. The CEMAC faces one of the most challenging business environments in Africa which constrains non-oil sector growth and economic diversification. The World Bank's 2013 Doing Business Indicators and the 2012 Mo Ibrahim foundation's Index of African governance show that CEMAC countries are below key African country groups. The CEMAC position reflects substantial competitiveness problems that constrain private investment and requires serious efforts to improve institutions, governance, infrastructure and trade integration.

Figure 12. 2013 Doing Business Indicators Ranking
(Out of 185 countries)

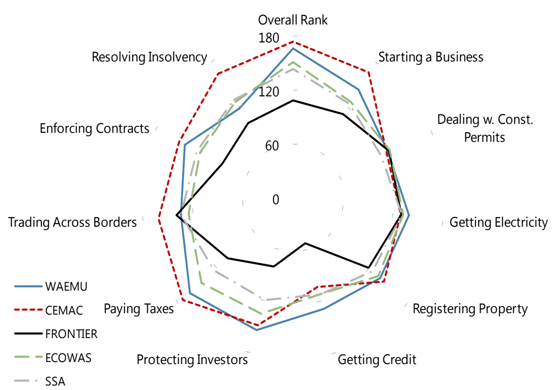
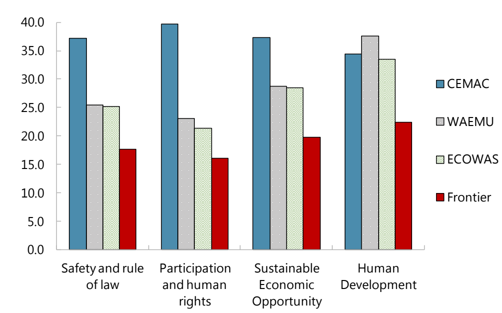


Figure 13. Mo Ibrahim 2012 ranking categories, in Africa



1/Simple averages out of 52 countries. A higher number means a worse ranking.
2/ CEMAC: Central African Economic and Monetary Community; WAEMU: West African Economic and Monetary Union; ECOWAS: Economic Community of West African States; EAC: East African Community; Frontier: African Frontier Economies; SACU: South African Customs Union

Sources: Doing Business Indicators and Mo Ibrahim Governance Databases.

[8] « Évaluation des gains attendus de l'intégration économique régionale dans les pays de la Zone franc », FERDI, Septembre 2012, (http://www.ferdi.fr/uploads/sfCmsContent/html/135/Rapport_ZF_4oct_IMP.pdf)

[9] For example, up to 40 percent of the CEMAC commission positions remain vacant for budget-related issues.

Staff advice

41. Staff encouraged the authorities to pursue their efforts to strengthen the coordination of policies. However, significant capacity constraints limit the effectiveness of the CEMAC Commission and the Central African States Development Bank (BDEAC). National authorities should provide the CEMAC Commission with the financial and human resources necessary to provide greater support for regional integration policies. The BDEAC has even more pressing capacity building needs now that its operations are growing.

42. A more concerted regional strategy to promote regional integration and growth is needed. More effective regional institutions could lead and coordinate efforts aimed at improving the regional and national business climate, promoting regional trade and labor market mobility and enhancing competitiveness. In this respect, the staff welcomed the business climate observatory recently created by CEMAC, to promote policies for the improvement of business environment in the Union. The regional institutions will also need to promote effective coordination of investment programs of member countries to avoid duplication of large infrastructure, support further economic integration and optimize the region’s potential. National authorities have an important role to play for supporting and implementing these efforts with the necessary political will.

Authorities’ views

43. The regional authorities implemented a number of important regional initiatives, such as (i) monitoring the adoption of PFM directives at the national level; (ii) carrying out basic infrastructure development activities; (iii) trying to make sure that the regional economic plan is in line with national development initiatives; and (iv) developing a plan to rationalize regional trade policies by reducing the common external tariff, eliminating double taxation to third-country products and establishing CEMAC-wide rules of origin. Moreover, the on-going reform of the regional development bank has helped to strengthen its role in regional development policies through the co-financing of key infrastructure projects.

E. Other Issues

44. The Fund has provided technical assistance to the BEAC and COBAC in their efforts to strengthen their capacities, particularly with respect to the implementation of the BEAC’s modernization program (see Informational Annex). This assistance will continue to be available as long as its effectiveness can be demonstrated. BEAC and COBAC staff should strive to identify the needs clearly and specify the level and type of technical assistance most effective for the BEAC. BEAC and COBAC authorities should also determine the most opportune time for conducting a new assessment under the Financial Sector Assessment Program (FSAP).

45. The quality of economic and financial information is a considerable constraint to the implementation of regional policies. While data provision is generally adequate for surveillance in most countries, authorities and staff analysis is hampered by shortcomings in data timeliness. In general, limited data sharing between public agencies delays data compilation by national statistical agencies. In addition, the quality of national accounts statistics suffers from methodological and coverage issues that are mainly caused by a lack of resources in national statistics agencies. Regarding government financial statistics, more needs to be done for their dissemination. BOP data are not publicly available or are substantially delayed in most of the member countries. The regional authorities recognize the need to improve data collection and dissemination and are taking steps to strengthen economic and financial data, with technical assistance from the IMF.

STAFF APPRAISAL

46. Growth in the CEMAC is expected to remain solid in the short term but downside risks are significant and the region continues to face substantial development challenges. Growth in non-oil sectors will continue to be supported by ambitious public investment programs launched by oil producing countries to fill infrastructures gaps. However, a decline in oil and other commodity prices that could be triggered by a global slowdown presents the main immediate risk to the region, as it would have a substantial impact on the fiscal and external current account balances and would likely force large scaling down of public investment. Moreover, large spending out of oil wealth did not make a significant dent in poverty, income inequality and underemployment, which remain high. Facing one of the most challenging business environments in Africa, private sector development and economic diversification to reduce the dependence of the region on oil resources have been weak. In addition, regional institutions still face substantial capacity constraints for supporting and coordinating the reform efforts needed to promote sustainable and inclusive growth.

47. The macroeconomic policy mix is broadly appropriate, although the fiscal stance could be more cautious in some countries. A prolonged period of high oil prices and debt relief has supported efforts to fill the gap for much needed infrastructure investment in several countries. However, in the event of the materialization of downsize risks, not all countries have large enough buffers to stand a large adverse external shock. The modest easing of monetary policy in 2013 seems appropriate given that the inflation outlook remains subdued, but its effectiveness is limited by the still weak transmission channels. The level of external reserves remains adequate but national authorities must act in coordination with the BEAC to solve the non-compliance of repatriation of reserves by certain member states.

48. The fiscal surveillance framework needs to be better adapted to the structure of the economies in order to ensure the stability and sustainability of the monetary union arrangements in the long term. With a majority of member countries being dependent on volatile and exhaustible oil resources, the convergence criteria on the fiscal deficit should be reviewed to limit pro-cyclicality and could be reinforced with a new oil stabilization fund rule. The public debt criterion should also be reconsidered to ensure low risks of debt distress in the long term and support prudent borrowing policies, taking into account the currently low levels of debt as well as borrowing needs to finance sustainable public investment scaling-up.

49. The monetary policy framework needs to be reformed to make it effective. Monetary policy remains constrained by structural excess liquidity, underdeveloped regional infrastructure and markets, and the central bank's limited capacity. The reform priorities are to establish an analytical framework for monitoring and forecasting liquidity, develop market-based instruments for liquidity management, and develop an active interbank money market. The ultimate objective of monetary policy would need to be clarified in the BEAC's charter with a reference to exchange rate and price stability.

50. A sound regional financial sector with strong regulatory and supervisory frameworks is essential to support economic growth and improve access to finance. The regional financial sector is shallow and vulnerable to a range of risks. Undertaking financial sector reforms aimed at reducing excessive risk exposures, ensuring enhanced compliance with prudential requirements, are preconditions for improving the soundness of the banking sector and MFIs. Progress in adopting a new regulation that would expedite bank resolution is urgently needed to address situation in unviable institutions. Establishing credit registry, strengthening enforcement of property rights and undertaking judicial system reforms are essential for creating a more conducive environment for credit expansion and broader economic growth. Close coordination between the BEAC and the COBAC is key to accelerating financial sector reforms.

51. Concerted efforts are needed to foster more integration and boost growth and competitiveness. While the real effective exchange rate appears to be in line with fundamentals, the region is facing important structural competitiveness issues. Regional authorities should implement in cooperation with member states a plan to improve CEMAC's business environment, one of the most challenging in Africa, to boost much needed private investment growth and economic diversification. Efforts to remove regional infrastructure bottlenecks and address regional labor market mobility issues should be better coordinated to avoid duplication of projects and contribute to deeper integration.

52. The regional growth strategy will need to be supported by substantial strengthening of regional institutions. The regional institutions' authorities are implementing important institutional reforms but the pace remains too slow and substantial capacity constraints remain. The slow progress in key areas such as the governance of the BEAC and the strengthening of COBAC and CEMAC commission capacities has been a significant barrier to implement growth enhancing regional policies. Member states authorities need to support these improvements by better empowering regional institutions.

53. Regional institutions also need to focus on enhancing the quality of economic and financial information to improve the monitoring, assessment and transparency of the policies. In particular, the national accounts and balance of payments analysis is hampered by the poor quality of statistics compiled in these areas.

It is proposed that the discussions with the CEMAC authorities remain on the standard 12-month consultation cycle.

Table 1. CEMAC: Selected Economic and Financial Indicators, 2009–18

	2009	2010	2011	2012 Est.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
					(Annual percent change)					
National income and prices										
GDP at constant prices	1.5	5.5	3.9	5.5	3.7	5.3	5.0	5.2	4.9	4.1
Oil GDP	-4.2	4.1	-2.1	-0.9	-1.9	2.6	2.9	-0.6	0.3	-5.1
Non-oil GDP [1]	4.7	6.1	5.7	6.5	5.0	5.5	5.2	6.4	6.3	5.9
Consumer prices (period average)[2]	2.8	1.5	2.5	2.7	2.1	2.5	2.4	2.3	2.3	2.2
Consumer prices (end of period)[2]	2.3	2.1	4.3	3.0	2.9	2.9	2.9	2.8	2.8	2.7
Nominal effective exchange rate[2]	0.0	-4.0	1.1	-3.1	...	...	...	...	...	...
Real effective exchange rate[2]	3.4	-4.7	-0.9	-1.3	...	...	...	...	...	...
				(Annual changes in percent of beginning-of-period broad money)						
Money and credit										
Net foreign assets	-13.5	-4.6	17.0	9.5	...	...	...	...	...	...
Net domestic assets	20.0	27.5	0.2	6.7	...	...	...	...	...	...
Broad money	7.1	21.4	18.3	16.1	...	...	...	...	...	...
					(Percent of GDP, unless otherwise indicated)					
Gross national savings	26.3	26.5	30.3	29.8	29.9	28.5	27.5	25.8	24.2	23.5
Gross domestic investment	30.5	29.9	29.5	31.1	31.5	30.8	30.0	29.3	28.1	28.1
Of which: public	13.6	11.8	13.5	14.4	14.7	13.8	12.7	11.7	10.8	10.3
Government financial operations										
Total revenue, excluding grants	25.5	25.2	28.0	27.5	27.6	26.7	25.6	24.7	23.9	22.9
Government expenditure	27.2	24.5	25.6	29.0	28.8	27.6	26.3	25.9	25.3	24.9
Primary basic fiscal balance[3]	1.0	3.1	5.6	1.8	2.3	2.5	2.5	1.9	1.5	0.1
Basic fiscal balance[4]	0.4	2.4	4.9	0.6	1.3	1.8	1.9	1.3	0.8	-0.3
Overall fiscal balance, excluding grants	-1.9	0.1	2.0	-1.6	-1.8	-1.0	-0.8	-1.3	-1.5	-2.0
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-24.2	-23.8	-26.4	-30.7	-29.2	-25.2	-21.9	-19.7	-17.9	-16.0
Overall fiscal balance, including grants	-0.9	0.8	2.7	-1.1	-1.2	-0.3	-0.1	-0.7	-1.0	-1.5
External sector										
Exports of goods and nonfactor services	46.4	51.6	55.6	54.5	50.7	48.2	45.4	43.0	41.1	38.1
Imports of goods and nonfactor services	42.0	41.9	40.0	41.0	40.2	38.6	37.4	35.8	34.8	34.3
Balance on goods and nonfactor services	4.4	9.7	15.7	13.5	10.6	9.6	8.0	7.2	6.2	3.8
Current account, including grants	-4.2	-3.4	0.8	-1.4	-1.7	-2.4	-2.4	-3.3	-3.7	-4.4
External public debt	16.2	11.6	12.6	13.4	12.9	13.4	13.9	14.7	15.0	14.9
Gross official reserves (end of period)										
Millions of U.S. dollars	14,354	13,658	15,717	17,531	18,526	20,115	20,809	22,008	23,083	23,365
Months of imports of goods and services (less intra regional imports)	5.7	4.7	5.3	5.7	5.9	6.3	6.4	6.6	6.7	6.7
Percent of broad money	112.4	92.4	85.6	88.9	...	...	...	...	...	...
Memorandum items:										
Nominal GDP (Billions of CFA francs)	30,853	36,552	42,296	46,004	47,021	48,957	50,819	53,041	55,858	58,029
CFA francs per U.S. dollar, average	472.2	495.3	471.9	510.0	494.7	486.2	479.7	474.5	469.9	465.3
Oil prices (US dollars per barrel)	61.8	79.0	104.0	105.0	104.5	101.3	95.3	91.2	88.5	86.7

Sources: IMF Staff compilations.

[1]For Equatorial Guinea, non-oil GDP includes output from hydrocarbon derivatives.

[2]Using as weights the shares of member countries in CEMAC's GDP in purchasing power parity US dollar.

[3] Excluding grants and foreign-financed investment and interest payments.

[4] Excluding grants and foreign-financed investment.

Table 2. CEMAC: Millennium Development Goals, 2010

	1990		2010	
	CEMAC	SSA	CEMAC	SSA
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	64	63	65	65
Employment to population ratio, ages 15-24, total (%)	50	49	49	49
GDP per person employed (constant 1990 PPP $)	...	2,479	...	3,272
Income share held by lowest 20%	...	...	3	...
Malnutrition prevalence, weight for age (% of children under 5)	18	...	...	...
Poverty gap at $1.25 a day (PPP) (%)	...	...	31	...
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	...	...	63	...
Vulnerable employment, total (% of total employment)				
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15–24)	...	...	73	...
Literacy rate, youth male (% of males ages 15–24)	...	...	80	...
Persistence to last grade of primary, total (% of cohort)	...	...	55	...
Primary completion rate, total (% of relevant age group)	40	51	54	67
Total enrollment, primary (% net)	65	...	72	...
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	12	...	11	...
Ratio of female to male primary enrollment (%)	71	...	84	...
Ratio of female to male secondary enrollment (%)	52	...	60	...
Ratio of female to male tertiary enrollment (%)	19	...	40	...
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	13	...	...	...
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12–23 months)	68	57	61	73
Mortality rate, infant (per 1,000 live births)	95	105	82	78
Mortality rate, under-5 (per 1,000)	151	175	128	124
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15–19)	...	...	117	...
Births attended by skilled health staff (% of total)	58	...	44	...
Contraceptive prevalence (% of women ages 15–49)	16	15	...	21
Maternal mortality ratio (modeled estimate, per 100,000 live births)	763	870	...	640
Pregnant women receiving prenatal care (%)	79	...	...	...
Unmet need for contraception (% of married women ages 15–49)	22	...	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	126	210	299	275
Prevalence of HIV, female (% ages 15–24)	...	...	3.3	...
Prevalence of HIV, male (% ages 15–24)	...	...	1.4	...
Prevalence of HIV, total (% of population ages 15–49)	1.8	2.4	4.5	5.5
Tuberculosis case detection rate (%, all forms)	52	39.0	59	61.0
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP $ of GDP)	0	1	...	0
CO2 emissions (metric tons per capita)	1	1	...	1
Forest area (% of land area)	53	31	...	28
Improved sanitation facilities (% of population with access)	21	27	...	31
Improved water source (% of population with access)	49	49	...	60
Marine protected areas (% of territorial waters)	0	3	3.0	5
Terrestrial protected areas (% of total land area)	8	11	12.8	12
Goal 8: Develop a global partnership for development				
Net ODA received per capita (current US$)	94	35	52	53
Debt service (PPG and IMF only, in % of exports, excluding workers' remittances)	...	...	8	...
Internet users (per 100 people)	0	0	4	9
Mobile cellular subscriptions (per 100 people)	0	0	58	38
Telephone lines (per 100 people)	0.6	1	1	2
Fertility rate, total (births per woman)	6	6	5	5
Other				
GNI per capita, Atlas method (current US dollars)	690	586	1,580	1,150
GNI, Atlas method (current US dollars), billions	21	...	63	1,004
Gross capital formation (% of GDP)	15	18	29	21
Life expectancy at birth, total (years)	53	50	53	54
Literacy rate, adult total (% of people ages 15 and above)	34	...	67	...
Population, total (millions)	25	...	41	...
Trade (% of GDP)	67	52	91	64

Source: World Development Indicators.

Table 3. CEMAC: National Accounts, 2009–18

	2009	2010	2011	2012 Est.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
	(Annual percent change)									
Real GDP										
Cameroon	1.9	3.3	4.1	4.6	4.6	4.9	5.2	5.2	5.4	5.4
Central African Republic	1.7	3.0	3.3	4.1	-14.5	0.2	5.3	5.7	5.7	5.8
Chad	4.2	13.6	0.1	8.9	3.9	10.5	9.2	3.7	3.5	2.6
Congo, Republic of	7.5	8.8	3.4	3.8	5.8	4.8	7.7	7.3	10.1	4.7
Equatorial Guinea [1]	-3.6	-2.6	4.6	5.3	-1.5	-1.9	-9.1	1.3	-6.9	-7.7
Gabon	-2.9	6.7	7.1	5.6	6.6	6.8	7.0	7.2	7.5	7.7
CEMAC	1.5	5.5	3.9	5.5	3.7	5.3	5.0	5.2	4.9	4.1
Nominal GDP										
Cameroon	-1.5	6.4	8.0	7.5	6.7	7.2	7.3	7.4	7.5	7.5
Central African Republic	5.3	5.1	5.3	6.9	-8.0	7.8	8.0	8.1	7.8	8.1
Chad	-5.7	20.8	8.7	14.7	3.4	14.9	11.1	1.4	3.4	1.8
Congo, Republic of	-14.7	31.3	14.5	2.6	2.3	-1.5	5.0	3.3	12.2	2.4
Equatorial Guinea	-29.7	23.5	30.3	15.1	-6.4	-5.4	-13.1	-1.1	-8.0	-8.8
Gabon	-19.1	26.5	23.2	6.0	5.8	4.9	3.7	5.3	6.4	7.2
CEMAC	-12.9	18.5	15.7	8.8	2.5	4.2	3.5	4.2	5.3	3.9
Real non-oil GDP										
Cameroon	2.8	4.1	4.6	4.6	4.6	4.7	5.0	5.1	5.2	5.3
Central African Republic	1.7	3.0	3.3	4.1	-14.5	0.2	5.3	5.7	5.7	5.8
Chad	6.4	17.2	0.2	11.6	4.0	6.6	6.1	5.6	5.3	5.0
Congo, Republic of	3.9	6.5	7.4	9.7	8.8	7.6	7.6	9.6	8.7	6.8
Equatorial Guinea	23.7	-2.9	7.5	3.2	4.3	-0.5	-5.4	3.4	1.8	-0.5
Gabon	-2.4	7.2	12.2	7.8	9.4	9.9	9.8	9.8	9.9	10.0
CEMAC	4.7	6.1	5.7	6.5	5.0	5.5	5.2	6.4	6.3	5.9
Consumer price inflation (period average)										
Cameroon	3.0	1.3	2.9	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Central African Republic	3.5	1.5	1.2	5.2	6.8	6.9	2.3	2.1	1.8	2.0
Chad	-0.8	-3.1	1.9	0.9	0.4	0.2	0.2	0.2	0.2	0.2
Congo, Republic of	4.3	5.0	1.8	5.0	5.3	2.8	2.8	2.8	2.7	2.6
Equatorial Guinea	5.7	5.3	4.8	3.4	5.0	5.4	5.2	5.0	4.7	4.6
Gabon	1.9	1.4	1.3	2.7	-1.5	2.5	2.5	2.5	2.5	2.5
CEMAC	2.8	1.5	2.5	2.7	2.1	2.5	2.4	2.3	2.3	2.2
End of period inflation										
Cameroon	0.9	2.6	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Central African Republic	-1.2	2.3	4.3	1.7	12.0	2.3	2.3	1.5	2.0	2.0
Chad	4.7	-2.2	10.8	2.1	5.0	3.0	3.0	3.0	3.0	3.0
Congo, Republic of	2.5	5.4	1.8	7.5	4.6	2.7	2.8	2.7	2.6	2.6
Equatorial Guinea	5.0	5.4	4.9	2.5	5.2	5.1	4.9	4.9	4.7	4.3
Gabon	0.9	0.7	2.3	2.2	-2.2	2.5	2.5	2.5	2.5	2.5
CEMAC	2.3	2.1	4.3	3.0	2.9	2.9	2.9	2.8	2.8	2.7
	(Percent of GDP)									
Gross national savings										
Cameroon	13.0	13.4	16.2	15.6	15.2	15.9	16.0	15.9	15.9	15.8
Central African Republic	4.0	4.1	4.6	8.8	2.0	3.7	8.0	9.6	10.6	11.5
Chad	27.1	30.4	27.6	27.3	22.8	24.7	27.1	26.5	22.1	19.6
Congo, Republic of	16.5	24.3	31.1	24.7	33.0	32.4	26.4	25.1	24.6	23.0
Equatorial Guinea	51.6	38.5	39.9	43.3	46.1	41.6	44.8	38.9	38.2	39.7
Gabon	40.1	38.9	44.9	44.2	41.9	39.3	36.5	34.5	32.3	32.5
CEMAC	26.3	26.5	30.3	29.8	29.9	28.5	27.5	25.8	24.2	23.5
Gross domestic investment										
Cameroon	16.3	16.4	19.1	19.3	19.3	19.6	19.5	19.6	19.7	19.8
Central African Republic	13.2	14.3	12.2	15.0	7.6	9.5	13.4	14.0	14.5	14.9
Chad	30.2	34.5	28.5	28.7	28.0	26.5	26.1	28.1	25.0	24.7
Congo, Republic of	22.5	20.5	25.3	26.0	26.0	28.2	26.7	26.2	24.0	25.1
Equatorial Guinea	69.4	62.5	50.5	55.9	61.3	58.6	60.1	53.7	53.6	56.4
Gabon	32.5	30.0	30.8	31.0	32.1	33.0	33.4	33.7	34.1	34.1
CEMAC	30.5	29.9	29.5	31.1	31.6	30.9	30.0	29.3	28.1	28.1

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

[1] For Equatorial Guinea, non-oil GDP includes output from hydrocarbon derivatives.

Table 4. CEMAC: Nominal and Real Effective Exchange Rates, 2005–12

	2005	2006	2007	2008	2009	2010	2011	2012
Nominal effective exchange rate								
				(Index, 2005=100)				
Cameroon	100.0	99.5	102.6	105.1	106.1	101.4	102.7	99.5
Central African Republic	100.0	99.9	102.9	105.5	104.7	100.3	101.1	98.1
Chad	100.0	100.0	102.5	105.4	106.3	103.2	104.4	101.9
Congo, Republic of	100.0	99.9	102.6	106.4	105.6	100.3	101.5	98.5
Equatorial Guinea	100.0	99.7	104.3	110.4	109.0	104.1	106.1	100.9
Gabon	100.0	100.0	102.1	104.1	103.3	99.8	100.1	97.6
CEMAC [1]	100.0	99.8	102.7	105.9	105.9	101.6	102.8	99.6
				(Annual percent change)				
Cameroon	-1.7	-0.5	3.1	2.5	0.9	-4.4	1.2	-3.1
Central African Republic	-1.4	-0.1	3.0	2.5	-0.8	-4.2	0.8	-2.9
Chad	0.0	0.0	2.5	2.8	0.9	-2.9	1.2	-2.3
Congo, Republic of	-1.2	-0.1	2.7	3.7	-0.8	-5.0	1.1	-2.9
Equatorial Guinea	-0.2	-0.3	4.6	5.8	-1.3	-4.5	2.0	-4.9
Gabon	-0.6	0.0	2.2	1.9	-0.7	-3.4	0.3	-2.5
CEMAC [1]	-0.9	-0.2	3.0	3.1	0.0	-4.0	1.1	-3.1
Real effective exchange rate				(Index, 2005=100)				
Cameroon	100.0	101.5	102.5	105.5	107.8	101.1	101.1	97.5
Central African Republic	100.0	104.0	105.2	113.3	115.7	110.2	109.1	108.7
Chad	100.0	104.8	96.5	102.3	112.0	103.6	103.0	105.3
Congo, Republic of	100.0	101.7	103.6	108.6	112.0	108.7	107.9	106.4
Equatorial Guinea	100.0	101.5	106.4	115.5	119.3	120.5	127.4	125.8
Gabon	100.0	96.4	101.0	104.5	105.3	101.3	99.9	97.9
CEMAC [1]	100.0	101.1	101.6	106.8	110.4	105.2	104.3	102.9
				(Annual percent change)				
Cameroon	-2.6	1.5	1.0	3.0	2.2	-6.3	0.0	-3.6
Central African Republic	-0.8	4.0	1.2	7.7	2.0	-4.7	-1.0	-0.4
Chad	4.9	4.8	-8.0	6.1	9.5	-7.5	-0.6	2.3
Congo, Republic of	-1.2	1.7	1.9	4.8	3.2	-3.0	-0.7	-1.4
Equatorial Guinea	2.6	1.5	4.9	8.6	3.3	1.0	5.7	-1.2
Gabon	1.0	-3.6	4.7	3.5	0.8	-3.8	-1.4	-1.9
CEMAC [1]	0.3	1.1	0.5	5.1	3.4	-4.7	-0.9	-1.3

Sources: IMF, Information Notice System.

[1] CEMAC data are weighted by GDP in purchasing power parity US dollar.

Table 5. CEMAC: Balance of Payments, 2009–18

	2009	2010	2011	2012 Est.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
					(CFAF billions)					
Balance on current account	-1,282	-1,227	338	-627	-786	-1,156	-1,239	-1,747	-2,075	-2,558
Balance on goods and services	1,372	3,528	6,636	6,208	4,981	4,701	4,061	3,802	3,476	2,188
Total exports	14,323	18,843	23,538	25,063	23,905	23,678	23,103	22,777	22,916	22,079
Exports of goods	13,152	17,597	21,954	23,455	22,254	21,923	21,257	20,811	20,825	19,859
Exports of services	1,171	1,247	1,583	1,608	1,652	1,755	1,846	1,966	2,091	2,219
Total imports	12,950	15,315	16,902	18,855	18,925	18,977	19,041	18,975	19,440	19,891
Imports of goods	8,060	9,520	10,748	12,367	12,474	12,374	12,273	12,185	12,465	12,773
Imports of services	4,891	5,795	6,154	6,488	6,450	6,603	6,769	6,790	6,976	7,118
Income, net	-2,969	-4,962	-6,384	-7,056	-5,884	-5,980	-5,406	-5,637	-5,626	-4,810
Income credits	234	277	231	263	267	242	243	250	258	265
Income debits	-3,203	-5,240	-6,615	-7,320	-6,150	-6,222	-5,649	-5,888	-5,884	-5,075
Of which:										
Investment income, debit	-1,415	-2,112	-2,466	-2,971	-2,372	-2,337	-2,607	-2,457	-2,741	-2,611
Interest paid on public debt	-127	-130	-69	-63	-73	-90	-103	-80	-89	-94
Interest paid on nonpublic debt	-215	-11	-442	-503	-467	-468	-435	-422	-8	-9
Current transfers, net	314	207	86	221	116	122	105	89	75	64
Private current transfers, net	147	42	-95	48	-120	-127	-132	-140	-150	-158
Official current transfers, net	167	165	181	173	236	250	237	229	224	222
Balance on capital and financial accounts	815	1,401	853	195	1,305	1,648	1,622	2,131	2,471	2,978
Balance on capital account (incl. capital transfers)	137	1,432	154	228	224	229	232	230	232	231
Balance on financial account (incl. reserves)	678	-32	699	-33	1,081	1,419	1,390	1,901	2,239	2,746
Direct investment, net	2,210	3,084	3,096	3,054	2,954	2,544	2,388	2,459	2,455	2,432
Portfolio investment, net	146	146	-25	13	13	14	14	14	15	15
Other investment, net	-1,914	-3,274	-1,720	-1,577	-1,662	-524	-810	-111	174	325
Reserve assets (accumulation -)	236	13	-652	-1,524	-224	-614	-203	-460	-404	-26
Errors and omissions, net	468	-173	-1,191	432	-519	-492	-382	-384	-396	-420
Memorandum items:										
Nominal GDP	30,853	36,552	42,296	46,004	47,021	48,957	50,819	53,041	55,858	58,029
Gross official reserves (end of period)										
Billions CFAF	6,778	6,764	7,416	8,941	9,165	9,779	9,982	10,442	10,846	10,872
Millions U.S. dollars	14,354	13,658	15,717	17,531	18,526	20,115	20,809	22,008	23,083	23,365
Months of imports of goods and services	5.7	4.7	5.3	5.7	5.9	6.3	6.4	6.6	6.7	6.7

Sources: BEAC and IMF staff estimates and projections.

Table 6a. CEMAC: Fiscal Balances, 2009–18
(Percent of GDP)

	2009	2010	2011	2012 Est.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Overall fiscal balance (excluding grants)										
Cameroon	-1.0	-2.9	-3.8	-2.5	-5.9	-4.0	-4.1	-4.3	-4.3	-4.3
Central African Republic	-5.4	-7.0	-4.9	-4.9	-5.9	-6.0	-7.8	-8.6	-9.2	-9.6
Chad	-11.9	-5.5	0.8	-2.1	-4.1	-2.2	0.3	-1.0	-1.4	-3.0
Congo, Republic of	4.5	16.0	15.9	6.3	13.3	14.3	11.0	10.3	10.3	8.3
Equatorial Guinea	-9.4	-6.1	1.0	-9.7	-4.7	-4.4	-1.3	-1.5	-2.1	-3.1
Gabon	6.8	2.7	2.4	1.5	-2.4	-2.6	-3.4	-3.7	-4.4	-3.4
CEMAC	-1.9	0.1	2.0	-1.6	-1.8	-1.0	-0.8	-1.3	-1.5	-2.0
Overall fiscal balance (including grants)										
Cameroon	-0.2	-2.3	-3.3	-2.0	-5.5	-3.6	-3.8	-4.0	-4.1	-4.1
Central African Republic	-0.1	-1.4	-2.4	0.0	-1.6	-1.3	-2.3	-3.0	-3.7	-4.1
Chad	-9.2	-4.2	2.4	0.5	-2.4	-0.7	1.7	0.6	0.1	-1.4
Congo, Republic of	4.8	16.1	16.4	6.4	14.3	15.5	11.8	10.9	10.7	8.6
Equatorial Guinea	-9.4	-6.1	1.0	-9.7	-4.7	-4.4	-1.3	-1.5	-2.1	-3.1
Gabon	6.8	2.7	2.4	1.5	-2.4	-2.6	-3.4	-3.7	-4.4	-3.4
CEMAC	-0.9	0.8	2.7	-1.1	-1.2	-0.3	-0.1	-0.7	-0.9	-1.5
Basic balance[1]										
Cameroon	-0.4	-2.0	-2.5	-1.0	-4.3	-2.1	-2.0	-2.1	-2.1	-2.1
Central African Republic	-1.4	-2.0	-2.0	-0.3	-2.9	-2.2	-2.8	-3.9	-4.5	-4.9
Chad	-7.7	-3.0	3.1	1.6	-1.3	1.3	3.6	2.4	2.0	0.4
Congo, Republic of	4.9	17.4	19.1	10.5	17.9	17.3	12.8	11.6	10.7	8.6
Equatorial Guinea	-4.5	-5.2	4.7	-9.7	-4.4	-4.4	-1.3	-1.5	-2.1	-3.1
Gabon	8.6	5.8	5.2	3.4	1.3	2.2	1.3	1.0	-0.6	-2.4
CEMAC	0.4	2.4	4.9	0.6	1.3	1.8	1.9	1.3	0.8	-0.3
Primary fiscal balance (including grants)										
Cameroon	0.3	-0.8	-2.3	-0.7	-3.0	-3.0	-3.2	-3.4	-3.4	-3.4
Central African Republic	1.0	-0.4	-1.7	0.7	-0.9	-0.7	-1.7	-2.6	-3.2	-3.6
Chad	-8.8	-3.6	3.0	0.9	-1.8	-0.1	2.3	1.0	0.5	-1.1
Congo, Republic of	7.1	18.5	19.3	10.5	17.5	16.8	12.3	11.1	10.9	8.8
Equatorial Guinea	-9.4	-5.8	1.4	-9.3	-4.4	-4.1	-0.9	-1.5	-2.1	-3.1
Gabon	7.4	3.1	2.4	3.2	-0.9	-1.4	-2.2	-2.3	-2.7	-2.8
CEMAC	-0.2	1.9	3.6	0.4	0.5	0.5	0.6	-0.1	-0.3	-1.0
Government revenue (excluding grants)										
Cameroon	17.6	16.8	18.2	18.3	18.6	18.6	18.5	18.3	18.4	18.4
Central African Republic	10.8	11.6	10.8	11.5	10.3	10.3	10.8	11.2	11.6	11.6
Chad	12.3	18.9	23.2	20.9	18.1	18.3	20.1	19.0	18.2	17.0
Congo, Republic of	29.1	37.4	42.0	42.5	45.6	46.7	41.8	41.4	38.8	37.4
Equatorial Guinea	48.6	35.7	36.3	35.4	38.7	36.7	35.6	32.7	31.3	29.4
Gabon	29.7	25.5	28.1	28.1	26.3	25.5	24.7	24.1	23.3	22.7
CEMAC	25.5	25.2	28.0	27.5	27.7	26.8	25.6	24.7	23.8	22.9
Government expenditure										
Cameroon	18.4	18.6	21.4	19.9	22.4	22.5	22.5	22.5	22.6	22.6
Central African Republic	16.2	18.6	15.7	16.4	16.3	16.3	18.7	19.8	20.8	21.2
Chad	24.2	24.4	22.4	23.0	22.2	20.4	19.8	20.0	19.6	20.0
Congo, Republic of	24.7	21.4	26.1	36.2	32.4	32.4	30.9	31.0	28.5	29.1
Equatorial Guinea	58.0	41.8	35.3	45.1	43.4	41.1	36.9	34.2	33.4	32.5
Gabon	22.8	22.9	25.7	26.6	28.7	28.1	28.1	27.8	27.7	26.1
CEMAC	27.2	24.5	25.6	29.0	28.8	27.7	26.3	25.9	25.3	24.9

Sources: Country authorities' actual data and IMF staff projections.
[1] Overall budget balance excluding grants and foreign-financed investment.

Table 6b. CEMAC: Fiscal Non-oil Balances, 2009–18
(Percent of non-oil GDP)

	2009	2010	2011	2012 Est.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Non-oil fiscal balance (excluding grants)										
Cameroon	-6.3	-7.9	-10.0	-8.5	-11.7	-9.6	-9.4	-9.3	-9.3	-9.2
Central African Republic	-5.4	-7.0	-4.9	-4.9	-5.9	-6.0	-7.8	-8.6	-9.2	-9.6
Chad	-22.8	-24.1	-23.6	-25.1	-22.7	-20.8	-20.1	-18.4	-16.4	-15.4
Congo, Republic of	-43.0	-42.2	-57.2	-74.9	-53.7	-44.6	-38.8	-33.6	-28.9	-26.2
Equatorial Guinea	-108.7	-82.8	-70.2	-91.1	-84.1	-76.5	-62.3	-54.4	-47.2	-41.4
Gabon	-14.4	-20.3	-25.0	-24.0	-28.1	-25.3	-22.9	-20.2	-18.8	-15.7
CEMAC	-24.2	-23.8	-26.4	-30.7	-29.2	-25.2	-21.9	-19.7	-17.9	-16.0
Non-oil fiscal balance (including grants)										
Cameroon	-5.2	-6.0	-8.8	-7.1	-8.9	-9.0	-8.9	-9.0	-9.0	-8.9
Central African Republic	-0.1	-1.4	-2.4	0.0	-1.6	-1.3	-2.3	-3.0	-3.7	-4.1
Chad	-19.5	-22.4	-21.4	-21.4	-20.3	-18.7	-18.0	-16.3	-14.3	-13.3
Congo, Republic of	-42.0	-42.0	-55.5	-74.5	-51.0	-42.1	-37.1	-32.4	-28.2	-25.7
Equatorial Guinea	-108.7	-82.8	-70.2	-91.1	-84.1	-76.5	-62.3	-54.4	-47.2	-41.4
Gabon	-14.4	-20.3	-25.0	-24.0	-28.1	-25.3	-22.9	-20.2	-18.8	-15.7
CEMAC	-22.7	-22.2	-25.0	-29.6	-27.4	-24.2	-20.9	-18.9	-17.1	-15.3
Basic balance[1]										
Cameroon	-0.4	-2.2	-2.7	-1.1	-4.6	-2.2	-2.2	-2.3	-2.2	-2.2
Central African Republic	-1.4	-2.0	-2.0	-0.3	-2.9	-2.2	-2.8	-3.9	-4.5	-4.9
Chad	-9.6	-4.0	4.3	2.3	-1.9	1.9	5.3	3.4	2.7	0.6
Congo, Republic of	13.1	54.1	62.0	29.8	44.6	38.4	27.5	22.9	21.3	16.0
Equatorial Guinea	-9.2	-11.5	10.3	-21.6	-9.5	-9.2	-2.4	-2.8	-3.5	-4.8
Gabon	14.0	9.8	9.4	5.9	2.2	3.3	1.9	1.4	-0.8	-3.2
CEMAC	0.6	3.6	7.7	0.9	2.0	2.6	2.7	1.8	1.1	-0.4
Non-oil primary fiscal balance (including grants)										
Cameroon	-4.9	-5.7	-8.3	-6.7	-8.5	-8.6	-8.4	-8.4	-8.4	-8.3
Central African Republic	1.0	-0.4	-1.7	0.7	-0.9	-0.7	-1.7	-2.6	-3.2	-3.6
Chad	-19.0	-21.7	-20.6	-20.8	-19.5	-17.9	-17.3	-15.6	-13.8	-12.9
Congo, Republic of	-36.0	-34.4	-46.3	-62.9	-43.2	-39.2	-35.9	-32.1	-27.8	-25.4
Equatorial Guinea	-108.5	-82.0	-69.4	-90.3	-83.3	-75.8	-61.6	-54.4	-47.1	-41.4
Gabon	-12.0	-18.0	-23.4	-22.4	-25.7	-22.9	-20.6	-18.0	-16.3	-14.7
CEMAC	-21.8	-21.1	-23.8	-27.6	-25.8	-23.1	-20.0	-18.1	-16.2	-14.8
Government revenue (excluding grants)										
Cameroon	18.6	18.0	19.9	20.0	20.2	20.2	20.0	19.7	19.7	19.7
Central African Republic	10.8	11.6	10.8	11.5	10.3	10.3	10.8	11.2	11.6	11.6
Chad	15.3	25.0	32.4	29.8	25.3	26.4	29.6	26.7	24.5	22.0
Congo, Republic of	77.4	116.5	136.4	120.1	114.0	103.9	90.1	81.7	77.3	69.6
Equatorial Guinea	99.1	79.1	79.9	79.4	83.1	76.4	69.0	60.2	51.9	45.0
Gabon	48.5	43.4	50.5	48.2	42.9	39.4	36.0	33.5	31.1	29.4
CEMAC	35.9	38.0	44.2	42.9	41.4	38.8	36.0	33.4	31.4	29.1
Government expenditure										
Cameroon	19.6	20.0	23.4	21.7	24.3	24.4	24.3	24.2	24.3	24.2
Central African Republic	16.2	18.6	15.7	16.4	16.3	16.3	18.7	19.8	20.8	21.2
Chad	30.1	32.2	31.3	32.8	31.1	29.5	29.2	28.0	26.4	25.8
Congo, Republic of	65.5	66.7	84.7	102.3	80.9	72.1	66.5	61.3	56.7	54.1
Equatorial Guinea	118.3	92.6	77.6	101.0	93.3	85.6	71.4	63.0	55.4	49.8
Gabon	37.3	38.9	46.2	45.7	46.7	43.3	40.9	38.6	37.0	33.8
CEMAC	38.3	37.1	40.5	45.3	43.2	40.1	37.0	35.0	33.3	31.7

Sources: Country authorities' actual data and IMF staff projections.

[1] Overall budget balance excluding grants and foreign-financed investment.

Table 7. CEMAC: Compliance with Convergence Criteria, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Basic fiscal balance[1] (≥ 0)										
Number of countries violating	4	4	2	3	4	3	3	3	4	4
Consumer price inflation (≤ 3%)										
Number of countries violating	4	2	1	3	3	2	1	1	1	1
Level of public debt[2] (≤ 70% GDP)										
Number of countries violating	0	0	0	0	0	0	0	0	0	0
Non-accumulation of government arrears[3] (≤ 0)										
Number of countries violating	0	0	1	0	1	1	0	0	0	0
Total number of criteria violations	8	6	4	6	8	6	4	4	5	5
Cameroon	2	1	1	1	1	1	1	1	1	1
Central African Republic	2	1	2	2	3	3	1	1	1	1
Chad	1	1	0	0	1	0	0	0	0	0
Congo, Republic of	1	1	0	1	1	0	0	0	0	0
Equatorial Guinea	2	2	1	2	2	2	2	2	2	2
Gabon	0	0	0	0	0	0	0	0	1	1

Sources: Country authorities' actual data and IMF staff projections.

[1] Overall budget balance, excluding grants and foreign-financed investment.

[2] External debt only. Calculated by converting the foreign-currency denominated external debt in CFA francs using end-year exchange rates. The CEMAC's convergence criterion also includes domestic debt, on which the World Economic Outlook database provides insufficient information.

[3] External and domestic arrears.

Table 8. CEMAC: Monetary Survey, 2008–12

	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Dec
			(CFAF billions)		
Net foreign assets	7,798	7,039	6,764	8,008	8,830
BEAC	7,274	6,345	6,152	7,471	8,228
Foreign assets	7,394	6,536	6,748	8,113	8,871
Of which:					
Operations account	7,238	5,483	4,737	6,108	6,813
Foreign liabilities	-121	-191	-596	-642	-643
Commercial banks	524	695	612	537	602
Foreign assets	739	957	880	906	981
Foreign liabilities	-215	-262	-268	-369	-380
Net domestic assets	-2,191	-1,065	595	606	1,189
Net credit to government	-3,790	-2,322	-1,840	-2,569	-2,226
BEAC	-3,769	-2,340	-1,991	-2,786	-2,376
Advances	39	295	526	475	480
Consolidated debt	75	76	78	79	81
Other	78	158	92	153	151
Government deposits	-3,962	-2,869	-2,687	-3,493	-3,088
Commercial banks	-22	18	152	217	150
Net credit to public agencies	-251	-255	-261	-282	-202
Net credit to private sector	2,489	2,668	3,081	4,068	4,470
Other items, net	-639	-1,155	-385	-609	-852
Broad money	5,630	6,030	7,323	8,659	10,053
Currency outside banks	1,458	1,525	1,728	1,975	2,150
Bank deposits	4,171	4,505	5,595	6,684	7,903
			(Annual change in percent of beginning-of-period broad money)		
Net foreign assets	30.7	-13.5	-4.6	17.0	9.5
Net domestic assets	-12.9	20.0	27.5	0.2	6.7
Credit to government (net)	-25.5	26.1	8.0	-10.0	4.0
Credit to the private sector (net)	11.5	3.2	6.8	13.5	4.6
Other (net)	1.2	-9.3	12.7	-3.4	-1.9
Broad money	20.6	7.1	21.4	18.3	16.1
Velocity (GDP/broad money)	6.3	5.1	5.0	4.9	4.6
Broad money/GDP	15.9	19.5	20.0	20.5	21.9
Private bank deposits/GDP	10.6	12.9	13.7	13.8	15.2
Credit to the private sector/GDP	7.0	8.6	8.4	9.6	9.7

Sources: BEAC.

Table 9. CEMAC: Summary Accounts of Central Bank, 2008–12

	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Dec.
			(CFAF billions)		
Net foreign assets	7,274	6,345	6,152	7,471	8,228
Assets[1]	7,394	6,536	6,748	8,113	8,871
Of which:					
Operations account	7,238	5,483	4,737	6,108	6,813
Liabilities	-121	-191	-596	-642	-643
Net domestic assets	-4,002	-2,888	-1,824	-2,857	-2,412
Net credit to government	-3,769	-2,340	-1,991	-2,786	-2,376
Claims	193	529	696	707	712
Consolidated debt	75	76	78	79	81
Advances	39	295	526	475	480
Cameroon	0	0	0	0	0
Central African Republic	18	21	22	23	24
Chad	22	142	217	209	212
Congo, Republic of	0	42	42	0	0
Equatorial Guinea	0	0	0	0	0
Gabon	0	90	245	243	243
Other claims	78	158	92	153	151
Government deposits	-3,962	-2,869	-2,687	-3,493	-3,088
Net claims on financial institutions	6	5	0	2	5
Other items, net	-239	-553	168	-73	-41
Base money	3,272	3,457	4,328	4,614	5,816
Currency in circulation	1,458	1,525	1,728	1,975	2,150
Banks' reserves[2]	1,715	1,845	2,493	2,545	2,986
Other institutions' reserves	81	68	99	59	78
Memorandum items:					
Reserve coverage of broad money	97.9	103.2	103.1	99.4	99.4
Base money/deposits	82.7	81.5	79.9	70.6	75.1

Sources: BEAC.

[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 10. CEMAC: Summary Accounts of Commercial Banks, 2008–12

	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Dec.
			(CFAF billions)		
Net foreign assets	524	695	612	537	602
Assets	739	957	880	906	981
Liabilities	215	262	268	369	380
Net domestic assets	1,726	1,710	2,313	3,427	3,566
Net credit to public sector	-272	-238	-109	-66	-53
Cameroon	-27	-70	-73	-23	0
Central African Republic	21	17	19	24	29
Chad	-29	-40	-53	-47	-70
Congo, Republic of	-7	-1	-7	-12	8
Equatorial Guinea	-264	-157	-157	-213	-225
Gabon	33	12	161	206	205
Credit to the economy	2,489	2,668	3,081	4,068	4,470
Cameroon	1,088	1,188	1,285	1,649	1,693
Central African Republic	62	62	87	102	111
Chad	180	209	254	310	388
Congo, Republic of	167	218	325	462	667
Equatorial Guinea	363	413	539	705	609
Gabon	629	579	590	839	1,002
Other items, net	-491	-720	-659	-575	-851
Net refinancing from central bank	-1,709	-1,840	-2,493	-2,573	-3,579
Borrowing	6	5	0	2	5
Cameroon	0	0	0	0	5
Central African Republic	0	0	0	0	0
Chad	6	5	0	2	0
Congo, Republic of	0	0	0	0	0
Equatorial Guinea	0	0	0	0	0
Gabon	0	0	0	0	0
Reserves	1,715	1,845	2,493	2,576	3,584
Cameroon	644	732	790	784	895
Central African Republic	9	27	14	12	9
Chad	72	76	103	149	155
Congo, Republic of	342	264	704	638	711
Equatorial Guinea	233	373	428	727	1,179
Gabon	415	372	453	581	634
Deposits	3,959	4,244	5,418	6,537	7,747
Demand deposits	2,516	2,688	3,587	4,484	5,315
Public enterprises	146	214	262	565	571
Private sector	2,370	2,474	3,326	3,919	4,745
Term deposits	1,442	1,556	1,830	2,053	2,432
Public enterprises	53	57	137	138	174
Private sector	1,390	1,498	1,693	1,914	2,258
Memorandum items:					
Reserves/deposits	43.3	43.5	46.0	39.4	46.3
Credit to the economy/deposits	62.9	62.9	56.9	62.2	57.7

Source: BEAC.

Table 11. CEMAC: Summary Medium-Term Projections, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Estim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices				(Annual percent change)						
Real GDP	1.2	5.5	3.9	5.5	3.7	5.3	5.0	5.2	4.9	4.1
Oil	-4.2	4.1	-2.1	-0.9	-1.9	2.6	2.9	-0.6	0.3	-5.1
Non-oil 1/	4.7	6.1	5.7	6.5	5.0	5.5	5.2	6.4	6.3	5.9
Nominal GDP	-12.9	18.5	15.7	8.8	2.5	4.2	3.5	4.2	5.3	3.9
Consumer prices (period average)	2.8	1.5	2.5	2.7	2.1	2.5	2.4	2.3	2.3	2.2
External sector										
Exports, f.o.b	-33.2	25.4	31.1	-1.5	-1.7	0.8	-1.1	-0.3	1.6	-2.7
Export volume	-4.2	2.2	2.6	1.7	2.5	2.1	2.5	2.7	6.9	0.0
Imports, c.i.f.	-8.2	12.7	15.8	3.2	3.5	2.0	1.7	0.8	3.5	3.3
Import volume	17.2	8.4	-0.7	4.9	5.1	3.2	7.6	-0.1	2.4	0.0
Terms of trade	-16.2	13.9	14.3	5.7	-2.8	-1.9	-3.1	-2.6	-3.1	-2.9
Central government				(Percent of GDP)						
Overall balance, including grants	-0.9	0.8	2.7	-1.1	-1.2	-0.3	-0.1	-0.7	-0.9	-1.5
Grants	1.0	0.7	0.7	0.5	0.6	0.7	0.7	0.6	1.1	-1.5
Total revenue and grants	26.5	25.9	28.7	28.0	28.3	27.5	26.3	25.3	24.4	23.5
Total expenditure and net lending	27.2	24.5	25.6	29.0	28.8	27.7	26.3	25.9	25.3	24.9
External sector										
Current account balance, including grants	-4.2	-3.4	0.8	-1.4	-1.7	-2.4	-2.4	-3.3	-4.4	-3.2
Trade balance	4.4	9.7	15.7	13.5	10.6	9.6	8.0	7.2	3.8	0.0
				(Percent of non-oil GDP)						
Overall balance, excluding grants	-2.7	0.1	3.1	-2.4	-2.7	-1.4	-1.1	-1.7	-2.0	-2.6
Non-oil overall balance, including grants	-22.7	-22.2	-25.0	-29.6	-27.4	-24.2	-20.9	-18.9	-17.1	-15.3
Non-oil primary balance, including grants	-21.8	-21.1	-23.8	-27.6	-25.8	-23.1	-20.0	-18.1	-16.2	-14.8

Sources: Country authorities' actual data and IMF staff projections.

The export volume, import volume, and terms of trade are calculated as PPP weighted averages of member countries' values.

[1]For Equatorial Guinea, non-oil GDP includes output from hydrocarbon derivatives.

Table 12. CEMAC: Relative Size of CEMAC Economies and Importance of Oil Sector, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(Percent of CEMAC's nominal GDP)						
Nominal GDP										
Cameroon	33.9	30.5	28.4	28.1	29.3	30.2	31.2	32.1	32.8	34.0
Central African Republic	3.0	2.7	2.4	2.4	2.2	2.2	2.3	2.4	2.5	2.6
Chad	14.2	14.4	13.6	14.3	14.4	15.8	17.0	16.7	16.4	16.1
Congo, Republic of	14.7	16.3	16.1	15.2	15.1	14.2	14.5	14.4	15.3	15.1
Equatorial Guinea	15.8	16.5	18.5	19.6	18.0	16.3	13.7	12.9	11.3	9.9
Gabon	18.4	19.7	20.9	20.4	21.1	21.3	21.2	21.4	21.6	22.3
CEMAC	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
				(Percent of CEMAC's nominal GDP)						
Nominal oil GDP (percent of CEMAC)										
Cameroon	2.0	2.1	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.2
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	2.8	3.5	3.8	4.3	4.1	4.8	5.5	4.8	4.2	3.6
Congo, Republic of	9.2	11.0	11.1	9.8	9.0	7.8	7.8	7.1	7.6	7.0
Equatorial Guinea	8.0	9.0	10.1	10.9	9.6	8.5	6.6	5.9	4.5	3.5
Gabon	6.5	8.1	9.3	8.5	8.2	7.5	6.7	6.0	5.4	5.1
CEMAC	28.4	33.8	36.8	35.9	33.2	31.0	28.8	26.0	24.0	21.3
				(Percent of country's nominal GDP)						
Nominal oil GDP										
Cameroon	5.8	7.0	8.4	8.6	7.8	7.7	7.3	6.9	6.7	6.6
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	19.6	24.2	28.4	29.9	28.4	30.7	32.2	28.6	25.8	22.4
Congo, Republic of	62.4	67.9	69.2	64.6	60.0	55.1	53.6	49.4	49.8	46.2
Equatorial Guinea	50.9	54.8	54.5	55.4	53.4	52.0	48.3	45.7	39.7	34.8
Gabon	35.4	41.2	44.4	41.7	38.7	35.2	31.3	28.0	25.1	22.6
CEMAC	28.4	33.8	36.8	35.9	33.2	31.0	28.8	26.0	24.0	21.3
				(Percent of country's total goods exports)						
Oil exports										
Cameroon	41.2	48.6	52.4	51.3	51.5	51.3	51.0	51.0	51.2	51.5
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	87.4	91.4	90.4	89.7	87.4	89.2	89.8	88.5	87.2	84.8
Congo, Republic of	87.5	90.9	90.5	89.6	88.4	85.7	84.9	82.3	81.9	80.2
Equatorial Guinea	98.7	98.2	98.5	98.6	98.6	98.4	98.0	97.7	97.0	95.8
Gabon	82.9	87.2	89.7	88.1	84.3	83.0	81.0	78.0	74.8	72.5
CEMAC	82.8	86.6	87.8	87.1	85.3	84.0	82.5	80.5	78.7	76.1
				(Percent of country's fiscal revenue)						
Fiscal oil revenue										
Cameroon	26.3	25.6	28.3	28.6	25.7	25.6	24.4	23.9	23.4	23.3
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	43.3	63.3	71.5	66.1	61.2	62.1	64.9	59.3	54.5	47.9
Congo, Republic of	70.0	78.8	78.9	77.0	74.4	71.8	68.0	65.2	63.4	59.4
Equatorial Guinea	90.3	87.6	90.7	87.5	88.9	88.1	86.8	85.8	84.1	81.4
Gabon	49.7	53.7	54.7	58.0	56.6	52.8	48.4	44.1	40.8	37.9
CEMAC	57.9	61.8	65.5	64.3	62.7	60.0	56.4	52.7	49.4	45.2

Table 13. CEMAC: Violations of Main Prudential Ratios, 2010–12

	Capital Adequacy			Liquidity[1]			Fixed Assets[2]			Maturity[3] Transformation			Minimum[4] Capital			Limit on Single[5] large exposure		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
				Min 100%						Min 50%								
Country (number of banks in 2012)																		
Cameroon (13)	3	5	5	0	1	2	5	8	5	6	5	5	4	5	5	4	9	7
Central African Republic (4)	1	0	0	1	1	1	2	0	0	1	0	0	2	1	2	1	2	3
Chad (8)	2	0	0	1	0	1	3	0	0	2	0	1	4	2	3	4	1	1
Republic of Congo (9)	0	2	1	0	1	0	0	1	1	0	0	1	2	1	3	2	3	2
Equatorial Guinea (4)	1	0	0	0	0	0	0	1	0	1	1	1	0	0	0	0	0	1
Gabon (10)	0	0	1	1	2	1	0	0	2	0	0	1	1	1	3	1	4	3
CEMAC (48)	7	7	7	3	5	5	10	10	8	10	6	9	13	10	16	12	19	17
In percent of deposits [6]																		
Cameroon (13)	17	21	28	0	2	4	39	46	28	45	19	28	13	19	n.a	19	37	41
Central African Republic (4)	21	0	0	18	17	17	75	0	0	21	0	0	29	22	n.a	21	38	91
Chad (8)	27	0	0	6	0	15	31	0	0	27	0	14	40	14	n.a	61	13	15
Republic of Congo (9)	0	19	3	0	7	0	0	3	5	0	0	3	10	3	n.a	41	61	52
Equatorial Guinea (4)	11	0	0	0	0	0	0	24	0	11	16	15	0	0	n.a	0	0	23
Gabon (10)	0	0	2	0	62	2	0	0	13	0	0	2	0	0	n.a	0	37	15

Source: Banking Commission of Central Africa (COBAC).

[1] Short-term assets of up to one month (remaining maturity) over short-term liabilities of up to one month (remaining maturity).

[2] Net capital and other premanent resources over fixed assets.

[3] Long-term assets of more than five years over long term liabilities of more than five years.

[4] Minimum capital varied by country until May 2010 (CFA millions): Cameroon 1000; Central African Republic 200; Chad 150; Republic of Congo 150; Equatorial Guinea 300; Gabon 1000. From June 2010, minimum capital is 5 billion CFAF for all the countries.

[5] Single large exposure is limited to 45 percent of capital.

[6] Percentage of deposits represented by the number of banks in violation in the country.

Table 14. CEMAC: Bank Ratings, December 2012 /[1]

(Number of Banks)

	1	2	3A	3B	3C	4A	4B	Not Rated
Country (number of banks)								
Cameroon (13)	1	7	--	--	1	2	2	--
Central African Republic (4)	--	4	--	--	--	--	--	--
Chad (8)	--	5	1	2	--	--	--	--
Republic of Congo (10)	--	7	1	--	--	1	--	1
Equatorial Guinea (5)	2	2	--	--	--	--	--	1
Gabon (10)	1	8	--	--	--	1	--	--
CEMAC (50)	4	33	2	2	1	4	2	2

Source: Banking Commission of Central Africa (COBAC).

[1] Ratings: 1=strong; 2=good; 3A=fragile; 3B=moderately fragile; 3C=highly fragile; 4A=critical; and 4B=highly critical. Please note that this table will be updated as soon as data are available.

Table 15. CEMAC: Quality of Loan Portfolio, 2010–12

	Prêts bruts (milliards de FCFA)		Prêts improductifs[1] (milliards de FCFA)		Provisions pour prêts improductifs (milliards de FCFA)		Part des prêts improductifs[2] (pourcentage des prêts bruts)		Taux de provisionnement (pourcentage des prêts improductifs)	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Cameroun	1871	1968	229	233	222	225	12	12	80	71
République centrafricaine	126	156	16	15	14	14	12	10	78	82
Tchad	544	428	6	24	6	21	1	6	75	60
Congo, République du	1161	741	37	14	44	13	3	2	93	84
Guinée équatoriale	836	559	34	38	44	57	4	6	102	120
Gabon	328	1463	26	42	24	47	8	3	76	57
CEMAC	4866	5314	348	367	355	377	7	7	83	76

Source : Commission Bancaire de l'Afrique centrale (COBAC); calculs des services du FMI.

[1] Selon définition de la COBAC.

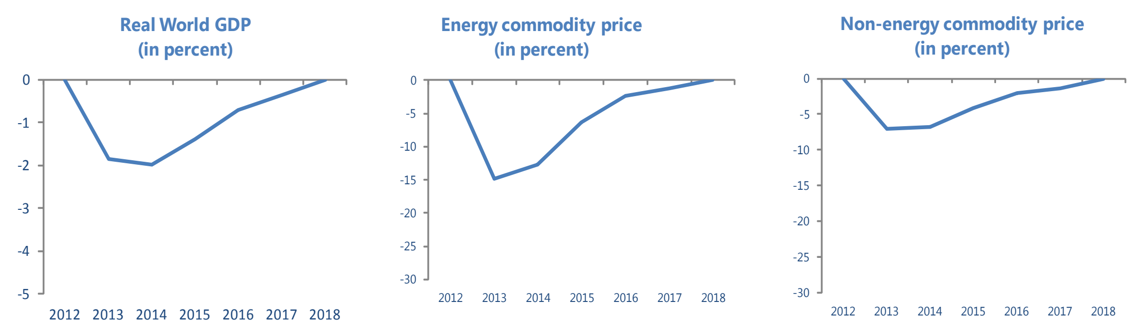
[2] Selon définition de la CEMAC.

Annex 1. Risks from Global slowdown for the CEMAC[1]

The materialization of global slowdown risks would affect CEMAC economic activity by reducing real GDP by about 0.7 percentage point. Lower commodities prices and global demand would negatively affect current account and fiscal balances, through reduced exports and oil-related revenue, respectively.

1. Risks to the global outlook are skewed to the downside. A possible intensification of the euro area crisis could trigger a sharp and protracted slowdown in both advanced and emerging markets growth, which could in turn lead to a fall in commodities prices. Under the WEO downside scenario from Spring 2013 (Figure 1): (i) world real GDP growth is assumed to contract by about 1 percent over the period 2013–18, and by about 2 percent in 2013 and 2014; (ii) non-oil and oil commodities prices are expected to decrease by about 3–5 percent over the period 2013–18 with a larger fall taking place in 2013 (about 15 percent for oil).

Figure 1. WEO Downside Scenario
(Deviation from WEO Baseline)



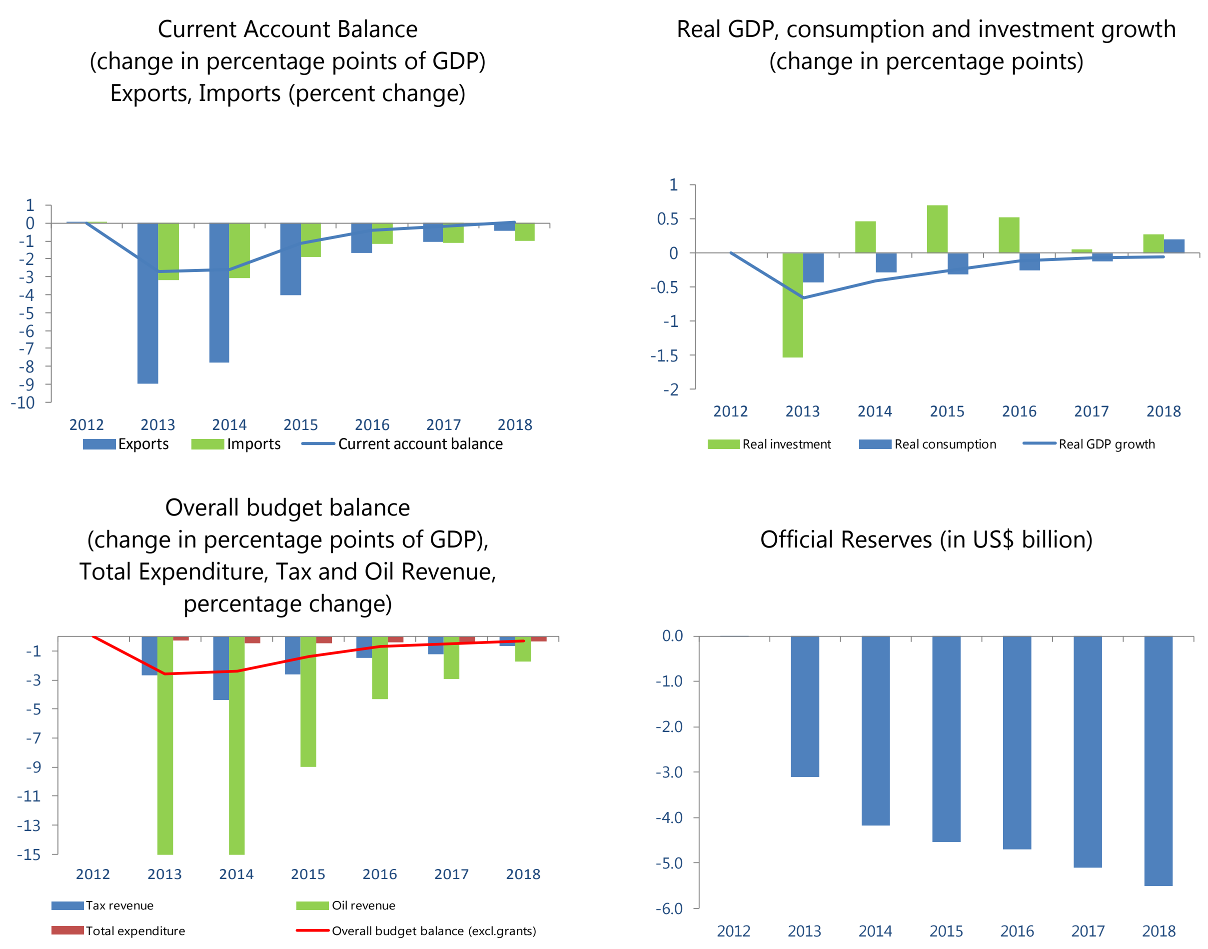
Source: IMF Staff Estimates.

2. CEMAC economies would be mainly affected by changes in commodities prices and a decline in global demand. Oil products (and other commodities in the case of Central African Republic) dominate CEMAC exports leaving the region particularly vulnerable to terms-of-trade fluctuations. While the United States continue to remain the main destination for CEMAC products, the share of products exported to Asian countries has increased considerably in the last decade, which makes the region exposed to a slowdown in advanced, but also in emerging market economies. Although the share of European countries in total trade has declined, the impact of the euro zone crisis would continue to affect individual member states. Remittances, foreign direct investment and aid could also represent important transmission channels.

[1] Prepared by Aleksandra Zdzienicka with inputs from CEMAC country teams.

3. If risks materialize, CEMAC economic activity could slow down by about 0.7 percentage point compared to the baseline scenario (Figure 2). This downside scenario assumes that the public investment stance would remain broadly unchanged, thereby supporting growth. Lower commodities prices and external demand would immediately reduce exports by about 9 percent compared to the baseline. The current account balance is projected to decrease by about 2.7 percentage points of GDP in 2013 and 2014, as imports would decline by only 3.2 percent due to lower import prices and continued investment. Similarly, the fiscal balance is expected to deteriorate by about 2.5 percentage point of GDP in 2013 and 2014, due to a sharp fall in oil-related revenue of about 15 percent. However, continuous investment efforts (an average increase of about 0.4 percentage points of GDP) and still buoyant consumption would attenuate the impact on growth over the medium term. This scenario would result in a cumulative reduction in CEMAC official reserves of about US$ 5.5 billion by 2018.

Figure 2. Impact of global economy risks on the CEMAC



Source: IMF Staff Estimates.

Annex 2. External Sustainability Assessment[1]

The CEMAC current account balance has oscillated around a deficit of 1–1 ½ percent of GDP over the last decade, reflecting the evolution of the trade balance and important investment efforts in individual member states. FDI and other investment have constituted stable and growing sources of external financing. Reserves coverage remains adequate, but not excessive according to different metrics. Various analyses do not indicate significant current account disequilibria and real effective exchange rate misalignments. Survey-based indicators, however, point to important structural competitiveness issues. In this context, timely policy actions would be critical to enhance institutional capacity, legal institution, and improve regional infrastructure.

A. Balance of Payment

1. The current account of the CEMAC as a whole has fluctuated considerably over the past decade, reflecting the evolution of the trade balance and public investment in the member states. Since 2000, the regional current account deficit has averaged about 1.3 percent of GDP, while trade balance, mirroring the evolution of international commodities prices, remained in surplus of about 12.8 percent of GDP, on average (Figure 1A). Over the same period, investment averaged about 26.5 percent of GDP, while saving remained at 25.2 percent of GDP (Figure 1B). However, these averages mask substantial differences in current account balances across individual members, going from -14.5 percent of GDP in Equatorial Guinea to over 13 percent of GDP in Gabon (Figure 1C). In 2012, the current account balance deteriorated slightly reflecting large public investment in the region and a deterioration of the regional trade balance. This trend is expected to continue in 2013. In the medium-term, the current account is expected to worsen to 4.4 percent of GDP as public investment is expected to remain important and oil prices would stabilize.

2. Since mid-2000, the external financing of the current account deficit remained relatively stable. Despite the global crisis, foreign direct investment inflows have constituted the main and growing source of financing (Figure 1D), while other investments have averaged around 17.7 percent of GDP since 2005. The role of portfolio investment has been marginal.

B. Reserves Adequacy

3. Official reserves coverage **appears adequate, but not excessive according to different metrics (Box 1).** CEMAC official reserves amounted to CFAF 9,082 billion (US$17.5 billion) at the end-2012 covering more than six months of next year imports, about 91 percent of broad money, and about 1,432 percent of short-term liabilities. Reserves remained ample also according to a composite reserves' adequacy matrix (IMF, 2011), covering 264 percent of the norm at the end-2012. The application of an alternative costs-benefits analysis (Dabla-Norris et al., 2011) to the CEMAC estimates that the level of reserve is expected to be within the *optimal* reserves range coverage in 2013.

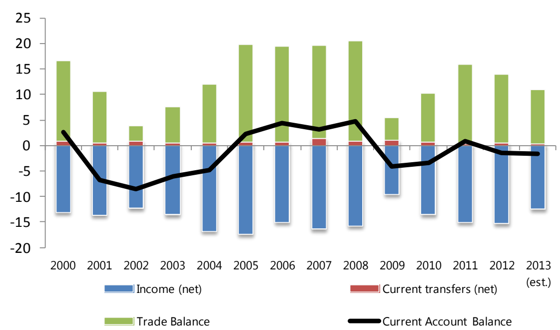
[1] Prepared by Aleksandra Zdzienicka.

Figure 1. CEMAC: External Sector Developments

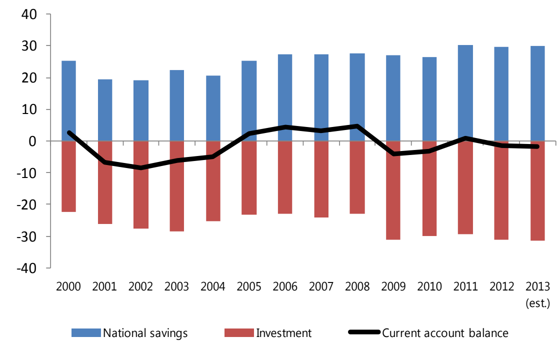
CEMAC current account balance fluctuated substantially reflecting the evolution of trade balance and

... important investment efforts in the region.

A. Current account balance of the region
(percent of GDP, 2000–13)



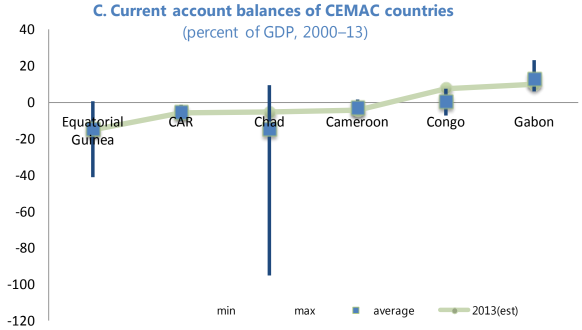
B. Current account balance components
(percent of GDP, 2000–13)



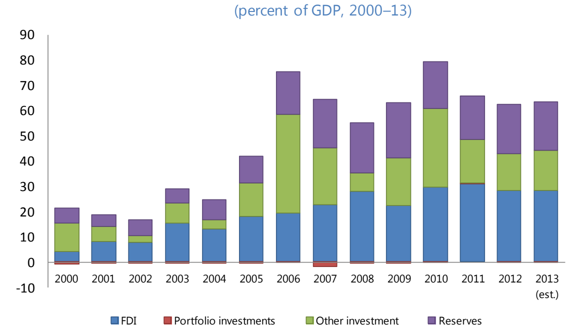
In 2013, CEMAC current account is expected to be close to balance with a range of estimates across countries.

FDI and other investments have constituted an important source of external financing.

C. Current account balances of CEMAC countries
(percent of GDP, 2000–13)



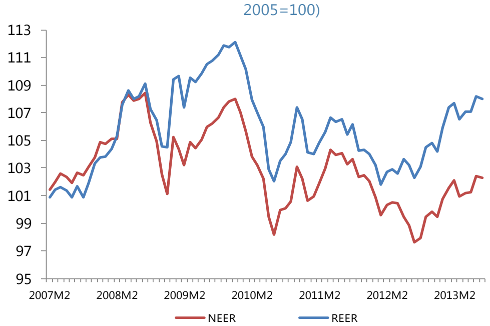
D.Net international investment positions
(percent of GDP, 2000–13)



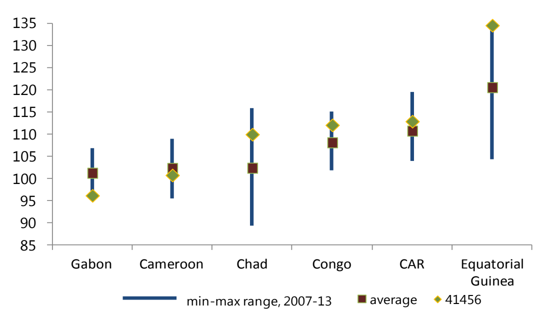
Real effective exchange rates have started to appreciate again in late-2012

...reflecting growing inflationary pressures in some CEMAC countries.

E. Real and nominal effective exchange rates (2007–13, 2005=100)



F. Real effective exchange rate of CEMAC countries
(2007–13; 2005 = 100)



Sources: Country Authorities and IMF Staff Estimates.

Box 1. Assessing Reserves Adequacy

The composite reserves adequacy (RA) index[1] computes the optimum level of precautionary reserves necessary to increase country's resilience to the shocks. The RA index is a broad-based metric estimated taking into account absorption-smoothing benefits of reserves (conditional on variables such as severity and probability of shocks' occurrence, structure of the economy, access to Fund financing) and reference values for the opportunity cost of holding reserves. In particular, the index combines the risks related to the short-term debt, other portfolio liabilities, broad money, and export earnings. A recent IMF study suggests that a level of reserves covering between 100 and 150 percent of the RA ratio provides adequate buffers for crisis prevention. When applied to the CEMAC, the measure indicates that the level of reserves is above the optimal range, at about 264 percent at end-2012, reflecting a relatively low level of short-term debt and capital inflows, and strong export earnings.

Text Table 1. CEMAC: Reserves Adequacy Mesures

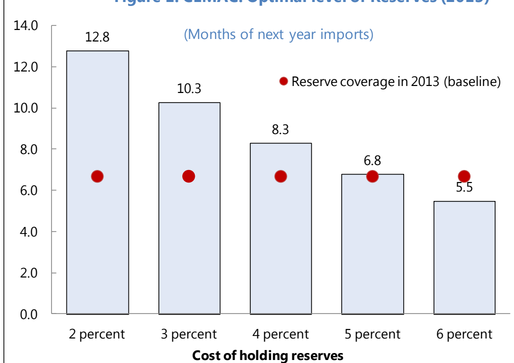
	2010	2011	2012	2013*
Reserves (in USD bilion)	13.7	15.7	17.5	19.3
Months of imports	4.9	5.1	6.1	6.7
Percent of short-term debt	1666.7	1903.8	1431.9	1069.5
Percent of broad money	92.4	85.6	90.8	93.8
IMF RA matrix (USD billion)	4.6	6.5	6.6	6.7
Percent of RA indicator	295.0	240.1	264.3	287.4

Souces: BEAC and IMF Staff estimates.

*estimated

An alternative approach, based on Dabla-Norris et al. (2011)[2], estimates reserves adequacy based on their benefits in terms of mitigating the impact of macroeconomic volatility and the cost of holding the reserves. According to this approach, the optimal reserves coverage for the CEMAC is estimated to vary between 5.5 and 12.8 month of imports in 2013, depending on the interest rate differential with the rest of the world. With an average cost of 4.3 percent estimated for the CEMAC, reserves coverage looks ample, but not excessive. The approach does not take into account the guarantee of the French Treasury for the convertibility of the CFA Franc.

Figure 1. CEMAC: Optimal level of Reserves (2013)



Source: IMF Staff Estimates.

[1] IMF, (2011), "Assessing Reserves Adequacy" (http://www.imf.org/external/pp/longres.aspx?id=4547).
[2] Dabla-Norris, E., J, .I. Kim, and K. Shorono, (2011), "Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefits Analysis", *IMF WP* 11/249.

C. Price Competitiveness

4. **The assessment of real effective exchange rate at the regional level does not indicate significant misalignments and price-competitiveness issues.** The real and nominal exchange rates for the CEMAC have appreciated slightly by 4.8 and 4.5 percent over the last 12 months, respectively. Among CEMAC member states, the largest appreciation has occurred in Equatorial Guinea, reflecting increasing prices differential compared to the country's trading partners. Model-based assessments (Box 2) do not point out to significant misalignments of the real effective exchange rate.

Box 2. Assessing the Current Account Norm and Real Effective Exchange Rate

The Bems and Carvalho approach[1] estimates the current account norm applying the CGER methodology to the specificity of resource-rich countries on the basis of permanent income hypothesis (PIH). In particular, the macroeconomic balance (MB) approach estimated the equilibrium current account balance based on economic fundamentals (including the oil fiscal balance and a dummy for oil-producers) to smooth intertemporal consumption from oil revenues. The external sustainability approached computes the current account balance norm consistent with a long-term trend in net foreign assets to account for the impact of the oil revenues. The current account gap is then computed comparing the norms with the medium-term underlying current account balance. The results indicate the current account gap of 5.8 and 5.6 percentage points, respectively.

CEMAC: Model-based current account equilibrium, 2018

	Bems/Carvalho Constant real annuity	External sustainability	Alternative model-based approach
Medium-term CA Norm	1.4	1.2	-0.2
Underlying current acco	-4.4	-4.4	-4.4
Current account elasticit	0.4	0.4	0.4
Overvaluation	12.9	12.5	9.4

Source: IMF staff estimates.
Elasticities are based on total exports and imports.

An alternative model-based approach, based on Araujo et al. (2013)[2], estimates the equilibrium current account benchmark taking into account projected natural resource windfalls, investment needs and frictions (such as absorptive capacities, investment efficiencies, borrowing constraints). When possible, the model parameters are estimated for the CEMAC, otherwise parameters are taken from the literature for LICs. Model simulations indicate a current account norm of -0.2 percent of GDP, which points out to a current account gap of 4.2 percentage point. With improving investment efficiency, the equilibrium current account norm is lower and the current account gap decreases by about 0.6 percentage point, on average.

Real effective exchange rate misalignment is then computed using different model-based norms and CEMAC country-specific trade elasticities. The results show relatively small positive deviations from equilibrium, which suggests that the REER continues to be broadly in line with equilibrium under the current policies.

[1]Bems, R., Carvalho I., (2009), "Exchange Rate Assessments: Methodologies for Oil Exporting Countries", IMF Working Paper 9/281.

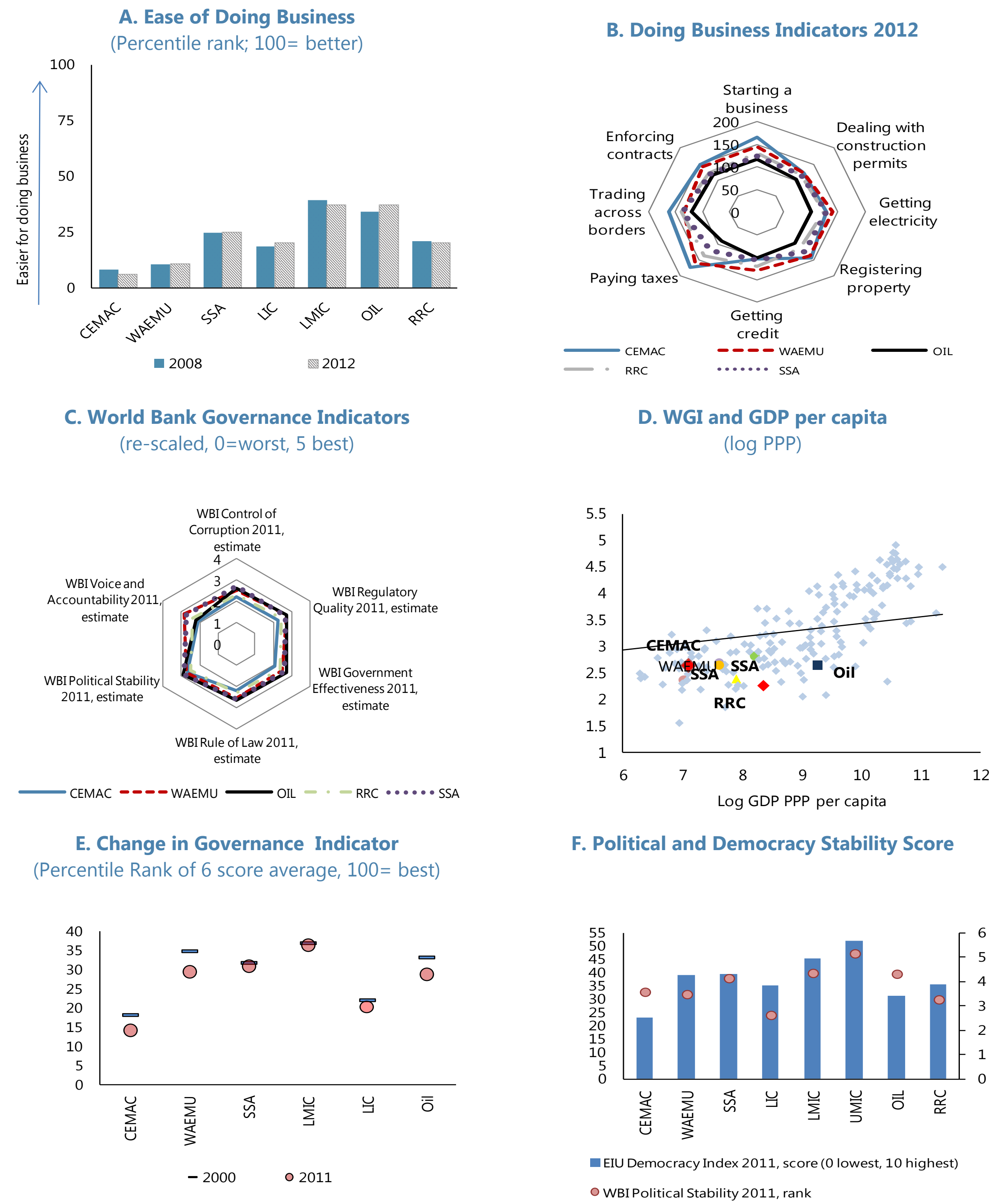
[2]Araujo, J., Li B., Poplawski-Ribeiro M., Zanna L-F., (2013), "Current Account Norms in Natural Resource Rich and Capital Scare Economies", IMF Working Paper 13/80. The alternative model-based approach was estimated with the assistance of B. Li.

D. Structural Competitiveness

5. Survey-based indicators indicate important structural competitiveness issues. Various competitiveness indicators rank CEMAC countries among the worst performers.

- The World Bank's "Doing Business" indicators show that the CEMAC has deteriorated compared to peer countries over the last five years (Figure 2A). CEMAC countries report the worse scores in almost all studied categories. In particular, the region faces challenges in trading across borders, starting a business, and protecting investor's rights. Supply of infrastructure remains inadequate and procedures for paying taxes and registering propriety continue to be cumbersome (Figure 2B).
- The World Bank's Governance Indicators (Figure 2C) rank CEMAC countries below their peers in terms of accountability, control and corruption, government effectiveness and regulatory quality. Similarly, Economic Intelligence Unit (EIU) Democracy Index places the region below other countries in term of political stability and democracy (Figure 2F).

Figure 2.CEMAC : Business Environment and Governance



Sources: Doing Business, 2012; World Bank's Governance Indicators, 2011, (average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability and voice and accountability); Economist Intelligence Unit (EIU) ; and IMS staff calculations.
SSA = Sub-Saharan Africa; LIC=Low-income country; HIC= High-income countries; UMIC= Upper-middle income country; LMIC= Low-middle-income country; OIL=Oil producers; RR= Resource-rich countries; = ; WBI= World Bank Indicators.

Annex 3. Idiosyncratic shocks and stabilization Mechanisms in the CEMAC[1]

This note assesses the relevance of country-specific (idiosyncratic) in the CEMAC and how output synchronization has changed over time. The note also analyzes the effectiveness of fiscal policy and risk-sharing mechanisms in smoothing idiosyncratic shocks. The results suggest that, despite an increasing synchronization, due mainly to relatively homogenous economic (export) structure, CEMAC countries continue to be characterized by a high prevalence of idiosyncratic shocks and limited smoothing mechanisms. Further product and labour market integration, more counter-cyclical fiscal stance and strengthened market-based insurance mechanisms (e.g., more developed financial system) are necessary to reduce the occurrence of asymmetric shocks and increase macroeconomic stability in the region.

1. **Monetary integration has been beneficial for CEMAC countries in terms of price and exchange rate stability, but decreases their ability to deal with shocks.** The monetary and exchange rate policies have produced substantial benefits in ensuring prices and exchange rate stability and convertibility of the CFA franc. However, it reduces the ability of CEMAC countries to absorb idiosyncratic shocks, particularly if other stabilization mechanisms are either absent or partially ineffective. In this context, maintaining macroeconomic stability and limiting welfare losses may be particularly challenging if idiosyncratic shocks' frequency and asymmetry does not decrease over time with progress in economic integration (Karras, 2006, Frankel and Rose, 1998).

2. **The CEMAC constitutes a relatively homogenous but weakly integrated group of countries** (Figure 1). Although CEMAC countries are characterized by rather homogenous economic structures (as five of six members of the zone are oil-producers), narrow economic diversification and various geographic conditions make them highly vulnerable to external, mostly to terms-of-trade, shocks. Economic integration (trade, labor, capital market) remains limited and financial development is among the lowest in the world. Despite important oil revenue windfalls and official reserves, many CEMAC countries have failed to build sufficient fiscal buffers and lack efficient insurance mechanisms at the regional level to attenuate the impact of frequent idiosyncratic shocks.

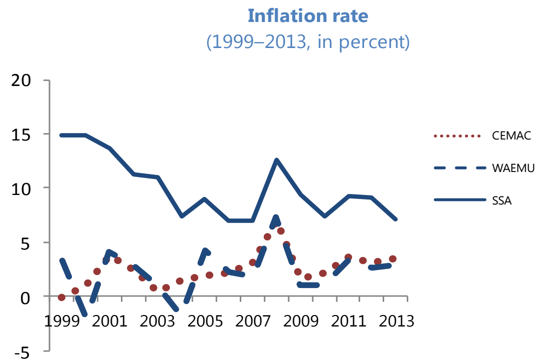
[1] Prepared by Aleksandra Zdzienicka.

A. Nature and Synchronization of shocks

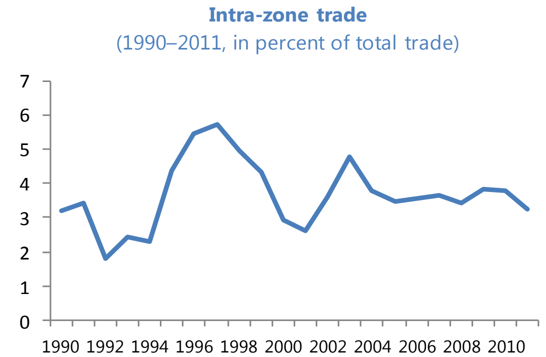
3. Although country-specific shocks still prevail, their frequency has decreased over time. The frequency and magnitude of country-specific shocks have declined since 2007, for all CEMAC member states with the exception of Equatorial Guinea and the Central African Republic (CAR). In particular, Cameroon (the most diversified economy in the CEMAC) appears to be characterized by the less frequent asymmetric shocks (Figure 2). Shocks have become more symmetric in Gabon, the Chad and Republic of Congo (Figure 3) , especially since 2005. The CAR (the only non-oil producing country) has been subject to more asymmetric shocks, but, since 2003 up to recently, these shocks became less frequent and negative, reflecting periods of relative political and economic stability in this country.

Figure 1. CEMAC: Selected economic characteristics
(1990–2013)

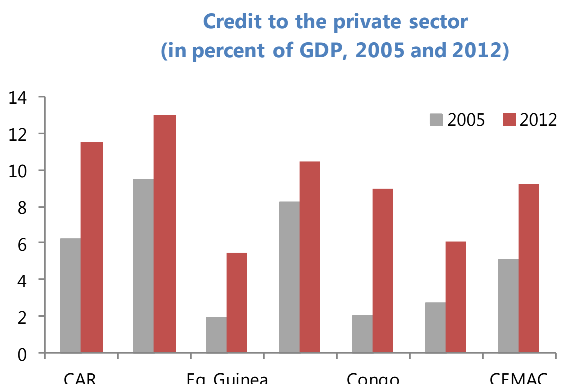
Monetary integration has been beneficial in terms of prices and exchange rate stability,



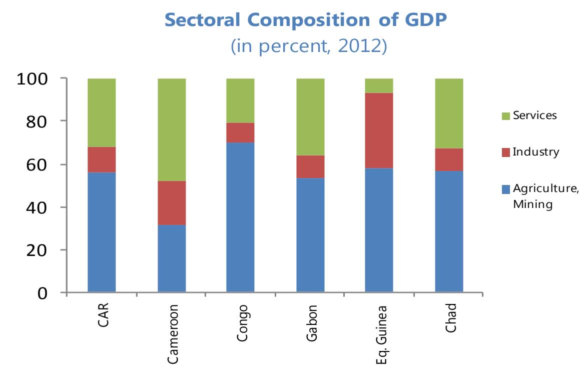
but little progress has be achieved regarding trade integration



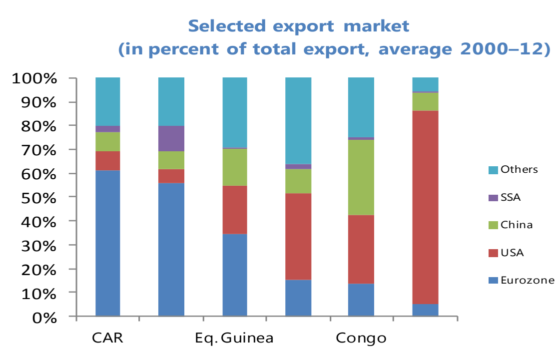
and development of financial sector.



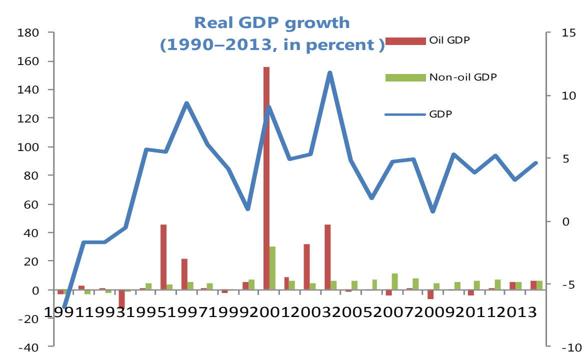
CEMAC countries are relatively homogenous, but lack of economic diversification and



are very exposed to global shocks.

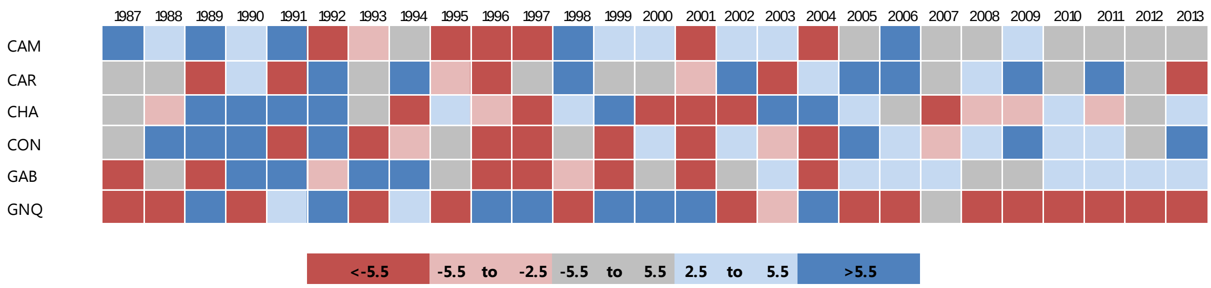


Therefore, output volatility has been particularly high.



Sources: BEAC, DTTS and IMF staff calculations.

Figure 2. CEMAC: Country-specific growth shocks (in percent)



Source: IMF staff calculations

4. Idiosyncratic shocks in CEMAC countries have become more synchronized with those of their main trading partners (Figure 3). This synchronization has increased since the beginning of the 1990's, especially with Asian emerging economies (approximated hereafter by China). Shocks between the CEMAC and the United States have been relatively more symmetric than between the CEMAC and other regions (reflecting strong trade linkages between two zones) and increased even further in the recent period. Shocks in the CEMAC have also become more synchronized with those touching the euro zone, in particular after 1990 and 2005. Overall it is worth to underline that shocks have been more symmetric between the CEMAC and the rest of the World, than among the countries in the region.

Box 1. Shocks Synchronization in the CEMAC

Shocks synchronization is determined following two approaches. Both approaches estimated asymmetric shocks as a part of the country-specific shocks that is not explained by the regional growth shocks. In particular, real GDP growth for each CEMAC country is regressed on country fixed effects, α_i, (to remove long-run growth differential across countries) and time effects, γ_t, (to remove current aggregate business cycle) and residuals are used to construct the measure of country-specific shocks (ε_{it}^a). Equation (1) is estimated over two lags to remove persistence in growth shocks.

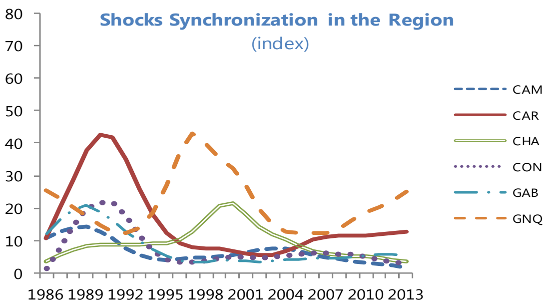
$$\Delta \log GDP_{i,t} = \alpha_i + \gamma_t + \delta_{it} \sum_{j=1}^{2} \Delta logGDP_{i,t-j} + \varepsilon_{it}^a \qquad (1)$$

The first approach indentifies asymmetric shocks when the residual is in the two extreme regions of their distributions, i.e. shocks are considered as asymmetric if residual's value is less or more than the value corresponding to 50th percentile of their distribution. Shock is considered as severely negative (positive) is its value is less (more) than the values corresponding to 25th (75th) percentile of their distribution. The results are presented in Figure 2.

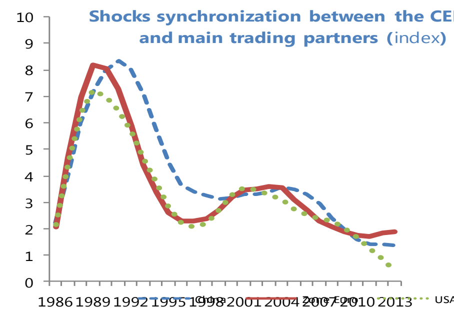
The second approach, proposed by Morgan et al. (2004), constructs a measure of shocks synchronization by taking the absolute value of deviations between the residuals of each CEMAC country (or between the residuals of CEMAC aggregate and of its main trading partners). The measure varies between zero and (positive) infinite. Closer the measure is to zero, more synchronized are the shocks. Figure 3 presents the evolution of (smoothed) synchronization measure for CEMAC countries and the whole region, as compared with the euro zone, the United States and China.

Figure 3. CEMAC: Shocks and shocks smoothing (1980–2013)

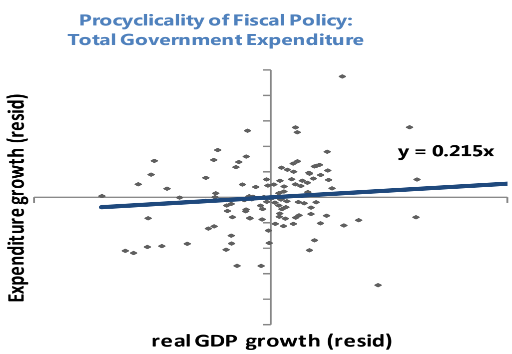
Although on the rise, shocks asymmetry has been important among CEMAC countries



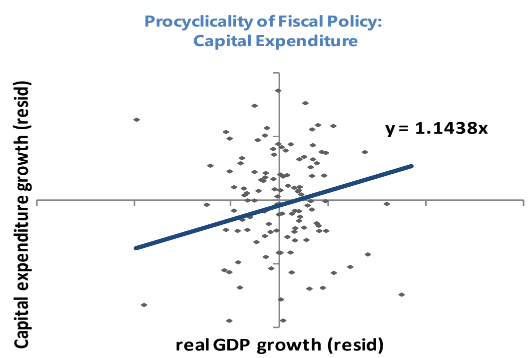
especially comparing to growing shocks synchronization between the region and the rest of the World.



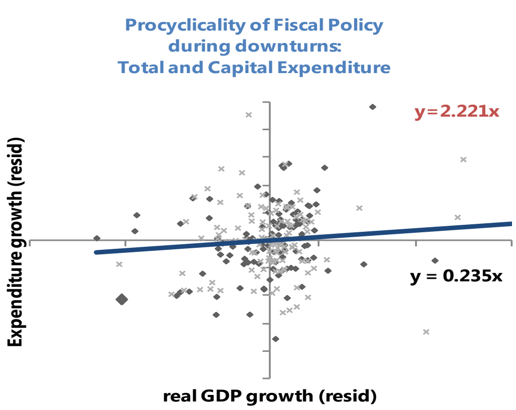
Fiscal policy, the main tool to absorb asymmetric shocks in currency union, was not able play its role,



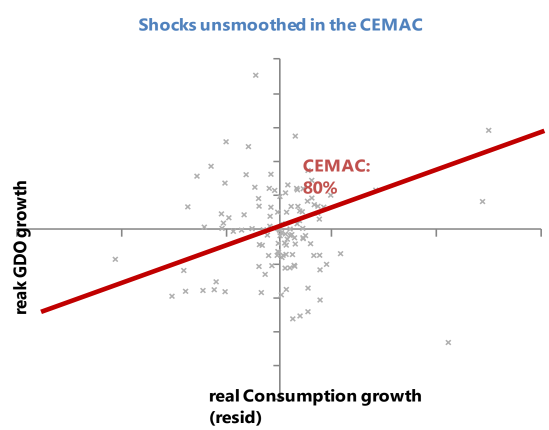
mainly due to the procyclicality of public investment.



in the periods when is the most needed, i.e. during downturns.



With limited effectiveness of other insurance mechanism, a share of unsmoothed shocks is particular important in



Source: IMF Staff Calculations.

B. Fiscal Policy Response to Idiosyncratic shocks

5. **In a currency union, fiscal policy is the main tool through which countries may absorb idiosyncratic shocks, but fiscal stance in CEMAC countries has been slightly procyclical.**[2] The procyclicality of fiscal policy results from the behavior of government capital spending (Table 1). The procyclicality of public investment and overall fiscal policy has increased in the recent period (Table 1: second panel). In addition, capital spending seems to be highly procyclical in periods when is the most needed, i.e. during downturns (Table 1: third panel). These results seem to suggest the inability of CEMAC governments to save in *good* times and to sustain public investment in downturns. Current government spending (including debt service payments) appears to be unaffected by output fluctuations, owing to an acyclical behavior of government transfers (weak "automatic stabilizers" in the CEMAC) and debt interest payments.

C. Other shock smoothing mechanisms

6. **Other shock smoothing mechanisms may also reduce the impact of country-specific shocks.** Possible mechanisms include: (i) private insurance mechanism through capital and labor markets; (ii) private and public saving and borrowing through international credit markets; (iii) official aid flows, and (iv) fiscal risk-sharing mechanisms through regional transfers and taxes.

7. **Shock smoothing has remained limited in the CEMAC** (Text Table 1).[3] A large share of shocks to GDP (about 80 percent) remains not smoothed, implying a substantial consumption volatility and welfare losses. In particular, factor income flows smooth about 16 percent of idiosyncratic shocks. The impact of international transfers (foreign aid, remittances), in the absence of significant fiscal risk-sharing mechanism at the regional level, seems to be offset by capital depreciation that usually amplify the shocks. Public saving via credit market provides a limited risk-sharing, owing to a limited access to international credit market, and limited fiscal buffers reduced the scope to conduct fiscal policies in CEMAC countries. Private saving through credit market is not significant.

Text Table 1. CEMAC: Channels of output smoothing (1979–2012)

Factor income flows	0.155*
	0.0835
Capital Depreciation	-0.147*
& Net International Transfers	*-0.0894*
Saving	
Public	5.11e-05***
	1.47E-05
Private	0.197
	0.245
Unsmoothed	0.80***
	0.26

Note: *,**,*** denotes significant at 10, 5, 1, percent, respectively; standard errors are reported in *italic*.

Source: Nguyen and Zdzienicka (2013)

[2] The procyclicality of fiscal policy is assessed by estimating a panel regression between the growth of real government expenditures and real GDP growth (Lane, 2003). A positive coefficient implies procyclical behavior.

[3] The effectiveness of shock smoothing mechanisms is estimated using the approach proposed by Asdrubali et al. (1996). The approach consists of disaggregating GDP into different national account aggregates: Gross National Product (GNP), Net National Income (NI), Disposable National Income (DNI), and the sum of Government Consumption and Private Consumption (G+C). After transforming the GDP decomposition in a system of independent panel regressions, the impact of each channel on consumption smoothing is estimated. A negative value of estimated coefficient indicated amplification rather than shock smoothing.

Table 2. CEMAC: Fiscal Pro-cyclicality

	Dependent variable (growth, in percent)					
Output growth	Government expenditure		Current expenditure		Capital expenditure	
GDP growth	0.215		-0.002		1.702***	
	-1.29		(-1.45)		-21.24	
Non-oil GDP growth		0.571**		0.109		1.251**
		-2.75		-0.55		-2.45
N	119	113	119	113	119	113
R^2	0.47	0.47	0.96	0.35	0.47	0.47

Before vs. after 2002

Output growth	Government expenditure	Current expenditure	Capital expenditure
GDP growth $^{\text{after 2002}}$	1.005*	0.044	2.425**
	-1.98	-0.13	-2.55
GDP growth $^{\text{before 2003}}$	0.16	0.056	1.647***
	-0.84	-1.64	-29.06
F-test of difference	1.74	0	0.73
	-0.24	-0.97	-0.43
N	119	119	118
R^2	0.48	0.34	0.41

Upturns vs. downturns

Output growth	Government expenditure	Current expenditure	Capital expenditure
GDP growth $^{gap<0}$	0.167	0.094	0.501
	-0.6	-1.11	-0.66
GDP growth $^{gap>0}$	0.235	0.037	2.221***
	-1.76	-0.11	-7.38
F-test of difference	0.14	0.5	2.68
	-0.72	-0.51	-0.16
N	119	119	118
R^2	0.47	0.34	0.45

Note:*,**,*** denote significance at 10, 5, and 1 percent respectively. T-statistics based on robust clustered standard errors in parenthesis.

Source: IMF Staff Estimates.

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Annex 4. Possible Options to strengthen the fiscal surveillance framework in the CEMAC[1]

A. Introduction

1. **The CEMAC area shares a number of characteristics with other currency unions. Similar to** the Euro area and the WAEMU area, a fiscal surveillance framework supports the common currency. The CEMAC framework relies on frequent consultations among high level policy makers, the use of a common set of indicators to track economic trends, and reliance on regional surveillance institutions to monitor macroeconomic performance.

2. **However, the CEMAC area is the only full monetary union with substantial natural resources[2]**. As recent IMF work has shown (IMF, 2012), natural resources provide a unique opportunity to boost development but also make fiscal management more challenging. This is the case because resource revenues are subject to volatility and exhaustibility issues that need to be carefully assessed. In the case of resource rich countries belonging to a monetary union, this challenge is even more complex because fiscal policy management at the individual country level can have implications for the stability of the whole zone.

3. **In this context, this note provides a discussion of possible options to strengthen the current fiscal surveillance framework taking into account the impact of natural resources**. We explore three interrelated issues. First, we describe some weaknesses in the current framework, noting that the current system relying primarily on the basic fiscal balance does not provide a sufficiently strong basis to anchor long-term sustainability, manage short-term volatility and ensure appropriate convergence within the zone. Second, we explore the tradeoffs associated with two possible options to strengthen the current system through the use of either (i) a non-resource primary balance rule, or (ii) a structural primary balance rule with price smoothing. We note that the latter option has certain advantages in terms of simplicity and overall applicability as it could be adapted from a complementary indicator CEMAC is already using (the basic structural balance). However, more work would be needed to assess proper calibration of the rule and possible implementation challenges.

[1] This Annex has been prepared by Malin Hu, Christine Richmond and Alex Segura-Ubiergo. It draws on IMF, 2012, *Macroeconomic Policy Frameworks for Resource Rich Developing Countries* as well as a recently created FAD toolkit to assess fiscal rules in resource rich countries.

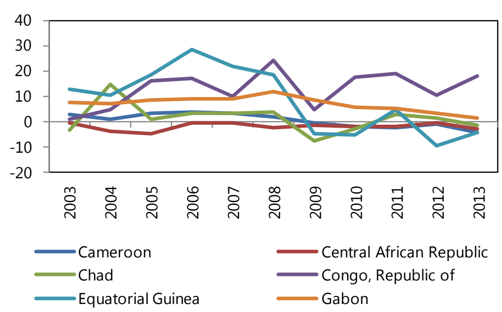
[2] GCC countries are also resource rich but do not yet share a common currency. Hence, fiscal convergence is less important for the time being to support regional stability.

B. The Basic Balance as an Anchor

4. CEMAC's current fiscal surveillance involves both budget balance rules and a debt rule. Since 2002, the basic fiscal balance has been used as the main indicator to track fiscal convergence. The basic fiscal balance is defined as total revenue (net of grants) minus total expenditure, excluding foreign-financed capital spending. It is measured at the central government level and convergence criteria require that it should be in balance or surplus. In 2008, the CEMAC Commission introduced two supplementary criteria: (i) the basic structural balance, based on oil revenue calculated using a 3-year moving average, and (ii) the non-oil basic balance (as a percent of non-oil GDP). Both indicators should be in balance or surplus. The debt rule, in place since 2002, measures both external and domestic central government debt and requires debt to be kept below 70 percent of GDP.

5. Compliance with the basic balance fiscal target has varied across the CEMAC area throughout the last 10 years. The Republic of Congo has run large basic balance surpluses during this time, peaking at 24.2 percent of GDP in 2008. Equatorial Guinea had surpluses of equally large magnitude during the first half of the decade. However r, since 2009, it has mostly been in deficit. Chad and Cameroon also saw their respective basic balance surpluses turn to deficit after 2009. Both countries have recovered, albeit Chad is projected to record a deficit this year. Gabon has met the basic balance fiscal target every year since 2003. As the only CEMAC member state that is not an oil producer, Central African Republic has run successive basic balance deficits during the last decade.

Figure 1. Basic balance
(Percent of GDP)



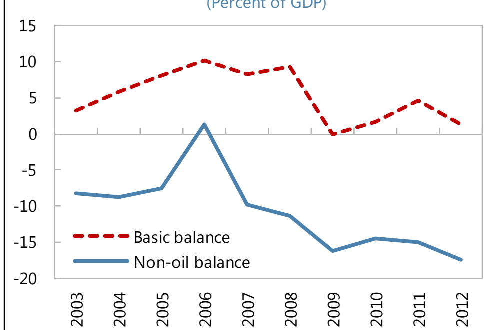
Sources: IMF Staff Estimates.

6. The existing fiscal surveillance indicators have some limitations. While the traditional use of the basic fiscal balance has some merit, there are also some important drawbacks.

- *The basic balance can be a useful indicator to measure direct fiscal effort by country authorities*. This is the case because the indicator excludes sources of revenue and expenditure that are beyond the direct control of policy makers.

- *However, the basic balance does not provide a strong anchor to assess the fiscal stance and ensure long-term fiscal sustainability*. Externally-financed capital expenditures have an impact on aggregate demand and influence the assessment of the fiscal stance (i.e. whether fiscal policy is expansionary or contractionary). In addition, they can contribute to rising

Figure 2. CEMAC fiscal balances
(Percent of GDP)



Sources: IMF Staff Estimates.

external debt levels (unless financed solely through grants) and affect debt sustainability assessments, which uses the overall primary balance as a key input. Furthermore, the use of the basic balance can mask how expansionary fiscal policy may be. For example, in Figure 2, between 2007 and 2008 the GDP-weighted CEMAC basic balance improved by 1.1 percent of GDP, while the non-oil balance deteriorated by 1.6 percent of GDP[3]. By focusing on the basic balance, one might assume that the fiscal position had improved, whereas the non-oil balance indicates that fiscal policy was, in fact, expansionary. This suggests that the focus on the basic balance may also be contributing to procyclical fiscal policy[4].

- *The non-oil basic balance supplementary indicator suffers from similar weaknesses*. While the exclusion of oil revenues (which often originate abroad) can help manage volatility, there is no standard way of transforming this indicator into a long-term fiscal anchor. In addition, the requirement that the non-oil basic balance should be in balance or surplus is rather restrictive, as it suggests that a government is not permitted to spend any of its oil revenue if the criterion is to be met[5].

- *The use of the structural basic balance is an interesting innovation, but still suffers from the weaknesses related to indicators associated with the "basic balance".* The structural basic balance computes structural resource revenues based on a 3-year moving average of oil revenues. At the same time, the indicator is used for ex-post assessments and does not serve as an input to future spending decisions or help reduce spending procyclicality. To be more useful, the structural balance should be made the budget target, thereby directly impacting future spending decisions (see below for more discussion).

C. Possible Options to Strengthen the Framework

7. There are several possible options to strengthen the fiscal surveillance framework in the CEMAC area through the use of a fiscal rule that explicitly takes into account natural resource wealth. Given the limitations of the basic balance as an anchor, we suggest below some alternative options, emphasizing how their adoption could help strengthen the CEMAC fiscal surveillance framework. Each option has distinct advantages and limitations with respect to three key objectives that a useful fiscal rule for the CEMAC zone should encompass:

- *Sustainability.* The fiscal rule should provide an anchor to ensure long-term fiscal sustainability, taking explicitly into account the fact that natural resource wealth is an

[3] Using the non-oil basic balance produces the same result.

[4] Mpatswe, G. K., S. J. Tapsoba, and R. C. York, 2011, "The Cyclicality of Fiscal Policies in the CEMAC Region," IMF Working Paper No. 11/205 (Washington, DC: International Monetary Fund). The authors find that between 1980 and 2008 total public expenditure in the CEMAC region was procyclical. See references therein for further documentation of procyclicality in the CEMAC region.

[5] This criterion has never been met to date.

exhaustible resource. This issue is particularly relevant in countries that have a limited resource horizon (less than 30–35 years of expected natural resource production).

- *Countercyclicality.* The fiscal rule should contribute to reducing fiscal procyclicality, which has been a problem in the area[6]. In particular, it should help delink fiscal policy from the volatility of natural resource prices.

- *Simplicity.* To the extent possible, the fiscal rule should be straightforward in its design and application. Excessively complex fiscal rules are difficult to monitor and explain to the general public. Lack of ownership by country authorities and problems to understand it by the general public typically reduce the chances of sustained implementation.

8. **The most appropriate fiscal rule will be a function of the relative importance policy makers attach to these three objectives.** A majority of CEMAC countries have a relatively short resource horizon (i.e., less than 30–35 years)[7]. One exception is Chad, which accounts for about 12 percent of the regional GDP. This suggests that an appropriate fiscal rule for the region as a whole should consider issues of exhaustibility/sustainability as one of its core objectives. A non-resource primary balance rule is particularly useful in this regard. At the same time, recent research has shown that fiscal policy in the region has been procyclical, which implies that managing volatility and avoiding procyclicality would also be an important objective. Finally, with limited capacity in some countries, a relatively simple framework offers clear advantages. We now turn to possible approaches to address these issues.

9. **One option to strengthen the framework would be to move from the non-oil basic balance (currently used as a secondary indicator) to the non-resource[8] primary balance.** Unlike the non-oil basic balance, the non-resource primary balance can be incorporated in a fiscal rule that explicitly takes into account fiscal sustainability concerns.[9]

- The NRPB target can be set in at least two ways. In the traditional Permanent Income Hypothesis (PIH) framework, the preservation of natural resource wealth requires that the government spends each year the implicit real return on financial wealth (i.e. financial wealth already accumulated plus the implicit return on the net present value of future resource revenues). This framework ensures long-term fiscal sustainability, but it is rather restrictive because it would not allow country authorities to use part of the resource

[6] Mpatswe, G. K., S. J. Tapsoba, and R. C. York, 2011, "The Cyclicality of Fiscal Policies in the CEMAC Region," IMF Working Paper No. 11/205 (Washington, DC: International Monetary Fund).

[7] Drawing on British Petroleum (2013) estimates of proven oil reserves as of end-2012, divided by current annual production levels, we estimate the reserve horizon (R/P ratio) in years as: Republic of Congo (18), Equatorial Guinea (16.5), Chad (40.5), and Gabon (22.3).

[8] The non-resource primary balance could also be called non-oil primary balance if the only major source of resource revenues is oil. We use these terms here interchangeably.

[9] NRPB is calculated as non-resource revenues minus primary expenditure.

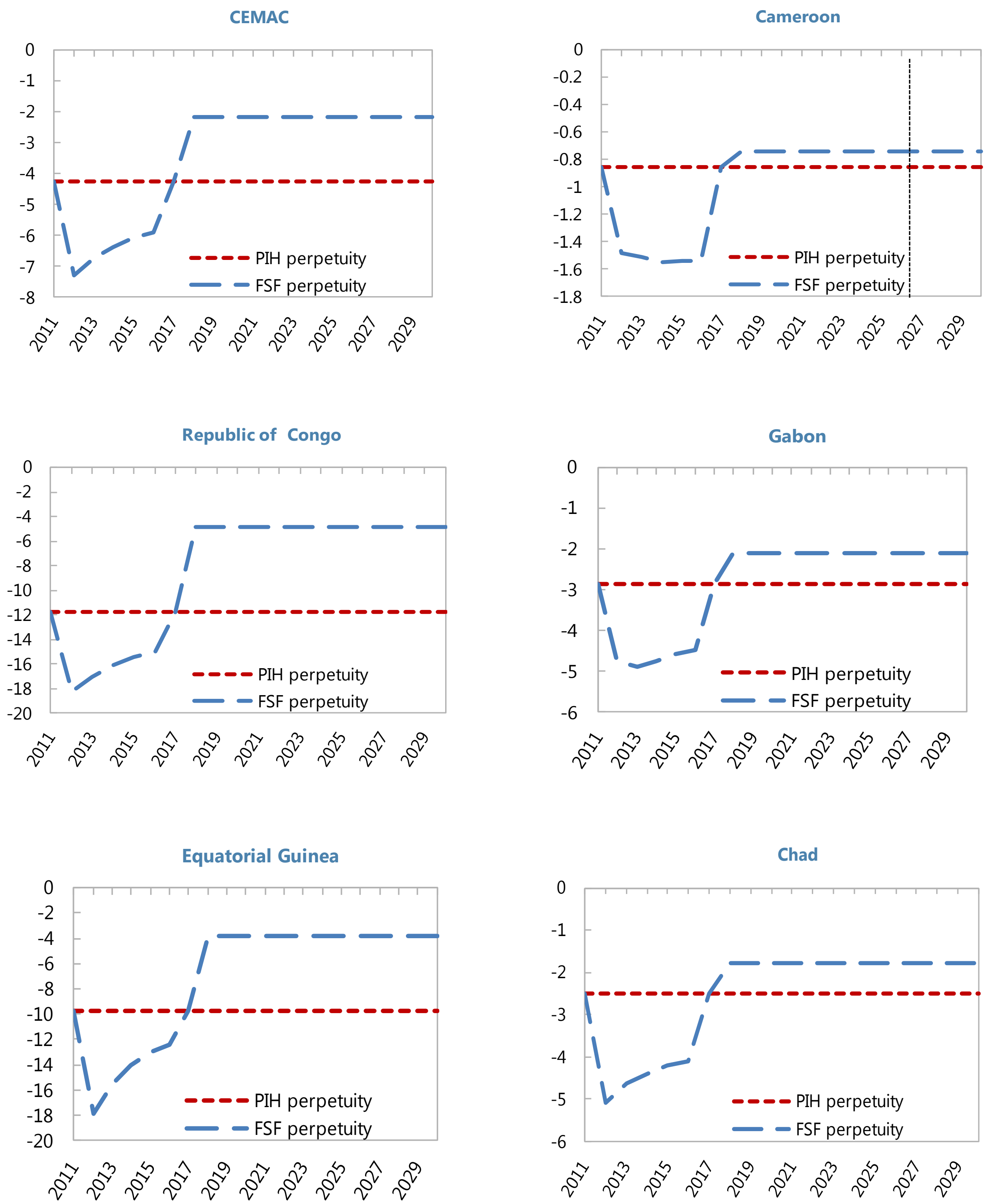
wealth for the scaling up of public investment and/or other development priority projects.

- An alternative to the PIH framework that allows greater front-loading of investment on priority sectors would be the Fiscal Sustainability Framework (FSF). This framework explicitly takes into account the inter-temporal budget constraint and incorporates ex-ante the expected impact of higher investment on non-resource growth and revenues. Fiscal sustainability would then be consistent with a NRPB that allows a drawdown of government wealth (using those assets to build human and physical capital) and eventually stabilizes it at a lower level than the PIH.

10. Figure 3 shows individual country PIH estimates and a PIH benchmark for the region as a whole. Following a PIH rule would ensure long-term sustainability at the individual and regional level. This is the case because natural resource wealth would be preserved indefinitely.[10]

[10] The PIH models the optimal path for total spending. Over the infinite horizon, the total expenditure envelope is calculated as a fraction of the net present value of oil wealth still in the ground plus existing financial wealth. The wealth would be preserved because the fraction being consumed is compensated for by the rate of return on financial wealth and the growth rate of the economy. There are several variants (e.g., finite or infinite horizon; spending constant in real, per capita, or as a share of non-resource GDP; and using the perpetuity or annuity value of financial wealth of the resource windfall), which can result in different sustainable paths for the non-resource primary deficit.

Figure 3. Non-resource Primary Balance (percent non-resource GDP)



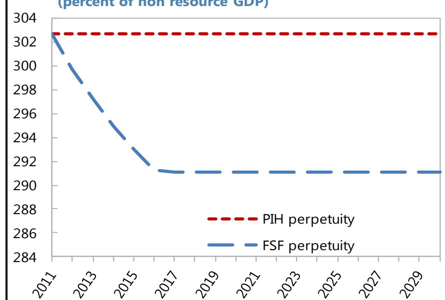
Sources: IMF Staff Calculations.

However, this rule would be relatively conservative and might not be appropriate given large infrastructure and development needs in the region.

11. The FSF considers a 5-year scaling-up investment period. For the purposes of this simulation, it is assumed that capital expenditures are 10 percent greater than the baseline projection. During this period, the FSF deviates from the PIH benchmark non-resource primary balance target substantially[11]**.** However, with properly planned and well-executed high-return projects, there are payoffs of higher economic growth and tax revenue. As a result, post-scaling up, the FSF non-resource primary balance would be greater than the PIH balance, but a higher level of spending could be sustained than under the PIH due to the higher non-resource revenues.

12. Consistent with the non-primary balance rules are financial wealth paths (Figure 4). Under the PIH, financial wealth is preserved at a constant level, about 303 percent of non-resource GDP on average across the CEMAC countries. However, under the FSF, financial wealth is partially drawn down to undertake the illustrative investment scaling-up activities, stabilizing at about 290 percent of non-resource GDP, on average. The use of wealth for the investment scaling-up can be seen favorably as it is used to increase a country's human and physical capital stocks that can lead to higher rates of growth.

Figure 4. Average financial resource weatlh in CEMAC (percent of non resource GDP)



Sources: IMF Staff Calculations.

13. Note that the PIH and FSF targets would need to be calibrated to country-specific levels. For example, the PIH-consistent non-resource primary balance for Cameroon is very different than that of the Republic of Congo. By following the CEMAC-wide appropriate non-resource primary balance target, a country would run the risk of following an unsustainably expansionary fiscal policy. Moreover, in setting the appropriate investment scaling-up path, countries need to take into account their absorptive capacity and overall investment needs.

14. An alternative option would be to move from the existing structural basic balance rule to a structural primary balance rule. This type of rule could help mitigate the transmission of externally-driven resource price volatility**.** The rule would target a structural primary balance (instead of a basic balance), where resource revenue is stripped of its cyclical component by relying on a price comprised of backward-looking prices, futures prices, or some combination of the two. This rule can be intuitive for policy makers since it includes resource revenues in the fiscal target, while it can also help support solvency through "prudent" forecasting of structural revenues by deliberately under-projecting the sustainable resource price.

[11] This magnitude and scaling up horizon is chosen for illustrative purposes. Alternative scaling up magnitudes and horizons would have different implications for long-term sustainability.

15. The primary balance can be tailored to country-specific needs. This target should take fiscal buffers and other economic objectives into consideration, such as contingent liabilities, savings for future generations, and infrastructure investment needs. See Box 1 for determinants of structural budget balance targets used in select countries.

16. A key decision would be the reference price used to compute structural resource revenues. Non-resource revenue can be estimated using existing techniques, while resource revenue would need to be stripped of its cyclical component. Two approaches are possible: the reference or benchmark commodity price could be set by using an automatic formula or by an independent committee. In most developing countries limited institutional capacity and lack of a deep pool of independent experts suggest that price-based rules should rely on automatic formulas. Both approaches can bolster credibility and protect fiscal policy from the pressures of the political cycle.

Box 1. Determinants of Structural Budget Balance Targets in Select Countries

Chile. A structural surplus has traditionally been targeted due to three risk factors: (i) Central Bank negative net worth. The Central Bank assumed significant private sector debts due to a banking crisis in 1983, which needed to be recouped; (ii) contingent fiscal liabilities. As a result of a pension reforms, the government needed to fund the state Minimum Pension Guarantee scheme as well as other potential liabilities arising from the reform; and (iii) external vulnerability due to "Original Sin". Most government revenues are earned in domestic currency, while most external debt has been contracted in foreign currency. This leaves Chile vulnerable to a sudden currency depreciation because of the cost of the resulting increase in the value and cost of existing debt, and the availability of additional external financing.

Russia. Beginning in 2013 a small structural deficit will be targeted, limiting net borrowing to 1 percent of GDP. This will support the rebuilding of the authority's stabilization fund to protect against oil price downturns, create savings for future generations, finance infrastructure and other priority projects, and limit future indebtedness.

Norway. A structural non-oil deficit of up to 4 percent of sovereign wealth fund assets is permitted. This is estimated to be the average long-run rate of return on the sovereign wealth fund assets.

Alberta, Canada. The current fiscal rule requires Alberta to approve a balanced budget (no deficit). This was adopted in 1993 after an episode of high indebtedness and the need to shield the budget from volatility, where natural resource revenues contribute about 30 percent of total revenues. Citizens voted to make savings for future generations and infrastructure development become priorities.

17. The choice of price formula reflects a tradeoff between a preference for smoothing expenditures and a need to adjust to changes in price trends. Budgets relying on price formulas with a short backward-looking horizon will better track changes in prices, but may be associated with more volatile spending envelopes that could fuel pro-cyclical fiscal policy. In contrast, budgets relying on price rules with long backward-looking formulas would have smoother expenditure paths, but might systematically under- or over-shoot actual revenues if price trends change. See Box 2 for pricing formulas used by select commodity producers.

Box 2. Commodity Budget Price Rules Used in Practice

Natural gas and petroleum producers. The budget oil price in **Ghana** is determined on the basis of a five-year rolling average of historical oil prices (5/0/0). Beginning in 2013 **Russia** will use a five-year rolling average of historical oil prices (5/0/0) before transitioning to a 10-year rolling average of historical oil prices (10/0/0) in 2018. **Trinidad and Tobago** relies on a rolling average of oil prices for the last 5 years, the current year, and the futures prices for the next 5 years (5/1/5). This formula represents an intermediate specification between full historical smoothing, and capturing more forward-looking prices. **Mexico** uses a weighted-average of the 10-year historical average of oil prices (25 percent weight); the short-term futures price (50 percent weight but multiplied by a prudence factor of 0.84 determined on the basis of the standard deviation of oil prices), and medium-term futures prices (25 percent weight). This specification places a higher weight on forward-looking market-based prices, which should be more responsive to changes in price trends but less smooth for revenue forecasting. **Alberta, Canada** relies heavily on market forecasts and analysts, using the average of seven confidential, private sector analysts' oil price forecasts discounted by 12.5 percent to account for quality and the average of four confidential, private sector analysts' natural gas price forecasts, adjusted for transportation costs and exchange rate movements. This is supplemented with public forecasts gathered from national forecast agencies, investment banks, and industry analysts. **Norway**'s budget is not directly impacted by oil prices since it follows a PIH rule, but includes a reference oil price based on future markets prices.

Copper, iron, ore, and coal producers. The budget copper price in **Chile** is determined by an independent committee, based on the long-run price (10-year forecast). Beginning in 2013, **Mongolia**'s budget copper price will be determined using a 16-year moving average: 12 years of historical prices, current year forecast, and 3 years of futures prices (12/1/3). **Australia** bases budget iron ore and coal prices on current market prices, discussions with mineral producers, analysis of important export markets (particularly China), and market forecasts.

(*) Note: A 5/0/0/ price smoothing rule would use an average of the prices for the last five years and would not include the current year or future prices in the calculation. A 5/1/5 rule would compute prices by using a weighted average of the last five years, the current year, and the projected prices for the next five years.

18. Primary expenditure is the residual. After structural revenue and the structural overall primary balance have been determined, the expenditure envelope is determined based on the accounting identity:

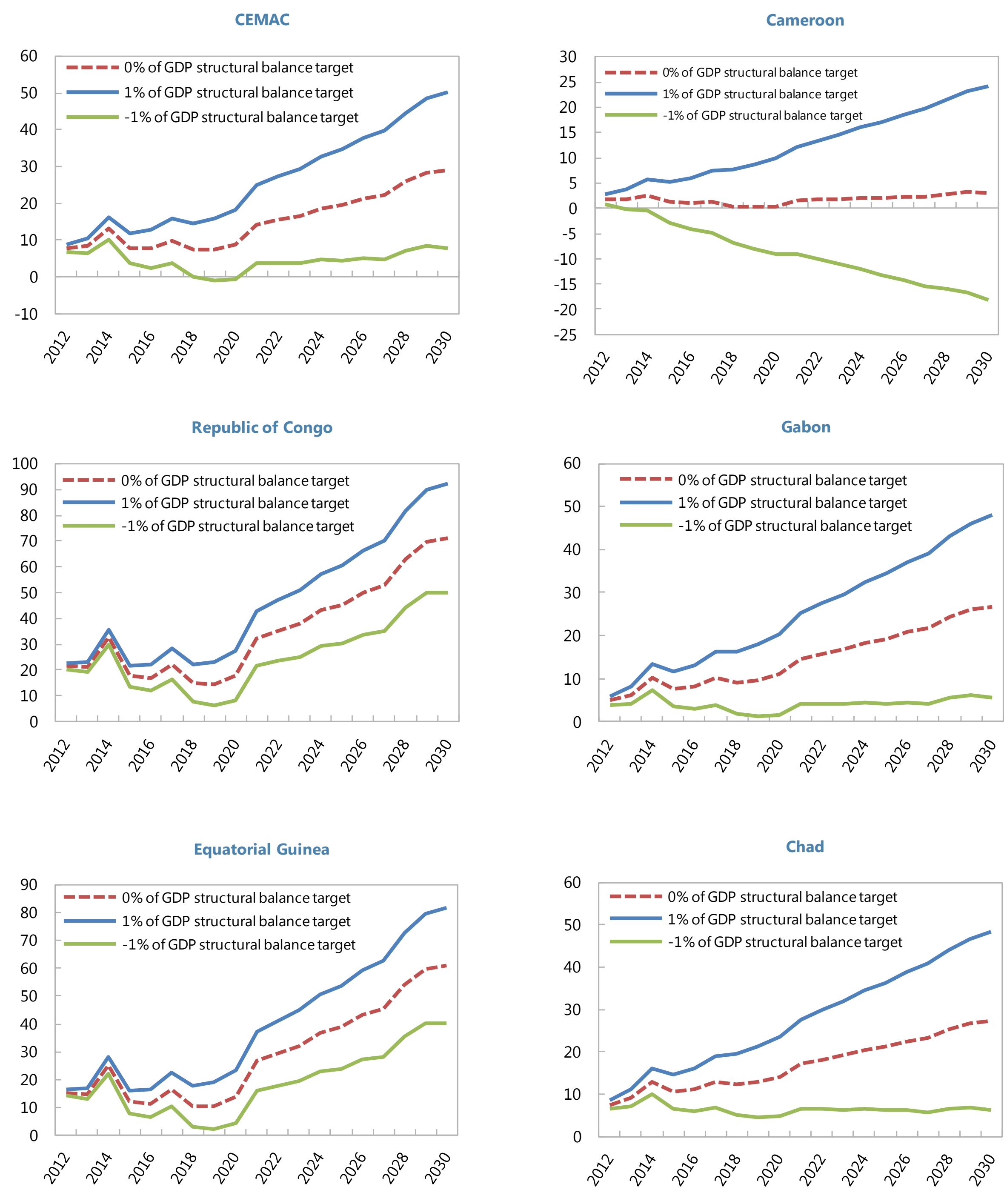
$$structural\ overall\ primary\ balance = structural\ revenue - primary\ expenditure.$$

19. Spending should not adjust to accommodate revenue changes during the year. If realized revenue is higher than budgeted structural revenue, the difference is saved. In cases where realized revenue is lower than budgeted structural revenue, spending will be sustained by using savings accumulated during periods of revenue over-performance. This will result in the realized overall primary balance deviating from the structural primary balance target.

20. Figure 5 shows individual country and CEMAC-wide savings estimates under a structural primary balance rule. Assuming a 5/0/0 price rule (budget oil price determined using the average oil prices from the last 5 years) and oil prices exhibiting similar volatility patterns to the previous 30 years, the charts plot savings under three different structural balance targets: -1, 0, and 1 percent of non-resource GDP.[12]

[12] Oil prices are modeled using an AR(1) process in logarithms. The current year's oil price depends on last year's price and a random variable: $\log(P_t)=\alpha + \beta^* \log(P_{t-1}) + \varepsilon$, where $\varepsilon \sim N(0,\sigma)$. Time series of 18 years are produced 5000 times starting with 2012 actual oil prices and the median price at each point in time is used to create the price path for the analysis. Government oil revenues, in local currency, are modeled as the government's share, τ, of the production value, which is calculated as quantity, Q_t, times projected price, P_t, times the exchange rate, e. Quantity is assumed to follow the baseline IMF production profile (supplemented with information from British Petroleum (2013) where necessary), while the government production share is modeled as the average share accruing to the government over the last 5 years.

Figure 5. Savings under a 5/0/0 price rule and different structural balance targets
(percent non-resource GDP)



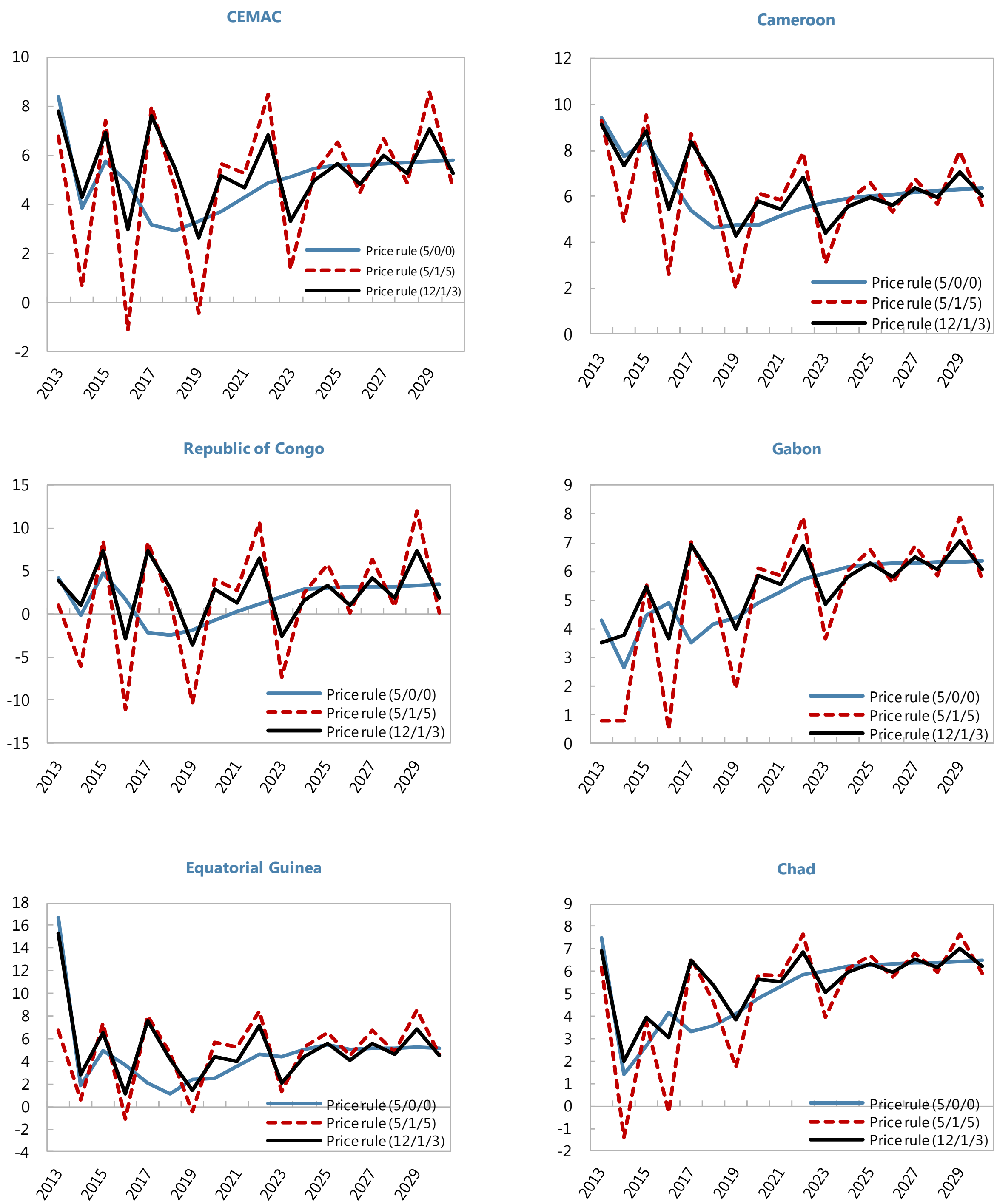
Sources: IMF Staff Calculations.

21. The estimates suggest that a zero or positive structural balance should be targeted to ensure sufficient savings to protect against downturns in oil prices. Cameroon's economy appears to be the most vulnerable, and setting a -1 percent of non-resource GDP structural primary balance target could immediately result in financial losses that would compound over time, while even a 0 target could result in minimal savings. However, for CEMAC overall, a 0 or positive target could result in savings between 20 and 50 percent of CEMAC non-resource GDP, resulting in a sizable buffer against adverse shocks.

22. Figure 6 shows the potential spending volatility different price rules would expose countries to. The charts show three different price rules, each targeting a zero percent of non-resource GDP structural primary balance.

23. Given this specific price path realization, the short backward-looking price rule (5/0/0) provides for the smoothest, least pro-cyclical spending path. Analysis of different patterns of prices and volatilities (high, but less volatile oil prices; high, but increasingly volatile oil prices; declining, but volatile oil prices; and declining, with less volatile oil prices) indicate that the 5/0/0 price rule is robust to most price paths as it can generate sufficient savings to offset price decline. The 5/1/5 price rule, which heavily depends on future prices, produces the most volatile spending paths, which goes against one of the aims of introducing a new fiscal rule. In reality, it is also the most complex of the price rules since it requires a longer horizon of oil price futures, which are inherently difficult to accurately forecast. The 12/1/3 price rule with its long backward-looking horizon produces an intermediate amount of volatility, but since it is slow to update, it can result in long periods of over—or under—shooting actual revenues, thereby resulting in either very high levels of savings or losses.

Figure 6. Real primary expenditure growth (percent change, year-on-year)



Sources: IMF Staff Calculations.

24. A complementary expenditure growth rule could further smooth out volatility, limit pro-cyclicality, and lead to higher savings by generating more predictable changes in spending. The expenditure growth rule can be formulated to limit the growth of government spending in nominal or real terms, or as a percent of non-resource GDP. Such a rule can be desirable to guide the scaling up public investment where there are absorptive capacity constraints and where the volatility of resource windfalls requires precautionary savings, suggesting that it would be more appropriately set at the country level rather than constant across the CEMAC-wide region.

D. Determining the Optimal Oil Stabilization Fund Size

25. The optimal size of a stabilization fund should complement any fiscal rule, by providing a buffer against potentially large, negative oil price and revenue shocks with a high degree of confidence. Maintaining a smaller stabilization fund allows for more money to be spent in the near term, but could lead to a forced spending adjustment, possibly abrupt, when prices decline.

26. There are two ways to estimate the optimal size of the stabilization fund – benchmarking and value-at-risk modeling. Benchmarking approaches, while informative, do not take into account cross-country fiscal regimes, dependence on oil revenues, or production horizons. In CEMAC countries, benchmarks suggest an optimal stabilization fund size ranging from US$0.6 billion to US$3.9 billion.

- *Cross-country comparisons*. Nigeria's 2008 Presidential technical committee report assessed a "peer group" of sovereign wealth funds with an average size of 15.5 percent of GDP, which corresponds to US$1.7 billion to US$3.9 billion. For CEMAC as a whole, this would amount to US$13.7 billion.

CEMAC Stabilization Funds Sizes Using Cross-Country Comparisons

	US$ billion
Cameroon	3.9
Chad	1.7
Congo, Republic of	2.1
Gabon	2.9
Equatorial Guinea	2.8
CEMAC	13.7

Source: IMF Staff Estimates.

- *Coverage of a specific oil price shock*. The annual standard deviation of oil prices during the period 1974–2012 was US$27.19 per barrel. To cover half of the annual standard deviation (US$13.59 per barrel) for a period of 3 years suggests a buffer of

US$0.6 billion to US$2.7 billion, depending on the country, or US$6.7 billion for CEMAC as a whole.[13]

CEMAC Stabilization Funds Sizes Using Coverage for Specific Oil Price Shock	
	(US$ billion)
Cameroon	0.7
Chad	0.6
Congo, Republic of	1.7
Gabon	1.0
Equatorial Guinea	2.7
CEMAC	6.7
Source: IMF Staff Estimates.	

27. Value-at-risk analysis is a more rigorous approach that focuses on the need to insure against fluctuations in the value of oil revenues and not preserving a particular spending level. Thus, if spending increases on the basis of higher non-oil recurrent revenues, the stabilization fund size would remain the same, however if oil revenues were higher for a period of time and spending was subsequently higher, the stabilization buffer would also need to increase. If withdrawals from the stabilization fund unrelated to offsetting lower than expected oil revenues, the fund would also need to be larger.

28. A structural primary balance rule based on a 5-year historical moving average (5/0/0) of oil prices would provide a high degree of confidence (75 to 85 percent) towards achieving the stabilization objective[14]. The size of the buffer is determined under the requirement that it provides for smoothing of negative shocks over a three-year period with a high degree of confidence. Consequently, with a negative price shock, spending levels could be maintained over a three-year horizon without depleting the stabilization funds, while plans for expenditure adjustment would be developed and implemented if the price shock appeared to be permanent.

[13] Calculated as $13.59*annual production*share accruing to the government, summed over the 2013–2015 period.

[14] The analysis was conducted targeting 0 and 1 of non-resource GDP overall structural primary balances.

	Starting buffer balance (in US$ billion)	Confidence level under 5/0/0 price rule (in percent)	
		0 percent non-resource GDP target	1 percent non-resource GDP target
Cameroon	1.0	75	95
Chad	1.0	82	88
Congo, Republic of	3.0	82	84
Gabon	1.5	79	86
Equatorial Guinea	4.5	80	82
Source: IMF staff estimates.			

29. Appropriate stabilization fund sizes range from US$1 billion to US$4.5 billion. The range in size is due to country-specific characteristics, including annual oil production and share of oil revenue accruing to the government. However, as discussed previously, targeting more conservative structural primary balances can offset the need to hold large initial stabilization buffers.

E. Conclusion

30. Designing an appropriate fiscal framework for the CEMAC zone is a very challenging task given the presence of natural resource wealth in most countries in the region.

- Reliance on the basic balance as a fiscal target for surveillance has important limitations that need to be addressed. As noted above, this indicator does not provide a good basis to assess the fiscal stance nor is it a strong anchor for long-term fiscal sustainability.

- The additional indicators (non-oil basic balance and structural basic balance) are interesting innovations but suffer from the same problems that affect the basic balance.

31. There are two possible options to strengthen the framework, adoption of a non-resource primary balance rule or a structural primary balance rule. Each option has distinct advantages in terms of the desirable properties that a fiscal rule for the zone should encompass (i.e. sustainability, countercyclicality and simplicity).

- A non-resource primary balance rule would be simple to compute and would provide a strong anchor to ensure long-term sustainability, which is particularly important given that most countries in the zone face a relatively short resource horizon. At the same time, the rule would have to be calibrated at the individual country level, given that natural resource wealth differs by country. The rule could be difficult to sustain over time if the criteria to set the appropriate level on a country by country basis are not transparent or subject to numerous changes (e.g., if new natural resources are discovered). Furthermore, deviations from a PIH approach would have to be justified based on individual country public investment plans and assessments of how these plans could have an impact on growth. This could become a cumbersome exercise.

- A structural primary balance rule with price smoothing would have the advantage of specifically addressing volatility issues and helping avoid the pro-cyclicality of fiscal policy observed in the region in recent years. The rule would be relatively simple to compute, as a moving average of past and future prices and could address sustainability concerns by targeting a zero or slightly positive target. A 5/0/0 rule (5-year moving average of past prices) would be simple to compute and performs relatively well compared with more complex rules. This type of rule could be applied more homogenously across the zone than a non-resource primary balance rule, though there would still be a need to calibrate the rule to country-specific needs. In a country without substantial oil wealth like the Central African Republic, the structural primary balance would be equivalent to the standard primary balance.

32. As with any rule, there are trade-offs to be weighed and more analysis would be needed to choose the most appropriate rule. On balance, however, a structural primary balance rule with price smoothing seems a particularly useful option. The rule would help address issues of volatility and fiscal procyclicality and it could be calibrated at the individual country level to ensure that it also addresses issues of long-term sustainability. Countries with limited or no substantial oil (wealth) like the Central African Republic would need to follow a more restrictive target.

33. There are three questions that would require further work and could be addressed through additional research and/or technical assistance. The first issue is how to calibrate the rule at the individual country level in a way that makes it suitable to country-specific needs but also addresses the need to ensure stability in the monetary zone. Setting a structural primary balance target of zero or slightly positive for the zone as a whole would ensure the stability of the zone but may seem restrictive for countries with larger oil wealth. Second, as the recent experience in the EU area has demonstrated, a fiscal surveillance framework in a monetary union can hardly function effectively without mechanisms that ensure strong surveillance and provide some centralized fiscal powers to help countries deal with idiosyncratic shocks. This would require an assessment of what share of the savings from oil wealth should be managed directly by individual countries or pooled together to ensure the stability of the zone. Finally, changes to the fiscal surveillance framework would also require institutional changes, including the identification of measures to strengthen public finance management institutions (especially to manage the public investment program) and the development of greater capacity for macro-fiscal analysis.

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Annex 5. Reducing risks to financial stability and enhancing financial sector Deepening[1]

A. Financial Sector Structure, Recent Developments and Access to Finance

1. **Despite growth in financial sector assets in 2012, the overall size of the financial sector is small in relation to the economy, and progress in financial deepening remains sluggish.**[2] The financial sector landscape of CEMAC is dominated by commercial banks, which account for 90 percent of total financial sector assets and constitute 23.7 percent of regional GDP. Microfinance institutions (MFIs), whose activities help improve access to finance for low-income households and small and medium-size enterprises (SMEs), are still small in terms of asset size, but they have started to gain importance in some countries. On average, however, access to finance is weak and lagging behind the median indicators for sub-Saharan Africa (SSA) and many low-income countries (LICs). Progress in undertaking structural reforms aimed at removing barriers to financial deepening, such as establishing a regional credit information bureau, improving the security of collateral, or enhancing the payment system, remains sluggish.

Table 1. Structure of the Financial Sector in the 2006 (FSAP assessment) and in 2012

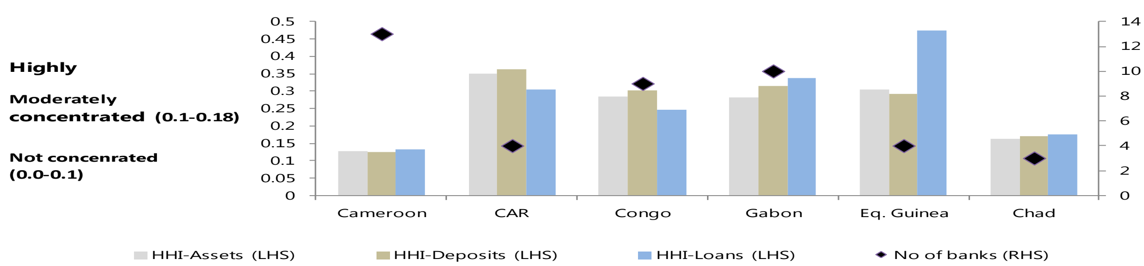
	Number	Assets (CFAF billion)	Percentage of Assets	Percentage of GDP	Number	Assets (CFAF billion)	Percentage of Assets	Percentage of GDP
	2005				2012			
Banks	33	3,132.3	85.9	15.8	48	10,688.3	90.4	23.7
- Private	31	3,020.0	82.9	15.3	36	9,174.5	77.6	20.3
- Domestic	8	869.0	23.8	4.4	9	4,608.6	39.0	10.2
- Foreign	23	2,151.0	59.0	10.9	27	6,079.7	51.4	13.5
- Public	2	112.3	3.1	0.6	12	1,513.8	12.8	3.4
Insurance companies	36	164.0	4.5	0.8	NA	NA	NA	NA
Financial institutions	17	215.2	5.9	1.1	10	420.3	3.6	0.9
Microfinance	1,018	133.0	3.6	0.5	783	718.8	6.1	1.6
Total financial system	...	3,644.5	100.0	18.2	...	11,827.43	100.0	26.2

[1] Prepared by Bozena Radzewicz-Bak (MCM)

[2] The assessment is based on bank-by-bank data at end-2012 and received during the mission from the regional supervisory authority (COBAC). The information points to various inconsistencies and inaccuracies in banks' reporting, particularly in respect to some exposures to a single largest borrower and connected parties. The mission was unable to obtain an explanation for all the inaccuracies and inconsistencies.

2. Although the majority of banks are foreign-owned, state-owned banks have expanded considerably since 2006 and on average the sector remains highly concentrated. The subsidiaries of foreign banks account for the majority of CEMAC financial institutions and their assets have nearly tripled since the 2006 FSAP assessment. This reflects the increasing presence of pan–African banks, which spread across the region seeking to expand their activities in individual CEMAC countries and in financing cross-border trade. At the same time, state-owned banks have grown rapidly in several countries. The number of institutions has increased from 2 to 12, while their assets reached almost 13 percent of total bank assets at end-2012 (compared to only 3.1 percent in 2006). The calculation of the Herfindahl-Hirschman Index indicates that the banking sector is highly concentrated in most countries, i.e.: CAR, Congo, Gabon and Equatorial Guinea, and moderately concentrated in Cameroon and Chad. Using assets of the three largest banks as a proxy for market concentration, the ratio in the region varies considerably from the lowest (53.9 percent in Cameroon) to the highest (91 percent in CAR).

Figure 1. CEMAC: Banking sector concentration by country in 2012
(Herfindahl-Hirschman Index)



Sources: COBAC, 2006 FSAP Report and IMF Staff Calculations.

3. Banks' balance sheets have expanded due to strong growth in the domestic deposit base, reflecting rising inflows from oil revenues. Deposits continued to grow on average by 17. 6 percent in 2012 as a result of increasing oil funds. Given that financial markets in the region are poorly developed, domestic deposits remain the sole source of funding for the banks' lending operations and their strong increase allowed for more dynamic expansion in credit in a number of countries.[3] However, as the number of creditworthy customers and sound projects is relatively constrained, credit growth was slower than growth in deposits. This disparity has contributed to mounting liquidity in the banking system and, as a result, the excess reserves increased by 50.8 percent in 2012, reaching CFAF 2.5 trillion at end-2012 (i.e.: the equivalent of 37 percent of the total deposit base).[4]

[3] In 2012, in Congo and Chad annual credit growth exceeded 30 percent, while in Gabon and CAR it was 20.

[4] Two factors that have played a role in maintaining such high liquidity in the system were: (i) an underdeveloped money market, and (ii) the inefficiency of the monetary policy framework of BEAC, which lacks adequate instruments for conducting sizable liquidity absorbing operations.

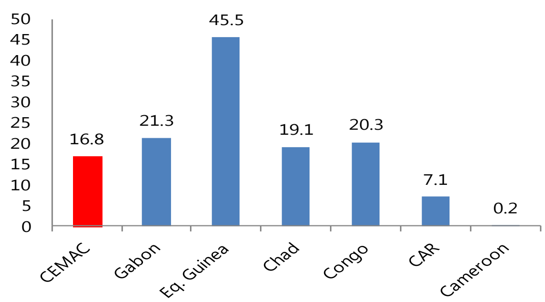
4. Allocation of credit has improved and maturity distribution reflects some positive phenomena, but more needs to be done to promote healthy credit growth. In 2012, 67.3 percent of credit was channeled to private sector enterprises, and only 3.5 percent to state-owned companies. Individuals received 14.5 percent of bank lending and non-residents 5.2 percent. Although the credit allocation varies across the countries and banks, the overall sectoral distribution of loans points to a relatively well-diversified structure of banks' lending portfolios when compared to other LICs. In terms of maturity, medium-term loans, with a duration of between two and ten years, accounted for the largest single credit category (at 43.5 percent of the total portfolio). However, long-term lending remains uncommon, constituting less than 5 percent of total loans, but its share is steadily increasing and its value has doubled over the last few years. As credit continues to expand rapidly in some countries, it is important to ensure that its growth does not lead to a deterioration of credit standards, and in consequence, weaken the quality of the lending portfolio.

5. Access to finance in the region remains extremely limited and there is large scope for potential improvement. Despite a growing deposit base and expanding credit in most countries, access to finance remains extremely constrained by cross-country comparison. The role of banks in mobilizing public savings and as a source of credit seems to be limited and the results of the 2011 survey showed that self-financing remains the main source of funding for investments for many SMEs and individuals. Even though the banks continue to gradually expand their branches, access to formal banking services, measured as a share of the adult population with a bank account and those who use a bank account to receive wages, remains very low and lags behind similar indicators for SSA and LICs. There is certainly some variability across the countries, for example: in CAR as little as 3 percent of the adult population has access to a bank account and only 1 percent receives wages directly through it, while in Gabon these indicators are 19 and 5 percent of population, respectively.

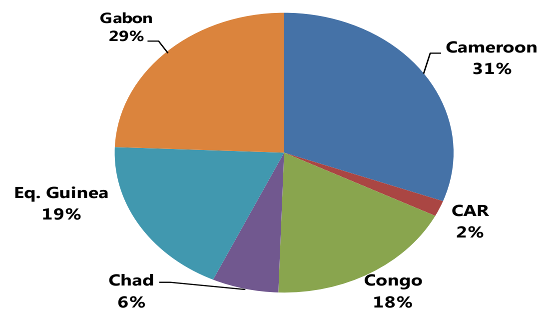
6. The MFIs are playing an increasingly important role in the region, particularly in reaching low-income households and unbanked SMEs. The microfinance sector still represents a small portion of overall financial sector assets, but its role is increasing in mobilizing deposits and providing lending. In 2012, there were 783 licensed MFIs, which held CFAF 636.2 billion of deposits and CFAF 319.8 billion of outstanding credit. Geographical concentration remains high, however, with Cameroonian MFIs mobilizing 72 percent of total deposits and 75 percent of credit, while the figures are only 24 percent and 18 percent, respectively, for Congolese MFIs. Uneven geographical distribution across the region reflects historical reasons and the fact that MFIs in Cameroon had started building their network and conducting operations in the early 1970s, far earlier than in other countries. Having said that, in Chad, where MFIs have become a relatively recent phenomenon (established and funded by donors), their size and coverage are growing quickly.

Figure 2. CEMAC: Banking Sector Developments in 2012

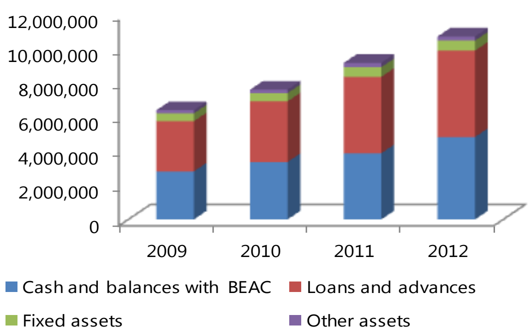
Growth in bank assets was strong, but considerable disparity was noted between the countries…



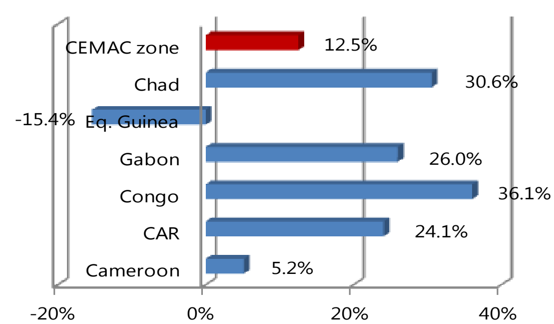
Nevertheless, the assets remain heavily concentrated in two countries, namely Cameroon and Gabon…



The large increase in deposits held at BEAC reflects lack of an active money market and structural impediments to lending…



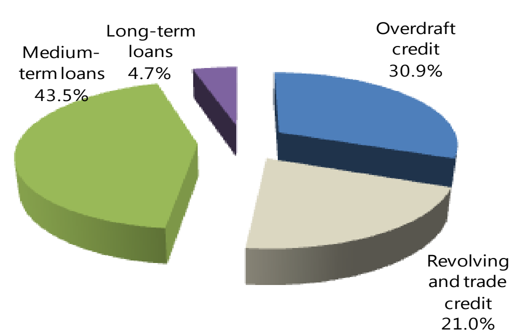
Loans account for a half of total assets, but their annual growth rates continue to be uneven across the countries…



Sectoral Distribution of Loans to Companies

Hotels and Trade	12%
Transport and Telecommunications	17%
Activities of Financial Institutions, Real Estate	6%
Community, Social Services	8%
Construction	13%
Production of Electricity, Gas, Water Distribution	5%
Manufacture	9%
Extractive Industry	4%
Agriculture	7%
Non-residents	6%
Other	13%

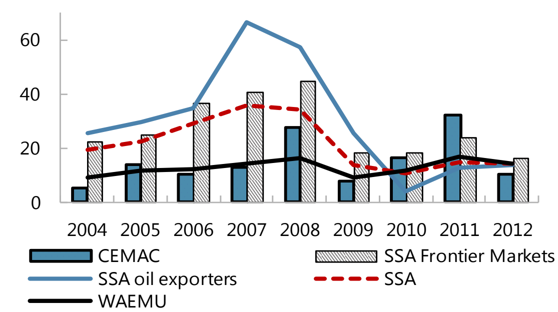
With a large portion of the loans having a relatively long duration, i.e.: between 2 and 10 years



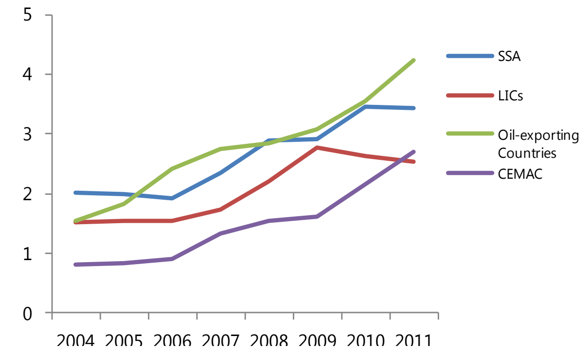
Sources: COBAC, BEAC and IMF Staff Calculations.

Figure 3. CEMAC: Financial Sector Depth and Inclusiveness

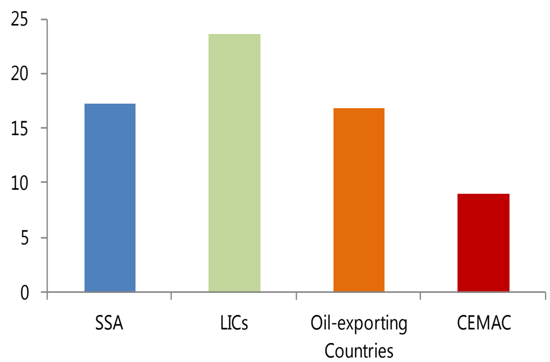
The financial sector has deepened since 2004, but it underperforms compared to other SSA countries…



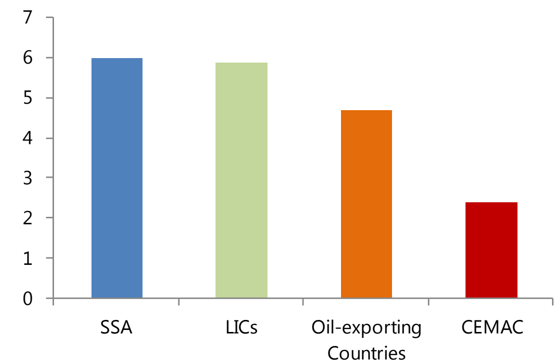
Banks continue to expand their services, but their coverage remains weak…



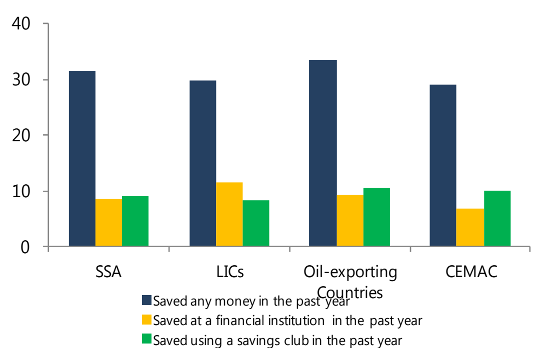
The share of the adult population with a formal bank account is lower than in other countries…



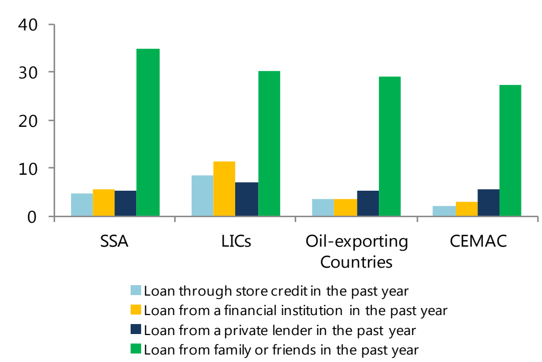
Less than 3 percent of the population received wages through a bank account…



Role of banks in saving mobilization is limited…



Bank lending remains a marginal source of funding compared to other forms of financing.



Sources: World Bank Database and IMF Staff Calculations.

B. Risks to Financial Stability

7. The banks continue to be vulnerable to a range of risks, particularly to credit and operational risks. The banks' exposures stemming from lending to connected parties were found to be especially high in two countries (Gabon and Equatorial Guinea), with a number of banks exceeding the prudential limit by more than 200 percent. In Cameroon, nonperforming loans (NPLs) stemming from credit to connected parties have caused significant impairment of the banks' net equity, putting five institutions on the verge of insolvency. The current gap in the regulatory framework (lack of information on gross exposures), which allows a loan to connected parties not to count against the prudential limit, once it becomes nonperforming and is fully provisioned, complicates monitoring of this risk.

8. In addition, the banking sector's exposures to a single largest borrower remain excessive. Even though the region has a relatively lax prudential limit (at 45 percent of net equity) compared to international standards (at 25 percent of net equity), in two countries a number of banks were found to be substantially exceeding it. For example, in Cameroon, such system-wide exposures were on average above 200 percent in 2012. As measured by the ratio to banks' total lending, these exposures accounted for 11 percent on average. However, in several CEMAC countries (Congo, Equatorial Guinea, and Chad) system-wide lending to a single borrower was much higher and reached between 1/5 and 1/7 of banks' total lending portfolio.

9. Similarly, weaknesses in reporting and controlling operational risk may create vulnerabilities for the sector. The existing gaps in measuring, reporting, and controlling operational risk can make banks vulnerable to potential disruptions. Moreover, the fact that some foreign subsidiaries keep their client database abroad without having a back-up system in their home country creates the risk that banks may not be able to conduct their normal operations in the event of interruptions to the IT connection. Also, a relatively rudimentary payment system poses challenges and risks to the smooth settlement of banks' gross operations, while at the same time contributing to an increased level of liquidity maintained for preventive reasons.

10. The overall health of the financial sector in the CEMAC region continues to be fragile. Despite disparity across the countries and among individual banks, the system-wide indicators on asset quality and the solvency ratios have deteriorated.[5] In 2012, the number of undercapitalized banks with negative equity increased to eight, with five of those banks residing in one country (Cameroon). As of December 2012, the assets and deposits of the problem banks reached above 10 percent of the banking sector's total assets and deposits in the region, and their lending portfolio accounted for 13 percent of total credit. It should be noted that one systemically important bank, which reported negative equity at end December 2012, is currently undergoing an on-site inspection, but the results are not yet known.

[5] The COBAC methodology for calculating NPLs differs from the Fund methodology and it includes as NPLs only loss loans. For more information on Fund methodology for calculating NPLs, see: IMF Compilation Guide on Financial Soundness Indicators, 2006.

11. Risks to financial stability are exacerbated by legal weaknesses in relation to bank resolution. Weaknesses in current legislation on bank resolution and lengthy court procedures contribute to delays in implementation of COBAC's decisions. This allows banks to attract new deposits despite their publicly disclosed financial difficulties. Such practices artificially extend the "life" of insolvent institutions, creating moral hazard, distorting credit allocation and competition. In the longer term, they may have a detrimental impact on financial intermediation. A new draft of the regional crisis management framework is expected to address some of the issues related to the weaknesses in the resolution of banks, but there are delays in its adoption.

12. In addition, gaps in the supervisory framework for banks, the lack of strict enforcement of prudential rules, and the very limited resources of COBAC increase risks to the stability of the sector. Although banks are supervised under a regional framework, and common prudential requirements apply, overall compliance with the prudential limits remains weak and on-site examinations typically reveal more violations than those reported to the supervisor. COBAC's very limited human resources, with only 10 on-site supervisors for oversight of 48 banks and 78 MFIs, make it impossible to conduct regular, in-depth examinations. Important gaps in the supervisory framework, such as the lack of reporting on a consolidated basis, and, as mentioned earlier, the inability to capture gross exposures to connected parties, remain an important source of concern.

C. Policy Advice

On financial stability:

- The process of restructuring unviable institutions should be expedited. More specifically: (i) the regulation on crisis resolution should be finalized and adopted immediately; this regulation should include a special resolution regime with accelerated court procedures that allows the speedy resolution of problem banks; (ii) broad-based early warning indicators should be established in order to alert the supervisors about a deteriorating situation in a bank; and (iii) the IT system should be upgraded to allow for cross-checking of uploaded data to ensure better quality of information as reported by banks.

- The regulatory framework for banking supervision should be improved, in particular through finalizing new regulations. More specifically, the authorities should: (i) adopt the regulation on classification and provisioning rules for credit risk exposures; (ii) adopt the regulation on consolidated and cross-border supervision; (iii) conclude MoUs for better coordination between the national authorities and COBAC; and (iv) revise the law on the licensing procedures, and lending to related parties.

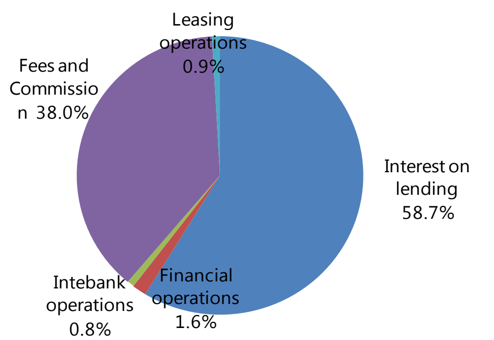
- The high credit risk related to connected parties should be strictly monitored and special measures should be put in place. More specifically: (i) the reporting procedures need to be revised and changed in order to capture gross exposures to connected parties; (ii) the SG COBAC should have access to the declaration on all exposures to borrowers; and (iii) on-site examinations should be conducted on a more frequent basis, particularly in those banks that are found to be non-compliant and/or misreporting.

Figure 4. CEMAC: Risks to Financial Stability

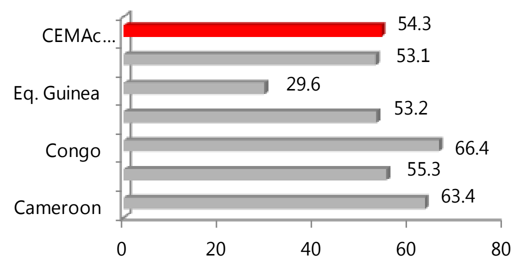
Sources: COBAC and IMF Staff Calculations.

Figure 5. Banking Sector Profitability and Compliance with Prudential Limits in 2012

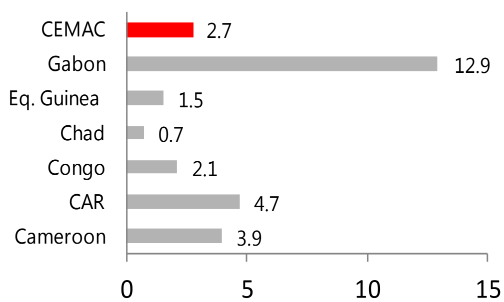
Major sources of bank income originate from traditional bank business, such as lending and deposit taking…



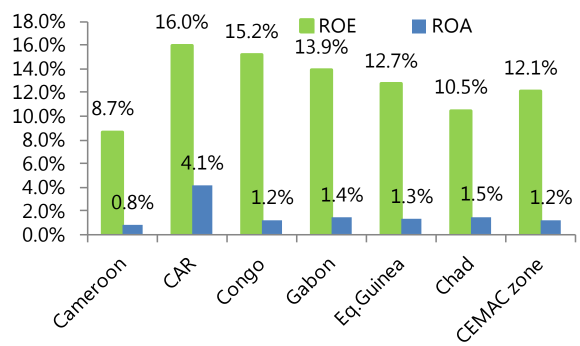
With average efficiency ratio at below 60 percent…



Overhead costs to assets remain at relatively low levels compared to other bank expenses



While the situation in problem banks impacts system-wide profitability indicators



	Capital Requirements			Limits on Credit Risk Exposure			Liquidity Requirements		Other
Number of banks per country	Minimum capital	Solvency ratio	Adequacy of net capital	Total large exposure	Single borrower limit	Lending to connected parties	Liquidity ratio	Transformation ratio	Tangible asset ratio
Cameroon (13)	8	8	6	8	6	8	11	8	8
Central African Republic (4)	2	4	1	4	1	4	3	4	4
Chad (8)	5	8	6	8	7	7	7	7	8
Congo (9)	6	8	7	8	7	8	9	8	8
Eq. Guinea (4)	4	4	1	4	3	2	4	3	4
Gabon (10)	7	9	5	9	7	6	9	9	8
CEMAC zone (48)	**32**	**41**	**26**	**41**	**31**	**35**	**43**	**39**	**40**
percentage of banks complying	*67%*	*85%*	*54%*	*85%*	*65%*	*73%*	*90%*	*81%*	*83%*

Sources: COBAC and IMF Staff Calculations.

- The current limit on exposure to a single largest borrower remains excessively high and should be brought in line with international standards. The distribution of credit to the private sector, which accounts for 67 percent of total credit, and the allocation of credit to borrowers are relatively well diversified across various economic sectors and do not justify maintaining the current high and non-standard limit on exposure to a single largest borrower at 45 percent. Two possible approaches can be applied to address the issue of high exposure to a single largest borrower: (i) a gradual increase in capital requirements, to offset credit concentration to a single party; and (ii) a gradual reduction in the limit on such exposures to 25 percent of risk-adjusted net equity.

- Operational risk should be better monitored, and outsourced activities should be implemented more rigorously. In particular, the authorities should ensure that all subsidiaries of foreign banks have a back-up dataset with customers' information. In addition, the requirements for measuring, controlling and reporting on operational risk should be tightened, while the payment system reform should be expedited.

- Compliance with prudential ratios and regulations should be improved by: (i) strengthening COBAC's human resources devoted to off-site and on-site supervision, IT system auditors, and legal support experts; (ii) accelerating the process of transitioning to Sysco II with an improved IT system for data validation; and (iii) conducting timely follow-up by off-site supervisors on misreporting by banks, and increasing the frequency of on-site examinations at all banks, provided COBAC has the necessary additional human resources.

- The challenges with the regulation and supervision of MFIs should be addressed by refocusing supervisory attention to the largest deposit taking MFIs, while applying a risk-based approach. Given COBAC's limited resources, choices have to be made so as to optimize the use of these resources.

On financial sector deepening:

- Credit growth should be supported by structural reforms in the financial sector. These reforms should focus primarily on: (i) establishing a credit information bureau and rating system by the BEAC; (ii) improving the security of collateral; (iii) enhancing the financial infrastructure (e.g. the payment system); and (iv) undertaking judicial reforms.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

October 8, 2013

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES—INFORMATIONAL ANNEX

Prepared By

The African Department
(in consultation with other departments)

CONTENTS

RELATIONS OF CEMAC MEMBER COUNTRIES AND THE FUND MEMBERSHIP STATUS

Cameroon, Central African Republic (C.A.R.), Chad, Republic of Congo, and Gabon joined the IMF in 1963, and Equatorial Guinea joined in 1969. All CEMAC members accepted Article VIII of the IMF articles of agreement on June 1, 1996.

Relations of the CEMAC Member Countries and the Fund

Cameroon: The last financial arrangement, a Poverty Reduction and Growth Facility (PRGF) arrangement in an amount equivalent to SDR 18.6 (about US$26.8), expired on January 31, 2009. The Executive Board approved on July 2, 2009 a SDR 92.9 (about US$ 144.1) disbursement under the Rapid-Access Component of the Exogenous Shocks Facility. The 2013 Article IV consultation was concluded on June 26, 2013. Cameroon is on a 12-month consultation cycle.

C.A.R.: The Executive Board approved a three-year PRGF arrangement on December 22, 2006 in an amount equivalent to SDR 36.2 (about US$54.5), subsequently augmented to SDR 69.62 (125 percent of quota). C.A.R. reached the Completion Point under the enhanced Heavily Indebted Poor Countries (HIPC) initiative and received debt relief under the Multilateral Debt Relief Initiative (MDRI) in June 2009. The last Article IV consultation was concluded on January 30, 2012. The first review new three-year arrangement under the Extended Credit Facility (ECF) scheduled in December 2012 has been postponed due to the current political crisis in the C.A.R.

Chad: The last financial arrangement, a PRGF arrangement in an amount equivalent to SDR 25.2 (about US$38.2), expired on May 31, 2008 with no review completed. A 2009 Staff-Monitored Program (SMP) went off-track due to sizeable overruns on security spending and investment projects. The last Article IV consultation was concluded on December 14, 2012. Chad is currently on a Staff Monitored Program from April-December 2013.

Republic of Congo: The Executive Board approved a three-year PRGF arrangement for Rep. of Congo in an amount equivalent to SDR 8.5 (about US$12.5) on December 8, 2008.The country reached the Decision Point under the enhanced HIPC initiative on March 8, 2006 and the Completion Point on January 27, 2010. The last Article IV consultation and Fourth review under the ECF arrangement were concluded on August 30, 2013. Congo is on a 12-month consultation cycle.

Equatorial Guinea: The last financial arrangements, an Enhanced Structural Adjustment Facility arrangement in an amount equivalent to SDR 9.9 and a Structural Adjustment Facility in an amount equivalent to SDR 3.0, expired both on February 2, 1996. Equatorial Guinea is not expected to seek IMF financial assistance over the next few years. The country is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on, January 11, 2013. Equatorial Guinea is on a 12-month consultation cycle.

Gabon: The three-year Stand-By Arrangement in an amount equivalent to SDR 77.2 (about US$117) expired on May 7, 2010, with only the first three reviews completed. Gabon is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on February 13, 2013. Gabon is on a 12-month consultation cycle.

Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). As with other regional central banks, the BEAC is subject to a safeguards assessment every four years. The 2013 quadrennial assessment, which is substantially complete, spans a period of extensive change at the BEAC and occurs against the backdrop of extensive plans and measures initiated to address governance challenges and control failures that emerged in 2009. For its part, the BEAC adopted an action plan with the aim of reforming its governance, strengthening key safeguards, and building capacity. In addition, a series of safeguards "rolling measures" were agreed between the BEAC and the IMF, as a basis since 2009 to move forward with new IMF program requests and periodic reviews for BEAC members using IMF resources. The 2013 assessment found that the BEAC has made some progress in reinforcing its safeguards framework, but risks remain elevated and further reforms are needed to fully restore sound governance and control. Although the internal and external audit mechanisms have improved, the implementation of the BEAC Reform Plan, initially adopted in 2011, is slower than planned and its target completion date has been delayed to 2014. Governance at the BEAC continues to be undermined by a legal framework that does not adequately protect institutional autonomy, and problematic partial adherence of several member states to the reserves pooling obligation that is fundamental to the operation of the currency union. The assessment also indicated that continued weaknesses in governance are exacerbated by a number of risks, including a less secure environment for the accounting and IT systems that raise concerns about the quality of financial controls and information. The assessment identified measures needed to strengthen the safeguards framework, including through amendments to the BEAC charter and significant effort and commitment to achieve implementation of the reform and modernization plan.

Exchange System

The regional currency is the CFA franc. From 1948 to 1999, it was pegged to the French franc. Since the euro was introduced in 1999, it has been pegged to the euro at the rate of CFAF 655.957 per euro.

Article IV Consultation

Following an Executive Board decision in January 2006, discussions with monetary unions have been formalized and are part of the Article IV consultations with member countries. The discussions reported here are thus in relation with Article IV consultations with the six CEMAC member countries. The Executive Board concluded the last discussion on common policies of CEMAC members on July 20, 2011. Such discussions are held on a 12-month cycle.

FSAP Participation and ROSCs

The first regional Financial Sector Assessment Program (FSAP) was carried out January-March 2006. Regional Reports on Observance of Standards and Codes (ROSCs) were done in the areas of monetary and financial policy transparency, banking supervision, and anti-money laundering and combating the financing of terrorism (AML/CFT) in June 2006.

Technical Assistance to the Bank of the Central African States (2009–2012)

July 2013: MCM TA on prudential framework update.

May 2013: MCM TA on Central bank governance

March-April 2012: MCM advisory mission on central bank accounting, monetary operations, and stress testing.

March 2012: STA TA mission on development and improvement of monetary and financial statistics and financial soundness indicators.

Since October 2011: MCM resident advisor to the COBAC.

July 2011: MCM advisory mission on monetary policy design and implementation.

Since May 2011: MCM resident general advisor to the Governor of the BEAC on governance, accounting, and internal controls.

March, April, and May 2011: MCM TA missions on accounting, reserve management, and banking supervision.

March 2011: STA TA mission on development of monetary and financial database.

January 2011: MCM TA mission on discussing MCM advice in the areas of governance, internal audit and accounting, monetary policy and research, reserve management, and banking supervision.

November 2010: STA participation in the BEAC's workshop on the economic, monetary, and financial database.

October-November 2010: MCM TA mission on discussing TA program to strengthen the BEAC and the COBAC.

January 2010: STA participation in the BEAC's workshop on balance of payments statistics.

July 2009: MCM mission on regional public debt market development.

April, June, September, and November 2009: MCM TA missions on banking supervision.

Technical Assistance to the Central African Economic and Monetary Community Commission (2010–2012)

March and April 2013: FAD TA missions on CEMAC's PFM directives implementation

May, June and November 2012: TA missions on CEMAC's PFM directives implementation

May 2012: CEMAC customs administration workshop

April 2012: FAD and STA participation in the CEMAC's workshop on the design of an implementation strategy for new PFM directives and implementation of the *GFSM 2001* directive.

March 2012: FAD TA mission on the development of technical guides.

March 2012: STA TA mission on the preparation of guidelines for the TOFE directive.

July 2011: FAD mission on assessment of the CEMAC's technical assistance needs.

February and April 2011: FAD and STA participation in workshops on the design of new PFM directives and the TOFE draft.

February 2011: STA participation in the CEMAC's workshop on the analyses of macroeconomic aggregates.

November 2010: STA TA mission on drafting the TOFE directive.

September 2010: FAD TA mission on the strategy to redraft the regional fiscal directives.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes Annual Discussions on CEMAC Countries' Common Policies

On October 23, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the annual discussions on Common Policies of Member Countries with the Central African Economic and Monetary Community (CEMAC).[1]

The CEMAC's economic performance in 2012 continued to be strong. Supported by high oil revenues, most CEMAC countries embarked in ambitious public investment plans in the last few years to remove infrastructure bottlenecks. A further increase in public spending in several member countries and buoyant domestic consumption contributed to a 6.5 percent growth in non-oil sectors in 2012, while oil production declined slightly. Overall, region-wide real GDP growth reached 5.5 percent. Anchored by the peg of the CFA Franc to the Euro, inflation remained moderate, at around 3 percent on average for the region, but with some differences across countries. In 2013, economic activity is expected to remain solid, although a decline in oil production, moderation in public investment and the political crisis in Central African Republic will weigh on GDP growth. Inflation should remain subdued with lower food prices.

The further increase in public spending, while supporting growth, also contributed to the deterioration in the regional fiscal position in 2012, which turned into a deficit (excluding grants) of 1.6 percent of GDP. Public debt, however, remained low at about 14 percent of GDP. Following the debt relief and debt restructuring operations of the last few years, public debt has been kept well below the 70 percent of GDP ceiling set by the regional surveillance framework for individual countries. High import demand related to the expansionary fiscal stance and large income outflows contributed to the deterioration of the external current

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

account, which recorded a deficit of 1.4 percent of GDP. However, as capital inflows were stronger, international reserves strengthened further and reached the equivalent of 5.7 months of total imports at end-2012.

The monetary policy stance has been passive during the past few years but became increasingly tight due to the widening in the spreads between the CFA Franc and the Euro. In July 2013, the regional central bank (BEAC) lowered its main policy rate by 50 bps as inflation abated and growth in monetary aggregates slowed. Despite a slowdown in monetary aggregates, excess liquidity in the banking system remains high and its control is a challenge under the current monetary policy framework. The excess liquidity largely reflects the shallowness of the regional financial sector, as progress in financial deepening has been slow. The banking sector appears vulnerable in certain countries and faces significant challenges to support more inclusive private investment-based growth.

Although the macroeconomic performance is expected to remain relatively solid over the medium term, the CEMAC faces important downsize risks. The region remains largely dependent on oil revenues, with oil accounting for 36 percent of regional GDP and 87 percent of total goods exports. A substantial and prolonged drop in oil and commodity prices potentially linked to a slowdown in global growth or key emerging markets is the greatest risk for the CEMAC. Such a decline would significantly impact the fiscal and current account balances and would likely force a sudden decline in public investment. In addition, the region's heightened security risks could also have a negative impact on growth, even if the political crisis in the Central African Republic is not expected to have large economic spillovers for the sub-region in the short term. Moreover, without increased reform momentum and greater economic integration, CEMAC's medium-term growth potential would be more limited and the sub-region may not be able to achieve its ambitious development goals.

Executive Board Assessment

Executive Directors welcomed the region's good macroeconomic performance in 2012 supported by public investment financed with high oil revenues. They noted, however, that while medium-term prospects are favorable, there are significant downside risks from potential oil price shocks. At the same time, substantial challenges remain, including high poverty, income inequality, and underemployment. Directors stressed the need to enhance the fiscal surveillance and monetary frameworks, strengthen the financial sector, and step up efforts to promote economic diversification and integration.

Directors concurred that the current macroeconomic policy mix is broadly appropriate. They considered that the fiscal stance could be more cautious in some countries, particularly where fiscal buffers are insufficient to withstand large adverse external shocks. They agreed that the recent monetary easing was appropriate in light of the benign inflation outlook. Directors noted that the level of external reserves is adequate, but urged national authorities to act in coordination with the regional central bank (BEAC) to improve the compliance by certain member states regarding reserves repatriation.

Directors encouraged the authorities to better adapt the regional fiscal surveillance framework to the structure of its members' economies dominated by oil. The convergence criteria on the fiscal deficit and on public debt should be reviewed to limit pro-cyclicality and ensure low risks of debt distress, while supporting prudent borrowing. The new criteria could be reinforced with oil stabilization fund rules. Directors also stressed the need to expedite the reform of the monetary policy framework to make it effective. Establishing an analytical framework for monitoring and forecasting liquidity, and developing market-based instruments for liquidity management and an active interbank money market will be important.

Directors urged the authorities to speed up efforts to develop a sound regional financial sector. Strengthening the regulatory and supervisory frameworks, enhancing compliance with prudential requirements, and expediting the resolution of weak banks are critical priorities. Directors considered that an FSAP update would be useful. Over the medium term, establishing a credit registry, strengthening enforcement of property rights, and undertaking judicial system reforms will be essential.

Directors underscored the need to address structural obstacles to inclusive growth, regional integration, and competitiveness. Improving the regional business environment and addressing constraints to private sector development and economic diversification will be key. Efforts to reduce barriers to regional trade and promote labor mobility will also be important.

Directors encouraged the authorities to accelerate the pace of institutional reforms launched by regional institutions. In particular, the governance of the BEAC should be strengthened and the capacities of the regional banking supervisor and the CEMAC Commission should be enhanced. Member states should support the regional agenda by better empowering regional institutions and improving the implementation of common policies. Enhancing the quality of economic and financial information will also be important.

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

CEMAC: Selected Economic and Financial Indicators, 2009–14

	2009	2010	2011	2012 Est.	2013 Proj.	2014 Proj.
	(Annual percent change)					
National income and prices						
GDP at constant prices	1.5	5.5	3.9	5.5	3.7	5.3
Oil GDP	-4.2	4.1	-2.1	-0.9	-1.9	2.6
Non-oil GDP [11]	4.7	6.1	5.7	6.5	5.0	5.5
Consumer prices (period average)[2]	2.8	1.5	2.5	2.7	2.1	2.5
Consumer prices (end of period)[2]	2.3	2.1	4.3	3.0	2.9	2.9
Nominal effective exchange rate[2]	0.0	-4.0	1.1	-3.1	…	…
Real effective exchange rate[2]	3.4	-4.7	-0.9	-1.3	…	…
	(Annual changes in percent of beginning-of-the period broad money)					
Money and credit						
Net foreign assets	-13.5	-4.6	17.0	9.5	…	…
Net domestic assets	20.0	27.5	0.2	6.7	…	…
Broad money	7.1	21.4	18.3	16.1	…	…
Gross national savings	26.3	26.5	30.3	29.8	29.9	28.5
Gross domestic investment	30.5	29.9	29.5	31.1	31.5	30.8
Of which: public	13.6	11.8	13.5	14.4	14.7	13.8
	(Percent of GDP, unless otherwise indicated)					
Government financial operations						
Total revenue, excluding grants	25.5	25.2	28.0	27.5	27.6	26.7
Government expenditure	27.2	24.5	25.6	29.0	28.8	27.6
Primary basic fiscal balance[3]	1.0	3.1	5.6	1.8	2.3	2.5
Basic fiscal balance[4]	0.4	2.4	4.9	0.6	1.3	1.8
Overall fiscal balance, excluding grants	-1.9	0.1	2.0	-1.6	-1.8	-1.0
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-24.2	-23.8	-26.4	-30.7	-29.2	-25.2
Overall fiscal balance, including grants	-0.9	0.8	2.7	-1.1	-1.2	-0.3
External sector						
Exports of goods and nonfactor services	46.4	51.6	55.6	54.5	50.7	48.2
Imports of goods and nonfactor services	42.0	41.9	40.0	41.0	40.2	38.6
Balance on goods and nonfactor services	4.4	9.7	15.7	13.5	10.6	9.6
Current account, including grants	-4.2	-3.4	0.8	-1.4	-1.7	-2.4
External public debt	16.2	11.6	12.6	13.4	12.9	13.4
Gross official reserves (end of period)						
Millions of U.S. dollars	14,354	13,658	15,717	17,531	18,526	20,115
Months of imports of goods and services (less intra regional imports)	5.7	4.7	5.3	5.7	5.9	6.3
Percent of broad money	112.4	92.4	85.6	88.9	…	…
Memorandum items:						
Nominal GDP (Billions of CFA francs)	30,853	36,552	42,296	46,004	47,021	48,957
CFA francs per U.S. dollar, average	472.2	495.3	471.9	510.0	494.7	486.2
Oil prices (US dollars per barrel)	61.8	79.0	104.0	105.0	104.5	101.3

Sources: IMF staff compilations.
[1] For Equatorial Guinea, non-oil GDP includes output from hydrocarbon derivatives.
[2] Using as weights the shares of member countries in CEMAC's GDP in purchasing power parity US dollar.
[3] Excluding grants and foreign-financed investment and interest payments.
[4] Excluding grants and foreign-financed investment.

**Statement by Mr. Assimaidou on the
Central African Economic and Monetary Community (CEMAC)
October 23, 2013**

Introduction

On behalf of my CEMAC authorities, I would like to thank Staff, Management and the Executive Board for the continued Fund support to their reform and integration efforts, and for the constructive policy dialogue they have had with them during the 2013 Article IV mission and during the recent annual meetings.

My authorities are also highly appreciative to Management and Staff for the high-level meeting held on October 13, 2013 to exchange views on the Fiscal Surveillance Framework and Financial Sector Development and Stability in the CEMAC region.

The authorities broadly share staff's analysis and policy recommendations under the 2013 Article IV consultations. In spite of capacity constraints facing the CEMAC institutions, they remain fully committed to moving forward the regional integration process with a view to create a common market, boost regional growth and improve the living standards of the region's populations.

Recent Macroeconomic Developments and Prospects

The CEMAC region continues to enjoy strong macroeconomic stability amid a difficult environment due notably to a decline in oil production, a reduction in public investment and political crisis in Central African Republic. Against this backdrop, the regional GDP growth—driven by consumption and public investment—is expected to reach 3.5 percent in 2013 against 5.5 percent in 2012. Growth in non-oil sectors is projected at 5.0 percent down from 6.5 percent a year earlier.

Regional inflation has been moderate at 2.2 percent year-on-year in August 2013 thanks to low food price increase and the peg of the exchange rate to the euro, which continues to serve these economies well. Moreover, in light of the sound inflation outlook, the regional central bank, BEAC, eased its monetary policy in July 2013 by lowering its main policy rate to further spur private investment and growth.

The regional fiscal balance in 2013 is anticipated to be in a deficit of less than 2 percent of GDP owing to strong capital expenditure in Cameroon and Gabon. On debt, it is worth noting that CEMAC member countries face low risk of debt distress. Following debt relief under the HIPC and MDRI Initiatives—which four out of six countries have benefited from--the average nominal debt for the region stands at less than 14 percent of GDP, far below the 70-percent-of-GDP ceiling set by the regional surveillance. Nevertheless, my CEMAC authorities have indicated their intention to review the criterion for the debt ratios under the convergence framework to better reflect actual indebtedness stemming from issuance of debt on the regional market or hidden by procyclicality effects.

On the external sector, the current account deficit at the regional level will increase slightly from 1.4 percent of GDP in 2012 to 1.8 percent of GDP in 2013 owing in particular, on the one hand, to the decline of oil production and export revenues and, on the other hand, to high imports associated with infrastructure projects.

Going forward, the regional economic prospects are expected to remain favorable in the medium term given the large public investment in the infrastructure sector, and the ongoing structural reforms to further strengthen the CEMAC policies and institutions. However, my authorities are mindful of the daunting challenges they face in building a vibrant regional market, fighting poverty and increasing employment notably among the youth.

The CEMAC authorities are also aware of the risks represented by the high dependence on oil revenue and other commodities prices, together with security issues. To mitigate these risks and accelerate the regional integration process, they are committed to increase their efforts in implementing adequate policies and reforms, both at the regional and national levels. They are hopeful that, in this endeavor, they will continue to benefit from the Fund technical assistance and support from other development partners.

Fiscal Policy Coordination

The Fiscal policy coordination in the CEMAC region is implemented through a regional surveillance framework based mainly on convergence criteria set for the fiscal deficit and public debt ratio. Thanks to oil revenue, all member countries but one met the fiscal balance criterion. However, containing the non-oil fiscal deficit is a challenge. Given the volatile and exhaustible oil resources, the authorities agreed on the crucial need to enhance the long-term sustainability of the monetary union through a stronger basis to assess the fiscal stance of member countries. To this end, they appreciate the Fund's policy recommendation to adapt the fiscal surveillance to current challenges. In particular, they favor a right balance in calibrating fiscal rules in each country to reflect the large structural differences among the individual economies. The convergence criteria on fiscal deficit and debt public ratios will be reviewed to limit pro-cyclicality and ensure low risk of debt distress in the long run on.

With regard to public debt, the authorities intend, with Fund technical assistance, to explore ways to assess an optimal regional debt level to the sustainability of debt dynamics. Moreover, the authorities will increase their efforts in implementing the CEMAC's public financial management directives notably at the country level with a view to reinforce the fiscal surveillance framework. In this context, they have established within the CEMAC Commission a Directorate in charge of Public Finances. They intend also to step up their efforts in harmonizing the fiscal policies and implementing the budgetary regional directives.

Monetary Policy Improvement

The peg of the exchange rate to the euro and the low growth of food prices led to a moderate and stable regional inflation. Like in 2012, inflation at end-2013 is expected to be below 3 percent, the regional convergence criterion. Moreover, the level of BEAC foreign reserves is adequate and covers 5.7 months of imports at end-2012. In addition, the current account balance and the real effective exchange rate continue to be in line with the CEMAC's fundamentals.

However, the excess of liquidity in the system remains high and credit growth to the private sector is moderate in front of the tremendous need of investment from the private sector. Against this backdrop, the monetary authorities plan to undertake required reforms of the monetary policy operational framework in order to mop up excess liquidity, strengthen interbank money market and improve the monetary transmission mechanisms. The technical assistance provided by the Fund to implement these reforms will be helpful and instrumental in their efforts to enhance BEAC's capacities.

Regarding the repatriation of exports proceeds, the authorities welcome the upcoming Staff's study to help explore adequate mechanisms to better enforce the reserves pooling requirement, one of the monetary union pillars while taking into account the increase of member countries' trading partners. This study together with the recommendations made by the working group headed by BEAC with member countries representatives will put forward proposals to solve this issue. My authorities look forward to the results of the study.

Financial Sector Reform.

The CEMAC authorities intend to further strengthen the financial sector's stability and increase its contribution to the development of the region. In this regard, progress has been made in implementing sound reforms despite capacity constraints facing the regional central bank and the regional banking supervisor, COBAC. With the support of development partners, the authorities will speed up their efforts to develop an adequate financial infrastructure to support lending activities of banks and microfinance institutions while containing credit risks.

These efforts will enhance COBAC's capacities to finalize the legal process of restructuring unviable institutions, improve the regulatory framework for banking supervision, strengthen the enforcement of prudential ratios and reduce credit risks to connected parties. Moreover, the COBAC will enhance its regulatory capacity related to cross-border reporting and supervision given the expansion of regional banks in the CEMAC area.

Under the Fund's technical assistance, the BEAC has made significant progress in reinforcing its safeguards framework. The authorities are determined to enhance this progress through continued implementation of the BEAC Reform Plan which has been extended to 2014. Under this plan, BEAC's institutional and human capacities will be strengthened. The coordination between BEAC and COBAC will also be improved to further enhance the authorities' efforts in implementing policies and reforms in the financial sector.

Promoting Growth and Competitiveness

My CEMAC authorities recognize the need to accelerate structural reforms and fill the infrastructure gaps with a view to promote a sustained growth and increase the region competitiveness. In this regard, efforts to further improve the CEMAC's business environment will be pursued to make the region more conducive to private investment. The authorities have created the business climate observatory to promote policies for the improvement of business environment in the union. They also plan to rationalize regional trade policies by reducing the common external tariff, eliminating double taxation to third-country products, and establishing CEMAC-wide rules of origin.

In addition, reforms and investment to remove regional infrastructure bottlenecks and address labor market mobility issues will be intensified. These efforts, combined with those devoted to enhance the capacities of BEAC, COBAC, CEMAC Commission and the regional development bank, BDEAC, will significantly contribute to deepening economic integration.

Conclusion

My CEMAC authorities are making significant progress in implementing common policies and enhancing the capacities of regional institutions to strengthen the process of economic and financial integration. They are grateful to the Fund and other partners for their policy advice, technical assistance and financial support in achieving these improvements. Given the daunting challenges CEMAC and its member countries are facing, the authorities are committed to pursuing their regional integration efforts and implementing reforms and polices needed for economic diversification and regional financial market deepening while enhancing institutional capacities.