DRAFT REPORT ON THE EVOLUTION OF THE MONETARY CO-OPERATION IN CENTRAL AFRICA

SUMMARY

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REPORT ON THE DEVELOPMENT OF MONETARY COOPERATION IN THE CENTRAL AFRICA SUB REGION

I. INTRODUCTION

I.1. Background and period under consideration

The data included in the preparation of this report covers all the 8 countries of the sub-region, namely :

- CEMAC's six countries : Cameroon, Congo, CAR, Gabon, Equatorial Guinea and Chad ;
- The Republic of Congo ;
- The Democratic Republic of Sao Tome and Principe.

The time period from 2003 to 2005 reveals a converging pattern.

I.2. A brief look at the international economic environment.

The year 2005 has been noted for a sustained global economic growth. Indeed, if the IMF's latest estimates are anything to go by, global growth could reach 4.3% in 2005 compared to 5.1% in 2004, so registering a slight decline of 8%.

This is due to the buoyancy of the industrial sector in developed and emergent countries, and to an increase in the prices of raw materials in developing countries. However, there are still some major risk factors, especially escalating oil prices, worsening external imbalances, political instability, the prospect of interest rates rising again, the effects of natural disasters and endemic diseases.

On the other hand, the pace of growth in some regions, especially in Africa, falls short of the level set for the fulfilment of the Millennium Development Objectives (MDO).

Under such conditions, the steps advocated by the international community are aimed at quicker structural reforms, the improvement of good governance and an increase in investment in the oil sector in order to boost supply.

Reinforcing institutions in some regions has also been recommended. Regarding the African continent, increasing development aid has proved necessary for sustained progress in the fight against poverty.

II. REVISITING THE AIMS OF THE PROGRAMME OF MONETARY COOPERATION IN CENTRAL AFRICA

The programme of monetary cooperation in Central Africa aims to boost the economical and financial integration of the member countries in the sub-region, as the result of a process of convergence hinging around a set of first-and second-class criteria. To take the process to a successful conclusion, an action plan adopted by Governors during their meetings of 9 February 2005 in Libreville (Gabon).

The convergence criteria are as follow :

II.1. Primary Criteria

The criteria selected are the same as AMCP's. They include :

1. Global public deficit/GDP, not including aid lower than 30% ;
   (Intermediary objectives : one-digit deficit towards 2008 and of 5.0% starting from 2012

2. Inflation rate lower than 3%.
   (Intermediary objectives : one-digit deficit towards 2008, and 5.0% starting from 2012)

3. Budget deficit funding reduced to a minimum by Central Bank ;
   (Intermediary objectives : gradual reduction to a minimum of 10.0% in 2009, to be completely phased out in 2014)

4. Cross foreign reserves higher than/equal to six months' importation of goods and services.
   (Intermediary objectives : 3 months' imports towards 2008)

C. Democratic Republic of Sao Tome and Principe

The results of economic growth for 2005 were 3.8%, in spite of initial predictions of 4.5%.

This underachievement is mainly due to the unfavourable development of factors linked to the international economic situation, notably, (i) the growth of petrol circulation (ii) increased debt due to the strength of the American Dollar (iii) the decrease of cocoa prices, and (iv) the reduction of external funding.

As for **domestic prices**, the accumulated inflation rate increased and reached 17.2% in 2005 compared to 15.2% in 2004. This situation is caused by both internal and external factors, among which can be found (i) the rupture of stock of essential goods (ii) continuing drought iii)the increased inflation after the rise in price of a barrel of petrol on the world market, and (iv) an increase in current expenditure.

As far as **public finances** are concerned, the total receipts make up 51.7% of GDP, a reduction of about 7% compared to the previous year. Tax revenue represents 49.2% of this total, the rest is composed of non-tax revenue and aid. As far as these aid are concerned there has been a decrease of 26.7%, which is 19% of GDP compared to 27.2%

The current expenditure registered during the period under review is about 48% of GDP. This represents an increase of 24% compared to the previous year. Among the reasons for this increase are (i) an increase in staff spending, which represents 3% of the total current expenditure and (ii) increased spending on scholarships to study abroad.

In 2005 the capital expenditure reached 25.4% of GDP. This is equivalent to a decrease of 38.2% compared to the previous year, due to a reduction in external aid.

Primary expenditure is registered at about 43.3% of GDP, an increase of about 36.3% on the 2004 level. This considerable increase led to a primary deficit of 22.6% of the GDP, that is a slight worsening of the state's finances compared to 2004, when the primary deficit was 21.6% of GDP. The global deficit has slightly improved, falling from 50.4% in 2004 to 42% of GDP in 2005 as a result of the factors explained earlier.

The changes in the **monetary situation** throughout 2005 were marked by a 35% decrease in the money supply in its broadest sense (M3) and a 12% decrease of the money supply excluding currency deposits (M2). In contrast the base funds increased by about 60% compared to a decrease of 31.8% in 2004, this is due to the bonus the country derived from petrol in 2005. This increase in base funds could have been even larger if the Central Bank had not sold currencies off at auction.

According to the state, its net credit fell to 25.8% of the GNP by the end of the year. This reduction reflects a substantial increase in the deposits made to the Central Bank by the Treasury.

The aims of the Central Bank's monetary policy have been centered on ensuring a liquid economy, stable prices and a stable exchange rate. To this purpose, confronted with the large, almost 100% increase of demands made on the economy in 2004, the Central Bank put into place a series of measures, which led to this indicator increasing to 25% in 2005. Among these measures was one designed partly to increase the reference interest rate from 14.5% to 18.2% in September 2005 and partly to rebuild the co-efficiency of the essential reserves from 22% to 24% in the same period.

Furthermore, the authorities have maintained a flexible exchange rate based on market indications, which led to the differences between the official and the parallel market exchange rate falling to less than 1%.

The evolution of the Dobra change rate in relation to the main international currencies during the period under consideration has been characterized by a depreciation of 2% vis-à-vis the Euro, and of 18.1 % to the American Dollar.

The **net international net reserves** of the Central Bank reached 31.1 million US$ in 2005 against 23.7 million at the end of 2004, that's an increase of 31.2 %, representing 3.5 months' imports.

Generally, the foreign trade remains characterized by the predominance of cocoa in the export revenue , with a relative share of more than 80 %.

The net current value ratio of foreign debt in relation to exports was over 1000 %, which contributed to the admission of Sao Tome and Principe into the HEPC initiative. However, with some prospects of oil exploitation foreseen for 2007/2008, this ratio should go below 150 %. The **debt service** during that period was US$ 7 million, 4 million of which was for the foreign sector and 3 million for the HEPC.

Considering the high level of the foreign debt, estimated at 370 USD million in 2005 and despite the oil income expected, the government is determined to pursue macro-economic and structural reforms with the assistance of donors in order to reach the fulfillment point of the HEPC initiative.

III.2. Situation of convergence

It is important to note that the data for 2005 as presented below for all the countries of the sub-region is provisional.

A. Primary criteria

A.1. Global public deficit/G D P, not including aid, below 3%

-Intermediary goal of the criterion**: one-digit deficit by 2008.**

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC Countries				
1. Cameroon	3.4	1.8	1.9	Fulfilled
2. CAR	- 4.6	- 1.4	-3.0	Fulfilled
3. Congo	-0.1	5.4	15.6	Fulfilled
4. Gabon	7.5	7.7	8.7	Fulfilled
5. Equatorial Guinea	12.3	111.8	20.7	Fulfilled
6. Chad	- 14.2	- 7.8	- 6.8	Fulfilled
CEMAC Average	2.8	3.5	6.3	Fulfilled
DRC	0.5	1.1	1.1	Fulfilled
Sao Tome & Principe	- 39.2	- 50.4	- 42	Unfulfilled

All the countries of the sub-region met the criterion, except for Sao Tome and Principe.

A.2. Inflation rate below 3 %

Intermediary goal of the criterion : one-digit deficit by 2008.

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC Countries				
1.Cameroon	0.6	0.4	1.5	Fulfilled
2.CAR	4.2	- 2.1	2.7	Fulfilled
3.Congo	- 1.2	1.4	2.6	Fulfilled
4.Gabon	2.0	0.4	0.5	Fulfilled
5.Equatorial Guinea	7.3	4.2	4.0	Fulfilled
6.Chad	- 1.8	- 5.4	3.0	Fulfilled
CEMAC Average	3.0	0.3	2.3	Fulfilled
DRC	4.4	9.2	21.3	Unfulfilled
Sao Tome & Principe	8.9	15.2	17.2	Unfulfilled

All the CEMAC countries met the intermediary criterion. However, the DRC, which met the criterion in 2003 and 2004, has recorded a two-digit inflation rate following the resurgence of armed conflicts in the east of the country. However, by singling out the first four months of the year 2005, which are characterized by expenses related to armed conflicts, the annual inflation rate is 5.4 %.

Regarding Sao Tome and Principe, this criterion was unfulfilled as in 2004, following the continuous increase in the prices of oil of which the country is a current importer; drought, a stock shortage of basic food, imported inflation and an increase in current expenses.

A.3. Minimum reduction of the budget deficit financing by the Central Bank

- Intermediary goal of the criterion : reduction of 10.0 % by 2009

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC Countries				
1.Cameroon	20	19.5	18.0	Fulfilled
2.CAR	20	21.9	32.3	Unfulfilled
3.Congo	20	20.0	18.9	Fulfilled
4.Gabon	20	16.5	19.2	Fulfilled
5.Equatorial Guinea	20	0.0	0.0	Fulfilled
6.Chad	20	30.0	27.3	Unfulfilled
CEMAC Average	20	16.8	15.7	Fulfilled
DRC	-18.2	- 305.0	- 13.6	Fulfilled
Sao Tome & Principe	0.0	5.0	5.0	Fulfilled

The intermediary goal is assessed according to lawful norms of each country.

Regarding CEMAC countries, the current legislation allows the Central Bank to grant advances to Public Treasures up to 20 % of tax revenue of year N-1.

Sao Tome and Principe and DRC met the criterion in 2004 and 2005. The statutes of Sao Tome and Principe's Central bank actually allow it to grant refunds of up to 5.0 % from tax revenue of year N-1, whereas those of Congo's Central Bank forbid it to finance the State budget.

This criterion has not been met in CAR and Chad.

A.4. Gross foreign reserves higher/lower than six months' import of goods and services

-Intermediary goal of the criterion: three months' import by 2008

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC Countries				
1.Cameroon	2.9	3.1	3.1	Fulfilled
2.CAR	8.7	8.8	9.0	Fulfilled
3.Congo	0.4	1.1	2.4	Unfulfilled
4.Gabon	1.8	3.2	4.9	Fulfilled
5.Equatorial Guinea	1.8	5.7	12.4	Fulfilled
6.Chad	1.6	2.6	3.6	Fulfilled
CEMAC Average	1.1	3.8	5.6	Fulfilled
DRC	0.6	1.3	1.3	Unfulfilled
Sao Tome & Principe	6.3	4.4	10.4	Fulfilled

All the countries of the sub-region have met this criterion except for Congo and DRC.

In fact, concerning Congo, despite non-conformity with this criterion, the ratio level has improved from one year to another.

B. Secondary criteria

B.1. Non accumulation of new internal and external arrears.

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC Countries				
1.Cameroon	- 9.3	9.0	- 22.7	Fulfilled
2.CAR	27.8	15.8	- 2.8	Fulfilled
3.Congo	124.7	- 1,454.1	- 50.5	Fulfilled
4.Gabon	- 15.0	- 412.6	- 45.5	Fulfilled
5.Equatorial Guinea	- 53.9	- 13.5	- 21.1	Fulfilled
6.Chad	1.1	4.6	- 10.2	Fulfilled
CEMAC Average	75.4	- 1,992.3	- 164.0	Fulfilled
DRC	2,286.0	0.0	0.0	Fulfilled
Sao Tome and Principe	0.0	0.0	0.0	Fulfilled

This criterion has been fulfilled by all the countries. This good performance resulted from the implementation of different financial programmes supported by development partners..

B.2. Tax revenue /GDP Ratio, higher/lower than 20.0 %

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC Countries				
1.Cameroon	12.7	11.3	1.1	Unfulfilled
2.CAR	6.9	6.9	7.2	Unfulfilled
3.Congo	17.1	18.4	17.8	Unfulfilled
4Gabon	22.6	22.9	23.2	Fulfilled
5.Equatorial Guinea	22.7	25.7	24.6	Fulfilled
6.Chad	8.4	8.6	9.3	Unfulfilled
CEMAC Average	14.0	13.4	13.9	Unfulfilled
DRC	21.2	21.4	22.6	Fulfilled
Sao Tome & Principe	6.0	8.8	9.4	Unfulfilled
	20.7	23.3	25.5	Fulfilled

(1) Tax revenue/Total GDP
(2) Tax revenue without oil/no oil GDP

As in 2004, only Gabon, Equatorial Guinea, Sao Tome and Principe met this criterion in 2005.

However, on the basis of the total budgetary revenue, the criterion is generally met in the CEMAC zone.

B.3. National Debt /GDP Ratio, below or equal to 70.0 %

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC Countries				
1. Cameroon	44.6	41.1	36.6	Fulfilled
2. CAR	80.9	74.1	77.7	Unfulfilled
3. Congo	202.8	143.2	120.6	Unfulfilled
4. Gabon	57.7	49.6	42.2	Fulfilled
5. Equatorial Guinea	7.9	4.6	3.2	Fulfilled
6. Chad	47.2	37.3	33.8	Fulfilled
CEMAC Average	64.4	50.9	44.4	Fulfilled
DRC	187.2	163.2	147.7	Unfulfilled
Sao Tome and Principe	525.1	566.5	618.3	Unfulfilled

This criterion could be met in the near future by countries expecting access to decision or completion point of the HEPC Initiative. Those are CAR, Congo, Sao Tome and Principe, and DRC.

B.4. Wage bill/Total tax revenue Ratio, below or equal to 35.0 %

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC Countries				
1. Cameroon	30.8	34.4	32.1	Fulfilled
2. CAR	63.7	58.5	52.8	Unfulfilled
3. Congo	19.9	16.7	12.6	Fulfilled
4. Gabon	21.8	20.4	19.1	Fulfilled
5. Equatorial Guinea	58.9	4.0	3.2	Fulfilled
6. Chad	49.5	28.3	21.5	Fulfilled
CEMAC Average	24.2	21.9	19.1	Fulfilled
DRC	36.2	42.3	31.2	Fulfilled
Sao Tome and Principe	44.2	51.4	60.5	Unfulfilled

All CEMAC countries have met this criterion except for CAR.

Unlike 2004, DRC met this criterion after reform of the Civil Service which mainly resulted in a decrease in personnel after a census.

As for Sao Tome and Principe, this criterion has not been met because of pay increase in the Civil Service. However, the prospects of exploiting oil reserves could help improve the situation.

B.5. Maintaining real exchange rate stable

(Annual variation in %)

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC countries				
1. Cameroon	2.3	- 0.1	0.8	Fulfilled
2. CAR	5.7	- 4.5	- 5.3	Fulfilled
3. Congo	2.4	1.2	- 2.2	Fulfilled
4. Gabon	5.2	- 0.3	- 2.4	Fulfilled
5. Equatorial Guinea	11.3	4.3	6.0	Fulfilled
6. Chad	0.8	- 7.9	- 3.7	Fulfilled
CEMAC Average	4.4	- 0.3	0.5	Fulfilled
DRC (1)	- 11.2	- 8.9	ND	-
Sao Tome and Principe (1)	- 9.2	- 3.0	ND	-

(1) Source: IMF

All CEMAC countries met this criterion. However, Sao Tome and Principe, and RDC still do not calculate this criterion. Yet, plans are being made by both Central Banks to adjust to BEAC methods.

B.6. Funding public investment with tax revenue, to a minimum 20.0%

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC countries				
1. Cameroon	11.8	10.5	20.7	Fulfilled
2. CAR	37.7	25.5	15.3	Unfulfilled
3. Congo	24.2	18.2	28.7	Fulfilled
4. Gabon	13.3	13.2	13.8	Unfulfilled
5. Equatorial Guinea	37.0	32.0	26.8	Fulfilled
6. Chad	21.3	23.1	46.2	Fulfilled
CEMAC Average	19.6	21.7	26.6	Fulfilled
DRC	9.2	9.1	6.3	Unfulfilled
Sao Tome and Principe	22.7	34.0	10.1	Unfulfilled

Half of the countries have not met this criterion because of a huge share of foreign funding resources, on the one hand; and significant oil and non tax revenue in most CEMAC countries, on the other.

B.7. Maintaining real interest rates positive

(Annual average of central bank leading rates)

COUNTRIES	2003	2004	2005	COMMENTS
CEMAC countries				
1. Cameroon	5.4	5.6	4.0	Fulfilled
2. CAR	1.8	8.1	2.8	Fulfilled
3. Congo	7.2	4.6	2.9	Fulfilled
4. Gabon	4.0	5.5	5.1	Fulfilled
5. Equatorial Guinea	- 1.3	1.8	1.5	Fulfilled
6. Chad	7.8	11.4	2.5	Fulfilled
CEMAC average	3.0	5.7	3.2	Fulfilled
DRC	3.8	6.4	13.4	Fulfilled
Sao Tome and Principe	4.6	- 0.7	1.1	Fulfilled

This criterion is met by all member countries.

C. Summary of countries' performances

C.1. CEMAC countries

- CAMEROON

Primary criteria	2003	2004	2005
1. Global national deficit/GDP, not including aid, below 3.0 % (Intermediary goal: one-digit deficit)	Fulfilled	Fulfilled	Fulfilled
2. Inflation rate below 3 % (Intermediary goal : one-digit inflation)	Fulfilled	Fulfilled	Fulfilled
3. Reducing budget deficit funding to a minimum by the Central Bank (Intermediary goal : gradual decrease)	Unfulfilled	Unfulfilled	Fulfilled
4. Gross foreign reserves higher or equal to six-month imports of goods and services (Intermediary goal : 3-month import by the year 2008)	Fulfilled	Fulfilled	Fulfilled
Number of criteria observed out of four	**3**	**3**	**4**
Secondary criteria	**2003**	**2004**	**2005**
1. Non accumulation of new domestic and foreign outstanding payments	Fulfilled	Unfulfilled	Fulfilled
2. Tax revenue /GDP ratio higher than or equal to 20.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
3. National debt /GDP ratio below or equal to 70.0 % ;	Fulfilled	Fulfilled	Fulfilled
4. Wage bill /Total tax revenue ratio below 35.0 % ;	Fulfilled	Fulfilled	Fulfilled
5. Maintaining real exchange rate stability ;	Fulfilled	Fulfilled	Fulfilled
6. Funding national investments with tax revenue to a minimum of 20.0 % ;	Unfulfilled	Unfulfilled	Fulfilled
7. Maintaining real interest rates positive	Fulfilled	Fulfilled	Fulfilled
Number of criteria observed out of seven	**5**	**6**	**6**
Global situation out of eleven criteria	**8**	**9**	**10**

- CENTRAL AFRICAN REPUBLIC

Primary criteria	2003	2004	2005
1. Global national deficit/GDP, not including aid, below 3.0 % (Intermediary goal : one-digit deficit)	Fulfilled	Fulfilled	Fulfilled
2. Inflation rate below 3 % (Intermediary goal : one-digit inflation)	Fulfilled	Fulfilled	Fulfilled
3. Reducing budget deficit funding to a minimum by the Central Bank (Intermediary goal : gradual decrease)	Unfulfilled	Unfulfilled	Unfulfilled
4. Gross foreign reserves higher or equal to six-month imports of goods and services (Intermediary goal : 3-month import by the year 2008)	Fulfilled	Fulfilled	Fulfilled
Number of criteria Fulfilled out of four	**3**	**3**	**3**
Secondary criteria	**2003**	**2004**	**2005**
1. Non accumulation of new domestic and foreign outstanding payments	Unfulfilled	Unfulfilled	Fulfilled
2. Tax revenue/GDP ratio higher or equal to 20.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
3. National debt/GDP ratio below or equal to 70.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
4. Wage bill/Total tax revenue ratio below 35.0 % ;	Fulfilled	Fulfilled	Unfulfilled
5. Maintaining real exchange rate stability ;	Fulfilled	Fulfilled	Fulfilled
6. Funding national investments with tax revenue to minimum of 20.0 %;	Fulfilled	Fulfilled	Unfulfilled
7. Maintaining real interest rates positive	Fulfilled	Fulfilled	Fulfilled
Number of criteria observed out of seven	**4**	**4**	**3**
Global situation out of eleven criteria	**7**	**7**	**6**

- REPUBLIC OF CONGO

Primary criteria	2003	2004	2005
1. Global national deficit/GDP, not including aid, below 3.0 % (Intermediary goal : one-digit deficit)	Fulfilled	Fulfilled	Fulfilled
2. Inflation rate below 3 % (Intermediary goal : one-digit inflation)	Fulfilled	Fulfilled	Fulfilled
3. Reducing budget deficit funding to a minimum by the Central Bank (Intermediary goal : gradual decrease)	Unfulfilled	Unfulfilled	Fulfilled
4. Gross foreign reserves higher or equal to six-month imports of goods and services (Intermediary goal : 3-month import by the year 2008)	Fulfilled	Fulfilled	Unfulfilled
Number of criteria out of four	**3**	**3**	**3**
Secondary criteria	**2003**	**2004**	**2005**
1. Non accumulation of new domestic and foreign outstanding payments	Unfulfilled	Fulfilled	Fulfilled
2. Tax revenue ratio/GDP higher or equal to 20.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
3. National debt ratio/GDP below or equal to 70.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
4. Wage bill ratio/ Total tax revenue below 35.0 % ;	Fulfilled	Fulfilled	Fulfilled
5. Maintaining real exchange rate stable ;	Fulfilled	Fulfilled	Fulfilled
6. Funding national investments with tax revenue at 20.0 % at least;	Fulfilled	Fulfilled	Fulfilled
7. Maintaining real interest rates positive	Fulfilled	Fulfilled	Fulfilled
Number of criteria observed out of seven	**4**	**5**	**5**
Global situation out of eleven criteria	**7**	**8**	**8**

- REPUBLIC OF GABON

Primary criteria	2003	2004	2005
1. Global national deficit/GDP, not including aid, below 3.0 % (Intermediary goal : one-digit deficit)	Fulfilled	Fulfilled	Fulfilled
2. Inflation rate below 3 % (Intermediary goal : one-digit inflation)	Fulfilled	Fulfilled	Fulfilled
3. Reducing budget deficit funding to a minimum by the Central Bank (Intermediary goal : gradual decrease)	Unfulfilled	Unfulfilled	Fulfilled
4. Gross foreign reserves higher or equal to six-month imports of goods and services (Intermediary goal : 3-month import by year 2008)	Fulfilled	Fulfilled	Fulfilled
Number of criteria observed out of four	**3**	**3**	**4**
Secondary criteria	**2003**	**2004**	**2005**
1. Non accumulation of new domestic and foreign outstanding payments	Unfulfilled	Fulfilled	Fulfilled
2. Tax revenue ratio/GDP higher or equal to 20.0 % ;	Fulfilled	Fulfilled	Fulfilled
3. National debt ratio/GDP below or equal to 70.0 % ;	Fulfilled	Fulfilled	Fulfilled
4. Wage bill ratio/Total tax revenue below 35.0 % ;	Fulfilled	Fulfilled	Fulfilled
5. Maintaining real exchange rate stable ;	Fulfilled	Fulfilled	Fulfilled
6. Funding national investments with tax revenue to a minimum 20.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
7. Maintaining real interest rates positive	Fulfilled	Fulfilled	Fulfilled
Number of criteria observed out of seven	**5**	**6**	**6**
Global situation out of eleven criteria	**8**	**9**	**10**

- EQUATORIAL GUINEA

Primary criteria	**2003**	**2004**	**2005**
1. Global national deficit/GDP not including aid lower than 3.0% (Intermediary goal : a one-digit deficit)	Fulfilled	Fulfilled	Fulfilled
2. Inflation rate below 3 % (intermediary goal : one-digit inflation)	Fulfilled	Fulfilled	Fulfilled
3. Budget deficit funding reduced to a minimum by the Central Bank ((Intermediary goal : a gradual reduction))	Unfulfilled	Unfulfilled	Unfulfilled
4. Gross foreign reserves higher or equal to six-month imports of goods and services ((Intermediary goal : 3-month imports by 2008)	Fulfilled	Fulfilled	Fulfilled
Number of observed criteria out of the four	**3**	**3**	**4**
Second Criteria	**2003**	**2004**	**2005**
1. Non accumulation of new domestic and foreign outstanding payments	Fulfilled	Fulfilled	Fulfilled
2. Tax revenue/GDP ratio higher or equal to 20.0 % ;	Fulfilled	Fulfilled	Fulfilled
3. Public debt/GDP ratio below or equal to 70.0 % ;	Fulfilled	Fulfilled	Fulfilled
4. Wage bill/Total tax revenue ratio lower than 35.0 % ;	Unfulfilled	Unfulfilled	Fulfilled
5. Maintaining real exchange rate stability;	Fulfilled	Fulfilled	Fulfilled
6. Public investment funding from tax revenues at a minimum of 20.0 % ;	Fulfilled	Fulfilled	Fulfilled
7. Maintenance of positive real interest rates	Fulfilled	Fulfilled	Fulfilled
Number of observed criteria out of the seven	**6**	**6**	**7**
Global situation out of the eleven criteria	**9**	**9**	**11**

- CHAD

First Criteria	2003	2004	2005
1. Global national deficit/GDP exclusive of aid lower than 3.0% (Intermediary goal : a one-digit deficit)	Fulfilled	Fulfilled	Fulfilled
2. Inflation rate below 3 % (intermediary goal : one-digit inflation)	Fulfilled	Fulfilled	Fulfilled
3. Budget deficit funding reduced to a minimum by the Central Bank ((Intermediary goal : a gradual reduction))	Unfulfilled	Unfulfilled	Unfulfilled
4. Gross foreign reserves higher or equal to six-month imports of goods and services ((Intermediary goal : 3-month imports by 2008)	Fulfilled	Fulfilled	Fulfilled
Number of observed criteria out of the four	**3**	**3**	**3**
Second Criteria	**2003**	**2004**	**2005**
1. Non accumulation of new domestic and foreign outstanding payments;	Unfulfilled	Unfulfilled	Fulfilled
2. Tax revenue/GDP ratio higher or equal to 20.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
3. Public debt/GDP ratio below or equal to 70.0	Fulfilled	Fulfilled	Fulfilled
4. Wage bill/Total tax returns lower than 35.0 % ;	Unfulfilled	Fulfilled	Fulfilled
5. Maintenance of the real exchange rate stability;	Fulfilled	Fulfilled	Fulfilled
6. Public investment funding from tax revenues at a minimum of 20.0 % ;	Fulfilled	Fulfilled	Fulfilled
7. Maintenance of positive real interest rates	Fulfilled	Fulfilled	Fulfilled
Number of observed criteria out of the seven	**4**	**5**	**6**
Global situation out of the eleven criteria	**7**	**8**	**9**

- THE DEMOCRATIC REPUBLIC OF CONGO

First Criteria	**2003**	**2004**	**2005**
1. Global national deficit/GDP exclusive of aid lower than 3.0% (Intermediary goal : a one-digit deficit)	Fulfilled	Fulfilled	Fulfilled
2. Inflation rate below 3 % (intermediary goal : one-digit inflation)	Fulfilled	Fulfilled	Unfulfilled
3. Budget deficit funding reduced to a minimum by the Central Bank ((Intermediary goal : a gradual reduction))	Fulfilled	Fulfilled	Fulfilled
4. Gross foreign reserves higher or equal to six-month imports of goods and services ((Intermediary goal : 3-month imports by 2008)	Unfulfilled	Unfulfilled	Unfulfilled
Number of observed criteria out of the four	**3**	**3**	**2**
Second Criteria	**2003**	**2004**	**2005**
1. Non accumulation of new domestic and foreign outstanding payments;	Unfulfilled	Fulfilled	Fulfilled
2. Tax revenue/GDP ratio higher or equal to 20.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
3. Public debt/GDP ratio below or equal to 71.0	Unfulfilled	Unfulfilled	Unfulfilled
4. Wage bill/Total tax returns lower than 35.0 % ;	Unfulfilled	Unfulfilled	Fulfilled
5. Maintenance of the real exchange rate stability;	Fulfilled	Fulfilled	ND
6. Public investment funding from tax revenues at a minimum of 20.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
7. Maintenance of positive real interest rates	Fulfilled	Fulfilled	Fulfilled
Number of observed criteria out of the seven	**2**	**3**	**3**
Global situation out of the eleven criteria	**5**	**6**	**5**

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First Criteria	2003	2004	2005
1. Global national deficit/GDP exclusive of aid lower than 3.0% (Intermediary goal : a one-digit deficit)	Unfulfilled	Unfulfilled	Unfulfilled
2. Inflation rate below 3 % (intermediary goal : one-digit inflation)	Fulfilled	Unfulfilled	Unfulfilled
3. Budget deficit funding reduced to a minimum by the Central Bank ((Intermediary goal : a gradual reduction))	Fulfilled	Fulfilled	Fulfilled
4. Gross foreign reserves higher or equal to six-month imports of goods and services ((Intermediary goal : 3-month imports by 2008)	Fulfilled	Fulfilled	Fulfilled
Number of observed criteria out of the four	**3**	**2**	**2**
Second Criteria	**2003**	**2004**	**2005**
1. Non accumulation of new domestic and foreign outstanding payments	Fulfilled	Fulfilled	Fulfilled
2. Tax revenue/GDP ratio higher or equal to 20.0 % ;	Fulfilled	Fulfilled	Fulfilled
3. Public debt/GDP ratio below or equal to 72.0	Unfulfilled	Unfulfilled	Unfulfilled
4. Wage bill/Total tax returns lower than 35.0 % ;	Unfulfilled	Unfulfilled	Unfulfilled
5. Maintenance of the real exchange rate stability;	Fulfilled	Fulfilled	UD
6. Public investment funding from tax revenues at a minimum of 20.0 % ;	Fulfilled	Fulfilled	Unfulfilled
7. Maintenance of positive real interest rates	Fulfilled	Fulfilled	Fulfilled
Number of observed criteria out of the seven	**5**	**5**	**3**
Global situation out of the eleven criteria	**8**	**7**	**5**

IV. MAJOR CHALLENGES AND RECOMMENDATIONS

The convergent economies of the Central African sub-region member-states point to the following challenges :

- the creation of the institutional framework included in the action plan of the Sub-regional Programme for Monetary Co-operation consisting of

- a Convergence Board composed of Finance Ministers and Central Bank Governors which makes decisions based on the report by the Convergence College;
- a Convergence College composed of delegates from governments and Central Bank experts; responsible for preparing a report to be submitted to the Convergence Board on the basis of the economic indicators set by the Convergence Committee;
- a Convergence Committee composed of Central Bank experts, responsible for writing a report on the economic indicators on the basis of harmonised statistical data.

The frequency of these organs' meetings might be twice a year for the Convergence Board and the Convergence College, and four times a year for the Convergence Committee.

The Governors of the three member Central Banks shall contact their respective Finance Ministers to inform them about this major challenge for our sub-region, and to get them to hold an ad hoc meeting (CEMAC, DRC and Sao Tome and Principe) during the Monetary Committee meeting of the six CEMAC countries. Such a meeting would mark the formal adoption and effective implementation of that framework.

A meeting of the Heads of all the member-states in the sub-region might also be held on the fringe of the CEMAC Heads of States' Ordinary Summit. Therefore, an invitation shall be sent to the President of Sao Tome and Principe, and of RDC to discuss the ownership and care issue in relation to the Central African monetary co-operation programme. This shall help formalise the institutional framework at the summit.

- Stimulating the activities of the former Central African Compensation Chamber ;

The Chairman of the AACB's sub-regional Committee might approach the ECOCAS Secretary General's office for an update on the progress made regarding in the study recommended by the ECOCAS Heads of States Summit in that connection.

It should be remembered that the study was to determine the best time to give a boost to this former chamber or, failing that, to build up a new compensation system.

- reinforcing the harmonisation of the concepts, and criteria, as well as their respective formulation methodology ;

The three Central Banks should carry on with the actual implementation of the action plan laid down in Douala.

- Setting up time frames for a harmonisation of economic and financial policies.

A meeting of the Sub-regional Committee and senior executives of the Economy and Finance Ministries might be considered to work out the various stages.

- administrative information:

- All three Central Banks in the Central African sub-region have paid up their contributions to the Association's 2006 budget;

- Sao Tome and Principe's Central Bank is still negotiating with AACB's Technical Department for a payment schedule of arrears;

- The three Central Banks have already signed the instruments of acceptance of the Association's Articles of Association.

- Miscellaneous :

- The sub-region's three Central Banks' experts attended the seminar held by the Technical Department on the website ;

- Concerning training, the CASB has agreed to hold a training session for both the CCB and the STCB's experts on the calculation of the real effective exchange rate. Such training shall help both central banks to proceed to the calculation of this convergence criterion which is so important for monetary co-operation among our countries ;

- the Governors expressed a wish to see their experts get down to a calculation of the underlying inflation rate, with, notably, the assistance of Afristat in order to secure with an advanced indicator for the evaluation of the monetary policy with central banks.

V. CONCLUSION

In 2005, AACB countries of the Central African sub-region made some significant progress regarding the implementation of the monetary integration programme in Central Africa towards the end of 2005. So, each of them should fulfil at least five of the eleven criteria adopted.

Some significant flaws have, however, been noted, especially as concerns the collection of tax revenue, the volume of investment funded with stockholders' equity, and the stability of domestic prices.

Besides, the lack of a formal institutional framework has hindered the implementation of the monetary co-operation programme.
