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June 28, 2021

Statement by Mr. Mohieldin and Ms. Abdelati on Central African Economic and Monetary Community
(Preliminary)
Executive Board Meeting
June 30, 2021

We thank staff for a comprehensive report updating economic developments, financing positions, and policy priorities since the December Board meeting. We note that due to the recessionary impact of the COVID-19 crisis and lower external financing than expected, the end-December target for net foreign assets (NFA) could not be met, despite the relatively satisfactory increase in oil prices due to the shortfall in external budget support, despite initiatives to suspend debt service. As in most countries, economic activity contracted in 2020 and the fiscal position weakened in the region contributing to the pressure on reserves. However, corrective measures were undertaken to support the reserve position.

The outlook remains particularly uncertain, given the low rate of vaccination in the region and unknown evolution of the pandemic. We note that staff recommend that the countries take advantage of international initiatives to gain access to affordable COVID-19 vaccines and ensure widespread vaccination of populations. Staff also notes that vaccination campaigns have started but uptake may be slow and vaccine distribution could be difficult due to preexisting logistical, infrastructure, supply, and financing challenges. *We would like to know of the scope for gaining access to affordable vaccines and the scope for funding to ensure widespread distribution.*

We note that not only has the economic impact of the pandemic been severe, but it is likely to last, affecting CEMAC's long-term growth potential. The policy responses helped mitigate the economic fallout from the shock, and the emergency financing granted by the Fund to four CEMAC countries also helped ease the pandemic shock on the regional economy. However, the Fund-supported programs of Cameroon, Chad, Congo, and Gabon expired and have not yet been renewed, while Equatorial Guinea is actively engaged in discussions for emergency assistance from the IMF.

Since external financing needs remain significant, approval of new Fund-supported programs for countries which have requested them is particularly important, as well as successful reviews of current programs, as that would unlock financial support from the IMF and other development partners. We note staff level agreement was reached on three programs and it seems that NFA targets are key prior actions. *Could staff give an idea of the likely timing for upcoming programs?* We note that external support is critical to meet the projected build-up in external reserves, which is necessary to allow the continuation of (or approval of new) financial support as part of the Fund-supported programs with CEMAC members.

We agree that emergency measures should be withdrawn as soon as feasible, as the room for fiscal and monetary policy to further support the recovery is limited, without endangering the credibility and the stability of the exchange rate arrangement. We agree that BEAC' monetary policy should aim to strengthen the external position, which entails liquidity management to absorb excess bank liquidity and strengthen monetary policy transmission, and to stimulate the development of the interbank market. We support the continuation of BEAC's implementation of the foreign exchange regulation, while ensuring that extractive sectors' compliance by the end of the year. When financial stability conditions allow, COBAC should phase out the temporary relaxation of prudential measures and strengthen its supervisory effectiveness, support NPLs reduction, and make further progress towards risk-based prudential supervision.

We note the broad agreement on the general objectives and policies to achieve them, as reflected in the Policy Commitments at the May 2021 Tripartite Discussions and in the Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries. We support staff's advice regarding the second phase of the regional strategy, that CEMAC's regional institutions and national governments should aim to radically transform the region by urgently implementing reforms to lay the basis for a diversified, inclusive, and sustainable growth. We see merit in staff's advice to fully and consistently implement existing laws and to empower existing governance structures to boost private sector growth and increase non-oil revenues. We also agree that modernizing tax administrations along with efforts to broaden the tax base would help support external and debt sustainability. Strengthening the regional surveillance framework would also be helpful, including with an early warning system and incentives for compliance. Nevertheless, the reform agenda is rather broad, as laid out on pages 37-43. And we note staff's view that lack of buy, including at the highest level, on a strong and focused reform agenda, may be the main obstacle to implement reforms. *Is there scope for staff to streamline and prioritize the reforms, and would this facilitate higher buy-in?*