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June 28, 2021

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

We thank staff for the informative report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their insightful Buff statement. The CEMAC region was severely hit by the COVID-19 pandemic. While the policy responses by the regional and national authorities, supported by the Fund's emergency support, have somewhat alleviated its economic fallout, the region faced the largest recession in 20 years. It is unfortunate that the pandemic is erasing the hard-won gains from the first phase of the regional strategy as well as the Fund supported programs. Given the decrease in foreign reserves, the CEMAC should prioritize maintaining macroeconomic stability, and seek more inclusive and sustainable growth by addressing long-standing structural issues once the pandemic abates. As we broadly agree with the staff appraisal, we will provide the following comments for emphasis.

**BEAC should prioritize external stability, given the decrease in foreign reserves.** While monetary easing and the liquidity injection by BEAC were appropriate to mitigate the economic impact from the pandemic, there is little room for further monetary easing at this current juncture. Rather, BEAC should stand ready to tighten its monetary policy if the reserve position further deteriorates. In relation to foreign reserves, **it is also important to execute the foreign exchange regulations effectively with thorough communication with various stakeholders.** In this regard, we welcome that BEAC is finalizing a proposal to adapt the regulations to the specificities of the oil and mining sectors to implement by end-2021.

**We strongly welcome that the authorities and staff have started the discussion for the use of expected SDR allocation.** The allocation would increase the reserves in the region and give precious liquidity for the CEMAC member countries in this challenging period. We are looking forward to hearing the details of the discussion in future board meetings of each country's program reviews or Article IV consultations. *Meanwhile, noting that the UMAC ministerial committee has decided to use a similar mechanism as in 2009, could staff elaborate the experiences in 2009? Also, we wonder how the mechanism would affect CEMAC's falling reserves as well as member countries' public debt, if the countries withdraw CFA franc equivalent to their SDR holdings?*

**Financial sector warrants closer monitoring.** The crisis has amplified the financial vulnerabilities which already existed prior to the pandemic. The region's sovereign-banks nexus is the key source of concern. We also note that the temporary regulatory forbearance has probably masked the real situation regarding the banks' asset quality, given that COVID-19 crisis-related impaired loans classified separately are estimated at 4 percent of total loans. While acknowledging that the SG COBAC is considering the extension of temporary measures to 2022, we strongly encourage the SG COBAC to develop and timely communicate the exit strategy. Going forward, once the pandemic abates, structural vulnerabilities need to be addressed, through diversifying the investor base of government securities, improving the governance of public banks, and thereby improving the public trust in the financial sector. We also agree with staff that COBAC should continue to strengthen its risk-based AML/CFT supervision.

**In order to achieve more inclusive and sustainable growth, it is indispensable to address structural issues such as governance and improving the business climate, and promote economic diversification.** We strongly encourage CEMAC and the national authorities to promote with strong ownership the necessary reforms well summarized in Annex I. The steady implementation of structural reforms is also key for the success of the Fund-supported programs as well as garnering other IFIs' and donor countries' support, which are essential for CEMAC countries with large financing needs. We also believe that economic diversification would start virtuous circles, through increasing non-oil revenue and making the region more resilient to external shocks, and increasing banks' lending capacity and appetite toward the private sector.

**Last but not least, regional institutions need to play an important role in addressing many constraints and supporting efforts by CEMAC national authorities.** We welcome that there was broad support for the regional strategy and agreement to prioritize policies to bolster CEMAC's external sustainability and lay the basis for a diversified, inclusive, and sustainable growth, at the CEMAC tripartite meeting this May. Also, the regional

surveillance framework should be enhanced by strengthening the sanction mechanism in the case of non-compliance.