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June 28, 2021

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

We thank staff for the informative reports and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their helpful Buff statement. We broadly agree with the thrust of staff's appraisal and would like to limit our comments to the following for emphasis.

The pandemic crisis hit the CEMAC region before it could fully recover from the previous recession. Both the regional and national authorities have taken timely actions to mitigate the economic fallout, but the impact of the pandemic on the region's growth potential is long-lasting. The Fund's engagement through new and ongoing UCT programs could help to prevent further scarring and foster a strong, diversified, and sustainable recovery. We take positive note that some CEMAC countries have made good progress in debt restructuring negotiation with their bilateral official creditors. We call on private creditors to commit to debt treatment on comparable terms without delay, so that new Fund-supported programs could come to the Board in a timely manner.

A growth-friendly fiscal consolidation focusing on raising revenue is essential to preserve the external stability and debt sustainability. The authorities are encouraged to further raise non-oil revenues by strengthening the revenue collection and broadening the tax base. The CEMAC Commission's efforts to modernize customs administration across the region are welcome. Besides non-oil revenue, improving the management of oil revenue is also important to ensure the benefits from the oil sector are broadly shared by the whole economy. In this regard, we see merit in staff's suggestions on greater transparency in oil revenue and saving part of oil revenues when oil price is high. On the expenditure side, efforts on the regional level to urge national authorities to improve public investment management are welcome.

The priority of monetary policy should be addressing the region's weakened external position. The pandemic has largely weakened the region's external position, with the current account deficit deteriorated and external reserves dropped below 3 months of imports in the first quarter of 2021. The date to achieve an adequate level of reserves covering 5 months of imports is further delayed and goes beyond the forecast horizon in the baseline. To preserve the credibility and stability of the exchange rate arrangement, we agree with staff that the BEAC should stand ready to tighten its monetary policy, should the reserve decline further remarkably. While the envisaged new SDR allocation would help by adding freely usable currencies to the gross reserves, more should be done, including bringing the extractive sector into compliance with FX regulation. We welcome the recent progress in this area and look forward to its final implementation by end-2021.

The vulnerabilities in the financial sector warrants close monitoring and swift actions. As the pandemic abates, a strategy to gradually withdraw temporary relaxation of prudential regulations should be in place. A bank-by-bank study to assess the possible impact of the withdrawal is important. We encourage staff to provide the authorities with technical assistance if necessary. We note with concern that the progress in regulatory compliance and bank resolution is slow, with only 17 banks out of 50 in compliance with all prudential ratios and only one insolvent bank shut down recently. Like staff, we encourage the authorities to duly enforce the regulatory compliance and apply the resolution framework. The rising risks related to sovereign-bank nexus is another source of concern. While regulatory measures are needed to disincentivize banks' sovereign exposure, it is more important to promote the development of the domestic bond market and broaden the investor base.

Finally, we welcome the progress made by the CEMAC Commission in strengthening the regional surveillance framework and encourage the authorities to further implement structural reforms. Like staff rightly pointed out, the root cause of the region's vulnerability lies in the largely undiversified economy overly reliant on oil. Broad-based reforms are needed to improve the business environment and foster non-oil sector development. Moving up the value chain in the extractive sector is also a solution towards higher and more sustainable growth. In this regard, we encourage the regional authorities to provide a coherent framework to guide reforms in the national level.