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Statement by Mr. Trabinski and Mr. Tola on Central African Economic and Monetary Community
(Preliminary)
Executive Board Meeting
December 10, 2021

The commitments by the CEMAC Heads of States in support of the necessary reforms to strengthen the macroeconomic foundations in the region are welcome. They now need decisive implementation. The pandemic crisis has underscored the importance of enhancing macroeconomic resilience by maintaining adequate reserve and fiscal buffers as well as a judicious use of macroprudential and capital flow measures. Stability-oriented policies at the supranational level are essential to provide the basis for successful Fund-supported programs in CEMAC members. At the same time, policies at the supranational level can only be effective if they are accompanied with sufficient reform commitment and implementation at the national level.

We strongly agree that prospective Fund-supported programs should be underpinned by measures to reduce monetary financing and the risk of fiscal slippage as well as strengthen CEMAC's external position. We support staff's call for fiscal measures that counteract the impact of the restructuring of statutory advances on liquidity and domestic demand. Furthermore, we share staff's recommendation that CEMAC members with stronger fiscal position and better market access save half of the SDR allocations to strengthen the region's external position.

Fulfilling the revised assurances on further net foreign assets accumulation by end-2021 and end-June 2022 is crucial for supporting national reforms. BEAC has taken the necessary corrective action to rebuild net foreign assets. The change in foreign exchange regulations is expected to lead to a repatriation of a significant amount of foreign currency export earnings by oil and mining companies. However, the effect of this change on deposits of public entities held abroad is unclear. *Does staff have estimates of the volume of funds by* *public entities deposited abroad and the amount to be repatriated according to the foreign exchange regulation?*

We agree with staff on the need for fiscal consolidation and improve structural competitiveness to strengthen the external position in the medium term. The region's external position is in urgent need of strengthening, as evidenced inter alia by an insufficient reserve coverage ratio that may only recover to its benchmark level over the medium term and under a best-case scenario. This is particularly worrying considering the relatively benign external economic environment characterized by high oil prices and rebounding global growth. External sustainability hinges on adequately tighter monetary and fiscal policies combined with competitiveness-enhancing structural reforms and capital inflows. *If the recommended policy mix is implemented, will it be sufficient to reduce the overvaluation of the currency?*

The limited progress in resolving failing banks and the increasing sovereign-bank nexus in the currency union are worrying. We welcome the steps by COBAC to gradually normalize the prudential framework for banks. At the same time, we note with concern that compliance by banks with regulatory requirements and progress on bank resolution have lagged and the exposure of banks to government securities is increasing. *Is a broadening of the investor base sufficient to reverse this development? What other measures would be conducive to lower the levels of sovereign holdings by banks?*

CEMAC institutions and members must ensure an enhanced macroeconomic and financial transparency. Better disclosure on public finances, on the oil and gas sectors, and on debt profiles are crucial to foster private sector development and investment. The CEMAC bodies should make full use of the newly adopted stronger implementation mechanisms to advance the regional reform agenda through directives and the regional surveillance framework.