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GRAY/22/1629

June 17, 2022

**Statement by Mr. Jennings, Mr. O'Brolchain, and Ms. Cunningham on Central African
Economic and Monetary Community
(Preliminary)
Executive Board Meeting
June 22, 2022**

We thank staff for their comprehensive report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their helpful Buff statement.

We agree with the thrust of staff's assessment of the economic outlook and risks, as well as their policy recommendations. While high oil prices should improve the terms of trade and the macroeconomic outlook is more favorable than late last year, CEMAC's external position remains very fragile amid substantial downside risks.

We fully support staff's view that authorities should urgently rebuild fiscal and external buffers by capitalizing on the windfall high oil revenues and adhering to prudent fiscal policies. Staff rightly stress strengthening fiscal and external positions by using extra oil revenues to pay off expensive debts and reduce debt servicing costs. It is also critical to respect borrowing limits under Fund-programs, particularly non-concessional external financing. In the current context, protecting poor and vulnerable populations from high food and energy prices is also a high priority, but it should be accomplished—as much as possible—within existing fiscal envelopes, via targeted subsidies or cash transfers combined with improved social safety nets. We also agree with staff that price controls and trade restrictions should be discouraged to avoid exacerbating shortages and distortions.

We note that progress on recommendations from the Heads of State summit has been slow, including important reforms on public financial management (PFM). We welcome that authorities remain committed to the regional strategy and implementation of these reforms. Structural fiscal reforms, especially to enhance revenue collection, should be accelerated and improved public investment efficiency.

It is disappointing that CEMAC countries used most of their SDR allocations for domestic fiscal needs, leaving limited amounts to support reserve accumulation by BEAC. Authorities should aim to rebuild the SDR position in line with staff's guidance of 50 percent of the allocation for countries with market access to reduce liquidity pressures and risks from higher interest rates on SDR drawings.

BEAC has been tightening monetary policy and strengthening liquidity management appropriately. Monetary policy efforts have been aimed at containing inflation pressures and preserving the credibility of the currency peg. Further tightening may be needed to have external reserves grow in line with NFA targets, or to address additional effects from high global inflation effects.

Implementation of the foreign exchange (FX) regulation is underway, including for oil and mining companies. The report indicates that the foreign exchange regulation is an important CFM tool for BEAC to help build external reserves. *Could staff provide estimates on how much the FX regulation is expected to add to NFA over the next few years? Could staff comment on the extent to which banks have been complying with the regulation?*

COBAC is making welcome progress in normalizing the prudential framework, and we take positive note that authorities will closely monitor sovereign-bank nexus risks. We encourage COBAC to continue to advance reforms on risk-based prudential supervision, AML/CFT supervision, and implement the Basel roadmap. We welcome BEAC's and COBAC's efforts to manage liquidity-stressed banks to reduce reliance on BEAC. *Could staff comment on what is driving the rising number of banks with relatively high liquidity needs?*

COBAC has recently prohibited the use of bitcoin as legal tender in response to Central African Republic (CAR) law making bitcoin legal tender in CAR in late April. We agree that adoption of bitcoin as a legal tender raises substantial economic, legal, and financial stability risks. CEMAC's sudden need to enact this bitcoin prohibition underscores the rapidly emerging risks from volatile cryptoassets for Fund members and the need for Fund analysis and advice. We appreciate staff's detailed analysis of cryptocurrency risks in Annex I and note positively that CEMAC authorities benefited from Fund engagement on this front. We look forward to more staff analysis of cryptoassets more generally, and of digital money in the IMS and related papers mentioned at the Board discussion of the Workplan. *Since COBAC's prohibition of bitcoin only applies to entities under its remit, how much of CEMAC members' transactions would be affected? Are there remaining financial stability risks from entities outside COBAC's remit using bitcoin?*