

The contents of this document are preliminary and subject to change.

GRAY/22/1635

June 17, 2022

**Statement by Mr. Dresse and Mr. Manchev on Central African Economic and Monetary
Community
(Preliminary)
Executive Board Meeting
June 22, 2022**

We thank staff for the focused report and Messrs. Andrianarivelo, N'Sonde, and Nguema-Affane for their helpful Buff statement. Despite the low inoculation rate, weak health infrastructure, and fragile security situation in some of the member states, the economy of Central African Economic and Monetary Community (CEMAC) has bottomed up in 2021, supported by financial assistance from the Fund and development partners. **We broadly share the thrust of the staff appraisal of outlook and risks.** High international oil prices and improvements in the terms of trade provide CEMAC members with an opportunity to strengthen the community's external position in 2022 and alleviate the debt overhang going forward. The regional and national authorities should not miss this window to accelerate public finance management and governance reforms, rebuild fiscal buffers, and bring CEMAC on a path of stronger and more inclusive growth. Given CEMAC's already limited policy options, the main near-term challenge will be to shield the vulnerable population from soaring energy and food prices in the complex security and business environment.

IMF engagement

We support continuous Fund engagement in the CEMAC region. At the current juncture, the Fund's catalytic role is to further strengthen the process of external reserves accumulation and support macro-critical public finance management and governance reforms. Although the regional policy assurances on net foreign assets were again missed at end of December 2021, we are encouraged by the results from the 2022 Safeguards Assessment Update, which concluded in April 2022. Following legal reforms in 2017, implemented with the Fund assistance, the regional central bank (BEAC) maintained strong governance arrangements. BEAC also implemented an appropriate monetary and liquidity stance, hiking the interest rate to contain rising inflationary pressures, and normalizing the provision of liquidity. In January 2022, the long-delayed forex regulation was adapted to the oil industry, with ongoing discussions to finalize the framework for the repatriation of rehabilitation funds. The regional financial regulator (COBAC) started the normalization of its

supervisory stance by increasing the capital conservation buffer and bringing it closer to pre-COVID level. We also welcome the renewed policy commitments by the BEAC and COBAC and recent enhancements to the BEAC's monetary survey methodology.

Regional governance and surveillance

Further enhancement of regional governance and surveillance frameworks are essential, especially to ease supply-side inflation pressures. Priority should be given to tax policy coordination across CEMAC countries to timely adopt the new regional tax directives (on VAT, corporate income, and personal income taxes), and their subsequent implementation in domestic laws. These reforms will also help mobilize more non-oil revenue, facilitate the transition away from hydrocarbons, and reduce vulnerabilities to climate-related shocks.

We welcome the resumption of regional surveillance by the CEMAC Commission. Adherence to regional convergence criteria is essential for the credibility of the regional surveillance framework. We agree with staff that the adoption of the new sanction mechanism for breaches of regional surveillance rules would strengthen the enforceability of the framework. The directive related to fiscal tables should be implemented without delay to enhance transparency, the coverage, and dissemination of government finance and public sector debt statistics. Timely transposition of PFM directives into national legislation is warranted to operationalize integrated financial information management systems, introduce the program-based budgeting, and implement comprehensive domestic arrears clearance strategies and medium-term debt management strategies. *Could staff provide more detailed information on the CEMAC's Commission plan to conduct the first internal analysis of the early warning system and the status of the members' convergence plans?*

Common Monetary and Foreign Exchange Policies

We welcome the monetary policy tightening to curb the decline in reserves and further deterioration of CEMAC's external position. To ensure an effective monetary policy implementation, the BEAC should carefully implement measures with the Fund's technical assistance to contain risks to its balance sheet and progress in clearing arrears. Further strengthening of the BEAC monetary policy framework and clear communication are also paramount to preserve the credibility and stability of the CEMAC exchange rate arrangement. BEAC should continue to firmly enforce the foreign exchange regulation in line with the CEMAC's common policies in support of member countries' programs.

Financial stability

At the current juncture, regional regulators should focus on measures to enhance financial transparency, prevent accumulation of latent NPL losses, and limit the risk of sovereign-banks nexus. The coordination between BEAC and COBAC should be reinforced to guarantee that the COBAC's supervisory judgment and, reviews of recapitalization and funding plans are consistent with the monetary policy operations to provide liquidity to deficient banks. Given the recent trend in the banks' sovereign exposures, compliant with their mandates, the BEAC and COBAC should support the development of the secondary market for government securities and prevent segmentation of the government issuance market, as discussed in the paras 28 and 31 of the report. *Could staff provide an update on the most recent developments and the authorities' measures to address these risks?*

A swift regulatory response at the regional level is needed to address financial integrity concerns. The legal tender status of crypto assets at the national level represents a huge financial risk for CEMAC unless an effective AML/CFT framework in line with international standards is put in place. We welcome the COBAC decision on May 6 prohibiting the use of cryptocurrencies by entities under its remit. We also urge regional regulators to enhance coordination in exploring regulatory options to manage the development of crypto assets and effectively tackle the supervisory challenges that they pose.