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**Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane on Central African Economic and Monetary Community Executive Board Meeting  
June 22, 2022**

On behalf of the CEMAC authorities, we would like to thank the Executive Board, Management, and staff for the continued support to CEMAC member states and regional institutions in the implementation of the regional strategy to strengthen internal and external stability of the currency union.

As the regional economy recovers from the pandemic, the authorities are particularly grateful for the strong Fund support provided to the region during the health crisis, which has been critical to mitigate its human, social and economic impact in the region after experiencing a large commodity price shock at the inception of the pandemic. All six CEMAC countries (Cameroon, Central African Republic, Chad, Congo, Gabon, and Equatorial Guinea) now have arrangements with the Fund or are implementing a staff-monitored program. Moreover, they have used the SDR allocation for priority spending and other budget financing due to external support shortfalls, as well as for reserve accumulation at the central bank (BEAC).

The regional authorities have continued to provide policy support to CEMAC member states and implemented policies and reforms in the first half of 2022 consistent with the policy commitments from the December 2021 Follow-up to the Letter of Policy Support to Member Countries' Recovery and Reform Programs undertaken by the Member Countries. They pursued the withdrawal of pandemic-related policy support measures and tightened policy stance as needed to support reserve accumulation and contain inflationary expectations. Despite lower-than-expected external support, net foreign assets (NFA) stood above the target for end-December 2021 owing mainly to an upward revision following a methodological change in the monetary survey.

The CEMAC authorities agree that the external position remains fragile but expect that high oil prices will support rebuilding of fiscal and external buffers. They concur with staff's recommendations on fiscal policies and reforms to this end; pursuing financial sector

stability; implementing steadfastly the foreign exchange regulation while being attentive of the specificities of the extractive industries; and strengthening the regional convergence framework. They remain committed to the regional strategy and the implementation of the recommendations of the August 2021 Heads of State Conference which benefited from the participation of the IMF Managing Director. In this regard, they have provided updated policy assurances in the June 2022 Follow-up Letter of Policy Support.

### **Recent Developments, Outlook, and Risks**

**The macroeconomic situation of the CEMAC region has improved in 2021 amid the global recovery, despite the persistence of the COVID-19 pandemic.** The CEMAC economy is estimated to have grown by 1,1% in 2021, driven by higher commodity prices, relaxation of COVID-related restrictions and an accommodative fiscal stance in member states. Inflation was contained at 1.9 percent below the convergence criterion of 3 percent, but inflationary pressures developed in late 2021 with the global recovery and intensified in the first half of 2022, exacerbated by the spillovers of the war in Ukraine. Taking advantage of the improved environment, prudent budget execution and progress in revenue mobilization, overall fiscal deficit in CEMAC shrank by one third to 2 percent of GDP. At the same time, the public debt declined from 60.0 percent of GDP in 2020 to 58.1 percent in 2021. The current account deficit contracted sharply on the back of expanded exports, and gross international reserves increased although they declined in terms of imports coverage. However, delays in the completion of some Fund-supported program reviews and in disbursements of approved external support accentuated the decline in NFA. The NFA are on an upward trend since March 2022.

**The outlook of CEMAC economies for 2022 and the medium term is broadly favorable.** Some restrictions linked to the response to COVID-19 were lifted at the beginning of 2022 by the CEMAC countries to take account of the slowdown in contamination. Despite a low uptake in inoculation, the states are continuing vaccination campaigns, COVID tests and all other measures to contain the risks of new variants appearing in the sub-region. Economic growth is projected to accelerate to 4.2%, thus providing a favorable framework for the recovery objectives pursued as part of the community and solidarity strategy to get the crisis under control. High global food prices will push inflation above the regional convergence criterion of 3 percent in 2022. Consistent with countries' Fund-supported programs, efforts will be made to mobilize non-oil domestic revenue and further rationalize current expenditure in favor of capital investments and priority social spending. Together with projected high oil revenues, such efforts will further improve the overall fiscal balance by 3.1 percent of GDP and bring it back to positive territories. Public debt will continue to decline, with improved fiscal balances, and significant expectations remain about the outcome of the negotiations underway with external creditors to achieve the restructuring of public debt in Chad under the G20 Common Framework on the treatment of debt. The current account balance is expected to turn positive in 2022 on the back of higher commodity exports.

Assuming seamless implementation of Fund-supported programs and timely disbursements of external support, gross reserves will increase to 3.5 months of imports.

**This outlook is nevertheless marred by significant risks and uncertainties, which highlights the need for pursuing prudent policy implementation in the context of current Fund arrangements.** A major risk is a rebound of COVID infections which could once again constrain growth dynamics. Projections also hinge on the duration and intensity of the crisis between Russia and Ukraine. Ongoing monetary policy normalization and tightening by major central banks in reaction to global inflation could lead to tighter financial conditions and limit investment and financing flows to the region. A large passthrough of global inflation into domestic prices will present both regional and national authorities with a significant challenging policy tradeoff between protecting the most vulnerable and pressing ahead with policy normalization. It is worth stressing the security risk that high inflation could heighten. Considering all the above, the authorities remain resolutely committed to pursuing the appropriate and necessary structural reforms and macroeconomic policies to preserve the viability of public finances and consolidate the external stability of the currency, while pursuing their development objectives. They call for greater flexibility in Fund arrangements to account for these potential risks to program implementation.

### **Monetary and Prudential Policies and Structural Reforms**

**The normalization of monetary and prudential policies initiated in 2021 continued in the first half of 2022.** Considering the declining trend in international reserves, the central bank BEAC commenced tightening its monetary policy by raising its key policy rate (TIAO) and the marginal lending facility rate by 25bps in November 2021, and by additional 50 bps in March 2022. In the same vein, BEAC tightened its liquidity policy by gradually lowering its weekly liquidity injections from CFAF 250 billion to CFAF 160 billion over the past six months and increasing its liquidity absorption rate. Further, BEAC terminated two of its three long-term liquidity injection operations and withdrew access by banks in a situation of structural dependence on liquidity injections. The haircuts applied to government securities for monetary operations eased in 2020, were raised in September 2021 and again in May 2022. Changes in the interbank rate and the weighted average bid rate reflect the effectiveness of the measures taken in terms of liquidity management.

**BEAC also proceeds with the implementation of the foreign exchange regulations.** The agreement concluded in December 2021 with oil and mining companies is now being implemented. The opening of foreign exchange accounts within the banks in the region to allow repatriation of export revenues is proceeding as planned, and those accounts will be protected from seizure-attribution and/or seizure on bank account. Discussions on the operational modalities for the repatriation of funds dedicated to the rehabilitation of oil sites are still ongoing. The application of the foreign exchange regulations to the public enterprises will be also critical to strengthen the region's external stability. The full impact of the

application of the foreign exchange regulations on reserve accumulation is expected in the next few years.

**Other reforms carried out by the central bank to enhance public financial management (PFM) and safeguard BEAC's balance sheets also continue.** The modernization and security upgrade of the IT infrastructure to support public financial management, notably the operations of members' single treasury accounts, are advancing and should be completed by end-2022. At the same time, progress is being made in implementing the financial transparency strategy with steady progress in the selection of a credit information bureau and the establishment of the credit risk registry. BEAC welcome the recent safeguards assessment report and will work on implementing related recommendations. BEAC share staff's view on the need to contain risks stemming notably from its holdings of bonds bought in the context of the COVID-19 pandemic.

**Normalization of prudential policy by the regional banking commission COBAC is progressing.** Normalization begun through the gradual increase in capital requirements under capital conservation buffers in 2021. COBAC is working on lifting all remaining temporary prudential easing measures by mid-2022 and ensuring that banks comply with asset classification and provisioning rules afterwards. COBAC will also closely monitor recapitalization procedures and the evolution of the sovereign-bank nexus risk and stand ready to accelerate bank resolution procedures as necessary. The banking commission will support efforts of BEAC to control liquidity injections by monitoring banks' refinancing needs and supporting the requirements for refinancing plans for banks in structural liquidity needs. COBAC will particularly work with member states on strengthening public banks and advancing the implementation of arrears clearance strategy to reduce risks to financial stability. The reform of the processes and tools for the implementation of the risk-based prudential framework and AML/CFT supervision and alignment of certain prudential rules with Basel standards are ongoing. The authorities take note of staff's recommendation against a segmentation of the government issuance market and will examine it.

**COBAC is closely monitoring the emergence of crypto assets in member states and took emergency measures to preserve financial stability.** In May 2022, COBAC reminded certain prohibitions related to the use of crypto assets within CEMAC, to the subscription or holding of cryptocurrencies of any kind, and the prohibition of bitcoin or any other cryptocurrency. COBAC has also decided to take several measures aimed at setting up a system for identifying and reporting transactions related to cryptocurrencies. All regional regulators (BEAC, COBAC and COSUMAF) will work together to adapt the regulatory framework to contain risks associated with crypto assets in CEMAC. The regional authorities appreciated very much the discussions with staff on the issue.

**The CEMAC Commission is resuming the regional surveillance consultations in 2022 following a pause during the pandemic.** The Commission will continue to develop

directives for strengthening public financial management in member states, with the assistance of the Fund, encourage the transposition of the six regional PFM directives adopted in December 2021 into national legislation and promote the implementation of structural reforms to boost intra-regional trade under the PREF-CEMAC.

### **Policy Assurances**

#### **The regional authorities remain committed to supporting the economic recovery and reforms undertaken by the CEMAC member states under Fund-supported programs.**

While noting that the region should overall benefit from the rise in oil prices, they are of the view that policies need to be put in place to contain inflationary pressures and limit their impact on people's purchasing power, in a context already marked by security and socio-political challenges. Indeed, through the surge in the energy and food prices, the war in Ukraine is inducing significant supply and demand shocks, the persistence of which could deteriorate the living standards of the populations and lead to social claims and, possibly, unrest. This could also affect the proper functioning of enterprises and deteriorate the viability of public finances in the CEMAC countries. In addition, this situation could limit the increase in foreign exchange reserves and highlights the problem of food security in CEMAC and the need to develop existing local production chains. Thus, the war in Ukraine has brought further to light the low levels of economic diversification, resilience, and intra-community trade in CEMAC.

**Given the uncertain international environment, the regional authorities have provided updated policy assurances to support internal and external stability.** Considering policy commitments for the period ahead and assuming satisfactory implementation of Fund-supported programs, BEAC projects that NFA will respectively increase to EUR 2.81 billion at end-June 2022 and EUR 3.73 billion at end-December 2022, using the updated monetary survey methodology.

### **Conclusion**

While the regional outlook has improved, elevated external and regional risks call for continued vigilance and the need for the Fund to support regional and national policy efforts to sustain the recovery, safeguard internal and external stability and promote long-term diversified and inclusive growth. To this end, the regional authorities remain committed to working closely with member states and the Fund and provide the necessary policy assurances.