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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/54-1

10:00 a.m., June 24, 2019

1. Central African Economic and Monetary Community—Common Policies in Support of Member Countries Reform Programs

Documents: SM/19/146

Staff: Toujas-Bernate, AFR

Length: 1 hour, 13 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	**Alternate Executive Directors**
	O. Odonye (AE), Temporary
M. Raghani (AF)	
G. Lopetegui (AG)	
	G. Preston (AP), Temporary
	B. Saraiva (BR)
	P. Sun (CC)
	P. Moreno (CE)
	A. McKiernan (CO)
	C. Just (EC)
	A. Castets (FF)
S. Meyer (GR)	
	P. Dhillon (IN), Temporary
	M. Psalidopoulos (IT)
	Y. Saito (JA)
J. Mojarrad (MD)	
	D. Fadhel (MI), Temporary
	T. Manchev (NE), Temporary
	J. Sigurgeirsson (NO)
	L. Palei (RU)
	B. Alhomaly (SA), Temporary
	A. Srisongkram (ST), Temporary
P. Inderbinen (SZ)	
	A. Clark (UK), Temporary
	P. Pollard (US), Temporary

C. McDonald, Acting Secretary
S. Maxwell, Summing Up Officer
M. Gislen, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: C. Delechat, D. Desruelle, K. Nassar, D. Owen, M. Perinet, D. Robinson, S. Rosa, J. Toujas-Bernate. European Central Bank: K. Nikolaou. Finance Department: M. Albino Orjuela. Legal Department: J. Swanepoel. Monetary and Capital Markets Department: J. Portier. Research Department: S. Rehman. Strategy, Policy, and Review Department: N. Porter. World Bank Group: F. Bellocq, N. Fiess, V. Pillai.

Executive Director: A. Mahasandana (ST), N. Ray (AP). Alternate Executive Director: A. Guerra (CE), H. Razafindramanana (AF). Senior Advisors to Executive Directors: P. Harvan (EC), R. Morales (AG), T. Nguema-Affane (AF), R. N'Sonde (AF), M. Sidi Bouna (AF), G. Vasishtha (CO), J.Weil (CO), C. Williams (CO). Advisors to Executive Directors: S. Bah (AF), D. Crane (US), Z. Huang (CC), M. Merhi (MI), L. Nankunda (AF), E. Ondo Bile (AF), A. Park (AP), N. Vaikla (NO), F. Antunes (BR), A. Tola (SZ).

1. CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY—COMMON POLICIES IN SUPPORT OF MEMBER COUNTRIES REFORM PROGRAMS

Mr. Raghani and Mr. N'Sonde submitted the following statement:

On behalf of our CEMAC authorities, we would like to thank Staff, Management and the Executive Board for the support to CEMAC countries and institutions since the inception in December 2016 of the regional strategy to exit the unprecedented crisis triggered by the collapse in international oil prices and exacerbated, in some countries, by security-related challenges.

Following the Board meeting on CEMAC Common Policies last December, further progress has been made by member states and regional institutions in implementing required policies and developing a stronger foreign exchange regulatory framework, with a view to safeguarding internal and external stability. Policy assurances provided by the regional central bank (BEAC) and the banking supervisory body (COBAC) in the December 2018 Follow-up Letter of Support to the Recovery and Reform Programs Undertaken by CEMAC Member Countries were implemented as planned. As a result of all these efforts, and aided by a rebound in oil prices, the Community's external position has strengthened, and external reserves have started to accumulate anew.

Looking forward, challenges remain. The CEMAC authorities are cognizant of the importance of pursuing adjustment and reform agendas at both national and regional levels. They continue to share the view that the success of the regional strategy also rests on the two remaining countries—Republic of Congo and Equatorial Guinea—benefiting from the Fund's catalytic support. Progress has been made on this front, and they look forward to the approval of such IMF-supported programs.

The commitment of CEMAC authorities to their regional strategy is unwavering. The meeting of CEMAC Heads of State which took place in N'Djamena, Chad on March 24th, 2019, was an opportunity to reiterate their resolute engagement in an orderly, concerted and solidary exit from crisis. The highest CEMAC authorities provided strict guidance for full observance of national fiscal adjustment objectives set forth under IMF-supported programs and for strict compliance with the enhanced foreign exchange regulations. To increase the chances of successful implementation, the authorities have also set-up semi-annual Tripartite consultations involving country authorities at the ministerial level, CEMAC regional institutions and IMF staff to take stock of progress and discuss contingency measures. They held such first meeting on April 2nd, 2019 in Douala, Cameroon, which resulted in setting or re-emphasizing policy actions for member states and each relevant institution (see Annex I of staff report on Policy Commitments at the First Tripartite Discussions).

Recent Developments and Prospects

While regional growth in 2018 remained below pre-crisis levels, it nevertheless rebounded to 2.5 percent from 1 percent in 2017, aided by a stronger oil sector activity. Adjustments in administered prices to streamline energy and other subsidies contributed to rising inflation whose PPP GDP-weighted average reached 2.1 percent. In this context, CEMAC countries, including the two that have yet to conclude a Fund arrangement, have pursued strong fiscal consolidation through both significant spending cuts and increases in revenue, bringing the regional primary fiscal position in surplus, the overall fiscal position close to balance, and the average public debt-to-GDP ratio down to 50 percent.

BEAC has maintained a tight monetary policy stance since its decision in October 2018 to increase its policy rate by 55 basis points and continued its gradual reduction of liquidity injections. While this latter action to date has not fully offset the excessive liquidity in the banking sector owing to the autonomous factors and moderate credit growth, it nevertheless pushed the weighted average auction rate up and improved banks' use of the marginal lending facility.

The restrictive macroeconomic policy mix, coupled with higher oil prices, contributed to lowering external current account deficits and building up gross reserves to a level covering 2.7 months of imports at the end of 2018. Gross reserves have continued to increase thereafter.

It is in this context that BEAC and COBAC have met in a timely manner all their policy assurances provided in December 2018, notably the adoption and operationalization of the revised foreign exchange regulations; the implementation of measures to modernize the central bank's monetary policy operational framework; and the achievement of the end-2018 regional target on regional net foreign assets (NFAs) which was exceeded.

Looking ahead, the CEMAC's outlook remains broadly favorable, with notably: (i) real GDP growth expected to stabilize around 3 percent over the medium term; (ii) continuous decline in the public debt-to-GDP ratio to below 40 percent by 2023; and (iii) the narrowing of external imbalances which, along with a strict enforcement of foreign exchange regulations, would contribute to reserve accumulation up to 5 months of import cover by 2022.

Aware of the risks facing the outlook—notably stemming from weaker program implementation, further delays in the approval of IMF arrangements with Equatorial Guinea and Republic of Congo, a significant decrease in oil prices, or an increase in security challenges—CEMAC authorities understand the importance of persevering in the execution of the regional strategy and standing ready to take corrective actions if those risks came to materialize. They intend to consult promptly, including under the Tripartite forum as needed, to design and implement such contingent policies.

Staying the Course with the Regional Strategy

CEMAC authorities broadly share Staff's policy recommendations. They continue to put emphasis on safeguarding external stability and welcome the focus of recent discussions with Fund staff and Management on building external reserves through: (i) continued tight monetary policy with strengthened interest rate transmission; (ii) reducing the excessive liquidity in the banking sector while supporting liquidity-stressed banks; (iii) strict compliance by state-owned enterprises in extractive industries, private exporters and banks with foreign exchange regulations, notably the required repatriation and surrender to the central bank of foreign exchange receipts. As part of their commitments under their respective Fund-supported programs, national authorities will support regional institutions in this endeavor and help communicate on the regulations to alleviate any concerns among the private sector.

CEMAC authorities reiterate their view that the achievement of regional objectives hinges on satisfactory implementation of member countries' fiscal consolidation plans and reforms. The sizeable fiscal adjustment programs underway and countries' renewed commitment to keep their program on track bode well for the attainment of those objectives, notably the end-2019 target on NFAs which was revised slightly downward on the basis of new oil price projections. Nevertheless, continued vigilance is required given existing risks. Likewise, reforms to improve public financial management (PFM) and reinforce public sector governance, including the system of checks-and-balances contained in the CEMAC legislation, should help enhance fiscal sustainability. The CEMAC Commission puts high value on member states implementing the regional directives on PFM and harmonization of fiscal revenue mobilization.

Besides maintaining a restrictive monetary policy stance, BEAC will strive to move towards a gradual neutral liquidity absorption, with the view to enhancing the transmission channels of monetary policy. As explained in the BEAC's Follow-up to the Letter of Support on regional policy assurances of June 10, 2019, the progressive approach is warranted out of concern for (i) the development of the interbank and public securities markets; (ii) the viability of banks already under liquidity stress; and (iii) the operating losses that would be born by the central bank. In addition, the excessive liquidity is mainly held by foreign-owned banks that practice very conservative lending policies, which poses little risk to inflation. Moreover, member countries' single treasury account reforms and the restructuring of distressed banks should help remove potentially large amounts of liquidity from banks.

Regarding the resolution of distressed banks, BEAC is following up on Staff advice and preparing a new regulation including: (i) specific criteria to identify a liquidity-stressed bank that make extensive use of BEAC refinancing; (ii) an obligation for such bank to develop, submit and implement a credible funding strategy, monitorable by COBAC, and aimed at reducing its liquidity needs from the central bank; (iii) and sanctions in case of noncompliance with such requirement. The adoption of the new regulation is expected by end-July 2019. COBAC will also continue to ensure banks' compliance with exchange regulations and prudential standards to strengthen the sector's stability.

Risk-based bank supervision is also essential to ensuring financial stability in CEMAC. The Strategic Plan 2019-21 developed by the Secretariat General of COBAC (SG-COBAC) includes specific reforms of the supervisory processes and tools for an effective risk-based supervision. It also contains actions to modernize prudential norms and step up efforts against money laundering and terrorism financing. The SG-COBAC has adopted a proactive approach to reducing non-performing loans (NPLs) and repairing bank balance sheets, including by assessing the impact of national arrears repayment plans and requiring each troubled bank to submit an NPL reduction plan. It continues to prepare the transition to Basel II/III and IFRS standards.

The regional development bank BDEAC has recently adopted significant governance and internal control reforms. These will contribute to restoring its financial soundness and lessen its recourse to central bank financing.

The regional authorities also underscore the criticality of advancing economic diversification and fostering regional integration to enhance resilience and sustain growth. Reforms envisaged under the regional reform program (Programme de Réformes Economiques et Financières, PREF) include strict compliance of contracts in extractive industries with the regional directives on transparency. It also contains measures to improve the business environment. The CEMAC Commission continues to strengthen its multilateral surveillance framework and follow up on the Heads of State's guidance to elaborate a binding sanctions scheme applicable in cases of breaches of norms. To accelerate regional convergence, member countries are required to submit to the Commission their triennial convergence programs by end of July 2019 and credible domestic arrears clearance plans by end-2019.

Conclusion

The CEMAC authorities remain committed to the regional crisis exit strategy. They have provided new policy assurances to support member countries' efforts to restore internal and external stability. They also stress the importance of timely disbursements of budget support committed by external partners and swift conclusion of IMF financial arrangements with Congo and Equatorial Guinea. Our CEMAC authorities continue to appreciate Fund's support to their reform efforts.

Mr. Palei and Mr. Tolstikov submitted the following statement:

We thank staff for the informative report and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. The sustained implementation of the regional strategy underpinned the reduction of the fiscal and current account imbalances in the CEMAC area. External position has improved, helped by significant fiscal consolidation by the CEMAC countries and higher oil exports in 2018. Accumulation of net foreign assets (NFA) is proceeding ahead of schedule. Inflation in most member countries remains below the regional convergence criteria, supported by tight monetary policy.

Notwithstanding the recent progress, the CEMAC area is facing substantial challenges. Foreign reserves are still short of desirable level, while fiscal consolidation has been achieved primarily through cuts in the infrastructure investment programs. While maintaining economic stability and protecting regional reserves should remain key objectives of the regional strategy, attention should gradually shift to addressing development challenges. Non-oil growth remains low and economic diversification falls short of aspirations. Continued efforts are needed to address financial sector vulnerabilities, improve business climate, and ensure job creation for fast-growing population.

The full commitment of the CEMAC authorities to the regional strategy remains critical, and in this respect, the support expressed by the CEMAC Heads of States at their 2019 meeting is encouraging. We welcome the creation of the Tripartite forum for regular consultations between the national authorities, the regional institutions, and the IMF. We look forward for the discussions on the IMF-supported programs with Congo and Equatorial Guinea.

Notwithstanding a sluggish non-oil growth, the BEAC's monetary policy continues to be geared towards external stability and the NFA accumulation. After increasing the policy rate in October 2018, the BEAC is keeping it unchanged. Admittedly, the transmission mechanisms between policy rates and banks' interest rates remain weak. Excess liquidity absorption would help in strengthening monetary policy transmission, but its pace should be calibrated to take into account financial stability considerations.

Until recently, the efforts on the regional level to improve repatriation of export proceeds were only partly successful, which slowed down accumulation of reserves. Strict implementation of the new Foreign Exchange Regulation can address weaknesses in this area. We note that BEAC is finalizing its implementation instructions and soon will be able to apply sanctions. On their side, the CEMAC countries' authorities should strengthen their enforcement, especially in extractive industries and public entities. These efforts should be complemented by an upgraded communication strategy.

The member states recently have achieved substantial improvements in the fiscal area, bringing overall regional fiscal position close to balance. The average public debt-to-GDP level ratio has declined for the first time in several years. However, these improvements were mainly driven by spending cuts. Going forward, fiscal consolidation needs to become more growth-friendly. Non-oil revenue-enhancing measures should play a larger role, including strengthening tax and customs administration, reducing exemptions, and streamlining and harmonizing tax legislation.

We welcome the adoption of the COBAC strategic plan, which aims at modernizing and aligning CEMAC's regulatory framework to Basel standards, introducing consolidated supervision and strengthening risk-based supervision. The quality of bank portfolios is deteriorating, as NPLs are growing because of substantial government arrears. Repayment of government arrears is essential to reduce NPLs level and support credit to the private sector. We note that the COBAC is requesting all national authorities to provide government arrears repayment plans. Could staff comment on the progress in this area?

Mr. Saraiva and Mr. Antunes submitted the following statement:

We thank staff for the reports and Mr. Raghani and Mr. N'Sonde for their very useful statement. The broad macroeconomic scenario in the member countries of the Central Africa Economic and Monetary Community (CEMAC) is stable, including moderate growth acceleration, declining debt and controlled inflation, underpinned by consistent progress in the fiscal front. Nevertheless, fragilities persist, as the region's overall economic performance remains largely dependent on the oil sector. We encourage national authorities to persevere in the path of adjustment and structural reforms, and the Bank of Central African States (BEAC) to continue building buffers in a context of international economic uncertainty.

Progress in macroeconomic adjustment has taken place in the last couple of years, growth is accelerating, and public debt is finally decreasing. Fiscal consolidation efforts backed by IMF programs are beginning to bear fruits. After the oil price-induced crisis, followed by a couple of years of sluggish growth, GDP is projected to rise by 3.4 percent in 2019. Although average yearly inflation is also accelerating, it is projected to remain below 3 percent in most countries. Better economic performance coupled with the fiscal efforts of national authorities made possible the reversion of the debt trajectory. After a decade of substantial increases, the public debt-to-GDP ratio started to decline. In this context, we echo staff's calls for CEMAC countries to remain committed to their program objectives. The approval of new IMF-supported programs for Congo and Equatorial Guinea shall help improving the medium-term outlook for the entire region.

The recent developments allow for some cautious optimism; nevertheless, the economic situation in the region remains challenging. International reserves levels are still relatively low, growth lingers at a slow pace in most countries, and fragilities in the banking sector persist. Overall, the overdependence on the oil sector, insufficient institutional development and relatively small domestic markets pose sizable structural difficulties to the region. In the long run, continued fiscal discipline shall aim to create space for much needed social and infrastructure investments, with a view to improving the performance of the non-oil sector and generate jobs for the growing population. Moving forward, we strongly encourage the authorities to explore the potentialities of the broader CEMAC consumer market, stimulate economic diversification and strive to improve the regional business environment.

The tighter monetary stance adopted by the BEAC contributed to stabilize the region's economy, setting the macroeconomic conditions for the upcoming recovery. However, there is no room for complacency, particularly considering looming uncertainties in the international outlook. We take note of the progress recently made towards the accumulation of international reserves, but we second staff's assessment that the reserves import coverage remains below appropriate levels for a resource rich currency union. The present window of opportunity created by the macroeconomic stabilization should be carefully used to rebuild buffers. Accordingly, and assuming that inflationary pressures remain checked, we concur that BEAC's monetary policy stance should continue to focus on external stability.

Liquidity management remains critical to strengthen the monetary policy channels and mitigate external risks. Excess liquidity in the banking sector negatively affect the monetary policy traction. Although the concentration of excess liquidity in foreign banks – which display a conservative lending stance – does not present a high risk of inflationary pressures, a move by the BEAC to sterilize increasing excess liquidity would help securing external stability. We sympathize with the authorities' more gradual approach, which highlight the need to properly account for market development constraints, specific liquidity-stressed banks' fragilities, and likely operating losses by the central bank. That notwithstanding, we understand that the gradual, progressive approach proposed by BEAC requires closely monitoring developments on this front. Within this context, does staff have a preliminary assessment of how much liquidity could by drained from the system by the adoption of single treasury accounts? Relatedly, is there an estimate of how much would be the cost of sterilization for the central bank?

The ambitious 2019-21 strategic plan to strengthen the banking sector supervision is a step in the right direction. We commend the efforts to modernize CEMAC's regulatory framework. Gradual convergence to Basel standards, the implementation of a more effective, risk-based supervision, and the strengthening of the framework on risk management and internal controls will provide the institutional support for the development of a reliable and competitive banking sector.

Finally, we commend BEAC and COBAC for implementing the policy assurances provided last December. Such performance is an indicator of the high commitment of regional authorities to the agreed approach to cope with the crisis and support strong and sustainable growth. We were also encouraged by the establishment of the semi-annual tripartite consultations, which has been inaugurated in April and heightens the chances of successful implementation of each of the countries' IMF-supported programs.

Mr. Saito and Mr. Shimada submitted the following statement:

We thank staff for the comprehensive report and Mr. Raghani and Mr. N'Sonde for their informative statement. While the regional strategy has helped to avert an immediate crisis, the Central African Economic and Monetary Community (CEMAC) region's economic situation remains fragile and the region is facing daunting development challenges over the longer term. We also take note of the high dependency on oil revenue, the vulnerabilities in the financial sector and the weak performance of program for Gabon. We encourage regional institutions to continue support the regional strategy. As we broadly concur with the thrust of the staff's evaluation and appraisals, we will limit our comments to the following points.

Monetary Policy and Foreign Exchange Regulations

We support the BEAC's policy stance to focus on external stability and welcome the increase of reserve coverage. Having said that, we take note that the level of reserve remains below the target of resource rich countries. We agree with staff that BEAC need to stand ready to tighten monetary policy in case that the pressure on external reserves emerge or inflation increases strongly. We also concur with the staff for recommending BEAC to sterilize the increasing excess liquidity as it could potentially represent a risk for external stability and inflation. On the other hand, there are needs for dealing with liquidity-stressed banks. In this light, we see the difference of views between the authorities and staff regarding reduction pace of excess liquidity, reflecting the authorities' concern on liquidity-stressed bank. Given the difference, we would like to know staff's views on how to address the concern.

We take note that authorities are committed to ensure strict implementation of new Foreign Exchange (FX) regulations. We encourage authorities to execute new regulations effectively with a thorough communication effort. Having said that, as new FX regulations are categorized as capital flow management (CFM) measures, it is important to clarify the conditions which enable the authorities to remove the regulations. We welcome staff's comments on this issue.

Financial Sector

We welcome that COBAC has focused on the implementation of a risk-based supervision on financial sector. We encourage COBAC to continue the effort to modernize the supervision flamework. Furthermore, we agree with staff that COBAC need to address banks' non-performing loans (NPLs), which are mainly caused by government arrear in order to strengthen banking sector and enable bank to finance the private sector. In this regard, while COBAC views government arrears repayment plans are critical to enhance confidence in the market, we would like to know estimation of NPLs reduction in case that government arrear is resolved in line with the pace suggested by IMF sponsored programs.

Program related issue

We welcome that the CEMAC authorities set-up a Tripartite consultative forum with country authorities, regional institutions, and IMF to discuss further policy responses in case of new emerging challenges or weak program implementation. In this relation, we take note with concern that the performance of program for Gabon remains weak and the authorities continue to accumulate new external arrears. In the second review of the program in August 2018, many chairs expressed the concern that Gabon did not clear arrear even though authorities committed it under the first review. Nevertheless, we are disappointed by the fact that Gabon accumulates new arrears. Based on these facts, we strongly urge authorities to prevent accumulation of further arrear and commit to keep the program on track.

Mr. Psalidopoulos and Ms. Lopes submitted the following statement:

We thank staff for the report and Mr. Raghani and Mr. N'Sonde for their informative buff statement. We broadly share staff's assessment and would like to focus on a few points.

The strategy devised almost three years ago has contributed to the stabilization of the CEMAC's economy. Tighter fiscal and monetary stances, coupled with financing assistance, have enabled an improvement in the external position. Nonetheless, progress in achieving economic diversification has been limited – as the underwhelming performance of non-oil growth demonstrates. In a way, a full-blown crisis was averted, but conditions to ensure medium term sustainability have not been yet set. At this stage, and when thinking about how to move forward, it is fundamental for staff and the authorities to reflect upon the reasons why growth has not been unlocked and to tailor program design to foster it. Could staff further elaborate on why non-oil growth has not picked up and how can the current – and future – Fund involvement be improved to foster it?

We note that the net foreign assets (NFA) target was exceeded, but reserves import coverage remains below appropriate levels. Ensuring an adequate accumulation of NFA will continue to be key to the success of the strategy; we support the policy assurances requested at regional level in this regard. Nonetheless, like staff, we consider that the strict implementation of the foreign exchange regulation, especially if not well communicated, can have a detrimental impact on the business environment. We encourage the authorities, notably BEAC, to further engage with representatives of the business community to ensure that the regulation does not become a hurdle to investment. We would also appreciate staff's views on which measures can be implemented to prevent a possible negative impact of the regulation on the business environment.

The financial sector remains fragile, and we look forward to the implementation of the strategic plan 2019-2021 adopted by COBAC. Nonetheless, we note that the additional deterioration of the banks' portfolio reflected the legacy of government arrears – as many of the defaults occurred on loans with direct or indirect sovereign guarantees. This is very concerning. Which measures have been taken to deal with government arrears? In which countries is this a most pressing issue, and in which has this been reflected on banks' asset quality? What else can be done, at the level of program design, to address this problem?

Mr. Doornbosch, Mr. Meyer, Ms. Kuhles and Mr. Manchev submitted the following joint statement:

We thank staff for the focused report and Messrs. Raghani and N'Sonde for their informative buff statement. Implementation of all planned regional policy assurances since December, especially the adoption of the revised foreign exchange regulation in March 2019, have been encouraging steps in the right direction under the regional strategy to reinstate macroeconomic and financial stability. The broadly satisfactory program performance under most of the existing IMF-supported arrangements and further progress by the other CEMAC members to engage with the Fund have also supported improvements of the economic conditions. However, despite the sizable fiscal consolidation efforts in most of the CEMAC countries in recent years as well as the tighter common monetary policy, fiscal and external imbalances persist. The banks' portfolios have further deteriorated in

2019 mainly reflecting the legacy of the government arrears, and the process to resolve the growing number of problem banks that needs to be streamlined. In this context, we would like to emphasize that prudent policies and appropriate adjustment efforts by the national authorities in the individual member countries are key to maintaining stability at the currency union level. Corrective measures in response to adverse developments under the control of national authorities should be primarily targeted at the national level to the extent possible to avoid that insufficient national adjustment efforts put heightened pressure on regional institutions. Since we share the thrust of the staff appraisal, the comments below are provided for emphasis.

Common Monetary Policy

The BEAC's monetary policy should remain focused on restoring external sustainability and building reserve buffers. Recent progress with modernizing the monetary policy implementation framework, especially through implementing the revised foreign exchange (FX) regulation, should also contribute to strengthening the monetary policy transmission. In coordination with the national authorities, the BEAC should establish a robust monitoring and enforcement capacity, and we welcome the additional resource allocation to ensure the prompt execution of the legitimate foreign exchange requests. Inclusion of the national authorities' commitments regarding the new FX regulation into the IMF-supported programs, together with strong fiscal policies, will also help strengthen the implementation process. Appropriate communication with the other important stakeholders -like banks and operators of the extractive industries- is warranted, and we welcome the World Bank technical assistance to support the CEMAC communication strategy on the revised FX regulation. Prospective introduction of the open-market operations by the BEAC will further improve liquidity management and monetary policy effectiveness.

Financial stability

We welcome the COBAC's ambitious strategic plan 2019-21 to introduce a risk-based supervision and make the CEMAC's regulatory framework compliant with the Basel standards. Streamlining the information exchange and coordination with BEAC will also be critical to address the excess liquidity of the banking system and enhance compliance with the new FX and AML/CFT regulations. The COBAC's new NPLs' monitoring strategy, which is supported by concrete short-term actions, should gain credibility if accompanied by a timely resolution process for the growing number of insolvent banks. We also agree with staff and COBAC that concrete repayment plans for the government arrears are critical for a proper assessment of the NPL risks and bank balance-sheet repair.

Regional surveillance and fiscal discipline

The CEMAC Commission has recently made important progress with strengthening the multilateral surveillance framework. Development of an early warning system with the assistance of the World Bank would help detect the signs of potential breaches of the convergence criteria by the member states and facilitate further work on developing appropriate corrective measures. We also welcome the important steps to harmonize revenue mobilization in CEMAC and encourage steadfast implementation of the key public finance management directives, given that the continued fiscal consolidation remains essential for rebuilding buffers and ensuring fiscal sustainability. In this regard, staff should proactively address the governance issues at both the regional and national level.

Finally, we welcome the meeting of the Tripartite Consultative Forum, which can play a supportive role to facilitate discussions of policy responses in case of new emerging challenges or weak program implementation in the CEMAC.

Mr. Ray, Ms. Preston and Ms. Park submitted the following statement:

We thank Mr. Raghani and Mr. N'Sonde for their informative buff statement and staff for the comprehensive report. We welcome the progress that has been made by member states and regional institutions in implementing required policies, and note that these efforts, along with an increase in oil prices, have seen CEMAC's external position strengthen and external reserves pick up. Nonetheless, we agree that challenges remain and further progress in pursuing adjustment and reform agendas at the national and regional level is needed. In a context where downside risks remain substantial, we encourage staff and the authorities to monitor developments closely and be ready to discuss potential policy responses to new challenges or weak program implementation.

A lack of commitment on adjustment efforts by individual countries remains a key risk to the program. Progress towards IMF programs for the two remaining members of the union is welcome, as is the strengthening of regional consultation through the creation of the tripartite consultative forum. We note that a program for Republic of Congo is due to be considered by the Board soon, and that Equatorial Guinea is continuing to take steps towards beginning discussions of a new IMF-supported program. Nonetheless, this represents a further delay relative to expectations in December that new IMF arrangements with Congo and Equatorial Guinea would be adopted in the first half of 2019. Can staff elaborate on the likelihood that Equatorial Guinea will adopt IMF arrangements in the new timeframe? How would the failure to enter a program arrangement affect the regional strategy, and what mitigating actions would be needed? The achievement of regional objectives hinges on satisfactory implementation of member countries' fiscal consolidation plans and reforms. We welcome the authorities' continued strong commitment to the regional strategy and the creation of the tripartite consultative forum as a mechanism to monitor and respond to emerging challenges or weak program implementation. We note that staff now assess the downside and upside risks to the outlook to be broadly balanced and welcome the identification of possible corrective actions, including an acceleration of fiscal adjustment and structural reforms and a further tightening of monetary policy.

The regional policy assurances are critical to the success of the program and clarity on past and present policy commitments is important to aid accountability and transparency. We welcome the successful completion of December 2018 policy assurances, as set out in Table 1, and the updated policy assurance on NFA accumulation provided in the June 2019 follow up letter. We wonder whether some of the other areas where staff are recommending actions by regional institutions – including notably COBAC efforts to address banking sector weakness – should also be considered critical to the success of the program and included in the Letter of Support in the clear, specific and monitorable form set out in the Board guidance on program design in currency unions. Staff comments are welcome.

Given staff's concerns about the risks associated with increasing excess liquidity, we encourage the BEAC to make progress in moving towards a neutral liquidity absorption. We note the difference in view on the required speed of this adjustment, with staff calling for the BEAC to swiftly sterilize excess liquidity while the BEAC argues that there is scope for a more gradual approach. While noting that arguments for gradualism raised by the BEAC are persuasive, we agree with staff that the BEAC should be ready to accelerate liquidity absorption if a tightening in monetary policy was needed in response to emerging external or internal pressures.

Strengthening the financial sector to support confidence and lending capacity will be important to supporting a rebound in private sector growth – and requires coordinated actions at the regional and national level. From this perspective, we welcome the shift to a more proactive approach to reducing non-performing loans by COBAC, with the focus on assessing the impact of national arrears repayment plans and requiring each troubled bank to submit an NPL reduction plan. More progress is also needed to accelerate resolution of problem banks. We note staff's view that lack of progress can be attributed to delays in the implementation of COBAC decisions at the national level but agree that COBAC should be setting clearer time limits for resolution, defining criteria for the creation of bridge banks and working closely with the BEAC on systemic problem banks.

We note that member countries have committed – in the Policy Commitments at the First Tripartite Discussions in Annex I – to discuss with the IMF a new cycle of programs at the expiration of their current program. Are staff of the view that follow up programs will be needed? Are there any lessons from the recently concluded Review of Conditionality that will be incorporated in the design of successor programs for CEMAC countries?

Mr. Daïri submitted the following statement:

We thank staff for their concise and candid report and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. We broadly share staff conclusions and policy recommendations and would like to emphasize the following points:

We are encouraged by the progress being made by CEMAC countries and institutions in stabilizing the region's economic position and strengthening and promoting reform implementation. All in all, and as detailed in Table 5, compliance with the regional convergence criteria is generally moving in the right direction. Performance under Fund-supported programs with Cameroon, Chad, Central African Republic, and Gabon was also broadly satisfactory, and we look forward to the finalization this year of new IMF-supported programs for Congo and Equatorial Guinea.

Despite this good progress, important challenges still confront the region. Limited progress has been achieved in diversifying the region away from oil, and security and weak program implementation risks remain important. Against this background, we take comfort in the unwavering commitment by the CEMAC Heads of State to accelerate the crisis-resolution strategy, and welcome the recent establishment of the Tripartite consultative group to discuss emerging vulnerabilities and related policy response. In addition, we appreciate the efforts by the CEMAC Commission to finalize an early warning system to detect signs that a country may breach the convergence criteria and identify corrective measures. As the early warning exercise is designed to strengthen multilateral surveillance (¶29) and the four convergence criteria (fiscal balance, inflation, public debt, and government arrears) are macro critical and part of individual country programs, we wonder why this exercise is being led by the World Bank and not the Fund. Staff clarifications are welcome.

We support the BEAC's monetary policy stance to strengthen external stability and encourage member countries to support this objective by adhering to their fiscal consolidation and reform plans. In this regard, we note with satisfaction that, as a result of tight fiscal policy, average public debt-to-GDP ratio has declined for the first time in recent years to 50 percent. We are concerned, however, that this improvement was mainly achieved through cuts in investment programs in most CEMAC countries. Could staff elaborate on the possibility, under current programs, of targeting higher-quality fiscal adjustment, which is one of the recommendations of the recent Review of Conditionality, to safeguard public investment?

We take note staff recommendation to rapidly sterilize the excess liquidity in the banking system to avoid potential risks to external stability and inflation. We sympathize, however, with the BEAC, which favors a more gradual approach, indicating that, among other things, the excess liquidity is largely held by foreign-owned banks with prudent credit policies. We also note from ¶19 that about 80 percent of total BEAC liquidity injections is provided to three systemic liquidity-stressed banks. Overall, we support staff balanced conclusion advising BEAC to stand ready to accelerate its move towards liquidity absorption in case external or inflationary pressures were to emerge.

Finally, we welcome the adoption by the COBAC of the 2019-21 strategic plan to strengthen financial stability and align CEMAC's regulatory framework to Basel standards. As banks' balance sheets continue to suffer form high NPLs and the legacy of government arrears, we encourage CEMAC members to develop credible arrears reduction strategies.

With these remarks, we wish CEMAC's authorities and institutions continued success.

Mr. Geadah and Mr. Al-Kohlany submitted the following statement:

We thank staff for their report and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. Strong fiscal consolidation efforts by CEMAC member states, together with an appropriately tight monetary policy, and effective application of exchange regulations have improved the region's fiscal and external balances, led to an increase in external reserves, and a decline of public debt for the first time in recent years. Nevertheless, the region still needs to continue to build buffers and address development challenges, as well as support inclusive growth and job creation.

We are pleased to note that Fund programs with CEMAC countries are playing a positive role in supporting the regional strategy, and that performance of country programs was broadly satisfactory in most cases, notwithstanding security and development challenges in the region. We commend the CEMAC member countries for their commitment to the reform programs, as shown in the outcomes of the recent gathering of CEMAC Heads of State and in the establishment of tripartite consultations. Full implementation of policy assurances by CEMAC member states should complement the commendable efforts of the regional monetary authority (BEAC) and the banking supervision authority (COBAC). We encourage staff and the authorities to conclude the ongoing program discussions with the Equatorial Guinea and the Republic of Congo, which would unlock external financing, lead to further accumulation of reserves, and contribute to maintaining public debt on a downward path.

Although international reserves increased in 2018, they are still below levels that are appropriate for a resource-rich currency union. We note staff and authority's assessment that stricter implementation of the foreign exchange regulations would help to bolster foreign reserves. These regulations are related to the obligation of banks to surrender foreign exchange holdings to BEAC and of businesses to fully repatriate their export receipts through local banks. Staff reported strong concerns by banks and operators of extractive industries about the implementation of the new regulations. To this end, we urge the authorities to have a careful communications strategy with the public and the business community, to alleviate these concerns and to avoid negative effects on economic activity.

The authorities are making progress in enhancing the monetary policy framework. The framework was adopted in December 2018, and BEAC has managed liquidity with the aim of strengthening the monetary policy transmission and strengthening the interbank market. Nevertheless, sterilizing the excess liquidity is needed given the recent large increase in bank liquidity. The authorities are also advised to remain vigilant to external or inflationary risks and be ready to accelerate liquidity absorption operations, as needed. We note the authorities' preference for a gradual approach in dealing with the few illiquid banks in Chad and Equatorial Guinea. BEAC plans to require the stressed banks to submit a credible funding strategy, subject to sanctions in the event of noncompliance, which should reduce their reliance on BEAC liquidity. Are there other measures that could improve these banks' access to the interbank market?

The authorities introduced a strategic plan that aims at gradually aligning CEMAC's regulatory framework to Basel standards, moving toward consolidated supervision, and strengthening reporting and supervisory tools. We welcome the steps taken by COBAC to adopt risk-based supervision and the commitment to ensure a stricter application of supervisory and bank resolution rules. We concur with staff that COBAC should define a more assertive strategy to monitor NPL reduction and streamline the process for dealing with problem banks. These measures would help to strengthen banking supervision and bolster financial sector stability.

Mr. Sigurgeirsson and Mr. Vaikla submitted the following statement:

We thank staff for informative report and Mr. Raghani and Mr. N'Sonde for their useful buff statement. We welcome CEMAC authorities' commitment to the regional strategy and note that the strategy has helped to stabilize the regional economic position through fiscal consolidation efforts, tighter monetary policy, and a gradual increase in external reserves. Notwithstanding these encouraging developments, further efforts will be needed to mitigate downside risks to the outlook. We broadly share staff's appraisal and offer the following comments for emphasis.

We are supportive of the CEMAC regional strategy, while we note that policy implementation at the country level will be key for achieving the goals of the strategy. We welcome the CEMAC Heads of State strict guidance for full observance of the national fiscal adjustment objectives set forth under IMF-supported programs. We also welcome the broadly satisfactory implementation of country programs and are encouraged by the progress towards a possible IMF program in Congo and Equatorial Guinea, which would help to further secure stabilization in the region. However, we note with some concern that challenges remain regarding Cameroon´s program implementation as performance criteria has been missed, including the failure to meet the BEAC financing criteria by a significant margin. We encourage Cameroon, as the biggest CEMAC country, to show strong lead in implementing program conditionality.

We commend the CEMAC countries for their fiscal consolidation efforts and encourage continued implementation of prudent fiscal policies. We welcome that the average debt-to-GDP ratio turned downwards, which marks an important milestone. The continuing implementation of tight fiscal policies will be important to mitigate external risks, limit spending, decrease domestic arrears, and safeguard budget support from development partners. The successful implementation of fiscal policies would also create much needed fiscal space for priority development and higher social expenditures to decrease poverty and inequality. We agree with staff, that any fiscal slippages should be addressed by implementing corrective measures. We encourage the CEMAC Commission to develop medium-term fiscal convergence plans and to strengthen the multilateral surveillance framework. Also, further support for economic diversification and regional integration efforts would enhance the regions resilience and sustain economic growth.

We support the BEAC's policy stance to focus on accumulation of regional reserves. We concur with staff that BEAC should continue strengthening the monetary policy transmission channel to mitigate risks to external stability and inflation. To strengthen the monetary policy transmission channel, the BEAC should sterilize the increasing excess liquidity in the banking system, as recommended by staff.

We encourage strong commitment from regional institutions and national authorities to ensure the repatriation of foreign assets held by public companies. Given that a large share of deposits are held abroad by CEMAC residents, stronger involvement at the national level is especially relevant. We therefore encourage the national authorities to support the BEAC and COBAC's efforts to enforce more strictly the foreign exchange regulations. Clear communication on that issue is needed to safeguard the smooth implementation of the foreign exchange regulation.

Mr. Sun and Mr. Huang submitted the following statement:

We thank staff for the informative paper and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. On the back of fiscal consolidation, tight monetary policy, and external financial supports, the CEMAC region is experiencing an economic recovery with improved external position. However, more needs to be done to further accumulate foreign exchange reserves, enhance financial stability, and buttress the non-oil sector development. We agree with the thrust of staff's appraisal and would limit our comments to the following for emphasis.

Monetary policy should focus on liquidity management while strengthening monetary transmission. We concur with both the authorities and staff that monetary policy should remain focused on external stability, given the current low level of reserves and stable inflation expectation under a pegged exchange rate regime. The excess liquidity together with weak growth in credit could be a source of risk to external stability and an impediment to private sector development. We notice that banks with a large amount of excess liquidity co-exist with banks with large liquidity stress. In this regard, the BEAC is encouraged to carefully calibrate the measures when sterilizing the excess liquidity, to minimize negative impact on those liquidity-stressed banks. We welcome the new regulation that encourages the liquidity-stressed banks to move away from central bank refinancing. More importantly, the BEAC should further modernize its monetary policy implementation framework to ensure a smooth interest rate transmission.

The new foreign exchange regulations should be implemented with other macroeconomic adjustment policies. We agree with staff that the capital flow management measures (CFMs) are appropriate at this juncture to preserve financial stability and can contribute to further foreign reserve accumulation. Meanwhile, the CFMs should not substitute for the macroeconomic adjustments. The authorities should continue the fiscal consolidation, tighten monetary policy when necessary, and address the remaining structural issues. We encourage staff to provide technical assistance and policy advice, where needed, on phasing out the CFMs once macroeconomic stability is restored and reserves strengthened. We also see merit in staff's suggestion for better communication to ensure a smooth and transparent implementation of these regulations.

We welcome the authorities' ambitious plan to address the vulnerabilities in the banking sector. The plan to align the regulatory framework to Basel standards is commendable, and concrete actions to monitor NPL reduction, including swift clearance of government arrears, are needed. We join staff in encouraging the authorities to accelerate the resolution process for problem banks. Improving governance of the regional development bank, BDEAC, is welcome, and its financing should mainly come from the regional/international financial markets, rather than the central bank. This would also contribute to the development of the regional interbank market.

To conclude, we echo staff's call for the CEMAC member states to step up efforts to steadfastly implement their respective IMF-supported programs to ensure sustainable development of the region.

Mr. Lopetegui and Mr. Morales submitted the following statement:

We thank staff for a clear and concise report and Mr. Raghani and Mr. N'Sonde for their helpful buff statement.

The regional strategy adopted by CEMAC's heads of state has continued playing a key role in fostering stability in the region despite multiple challenges. Economic conditions have improved slightly, with GDP growth rising to 2.5 percent in 2018, although non-oil economic activity slowed down to 1.8 percent in the same period. The external position has improved, with gross reserves reaching 2.7 months of import coverage, in part due to higher oil prices. Fiscal consolidation has continued, and signs that public debt may have started a downward path look promising. Monetary policy remains focused on external stability, and foreign exchange regulations are in place to support foreign reserves management by the BEAC. However, non-oil fiscal revenues continue to underperform, financial sector vulnerabilities are still unresolved, and international reserve coverage remains low. Urgent action is needed to create fiscal space through raising potential non-oil related revenue, not only to consolidate a downward path for public debt, but also to ensure a better provision of public services and infrastructure investment. Policies to reduce oil dependence would also facilitate job creation, supported by decisive action to speed up structural reforms, including to strengthen the financial sector.

We appreciate that the performance of Fund-supported country programs through end-2018 was broadly satisfactory in most cases. We encourage national authorities to redouble efforts to further narrow macroeconomic imbalances to better prepare against potential shocks, given the region's vulnerability to oil price volatility, tightening of global financial conditions, and the eventual deterioration of the security situation. We welcome progress towards the consideration of new IMF-supported programs for Congo and Equatorial Guinea and commend the national authorities of both countries for implementing strong fiscal consolidation policies. Moreover, we congratulate the Congolese authorities for a successful debt restructuring agreement with China that put Congo's public debt on a sustainable path, and the authorities in Equatorial Guinea for having taken steps towards membership of the Extractive Industries Transparency Initiative (EITI) that would contribute significantly to a more transparent framework for managing natural resource wealth.

The introduction of semi-annual Tripartite consultations between country authorities, CEMAC regional institutions, and IMF staff reflects the reiterated commitment to the strategy by CEMAC authorities, as indicated by Mr. Raghani and Mr. N'Sonde in their statement. In this regard, we note that the first meeting held last April in Cameroon translated into firm policy commitments, listed in Annex I of the staff report. In this regard, we commend the CEMAC commission for pursuing the full implementation of PFM directives and the harmonization of fiscal revenue mobilization measures. In addition, we look forward to the finalization of the early warning system project to detect breaches in the regional convergence criteria.

Progress in modernizing BEAC's monetary policy operations framework is a welcome development towards improving the effectiveness of monetary policy. However, frictions associated with market segmentation are a concern. The reduction in liquidity injections seems to affect mostly domestic banks, some of which are already under liquidity stress. At the same time, larger mostly-foreign banks have built up sizable excess liquidity and appear unaffected by BEAC liquidity management policies. We agree in principle with staff on the need to start open market operations to mop up excess liquidity. However, the volume of excess liquidity in the system (about CFAF 1.5 trillion) appears high relative to BEAC's balance sheet. Does the BEAC count with enough instruments to absorb outstanding excess liquidity in the system within a short period of time?

CEMAC's financial sector still faces multiple challenges. Credit growth remains somewhat subdued, while the quality of banks' loan portfolios continues to deteriorate, in an environment of weak regulatory compliance. We note that the ratio of overdue loans increased by 4 percentage points in 2018 to 21 percent, triggered by delays in government payments. We agree with the authorities that government arrears repayment plans are critical, not only to contain and reduce NPLs, but also to enhance confidence in the market and allow CEMAC banks to finance the private sector. Given the protracted nature of this problem, we agree with the staff's recommendation to clean up fully provisioned loans on bank balance sheets to focus on clearing government payment arrears to help reduce remaining NPLs.

We commend the authorities' commitment to ensure strict implementation of foreign exchange regulations, but some implementation issues are emerging. We understand that surrender and repatriation requirements seem necessary to support the effort to build up reserve buffers. However, ensuring continuous compliance in an environment of uncertainty would be a challenge. We note that implementing regulations supporting a monitoring framework would be in place from September 2019. Although we agree that some degree of flexibility is necessary, it would be important to clearly identify all exemptions to the framework well in advance of implementation to minimize public mistrust. In this regard, we wonder what the staff's views are regarding the exemptions that would be justifiable. By the same token, we wonder how "legitimate foreign exchange requests" would be identified. On a related issue, we encourage the authorities to finalize the amendment to the BEAC Charter's Article to protect regional reserves, necessary to support the new monetary operations framework, by setting national thresholds for external reserves that would trigger automatic mechanisms to tighten monetary conditions.

We welcome COBAC's 2019-21 strategic plan, which among other things, would help enhance compliance with prudential, AML/CFT, and FX regulations. To complement these efforts, we encourage the authorities to set time limits to bank resolution processes, define criteria and minimum conditions to approve applications for bridge banks, and to improve information exchange with BEAC on systemic problem banks, as recommended by staff.

Ms. Mahasandana and Mr. Srisongkram submitted the following statement:

We thank staff for the report, and Mr. Raghani and Mr. N'Sonde for the helpful buff statement.

Growth outlook in the CEMAC region improved somewhat but the overall economic situation remains challenging. Against this backdrop, we are encouraged that the regional strategy has served well in strengthening fiscal and external positions of member countries, and that individual program performances are broadly satisfactory. Reform progress in Congo and Equatorial Guinea in preparation for financing arrangements with the Fund is welcome and should ease prior concerns regarding the region's external position to some extent, but adoption delays remain a risk. Looking ahead, strong commitments and cooperation from individual members to their respective programs as well as the regional strategy will be key. We agree with the thrust of the staff's appraisal and offer the following comments.

We note that countries continue to pursue tight fiscal policies and the overall fiscal position is close to balance, driven by spending cuts and increases in oil-related revenue. Could staff share some insights whether there is any further progress on the revenue side to lessen oil dependency (e.g. enhance non-oil revenue mobilization) since the last assessment?

Monetary policy is appropriately focused on external stability objectives. Building adequate reserves buffers is a key priority to strengthen the region's external position and confidence in the currency peg. The BEAC should stand ready to tighten monetary policy stance as appropriate should external pressure and inflation warrants. We broadly support staff's recommendation for timely absorption of excess liquidity in the interbank market to enhance monetary policy transmission and safeguard against capital outflows, while recognizing the authorities' case for more gradual implementation. We invite staff to share their views on how to address the authorities' concerns that 'liquidity-stressed banks would be put under further stress' if liquidity absorption were to be accelerated?

Effective implementation of the new FX regulation is instrumental to building reserves buffer in CEMAC. We welcome the authorities' plans and their shared commitment to ensure strict implementation of repatriation and surrendering requirements to the BEAC. These efforts should be complemented by effective monitoring and data collection measures to mitigate the potential incidence of dual exchange rates and under-reporting of export receipts. We positively note that the 'implementing legislation' explained in the authorities' letter (Appendix I) will include these elements. To this end, we also agree with staff on the importance of communication outreach with the private sector to gain buy-in and ensure smooth implementation

Continued implementation of COBAC's 2019-2021 strategic plan to address weaknesses in the banking sector is vital to safeguard financial stability. We welcome COBAC's more assertive NPL reduction strategy, particularly in invoking more prompt actions from national authorities in addressing government arrears. This is in line with staff's advice from the previous assessment and will be vital to enhancing market confidence as well as enabling banks to better serve its intermediary role to the private sector. We also join staff in encouraging the authorities to further refine the liquidity requirements and seek ways to expedite and prevent further delays in the resolution process for ailing banks. Does staff have any proposals on how to ensure better compliance with COBAC's decisions on part of the national authorities and stakeholders?

We wish the authorities success in their future endeavors.

Ms. Pollard and Ms. Svenstrup submitted the following statement:

We thank staff for their persistent work on CEMAC and the member country programs, and Mr. Raghani and Mr. N'Sonde for their helpful buff Statement.

The CEMAC regional strategy has helped to stabilize the macroeconomic position, with an improvement in external and fiscal imbalances and higher-than-expected NFA accumulation. This is encouraging progress and welcome news for a region that has had to make significant changes to adapt to the new normal of lower oil prices. Going forward, the regional economic situation remains fragile. Serious challenges remain in the effort to boost resilience to commodity price shocks and ultimately raise inclusive growth and living standards across the region. Further, we see risks to be tilted to the downside – rather than staff's assessment of balanced risks—given the significance of the security situation and the potential for policy slippages in some countries, as well as the potential for regional non-oil growth to continue to fall short of expectations.

Success of the regional strategy ultimately necessitates full implementation of policy commitments by all member states. Given critical interlinkages between program and economic performance at the country level and the effectiveness of regional efforts, we commend the establishment of the Tripartite Consultative Forum and encourage continued substantive meetings. Annex I provides a helpful, albeit very high level, summary of the commitments made by the member states, BEAC, COBAC, and the CEMAC Commission. We hope that future tripartite discussions will provide a mechanism to enhance coordination and accountability, and be used to assess specific progress and shortfalls. Could staff provide more context on the envisioned role/purpose of future tripartite discussions (e.g., will there be specific monitorable targets to assess accountability)?

We greatly appreciated the enhanced specificity of the BEAC's commitments in the Letter of Support, which includes seven time-bound structural measures for BEAC and quantitative NFA targets. These comprehensive measures demonstrate BEAC's commitment to further entrenching regional stability and provide a tangible and realistic framework for how the BEAC-level goals of the tripartite discussion will be implemented. Turning to specific areas of BEAC's policy:

We agree that BEAC should continue its efforts to carefully manage liquidity without undermining the recovery underway, strengthen monetary policy transmission, and be ready to tighten its stance of NFA accumulation falls short.

We note BEAC's steady progress to finalize the implementation of FX regulations. A strong and transparent monitoring and enforcement framework is necessary to enhance compliance and ensure impartiality. National authorities will also need to do their part, avoiding exemptions and national-level laws that would undermine regulations. We agree that BEAC needs to have a clear communications strategy to inform the banks, national authorities, and the public on its foreign exchange regulations, and we welcome planned World Bank technical support in this area.

Once again, we found the Letter of Support's discussion of COBAC's specific planned actions to be lacking, despite the mention of planned time-bound actions in the staff report (e.g., paragraphs 19, 24, 25). This is regrettable given the region's salient financial sector risks and the opportunity to solidify implementation of COBAC's welcome 2019-21 strategic plan. Could staff confirm whether COBAC's specific policy actions described in the staff report are macro-critical to the CEMAC regional strategy, thus warranting inclusion in the Letter of Support? We strongly encourage COBAC to make full effort to strengthen risk-based supervision, align the regulatory framework with Basel standards, be more assertive in enforcement, and strengthen the framework on risk management and internal controls.

We appreciated the inclusion of Text Table 1, highlighting the status of regional assurances made in December 2019, per our request at the last Board discussion. However, we would have liked for this to also be forward looking, including the seven new structural measures and the updated NFA targets, to enhance clarity and better link staff's discussion to the Letter of Support. Could staff clarify why they did not include new policy assurances on this table and whether they will do so in the future?

Finally, we note the member states' commitment in Annex I to discuss with the Fund a new round of programs at the expiration of their respective programs. Like Mr. Ray, Ms. Preston, and Ms. Park, we are interested in staff's views on lessons from the Review of Conditionality that could inform these discussions. We also urge staff to look at successful programs with commodity exporters to draw lessons on promoting more durable, inclusive non-oil growth prospects and economic modernization. This may include further efforts to modernize the monetary framework, including exploring the pros and cons of a more flexible exchange rate regime, informed by staff's recent advice in the case of Angola. Staff comments would be appreciated.

Mr. Inderbinen and Mr. Tola submitted the following statement:

The implementation of the regional strategy has contributed to an improvement of the economic outlook, but more progress is needed in achieving economic diversification, reducing the dependence on oil revenues and strengthening the external position. In this regard, we welcome the reiteration of the CEMAC authorities' full commitment to the regional strategy and their readiness for additional corrective measures. The establishment of the Tripartite consultative forum to keep the strategy on track is a promising step in this regard.

The conclusion of Fund financing arrangements with the Republic of Congo and Equatorial Guinea remains key for the success of the regional strategy. We welcome the staff assessment that the Republic of Congo and Equatorial Guinea are on track to adopt IMF-supported programs this year. Given the length of program discussions, we would appreciate more details on progress and the remaining challenges. Also, could staff provide more detail on the nature of the agreement on debt restructuring between the Republic of Congo and China?

More efforts at the national level are needed to achieve the goal of a meaningful diversification away from oil dependence. As reserves remain low and non-oil growth has slowed, the CEMAC economies remain vulnerable to potential declines in oil prices. So far, the regional strategy has brought a stabilization of reserves at low levels, but not a meaningful increase. To revive non-oil growth, it is crucial to shift the focus of the necessary fiscal consolidation away from one-off spending cuts toward more sustainable and growth-friendly reforms in tax administration.

BEAC's monetary policy stance appears adequate and its reform progress is commendable. We welcome BEAC's progress in modernizing its liquidity management and monetary policy instruments. The focus on external reserve accumulation remains adequate, considering the need to meet the NFA objective. The stance to follow a gradual approach to absorbing excess liquidity appears reasonable, but we agree with staff that BEAC should stand ready to accelerate liquidity absorption if external pressures emerge.

We call on the national authorities to address the delays in complying with COBAC's instructions on problem banks. The continued deterioration in the quality of banks' portfolios is worrying. We note that the increase of overdue loans mirrors low repayments of government arrears. This is particularly troubling, given that most countries in the region are implementing Fund-supported programs. Similarly, regulatory compliance remains weak and progress regarding the resolution of ailing banks is slow. This calls for swift action on the part of the national authorities. What role does staff see for structural conditionality in the Fund-supported programs to ensure compliance with COBAC's instructions?

Recent regional integration efforts could help improve supervision, regulatory compliance and coordination. The signature of the unification convention of the Financial Market Supervisory Commission of Central Africa (COSUMAF) is an important step forward. This convention marks a new regulatory era for the CEMAC regional financial market. Could staff express a view on how a single regulator could potentially accelerate the development of capital market instruments and products across CEMAC? Finally, we note the African Development Bank's recently adopted strategy paper for 2019-2025 on the Central Africa Regional Integration (RISP), which seeks to accelerate intra-regional trade, inclusive economic growth and structural transformation. Staff's comments on the RISP and its complementarity with the Fund programs would be welcome.

Mr. Moreno submitted the following statement:

We thank staff for a well-written and insightful report and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. With satisfactory growth accompanied by fiscal adjustment policies and a favorable external environment, CEMAC countries have departed from a critical setting to a more stable economic short-term outlook. However, we concur with staff that whereas commitment exists, member states should provide stronger support to the Regional Strategy to address pressing macroeconomic challenges and lay the basis for sustainable and equitable growth.

Pursuing deeper efforts in public financial management and diversifying the economy is warranted. We thank staff for the very informative analysis of figure 1 on the performance of the Regional Strategy against the original objectives. As illustrated in the report, non-oil revenue dynamics remain below expected performance. Vis-a-vis fiscal consolidation, we support actions to prioritize revenue mobilization, particularly enhancing non-oil revenue and avoiding cuts on social and capital expenditure. Moreover, we have missed further developments on the measures being implemented to improve transparency and increase the scope of debt data. It is well-known this is fundamental to avoid excessive over-indebtedness dynamics.

We agree with staff's assessment that while monetary policy tightening has supported external balance relief and tamed inflation pressures, excess liquidity in the banking sector remains a salient risk. We take note of the recent increase in external reserves that has reinforced external stability but still falls short of the desirable level. We welcome staff's proposal to swiftly move to sterilize the increasing excess of liquidity through open-market operations or increased reserve requirements. However, we consider that this process can be difficult to execute and sometimes even self-defeating—as it may raise domestic interest rates and stimulate even greater capital inflows. Could staff elaborate on the benefits of implementing this objective?

We see merit in the BEAC initiative of taking disciplinary action against non-complier institutions and individuals on the new foreign exchange regulation, yet additional efforts must be done. We agree with staff that authorities could also support enforcing more strictly foreign exchange regulation and more proactively guiding the communication strategy. We are surprised by staff's argument that "there is a growing (unfounded) perception of foreign exchange rationing in certain countries." Our understanding is that the administrative process is quite complex and heavily overburdened by information requirements. Could staff expand on the way foreign exchange regulation is in practice being applied and how it compares to the growing perception? Moreover, we support the other recommendations by staff to strengthen financial sector stability through improving the supervision of bank liquidity, refining the procedures for dealing with problem banks, and strengthening AML/CFT supervision.

We broadly agree that strengthening monetary cooperation between the six countries should be of utmost importance. In this regard, we welcome the creation of the Tripartite forum for regular consultations between national authorities, regional institutions, and the IMF. We strongly believe that there is additional scope to upsurge this cooperation in other markets—including goods and labor. According to our understanding, open mobility and migration is only effective in Cameroon, Congo, Central African Republic, Gabon and Chad. Moreover, as mentioned in the past, we consider that other type of policy adjustment mechanisms, such as exchange rate flexibility, could be considered to ensure sustained growth in the region.

Two additional elements that we missed in the report and would like to stress:

We support a stronger framework to improve business climate and ensure job creation. Protecting foreign investment and SOE's is key to guaranteeing external stability and boosting investment. For instance, the CEMAC countries that haven't signed the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) should consider doing so to provide legal certainty to foreign investment.

We consider that the importance of security is belittled in the report. For instance, as recognized by the Human Rights Watch, Cameroon's Anglophone regions have been engulfed in crisis since late 2016. These events produce negative externalities in humanitarian, agricultural and economic issues, perturbing macroeconomic stability. Staff's comments are welcome.

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

We thank staff for their work and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. We broadly share the staff appraisal and would like to emphasize the following points.

Developments in the CEMAC region are encouraging. Benefiting from broadly satisfactory implementation of policies and reforms, CEMAC countries and institutions are making headways in stabilizing the regional economic position. We hope that additional progress will be achieved with the finalization this year of new Fund-supported programs for Congo and Equatorial Guinea.

Important challenges, however, remain. CEAMC countries are confronted with security risks and challenges in program implementation under some Fund-supported programs. It is therefore appropriate to note the recent establishment of the Tripartite consultative group to discuss emerging vulnerabilities and agree on appropriate policy responses. We also welcome the reaffirmation by the CEMAC authorities at the highest level of their commitment to accelerate reforms.

We agree on the need to strengthen external stability and build international reserves. In this regard, we welcome the recent increase in the policy rate and support the authorities' preference for a more gradual approach to reduce excess liquidity based on the arguments detailed in ¶13 of the buff. We also welcome the commitment by the regional institutions to enforce the revised foreign exchange regulations, which will hopefully support further accumulation of reserves.

Finally, we support recent efforts to strengthen financial stability. In this regard, we welcome the recent adoption by the COBAC of the 2019-21 strategic plan to align CEMAC's regulatory framework with the Basel standards. We note, however, that banks continue to record high NPLs (17 percent on average for the region) because of government arrears. Could staff elaborate on the status of the arrears' clearance strategies being developed by CEMAC members?

With these remarks, we wish the authorities further success.

Ms. Levonian, Ms. McKiernan and Ms. Vasishtha submitted the following statement:

We thank staff for their report and Mr. Raghani and Mr. N'Sonde for their insightful buff statement. We continue to value the opportunity to review the common policies of the Central African Economic and Monetary Community (CEMAC), ahead of the program reviews for the region's member countries.

We commend the CEMAC member states and regional institutions for their continued progress in implementing the policies needed for strengthening domestic and external stability. All regional policy assurances provided at the time of the December 2018 Board meeting were implemented as planned. The regional central bank (BEAC) has maintained its tight monetary policy stance while the banking supervisory body (COBAC) has made further efforts to safeguard financial stability. These efforts, combined with significant fiscal consolidation and external financial assistance, have contributed to the stabilization of the regional economic position and the recent pick-up in external reserves.

We note the satisfactory performance of country programs in 2018, but remain concerned about persistent delays in the approval of new IMF arrangements for Equatorial Guinea and Congo. These delays continue to pose downside risks to the regional outlook. We strongly encourage the authorities to finalize these programs promptly to avoid negative repercussions for other CEMAC members and the region.

While the regional strategy has helped stabilize the economic situation, significant economic and social challenges remain. The region remains dependent on oil revenues, with little progress on economic diversification.

Non-oil growth slowed in 2018 reflecting major recessions in the two countries without IMF-supported programs. Poor performance of the non-oil sector is further limiting job creation for a young and growing population. We encourage national and regional authorities to prioritize non-oil revenue mobilization measures in their fiscal consolidation efforts to create fiscal space for priority development spending. In this context, we welcome the CEMAC Commission's targeted measures to harmonize fiscal revenue mobilization, which should support the needed increase in non-oil revenues. Efforts to promote regional integration and enhance the business climate will also be important in this regard.

The authorities should also continue to make progress on addressing financial vulnerabilities in the CEMAC region. We welcome COBAC's ambitious 2019–21 strategic plan to strengthen the implementation of a risk-based supervision. The measures planned to monitor NPL reduction in banks, enhance compliance with prudential, AML/CFT, and FX regulations should also help in dealing with financial stability risks. Nevertheless, the legacy of government arrears and their impact on bank loan portfolios remains a concern. We agree with staff that concrete repayment plans are critical for risk reduction.

Finally, we support the strengthening of regional institutions in order to make regional surveillance more effective. As well, effective collaboration among regional and national authorities and strong ownership at both levels is crucial for the success of member countries' programs.

Mr. Mahlinza and Mr. Odonye submitted the following statement:

We thank staff for the comprehensive report and Mr. Raghani and Mr. N'Sonde for their informative buff statement. Strong regional cooperation has stimulated overall CEMAC growth supported by fiscal consolidation, a tight monetary policy and external financial assistance. Nevertheless, reliance on oil revenues and weaknesses in the financial sector continue to constrain growth prospects. In addition, the medium-term outlook remains vulnerable to a possible weak program implementation and a deterioration in regional security. In this context, we would urge the regional authorities to direct policy efforts towards reinforcing the external position and addressing legacy development challenges, including promoting economic diversification, job creation, social development and inclusive growth.

Steadfast fiscal consolidation has resulted in an improved fiscal outturn for the entire CEMAC region. In this respect, we commend the Congo and Equatorial Guinea’s authorities for implementing strong fiscal consolidation policies, which recorded surpluses in their overall fiscal balances, in the absence of a Fund supported program. We also encourage both countries to accelerate their discussions with the Fund on the outstanding areas with a view to securing Fund-supported programs. Further, we encourage all CEMAC members to sustain their fiscal adjustment efforts to establish the conditions for high and inclusive growth. Critical to this is creating fiscal space for priority development and social spending through enhanced non-oil revenue mobilization; tackling governance issues; improving the business climate; and promoting regional integration.

We positively note the commitment of the regional institutions and the national authorities to support the regional strategy to address the challenges associated with the oil price collapse and regional security. In this regard, we concur with staff that BEAC should focus on strengthening the monetary policy transmission mechanism and rein-in inflationary pressures, which presently hover around double digits in the union. Further, we support stricter implementation of the revised foreign exchange regulations together with adequate communication with the banks and business community to mitigate negative effects on the economy. We however, noticed that even with the last October policy hike of 55 basis points the BEAC’s monetary policy stance of gradual reduction in liquidity injections has been less than optimal in tackling the buildup of excess liquidity. Could staff elaborate on the reasons the liquidity injected has failed to positively impact the real economy with credit growth at only 4 percent?

We underscore the need for sustained efforts to address banking sector weaknesses. To this extent, we welcome the BEAC’s plan to develop a new regulation for monitoring and supporting liquidity-strapped banks. The framework envisages that banks address liquidity crisis through time-bound funding plans while empowering COBAC and BEAC to monitor the banks’ plans and to penalize non-compliance. Going forward, COBAC should outline a clearer strategy for reducing NPLs by banks and streamline the problem-bank resolution processes. Could staff indicate a timeframe to resolve the crisis and whether measurable targets were agreed with these banks? Does staff have information on new developments about the banks since their last visit?

Finally, we support the critical steps taken by the CEMAC Commission to strengthen its multilateral surveillance framework. That said, we urge the regional authorities to take advantage of the early warning system being developed in collaboration with the World Bank to help detect signs of breaches in the convergence criteria and to promptly take corrective measures by member countries when implemented. We welcome the support by the Heads of States for a restraint mechanism and encourage the Commission to expeditiously develop an effective sanction's framework, which will enforce compliance with the agreed protocols. That said, we caution against establishing a new bureaucracy that will generate excessive budgetary demands. Does staff have a preliminary sense of the nature and shape of the sanction's framework?

Mr. de Villeroché, Mr. Castets and Mr. Bellocq submitted the following statement:

We thank staff for a comprehensive and well written report and Mr. Raghani and Mr. N'Sonde for the insightful buff statement.

Staff's report underlines the progress made in the implementation of the coordinated regional strategy decided at the CEMAC's Heads of States Summit hold in Yaoundé in December 2016. While risks and security issues have remained elevated in some countries, the macroeconomic stabilization is indeed on track, especially when it comes to the fiscal and external sectors. However, growth remains below what is needed to support job creation and non-oil growth has been disappointing so far. Against this background, the support of the Fund and of other partners is paramount to make the adjustment path sustainable in a context in which diversification and poverty alleviation have to remain key objectives.

As also highlighted by staff, BEAC and COBAC have delivered on the implementation of the policy assurances provided in their Letter of Support to the Recovery and Reforms Programs Undertaken by CEMAC Member Countries. As staff, we think that BEAC will have to tighten its monetary policy in case of pressure on external reserves and inflation. The follow-up Letter presented in Appendix 1 is welcome and demonstrates the strong commitment of regional institutions to the IMF-supported programs' objectives. Against this background, we urge the authorities of Congo and Equatorial Guinea to make their best efforts to be in position to sign a program arrangement in order to fully participate to the regional coordinated strategy. We note positively that Congo has reached a debt-restructuring agreement with China paving the way to an IMF-program if prior actions are met. When it comes to Equatorial Guinea, we look forward to seeing quick progress in the application process to the EITI in order to start the discussion towards an IMF-program arrangement.

Regarding the consolidation path, we commend the fiscal consolidation which has been implemented, as well as the decrease of the consolidated public debt in 2018. It is particularly notable that the aggregate fiscal balance excluding grants was close to be balanced in 2018 (at -0.5 percent of GDP). However, we would like to reiterate our recommendations about the criticality of the quality of fiscal adjustment in developing countries. Indeed, fiscal consolidation in the CEMAC region has been mostly driven by spending cuts, notably in public investment budget and social expenditures for the poorest. Against this background we reiterate our call for further progress in mobilizing domestic resources, especially non-oil domestic resources in order to preserve fiscal space for development spending. Such a strategy should be implemented through a rationalization of tax exemptions, a strengthening of tax compliance and, as the case may be, the implementation of new taxes associated with low fiscal multipliers such as property taxes based on the value of residential assets. On the expenditure side, we think that more has to be done when it comes to expenditure effectiveness, but expenditure cuts have to be avoided when it is possible, in particular in the poorest countries facing high security challenges. We also call the CEMAC's authorities to repay the internal arrears which have been hampering economic activity and weakening banking asset quality.

On the external sector, the net foreign assets accumulation, exceeding the end-2018 objective, is an important development. The measures taken by BEAC to increase foreign assets through a monetary policy tightening and the strengthened enforcement of the foreign exchange regulation have started to bear fruit. Implementing the foreign exchange regulation needs a good coordination between regional institutions and national authorities. This has also to be implemented without creating uncertainties for private investors. In that regard, we encourage the BEAC to improve its communication strategy with banks and banks' clients.

We value the monetary policy commitment provided by BEAC and reiterated in the June 2019 Follow-up to the Letter of Support. It shows strong commitments to reforming the monetary policy implementation and strengthening bank supervision. We are of the view that mopping-up the excess liquidity is key to increase the effectiveness of monetary policy channels. Regarding banking supervision, we urge COBAC to finalize the resolution of ailing banks.

On the financial sector, we welcome the development of new regulation to monitor and support liquidity-stressed banks. The presentation of funding strategies by those institutions, and to be monitored by COBAC, will be a very positive step. We note that nine banks are now under resolution and support staff's recommendations to streamline the resolution process. Nonetheless, we would have appreciated more details on the progress made in the ongoing resolution process. Could staff indicate what proportion of those nine banks are deemed systemic nationally or for the CEMAC region and for those deemed non-systemic whether mergers with other entities are under consideration?

Mr. Gokarn and Ms. Dhillon submitted the following statement:

We thank staff for the well written report and Mr. Raghani and Mr. N'Sonde for their helpful buff.

We welcome the progress made by the member states in suitably delivering on the declared plans of regional strategy and steadying the economic position. Stronger oil sector activity, fiscal consolidation by all members and a tighter monetary policy have shown positive results. Narrowing of fiscal and external imbalances and an overall downward trend of public debt are reassuring.

However, the CEMAC region continues to face considerable challenges to its macroeconomic stability. Four members are currently in Fund-supported programs and the remaining two now show bright signs of reaching a conclusion, after a period of extended discussion. Looking ahead, CEMAC's outlook remains broadly favorable. Still, risks endure from weak program implementation, security challenges, delays in the approval of IMF arrangements and a decrease in oil prices. Against this backdrop, we appreciate that the commitment of CEMAC authorities to their regional strategy has been steadfast and has been reinforced with their readiness to adhere to the targets and to actively engage in the regional forums for facilitating action.

Regarding the policy actions to safeguard macroeconomic stability and the attention to external stability, we broadly share staff's assessment and recommendations. We concur with anchoring monetary policy to the objective of external stability and for strengthening of interest rate transmission. Authorities have undertaken a commendable modernization of the monetary policy framework and should remain vigilant to the evolving scenario. Execution on excess liquidity of the banking system should proceed, with the pace being carefully determined by inflation, liquidity cushions to cover unexpected cash outflows and more broadly stability. Notably, the excess liquidity appears to be highly concentrated in few, mostly foreign-owned banks, while a few systemic banks in Chad and Equatorial Guinea remain liquidity-stressed. Could staff offer more insight on the factors contributing to this? Beyond this, we fully support stricter implementation of the revised foreign exchange regulations along with effective communication to banks and the business sector, especially extractive industries, to minimize negative fallouts.

COBAC should pursue its efforts to address the banking sector's weaknesses in line with the new 2019–21 strategic plan and strengthen stability. Priority actions include effective risk-based supervision, strengthening of the fight against money laundering and terrorist financing and the modernization of prudential regulations. We welcome the strategy to monitor NPL reduction and support sustained action on this.

We would like to underscore that judicious policies, primarily at the individual member countries level and timely implementation are fundamental prerequisites to maintaining stability at the regional level. We also welcome staff's remark in emphasizing this. Much hinges on the structural reform progress achieved, prudent debt management, advances on public financial management, fiscal revenue mobilization supported by prompt action to addressing of policy slippages. Synchronized and efficient execution of the IMF programs would be instrumental to the success to the regional strategy. This will, amongst other actions, require unwavering pursuit of fiscal consolidation, the repatriation and surrendering of foreign assets held by public companies, and facilitation of the review of contracts with companies in extractive industries.

Finally, to realize their development roadmap and benefit from regional integration, CEMAC countries will need to actively strengthen various reforms, especially those of a structural nature. The buff has underscored the commitment of the regional authorities on advancing economic diversification and fostering regional integration to enhance resilience and sustain growth. We urge the authorities to make improvements in the business environment in CEMAC member states, including on the governance, and anti-corruption measures. We would have liked to see more details on the progress made on structural aspects to sustain growth. Could staff offer an update? Beyond this, like staff, we would emphasize on the multilateral commitments for ensuring greater credibility and predictability.

With these comments, we wish the authorities the best in their endeavors.

Mr. Just and Mr. Harvan submitted the following statement:

We thank staff for the report on common policies in support of CEMAC and agree with staff that BEAC has implemented the policy assurances and that the regional institutions continue to support effectively the regional strategy.

We positively note that the regional bodies have by and large addressed their past deficiencies and are progressively moving toward putting in place a set of policies and frameworks required for a more effective functioning of CEMAC. However, without the member states' strict adherence to their Fund programs, the required policy effort by others may be higher. As is the case in other currency unions, it is ultimately the member countries that determine how well their currency union will function.

We appreciate the signs of progress on the two outstanding programs. We are however, gravely concerned about the continued accumulation of external arrears in Gabon and the delay in concluding the review. Staff's comments on the likely impact on the overall regional strategy and necessary contingency measures would be welcome. Despite the negotiations for new programs with Chad and CAR, we wonder about the overall regional approach and whether the regional assurances will be expected also if only one CEMAC country requires a program.

We note that despite higher oil revenues in some CEMAC members the fiscal adjustment was driven by cuts to investment programs. Progress on revenue mobilization still appears to be lacking and we hope that going forward the quality of the fiscal adjustment will increasingly rely on revenue mobilization. The dire fiscal situation most likely explains the significant increase in government arrears with its detrimental impact on banks' portfolios. Could staff comment whether non-compliance with the concentration risk is due to public sector liabilities?

We welcome the discussion of risks. Given the fiscal dependence on the oil price, we wonder whether the risk from oil price fluctuations could be better captured in the program design, especially to prevent significant additional adjustment efforts before a review can be concluded.

We support staff's recommendation on the monetary policy stance and how to deal with liquidity-stressed banks. We note the revised foreign exchange regulation and agree that a communication effort by BEAC, supported by supportive actions by national authorities, is required. It will be important to apply financial sanctions in a measured way during the initial phase.

We note many of the other proposals and initiatives that aim at increasing financial sector resilience and unclogging credit to the economy. Implementation and compliance will to a certain extent depend on the perception and reputation of COBAC.

The Acting Chair (Mr. Zhang) made the following statement:

In our last Central African Economic and Monetary Community (CEMAC) regional consultation, Directors underscored that the CEMAC region is at a crossroads. We recognize that progress has been made in advancing the regional strategy to avert a crisis, and external reserves are gradually building up. However, substantial economic and developmental challenges remain. For example, growth is still too low to generate adequate job opportunities. The region remains dependent on oil exports and revenues.

Directors' gray statements underscored the need for steadfast program commitment, in particular, on fiscal consolidation while prioritizing growth-enhancing investment. Directors also made comments on monetary policy, which should focus on how to tackle excess liquidity, enhance monetary transmission, and the need for continued reserve accumulation. Finally, Directors also underscored the importance and welcomed the tripartite consultative initiative between the authorities, regional institutions, and the Fund as an avenue to discuss emerging issues, policy responses, and progress on Fund-supported programs.

The staff representative from the African Department (Mr. Toujas-Bernate), in response to questions and comments from Executive Directors, made the following statement: [1]

I thank all Directors for their supportive gray statements. I just wanted to address a few issues which we did not cover fully in our written answers.

The first regards the issue of drawing lessons from successful programs with commodity exporters to promote more durable, inclusive non-oil growth and modernization, and especially lessons we could draw on if country authorities were to request successor programs.

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

We fully agree on the value of reviewing the experience with comparable countries. The recent Review of Conditionality pointed out that commodity exporters, as a group, are confronted by major structural challenges and relatively low success rates among Fund-supported programs.

While these facts will deserve further study, the CEMAC programs already aim to leverage the Fund's experience, including a focus on non-commodity domestic revenue mobilization to protect pro-growth priority public spending, the need to accumulate sufficient external and domestic buffers to shield the economy against fluctuations in commodity revenues, and structural reforms to support growth in the non-commodity economy.

Regarding the exchange rate regime, the authorities remain strongly committed to maintaining the peg of the CFA franc at its current level and within the current monetary arrangement. The fixed exchange rate with the euro, which is guaranteed by France, has been the region's policy anchor for decades and is deeply ingrained in its social and economic fabric.

As we have highlighted in the past, we believe that at this stage, the main competitiveness issues and the impediments to higher growth in CEMAC are still structural, including a poor business environment, weak governance, and shallow financial markets, which impede economic diversification. Policies to support more diversified and inclusive growth will be one of the main themes that we intend to cover in our next annual consultation on regional common policies later this year.

We plan to conduct a further analysis, in coordination with our colleagues from the World Bank, to prepare for these discussions, which we will report to the Board by the end of the year in our next staff report.

Turning to the other issue regarding the implementation of foreign exchange regulations. As we have indicated and discussed previously, the strict implementation of the foreign exchange regulations is an important pillar to support the further building up of regional external reserves, as well as to enhance the transparency of external transactions and, hence, contribute to strengthening Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) controls by the regulators.

Actions implemented by the Bank of Central African States (BEAC) and the Central African Banking Commission (COBAC), the banking supervisor, over the recent period have reportedly led to some delays and difficulties in affecting external transactions by some economic operators, with a number of misunderstandings by these operators. These actions may also have contributed to the perception of a scarcity of foreign exchange while, as we reported, reserves held by BEAC improved in the recent past. Therefore, enhanced communication by BEAC toward economic operators and banks is very important to ensure the smooth and effective implementation of the foreign exchange regulations. In this context, we welcome the convening in early July of a high-level meeting between regional authorities, finance ministers, and representatives of companies in extractive industries to discuss the implementation of these foreign exchange regulations. Fund staff is invited to attend, and this will be part of a broader communications strategy, which BEAC is currently developing.

Mr. Castets made the following statement:

We issued a gray statement, and I will make three points for emphasis.

First, it is noticeable that regional institutions have delivered, as expected, regarding the implementation of the policy assurances provided in the letter of policy support. We welcome the follow-up letter that has been prepared for this review. It is important that we acknowledge the strong ownership by the regional authorities of the ongoing strategy and programs in the region.

As underlined in the report, BEAC has maintained its tight monetary stance, which has contributed to the recent increase of international reserves. We also welcome its efforts to strengthen the implementation of foreign exchange regulations, as previously requested by the Board. We encourage BEAC to remain committed to this policy while improving its communications strategy towards banks and banks' clients. In this regard, we welcome the staff's announcement of the organization of a meeting in July.

Coming to COBAC, we note the development of the new regulation dealing with the monitoring of the liquidity-stressed banks. Nine banks are now under a resolution. We support strongly the staff's recommendation to streamline the resolution process in the region. We also noticed in the staff's answers to our questions that six of the nine banks in the region are considered non-systemic. We would appreciate it if the staff could keep informing us on the developments on that front.

Second, the macroeconomic stabilization of the CEMAC region is well on track, even if the situation remains highly challenging when we look at security issues, as noted by the staff report. On the external side, the consolidation has started, and the net foreign assets indicators are improving, even if a higher reserve level has to be reached.

The positive developments recorded on the external sector result from fiscal consolidation, which are broadly undertaken in the sub-region, including in countries which are not yet under a program. However—and this is a strong message from this chair—we see the need to keep improving the quality of fiscal adjustments. We reiterate our call for a fiscal adjustment that would be based on higher domestic resource mobilization in the non-oil sector for all the reasons recalled by staff regarding the boom-and-bust effect on growth and also on social inclusion. Obviously, more has to be done on that front moving forward, and social expenditures have to be preserved and sometimes increased to foster social inclusion and wealth sharing, in particular, in resource-rich countries such as Gabon.

Third, we urge the authorities of Congo and Equatorial Guinea to make the best efforts to be in a position to sign a program arrangement in order to fully contribute to the regional coordinated strategy decided at the CEMAC Heads of States summit held in N'Djamena in December 2016. We note positively that Congo has reached a debt restructuring agreement, paving the way for a Fund program, if prior actions are met. When it comes to Equatorial Guinea, we look forward to seeing quick progress in their application process to the Extractive Industries Transparency Initiative (EITI) in order to start the discussion toward a Fund arrangement.

Finally, we encourage progress to improve governance and to fight corruption. We are glad to see that this important dimension has been fully integrated into programs' design in the region.

Ms. Pollard made the following statement:

We particularly welcome, as Mr. Castets said, this meeting that will take place in early July, which should help improve the communication on the exchange regulations.

I just want to focus my remarks on one point, and that is the forward-looking policy assurances by BEAC. We have, many times in the past, called for the staff to explicitly list these assurances at each review. In this case, we thought it would be helpful, given the extensive, highly welcomed list of time-bound policy measures articulated in the letter of support from the BEAC. We thought that this would be particularly helpful.

We appreciate the Governor's letter that emphasized some of the measures, including the submission of specific regulations on the resolution of banks with liquidity problems by July 2019, the agreement to define the criteria of liquidity recovery plans to come into effect by September 2019, and the submission of a new sanctions framework and private sector security framework for adoption by July 2019.

Given this list, we were somewhat surprised to read in the staff's response that they only considered the net foreign assets (NFA) accumulation target to be policy assurances. While we fully recognize that the CEMAC regional authorities are and should be taking a wide range of measures toward regional stability and development objectives that are not critical enough to warrant policy assurances, and we appreciate the fact that these actions are discussed in depth through the staff's helpful report, we were under the impression that forward-looking policy actions included in the letter of support could be taken to be policy assurances—at least that was the case when looking at the letter in previous reviews. I would appreciate the staff's comments on how they assess the measures listed in the BEAC's letter in terms of macro-criticality for CEMAC.

Ms. Preston made the following statement:

I would like to thank the staff for continuing to schedule the CEMAC common policy discussion ahead of the individual country cases. We find it helpful in setting the context.

The regional strategy has been helpful in achieving immediate stability and avoiding a crisis in the region amid very challenging conditions on the ground. Tighter fiscal and monetary stances have seen an improvement in CEMAC's external position. Their economic diversification and growth-enhancing measures remain an important objective. From that perspective, and with the authorities planning to request successor programs, we agree with Mr. Psalidopoulos that it is a good time to think about how further programs and their design can contribute to non-oil growth.

We note the longevity of the peg and the authorities' preference to maintain this, as outlined by the staff this morning. But we think Ms. Pollard puts forward a helpful suggestion to further explore the pros and cons of moving toward a more flexible exchange rate in the development of successor programs.

Mr. Inderbinen made the following statement:

As we state in our gray statement, we know the implementation of regional strategies that has contributed to an improvement in the overall outlook. We also welcome the reiteration of the CEMAC authorities' commitment to the regional strategy and their readiness for additional measures, as laid out in the support letter that is attached to the document.

We also mention the continued delays in complying with COBAC's instructions on problem banks. As Mr. Castets just stated, additional banks are in the process of resolution. Progress, overall, has been slower than envisaged under many of the program conditions in the countries under a program. Compliance remains weak. We had the question of whether more structural conditions in individual programs might make sense. We thank the staff for their response that, given the principle of parsimony, that there might be limited room for additional conditionality in that regard.

We would, however, follow up on that with a question, or maybe staff could confirm that where they would see action on banks as macro-critical, these would be included in the program conditions going forward.

Second, and more broadly, we were wondering whether the competencies at the regional level—the powers that COBAC has—would need further strengthening. We do note the discussions underway and the intention to submit to the Monetary Policy Committee further regulations by BEAC. Maybe the staff could comment on whether they see these in line with what they suggest in paragraph 26 in the document, and particularly having more stringent timelines defined for resolving banks, and whether the staff sees scope to include more stringent or more granular assurances in further policy support letters at the regional level.

We do note that there is an intention of COBAC to act on recommendations they give at the national level, but we would like to know whether more granularity and more specific elements should be included in the future.

Mr. Lopetegui made the following statement:

We have issued a gray statement, so our position on regional surveillance also is clear.

I would like to echo the point made by Mr. Inderbinen. Having clarity on banks' resolution, given the delays in taking action, is very important. The questions that he asked are very relevant.

I have a question on foreign exchange regulations. We asked a question. We are not fully satisfied with the answer because the answer is legalistic. We were expecting to hear the staff's views regarding what are reasonable exemptions to the surrender, repatriation requirements. There is a tension between strict implementation and granting exemptions. We wanted to see what exemptions have merit. We are open to some flexibility, but we want to know what the staff is thinking, rather than BEAC.

On the concerns about the scarcity of foreign exchange. If I understood correctly, the statement this morning suggested that the increasing reserves have proved that there is no scarcity of reserves. But reserves could be going up because of rationing. I would like to understand better these concerns from the private sector.

Finally, this is an area core to the Fund. Consequently, I was a bit surprised that the assistance on communication will be provided by the World Bank. Does the Fund not have the resources? Is that why the Bank is helping?

Mr. Saraiva made the following statement:

As most have recognized, progress in adjustments and reforms are taking place in an important way. It has helped to stabilize the macroeconomic situation—if we look back to the time where the initiative was launched by the heads of states—by reducing fiscal imbalances and improving the external position.

I would like to highlight not only the efforts in each country—and in this case, including the two countries that are still not with a Fund-supported program—but also the regional and the coordinated effort. The delivery of policy assurances by BEAC and COBAC is important. The tripartite consultative forum is a meaningful initiative to enhance coordination and establish a way to make more consistent and more frequent, high-level commitments to the implementation of the important issues that are in all of the programs in the region.

I want to just highlight one point that was raised by Ms. Pollard and Ms. Svenstrup, which is that risks at this point may effectively be tilted to the downside and especially given the security situation, as was underscored by

Mr. Moreno, which is extremely challenging and could provide important negative shocks to the region. To face those risks, regional coordination and international cooperation is of the utmost importance, as we also noted in our gray statement.

I would like to hear from the staff, what initiatives are being taken to improve the security situation from an international perspective? What support is being given to the countries in the region to face the situation and mitigate those risks, which seem very important for the region?

Mr. Mojarrad made the following statement:

As indicated in our gray statement, we are encouraged by the progress being made by CEMAC countries and institutions in stabilizing the region's economic position and promoting reforms. In addition, performances under country programs with Cameroon, Chad, Central African Republic, and Gabon are broadly satisfactory. We look forward to the finalization this year of new Fund-supported programs for Congo and Equatorial Guinea.

Despite this good progress, important challenges still confront the region. Limited advancement has been achieved in diversifying the region away from oil, and risks related to security and weak program implementation remain important.

Against this background, we take comfort in the unwavering commitment by the CEMAC Heads of State to accelerate the crisis resolution strategy. We thank the staff for the clarification, that they will continue to be closely associated with the work by the World Bank on developing an early warning system to detect signs that a country may be in breach of the convergence criteria and to identify corrective measures. We would appreciate if the staff could cover, in future reports, how this initiative is helping the CEMAC Commission to strengthen its multilateral surveillance.

In the same vein, we look forward to the future coverage in the next surveillance report of how pro-growth policies, including pro-growth fiscal adjustment, are being implemented under current programs with CEMAC members.

With these remarks, we wish CEMAC authorities and institutions all success.

Mr. Psalidopoulos made the following statement:

We thank the staff for their report and Mr. Raghani and Mr. N'Sonde for their buff statement. We issued a gray statement. Allow me to make three remarks.

One of the key objectives of the regional strategy was to foster economic diversification of the CEMAC. This has not materialized yet, and efforts in that direction should continue. We look forward to the forthcoming analysis on obstacles to growth in the region in advance of the 2019 regional surveillance consultation.

Second, on regional policy assurances, we understand that other policies at the regional level can contribute to the success of a strategy. However, the requested policy assurances need to be consistent with the Fund's policy on program design in currency unions and need to meet the criteria to which the Board agreed. We welcome the staff's approach of only including policy assurances judged to be critical to the success of country programs.

Third, on the foreign exchange regulation, we agree that the strict implementation of the foreign exchange regulation, especially if not well communicated, can have a detrimental impact on the business environment. Therefore, we encourage the authorities to further engage with representatives of the business community in order to ensure that this does not undermine investment.

Mr. Palei made the following statement:

We have issued our gray statement; but when reading the written answers to Directors' questions, I noted that Equatorial Guinea has to submit a membership application to the Extractive Industries Transparency Initiative (EITI). This is conditionality for the country, as I understand it. Could the staff please explain a bit more? Why do we have this condition? Are other countries members of the EITI?

There are different views about the track record of this initiative and its effectiveness. Do we have to rely on third-party opinions? Or do we just assume that this initiative is successful?

A couple of years ago, there was news that some prominent members decided to pull out of this initiative. I would just like to get a bit more information on why we use this condition. Are other countries in CEMAC using them? Is there any evidence of the effectiveness of this conditionality?

Mr. Meyer made the following statement:

I have issued a joint statement, together with Mr. Doornbosch and colleagues. I will just be taking the floor to discuss two or three points.

First, we agree that the implementation of all planned regional policy assurances since December, especially the adoption of the revised foreign exchange regulation in March 2019, have been encouraging steps going in the right direction under the regional strategy. Despite the sizable fiscal consolidation efforts in most of the CEMAC countries in recent years, as well as the tighter common monetary policy, fiscal and external imbalances persist.

I want to make the important point that prudent policies and appropriate adjustment efforts by the national authorities in the individual member countries are the key to maintaining stability at the currency union level. Corrective measures in response to adverse developments should be foremost under the control of national authorities, and these should be the primary targets for corrective measures, totally in line with the policy that we have established in 2017.

I wanted to fully support the comments made by Mr. Psalidopoulos with regard to policy assurances by regional institutions. In this regard, I am not sure if I fully understood Ms. Pollard. But I think it is totally in line with this policy, if only those measures that are critical to program success are then brought into the policy assurances and other supportive measures are mentioned but are not brought into the program as policy assurances.

Finally, we welcome the meeting of the tripartite consultative group, which can certainly play a supportive role in facilitating discussions of policy responses. However, I am sure that this meeting is conducted in a way that respects fully the mandates and the independence of the respective institutions. Some confirmation of that would be welcome.

Mr. Moreno (CE) made the following statement:

We have issued a gray statement. I wanted to associate myself with Mr. Psalidopoulos’ comments on policy assurances and also with Mr. Saraiva’s comments on the downside risks, particularly related to security issues.

I also wanted to comment, like other Directors, that we have reported problems in the foreign exchange market. The authorities are overburdened with information requirements that are sometimes not necessarily justified for a foreign exchange transaction. We would appreciate if the staff continues monitoring this area, which they say they will be doing, according to the staff's responses.

The staff representative from the African Department (Mr. Toujas-Bernate), in response to further questions and comments from Executive Directors, made the following additional statement:

I will start with the question on how we assess the criteria of policy commitments indicated in the letter of policy support to be considered or to be established as a policy assurance. As Ms. Pollard indicated, in the letter, the Governor listed a few specific actions and time-bound actions, which we welcome and support. But looking at them individually, we are of the view that even if these measures are important, none of them would meet the requirement of macro-criticality for the success of country programs.

We would see the letter of policy support somewhat similar to a Memorandum of Economic and Financial Policy (MEFP) in country programs, where the authorities describe their policy intents, but none of these policy intents are included in the program conditionality.

We welcome all these measures. This will be important for our continued dialogue. We will continue to report on the progress on these policy commitments. But in terms of the individual measures listed in this letter, we do not see any meeting the criteria set under the policy for program design in currency unions. This applies to the measures regarding the banking sector. We also tried to explain in our written answers, in countries where we see a macro-criticality of progress in dealing with ailing banks, when some of these banks are of systemic importance, these country programs already include conditionality. You can see it in the program with Chad. We also had, in the past, conditionality with Gabon and also on Cameroon. This is a balance to identify what are the most critical actions and whether this has to be implemented by national authorities versus regional authorities. At this stage, we do not see macro-critical policies or actions to be implemented by the regional supervisors which would warrant establishing a policy assurance in this area.

Turning to the issue of foreign exchange regulations and the question of how we would view exemptions or exceptions under these regulations, at the staff level, we fully support the principle of full repatriation and full surrendering of foreign exchange by all economic actors. This is a key component, a key pillar of the monetary arrangement, and implicitly of the guarantee also provided by France.

There will be particular cases where, for companies to operate normally or more effectively, these companies will need to seek exemptions, especially with regard to holding accounts in foreign exchange, either in the CEMAC or abroad. This is allowed under the regulations, and the BEAC will have the power to grant such exceptions.

We believe that for operators in extractive industries, including the oil companies—and we actually had some meetings with some of the oil operators in the region in recent months—they will probably be required to maintain foreign exchange accounts abroad to facilitate and support the financing of the operations. Therefore, we very much encourage BEAC and the operators to engage in effective consultations and come to common ground on under what conditions such exceptions could be granted to these operators. We welcome the high-level meeting which will take place with these representatives of the oil companies in early July because this is an issue which will need to be resolved quite soon.

On the issue of the scarcity of foreign exchange, it appeared that there were some technical problems for the banks to maintain their stock of cash in foreign exchange. Therefore, recently, we have seen banks depleting their stock of cash in foreign exchange and then being unable to service the demands from their clients. But the BEAC has been working with the banks to resolve these technical issues. We hope that these problems will be resolved quite soon.

We do not believe that a rationing has been taking place by BEAC with the objective to support the foreign exchange. The BEAC's objective is really to implement strictly these foreign exchange regulations but not to ration out reserves or foreign exchange in the region.

Regarding the communications strategy and the question of why it is being supported by the World Bank and not the Fund, what happened is that the World Bank put in place a comprehensive and ambitious project of capacity building assistance to the regional institutions—for BEAC, COBAC, and the CEMAC Commission—with a lot of resources devoted to this project.

We discussed with our World Bank colleagues what would be the key areas. We agreed that the communications strategy for the foreign exchange regulations would be important.

Even if the World Bank is taking the lead, Fund staff are very much associated. We continue to discuss with our colleagues across the street how to drive this process. This was the same with regard to the early warning mechanisms. There was a workshop on Friday on these early warnings, which was attended by Fund staff and where we also contributed. We will follow up as well on this issue.

Turning to the issue of security in the region and whether there is some support at the international level to resolve these issues, situations are very different country by country. What I could say is that in the case of Syria, for example, for many years now, there has been the support of the international community on trying to help to stabilize the security in the country and to help the government regain control over the entire territory. This is very much supported by the international community, including with international peace forces.

In the case of Cameroon, it is also getting support from bilaterals, including the United States, France, and others, as well as the U.N. and some NGOs. Depending on the country, the situation may be different. There is no regional approach, but rather, a targeted approach for each country. I am sure you will have the opportunity to discuss those in the context of the discussions of each program country.

Turning to the issue of the EITI and why it is a condition, it was actually a structural measure for the Staff-Monitored Program with Equatorial Guinea. This was included because of the acute issues of governance and transparency in the oil sector in Equatorial Guinea. It was assessed by the staff that we needed to see concrete progress on this front before engaging in program discussions of a Fund-supported program.

Other countries in the CEMAC region are members of EITI. I would refer to the selected issues paper that we prepared last December, covering all the governance issues, where we also mentioned the EITI and the issue of transparency in the oil transactions.

We consider EITI to be an important and good framework, but it is not efficient. It has to be complemented by other measures and reforms in the public financial management area to ensure more transparency and better governance in the oil revenue management.

Finally, with regard to the tripartite consultative forum and how it respects the full independence of each institution, the parties, national authorities, regional institutions come together to exchange and agree on the assessments of progress and what eventually needs to be done, or corrective actions which may need to be decided. As Fund staff, we also provide our assessment and our recommendation. But each authority from that draws their own conclusion and their own commitments in terms of measures and policies. In that context, if the concern is regarding the independence of the central bank, it is fully respected.

Mr. Palei made the following statement:

Just as a follow-up on this issue of the EITI, last December, the Code of Fiscal Transparency at the Fund was amended on a lapse-of-time basis. Now, there is a fourth pillar devoted to the transparency of energy revenues and all the issues related to this area. From my point of view, this is an area where the Fund has excellent expertise. The Fund has invested a lot of resources, trying to expand its expertise and make energy revenues part of a general approach to fiscal transparency. We at the Board were very supportive of every step in this direction.

Here, it would seem to be more meaningful to have an evaluation of fiscal transparency as a Fund instrument, not just a requirement to submit an application to the EITI. I do not even know what happens after a country submits an application for membership. Maybe a country can be a member of this initiative but not do much. Those are parallel tracks.

It is still not clear still why we do not use the Fund's own expertise instead of relying on third parties. I would appreciate if the staff could get back to us a little later with additional clarifications, but this is an important issue.

Ms. Pollard made the following statement:

I would appreciate more clarity on this issue of policy assurances. In looking at the summing up from the meeting that Mr. Meyer referred to in 2017 on policy assurances in currency unions, the first measure is that, as with any program, these must be deemed macro-critical to program success. Then secondly, it says, in so far as currency union members have delegated important and economic financial policies to union-level institutions, assurances with respect to actions by these institutions would be sought when members' adjustment policies alone could not meet the program objectives.

I am just trying to make sense of that in terms of the BEAC letter and this issue of financial sector and banking sector stress, which is important in many of the programs. This seems to be a repeated issue that we have seen in the program reviews.

In the letter, it says that BEAC plans to submit to the Monetary Policy Committee of July 2019 specific regulations on the resolution of banks with liquidity problems. The framework will establish the criteria for identifying banks facing an acute and structural liquidity problem and making excessive use of BEAC refinancing.

Making excessive use of BEAC refinancing and identifying banks with acute structural liquidity problems seems pretty macro-critical to me. The way I think about this is that if the BEAC does not do this, there is a risk to the entire system.

Secondly, it says, it will define the parameters and criteria of the liquidity recovery plan that these banks will have to submit to BEAC and COBAC in order to maintain their access to conventional monetary operations. Again, I think, if the BEAC does not do this, and then the banks do not have access to conventional monetary operations, this would be a big problem for the success of the banks and, therefore, the countries with those programs. I am just trying to understand why those issues are not macro-critical.

Mr. Inderbinen made the following statement:

I thank the staff for their responses to the questions, particularly on the banking sector and conditionality.

The second question I had is whether the staff deems the competencies or the powers of COBAC, of the supervisor, to be sufficient, and whether the regulatory reform under way that Ms. Pollard has just cited goes in the right direction and is sufficient to fill any gaps that might be there.

I say this against the background that a supervisor would, in a national context, normally have the powers to revoke a license of a bank and to initiate a liquidation or a resolution of an institution. But I understand these competencies are retained at the national level in the CEMAC context. Any elaboration on that would be appreciated.

Mr. Saraiva made the following statement:

I just want to follow up on the issue raised by Mr. Palei and focus on a more specific aspect of it because even though we know that there has been a dialogue and engagement with the two countries that do not have a program with the Fund, we believe that having a program is still a very important thing to ensure that the region moves in tandem toward the adjustment and the structural reforms needed for sustained growth.

We know that Congo is coming up very soon. Regarding Equatorial Guinea, we saw in the written answers that the two audit-related preconditions have been met and also that the authorities have said that they submitted the application for membership at the EITI.

Then there is this sentence that left me a little in doubt of what is coming. The staff is still in the process of assessing that the measure has been met or not.

The precondition is the submission of the application? Is the acceptance of the application? As Mr. Palei mentioned, the Fund can have a very important role, including by applying the fiscal transparency evaluation (FTE) in the country to ensure that the country moves in the right direction toward transparency in the oil sector. I would like to learn from the staff what stage are we at now, in order to assess the program requests.

The staff representative from the African Department (Mr. Toujas-Bernate), in response to further questions and comments from Executive Directors, made the following additional statement: .

On the first issue regarding the macro-criticality of this directive or instructions from BEAC, this new regulation to deal with liquidity stressed banks, this will be important. But it is not macro-critical for the success of the country programs.

Even if this regulation was not adopted and not approved, the BEAC has all the tools at its disposal for managing liquidity to ensure a better monetary policy transmission. They already put in place, for example, an emergency liquidity assistance framework which could be used as a fallback for liquidity stressed banks. They have the liquidity facilities, emerging facilities which would also be available on demand for each bank. But overall, what counts for the regional monetary policy is the overall liquidity management of BEAC.

Obviously, this regulation will help better frame the efforts to guide the banks which currently have high access to BEAC refinancing to improve their liquidity situation and, in essence, provide more oversight by BEAC and COBAC for these banks to make progress. But these are not absolutely macro-critical for the success of the country programs.

Regarding the powers of COBAC, we believe that after the reform of the various regulations over the past few years, COBAC has enough power. But in some instances, there is a shared responsibility in terms of granting bank licenses with national authorities. But COBAC has all the powers at its disposal to improve banking supervision and to also implement the banking resolution decisions.

Often, what we have seen is that it is more an issue of political economy, where COBAC is also looking at political economy issues in the context of some banks, which basically leads it to further the dialogue and the discussion with the national authorities on the best way to proceed. This has been a factor in the sometimes slower resolution process. But in terms of the legal framework, everything is in place, which provides COBAC with enough power for fulfilling its mandate.

On the EITI with Equatorial Guinea, the condition is the submission of the application, not the acceptance by the EITI. What we indicated in our written answer is that we wanted to get a copy of the documents which were provided to the EITI by the national authorities because this should include, in particular, an action plan on how the national authorities will fulfill the conditions when they become a member of EITI. We have not received this documentation yet.

Mr. Raghani made the following concluding statement:

Let me begin by thanking the Board and management for their support for the CEMAC strategy initiated in December 2016 and to the regional institution’s efforts in assisting in the countries’ reform programs. I also thank the staff for their candid and productive dialogue with the CEMAC authorities.

I wish to emphasize the appreciation of the authorities to the quality advice provided by staff, notably, the mission chief for CEMAC, Mr. Toujas-Bernate, and his team. I also thank the staff for their responses to the questions raised by Directors in their gray statements and this morning.

Directors have recognized that the continued commitment by CEMAC to the regional strategy has been helpful to strengthen the fiscal and the external positions and reverse debt trends.

Macroeconomic policies at the national level, with steadfast fiscal consolidation at the regional level with tight monetary policy, stronger foreign exchange regulations, and a greater enforcement of those rules have contributed to starting to rebuild foreign reserves and meeting the net foreign assets objectives committed by the central bank for end-2018.

Directors have, nevertheless, raised a number of challenges facing the region, and the staff has provided clarifications on those issues, which my CEMAC authorities fully share, notably, regarding the quality of adjustment, government arrears, and their drag on the quality of bank portfolios, the swift resolution of ailing banks, and strengthening the banking sector more generally, notably, through stronger risk-based supervision and an alignment of the regulatory framework with the Basel standards—a point stressed by Directors.

I have to add that some of these issues, such as government arrears repayment and the need to scale up the domestic revenue mobilization, are being addressed in individual country programs, but I will come to that shortly.

I also take note of the importance of strengthening outreach and communications with the business community on foreign exchange regulation to prevent any mistrust with those rules.

I greatly appreciate Directors' valuable recommendations on how to address this issue and other challenges related to governance, the high dependence of CEMAC economies on the oil sector, and more broadly, the need to enhance resilience, including through financial sector development and greater regional integration. I have taken good note of all those recommendations, which I will faithfully convey to my CEMAC authorities.

I can assure the Board that my CEMAC authorities view national efforts as central to the success of the regional strategy to fully exit the crisis.

On their part, the CEMAC Commission will continue to support countries' reforms and policies consistent with the objective of the strategy. They will also continue to provide the necessary policy assurances.

The authorities recognize that more remains to be done, and that vigilance is required going forward, given the risks that are well] identified in the staff report and which they share. The progress made thus far at both the national and regional levels provide reason for optimism.

Directors have rightly insisted on the need to foster non-oil growth and to raise non-oil revenue. This is well taken. In this connection, it would be relevant to carefully reflect on the impact of the size and the duration of fiscal adjustment on growth and non-oil revenue mobilization. The regional strategy needs to be better sustained, with adequate assistance of external partners to support those efforts.

In this regard, the CEMAC authorities look forward to the timely disbursements of partners' budget support commitments and to the swift approval of the Fund's agreements with Congo and Equatorial Guinea, toward which good progress has been achieved.

To conclude, I would like to reiterate, on behalf of my authorities, our great appreciation to Directors for their continued support.

The following summing up was issued:

Executive Directors welcomed the stabilized economic conditions in CEMAC with a rebound in overall regional growth, while noting that challenges remain. Further fiscal consolidation efforts brought the regional overall fiscal position close to balance and contributed to stronger than expected external reserves accumulation. Challenges for the region include further buttressing its external position and addressing development challenges, including diversified and inclusive growth, job creation, and social development. Directors noted the recent establishment of the Tripartite consultative group to discuss emerging vulnerabilities and agree on appropriate policy responses.

Directors considered that the projected improvement in the regional economic and financial situation will critically depend on steadfast implementation of country programs, including continued fiscal consolidation while making room for development and social spending through enhanced non-oil revenue mobilization, and adoption of Fund-supported programs by the Republic of Congo and Equatorial Guinea. Addressing governance issues and improving the business climate will also be key for higher private sector-led growth.

Directors welcomed the BEAC's commitment to implement an adequately tight monetary policy, aimed primarily at rebuilding an adequate level of foreign exchange reserves. They considered the current stance as appropriate, but encouraged the BEAC to stand ready to tighten monetary policy should pressures on external reserves emerge or inflation increase strongly.

Directors commended the BEAC for progress in overhauling its monetary policy implementation framework, but noted the build-up of excess liquidity. They encouraged the BEAC to manage liquidity with the primary objective of enhancing monetary policy transmission and to stand ready to accelerate its move to absorb excess liquidity in case external or inflationary pressures were to emerge. Directors welcomed plans to develop a new regulation to monitor and support liquidity-stressed banks.

Directors supported the BEAC's resolve to ensure strict implementation of the new Foreign Exchange Regulation and emphasized the importance of supportive actions by national authorities. They encouraged the regional institutions to define and implement an effective communication strategy to address concerns by some banks and economic operators about the implementation of the new regulation and its potential impact on economic activity and investment.

Directors welcomed the regional banking supervisor's (COBAC) adoption of its 2019–21 strategic plan and its focus on gradually implementing a more effective, risk-based supervision. They were encouraged by the plan's measures to monitor NPL reduction in banks more proactively, strengthen the framework on risk management and internal controls, and enhance compliance with prudential norms. Directors encouraged COBAC to find practical solutions for accelerating resolution processes for small ailing banks.

Directors welcomed progress by the CEMAC Commission to strengthen its multilateral surveillance framework, including plans to establish an early warning system and to develop a binding sanctions regime in case of breaches of regional surveillance rules.

Directors considered that the BEAC and COBAC have implemented the policy assurances provided in the December 2018 follow-up Letter of Policy Assurances, namely on: (i) completing the modernization of the monetary policy operations framework; (ii) submitting for adoption to the UMAC ministerial committee revised foreign exchange regulations; and (iii) achieving the end-2018 NFA accumulation. They also noted the policy commitments outlined in the June 2019 follow-up Letter from the BEAC Governor, and endorsed the policy assurance on achieving the projected end-June 2019 and end-December 2019 NFA accumulation based on commitments by the member states to implement adjustment policies in the context of IMF-supported programs together with BEAC's commitment to implement an adequately tight monetary policy. Implementation of this policy assurance will be critical for the success of IMF-supported programs with CEMAC member countries.

APPROVAL: August 31, 2021

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and risks

1. ***Could staff provide more context on the envisioned role/purpose of future tripartite discussions (e.g., will there be specific monitorable targets to assess accountability)?***

- The tripartite discussions provide a forum for CEMAC national authorities and regional institutions to take stock of progress but also possible slippages that may jeopardize the attainment of the objective of the regional strategy, in particular external and domestic stability, and define corrective measures. The tripartite forum, which will meet biannually (or when needed), will be expected to issue a final statement with high level commitments (as done at the first meeting). Their concrete implementation is to be followed up in the context of CEMAC country programs and/or in the regional common policies commitments by regional authorities.

2. ***We consider that the importance of security is belittled in the report. For instance, as recognized by the Human Rights Watch, Cameroon's Anglophone regions have been engulfed in crisis since late 2016. These events produce negative externalities in humanitarian, agricultural and economic issues, perturbing macroeconomic stability. Staff's comments are welcome.***

- Security issues are mentioned as specific downside risk to an already weak nonoil growth, which would put in jeopardy the attainment of much needed inclusive growth (paragraphs 11, 13). Specific issues around security in CEMAC countries are and will be highlighted in the context of country programs. For instance, security issues have been consistently discussed in past staff reports for Cameroon (including in box) and in the current staff report; the current Cameroon staff report includes the latest information on the humanitarian and economic impact of the crisis. Similarly, for Chad and CAR, the staff reports will discuss the security situation which remains volatile.

Program implementation and Fund engagement

3. ***We urge staff to look at successful programs with commodity exporters to draw lessons on promoting more durable, inclusive non-oil growth prospects and economic modernization. This may include further efforts to modernize the monetary framework, including exploring the pros and cons of a more flexible***

exchange rate regime, informed by staff's recent advice in the case of Angola. Staff comments would be appreciated.

- This issue will be addressed orally at the Board meeting.

4. ***Are staff of the view that follow up programs will be needed? Are there any lessons from the recently concluded Review of Conditionality that will be incorporated in the design of successor programs for CEMAC countries?***

- The decision to seek possible follow-up programs is a sovereign decision by member countries facing a balance of payments need. The C.A.R. authorities have already formally requested a successor arrangement; negotiations could take place in the Fall. In case similar requests were made by other CEMAC countries, staff would likely view possible successor programs as beneficial to address CEMAC members' balance of payments needs. This would also help to ensure continued full participation by all CEMAC countries in the regional efforts (together with Congo and Equatorial Guinea) and to strengthen policies towards achieving the objective of higher inclusive growth. In this context, staff would seek to draw from the lessons of the recently concluded Review of Conditionality, including strengthening the conditionality on domestic revenue mobilization and critical structural reforms to improve the business environment.

5. ***Given the length of program discussions, we would appreciate more details on progress and the remaining challenges. Also, could staff provide more detail on the nature of the agreement on debt restructuring between the Republic of Congo and China?***

- The Republic of Congo's program request is scheduled for Board discussion by mid-July. Program documents are currently being finalized and staff is awaiting final guidance from Management. Staff will be ready to provide information on the debt restructuring between the Republic of Congo and China in the context of the discussion for Congo's three-year ECF request.

- Regarding Equatorial Guinea, the authorities needed more time to observe three structural measures under the staff monitored program: hiring internationally reputable auditors to audit domestic payment arrears; hiring internationally reputable auditors to audit the state-owned oil and gas company and reconcile hydrocarbon revenues and with production for 2016 and 2017; and submission of a membership application to the EITI. Auditors were recently hired to satisfy the first two measures. On the third one, the authorities have indicated they have submitted an application. Staff is in the process of assessing that the measure has been met. The authorities are still working to close the fiscal accounts for 2018. This updated information will be used as input to design a fiscal program for 2019 and beyond.

6. ***Can staff elaborate on the likelihood that Equatorial Guinea will adopt IMF arrangements in the new timeframe? How would the failure to enter a program arrangement affect the regional strategy, and what mitigating actions would be needed?***

- Once Equatorial Guinea has satisfied the structural benchmarks that were not met under the 2018 SMP and completed the review of the 2018 fiscal accounts, staff will travel to Malabo to start negotiations of a program with financing from the IMF. The authorities continue to express their strong interest in a Fund-supported program. A failure to secure a Fund-supported program would likely worsen non-hydrocarbon growth, with negative effects on the financial sector, and would force the country to realign even more its fiscal policy to available financing. In such a scenario, regional reserves might be slightly impacted, depending on the authorities' policy response to reduced external financing. Should the regional NFA position significantly underperform, the member and regional authorities are committed to identify and adopt necessary corrective measures, both at the regional and national levels.

7. ***We are however, gravely concerned about the continued accumulation of external arrears in Gabon and the delay of in concluding the review. Staff's comments on the likely impact on the overall regional strategy and necessary contingency measures would be welcome.***

- The delay in concluding the fourth EFF review will have little impact on the regional strategy as all expected external disbursements in H1 have already taken place. Preliminary data suggest notable improvement in both tax collection and public spending management in the first quarter of 2019. These data also suggest that no external arrears have been accumulated since March. The current political momentum as well as progress made on the EFF program in Q1 2019 could help keep the program on track and create conditions for the completion of the fourth and fifth program reviews by December 2019.

8. ***What role does staff see for structural conditionality in the Fund-supported programs to ensure compliance with COBAC's instructions?***

- Country programs already reflect some COBAC instructions deemed essential such as the withdrawal of a bank license. For example, this helped closing a large public bank in Gabon in 2018 and is currently helping to resolve ailing banks in Cameroon. Policies in the Cameroon, Gabon and Chad programs also include developing and monitoring national NPL reduction strategies. However, to keep structural conditionality focused and streamlined, room for including such measures in programs' conditionality is limited given other priorities in non-financial sectors.

9. ***Does staff have any proposals on how to ensure better compliance with COBAC's decisions on part of the national authorities and stakeholders?***

- Staff will continue to seek policy commitments from national authorities to implement COBAC's decisions. Such policy commitments would be part of program conditionality only when deemed critical for the success of the country programs, as has been the case so far.

Policy assurances

10. ***We appreciated the inclusion of Text Table 1, highlighting the status of regional assurances made in December 2019, per our request at the last Board discussion. However, we would have liked for this to also be forward looking, including the seven new structural measures and the updated NFA targets, to enhance clarity and better link staff's discussion to the Letter of Support. Could staff clarify why they did not include new policy assurances on this table and whether they will do so in the future?***

- The Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries (Annex 1) includes policy commitments in various areas. However, besides the policy assurance on NFA accumulation, staff does not at this stage see any measure from regional institutions as meeting the requirements for being established as a policy assurance. Hence, a table presenting forward-looking policy assurances was not necessary.

11. ***Could staff confirm whether COBAC's specific policy actions described in the staff report are macro-critical to the CEMAC regional strategy, thus warranting inclusion in the Letter of Support?***

- Currently, actions seen as macro-critical for the financial sector revolve around reducing NPLs. As explained in the staff report, priority should be given to implementing government arrears repayment plans, which are under the control of the national authorities, not COBAC. Therefore, staff does not see a case for requesting a policy assurance from COBAC at this stage. This being said, staff considers the policy commitments of COBAC as very important elements of the regional strategy and will continue to follow up in its dialog with the regional institutions.

12. ***We wonder whether some of the other areas where staff are recommending actions by regional institutions – including notably COBAC efforts to address banking***

sector weakness – should also be considered critical to the success of the program and included in the Letter of Support in the clear, specific and monitorable form set out in the Board guidance on program design in currency unions. Staff comments are welcome.

- As mentioned above, staff does not see actions needed by COBAC at this stage which would be critical to the success of country programs and meet the criteria for the establishment of policy assurances from regional level institutions under the Fund's policy on Program Design in Currency Unions.

Fiscal policy

13. ***Could staff share some insights whether there is any further progress on the revenue side to lessen oil dependency (e.g. enhance non-oil revenue mobilization) since the last assessment?***

- Some CEMAC countries have already made efforts to reduce tax exemptions in 2019 (Cameroon, Congo), also reflecting specific recommendations during the Tripartite Discussion (Annex 1). For instance, Cameroon has achieved a 1.1 percent of GDP increase in non-oil revenue since the start of the program, with about half the gain stemming from enhanced tax administration. In the case of Equatorial Guinea, non-hydrocarbon revenues continue to disappoint owing to the slow pace of implementation of reform measures, due largely to capacity issues; the authorities have requested TA support from the Fund in the form of long term experts to help them implement revenue mobilization measures. Moreover, at the regional level, important steps are being taken by the CEMAC Commission such as the approval of the Directive on excise duties (to harmonize and reduce tax exemptions) and the revised Customs Code (see paragraph 28).

14. ***Could staff further elaborate on why non-oil growth has not picked up and how can the current – and future – Fund involvement be improved to foster it?***

- As indicated in the staff report, overall the sluggish non-oil growth reflects both the impact of strong fiscal adjustment, the legacy of large domestic arrears, and lack of progress in structural reforms to improve the business climate. In addition, some country specific factors also weighed on growth performance. For instance, in CAR, non-oil growth was affected by the sharp drop in diamond production and a temporary slowdown in wood production in 2018. Staff intends to further analyze obstacles to growth in the region in advance of the 2019 regional surveillance consultation and discuss it with the authorities and other development partners to better identify concrete priority actions, both at the national and regional level.

15. ***Could staff elaborate on the possibility, under current programs, of targeting higher-quality fiscal adjustment, which is one of the recommendations of the recent Review of Conditionality, to safeguard public investment?***

- Several programs already include performance criteria or indicative targets on domestic non-oil revenue (Cameroon, Chad, CAR). The issue of rebalancing the source of fiscal adjustment by increasing non-oil revenue to support priority spending, rather than cutting public investment, has featured in all staff reports. In addition, the Cameroon program has, for example, been flexibly adjusted to allow for larger public investment than initially envisaged to allow for priority ongoing projects to continue. Further work in the area of pro-growth policies, which include pro-growth fiscal adjustment, will be done in the context of CEMAC's next regional surveillance staff report.

Monetary policy and foreign exchange regulations

16. ***Could staff elaborate on the reasons the liquidity injected has failed to positively impact the real economy with credit growth at only 4 percent?***

- The liquidity-stressed banks, which have been the main beneficiaries of the liquidity injections, weren't active in extending credit given the tightness of their financial conditions. These injections enabled them to substitute emergency liquidity assistance and advances at penalty rates.

17. ***We welcome staff's proposal to swiftly move to sterilize the increasing excess of liquidity through open-market operations or increased reserve requirements. However, we consider that this process can be difficult to execute and sometimes even self-defeating—as it may raise domestic interest rates and stimulate even greater capital inflows. Could staff elaborate on the benefits of implementing this objective?***

- The objective of an active liquidity management in a case like CEMAC of a fixed exchange rate regime with some form of capital controls is to avoid the build-up of excess liquidity in order to keep short-term rates close to the policy rate and strengthen the transmission of monetary policy. Currently, excess reserves are leading to a decrease in short-term rates below the policy rate and capital controls are preventing to some extent capital outflows which would have acted as a stabilizer. The sterilization, with sufficient volume of operations at the policy rate, would thus increase the domestic interest rates up to the uncovered interest rate parity (not above it) and would likely not stimulate greater inflows.

18. ***The excess liquidity appears to be highly concentrated in few, mostly foreign-owned banks, while a few systemic banks in Chad and Equatorial Guinea remain liquidity-stressed. Could staff offer more insight on the factors contributing to this?***

- This is likely the result of effective efforts by foreign-owned banks in mobilizing deposits, including accounts of foreign companies operating in the CEMAC such as oil exporters, while having pursued very prudent credit policy. On the other hand, the systemic liquidity-stressed banks in Chad and Equatorial Guinea have been impacted by their very large direct and indirect exposure to the sovereign, which resulted in the recent past in a deterioration of their balance sheet and liquidity situation.

19. ***Does staff have a preliminary assessment of how much liquidity could be drained from the system by the adoption of single treasury accounts? Relatedly, is there an estimate of how much would be the cost of sterilization for the central bank?***

- Based on Staff estimations as of end May 2019, the adoption of single treasury accounts would be expected to drain about 100 billion FCFA for the rest of this year. As of end March 2019, the theoretical amount of liquidity absorption to achieve a neutral liquidity allocation would have been 1.3-1.4 trillion FCFA and would have costed BEAC likely between 30-45 billion.

20. ***Does the BEAC count with enough instruments to absorb outstanding excess liquidity in the system within a short period of time?***

- Yes, besides slightly increasing the reserves requirements, BEAC could issue certificate of deposits at different maturities to absorb excess liquidity within a short period of time. The liquidity management framework has been designed to operate both for injection and absorption of liquidity.

21. ***Are there other measures that could improve these banks' access to the interbank market?***

- Access to the interbank market for these liquidity-stressed banks will critically depend on the trust from counterparties. Hence, reforms to improve financial information transparency will be important for these banks in particular. These banks will also need to ensure a good quality of collateral that could be used for interbank transactions.

22. ***We see the difference of views between the authorities and staff regarding reduction pace of excess liquidity, reflecting the authorities' concern on liquidity-stressed bank. We would like to know staff's views on how to address the concern.***

- Banks that are highly dependent on BEAC's refinancing would see only a marginal impact on their resources cost as current interest rates on liquidity injections have moved very close to the rate of the marginal facility (which can be accessed on demand). In staff's view, this measure coupled with the requirement of funding plans, would incentivize liquidity-stressed banks to deleverage their balance sheets. Staff would like to note that in 2018 some liquidity stressed banks were under emergency liquidity assistance at even higher costs.

23. ***We invite staff to share their views on how to address the authorities' concerns that 'liquidity-stressed banks would be put under further stress' if liquidity absorption were to be accelerated?***

- Please refer to the answer to question 22.

24. ***As new FX regulations are categorized as capital flow management (CFM) measures, it is important to clarify the conditions which enable the authorities to remove the regulations. We welcome staff's comments on this issue.***

- At the current juncture, strict enforcement of the repatriation and surrender requirements provided for under the FX regulations is crucial for building an adequate reserve buffer in the region. This is complemented by warranted macroeconomic policy adjustments to restore macroeconomic stability and help improve the reserve position on a sustainable basis. As macroeconomic stability is entrenched, and the reserve position reaches an adequately comfortable level, the need for repatriation and surrender requirements could be reassessed as part of the authorities' overall capital account liberalization strategy. However, as the report shows, staff does not expect the reserves position to reach adequate levels for a resource-rich currency union in the immediate future.

25. ***We encourage the authorities, notably BEAC, to further engage with representatives of the business community to ensure that the regulation does not become a hurdle to investment. We would also appreciate staff's views on which measures can be implemented to prevent a possible negative impact of the regulation on the business environment.***

- The BEAC have been proactive in reaching out to the business community in the past months and intends to scale up efforts in this area. We are working with all our resident representative offices to back efforts in this area, and participate to all meetings the BEAC will organize with the business community. We see two areas where the BEAC can help a smooth transition to the new regulation: (1) continue enhance communication on the new regulation and discuss possible concerns by commodity exporters and how the regulation can help address them and (2) continue to build capacity to execute legitimate foreign exchange transactions within a short deadline.

26. ***Could staff expand on the way foreign exchange regulation is in practice being applied and how it compares to the growing perception?***

- BEAC is now requesting proper documentation for all forex demands addressed to BEAC to establish the bona fide nature of these demands and is assessing if banks have repatriated and surrendered the forex receipts as required under the regulations. In the past, BEAC has responded to forex demands with relatively long lags. More recently, it strengthened its capacity in this area and has issued revised internal guidance providing increased authority to BEAC national directorates to approve FX requests, has reportedly reduced delays to a minimum. Nevertheless, BEAC continues to reject a relatively large number of demands, either because of lack of documentation or because banks have excess forex on their own account. It appears that economic operators are not always well informed about the reasons behind these rejections. Staff continues to monitor the situation.

27. ***We wonder what the staff's views are regarding the exemptions that would be justifiable. By the same token, we wonder how "legitimate foreign exchange requests" would be identified.***

- While the BEAC is currently formulating its policy on exemptions, staff notes that the FX regulations do allow for CEMAC residents to apply to the BEAC to hold FX accounts either in or out of the CEMAC.

- Legitimate foreign exchange requests are those which meet the conditions described by the new foreign exchange regulations and for which documentation which establishes the bona fide nature of the transaction is available.

Financial sector

28. ***Could staff indicate what proportion of those nine banks are deemed systemic nationally or for the CEMAC region and for those deemed non-systemic whether mergers with other entities are under consideration?***

- None of these banks are systemic for the region, but three of them are deemed nationally systemic and are expected to be timely recapitalized. No merger plans are being considered for non-systemic institutions.

29. ***COBAC should outline a clearer strategy for reducing NPLs by banks and streamline the problem-bank resolution processes. Could staff indicate a timeframe***

to resolve the crisis and whether measurable targets were agreed with these banks? Does staff have information on new developments about the banks since their last visit?

- COBAC is analyzing NPL reduction strategies which it requested from banks by end-2018 and will define supervisory actions, if deemed necessary. So far, no measurable targets have been agreed. An indicative timeframe to reduce NPLs to more normal levels will critically depend on the speed of government arrears repayments, with plans ranging from three to seven years, depending on the country

30. ***We note that the COBAC is requesting all national authorities to provide government arrears repayment plans. Could staff comment on the progress in this area?***

- There is no progress yet in this area as such request was planned to be sent to the national authorities after the review mission.

31. ***The dire fiscal situation most likely explains the significant increase in government arrears with its detrimental impact on banks' portfolios. Could staff comment whether non-compliance with the concentration risk is due to public sector liabilities?***

- Concentration risks are mainly to sovereign (including treasury bills), state-owned enterprises or large companies under government contract, in particular in the construction sector.

32. ***We note, however, that banks continue to record high NPLs (17 percent on average for the region) because of government arrears. Could staff elaborate on the status of the arrears' clearance strategies being developed by CEMAC members?***

- The process to identify government arrears and define clearance strategies is ongoing at a different pace in each country. In Cameroon, As part of program conditionalities, authorities did in late 2017 an audit of the arears generated before end-2016 which helped define a arrears' clearance plan that are now been implemented. Domestic arrears have declined by 2 percentage points of GDP since the start of the program (from a 2.5 percent of GDP total stock). Most of the arrears clearance was through cancellation of illegitimate claims or resulting from weak PFM practices, with small cash repayments to suppliers, and little impact on NPLs.

- In Gabon, authorities concluded the audit in May and are in the process of defining their repayment strategy. An NPL clearance program exists that prioritizes government repayment to firms accepting discounts. In Chad and in Congo, an audit of government arrears is scheduled to take place this year. In CAR, NPLs are almost fully provisioned, independent from government arrears and rapidly decreasing.

33. ***While COBAC views government arrears repayment plans as critical to enhance confidence in the market, we would like to know estimation of NPLs reduction in case that government arrear is resolved in line with the pace suggested by IMF sponsored programs.***

- Such estimates do not exist as the government arrears repayment plans are still being defined. However, as such plans may be implemented over a period ranging from three to seven years and as most of these arrears are owed by firms under government contract, the expectation is that NPL reduction will be gradual as firms are being paid and start repaying their bank loans.

34. ***Which measures have been taken to deal with government arrears? In which countries is this a most pressing issue, and in which has this been reflected on banks' asset quality? What else can be done, at the level of program design, to address this problem?***

- Programs include PCs or ITs limiting and/or gradually reducing the volume of domestic arrears as percentage of GDP. Countries where government arrears are particularly weighing on asset quality are Congo, Equatorial Guinea and Chad.

Regional integration, surveillance and structural reforms

35. ***We welcome the support by the Heads of States for a restraint mechanism and encourage the Commission to expeditiously develop an effective sanction's framework, which will enforce compliance with the agreed protocols. That said, we caution against establishing a new bureaucracy that will generate excessive budgetary demands. Does staff have a preliminary sense of the nature and shape of the sanction's framework?***

- The discussion around a sanction's framework is at a very initial stage. The framework will depend on establishing before an early warning system, to include a forward-looking dimension to this framework.

36. ***Could staff express a view on how a single regulator could potentially accelerate the development of capital market instruments and products across CEMAC?***

- A single regulator could facilitate the establishment of common financial reporting standards for CEMAC issuers which, in turn, would facilitate investment decisions by financial institutions and the private sector. The single regulator could also establish and monitor the implementation of standards regarding key infrastructures (such as security settlement and the role of depository entity).

37. ***Staff's comments on the RISP and its complementarity with the Fund programs would be welcome.***

- The AFDB Central African Regional Integration Strategy Paper 2019-2025 provides a solid framework to advance the regional strategy in the area of sustained and inclusive growth, with a strong and welcome emphasis in deepening the regional market. Progress in this area by the AfDB, together with the World Bank, highlights strong complementarities with the macroeconomic focus of the IMF. In particular, the RISP aims to "support economic diversification and structural transformation through the improvement of intra-regional trade." The Bank intends to achieve this objective through two pillars, namely: (i) Reinforce regional infrastructure (energy, transport and Information and Communication Technology); and (ii) Support reforms for intra-regional trade development and build regional economic community institutional capacity.

38. ***As the early warning exercise is designed to strengthen multilateral surveillance (¶29) and the four convergence criteria (fiscal balance, inflation, public debt, and government arrears) are macro critical and part of individual country programs, we wonder why this exercise is being led by the World Bank and not the Fund. Staff clarifications are welcome.***

- The World Bank assistance in this area is part of a much broader project for capacity building of CEMAC regional institutions. In view of the Fund's already very large portfolio of capacity development assistance, including monetary policy framework and tools, banking sector supervision, and public financial management, it was agreed that the Bank would be covering this early warning system. Fund staff will continue to be closely associated with work in this area, such as the regional meeting which took place on June 21 which Fund staff attended.

39. ***We would have liked to see more details on the progress made on structural aspects to sustain growth. Could staff offer an update?***

- Not much progress was achieved since December 2018. The regional strategy regarding structural reforms to sustain growth are covered in the. A recent assessment of the status of implementation of CEMAC's Economic and Financial Sector Reform Program, done by the CEMAC Commission, suggests that reforms continue to lag behind in the areas of enhancing the business environment and deepening the regional market. These issues will be discussed in more depth during the annual surveillance regional consultation later this year.