April 13, 2020
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 18/107-1

10:00 a.m., December 17, 2018

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

Documents: EBS/18/114 and Correction 1; and Supplement 1; and Supplement 2; SM/18/284; and Correction 1; and Correction 2

Staff: Toujas-Bernate, AFR; Porter, SPR

Length: 1 hour, 25 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	**Alternate Executive Directors**
	O. Odonye (AE), Temporary
M. Raghani (AF)	
	R. Morales (AG), Temporary
	G. Preston (AP), Temporary
	B. Saraiva (BR)
Z. Jin (CC)	
	P. Moreno (CE)
L. Levonian (CO)	
	C. Just (EC)
H. de Villeroché (FF)	
S. Meyer (GR)	
S. Gokarn (IN)	
D. Fanizza (IT)	
	Y. Saito (JA)
	K. Badsi (MD), Temporary
	F. Al-Kohlany (MI), Temporary
	R. Doornbosch (NE)
T. Ostros (NO)	
	A. Tolstikov (RU), Temporary
	R. Alkhareif (SA)
	Z. Abenoja (ST), Temporary
P. Inderbinen (SZ)	
	M. Chen (UK), Temporary
	P. Pollard (US), Temporary

G. Bauche, Acting Secretary
J. Morco, Summing Up Officer
L. Briamonte, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: B. Loko, D. Owen, M. Perinet, D. Robinson, Alex Segura-Ubiergo, J. Toujas-Bernate, Z. Zeidane. European Central Bank: K. Nikolaou, R. Rueffer. Finance Department: M. Albino Orjuela, G. Fernandez. Legal Department: S. Lando, I. Luca, E. Mathias. Monetary and Capital Markets Department: Joelle El Gemayel, Jean Portier. Strategy, Policy, and Review Department: N. Balta, M. Muhleisen, N. Porter. World Bank

Group: F. Carneiro, M. Cinyabuguma, N. Fiess. Alternate Executive Director: H. Razafindramanana (AF), F. Sylla (AF). Senior Advisors to Executive Directors: C. Collura (IT), H. Etkes (NE), T. Nguema-Affane (AF), R. N'Sonde (AF), C. Williams (CO), F. Bellocq (FF). Advisors to Executive Directors: A. Arevalo Arroyo (CE), S. Bah (AF), S. Buetzer (GR), O. Diakite (AF), I. Lopes (IT), M. Mulas (CE), E. Ondo Bile (AF), A. Park (AP), I. Skrivere (NO), A. Srisongkram (ST), K. Lok (CC).

1. CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY—COMMON POLICIES OF MEMBER COUNTRIES, AND 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 wish to thank the Executive Board, Management and Staff for the continued support to CEMAC since the adoption in December 2016 of the regional strategy to exit the crisis. Our authorities are grateful for the constructive dialogue with Management and Staff, and for the renewed commitment to support their efforts in addressing the daunting macroeconomic challenges facing the region in a context of security tensions, notably continuous terrorist threats in three of the six countries.

Since the inception of the regional strategy—and even more so after the last Board meeting on CEMAC common policies last June—significant progress has been made by member countries and regional institutions on fiscal, monetary and financial sector policies needed to achieve the objectives of the regional strategy. Their efforts, supported by development partners, have been successful in adverting a full-blown crisis with tremendous consequences. However, while four countries are implementing Fund-supported programs as part of the regional strategy, two countries have yet to formally benefit from such support, namely Equatorial Guinea and Republic of Congo which account for 15 percent and 11 percent of CEMAC's GDP respectively. Moreover, the regional authorities recognize that more remains to be done to diffuse uncertainties about the effectiveness of the regional efforts notably regarding the quality and sustainability of fiscal consolidation, closing the gap in external buffers, and restoring confidence.

It is in this context of uncertainties that the Extraordinary Summit of CEMAC Conference of Heads of State took place in N'Djamena in last October. Fully aware of the challenges facing the region, the Heads of State have, in a public Resolution, renewed their firm commitment to an orderly, concerted and solidary exit from crisis. In this vein, they have reiterated their commitment to enhance the monetary cooperation between the six countries and to the strict respect of its regulations. They have formulated clear and specific guidance to national authorities and regional institutions and called on the international financial community and development partners to step up their support to further invigorate the regional strategy.

Guided by this resolution, CEMAC institutions intend to build on the good progress made thus far by the regional central bank (BEAC), the regional banking supervisory body (COBAC), and the CEMAC Commission in supporting the strategy. The two former institutions have provided policy assurances consistent with their respective mandates through a Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries. Regional authorities share staff's assessment of the situation, outlook, and significant risks facing the region, as well as their recommendations to sustain the external viability and economic resilience of CEMAC members. They call on the Fund and development partners to strengthen their support at this critical juncture.

Recent Developments and Outlook

Oil GDP has rebounded more than expected in the region in 2018. However, overall growth, while improving, remains insufficient to rebuild significant policy space and buffers as it is projected at 2.2 percent this year. Inflation is under control, below 2 percent at end-year. Higher oil exports have helped improve the external current account and overall balance of payments which recorded significantly lower deficits. Nevertheless, large shortfalls in external financing notably due to delays in the adoption of Fund-supported programs for Congo and Equatorial Guinea have left net foreign reserves at levels below expectations.

On the fiscal front, the four countries implementing Fund-supported programs and the one under staff-monitored program (SMP) have continued to register satisfactory performance, with next program reviews for Cameroon, Gabon, Central African Republic and Chad expected to be completed in December 2018 and Equatorial Guinea's fiscal performance assessed positively under the second review of its SMP. The region as a whole is expected to meet targets on non-oil fiscal balances albeit some difficulties encountered by few countries in boosting non-oil revenue. Encouraging progress has also been made by all CEMAC countries in net arrears repayments.

Regarding monetary policy, the BEAC, consistent with policy assurances provided in June 2018, has tightened its policy stance by raising the policy rate last October and, along with COBAC, strengthened the enforcement of foreign exchange regulations—including through sanctions imposed to non-complying banks—in face of shortfalls in reserves accumulation. As a result, banks have reduced their foreign assets position and surrendered them to the BEAC. Nonetheless, the central bank stresses that more need to be done to enforce the repatriation of foreign exchange export proceeds. It has made important strides towards enhancing those foreign exchange regulations and plans to submit a draft on stronger regulations to the adoption of the Central African Monetary Union’s Ministerial Committee by year-end.

Despite progress made in net arrears repayments by governments, non-performing loans (NPLs) have risen and hampered banks’ liquidity positions. However, banks in the region are well capitalized except for a few that are under close supervision, two of which COBAC has withdrawn, or requested the withdrawal of licenses. In addition, banks in the region are generally profitable.

Looking ahead, the region’s medium-term prospects remain broadly favorable as rightly pointed out in the staff report, with expected gradually recovery of non-oil growth, rapid decline in public debt-to-GDP ratios, and narrowing of current account deficits, which would contribute to gradual reserve accumulation up to 4 months of import coverage by 2020.

Conversely, recent oil price developments, if they persist, further delays in the approval of Fund-supported programs for Congo and Equatorial Guinea, or protracted security challenges could jeopardize the success of the regional strategy and deteriorate the economic outlook. Country and regional authorities agree with the need to promptly coordinate necessary corrective actions if any of these risks were to materialize. They commit to remain steadfast in implementing the commonly-agreed and coordinated strategy. However, the materialization of risks would have considerable depressing effects on the already tepid growth, external buffers, and social conditions, and the room for maneuver to cope with large shocks may be limited. In this context, the authorities stress the importance of expanding the policy space, which entails the timely conclusion of financial arrangements for Congo and Equatorial Guinea as well as flexibility in program design to accommodate for adverse oil price movements and heightened security tensions.

Ensuring the Success of the Regional Strategy

The regional authorities welcomed the focus of recent discussions with Staff and Management on ensuring that the objectives of the CEMAC strategy and the related regional policy assurances are met. As properly stated in the staff report, there is full agreement between the authorities and staff on the need for: (i) country members to implement thoroughly their fiscal consolidation plans; (ii) BEAC to continue monitoring liquidity conditions and mop up excess liquidity as needed while strictly enforcing enhanced foreign exchange regulations with the overarching objective of rebuilding reserves buffers ; (iii) COBAC to finalize and implement its 2019-21 strategic plan focused on risk-based supervision while also revising AML/CFT regulation; and (iv) the CEMAC Commission, along with national authorities, to deepen and improve coordination of efforts to implement the CEMAC Economic and Financial Reform Program (PREF).

Regarding fiscal consolidation, regional authorities also agree on the need to improve the quality of adjustment, with greater emphasis on strengthening non-oil revenue mobilization—including through curbing tax exemptions and strengthening tax and customs administrations—and rationalizing fuel subsidies. They also share the view on saving oil revenue windfalls to rebuild buffers or reduce domestic arrears to reinvigorate activity and reduce NPLs in the banking sector. BEAC and COBAC are eager to monitor countries' arrears repayment plans once they are finalized and provide countries with their assessment of those plans' macroeconomic impact. Moreover, the ongoing amendment to BEAC's Charter to tailor government securities used as collateral for monetary operations or reduce central bank refinancing as required by the level of reserves, should help strengthen fiscal discipline and thereby enhance the currency union.

On monetary policy, BEAC stands ready to tighten further its policy stance if needed. It will build on the progress achieved in modernizing its monetary policy operational framework and adopt a new accounting system for recording monetary transactions. Work in this area should be finalized by end-year. BEAC welcomes staff's advice to implement a new bank sanctions framework for monetary operations and for non-compliance with reserve requirements. They also share staff's view on the need to deepen the interbank market notably by further reducing excess liquidity, developing the trading platform, encouraging the use of repurchase agreements by banks, and widening its interest rate corridor.

Regarding the financial sector, the Secretariat General of COBAC (SG-COBAC)'s strategic plan should help strengthen the banking supervision framework, promote timely resolution of troubled banks, encourage banks to implement NPL reduction plans, support the enforcement of the enhanced foreign exchange regulations and that of new microfinance prudential rules, and prepare the transition to Basel II/III and IFRS standards. The banking commission welcomes Fund advice on guiding NPL resolution processes in a proactive manner; minimizing the costs of protracted resolution decisions; ensuring high expertise and independence of COBAC members; and enhancing the SG-COBAC's effectiveness, including through enhanced human capacity.

The region has most incurred the impact of the oil price shock in 2014 because of undiversified economies and the excessive dependence of their commodity exports on extra-CEMAC trade. Therefore, the regional institutions stress the criticality of promoting economic diversification and fostering regional integration. The two complementary actions should contribute to overcoming CEMAC's macroeconomic challenges. In this vein, besides creating fiscal space for highly needed infrastructure and social spending, the regional authorities are cognizant of the importance of developing domestic markets. The merger of the two stock markets of the region is proceeding well, with the physical unification planned for end-2018 and the alignment of procedures for the new market with best international practices expected for mid-2019. The regional authorities will also continue improving the functioning of public securities markets and the secondary market.

On governance, regional authorities welcome staff's analysis laid out in the Selected Issues paper on the tremendous potential that strengthening governance will have for boosting growth in a sustainable and inclusive manner. They very much appreciate the lines of actions proposed to give priority to more transparency, full disclosures, internal and external audits of the public sector, and full implementation of the system of check and balances contained in the CEMAC legislation. In particular, the CEMAC Commission puts high value on member states improving public resource management and, in this vein, it has decided to create a unit in charge of monitoring and reporting on progress and remaining weaknesses in the implementation of CEMAC directives on PFM.

Other structural reforms are envisaged under the PREF, and include measures to ensure the strict compliance of contracts in extractive industries with regional directives on transparency in this sector; improve the business environment; and strengthen regional convergence criteria.

Regional institutions see merits in reinforcing the monitoring of the regional strategy implementation. They have agreed on the principle to hold semi-annual tripartite consultations involving national authorities, regional institutions and the IMF to assess progress, at both regional and national levels, in advancing the strategy and to design additional measures to ensure that the strategy's objectives are met. Regional institutions continue to put emphasis on the need for the Fund to help members harmonize their tax frameworks and strengthen the regional surveillance framework through an increased technical support.

Conclusion

The CEMAC region is at a crossroads. While progress has been made in advancing the regional strategy to exit the crisis, further efforts are needed to finalize the negotiations for Fund-supported programs for two remaining countries. CEMAC authorities acknowledge that tackling the impact of the crisis depends on the national and regional authorities' steadfast implementation of the exit strategy. They however also stress the importance of timely and adequate support from external partners, notably the Fund and other multilateral and bilateral creditors, in achieving success. Therefore, they call on the international financial community to provide needed financing assurances for CEMAC countries and step up their financial and technical assistance. We would greatly appreciate Board's support to the CEMAC authorities' requests.

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

We thank staff for the comprehensive staff report and selected issues paper and Mr. Raghani and Mr. N'Sonde for their helpful buff statement.

The regional strategy adopted by CEMAC's heads of state has helped avert a crisis so far, but the region's economic situation remains challenging. Non-oil growth remains weak and is projected to decline to one percent in 2018 from 2.6 percent the previous year. In addition, vulnerability to shocks is still high, and political risks remain elevated. Urgent action is needed to create fiscal space for a better provision of public services, upgrade infrastructure to facilitate job creation, improve governance to ameliorate the perception of corruption, and put in place policies to reduce oil dependence. This would require at the minimum the full implementation of policy commitments by CEMAC member states and regional institutions, comprising fiscal consolidation, enforcement of foreign exchange regulations, monetary policy tightening, strengthening of the financial sector, and key structural reforms. In this regard, we welcome the regional authorities' reiterated commitment to an orderly, concerted and solidary exit from the crisis declared during the Extraordinary Summit of CEMAC Conference of Heads of State last October, referred to in Mr. Raghani and Mr. N'Sonde's buff statement.

The region remains highly vulnerable to a decline in oil prices, tighter global financial conditions, and a deterioration of the security situation. For this reason, we are concerned that the regional strategy is not yet fully delivering on its objectives, in particular on the accumulation of CEMAC's foreign assets and on strengthening the region's external position, despite higher-than-projected oil prices last year. While external budget financing and the catalyzing impact of a possible new IMF-supported programs with Congo and Equatorial Guinea would help rebuild external buffers, this should be complemented by redoubled efforts to enforce foreign exchange regulations, including on banks' foreign exchange position limits and repatriation requirements of foreign exchange receipts by exporters. We concur with the message stated by the authorities in the follow-up to the Letter of Support to the Recovery and Reform Programs undertaken by the CEMAC member countries, highlighting the BEAC's and COBAC's commitment to take disciplinary actions to institutions not complying with regulations, to establish a mechanism to monitor foreign exchange transfers, and to tighten liquidity to enhance the effectiveness of monetary policy.

We are encouraged by the regional authorities' recognition that more needs to be done to diffuse uncertainties about their commitment to fiscal consolidation, closing the external buffers' gaps and restoring confidence, as highlighted by Mr. Raghani and Mr. N'Sonde. This commitment should translate into a sustainable path to fiscal consolidation that increasingly relies on non-oil revenue mobilization rather than on capital expenditure cuts as in the recent past. Sustainable fiscal consolidation efforts are necessary to put public debt firmly on a downward path while contributing to rebuild an adequate international reserves buffer. CEMAC member states should take advantage of their significant potential to increase non-oil revenue by closing VAT policy and compliance gaps, reducing tax exemptions, raising excise taxes especially on tobacco and alcoholic beverages, and rolling out property taxes, in line with the Selected Issues Paper. These measures could not only have a strong impact on revenue, but also provide CEMAC countries with a more stable revenue base supported by non-distortionary taxes. Such efforts should be harmonized and coordinated at the regional level and complemented by strengthening tax and customs administrations.

We welcome recent improvements in the BEAC monetary operational framework. The implementation of competitive auctions to provide refinancing to banks and the establishment of an emergency liquidity assistance system would contribute to a more effective monetary policy. We also note that BEAC has tightened its monetary policy stance, raising the policy rate closer to the level consistent with the region's risk premium. However, it appears that the policy interest rate has been raised by less than necessary to have an impact on the accumulation of net foreign assets. Given

BEAC's commitment to support the exchange rate peg while helping rebuild an adequate international reserve buffer, we wonder if interest rates could be raised further to support the effort of rebuilding reserves considering recent difficulties and surrounding uncertainties. Staff's comments are welcome.

Banking sector soundness is still compromised by delays in the repayment of government arrears. While COBAC has been proactive in addressing problems with undercapitalized institutions, the continuation of government arrears complicates enforcement of prudential regulations and perpetuates the current situation of banks in breach of key prudential indicators. This in turn would make it more difficult to dispel the environment of mistrust among financial institutions that conspires against efforts to develop interbank markets. Could staff elaborate on the main features and the timeline of governments' plans to repay arrears, to be monitored by COBAC and BEAC?

We encourage the authorities to implement the 2016 AML/CFT CEMAC regulations, as well as to adapt practices and work plans to establish effective risk-based AML/CFT bank supervision. With this, we wish them success in their future endeavors.

Mr. Saito and Mr. Minoura 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 share the staff's concern that the conclusion of new IMF-supported programs with Congo and Equatorial Guinea have not been reached, reflecting the unsatisfactory implementations of the required reforms. Moreover, given the mixed result of progress in implementing the recommendations of the 2017 regional surveillance consultation, it is essential for both the national and regional authorities to make further efforts on implementing fiscal consolidation, rebuilding adequate international reserves and addressing vulnerabilities in the financial sector. As we broadly concur with the thrust of the staff's evaluation and appraisals, we will limit our comments to the following points for emphasis:

Fiscal Policy

We share the staff's view that member states' continued efforts to implement strictly their fiscal consolidation plans are critical to rebuild international reserves, put public debt firmly on a declining path, and reduce vulnerability to oil prices while raising savings for future generations. Given the significant impact of government arrears on the banking sector, governments' arrears repayment plans should be finalized and implemented urgently. We urge the COBAC and BEAC to support governments' implementation by monitoring and analyzing the repayment plans and sharing findings with national authorities.

Regarding the amendment of a BEAC's Charter Article, we take note that the envisaged amendment will notably provide for increased haircuts on government securities used as collateral for monetary operations or for a reduction of BEAC's refinancing when reserves fall under specific national and regional thresholds. Could staff share the views on potential impacts of increased haircuts on liquidity of private banks? We would also appreciate it if staff could elaborate more on the envisaged amendments in other areas.

Monetary Policy and Foreign Exchange Regulations

We support the BEAC's policy stance that aims primarily at rebuilding an adequate level of foreign exchange reserves and take corrective measures should the underperformance persist. In this regard, we welcome the BEAC's commitment to stand ready to tighten further its monetary policy stance if needed, including as global financial conditions tighten and as required to support the regional strategy.

We also positively take note that the BEAC has made substantial progress in modernizing its monetary policy operational framework. Going forward, we encourage BEAC's further efforts to develop the interbank market and to strengthen its coordination with COBAC for its liquidity support operations. Regarding the interbank market, could staff elaborate on factors that prevent highly liquid foreign-owned banks from lending to other banks. We would also like to know more detailed explanations on the eligibility criteria for access to its refinancing facilities.

As for the foreign exchange regulations, we take note of the staff's assessment that the repatriation and surrender requirements represent capital flow management measures (CFMs) under the Fund's Institutional View and their stricter enforcement, implemented along with other necessary macroeconomic policy adjustments, is assessed to be appropriate to address the low level of reserves. In light of the principle that the use of CFMs should be temporary, could staff clarify conditions for lifting these CFMs?

Financial Sector

We welcome that the Secretary General of the COBAC (SG-COBAC) have continued strengthening of the supervisory approach and will take further steps toward risk-based supervision (RBS) in its 2019–21 strategic plan. Furthermore, given the high level of Non-performing loans (NPLs) and their negative impacts on financial stability, we concur with staff that SG-COBAC's more proactive stance on NPLs is important and should be pursued further. In this regard, steady implementation of additional measures in line with the staff's advice is essential. However, the COBAC's commitment on NPL reduction is not explicitly mentioned in the Letter of Support. Could staff share the views on adequacy of the policy assurance on NPL reduction by COBAC?

We agree with the importance of boosting financial transparency, improving governance and strengthening AML/CFT framework, and thus welcome the BEAC's commitment on this front.

Mr. Jin and Mr. Fan submitted the following statement:

We thank staff for the informative paper and Messrs. Raghani and N'Sonde for the buff statement. We commend the regional institutions' commitment and efforts to support the regional strategy, and welcome the improvement achieved by member countries to reduce fiscal and current account deficits. However, more efforts are still needed to address the short fall of NFA accumulation and boost the growth of the non-oil sector. We broadly concur with the thrust of the staff's appraisal and would limit our comments to the following.

Concrete measures in fiscal consolidation are still warranted. We take positive note that the fiscal consolidation efforts are broadly on track in program countries. However, with the heavy reliance on oil revenue, we agree with staff that the downside risks would bring additional pressure on fiscal balance if recent decline in oil prices were to persist. Meanwhile, the projected declining in non-oil revenue also added to the urgency to further fiscal consolidation. Therefore, we commend the regional institutions for delivering the projected reduction of the primary deficit and encourage member states to strictly avoid any further fiscal slippages. Additionally, we join staff to urge the country authorities to finalize and implement the arrears repayment plans while taking into account the potential broader impact on the region.

Efforts to establish a modernized monetary policy framework should continue. We commend the regional institutions for their commitment and work in maintaining a steady financial environment. The tightening of monetary policy helped rebuild the international reserves and the current monetary policy stance remains adequate. We also welcome the efforts to modernize the monetary policy operational framework and encourage BEAC to further strengthen the operation by reviewing the framework for private securities used as collateral in monetary transactions and implementing the new sanction framework. To further modernize the monetary policy system, we join staff to emphasize the importance to develop the interbank market and reduce the excess liquidity. While agreeing with a further widening of the interest rate corridor could help incentivize them to engage in interbank transactions, we welcome staff's elaboration on the optimal range of corridor and the adjustment standard.

More needs to be done to promote interest reserve accumulation. We agree that a strict enforcement of foreign exchange regulation might be proper under the current juncture and encourage authorities to implement these measures in a consistent and transparent manner to keep investors' confidence. However, the persistent overvaluation of the regional currency (CFA) might result in a multifaceted pressure including depreciation, capital outflow, and deflation (considering the low CPI level compare to other low-income peers). The depreciation pressure may also bring pressure to the non-oil sector through the trade channel and thus hindering economy diversification further. On that note, we welcome staff's elaboration on the possible enhancement of the flexibility of the currency.

Enhanced governance might be key for growth sustainability and inclusiveness. We encourage the authorities to further improve governance, especially in the oil sector. We take good note of the regional institutions' adoption of 2016 AML/CFT regulation, and we encourage an effective implementation of this regulation, in particular to enforce preventive measures on some key persons. We support staff's assessment under the selected issues that regional institutions should play a central role to lead sustainable progress and urge for a timely transition from directive into work practice.

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

We thank staff for its comprehensive set of reports and Mr. Raghani and Mr. N'Sonde for the insightful buff statement. We particularly thank staff for the annex dedicated to the crucial issue of improving governance in the region.

Staff's report highlights that the regional authorities of CEMAC are strongly committed to supporting the recovery and reform programs undertaken under IMF-supported programs. In that regard, we note positively the measures taken by BEAC to restore an adequate level of net foreign assets through a monetary policy tightening and the strengthened enforcement of the foreign exchange regulation. We also value the commitment of COBAC to modernizing its banking supervision framework in strengthening its risk-based supervision process, the fight against money laundering and the financing of terrorism. As underlined by Mr. Raghani and Mr. N'Sonde in their buff, the CEMAC Heads-of-State recognized the challenges that they still have to address during the extraordinary summit hold in N'Djamena on October 25th and we welcome the fact that they reiterated their commitment to the regional strategy.

The regional strategy decided in December 2016 by CEMAC's heads-of-State, as well as the implementation of this strategy through IMF-supported programs, have helped in stabilizing the macroeconomic situation of the region. Like staff, we believe however that the situation remains challenging and the balance of risks will still be titled to the downside without strong ownership to existing IMF-programs and without engaging the expected programs in Congo and Equatorial Guinea. In that regard, we call the authorities of Congo and Equatorial Guinea to deploy their best efforts in order to sign an arrangement for IMF-supported programs early 2019. In the case of Congo, this necessitates to reach a debt rescheduling agreement with creditors to restore the debt sustainability according to IMF-program parameters. In the case of Equatorial Guinea, the best way to enhance governance has to be set up quickly.

The recent decrease in international oil prices should be seen as a serious signal of the need to keep implementing fiscal consolidation based on non-oil revenue mobilization and speeding up a structural reform agenda able to enhance governance and foster economic diversification. The increase of non-oil revenue expected under the strategy has not yet materialized (non-oil revenue should be lower in 2018 than in 2016). This has resulted in fiscal consolidation driven mostly by spending cuts, notably in public investment budget. It has been also difficult to scale up social spending in most CEMAC countries. Against this background, we call for a strengthening of non-oil revenue mobilization in CEMAC countries, in particular through a rationalization of tax exemptions, a strengthening of tax compliance and, as the case may be, through new taxes associated with low fiscal multipliers such as property taxes based on the value of residential assets. In that regard, we very much appreciate the staff's recommendations presented in the Selected Issues: like underscored by staff, we believe that tax exemptions can have negative redistributive impacts (including for VAT) and tax incentives are rarely effective in developing countries.

Like staff, we note that significant amounts of hard currency are hold abroad, possibly in breach of the foreign exchange regulation. The enforcement of foreign exchange regulation has to be strengthened on a transparent way by BEAC and COBAC with the support of national authorities. Moving forward, improving the communication of regional institutions as well as national authorities will be paramount to ensure that the foreign exchange regulation is implemented without jeopardizing the business environment.

Mr. Ostros and Ms. Skrivere submitted the following statement:

We thank staff for the comprehensive reports and Mr. Raghani and Mr. N'Sonde for their buff statement. While the regional strategy adopted two years ago helped avoid a crisis, more efforts are needed to fundamentally address the key problems in the region that remains highly undiversified and reliant on oil. We broadly share staff's appraisal and offer the following points for emphasis on the key risks to the regional strategy, the need to address governance challenges, and the importance of a growth-friendly fiscal policy mix.

While regional policy assurances are welcome, the success of the CEMAC regional strategy ultimately depends on the reform progress in each individual country. The progress in the four CEMAC countries under an IMF-supported program has been broadly satisfactory; however, we note that the prospects of a possible financing arrangement for Equatorial Guinea and the Republic of Congo remain highly uncertain. The shortfall in NFA accumulation relative to the end-2018 target is primarily due to delays in receiving an IMF program and related external budget support in these two countries, and further lack of progress is clearly a significant downside risk.

Reforms to strengthen governance are key to restore trust in the public institutions and provide the basis for a solid and inclusive growth in the region. The public financial management framework appears to be adequately developed at the regional level. However, the staff report rightly points to the problems associated with the uneven transposition into national legislation, and the insufficient progress to effectively implement the measures even in countries that have adopted the legal framework. We encourage the authorities to advance their efforts in this area, including by providing the CEMAC Commission with the medium-term fiscal convergence plans. Additionally, as CEMAC countries are deemed to be non-compliant or partly compliant with most FATF recommendations, we urge the authorities to advance progress also in this area.

While progress on fiscal consolidation has been broadly satisfactory, the composition of adjustment could have been more growth friendly. Non-oil revenue this year is projected to be lower than in 2016, the rationalization of primary current spending has been limited, and the fiscal targets were achieved mainly by larger-than-initially envisaged cuts in investment spending. We commend staff for the comprehensive analysis presented in the Selected Issues Paper and encourage the authorities to consider non-oil revenue enhancing measures outlined in the report, including streamlining tax exemptions, increasing excise taxes, and strengthening tax and customs administration.

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

We appreciate the opportunity to review the common policies of the Central African Economic and Monetary Community (CEMAC) members in the context of the ongoing Fund programs in four of the six countries in the region. While the regional strategy has helped avoid an immediate crisis, the region continues to face significant social and economic challenges which are being exacerbated by a poor business environment and high perception of corruption. The likelihood of the program’s success will depend critically on strong ownership and full implementation of policy commitments by member states and regional institutions.

We thank staff for a detailed set of papers and Mr. Raghani and Mr. N’Sonde for their buff statement. We agree with the broad thrust of the report and would like to offer the following specific comments.

Program performances in Central African Republic, Chad, Cameroon, and Gabon are broadly satisfactory. We note that progress in implementing the recommendations of the 2017 regional surveillance consultation has been mixed. In response to lower-than-targeted reserve accumulation, the regional central bank, BEAC, has tightened its policy stance and the enforcement of foreign exchange regulations in conjunction with the regional banking supervisor body, COBAC. Significant progress has also been made in modernizing the operational framework for monetary policy, implementing risk-based supervision, and strengthening prudential enforcement. The authorities' efforts to strengthen the banking sector are also steps in the right direction. However, progress has been limited on the enforcement of the regional surveillance framework and the strengthening of regional integration.

We are concerned about continued delays in the approval of financing arrangements with Equatorial Guinea and a new IMF-supported program with Congo. As noted by staff, these delays have resulted in underperformance of regional reserves relative to targets and poor performance of the non-oil sector. These program negotiations should be finalized promptly to minimize free rider problems and avoid negative repercussions for other CEMAC members and the region. We welcome staff's analysis of the downside scenario (Box 1), which illustrates the critical importance of the approval of these two Fund-supported programs for the regional strategy.

The authorities – both at the national and regional levels – should intensify efforts to promote sustained inclusive growth. We agree with the priorities identified by staff which include (i) enhancing the role of non-oil revenue mobilization in fiscal consolidation efforts; (ii) developing financial markets and boosting financial transparency; (iii) improving governance, including by strengthening public finance management and AML/CFT supervision; and (iv) promoting regional integration and enhancing the business climate.

On the issue of governance, we join Mr. Raghani and Mr. N'Sonde and the authorities in welcoming the staff's analysis presented in the Selected Issues paper on the link between governance and economic performance in the CEMAC region. The analysis highlights the vital role that strengthened governance could play in promoting macroeconomic stability and sustained and inclusive growth. We support the broad recommendations and specific lines of action proposed by staff in this regard.

Finally, we re-iterate that strong collaboration among regional and national authorities will be essential in making regional surveillance more effective and achieving the objectives of the regional strategy. Equally important is a continuous dialogue between the Fund and regional institutions.

We welcome the authorities' commitment on these fronts, as indicated by the buff statement and the Follow-up Letter of Support.

Mr. Doornbosch and Mr. Etkes submitted the following statement:

We thank staff for the focused report and the important SIPs on governance and fiscal consolidation, as well as Messrs. Raghani and N'Sonde for their informative buff statement. Fiscal and external imbalances persist, despite the continuous fiscal consolidation efforts in most CEMAC countries as well as the tighter common monetary policy, supported by stricter enforcement of the foreign exchange regulations. However, headwinds, including the recent decline in oil prices and the two countries yet to enter into a financial arrangement with the Fund, pose a significant challenge to the success of the regional strategy.

While we broadly agree with staff, we find the report somewhat optimistic as the main text and baseline data do not fully reflect the impact of the recent drop in oil prices. The report is based on the assumptions of the last WEO and thus consistent with country reports. However, the WEO assumed oil prices for 2018-19 were about $70 per barrel (Fig 4, p. 45), but these prices dropped to almost $50 per barrel by mid-December. This decline is expected to reduce the region's net oil exports by more than 3 percent of GDP and fiscal revenues by almost 2 percent of GDP (based on f.n. 2, p. 8). Indeed, the recent drop in oil prices is mentioned in the downside risks, but as this risk already materialized we fear that the baseline data on the external and fiscal positions are too rosy. The potential adverse effects of the recent oil price development are also recognized in Mr. Raghani and Mr. N'Sonde's buff statement.

Fiscal Policy

Continued and coordinated fiscal consolidation remains essential for rebuilding buffers and ensure fiscal sustainability of the community. Reducing the non-oil primary deficit from 7.5 percent of non-oil GDP in 2018 to 4 percent in 2021, as staff projected, is a bold and commendable move. However, considering the drop in oil prices, a more drastic move might be warranted. On the other hand, the decline in oil prices could be a golden opportunity to reduce oil subsidies. Finally, we agree with staff's advice to the national authorities to finalize and implement their arrears repayment as arrears adversely affect the private sector activity and undermine the repayment of loans to local banks.

Monetary Policy

The BEAC's monetary tightening is adequate as the policy should remain primarily guided by the trends in reserve accumulation. Moreover, the BEAC's stated commitment to further tighten its monetary policy if needed is commendable. The recent modernization of the monetary policy framework is essential for the successful implementation of the region's monetary policy. The revision and enforcement of the Foreign Exchange Regulations is also needed to help accumulate reserves. Yet, these steps require coordination among multiple national authorities, which suffer from challenges to their governance. Staff outlines technical steps to improve these regulations. We wonder whether joining international treaties for exchange of financial data such as the Common Reporting Standards (CRS) could both enhance fiscal revenues and complement the FX regulations, by gathering information on forbidden deposits abroad held by CEMAC residents.

Governance

We commend the timely and valuable SIP on governance which focuses on issues that are within the Fund's expertise: public financial management, AML/CFT, and governance in the extractive sector. We find the last topic particularly important because of the link between extractive resources and potential corruption highlighted by the academic literature. We note the challenge of coordinating the efforts of enhancing governance for some members of CEMAC.

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

We thank Mr. Raghani and Mr. N'Sonde for their buff Statement and staff for a well-written report, including the excellent Selected Issues Papers.

After the initial stabilization, the CEMAC regional strategy has delivered disappointing results due to uneven reform and program implementation across member countries. Non-oil growth and revenue mobilization have underperformed, regional reserve accumulation has stalled, and a still-weak regional banking sector poses ongoing risks. Success of the regional strategy ultimately necessitates full implementation of policy commitments by all member states, and we strongly urge national authorities to make full effort to advance their reform agendas and adjustment programs. At the same time, the BEAC and COBAC have essential roles to play in facilitating supportive regional policies, and we think that regional policy assurances should be strengthened in light of policy slippages.

BEAC is expected to miss its net foreign asset (NFA) target for this year and 2019 targets were revised downward, driven principally by the postponement of Fund-supported programs. The regional reserve position—and hence the stability of CEMAC's external position—hinges on complete policy implementation and full materialization of planned external financing in each member country. We are thus highly concerned that inadequate progress on governance and anti-corruption in both Equatorial Guinea and Congo, as well as Congo's inability to secure financing assurances and necessary debt relief, are dampening the prospects for the entire CEMAC region. We urge all relevant parties, including the large bilateral creditor in Congo, to urgently take actions needed to support rebuilding regional NFAs. Staff forecast oil prices to remain steady in 2019 and then decline only gradually through 2022; have staff evaluated the reserve path, and potential contingency plans, under a shaper decline in oil prices?

We welcome the corrective actions taken by the BEAC and COBAC to compensate for missed NFA targets, including the decisions to raise policy rates and strengthen enforcement of foreign exchange regulation. We fully agree with staff that the BEAC should stand ready to further tighten monetary policy to support external stability if reserve underperformance persists. Going forward, we appreciate the commitment to hold semi-annual tripartite regional consultations starting in the first half of 2019 to identify and adopt additional corrective measures if needed. Combined with the specific NFA targets, we found this to be the clearest and most reassuring area of the Letter of Support.

We found it unfortunate that many of the other topics presented in the Letter of Support did not meet the "clear, specific, and monitorable (including time-bound)" threshold, per the Board guidance on program design in currency unions. We understand that the Letter of Support is intended to cover areas deemed macro-critical to the CEMAC regional strategy, which staff currently limit to policies directly impacting NFA accumulation. Given the real risk of further NFA slippages and slow progress on fiscal-structural reforms in many countries, regional institutions must take a more forceful role to support sustainable fiscal strategies and stronger banking sectors—both of which are ultimately necessary to underpin the region's external position and exchange rate regime. We note three specific examples:

First, timely repayment of government arrears is an important policy priority for national authorities that will support non-oil growth, financial sector development, and ultimately NFA accumulation. The regional institutions must also play a supporting role in this effort, and we welcome that the COBAC and BEAC have agreed to monitor more closely the national authorities' arrears resolution plans and analyze their potential impacts. We also agree with staff's advice that the SG-COBAC should take further action regarding bank-level arrears resolution plans and develop a proposal for prudential treatment of sovereign arrears. The Letter of Support, however, only makes a passing reference to the national authorities' domestic arrears accumulation strategy, without specifying any concrete actions to be taken at the regional level.

Second, strengthening non-oil tax revenue is critical to support fiscal consolidation and lessen member countries' vulnerability to commodity-related shocks, as staff comprehensively highlight in the Selected Issues Paper. We thus agree with staff's recommendation for the CEMAC Commission to revise the customs code, classify tax exemptions, and issue a new directive on excise taxes – all in support of the national authorities' efforts. However, we note that the Letter of Support does not cover the topic of domestic resource mobilization, nor is the Commission a party to it.

Third, continued action by the COBAC is needed to address weaknesses in the banking sector and enhance supervision and resolution. Outside of the Strategic Plan for 2019-2021, the Letter of Support provides only a very general, one-line description of the COBAC's plans to support regional financial stability, with no clear timeline for action.

We would appreciate staff's comments on whether each of these issues are macro-critical for the CEMAC regional strategy, and if so, why they were not specifically addressed in the Letter of Support. Has there been consideration of adding the CEMAC Commission to the Letter of Support? In the upcoming tripartite discussion, we urge staff and the authorities, both national and regional, to explore strengthening the role of regional institutions, particularly in light of policy slippages at the national level.

Finally, we had suggested in the previous CEMAC Board discussion that staff include a table summarizing past and present policy commitments (e.g., Table 13 in the December 2017 staff report). We strongly urge staff to include this table going forward. This presentation will help clearly articulate the specific commitments, both future and continuous, made by the BEAC and COBAC. Staff comments would be appreciated.

Mr. Saraiva and Ms. Hennings submitted the following statement:

We thank the staff for the reports and Mr. Raghani and Mr. N'Sonde for their very candid and useful statement. Member countries of the Central Africa Economic and Monetary Community (CEMAC) reverted the output growth downturn and kept inflation under control. While monetary and fiscal policies presented favorable results, the robustness and the quality of the performance could be improved with the benefit of enhancing growth sustainability and inclusiveness. In this context, we are encouraged by the candor of Mr. Raghani and Mr. N'Sonde in underlining that the regional authorities recognize the need to do more to restore confidence, close the gap in external buffers, and ensure the quality and sustainability of fiscal consolidation.

Economic performance is still strongly dependent on a single sector and transparency on the conditions of exploration of the mining sector is still limited. The volatility of the international oil prices is directly transmitted to the output performance of CEMAC, especially when prices plunge. In addition, the lack of transparency of the contracts/agreements with the companies in extractive industries turns the control of revenues more difficult. We strongly encourage the authorities to use the broader CEMAC consumer market to stimulate the diversification of the economic activities and improve private business environment.

Fiscal consolidation in the Community has improved but the quality of adjustment can be perfected. We noted that in the countries with programs with the Fund the fiscal targets are being met and that the others are making efforts in the same direction. Nevertheless, the results rely mostly in cutting investment expenses, instead of broadening tax coverage, increasing the efficiency in tax collection, streamlining the exceptions and rationalizing primary spending, as well as correcting distortions due to fuel subsidies and low level of non-oil revenues. The restructuring of the fiscal accounts requires determination and perseverance but brings long lasting results and opens space to better support growth measures. Could the staff provide more information on the process and the impacts of the reimbursement of government arrears?

Monetary policy and the modernization of the operational framework indicate the strong support of BEAC to the regional strategy. The tightening of the monetary policy stance is consistent with the desired inflation path and the needed rebuilding of international reserves. We welcome the modernization of the operational framework via the new liquidity management system and the new collateral framework for government securities. We also emphasize the importance of the coordination between BEAC and COBAC for more effective liquidity support operations. The monetary policy transmission is still weak and improvements in the framework, as pointed by the staff, should yield high results.

We welcome the plans for strengthening the banking sector supervision and the important steps taken toward resolving banking insolvency and the high level of NPL. An efficient and trustworthy banking system tends to catalyze resources and boost economic activity. We also commend the efforts to improve financial and capital markets and adjust them to international standards. In the same direction, we encourage COBAC to face the challenge to revise AML/CFT regulation to implement the 2016 CEMAC regulation and adapt practices and work plans. Could the staff elaborate on the potential and actual role of regional institutions in the combat of corruption?

The level of international reserves is important to build confidence in the capacity of the Community to sustain the reforms planned and support sustainable growth paths for each member. Therefore, the leaks in external revenues and in capital flows should be controlled to help the enhancement of this buffer. This is a common target for all countries of the Community and the member authorities support to BEAC's revision of foreign exchange regulation and its capacity to monitor implementation by the banks is critical. Moreover, considering the importance of repatriation and surrender requirements, BEAC and COBAC should have access to the agreements and data needed to be effective in enforcing forex regulations.

The approval of IMF-supported programs with the two countries that currently do not have it is of critical importance for the regional strategy. The size of the CEMAC economies encourage actions that favor economies of scale. This aspect increases the relevance of the regional institutions as well as the coordination and engagement of national authorities. Within this context, the role that can be played by the Fund in supporting the efforts by national and regional authorities is invaluable.

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

We thank staff for the excellent and well analyzed reports and Mr. Raghani and Mr. N'Sonde for their informative buff statement.

A difficult economic situation presents a compelling case for CEMAC to galvanize action and fulfil their *raison d'etre*. Oil price fluctuations have impacted government revenues. Despite the rebound in oil production, growth remains weak and the activity level insufficient to create jobs and generate income for a growing population. Non-oil growth remains below expectations and diversification elusive. The region's financing needs are large relative to available financing options and even with improvements, external liquidity pressures abound. Against this background, we welcome progress made in the Fund Programs of four countries. Moving ahead, key challenges in further regional integration, business environment, governance, infrastructure would need sustained commitment. Reassuringly, the region's medium-term prospects remain broadly favorable, even as downside risks of delayed arrangements with Congo and Equatorial Guinea, deterioration of the security situation, tighter global financial conditions remain. We agree with the thrust of the staff report and would like to offer the following comments for emphasis.

We would urge swift progress on program approval for Congo and Equatorial Guinea, to reap the synergies of collaborative and synchronized program implementation in the region. Staff had emphasized the downside scenario where no agreement would be found for Fund-supported programs. Lower growth, current account deficits, gross public debt and NFA, have been highlighted as possible fallouts, besides an overarching impact of revisiting the regional strategy in case of a substantial delay. Undoubtedly, in the face of dwindling financing options, the IMF program, would anchor reform, offer liquidity relief and infuse confidence for attracting additional international support. We note that the approval of a new IMF-supported program with Congo has been delayed, pending the provision of explicit financing assurances from external official creditors, including debt relief, which is needed to restore debt sustainability. Could staff offer more details on the key aspects which are holding up the rollout of the fund supported programs. Specifically, what would be the outer timeframes after which the regional strategy would require a revisit?

We welcome the assurances extended in the buff on fiscal consolidation and the need to improve the quality of adjustment, with greater emphasis on strengthening non-oil revenue mobilization. Member states should pursue this swiftly, including implementation of arrears repayment plans. Like staff, we also stress on creating adequate fiscal buffers with better subsidy management and saving of oil revenue windfalls. The risk assessment matrix proposes the development of the regional debt market to cover

CEMAC members' financing needs. We invite staff comments on the potential and its impact on debt servicing considering existing arrears?

We welcome the substantial progress BEAC has made in modernizing its monetary policy operational framework. We positively note the ongoing amendment to BEAC's Charter to tailor government securities used as collateral for monetary operations and are reassured by the authority's commitment to further tighten its policy stance, if needed. The convergence on the need to deepen the interbank market by further reducing excess liquidity, developing the trading platform, encouraging the use of repurchase agreements by banks, and widening its interest rate corridor, is noteworthy. Staff have stressed on strengthening enforcement of foreign exchange regulations, through the domiciliation of exports proceeds, repatriation and surrendering of foreign assets by public companies and to provide regional institutions with copies of their contracts in extractive industries. Could staff provide a realistic assessment on the implementation within the deadlines outlined for national authorities in para 21 keeping in mind the capacity constraints?

On the financial sector, the SG-COBAC must proactively step up its efforts and address the banking sector's weaknesses. We welcome SG-COBAC's continued strengthening of the supervisory approach and urge sustained efforts for promoting timely resolution of troubled banks and implementation of NPL reduction plans. The buff has mentioned that the banking commission welcomes Fund advice ensuring high expertise and independence of COBAC members; and enhancing the SGCOBAC's effectiveness, including through enhanced human capacity. We welcome staff comments on the capacity building programs ongoing and those proposed from the Fund for this.

Finally, promoting sustained and inclusive growth should form the core of every policy making in the region. Therefore, we fully support staff advice on greater diversification, improving governance and promoting regional integration. We strongly welcome both the staff's Selected Issues paper on the Regional Approach to Enhancing Governance and Reducing the Potential for Corruption and the related support offered for the line of action in the buff. All the staff recommendations including on enhancing business climate, transparency and disclosures, full implementation of foreign exchange regulations and building specific capacities for the extractive sectors, PFM, must be actively planned and internalized. To conclude, we join staff in urging for revising the AML/CFT framework and more specifically establishing a risk-based AML/CFT supervision for banks.

With these comments, we wish CEMAC continued success in its endeavors.

Mr. Moreno and Ms. Arevalo Arroyo submitted the following statement:

We thank staff for its comprehensive report and Messrs. Raghani and N'Sonde for their helpful buff statement. While CEMAC has been able to avoid an immediate crisis, and the regional institutions have shown continued commitment to the regional strategy, focus should be placed on addressing pressing macroeconomic challenges in a context with risks to the downside amidst security tensions. We agree with staff that while commitment exists, there must be stronger support from all countries to ensure that the efforts are effective and supportive of sustained and inclusive growth.

While fiscal consolidation is a priority, the quality of the adjustment must be considered to have durable results. Non-oil revenue measures must remain as a main pillar for fiscal consolidation as well as avoiding cuts on capital expenditure. We thank staff for the very informative SIP on non-oil revenue-enhancing measures. Authorities could benefit from technical assistance on several factors mentioned by staff, such as tax and customs administration strengthening, compliance and indirect taxation, to name a few. Could staff comment on what the TA plans are on tax policy for the upcoming months? Are these efforts coordinated at the regional level?

Progress in the modernization of the BEAC's monetary policy operational framework is welcome. We encourage BEAC on pursuing efforts to develop the interbank market as well as on the enforcement of foreign exchange regulations. We note that the new operational framework has contributed to an increase in interbank transactions, but it remains segmented. We agree with staff on the measures to incentivize banks' participation and to strengthen their coordination with COBAC in the enforcement of eligibility criteria for access to refinancing facilities. On foreign exchange regulations, we continue to remain concerned by their lax enforcement and encourage national authorities to strictly implement the revised regulations to support reserve accumulation.

Strengthening of the banking sector by SG-COBAC with risk-based supervision is welcome but efforts must continue. We agree with staff that SG-COBAC could more proactively guide the NPL resolution processes and reduce delays in resolution decisions regarding insolvent banks.

We agree with other recommendations by staff on strengthening governance and AML/CFT supervision, better coordination on the efforts to implement the Economic and Financial Reform Program (PREF), enhancing the business environment, and improving the regional convergence framework.

Finally, as in the past, we consider that there is scope to explore other adjustment options for the CEMAC region—including exchange rate flexibility. As the path to adjustment relies mainly on fiscal policy, the exchange rate mechanism could be used to help smooth the adjustment, in line with Fund's research in the latest WEO (Fall 2018) that notes the benefits of flexible exchange rate regimes. Staff's comments are welcome on how exchange rate flexibility could be beneficial in this case.

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. We welcome staff's assessment that progress on Fund programs with member countries is broadly satisfactory, notwithstanding the daunting security and development challenges facing the region. It is also reassuring that fiscal consolidation efforts are broadly on track and the monetary policy stance was appropriately tightened in support of restoring external stability and improving debt sustainability. The commendable efforts of the regional monetary authority (BEAC) and the banking supervision authority (COBAC) need to be complemented by the full implementation of policy commitments by CEMAC member states in line with their commitments under the Economic and Financial Reform Program and the respective Fund arrangements.

Regional reserves have underperformed and will miss the end-2018 target despite higher-than-projected oil prices and narrowing of current account deficits. However, it is worth noting that this underperformance was fully driven by lower-than-projected external support, namely related to the delay in finalizing Fund-financed programs with Congo and Equatorial Guinea. Excluding external budget support, net foreign assets (NFA) at end-2018 would be at the level that had been projected.

We recall in last year's report that staff partly attributed the weak accumulation of reserves to fiscal slippages and shortfalls in compliance with repatriation and surrender requirements. We are pleased that these factors have been largely mitigated. The policy measures related to NFA that are indicated in Mr. Raghani's buff and the authorities' Follow-Up Letter of

Support will be necessary to improve reserve accumulation. Going forward, adherence of member states to their fiscal consolidation plans while supporting the BEAC and COBAC's efforts to enforce more strictly the foreign exchange regulations would bring NFA back to the initially envisaged path. We also encourage the CEMAC member authorities to finalize the Fund supported programs, which would help to unlock the needed external support.

BEAC increased its policy rate in October 2018, affirming its commitment to rebuilding its international reserves buffer in support of the peg. We welcome BEAC's readiness to further tighten its monetary policy stance if needed. The authorities have also made notable progress in enhancing the monetary policy framework. They eliminated statuary advances, strengthened liquidity management by providing liquidity through competitive multi-interest rate auctions, and established an emergency liquidity assistance system. However, the segmentation of the interbank market remains a challenge, with highly liquid foreign-owned banks unwilling to lend to banks short of liquidity. We encourage the authorities to pursue their efforts to develop the interbank market with the goal of improving liquidity management and monetary transmission, in line with staff's recommendations.

The banking sector remains fragile, notwithstanding some improvements since the end of 2017. Non-performing loans (NPLs) increased to 17 percent in September, which placed pressure on the liquidity positions of weaker banks. Violations of prudential rations are on the rise, and the authorities had limited progress in regional surveillance. Risk to the banking sector would intensify in the event that the fiscal positions deteriorate, which would likely further increase arrears and public debt and raise NPLs. The authorities should aim at strengthening risk-based supervision (RBS), and we welcome COBAC's plan to make RBS the focal point of its 2019–21 strategic plan. Its elements should include prompting banks to implement NPL reduction plans and working with member states to clear government arrears, given the size of these arrears and their significant impact on NPLs, the solvency and liquidity of commercial banks, the financial situation of the private sector, and in turn on NFA accumulation.

We welcome the steps taken by COBAC to resolve insolvent banks and to strengthen enforcement of prudential regulations. The license of an under-capitalized bank has been withdrawn, and a request was made to the national authorities to withdraw the license of another under-capitalized institution. The experience of resolving these two troubled banks highlighted the need to improve the process and execution time of bank resolution decisions. In this regard, could staff provide further information on the authorities' plan to strengthen the resolution framework, particularly for state owned banks?

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

We thank staff for the informative papers and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. The coordinated policy response to the oil price shock of 2014-15 by the national authorities and the regional institutions have helped avert the severe crisis, but the situation remains complicated. External position has improved reflecting higher oil exports, but foreign reserves accumulation is still short of target. Rebuilding sufficient reserve buffers remains key objective of the regional strategy. It requires continued fiscal efforts from the member states, adequately tight monetary policy and strengthened regulation by the monetary union institutions. The negotiations on Fund-supported programs with two remaining countries need to be finalized without further delay.

In light of the underperformance on the NFA accumulation, the recent policy rate increase by the BEAC is deemed appropriate. The tightening of the monetary policy stance, notwithstanding sluggish growth, provided a strong signal of support for regional strategy. The completion of modernization of the BEAC's monetary policy operations framework is also important for a more effective conduct of monetary policy. We note that the efforts on the regional level to improve repatriation of export proceeds were only partly successful. On their side, the CEMAC countries' authorities should strengthen enforcement of foreign exchange regulation.

Member states should also step up their efforts in delivering the agreed reduction in the non-oil primary deficit, which is critical for rebuilding reserves. At the same time, fiscal consolidation needs to become more growth-friendly. Until now, consolidation has been achieved primarily through capital expenditure cuts weakening growth prospects. Non-oil revenue-enhancing measures should play a larger role, including strengthening tax and customs administration, reducing exemptions, and streamlining and harmonizing tax legislation. Repayment of government arrears is essential to reduce NPLs level and support credit to the private sector. Therefore, the authorities are well advised to develop and provide arrears repayment plans.

The banking system remains weak, constrained by substantial government arrears and growing NPLs. However, banks are adequately capitalized and there are signs of increasing bank lending activity. The COBAC should further strengthen its oversight based on the risk-based supervision and stricter enforcement of prudential regulation.

The implementation of the regional convergence framework requires further efforts. Compliance with the convergence criteria has slightly improved, but some states still miss the convergence criteria. The regional authorities should use their powers to apply sanctions on the non-compliers. We welcome introduction of the semi-annual tripartite consultations between the national authorities, the regional institutions, and the IMF. They will help strengthen the monitoring and implementation of the regional strategy and enhance cooperation on the regional issues.

Finally, we urge the completion of the program negotiations with two CEMAC members. In the absence of the Fund-supported programs the BEAC has to maintain ring-fencing to protect regional reserves, which may aggravate the economic difficulties in these countries, and reciprocally, in the monetary union as a whole.

Mr. Meyer and Mr. Buetzer submitted the following statement:

We thank staff for an informative report and Mr. Raghani and Mr. N'Sonde for their helpful buff. The CEMAC region continues to face substantial challenges to its macroeconomic stability, highlighted by the exceptional situation that four of its members are currently implementing Fund-supported programs with the remaining two currently in discussions with the Fund over financial assistance programs.

Notwithstanding the progress that has been achieved in different areas as outlined in the buff, the regional strategy adopted in 2016 to avert a major economic crisis in the CEMAC region is not sufficiently delivering on its objectives. Delays in reaching an agreement over financing arrangements with Equatorial Guinea and Congo are key factors contributing to the present difficulties and we encourage both the authorities and external stakeholders to take all the steps necessary to meet the requirements under which a Fund-supported program can be agreed upon and implemented with a realistic chance of success. At the same time, we emphasize that the success of the regional strategy also critically hinges on the quality of the existing programs, including their underlying macroeconomic adjustment, the structural reform progress achieved, and their ability to promote prudent debt management conducive to the objective of mitigating rising debt vulnerabilities.

Without prejudice to the important objective of NFA accumulation, we take note that policy slippages at the national level are leading staff to call for corrective measures at the regional level. In this regard, we are concerned that staff identifies the possibility of free-rider behavior, including failure to pursue appropriate adjustment policies, as a high impact risk that would “call for stronger/more proactive regional surveillance to identify remedial measures, if needed” (Risk Assessment Matrix).

We reiterate that prudent policies and appropriate adjustment efforts in the individual member countries are key to maintaining stability at the level of the currency union. We also recall the outcome of the discussion on Program Design in Currency Unions, where “Directors underscored that program design should be based, to the extent possible, on policies over which the national authorities of the member have direct or indirect control”.

In this vein, we would expect that corrective measures in response to adverse developments under the control of national authorities should also be targeted at the national level, and that regional institutions should only be addressed to the extent that national adjustment policies are exhausted. Against the backdrop of these considerations, we would welcome staff’s assessment of the corrective measures – in particular the tightening monetary policy stance – sought from the BEAC to address the NFA underperformance, to which one member contributed 47 percent, inter alia as a result of the non-repatriation of export earnings, including oil and mining revenues. Moreover, noting that an increase in the regional policy rate was resorted to as a corrective measure in response to the NFA shortfall, we wonder whether adjustment measures at the national level were already deemed exhausted.

It is also worth highlighting in this context that staff presents somewhat diverging rationales for the interest rate hike – on the one hand as part of the corrective measures taken to honor the assurances provided by the BEAC on net foreign assets, on the other hand as a necessary measure to achieve an adequate monetary policy stance, despite a relatively limited direct impact on net foreign assets. Comments by staff would be welcome.

Concerning the policy priorities to restore and safeguard macroeconomic stability in the region, we broadly share staff’s assessment and recommendations. We welcome the measures taken by the BEAC, including the modernization of the monetary operational framework. We also welcome and underscore staff’s remark that, to be effective, these efforts must be supported more strongly by member states. This will require unwavering pursuit of fiscal consolidation as well as effective measures to improve the repatriation and surrendering of foreign assets by public companies. Moreover, we look forward to the finalization of the COBAC's strategic plan for 2019-21 with a focus on risk-based supervision to better address financial sector risks going forward.

Lastly, we would like to underscore the need to vigorously improve the business environment in CEMAC member states, including by strengthening governance structures, the rule of law, and anti-corruption efforts. This will be essential to stimulate private sector activity and lay the foundation for sustainable and inclusive growth over the medium to long term. Not least against the backdrop of the region's subdued GDP growth, we would appreciate if staff could provide numbers on GDP growth in per capita terms over the past years in order to get a more complete picture.

Mr. Tan and Mr. Srisongkram submitted the following statement:

We thank staff for the set of reports and Mr. Raghani and Mr. N'Sonde for the informative buff statement. The economic recovery in the Central African Economic and Monetary Community (CEMAC) has remained slow and the slightly positive medium-term outlook is subject to significant downside risks. Much hinges on the successful execution of the regional strategy to achieve sizable fiscal adjustment and restore external stability for the region. Building on recent progress coupled with strong commitment from regional authorities, stronger cooperation from member states is warranted to achieve the objectives set out in the regional strategy. We agree with the broad thrust of the paper and would like to offer the following comments for emphasis.

Ongoing fiscal consolidation efforts would benefit from lower oil dependence. We note that fiscal consolidation is broadly on track and the overall fiscal balance would exceed expectations from higher oil revenue. As non-oil revenue remains weak, we agree with staff that non-oil revenue mobilization must be enhanced to ensure sustenance of the fiscal consolidation path, reduce vulnerability to decline in oil prices, and create space for needed infrastructure and social spending. We also support staff's call for the authorities to streamline tax exemptions, and strengthen tax and customs administration, in a manner that is well-coordinated and consistent among member states.

Building adequate reserve buffers is critical to strengthening CEMAC's external position and fostering confidence in the currency peg. Actions taken by regional institutions to correct shortfalls in NFA accumulation were timely and effective to some extent. Nevertheless, material gaps remain and we welcome the national authorities' plans to strengthen and enforce foreign exchange regulations more effectively. We also encourage the authorities of Congo and Equatorial Guinea to expediently complete the reforms required for the approval of financing arrangements with the Fund. The staff report seems to stress the criticality of Congo and Equatorial Guinea joining the Fund's program to correct for the large gap in the NFA accumulation and garner confidence in the strategy. Are there any contingency plans should the approval be pushed back even further?

The new monetary policy operational framework would be well complemented by a deeper interbank market. We welcome the BEAC's achievement in modernizing its monetary policy operational framework with a new liquidity management system and collateral framework for government securities, an asymmetric interest rate corridor system, etc. That said, there is significant scope to further improve the effectiveness of monetary policy implementation and we concur with staff's recommendations to promote and support a well-functioning interbank market, which is a key proponent in monetary policy transmission. We are glad that the BEAC agrees with staff on this front and look forward to continued progress in future reviews.

We welcome SG-COBAC's strategic plans to strengthen the banking supervision framework, promote timely resolution of distressed banks, and require NPL reduction plans from banks. On NPL reduction, we agree with staff that SG-COBAC could take a more proactive role to invoke prompt actions from the different member states. Going forward, other recommendation to bring the regulatory framework closer in line with international standards should be progressively incorporated into the strategic plans. Given human resource and budget considerations, could staff share their views on the prioritization of SG-COBAC's ambitious reform plans?

Policy actions should give priority to improving governance in the region. Good governance, especially in public financial management (PFM), is crucial for the regional strategy's success. As detailed in the selected issues paper, the implementation of CEMAC directives on PFM at the national level has been problematic in certain areas. If left unresolved, this could undermine efforts toward fiscal consolidation and NFA accumulation, which form the main pillars of the regional strategy. The paper rightly proposed lines of actions including capacity building, promoting accountability and transparency. To this end, we are pleased that the CEMAC Commission has acted upon these recommendations and is establishing a unit to oversee the implementation of CEMAC directives on PFM.

With these remarks, we wish the authorities further success in their policy endeavors.

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

We thank staff for a comprehensive report and Mr. Raghani and Mr. N'Sonde for their informative buff statement.

CEMAC has continued to face a challenging economic environment since the oil price slump of 2014. Concerted effort by the Heads of State to adopt a regional strategy in 2016 averted an immediate crisis. The regional strategy, underpinned by economic and financial policies of BEAC and COBAC with Fund's support, has broadly anchored macroeconomic stability, reducing fiscal and current account deficits. Nevertheless, growth remains below potential and foreign exchange accumulation has stalled in the last few months, due to the postponement of programs with Congo and Equatorial Guinea. Weak non-oil growth and the security challenges continue to pose risks. Against this background, we urge the authorities to support the steadfast implementation of fiscal consolidation plans and accelerate efforts to build foreign exchange buffers.

We take note that delays in the approval of financial arrangements with Congo and Equatorial Guinea pose risks to the medium-term outlook. As indicated in previous discussions, the success of the regional strategy hinges on implementation of commitments by all member states. We therefore urge the authorities to ensure prompt approval of the financial arrangements with Congo and Equatorial Guinea to avoid the need for a revision of the strategy. Could staff comment on how a revision of the regional strategy, under the circumstances would affect the national programs?

We commend the authorities for honoring policy assurances provided in June 2018. The recent action by BEAC to tighten monetary policy by 55 basis points to 3.5 percent and the readiness to gradually reduce current liquidity auctions to develop a durable interbank market and enhance the transmission of monetary policy are a welcome development. We applaud the measures to strengthen the enforcement of foreign exchange regulations, which translated into the imposition of sanctions on 11 banks by COBAC and look forward to updates on efficiency of the framework.

The community-wide fiscal performance has been largely satisfactory as evidenced by the fiscal outturns of four countries implementing Fund-supported programs alongside one member under staff-monitored program (SMP). While looking forward to a successful outcome of the next program reviews for Cameroon, Gabon, Central African Republic and Chad in December 2018, we call on every member of the union to steadfastly implement their fiscal reform plans, including resolving net arrears repayments.

Stepping up efforts to address banking sector weaknesses should remain a priority. In this respect, we concur that strengthening risk-based supervision remains imperative going forward. We encourage both COBAC and BEAC to work closely with member countries in assessing the potential impact of government arrears repayment plans on NPLs, liquidity and the macroeconomic framework. At the same time, SG-COBAC should devote more efforts to putting in place measures to allow the prompt resolution of banks in distress as well as stricter enforcement of prudential regulations.

Finally, we encourage diversification of the economy, stepped efforts to enhance the business environment and improvements to governance. In this regard, a stronger collaboration between the national and regional authorities is vital to ensure sustained and inclusive growth. Member countries should be encouraged to prioritize non-oil revenue-enhancing measures, including streamlining VAT exemptions and strengthening tax and customs administration. At the same time, measures should be taken to strengthen COBAC's AML/CFT regulations and establish effective risk-based AML/CFT supervision for banks. The authorities plan to promote regional integration, including through preparation of convergence plans for 2019–21 are welcome. Further, we concur that the semi-annual tripartite consultations between the national authorities, regional institutions and the IMF will help strengthen the monitoring and implementation of the regional strategy.

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

We thank staff for the reports and Mr. Raghani and Mr. N'Sonde for the buff statement. We broadly share staff's assessment and would like to focus on 3 broad issues: (i) the adjustment strategy for the CEMAC; (ii) non-oil growth prospects; and (iii) the focus of the policy assurances.

Two years ago, the leaders of the CEMAC countries agreed on a strategy to deal with the looming economic crisis. The IMF has been contributing to this effort with its advice and financing. As it is pointed out in the report, the immediate crisis was averted but the overall goals of strategy have not yet been achieved; notably, reserves have not yet reached comfortable levels and non-oil GDP growth has not yet picked up. One of the underlying reasons for the underperformance is that we were not able to move forward with IMF supported programs in 2 out of the 6 countries. We note that staff's baseline scenario assumes that both arrangements would start in the first half of 2019. How feasible is this assumption? What are the specific reasons for the delays in these two programs? Are the authorities able to tackle them? At this stage, we wonder whether our baseline scenario should assume that no program arrangement is achieved in the short term (basically, the downside scenario of Box 1) and start to revisit the regional strategy reflecting this possibility. Under this scenario, could staff provide insights on how the regional strategy would need to be adjusted to achieve its objectives?

Increased economic diversification is a key element to build resilience in the CEMAC region. In this context, the fact that non-oil GDP growth has not picked up is underwhelming. In fact, its projection has been revised downward for 2018. We would like staff to elaborate further on the reasons for this underperformance. Furthermore, we note that a significant acceleration of non-oil GDP growth is foreseen for 2019 onwards, and we fail to fully understand the underlying reasons for this forecast - we would appreciate if staff could elaborate on the reasons for this acceleration. On a positive note, we agree that there could be a significant dividend from improving governance in the region and welcome the insightful SIP on the regional approach to improve governance and reduce corruption.

Lastly, on the policy assurances by the regional authorities, we note staff's positive assessment of the measures taken to address the NFA underperformance. We consider that the policy assurances on the NFA accumulation and adoption of the revised foreign exchange regulations are critical to the success of the CEMAC countries' programs. On the modernization of the monetary policy operations framework, while recognizing its importance and supporting its implementation per se, we continue to have our doubts on whether its criticality to the success of the CEMAC countries' programs is sufficient to comply with our policy on Program Design in Currency Unions.

Mr. Daïri and Mr. Badsi submitted the following statement:

We commend the CEMAC authorities for their renewed commitment to the regional strategy, and its strong enforcement, to reverse their timid and uneven growth performance in the face of multiple challenges. The external positions also remain weak reflecting, for most part, insufficient fiscal consolidation. Looking forward, while there are some positive signs, risks to the outlook are broadly tilted to the downside, particularly those stemming from delays in the implementation of reforms, security issues, and tightening global financial conditions. We concur with the thrust of the staff appraisal and offer the following comments for emphasis.

We note with satisfaction that the Fund-supported programs in Central African Republic, Chad, Cameroon, and Gabon are broadly on track, and call on the authorities in the Equatorial Guinea and Congo to swiftly address the remaining impediments with a view to kick start delayed reforms. Fiscal consolidation is critical in restoring external stability and preserving debt sustainability, a view shared among the regional institutions. The fiscal effort should be underpinned by non-oil revenue mobilization—involving measures to streamline tax exemptions and strengthen tax and customs administration—as well as rationalization of current expenditures to create space for much-needed development spending. The CEMAC countries are encouraged to swiftly clear the sizable government arrears through a coordinated plan.

We commend the CEMAC authorities for tightening monetary policy in support of the peg and for strengthening the enforcement of foreign exchange regulations as indicated by Mr. Raghani and Mr. N'Sonde in their informative buff statement. We further welcome their efforts in modernizing the monetary policy operational framework and merging stock markets and regulations, and enhancing financial transparency across member countries. The banking sector in CEMAC is fragile, although adequately capitalized, and the accumulated government arrears to private suppliers over the past three years have given rise to a sharp increase in NPLs, weakening bank profitability. An action plan to address the NPLs is urgently needed. We look forward to the adoption of the BEAC's Charter Article amendment that would help reinvigorate the collateral market, thus facilitating more disciplined monetary operations.

To spur non-oil economic activity, and promote sustained and inclusive growth, the CEMAC authorities are encouraged to establish a sound business environment and pave the way for the full implementation of the CEMAC's Economic and Financial Reform Program in support of a vibrant private sector. The authorities' emphasis on improving governance and tackling corruption is well placed, and we call on them to swiftly address the shortcomings identified in the AML/CFT regulations and public financial management.

We wish the authorities success in their endeavors.

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

We thank staff for an insightful reports and Mr. Raghani and Mr. N'Sonde for their informative buff statement. Since we are in broad agreement with staff's assessment and policy recommendations, we will focus our comments on the following points for emphasis.

The Economic and Monetary Community of Central Africa (CEMAC) region continues to recover gradually from the 2014 crisis following the adoption, two years ago, of a strategy to restore the region's internal and external stability but important challenges remain. These include how to diversify the economies and improve the business environment. In this regard, we welcome the commitment by the Heads of States, following the recent Extraordinary Summit to an orderly exit from the crisis. We also welcome the commitment by the regional institutions to continue supporting the regional strategy.

Since 4 out of the 6 CEMAC members are under Fund-supported program, fiscal consolidation is on track. However, we note that government arrears remain elevated and we support staff's call on CEMAC members to finalize and implement their arrears repayments plans. Could staff provide an indication on the level of arrears and the tentative timeline for their clearance?

We welcome the recent tightening of monetary policy, which would help in rebuilding international reserves and hopefully address the underperformance of NFA accumulation. The indication that the Bank of Central African States (BEAC) stands ready to tighten further its monetary policy stance if needed is appropriate to help build buffers. We also welcome the progress made by the BEAC to modernize its monetary policy operational framework with the introduction of a new liquidity management system and a new collateral framework for government securities. We encourage the BEAC to develop the interbank market to strengthen monetary policy transmission. Could staff clarify if technical assistance is being provided to the BEAC since the Table in the Informational Annex covers only the period 2011-2017? In view of the still large amounts of deposits held abroad by CEMAC residents, we agree with staff that national authorities must support the efforts by the BEAC and the Banking Commission of Central Africa (COBAC) to enforce more strictly the foreign exchange regulations.

On the financial sector, we welcome the efforts by the Secretary General of the COBAC to address the banking system weaknesses. However, the sector will continue to be vulnerable to risks associated with NPLs and government arrears.

Finally, we note that the Managing Director held recently a meeting with a CEMAC High-Level Delegation. Could staff provide further elaborations on the outcome of this meeting?

With these comments, we wish the authorities all the success in their future endeavors.

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

We thank staff for the insightful report and Mr. Raghani and Mr. N'Sonde for their informative buff statement. While we broadly agree with staff's recommendations, we have some specific comments and questions.

More efforts are needed at the national level to achieve the goals of the regional strategy. As rightly pointed out in the report, the regional strategy has helped to avert an immediate crisis, but it has so far failed to deliver on its key goals. The latter include the rebuilding of an adequate regional reserve buffer and a meaningful diversification away from excessive oil dependence. The region still lacks sufficient buffers to deal with future crises and could find itself in an even worse situation than in 2016 should risks materialize. This also heightens risks to the Fund that are associated with the arrangements for the CEMAC members.

Effective implementation of the recovery and reform programs and the conclusion of Fund financing arrangements for Equatorial Guinea and the Republic of Congo are crucial to achieve the needed recovery of foreign exchange reserves. So far, the regional strategy has brought a stabilization of reserves at low levels, but not a meaningful re-building of buffers. As staff points out, the key reason for the low level of reserves is the postponement of external budget support in the absence of IMF financing arrangements for Equatorial Guinea and the Republic of Congo. It is hence crucial for the success of the regional strategy that the two countries fulfil the necessary conditions that will allow them to enter financing arrangements with the Fund as soon as possible. Could staff comment on the challenges regarding the implementation of the governance reforms and the outlook for an IMF-supported program for Equatorial Guinea? Could staff elaborate further on the state of program discussions with the Republic of Congo, specifically regarding the restructuring of its bilateral debts? The absence of financing arrangements for two out of the six CEMAC countries also implies a higher risk of free-riding, as outlined in staff's risk assessment matrix.

Structural reforms to increase diversification and reduce oil dependence remain key to achieve economic sustainability over the medium-term. The lagging implementation of the Economic and Financial Reform Program (PREF) despite IMF-supported programs for most of the CEMAC countries is disappointing. In particular, efforts to improve the business environment, which according to staff is the weakest of all PREF reform areas, have proven insufficient. Therefore, we call on the CEMAC Commission to step up efforts in this regard, and on the member states to support the Commission in is efforts. In addition, to revive non-oil growth it is crucial to shift the focus of the necessary fiscal consolidation away from short-sighted spending cuts toward more sustainable and growth-friendly reforms in tax administration. We wonder whether a tool analogous to the Reform Delivery Tool mentioned in the last staff report on euro area policies could be feasible and provide adequate reform incentives in the CEMAC context. Could staff express a view on this? Finally, the June staff report stressed the need to strengthen the regional institutions' ability for close monitoring of economic developments in member countries. Could staff comment on the progress achieved in this direction?

Better coordination between BEAC and COBAC is necessary to strengthen banking supervision, improve regulatory compliance and address NPLs. While policies at the regional level have strengthened, the staff report highlights the ongoing need for better coordination. This is illustrated by the continued acceptance of banks' impaired assets as collateral for refinancing by BEAC. More broadly, we would appreciate staff's assessment of whether BEAC's refinancing of commercial banks serves the strict purpose of monetary policy? We note the strengthened enforcement of foreign exchange regulations in the context of the efforts by BEAC to address the underperformance on NFAs. Do the repatriation and surrender requirements have implications for member countries meeting their obligations under Article VIII, Section 2? We welcome BEAC's progress in modernizing liquidity management and monetary policy instruments. In the context of the needed development of the interbank market, the focus on reducing excess liquidity before an effective liquidity management system is in place appears questionable as it may put banks with liquidity problems under additional stress. Could staff comment?

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 again appreciate being provided with this report ahead of the forthcoming program reviews of individual CEMAC member countries. This approach provides the Board with a solid platform from which to assess program performance, appropriately anchored within the regional context. In a clearly challenging social, security and political context, the issues faced by CEMAC and its member countries are becoming more complex and interconnected. Recent improvements in economic conditions and steps taken by regional authorities to support the reform efforts of individual member states are welcome. We agree with the staff assessment that downside risks remain substantial and urge the staff and the authorities to pay close attention to potential mitigating actions and consider contingency strategies.

In support of the regional strategy we strongly encourage the remaining two members of the union, Republic of Congo and Equatorial Guinea, to swiftly finalize prior actions and enter a Fund arrangement. Staff's baseline projection assumes that new IMF arrangements with Congo and Equatorial Guinea will be adopted during the first half of 2019. Can staff elaborate on the likelihood that the IMF arrangements will be adopted in this timeframe? We encourage the Fund to provide strong support through technical assistance to Congo in its engagement with bilateral creditors on debt restructuring.

As further delays in the approval of the remaining arrangements could bring into question the eventual success of the regional strategy, further attention should be paid to potential mitigating actions and contingency strategies. We welcome the recent extraordinary summit where CEMAC leaders reiterated their commitment to the regional strategy and called for stronger enforcement. Alongside this, we welcome planned tripartite discussions as a useful mechanism to monitor deviations from the regional strategy. Staff point to a further acceleration of fiscal consolidation as a corrective action if delays materialize. We are concerned that this adjustment would come on top of an already ambitious consolidation task, which could further dampen growth and exacerbate the security situation. In this context, we would appreciate staff views on the extent to which further fiscal consolidation would be possible?

The projected recovery of non-oil growth has not eventuated, and the diversification of the economy remains an elusive goal. Staff's external sector assessment continues to point to an exchange rate regime that is moderately overvalued. Can staff comment on the extent to which this overvaluation is contributing to the difficulty in driving growth in non-oil related sectors of the region? We understand that at the outset of the program, the heads of states decided that the regional strategy should be based on the continuation of the peg against the euro. While this has served the region well in the past, we worry about whether it will continue to do so in the future. Should downside risks materialize we would encourage staff to revisit this issue with the authorities and for it to be a part of program contingency plans.

Fund research in the 2018 Fall WEO confirms the benefits of a flexible exchange rate regime. As part of its broader work program, which could be useful in the CEMAC case, we think there would be value in the Fund clarifying its advice on exchange rate flexibility and the circumstances under which different exchange rate regimes are most appropriate. We also see value in the Fund developing more granular advice for countries about the necessary preconditions and capabilities required to transition towards greater flexibility, the costs and benefits of doing so, and the steps involved in making the transition.

The regional policy assurances made by BEAC and COBAC are critical to the success of the program, and we welcome the involvement of these regional institutions in program conditionality. The corrective actions taken by BEAC and COBAC to compensate for missed NFA targets are welcome. However, there are several other areas where regional institutions may become critical to the success of the program that are not currently 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. Clarity on past and present policy commitments is important to aid accountability and transparency, it would be useful to include a table similar to Table 13 in the December 2017 staff report.

Given the interlinkages between the actions of all six-member countries and the success of the individual programs, the regional strategy and the risk to the Fund resources we would have preferred some further spillover analysis and risk management strategy should Congo and Equatorial Guinea not be able to commence Fund agreements and/or those currently in programs go off track. The downside scenario presented in Box 1 is a welcome first step.

The Acting Chair (Mr. Furusawa) remarked that the regional strategy that Central African Economic and Monetary Community (CEMAC) member states adopted in 2016 had helped avert crisis. Nonetheless, the strategy was not yet fully delivering on its objectives. The regional institutions had taken corrective actions consistent with policy assurances. Full implementation of policy commitments, both at the national and the regional level, was important. This included the strict implementation of the consolidation plan, bringing international reserves on the envisaged path, as well as efforts toward sustained growth. Directors had encouraged further efforts to meet the preconditions for Fund-supported programs in the Republic of Congo and Equatorial Guinea.

Ms. Pollard made the following statement:

I will begin by thanking the staff for their tireless work on CEMAC and the member country programs. We were under no illusion that the CEMAC regional strategy would be seamless, and we commend the regional and national authorities for their efforts and progress made across several areas. Yet delays in Fund-supported programs in two countries, lower oil prices, and regional security and socioeconomic challenges threaten efforts to stabilize domestic fiscal balances and the regional external position.

Like many other Directors, we are concerned that the downside case may become the base case and see merit in the planned tripartite discussions to identify concrete contingency plans. The national authorities will need to take responsibility for much of the contingency actions, but we also strongly think that the regional institutions should continue to do their part as well, as this would be asked of the monetary authorities in any Fund program. At this point, the letter of support focuses on direct policies to support net foreign assets (NFA) accumulation as critical to the success of CEMAC countries' programs. We strongly urge the staff and the authorities to strengthen and expand regional policy assurances if downside risks materialize. The bottom line is that we would be highly skeptical if come June 2019, key programs in the region and NFA accumulation remain off track and we are presented with a letter of support that looks substantially similar to what we have now.

We also agree with the comments in the gray statements from Mr. Ray, Mr. Moreno, and Mr. Jin, urging the staff to further explore and explain the merits of increased exchange rate flexibility in line with the Fund's latest research. This will be critical in the context of planning contingency measures, and the staff's discussions could also suggest potential policies to mitigate the authorities' expressed concerns with this approach. While we fully respect the right of member countries to choose their own exchange rate regime, we believe the staff has a duty to highlight any of the downsides and drawbacks of such policies.

Finally, we want to commend the staff again for the excellent coverage of corruption in governance issues. The selected issues paper provides thorough background analysis that grounded the tangible actions that have been incorporated into country programs.

Mr. de Villeroché made the following statement:

I thank the staff for this report. I will concentrate on the ongoing adjustment and the difficulties. First, I will say that the strategy that was been decided in 2016 has prevented a huge disorderly adjustment and a major crisis in the region. Fiscal consolidation is notably underway, and foreign reserves have started to increase slightly. Without this strategy, we would have faced huge difficulties. Having said that, we are cognizant that difficulties remain, both for the ountries which are on track and those that are expected to agree on IMF programs, and in terms of the composition and the quality of the adjustment so far, so we see the risks as being tilted to the downside.

I would like to underline three points which will be critical in the coming months. First, Fund-supported programs in Congo and Equatorial Guinea are warranted to ensure the stabilization in the region. We can only urge Congo and Equatorial Guinea to make their best efforts to reach a program during the first quarter of next year. For Congo, we know that external debt is unsustainable, and the effort has to be made by the country itself but also shared by creditors; in particular, major private and public creditors have to make their best efforts toward a restructuring plan to ensure debt sustainability consistently with Fund policies. On this, I would like to add that procrastination on both sides—creditors and debtors—do not help. It is jeopardizing the situation in Congo, and it has broader implication in the region, and we call for responsibility on this issue.

Second, to stabilize the region, we need strong ownership by national authorities. We have had little progress on domestic resources mobilization, which is key for diversification of the economy.

Lastly, on the existing framework, we agree with the staff that we need to enforce the foreign exchange regulations. We call on national authorities to transmit all the information needed by the Bank of Central African States (BEAC) for enforcing this regulation, and I will appreciate if the staff could indicate if conditionality of Fund-supported programs for CEMAC countries should be more forceful in this respect and what could be done by other Fund members to support the CEMAC authorities.

On exchange rate flexibility, we have had this debate many times already. We know that these economies are mostly commodities-driven economies. We do not believe that a depreciation of the currency would have helped much in this context, because they import a lot, and inflation would be higher. In the case of other commodities exporters—I have in mind Nigeria, for example—higher exchange rate flexibility did not translate in higher reserves and growth.

Mr. Saito made the following statement:

The CEMAC region's economic situation remains fragile, and the region is facing development challenges over the long-term. We also share the staff's concern that conclusion of new programs with two countries has not been reached, reflecting the unsatisfactory implementation of the required reforms. Against this background, it is essential for both the national and the regional authorities to make further efforts to implement fiscal consolidation, rebuild adequate reserves, and address vulnerabilities in the financial sector.

As we issued a gray statement, we would like to make one comment on the regional policy assurances. Given the high-level of NPLs and their negative impact on financial stability, we concur with staff that the Central African Banking Commission's (COBAC) more proactive stance on NPLs is important and should be strengthened. However, COBAC's commitments on NPL reduction are not explicitly mentioned in the letter of support. Concerning its macrocriticality, we urge COBAC to provide clearer policy assurances on this issue and to implement additional measures steadily and in a timely manner in line with the staff's advice.

Finally, regarding the presentation of policy assurances in the staff report, we agree with Ms. Pollard and Ms. Svenstrup's suggestions that a table summarizing the past and present policy commitments would facilitate understanding of the content of assurances and their status. While we note that the staff does not see a need for a table this time, we encourage the staff to include this table in future reports if needed.

Mr. Meyer made the following statement:

We thank the staff for an informative report and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. Notwithstanding the progress that has been achieved in different areas, greater efforts on many fronts are needed for the regional strategy to deliver on its objectives.

We note with concern that real GDP growth per capita has been negative in four of the six CEMAC countries between 2011-2017, despite the generally benign global environment during that time period, as displayed in the table provided by the staff in response to our question. We would appreciate if the staff could include such tables as a standard feature in future reports on countries with extraordinarily high or low population growth, such as those in the CEMAC region, but also across low-income countries (LICs), emerging market countries, and advanced countries. It gives a much more complete picture of the economic development at hand, and more attention should be devoted to explaining and addressing the underlying long-term structural challenges.

As a number of other Directors, such as Mr. Tan, Mr. Gokarn, Mr. Ray, and Mr. Inderbinen, have pointed out, we encourage both the authorities and the external stakeholders to take all the steps necessary to meet the requirements under which Fund-supported programs in Equatorial Guinea and Congo can be agreed upon and implemented with a realistic chance of success. These programs would also be essential to replenish NFAs through their catalytic role. We reiterate that prudent policies and appropriate adjustment efforts in the individual member countries are key to maintaining stability at the level of the currency union. In this vein, we would expect that corrective measures in response to adverse developments under the control of national authorities should also be targeted at the national level, and that regional institutions should only be addressed to the extent that national adjustment policies are exhausted.

We have carefully read the letter of support by the BEAC Governor, and I believe it is a substantive letter; and this letter also refers to the need to adopt additional corrective measures that would be necessary at both the national and regional policy levels to enable the pursuit of Fund financial support under the programs with CEMAC members. Why is that so important? When we had our discussions on program design in currency unions, we agreed that we would, whenever possible, revert to measures under the control of the national level, and only when those are exhausted will we revert to the regional level. It is important to get the incentives right, that we try to discuss corrective measures if necessary, first at the national level, and only if those are exhausted, then we would revert to the regional level.

Lastly, we would like to underscore the need to vigorously improve the business environment in CEMAC member states, including by strengthening governance structures, the rule of law, and anti-corruption efforts, and in this regard, I echo the comments made by Ms. Pollard. With this, we wish the authorities all the best.

Mr. Doornbosch made the following statement:

We thank the staff for the comprehensive report and the detailed answers to questions. The CEMAC region is facing challenging economic conditions, most recently the drop in oil prices. The ongoing challenges highlight the importance of regional cooperation and international support. Therefore, we commend the CEMAC countries that have entered Fund-led programs and have made progress. We would like to join a number of Directors in voicing concerns regarding the prospect of Congo and Equatorial Guinea entering a Fund-led program. Like Mr. Fanizza and other Directors, we wonder if after two years of delays in arranging Fund-led programs, the Fund's baseline scenario should assume still that a program arrangement can be achieved. I understand that the staff will elaborate on the prospect of this and go into detail on the ramifications this might have on the regional strategy. I am looking forward to these answers.

We agree with the staff that joining international treaties could enhance the exchange of financial information, such as those of the Common Reporting Standards. Adopting such a treaty could help generate much-needed tax revenues and complement foreign exchange regulations by reducing holdings of capital abroad without permission, and even improve financial statistics, and it might be helpful to include this in future reviews and in discussions with the authorities going forward.

Finally, there is a broader point to discuss also in the upcoming surveillance review—the tradeoff between the consistency of data between reports and the agility. Consistency is guaranteed in this report by using the WEO data, but at the same time, it does not reflect fundamental changes such as the drop in the oil price since October. We wonder whether it is always the right balance to basically give consistency a higher weighting than being agile and accurate.

Mr. Morales made the following statement:

We thank the staff for the good report and the clear answers to our questions. We also appreciate the authorities' reiterated commitment to implement the regional strategy in a challenging political environment. We know that progress in recent months reflects to a large extent implementation of changes in the operations by regional institutions, namely BEAC and

COBAC, with more frequent interactions between these institutions and Fund staff. While this is quite positive, Fund staff recognizes that support by national authorities is key, especially in the immediate future, to enforce foreign exchange regulations.

In this regard, we wonder to what degree the commitments as stated in paragraph 21—which the staff regards as ambitious but realistic—are enforceable, especially because these commitments rely on information that is not yet available to regional institutions. Can the staff can give us some idea about which of the measures in paragraph 21 would have a more significant and immediate impact on supporting the achievement of NFA targets? And if these measures are further delayed, how would this be reflected in the review of program performance in individual countries?

Mr. Saraiva made the following statement:

As Mr. de Villeroché has mentioned, the regional strategy is well conceived, and it addressed the pressing issues at the time. It is the classic macro adjustment with a twist of preserving social spending, which is becoming classic now—so fiscal consolidation, tight monetary policy to mop up excess liquidity, reserve accumulation to an adequate level, while also strengthening the banking sector, which is needed.

On the side of the macro adjustment, we have a comprehensive structural agenda, which is also common to several other countries and regions, based on domestic resource mobilization; the deepening of financial markets; reduced oil dependence and enhanced diversification of the economy; deepened regional integration; and improvements in the governance, anti-corruption, Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) agenda, all in a context where security concerns aggravate the situation.

The one point that I want to mention here is that the regional strategy, as was highlighted by several Directors, can only be successful if properly implemented by all member countries. Then I come back to the buff statement. The buff statement was candid and encouraging in terms of highlighting the commitment by the regional authorities but also the strong stance taken by the national leadership in the recent summit. This is reassuring, but if we look at the risks faced by the strategy there are geopolitical risks and oil price risks, but the one that can be fully addressed and should not be seen as an exogenous shock is the conclusion of the agreement for Fund-supported programs in both Equatorial Guinea and

Congo. This is a major issue. Like Mr. Doornbosch, I look forward to the staff's comments on this, but I believe that this is where the Fund and the international community can play a proactive role and ensure that at least these risks will be avoided. The others can be mitigated, but they are not under the control of the international community. This is the most important issue we need to address.

Mr. Moreno made the following statement:

Like others, we would stress that fiscal consolidation is reasonably on track, and there is a strong commitment by authorities to the regional strategy. I would like to echo Mr. Saraiva. the buff statement by Mr. Raghani and Mr. N'Sonde is quite reassuring in terms of the authorities' commitment to the consolidation plans and to the regional strategy and economic and financial reform program, so we feel comfortable with that.

Going forward, we would stress the importance of inclusive growth and governance in the programs with countries, given the new normal. Like Ms. Pollard and Mr. Meyer, we also welcome the selected issues paper on governance by the staff.

We have also stressed in our gray statement that it is particularly important to strengthen the non-oil revenues and that the staff's technical assistance (TA) will be particularly important in this regard. I would like to reiterate, like Mr. de Villeroché and Mr. Saraiva, that it is important that the program is agreed upon with Congo and Equatorial Guinea. We understand that the negotiations with the staff are already well advanced, but there are still remaining issues, particularly with the technical negotiations, so we also call on both debtors and creditors to try to reach a broad agreement; and like Mr. Saraiva was pointing out, maybe the Fund can have an instrumental role in helping with those negotiations.

Mr. Just made the following statement:

We thank the staff for their efforts to make the regional CEMAC strategy work. We are encouraged by signs that the BEAC and COBAC are increasingly acting in line with the objective to support external stability, and we appreciate that both parties are starting to address deficiencies in their policy frameworks and are modernizing their tools and operations. But more needs to be done, in particular assisting members to address NPLs and clear arrears. We wonder whether it may be useful to align aspects of conditionality at the national level with the regional recommendations so as to have policy frameworks available.

We share the sense of frustration by many Directors on the uneven implementation progress at the national levels. We are skeptical that strengthening regional assurances in the light of national policy slippages will do the trick if the regional bodies can neither discipline member states nor force them to adopt policies.

While we welcome that heads of state of CEMAC reiterated their commitment to the strategy recently. A greater sense of urgency and more decisive action by CEMAC members, given the uneven implementation on governance and corruption, is a condition sine qua non.

In addition, Congo and Equatorial Guinea are key to the success of the regional strategy. Without these two financing arrangements, the Net Foreign Assets (NFA) targets for the region will remain out of reach and the goal of external stability elusive.

We urge Equatorial Guinea to make further substantial progress on governance and corruption so that key financing arrangements can be agreed to. Equally, in the case of Congo, we urge the authorities to negotiate in good faith and transparently with bilateral creditors so that swift progress and financing assurances are truly forthcoming. We would also appreciate if staff could keep all bilateral creditors abreast of developments in Congo and engage with them jointly.

To conclude, the regional strategy and national financing arrangements should be mutually reinforcing. There is some progress by the regional bodies, but without the requisite changes at the national level, and the lack of progress on concluding the two arrangements, CEMAC will continue to face existential threats. We would also prefer to have a more explicit risk-based approach by staff to critical program assumptions, such as the oil price, in addition to identification of feasible contingency measures.

Mr. Inderbinen made the following statement:

We note in the buff statement and welcome the broad agreement between the authorities and the staff on the major outstanding issues and policies to be addressed, but we also note from the buff statement that the region is still at a crossroads, and in that sense, in our gray statement we underline the need for more efforts at the national level to achieve the goals of the regional strategy. We also underline the importance of getting Equatorial Guinea and the Republic of Congo into the Fund-supported programs that were envisaged at the outset of this regional strategy.

We agree with Ms. Pollard on the importance of the regional assurances and the need to strengthen these assurances as needed going forward. Apart from the monetary side and the macroeconomic side, I would also like to underline the structural reform side, where important decisions, as mentioned in the letter of support, in the banking sector are outstanding and will need to be taken in the course of the next year to fulfill the program targets of some of the countries.

We had a question in our gray statement—and this is in the context of the need to increase the reserves in the region—on the repatriation and the surrender requirements and how these impact the member countries' obligations under Article VIII, Section 2. We note from the staff's answer that there is currently no impact from these requirements but did note that the staff's answer is quite guarded in the sense that it says that this is the case at this time, and this accounts for transactions that were not made without the Fund's prior approval. I would like to follow-up on that and ask the staff whether there are countries that do have approved exchange rate restrictions due to the surrender requirements in the CEMAC. More broadly, I would like the staff's assessment of whether there may be other ways to increase reserves in the region rather than these administrative measures, and whether these administrative measures are amenable to the overall strategy of developing an interbank market and developing the financial sectors in the region more broadly.

Mr. Fanizza made the following statement:

I thank the staff for all the work done on this important report. I fully share Mr. de Villeroché's comments that the strategy played an important role in avoiding major crisis in the region. I fully agree with that. In a sense, this is the reason why we support it. Nevertheless, we are concerned with the fact that the performance on the NFA was broadly in line with expectations when oil prices were much better than what we expected. What is the reason? Is the reason only that Equatorial Guinea and Congo did not have a program? I am not sure about that. Maybe there was something else.

These are important issues that need to be addressed. In addition, oil prices are at US$51 per barrel. We assume US$72 or US$69 in the future.

Clearly, we cannot say that we used the latest vintage of the World Economic Outlook (WEO). That does not make much sense.

On Equatorial Guinea and Congo, I have heard for more than two years that the program was coming the next day. We need to understand what is going on, and we need to make sure that we do not make our programs based on the assumption that these two programs will materialize. Let us see. Let us work on it but also work on a Plan B. What happens if we do not manage to get the programs? Would this undermine the objective of the regional strategy? I look forward to a concrete answer on that.

Finally, I have an observation on exchange rate flexibility. I agree that it would be desirable, but we need to understand the political reality that it would not be probable and feasible under the current circumstances for reasons that we all know. We need to work under that constraint.

Ms. Preston made the following statement:

We welcome the recent actions by both the national and regional authorities in support of the program objectives and achievement of the regional strategy. We are encouraged by the recent CEMAC leaders' statement of commitment to the regional strategy and call for stronger enforcement.

Notwithstanding the clearly challenging social, security, and political contexts facing the authorities, I want to focus my intervention on risk communication and contingency planning, given that, as Ms. Pollard put it, the downside case would become the base case. We emphasize that the success of the regional strategy critically hinges on the quality of adjustment in the existing programs, as well as the ability for Congo and Equatorial Guinea to undertake the necessary actions to facilitate entry into a Fund-supported arrangement. The staff have outlined that risks to the regional strategy of Congo and Equatorial Guinea not entering into a Fund-supported arrangement are considerable, to the point it could undermine the strategy's success. We look forward to hearing the staff's assessment of the likelihood of this risk eventuating.

On the issue of strengthening the regional policy assurances, we would appreciate the staff's advice as to at what point risk would be considered to have materialized sufficiently that there are no other options other than to seek further corrective actions from the regional authorities. At that point, would these actions be enough to ensure the success of the strategy?

We also wonder if this point where national adjustment policies are exhausted is approached more quickly because some of the policy tools are fixed, making the remaining adjustment task more difficult. While we understand the constraints in place surrounding this particular group of programs, more broadly, there is space for the Fund to develop and articulate its advice on exchange rate regimes. We have noticed somewhat of a tendency for the status quo regime to remain appropriate, and while we note that this is a complex issue with many sensitivities, there is merit in the Fund further developing more granular advice for countries about the necessary preconditions and capabilities required to transition to greater flexibility and the costs and benefits of doing so and the steps involved.

We would appreciate the opportunity to discuss this idea further bilaterally.

Mr. Ostros made the following statement:

I would also like to voice my concern that the ongoing adjustment seems to have met considerable difficulties. We have the delays in Fund-supported programs in two countries that have been mentioned by several Directors. I agree with Mr. Fanizza that we also must start to think about how to go forward if that is going to be the case in the future. The lower oil prices have added to challenges, and we have not seen enough progress in diversification of the economies. I agree that the NFA accumulation is critical for the region to achieve success, and we urge Congo and Equatorial Guinea to take necessary measures to qualify for a Fund-supported program. We also recognize the importance of debtors and creditors engaging responsibly in making it possible to reach debt sustainability and thereby opening up for a Fund-supported program.

Good governance and the fight against corruption are critical for macroeconomic development in this region. I encourage the staff to continue to keep a strong focus on governance issues, at the national and regional levels, and to continue to push for implementation of the AML/CFT obligations.

Ms. Levonian made the following statement:

I thank the staff for the comprehensive report and Mr. Raghani for a helpful buff statement. We particularly appreciated the selected issues paper on improving governance and reducing corruption in the region, and we support the recommendations and lines of action proposed by the staff in this paper. My comments are consistent with everything that has been said, and so I will be quick.

We completely agree with Mr. Fanizza and Mr. de Villeroché, Mr. Doornbosch, Mr. Meyer, and many other colleagues that the regional strategy adopted in 2016 has been helpful in avoiding an immediate crisis, but there is more to do. We reiterate the strong ownership and full implementation of policy commitments by individual member countries, and regional institutions are critical for the stability in the region. Like many Directors, we are quite concerned about the delays in approval of financing arrangements with Equatorial Guinea and a new Fund program with Congo.

Finally, we note that both regional and national authorities need to do their part and collaborate with each other toward making regional surveillance more effective and achieving the objectives of the regional strategy. Continued dialogue between both the Fund and regional institutions is also equally important, and we are encouraged to see the authorities are committed on those fronts.

Mr. Abenoja made the following statement:

The CEMAC recovery has been slow, and this has been accompanied by delays in programs, as well as the downside risks that continue to dominate the outlook. To accelerate growth over the medium-term, it is imperative for national authorities to pursue prudent and sound policies and at the same time have a successful execution of the regional strategy to achieve fiscal adjustment and restore external stability. We would like to reiterate one point in our gray statement, which was also emphasized by other Directors. The buildup of adequate reserve buffers is critical in strengthening the external position and fostering confidence in the currency peg of the community. At the same time, in the report, the staff seems to stress the criticality of Congo and Equatorial Guinea joining the Fund’s program, so we look forward to further elaboration by the staff and updates on this matter, as well as the possible contingency plans should there be delays in this matter. As was mentioned by some Directors, we should be prepared for some of the downside scenarios becoming a baseline risk moving forward.

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

> In my oral answers, I will address the questions which were raised with regard to the prospects and preconditions for programs with the Republic of Congo and Equatorial Guinea; the question about the corrective actions to address the underperformance in NFA accumulation, which were implemented recently; questions about how and to what extent could the regional strategy be adjusted or revisited in the face of risk or shocks; the scope for the regional policy assurances, whether it needs to be broadened; then a few questions on the measures that we expect from national authorities to support the better enforcement of foreign exchange regulations.
>
> On this first question about the prospects and preconditions for programs with Republic of Congo and Equatorial Guinea, with regard to the Republic of Congo, the most important aspect that has been holding up the Board consideration for Congo's request for an Extended Credit Facility (ECF) arrangement has been obtaining explicit financing assurances, including through debt relief from key creditors. The authorities are still pursuing their discussions with the relevant creditors, and while there have been reports of progress in recent weeks, the staff has not yet received the necessary explicit assurances, including with respect to the treaties.
>
> The Congolese authorities continue to be supported by their debt advisors to update their strategy, and once adequate financing assurances are received, the authorities would need to finalize some of the ongoing structural reforms, including on governance, which were planned for completion in the fourth quarter of 2018. We would like to note that substantial progress has already been achieved in these relevant reforms. Fund staff remains cautiously optimistic that an agreement may be reached in the near future and that Congo's request for an ECF arrangement could be submitted to the Board for its consideration in the first half of 2019.
>
> Regarding Equatorial Guinea, management approved earlier this year a seven-month Staff-Monitored Program (SMP) which aims to build a track record for successful policy implementation. The SMP envisaged two reviews. The first review was completed in August. Regarding the second review, which is based on the end-July date, this review is still pending. On

[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.

one hand, data from end-July indicate that the authorities have met all competitive measures and the indicative target for the second review period. But there are three critical structural measures which were expected by end-July which were not yet implemented as the authorities have faced administrative and technical capacity constraints.

These three structural measures include, first, hiring an auditor to audit the domestic government's payment arrears; second, hiring an auditor to audit the state-owned oil and gas companies and to do a detailed reconfiguration of hydrocarbon revenues received in the budget in 2017 and 2016; and third, the submission of a membership application for the Extractive Industries Transparency Initiative (EITI). Based on the assurances provided by the authorities to the staff, including during a recent mission, the country team expect that these structural measures could be completed early in 2019, which would then pave the way for the completion of the second review and to starting negotiations on a possible Fund-supported program.

To sum up, based on the ongoing close engagement between the staff and the authorities in both of these countries, we continue to see reasonably good prospects for new programs with these two countries being brought for the Board consideration by May 2019, as assumed in our baseline scenario, and therefore we do not see the need at this point for contingency.

Turning to the corrective actions which were implemented and the question of whether adjustment measures at the national level were deemed as exhausted, BEAC decided to increase its policy rate, and this decision was made in view of recent developments and the revised outlook, including the underperformance in NFA accumulation. This decision is fully consistent with BEAC's mandate as an independent institution to ensure the external stability of the currency. This policy rate increase, together with the actions undertaken by COBAC and BEAC to better enforce limits on banks' foreign exchange position, are seen by the staff as satisfactory corrective measures to address the end-June NFA accumulation shortfall, as these measures can underpin the stabilization and rebuilding of NFAs.

At this stage, the fiscal consolidation efforts by the CEMAC countries under the program and for the region as a whole appear broadly adequate. These efforts are projected to result in fairly substantial fiscal adjustment for the region as a whole with an improvement in particular in the regional primary fiscal balance of about 7½ percentage points of GDP in two years between 2016 and 2018. Therefore, in view of the overall macroeconomic and financial developments, including still very sluggish economic and credit growth, the current policy mix following the recent monetary policy tightening appears adequate.

There was a question as to how, when, and under which circumstances could the regional strategy be adjusted and revisited in case of further shocks if prospects for new programs were to be seen as unlikely. There will be a new mechanism for regional consultation. This will be tripartite consultations, which will gather all CEMAC national authorities, meaning ministers of finance and economy, the regional institutions, and Fund staff. These consultations will start during the first half of 2019 and will be primarily aimed at assessing progress under the regional strategy and to agree on whether adjusting the policy mix would be required in response to deviations from the strategy's objectives. Such deviations can be due to new shocks, for example, lower oil prices, or changes in the key assumptions, such as prospects for new programs with Congo and Equatorial Guinea.

In such circumstances, if deemed necessary, all policy actions would be put on the table, including further tightening of monetary policy and additional fiscal consolidation efforts by CEMAC countries. While fiscal consolidation efforts are currently assessed as being adequate, the staff would see scope for accelerated adjustment efforts to various degrees in some countries if deemed necessary for the success of country programs, including regarding the objective of external stability. This could include further prioritization of expenditures, including domestic investment, more forceful reduction of tax exemptions, accelerated efforts to broaden the tax base, and enhanced efforts to collect tax arrears. All CEMAC countries, including those with no Fund-supported program currently, would be expected to contribute to these additional efforts in the context of the commitments made by the heads of state to each other, taking into account each country's circumstances. The balance of the adjusted policy mix would also depend on the nature of the shock. We see this new consultation mechanism as very important to bring all the stakeholders together to decide about the possible need for adjusting the policies at both the national and regional level.

Turning to the scope for regional policy assurances, in particular issues such as the repayment of government arrears or the strengthening of non-oil tax revenues, but also the actions by COBAC, should be part of these regional policy assurances. Obviously progress in this area is important for achieving the objective of the regional strategy. However, the main actions required to be implemented in these policy areas are under the responsibility of the national authorities and are part of the existing commitment made by the individual member countries with Fund-supported programs. These include plans for repaying government arrears and measures to enhance non-oil tax revenues.

Regional institutions have a supportive role to play, including by the CEMAC Commission, for example, in the area of harmonizing customs and excise taxes, but such actions by regional institutions are not the main drivers of reform in these areas, and regional institutions cannot force action by national authorities. Therefore, the staff does not see at this stage any additional clear, specific, and monitorable measures under the mandate of regional institutions, including the CEMAC Commission, which would be critical for the success of individual CEMAC members' Fund-supported programs. But the staff will be open to discussing such additional measures with the regional institutions if they become necessary in the future.

Similarly, with regard to the Secretariat General of COBAC, the banking supervisor, it is committed to do what is within its responsibilities to address the weaknesses in the banking sector, and COBAC has been implementing various actions with that objective, including recent decisions to liquidate some banks. Many of the actions needed to address banking sector weaknesses should come from national authorities. For example, a key source of the increase in NPLs has been the large accommodation of domestic arrears by governments, and in that regard, implementation of the arrears repayment plans will be critical once arrears claims have been audited to reduce the level of NPLs across the region. We have been advising the regional institutions to monitor these arrears repayment plans more closely so as to better inform their own policy decisions.

The restructuring plans of banks in distress should be prepared by national authorities, and COBAC's role is just to assess these plans. This is why several programs continue to include conditionality in the financial sector area, such as structural benchmarks correlated with the restructuring banks in distress. In this context, while continued strengthening of banking supervision will remain an important area which we will continue to monitor closely and actively engage on with the Secretariat General of COBAC, we do not see any specific measure by COBAC which will be critical enough for the success of country programs and which will require the Secretariat General of COBAC to provide policy assurance under the Fund policy.

Turning to the support measures by national authorities to better enforce the foreign exchange regulation, these are measures which have been discussed with the national authorities in the latest round of discussions and review missions. Many of them have been reflected and included in the memoranda of economic and financial policies for the relevant countries, so at this stage we did not see the need to include stronger conditionality. But if we do not see progress as expected on this front, this could be considered going forward.

In terms of the impact of the measures being envisaged, or the measures that we listed in paragraph 21 of the staff report, at this stage it is a little difficult to assess the impact of each measure. What is clear is that more transparency in the oil sector and with oil revenues will be important to better understand why we do not see stronger repatriation of oil exports receipts. Making sure that all public entities apply and implement the foreign exchange regulations and therefore do not have accounts abroad which are not authorized by BEAC and repatriate all foreign assets will also be important. We expect to have a better view once we receive additional information from the country national authorities, and we will assess then what is needed going forward.

The staff representative from the Strategy, Policy, and Review Department (Mr. Porter) confirmed that no CEMAC member had approved restrictions under Article VIII, Section 2. He informed the Board that a proposed correction to paragraph 43 of the selected issues paper was still under consideration by the staff, and should be resolved shortly after the Board meeting.

Mr. Doornbosch made the following statement:

I thank the staff for the answers. I apologize in advance because I am sure the staff answered this question, but I would like to push a bit further on this. If I understand correctly, there is no reason to assume that Congo and Equatorial Guinea are not coming to the Fund for a Fund-led support program, and the staff still finds it reasonable to expect them to come in mid-2019 to agree on a program. But what happens if they do not? If they do not come, then part of the regional strategy is missing. My reading of the staff report is that the shortcoming in the accumulation of NFAs is basically in these two countries. What happens to the regional strategy if it does not happen? Could the staff elaborate on that?

Mr. Inderbinen made the following statement:

On the regional assurances in the structural domain, the staff noted that the arrears clearance on the generation of NPLs in the banking sector is under the purview of the national authorities, and that seems quite straightforward. But some of the programs have benchmarks in them to either recapitalize or to liquidate banks, so would the revocation of a banking license not be under the Secretariat General of COBAC's responsibility, or would they do this on the demand of the national authorities? That would seem to be one macrocritical measure in some of the programs that would have a regional dimension to it in terms of critical decisions. There is a reference in the last paragraph of the support letter that is quite general which states that the authorities are ready to do this.

On the exchange restrictions, I would be happy to take this up bilaterally with the staff, but I do have the broader question on whether there are not alternatives to generate reserve accumulation in the region in the particular setting of the monetary and exchange rate policies. If the policy mix is adequate, as the staff states, would that not in itself be sufficient to generate reserves?

Also, does the staff view the administrative measures as amenable to financial sector development in the region?

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:

If in the near future we were to come to a view that new programs with Republic of Congo and Equatorial Guinea would not be feasible, we would then discuss with the regional national authorities and regional institutions how the regional strategy objective could be achieved without these programs and how to move forward. It would be the same as in response to an additional exogenous shock. All policy measures would be on the table. We would have to assess each country's particular circumstances to determine the scope for additional adjustments on the fiscal side, the appropriate monetary policy stance to support achieving the original strategy objectives, and we would seek agreement from all stakeholders on the revision of these underlying policies by all.

The first tripartite consultation that we expect to have around the end of the first quarter of next year will be an opportunity to discuss this risk and potential contingency measures. We hope also that by that time we will have a clearer view about the prospects for the new programs in these two countries.

Regarding the issue of COBAC's role in bank resolution, COBAC has a responsibility to decide on the liquidation of a bank, but this is a last-resort action. Before that, usually national authorities are being asked to prepare and have restructuring plans either to recapitalize the bank or a process going toward the liquidation of the bank. Giving the bank license is the joint responsibility of COBAC and the national monetary authorities, which is basically the ministry of finance.

Turning to the question of whether there are alternative measures to the administrative measure that we discussed with the national authorities to support better enforcement of foreign exchange regulation, in the baseline we did not factor in any impact from these administrative measures. We believe that there will be scope to see a positive impact on the regional reserves accumulation if there is a better enforcement of this foreign exchange regulation supported by national authorities. But at present we did not make any assumption, simply because we do not have enough information to assess the potential impact of these administrative measures. But we believe that this could play an important role for strengthening reserves accumulation. This is also the view of the BEAC, and this is why we insisted on having these measures to part of the updated policy commitments by national authorities.

Obviously if we do not see any impact from these measures, we would then explore other alternatives. This would be part of the discussion with all stakeholders about the best policy mix to achieve the original strategy objectives.

In terms of whether these measures would represent some obstacles to financial sector deepening, we do not believe so. On the contrary, we believe that it could enhance the repatriation of export proceeds and therefore keep more savings within the region, which in turn which would also contribute to a deepening of the financial sector in the region.

Mr. Meyer made the following statement:

I wanted to make one more comment, which I believe is important as we are still learning about how to move forward on program design in currency unions. Having carefully studied the decision and the summing up of that Board meeting, I wanted to highlight that the sequence is important. The staff commented that all policies would be on the table if the Fund could not agree to programs with the two countries. It is important to stick to the sequence, and the sequence from the decision is very clear. Number one, it would be policies under direct or indirect control of the member. Number two, it might be union-level institutions, measures limited to the specific member country, and only in exceptional cases, assurances regarding adjustments in union-wide policy settings like monetary policy.

If we have to go in that direction, it is important, that we are explicit that the sequence has been adhered to, starting with the national policies and then as explained. I wanted to make that clear again. From this chair's perspective, this is a very important sequence that the Board has decided upon.

Mr. Raghani made the following concluding statement:

I would like to express my appreciation to management and the staff for their continued engagement with CEMAC authorities, including during the recent visit of high-level CEMAC delegation to the Fund. I also thank the staff for the set of excellent reports and for the responses to many questions raised by Directors. Directors have offered candid and valuable advice to help weather the fiscal and external imbalances facing CEMAC countries and lower the uncertainties surrounding the effectiveness of recent regional efforts. I can assure the Board that I will convey these recommendations faithfully to my CEMAC and regional authorities.

The authorities have reiterated their commitment to the regional strategy, which they believe remains appropriate to address the region's macroeconomic and structural weaknesses. At the outset, I would like to recall that this strategy integrated the informed decision made by the highest CEMAC authorities to maintain the exchange rate regime and peg and pursue close monetary cooperation between the six countries.

I have taken good note of Directors' emphasis on the need for all countries to be engaged in a Fund-supported program, and on the full implementation of the policies and reforms envisaged in order for capital outflows to recede, the region to rebuild promptly adequate buffers, and confidence to be restored. The high-level CEMAC delegation that visited the Fund this month was commissioned to discuss ways to ensure that these conditions are met. It is the ardent desire of the remaining two countries to embark on Fund-supported programs, and these countries are making their utmost efforts to implement the prior actions related to governance.

As for debt restructuring for Congo, we look forward to the support of the country's external creditors by providing the necessary financing assurance, including adequate debt restructuring, to move forward. Directors have stressed the importance for national authorities to pursue steadfast fiscal consolidation while improving the quality of the adjustment and putting in action arrears repayment plans. We have laid out the broad measures undertaken by country authorities to reduce fiscal deficits under

Fund-supported programs, anchored by non-oil primary fiscal targets. I will convey to my CEMAC authorities the recommendation that more emphasis should be put on raising non-oil revenue, notably through streamlining tax exemptions and strengthening tax and customs administration.

Regional institutions understand their role in support of country efforts to tackle macro-imbalances and ensure a swift accumulation of reserves, a point stressed by many Directors. As stated in our buff statement, the BEAC stands ready to tighten its policy stance further. It is in the process of submitting stronger foreign exchange regulations for the approval of ministerial-level authorities, and it will strive to enforce those regulations strictly, including by looking to access exporters' contracts and to sanction non-complying banks with the view to ensure the repatriation and surrender of foreign exchange export proceeds.

The BEAC will continue to modernize its policy framework and consolidate its safeguards. The Banking Commission, COBAC, plans to complete its risk-based supervision framework in the next few weeks. It will step up resolution of ailing banks, as was done this year with two troubled banks, and continue to enforce prudential standards, including on NPLs, the reduction of which should also benefit from the state's implementation of the arrears repayment plan.

The CEMAC Commission is requesting medium-term convergence plans from member countries, which should incorporate macroeconomic policies and inform plans as part of efforts to strengthen the regional convergence framework. The Commission puts high value on advice regarding ways to monitor closely countries' compliance with regional directives and to step up the implementation of the regional economic and financial reform program. This program encompasses reforms to improve the business environment and promote economic diversification.

The road to success may still be long, but CEMAC authorities have a sense of how to get there. They hope to continue to count on the Fund to support member countries and regional institutions in rolling out the regional strategy. Going forward, the new tripartite consultations between countries, regional institutions, and the Fund should help strengthen collaboration and make adjustments as the execution of the strategy goes on.

I would like to conclude by conveying to the mission chief for the CEMAC, Mr. Toujas-Bernate, and his team, the authorities' appreciation for the quality dialogue they maintain, and I thank them for their dedication.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They noted that progress under the regional strategy helped avert an immediate crisis but that the strategy has yet to fully deliver on its objectives, with underperforming regional reserves and still sluggish non-oil growth. Directors stressed that improvement in the regional economic and financial situation over the medium term depends critically on full implementation of policy commitments by CEMAC member states and regional institutions and adoption of Fund-supported programs by the Republic of Congo and Equatorial Guinea. Directors urged the authorities of these member countries to redouble their efforts to meet the preconditions for a Fund arrangement.

Directors urged CEMAC national authorities to continue to implement strictly their fiscal consolidation plans and promptly address any fiscal slippages. This is critical to rebuilding adequate fiscal and reserve buffers and putting public debt firmly on a declining path. Directors stressed the need to improve the quality of consolidation by enhancing non-oil revenue mobilization. They also emphasized the importance of finalizing and implementing arrears repayment plans. Member states must also support BEAC and COBAC's enforcement of the foreign exchange regulations, including by enhancing transparency in extractive industries, and ensuring the domiciliation of export proceeds and the repatriation and surrender of foreign assets by all public entities.

Directors welcomed the corrective actions implemented to address NFA underperformance, especially the increase in BEAC's policy rate and the enforcement by COBAC and BEAC of banks' foreign exchange position limits. Directors also welcomed the substantial progress toward completing the modernization of the monetary policy operational framework and the drafting of new foreign exchange regulations, which, as they become fully effective, will help strengthen monetary policy transmission and contribute to bringing NFA accumulation back on track.

Directors considered that, following the recent tightening, the monetary policy stance appears adequate, but stressed that BEAC should stand ready to tighten it further if required to support the regional strategy. They also encouraged BEAC to pursue its efforts to develop the interbank market, including by further reducing excess liquidity.

Directors encouraged the Secretariat-General of COBAC (SG-COBAC) to make risk-based supervision the focal point of its 2019–21 strategic plan, which should also aim at strengthening the supervisory framework and tools, ensuring prompter resolution of distressed banks, and prompting banks to prepare and implement NPL reduction plans. Reinforcing SG-COBAC's human resources would be key to meeting these objectives.

Directors noted that a poor business environment and high perception of corruption continue to hinder growth. They encouraged the national and regional authorities to intensify efforts to restore sustained inclusive growth and foster diversification, including by improving governance, public financial management, and AML/CFT supervision; promoting regional integration; and supporting the development of financial markets.

Directors noted the substantial progress made by BEAC and COBAC against policy assurances provided in the June 2018 follow-up Letter of Policy Support on: (i) completing the modernization of the monetary policy operations framework, and (ii) submitting for adoption to the UMAC ministerial committee revised foreign exchange regulations, both of which are expected by end-2018. They considered that BEAC and COBAC have taken satisfactory corrective measures to address the end-June 2018 NFA underperformance. They further endorsed the updated policy assurances outlined in the December 2018 follow-up Letter from the BEAC Governor on achieving the projected NFA accumulation based on BEAC's commitment to implement an adequately tight monetary policy together with commitments by member states to implement adjustment policies in the context of Fund-supported programs. Directors emphasized that implementation of these policy assurances continues to be critical for the success of Fund-supported programs with CEMAC member countries.

The views expressed by Directors today will form part of the Article IV consultation discussions on individual members of the CEMAC that take place until the next Board discussion of CEMAC common policies. It is expected that the next discussion of CEMAC common policies will be held on the standard 12-month cycle.

APPROVAL: April 20, 2020

JIANHAI LIN
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. ***Staff forecast oil prices to remain steady in 2019 and then decline only gradually through 2022; have staff evaluated the reserve path, and potential contingency plans, under a shaper decline in oil prices?***

- The oil prices projections correspond to the October 2018 WEO projections, the latest available when the regional consultation discussions took place. As emphasized in the staff report, these projections are subject to substantial downside risks, as illustrated by the recent decline in prices. As reported in footnote 2, back-of-the-envelope estimates indicate that a $10-per-barrel decline in the oil price would reduce the region's net export receipts by around 2 percent of GDP, and government revenue by about 1 percent of GDP. The policy response to such a shock would likely include a further tightening of the policy mix and an acceleration of the structural reform agenda.

2. ***Increased economic diversification is a key element to build resilience in the CEMAC region. In this context, the fact that non-oil GDP growth has not picked up is underwhelming. In fact, its projection has been revised downward for 2018. We would like staff to elaborate further on the reasons for this underperformance.***

- The downward revision of 2018 non-oil growth projections mainly reflects: low budget execution and prolonged strikes in the public sector in Chad; slower-than-expected execution of public investment and delays in implementing the arrears clearance plan in Gabon; and delays in the adoption of Fund programs in Congo and Equatorial Guinea, which led to delays in external budget support.

- The rebound in non-oil growth in 2019 would mainly stem from the stabilization of activity in Congo and Equatorial Guinea after sharp drops in 2018 as the two countries embark on Fund-supported programs and would be expected to receive large external financing, and from an increase in non-oil growth in Chad (from a low level) as a result of an increase in government spending, the repayment of domestic arrears, and a pick-up in cotton production and exports.

Program Implementation and Fund Engagement

3. ***Could staff offer more details on the key aspects which are holding up the rollout of the fund supported programs. Specifically, what would be the outer timeframes after which the regional strategy would require a revisit?***

- Staff will respond to this question during the Board meeting.

4. ***Against the backdrop of these considerations, we would welcome staff's assessment of the corrective measures – in particular the tightening monetary policy stance – sought from the BEAC to address the NFA underperformance, to which one member contributed 47 percent, inter alia as a result of the non-repatriation of export earnings, including oil and mining revenues. Moreover, noting that an increase in the regional policy rate was resorted to as a corrective measure in response to the NFA shortfall, we wonder whether adjustment measures at the national level were already deemed exhausted.***

- Staff will respond to this question during the Board meeting

5. ***The staff report seems to stress the criticality of Congo and Equatorial Guinea joining the Fund's program to correct for the large gap in the NFA accumulation and garner confidence in the strategy. Are there any contingency plans should the approval be pushed back even further?***

- Staff will respond to this question during the Board meeting

6. ***Could staff comment on how a revision of the regional strategy, under the circumstances would affect the national programs?***

- Staff will respond to this question during the Board meeting

7. ***We note that staff's baseline scenario assumes that both arrangements would start in the first half of 2019. How feasible is this assumption? What are the specific reasons for the delays in these two programs? Are the authorities able to tackle them?***

- Staff will respond to this question during the Board meeting

8. ***We note that the Managing Director held recently a meeting with a CEMAC High-Level Delegation. Could staff provide further elaborations on the outcome of this meeting?***

- The meeting was organized at the request of Mr. Idriss Deby Itno, President of Chad and President of CEMAC's Conference of Heads of States. The meeting was an opportunity for an open and constructive discussion on progress and challenges ahead in the implementation of the regional strategy. It was agreed that efforts so far have averted a deeper crisis but that continued strong program implementation at the country level, together with the support of regional institutions will be required for the success of the strategy. The Managing Director welcomed the commitment of CEMAC authorities at all levels, under the leadership of CEMAC Heads of states, to strong policies and far-reaching reforms, critical to ensure success of IMF-supported programs in the short and medium terms.

9. ***Could staff comment on the challenges regarding the implementation of the governance reforms and the outlook for an IMF-supported program for Equatorial Guinea? Could staff elaborate further on the state of program discussions with the Republic of Congo, specifically regarding the restructuring of its bilateral debts?***

- Staff will respond to this question during the Board meeting.

10. ***Staff's baseline projection assumes that new IMF arrangements with Congo and Equatorial Guinea will be adopted during the first half of 2019. Can staff elaborate on the likelihood that the IMF arrangements will be adopted in this timeframe?***

- Staff will respond to this question during the Board meeting.

11. ***The June staff report stressed the need to strengthen the regional institutions' ability for close monitoring of economic developments in member countries. Could staff comment on the progress achieved in this direction?***

- Fund and BEAC staff have worked more closely over the past few months in monitoring these developments, with more frequent exchange of views and discussions of macro frameworks in between missions, and a greater participation of BEAC's staff to IMF country teams missions. More needs now to be done by the national authorities to directly provide the regional institutions with timely and high-frequency data, notably with regard to fiscal developments.

Policy Assurances

12. ***We would appreciate staff's comments on whether each of these issues are macro-critical for the CEMAC regional strategy, and if so, why they were not specifically addressed in the Letter of Support. Has there been consideration of adding the CEMAC Commission to the Letter of Support?***

- Staff will respond to this question during the Board meeting.

13. ***We had suggested in the previous CEMAC Board discussion that staff include a table summarizing past and present policy commitments (e.g., Table 13 in the December 2017 staff report). We strongly urge staff to include this table going forward. This presentation will help clearly articulate the specific commitments, both future and continuous, made by the BEAC and COBAC. Staff comments would be appreciated.***

- Regional policy assurances provided in June 2018 include the reform of the monetary policy operations framework, the revision of foreign exchange regulations and the path for NFA accumulation. The first two assurances are discussed in detail in the staff report and the follow-up letter of policy support, so staff did not see a need for a table to clarify their status further. Regarding NFA accumulation, it is presented in detail in Table 8 of the staff report. Staff will consider tabular presentation of regional policy assurances in the future if it sees the need.

14. ***We wonder whether our baseline scenario should assume that no program arrangement is achieved in the short term (basically, the downside scenario of Box 1) and start to revisit the regional strategy reflecting this possibility. Under this scenario, could staff provide insights on how the regional strategy would need to be adjusted to achieve its objectives?***

- Staff will respond to this question during the Board meeting

Fiscal Policy

15. ***We would appreciate staff views on the extent to which further fiscal consolidation would be possible.***

- The pace of fiscal consolidation efforts is projected to decline in the coming years, with the non-oil primary fiscal balance expected to improve by 2.8 percent of non-oil GDP in 2019-20, compared with 6.4 percent of non-oil GDP in 2017-18. A further strengthening of these efforts could be considered as part of the policy response to a new negative shock. This would require a greater focus on non-oil revenue mobilization. The magnitude of possible additional efforts and their contribution to the adjusted policy mix in response to a new shock should take into account its potential (and likely negative) impact on growth and social developments.

16. ***Could staff elaborate on the main features and the timeline of governments' plans to repay arrears, to be monitored by COBAC and BEAC?***

And

17. ***Could staff provide an indication on the level of arrears and the tentative timeline for their clearance?***

And

18. ***Could the staff provide more information on the process and the impacts of the reimbursement of government arrears?***

- The total stock of arrears for the entire region is estimated at about CFAF 3.6 trillion (7 percent of regional GDP). The national authorities plan to settle these arrears over different timeframes, also reflecting available fiscal space, ranging from 3 to 7 years. Audits on those arrears were completed in Cameroon, are at a very initial (or planning) stage in Equatorial Guinea and Congo, and in progress in the 3 other countries. Based on these plans, countries will settle these arrears only in cash (Chad and CAR), only in securities (Equatorial Guinea), or by a combination of both (Cameroon, Congo, and Gabon). Arrear repayments are fully reflected in the national budgets and the macroeconomic frameworks presented in the regional and program countries' staff reports. To facilitate monitoring by BEAC and COBAC, staff has shared with BEAC the information it had on member states' repayment plans. These plans will be updated once the audits are finalized.

- The repayment of CEMAC government's large domestic arrears will have an important impact in terms of non-oil growth and financial sector stability. It will help in particular to provide needed financial resources to private sector suppliers and contribute to reduce banks' NPLs.

19. ***Could staff share the views on potential impacts of increased haircuts on liquidity of private banks? We would also appreciate it if staff could elaborate more on the envisaged amendments in other areas.***

- Additional haircuts will limit bank's access to BEAC's liquidity. BEAC haircuts currently range from 12.5 to 27 percent depending on the assessed credit risk on sovereign issuers and on the maturity of the securities. The safeguard mechanism under discussion could foresee haircut add-ons, based on triggers related to the external reserves position of the entire region and of a particular country.

- Envisaged amendments to the BEAC Charter which are under discussion would relate to triggers and the corrective measures. With regard to triggers, they could include the introduction of national trigger(s) in addition to the existing regional one. In terms of possible corrective measures, these could include: (i) a reduction in the volume of

BEAC's refinancing or increase in absorptions operations and reserves requirements; (ii) additional haircuts on all eligible assets (public and private); and (iii) possible suspension of eligibility of a member states' securities to BEAC monetary policy operations (but not for ELA), if haircuts reach a certain level.

20. ***The risk assessment matrix proposes the development of the regional debt market to cover CEMAC members' financing needs. We invite staff comments on the potential and its impact on debt servicing considering existing arrears?***

- The development of a regional market to broaden the financing base is an important medium-term objective. The BEAC is working intensively to build the financial infrastructure to support efforts in this area, including the establishment of a credit registry and the registry of instances of payment delays. The merging of the two stock exchanges in Cameroon and Gabon into one regional stock exchange is also a step in this direction. Based on these efforts, a deeper regional debt market would at the same time support and benefit from reforms to expand the economic basis (through better mobilization of regional saving) and enhance the financial infrastructure (through a more diversified regional financial market).

21. ***Could staff comment on what the TA plans are on tax policy for the upcoming months? Are these efforts coordinated at the regional level?***

- TA missions on tax policy are currently scheduled in 2019 for Cameroon (mining taxation and oil taxation), CAR (streamlining and on-budgeting of parafiscal taxes), Congo (non-oil revenue mobilization) and Gabon (property taxation and on petroleum and mining taxation). TA will also be provided at the regional level, including to strengthen and harmonize VAT within the region.

Monetary Policy and Protecting Reserves

22. ***Given BEAC's commitment to support the exchange rate peg while helping rebuild an adequate international reserve buffer, we wonder if interest rates could be raised further to support the effort of rebuilding reserves in light of recent difficulties and surrounding uncertainties. Staff's comments are welcome.***

- BEAC's 55-bps increase of its policy rate appears adequate at this stage. In line with BEAC's mandate to ensure the external stability of the currency, it reaffirms BEAC's commitment to use all its policy instruments to support the rebuilding of an adequate reserve buffer while bringing the policy rate to a level consistent with measures of the region's risk premium. The BEAC should, however, remain vigilant and, consistent with its commitments, stand ready to increase its policy rate further as required to support the regional strategy, notably if some of the downside risks materialize.

23. ***Regarding the interbank market, could staff elaborate on factors that prevent highly liquid foreign-owned banks from lending to other banks. We would also like to know more detailed explanations on the eligibility criteria for access to its refinancing facilities.***

- Factors preventing highly liquid foreign-owned banks from lending to other banks include: (i) high counterparty credit risk; (ii) even in case of secured transactions, legal uncertainty and lengthiness of the procedure to exercise ownership and sale of a collateral; (iii) restrictive credit limits set by foreign group's risk management; and (iv) reluctance to provide liquidity to competitors.

- Currently, the eligibility criteria to access the refinancing facilities at BEAC are specified as follows: (i) compliance with the foreign exchange regulations; and (ii) fulfillment of all prudential and banking regulations. These criteria are currently subject to review by BEAC.

24. ***While agreeing with a further widening of the interest rate corridor could help incentivize them to engage in interbank transactions, we welcome staff's elaboration on the optimal range of corridor and the adjustment standard.***

- Reflection on the widening of the corridor is ongoing at BEAC. According to a study conducted over the period of 1994-2012, the optimal width of the standing facilities corridor based on the optimization of the aversion to short-term interest rates volatility and costs related to open market operations and standing facilities was estimated at around 600 bps. The current width of the corridor is at 525 bps (+175 bps / -350 bps) and could potentially be increased to 600 bps (+ 250 bps / - 350 bps) by increasing the marginal lending facility rate while keeping the marginal deposit facility unchanged. This would in turn reduce the corridor asymmetry.

- The adjustment could be based on: (i) the ratio of the volume of interbank transactions/volume of BEAC's refinancing; (ii) the number of new connections in the interbank market; and (iii) the volatility of short-term money market interest rate ; bearing in mind that the higher volatility is seen as the necessary price to pay for effective market activation for the moment and that the long term plan is to gradually narrow the corridor as the money market becomes more active and liquid.

25. ***In the context of the needed development of the interbank market, the focus on reducing excess liquidity before an effective liquidity management system is in place appears questionable as it may put banks with liquidity problems under additional stress. Could staff comment?***

- The focus on reducing the injection of liquidity, while the system is in surplus, is to promote monetary policy transmission and interbank development. This measure aims to push banks which are systematically resorting to BEAC's auctions to (i) seek interbank financing more forcefully and/or (ii) reduce their funding needs through balance sheet deleveraging or shareholders recapitalization and/or (iii) resort to the standing lending facility.

26. ***We wonder whether joining international treaties for exchange of financial data such as the Common Reporting Standards (CRS) could both enhance fiscal revenues and complement the FX regulations, by gathering information on forbidden deposits abroad held by CEMAC residents.***

- Staff considers that joining international treaties for exchange of financial data such as the CRS could indeed enhance fiscal revenues and complement the FX regulations. Staff considers that there is an urgent need to improve the compilation and dissemination of balance of payments (BOP) and international investment position (IIP) statistics. The BEAC together with the national authorities need to further strengthen external sector statistics and focus on strengthening information technology, improve accuracy and consistency with the BOP and IIP Manual, and overall coverage.

27. ***Could staff provide a realistic assessment on the implementation within the deadlines outlined for national authorities in para 21 keeping in mind the capacity constraints?***

- The measures discussed in paragraph 21 have been discussed and agreed with the authorities of the four countries implementing IMF-supported programs. The timeline, while ambitious, appears realistic, but will require solid political will.

28. ***It is also worth highlighting in this context that staff presents somewhat diverging rationales for the interest rate hike – on the one hand as part of the corrective measures taken to honor the assurances provided by the BEAC on net foreign assets, on the other hand as a necessary measure to achieve an adequate monetary policy stance, despite a relatively limited direct impact on net foreign assets. Comments by staff would be welcome.***

- As aforementioned, staff views the interest rate increase as an important re-affirmation of BEAC's commitment. If, in view of the currently weak monetary policy transmission, this increase may have a limited direct impact on credit and NFAs, it should help boost confidence in the regional strategy and thereby help avoid any further deterioration in the NFA performance. The decision was in line with

BEAC's mandate to ensure the external stability of the currency, and was taken in view of several developments, including the shortfall in NFA accumulation.

29. ***We encourage the BEAC to develop the interbank market to strengthen monetary policy transmission. Could staff clarify if technical assistance is being provided to the BEAC since the Table in the Informational Annex covers only the period 2011-2017?***

- An MCM resident technical assistance advisor on monetary operations is assisting the BEAC in developing a liquidity forecasting and liquidity management framework with the objective of enhancing monetary policy transmission, preserving financial sector stability, and fostering interbank market development, with financial support provided by the FIRST Initiative.

- Moreover, MCM has extended two technical assistance missions in fiscal year 2019 to BEAC: the first was on the review of foreign exchange regulations in collaboration with the legal department and the second one on central bank communication in collaboration with the communications department.

30. ***We note the strengthened enforcement of foreign exchange regulations in the context of the efforts by BEAC to address the underperformance on NFAs. Do the repatriation and surrender requirements have implications for member countries meeting their obligations under Article VIII, Section 2?***

- The foreign exchange repatriation and surrender requirements have not been assessed at this time to have impacted CEMAC members' compliance with their obligation under Article VIII, Section 2 to not restrict or unduly delay the making of payments and transfers for current international transactions without the Fund's prior approval. Fund staff however continues to monitor developments in the exchange system to assess consistency with the CEMAC members' obligations under Article VIII, Section 2.

External Sector and Competitiveness

31. ***In light of the principle that the use of CFMs should be temporary, could staff clarify conditions for lifting these CFMs?***

- At the current juncture, stricter enforcement of the repatriation and surrender requirements is crucial for building an adequate reserve buffer in the region. The transparent and consistent enforcement of CFMs together with a clear communication is also important in order to strengthen market participants' confidence in the regulatory framework. However, this should be 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.

32. ***Staff's comments are welcome on how exchange rate flexibility could be beneficial in this case.***

- During the regional consultation, the authorities reiterated the firm commitment, at the highest level, to maintain the peg at its current parity, indicating that they did not envisage any exchange rate flexibility. As explained in the staff report Appendix, the main factors contributing to a moderately weaker external position than implied by fundamentals and desirable policies are of structural nature.

33. ***Can staff comment on the extent to which this overvaluation is contributing to the difficulty in driving growth in non-oil related sectors of the region?***

- As reported in the external sector assessment, CEMAC's external position is estimated to be only moderately weaker than implied by fundamentals and desirable policy settings, with a moderate exchange rate overvaluation now estimated at 7-8½ percent. This overvaluation reflects in part the lack of diversification of the regions' economies, which contribute to the large non-oil current account deficit. The implementation of structural reforms aimed at boosting investment and diversifying the economy should contribute both to reducing the current account gap/exchange rate overvaluation and boosting growth.

Financial Sector

34. ***The COBAC's commitment on NPL reduction is not explicitly mentioned in the Letter of Support. Could staff share the views on adequacy of the policy assurance on NPL reduction by COBAC?***

- Staff does not see a need for a policy assurance from COBAC covering the NPL reduction, as an important driver of NPLs in the region are government arrears, which are under the control of national authorities. However, COBAC proactively started asking banks to formulate their approach to NPL reduction and will include overdue loans in its new risk-based supervisory approach.

35. ***The buff has mentioned that the banking commission welcomes Fund advice ensuring high expertise and independence of COBAC members; and enhancing the SGCOBAC's effectiveness, including through enhanced human capacity. We***

welcome staff comments on the capacity building programs ongoing and those proposed from the Fund for this.

- AFRITAC Central is supporting COBAC in several areas including with a long-term expert coordinating the development of risk-based supervision. The World Bank has a capacity development project with COBAC providing support in areas such as supervision, AML/CFT, deposit insurance, bank resolution and payment systems. Staff explicitly mentioned capacity needs to COBAC and BEAC management at the during the last mission. Capacity needs of COBAC have been concretely identified by SG-COBAC. COBAC and BEAC, which oversees COBAC's budget, are now discussing how these needs can be met.

36. ***The experience of resolving these two troubled banks highlighted the need to improve the process and execution time of bank resolution decisions. In this regard, could staff provide further information on the authorities' plan to strengthen the resolution framework, particularly for state owned banks?***

- The resolution framework was revised in 2014 and already provides for extended powers for the supervisor to resolve banks. Much is now in the hands of the supervisor and staff is encouraging COBAC to take the necessary decisions timely. On the other hand, it should be noted that COBAC took these two difficult decisions this year, which demonstrates their willingness to take action and duly apply the framework.

37. ***Given human resource and budget considerations, could staff share their views on the prioritization of SG-COBAC's ambitious reform plans?***

- Staff is working with COBAC in suggesting input to COBAC's strategic plan 2019-2021. Identified priorities include the development of risk-based supervision and tools, as well as the reduction of nonperforming loans, the timely resolution of ailing banks and the enforcement of the regulatory framework. COBAC is committed to reflect these priorities in the plan. AFRITAC Central also supported the SG COBAC in developing a detailed schedule of actions and trainings to move towards risk-based supervision. Finally, COBAC identified concrete capacity needs and discussions on these needs can be met have started between COBAC and BEAC.

38. ***More broadly, we would appreciate staff's assessment of whether BEAC's refinancing of commercial banks serves the strict purpose of monetary policy?***

- BEAC's refinancing has currently to take into account the segmentation of the interbank market, which means that it may have to provide more liquidity to illiquid banks than if these banks were able to mobilize more financing on the interbank market. To incentivize banks to trade on the interbank market, the BEAC intends to gradually reduces its liquidity injections. Once the interbank market matures, the refinancing auctions will then focus essentially on monetary policy objectives (i.e. ensuring that the interbank market remains close to the policy rate).

- With regard to the acceptance of bank's impaired assets as collateral, this has happened only once recently, owing in part to insufficient coordination between COBAC and BEAC. To avoid its recurrence, BEAC is currently considering reforms to the counterparty eligibility criteria to monetary operations. The BEAC could maintain counterparty eligibility for a grace period of maximum 6 months (during which the counterparty would be expected to raise its solvency ratio above the prudential minimum). After 6 months, the counterparty eligibility would be suspended and the bank would move to ELA.

Structural Reforms and Governance

39. ***We wonder whether a tool analogous to the Reform Delivery Tool mentioned in the last staff report on euro area policies could be feasible and provide adequate reform incentives in the CEMAC context. Could staff express a view on this?***

- The new reform delivery tool proposed by the European Commission aims at closely linking its financial support to member states to their implementation of reforms. Given that the CEMAC Commission is in no position to provide financing to member states currently, such a tool would seem to have little relevance for CEMAC at this stage.

40. ***Not least against the backdrop of the region's subdued GDP growth, we would appreciate if staff could provide numbers on GDP growth in per capita terms over the past years in order to get a more complete picture.***

See table below

CEMAC: GDP per capita growth
(in percent)

	2010	2011	2012	2013	2014	2015	2016	2017	Avg. 2011-17
CAR	1.1	1.3	2.1	-37.9	-0.9	2.8	2.5	2.3	-5.2
CMR	0.9	1.6	2.0	2.8	3.3	3.1	2.1	1.0	2.3
COG	6.1	0.9	1.3	0.8	4.2	0.1	-5.2	-5.5	-0.5
GAB	2.8	3.5	1.7	2.0	1.2	0.9	-0.1	-1.6	1.1
GNQ	-11.5	3.6	5.3	-6.8	-2.3	-11.5	-11.0	-5.7	-4.2
TCD	10.8	-2.3	6.2	3.2	4.3	-0.7	-8.7	-5.8	-0.7
CEMAC	-0.2	1.9	3.5	-0.6	2.0	-1.1	-2.9	-1.9	0.1

41. ***Could the staff elaborate on the potential and actual role of regional institutions in the combat of corruption?***

- We see an important role by regional institutions in strengthening governance in the use of public funds and thereby reducing the potential for corruption. As indicated in the accompanying Selected Issues Paper, work should focus on translating the system of CEMAC directives on public financial management into work practices and concrete check and balances. We see the need to start this process for enhancing transparency by implementing all requirements of CEMAC directives, which are very clear and of good standards, followed by ongoing publication and reconciliation of various budget execution reports, including in the extractive sector. The CEMAC Commission has a lead to steer work in this area, amidst capacity constraint. On AML/CFT, the CEMAC framework gives to the COBAC the key role of ensuring that credit institutions effectively implement their AML/CFT obligations, including key preventive measures that will help support anti-corruption efforts at the national level. The SIP offers many specific recommendations to improve the CEMAC and the COBAC's efforts in this area. At the same time, the national element will remain critical, for instance to ensure that financial crimes are investigated and prosecuted through a competent and efficient effective law enforcement and judicial system.