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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/100-1

2:30 p.m., December 13, 2019

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

Documents: EBS/19/105 and Correction 1; and Supplement 1

Staff: Toujas-Bernate AFR; Sommer, SPR

Length: 47 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	O. Odonye (AE), Temporary
M. Raghani (AF)	
	R. Morales (AG), Temporary
	C. White (AP)
	B. Saraiva (BR)
	Z. Huang (CC), Temporary
	A. Guerra (CE)
	A. McKiernan (CO)
	C. Just (EC)
H. de Villeroché (FF)	
	H. Koh (GR), Temporary
	P. Dhillon (IN), Temporary
	C. Quaglierini (IT), Temporary
	M. Shimada (JA), Temporary
	K. Osei-Yeboah (MD), Temporary
	F. Al-Kohlany (MI), Temporary
	J. Hanson (NE), Temporary
	J. Sigurgeirsson (NO)
	A. Tolstikov (RU), Temporary
	R. Alkhareif (SA)
	U. Latu (ST), Temporary
P. Inderbinen (SZ)	
	K. Nelson (UK), Temporary
	N. Shenai (US), Temporary

S. Bhatia, Acting Secretary
P. Cirillo, Summing Up Officer
L. Briamonte, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: M. de Zamaroczy, E. Gemayel, L. Lanci, E. Lautier, D. Owen, S. Rosa, J. Toujas-Bernate, Z. Zeidane. European Central Bank: K. Nikolaou. Finance Department: M. Albino Orjuela, G. Fernandez. Independent Evaluation Office: J. Wojnilower. Legal Department: J. Swanepoel. Monetary and Capital Markets Department: J. El Gemayel, I.

Gudbjartsdottir, J. Portier. Secretary's Department: P. Cirillo. Strategy, Policy, and Review Department: A. Ahuja, R. Green, F. Raei, M. Sommer. World Bank Group: N. Fiess. Executive Director: D. Fanizza (IT), R. von Kleist (GR). Alternate Executive Director: P. Rozan (FF), F. Sylla (AF). Senior Advisors to Executive Directors: Z. Abenoja (ST), L. Marek (EC), R. N'Sonde (AF), M. Sidi Bouna (AF), N.Thiruvenkadam (IN), G. Vasishtha (CO). Advisors to Executive Directors: A. Arevalo Arroyo (CE), S. Bah (AF), S. Belhaj (MD), D. Crane (US), T. Iona (AP), A. Korinthios (IT), M. Mulas (CE), E. Ondo Bile (AF), N. Vaikla (NO), A. Tola (SZ), E. Comolet (FF), J. Freeman (UK).

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 the CEMAC authorities, we express our appreciation to staff, Management and the Executive Board for the continued support to CEMAC countries and institutions notably in fending off the crisis triggered by the 2014-15 downfall of global oil prices and exacerbated by security challenges.

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Under the implementation of Fund-supported programs and pre-program adjustment efforts, significant progress has been achieved by member countries in fiscal consolidation and jump-starting growth, although significant work remains to be done on the structural front to strengthen resilience. These efforts, sustained by regional institutions policies, notably the regional central bank (BEAC), banking supervisory body (COBAC) and CEMAC Commission, have started to yield appreciable results as evidenced in the gradual restoration of macroeconomic stability and rebuilding of external reserves. In addition, the solidary nature of the regional strategy to exit the crisis has advanced, with entry into IMF-supported program of Congo last July and positive prospects for a program for Equatorial Guinea by year-end.

Going forward, the CEMAC authorities intend to pursue their adjustment and reform agenda at both national and regional levels. They are cognizant that recent performance remains fragile considering the global uncertainties and elevated downside risks. Against this backdrop, the Second Tripartite discussions held in Yaoundé on October 2nd, 2019, issued recommendations to stay the course with the regional strategy and take corrective measures as needed.

Encouraged by the progress made thus far and aware that the sub-region is at a cross-roads, CEMAC Heads of State and government, in their Extraordinary Summit of November 22, 2019 held in Yaoundé, have reiterated their firm commitment to maintain the reform momentum in a collective and solidary manner, with a view to reinforce macroeconomic stability, boost growth and strengthen the external viability of the monetary and economic union.

Recent Developments and Prospects

While economic activity has remained below pre-crisis levels, overall regional growth has increased to reach 2.5 percent in 2018, with non-oil growth standing at 1.8 percent. The somewhat subdued activity is attributable to fiscal consolidation—which has been geared in large part towards investment reduction—the impact of domestic arrears on private sector activity, and security problems in some countries. Growth is expected to remain at this level in 2019 with however a pick-up in non-oil growth. Inflation which rose to 3 percent on the back of food supply shocks in some countries and price adjustments to reduce subsidies, decelerated to below 2 percent (y-o-y) at end June and should remain subdued at year-end.

CEMAC countries have pursued strong fiscal adjustment efforts throughout 2019. Indeed, in the first half of 2019, fiscal deficit targets have been met thanks to some progress made in revenue mobilization—albeit below expectations—and strong expenditure reduction. Non-oil fiscal deficit as a percentage of non-oil GDP continues to decline, albeit difficulties in some countries which have been promptly corrected. The overall fiscal deficit is also anticipated to improve by around 1 percent of GDP, in line with projections, to reach a position close to balance. These fiscal policy efforts have helped bring the regional public debt-to-GDP ratio down to slightly below 50 percent.

BEAC has continued a tight monetary policy stance since its decision in October 2018 to increase its policy rate by 55 basis point, with a view to sustain the accumulation of external reserves The Monetary Policy Committee maintained the rate at 3.5 percent at its November 2019 meeting. The central bank adopted a gradual approach to reducing liquidity injections even though excessive liquidity in the banking sector could not be significantly lowered owing to autonomous factors and very prudent lending practices on the part of banks. This gradual approach has nevertheless pushed the weighted average auction rate up and improved banks' use of the marginal lending facility.

External current account deficits have continued to improve to 2.6 percent of GDP in 2018 against 4.6 percent in 2017 and should further decrease in 2019. Gross reserves have accumulated to a level covering 3.3 months of imports of goods and services, on the back of the restrictive macroeconomic policy mix, enhanced enforcement of foreign exchange regulations, and relatively stable oil prices.

BEAC and COBAC have met all their policy assurances provided in June 2019 in support of CEMAC country programs, notably: (i) the implementation of the enhanced foreign exchange regulations; (ii) the implementation of tight monetary policy; (iii) continued modernization of the monetary policy operational framework, with a new framework for private claims accepted as collateral in refinancing operations and the recently-adopted regulation setting a sanction framework for BEAC's counterparties; and (iv) the achievement of the June 2019 regional target on net foreign assets (NFAs), which has been largely exceeded.

Pursuing the Regional Strategy

Looking forward, the medium-term outlook in CEMAC remains favorable, with notably: (i) growth expected to reach 3.5 percent in 2020 and 2021, pulled by non-oil activity; (ii) inflation projected to remain below the 3-percent convergence threshold over the medium term; (iii) a gradual decline in public debt-to-GDP ratios to reach an anticipated regional average below 40 percent by 2023; (iv) a narrowing of external imbalances slightly deteriorating on the grounds of reduced oil export receipts and increased imports in line with non-oil GDP growth; and (v) steady increase in regional NFAs and reserves, which would attain 5 months of import coverage by 2022.

Our CEMAC authorities are mindful of the fact that these positive prospects are predicated on member countries' staying the course with their program objectives, especially the pursuit of reductions in the non-oil primary fiscal deficits notably through non-oil revenue mobilization; the progressive repayment of domestic arrears and improvements in governance and the business climate to foster confidence and support non-oil activity; and strict enforcement of foreign exchange regulations. Support to balance-of-payments needs under Fund-supported programs and budgetary assistance by other development partners will also carry weight.

At the country level, our authorities commit to: (i) adhere to non-oil budget targets under their respective Fund-supported programs; (ii) accelerate the audits of the stock of public arrears and set up strategies to reduce these arrears; (iii) maintain efforts to achieve a prompt and regular repatriation of commodity export earnings and assets held abroad by state-owned enterprises; and (iv) support BEAC's implementation of the new foreign exchange regulation, notably through the transmission of mining and oil production contracts to the central bank.

At the regional level, BEAC is committed to preserve a tight monetary policy stance to support reserves accumulation and contain inflation to ensure the currency's internal and external stability. It will also issue by the end of the year additional guidelines to revise eligibility criteria for accessing money market operation and define its own intervention procedures. Regarding liquidity management, the central bank will continue to favor a gradual reduction of liquidity injections and will conduct initially small absorption operations in January 2020. It stands ready to recalibrate absorption instruments after evaluating the initial feedback of absorption operations and the effect of the single treasury account reform in some member countries which are expected to reduce excess liquidity in banks.

As stated in the BEAC's Follow Up to the Letter of Support to the Recovery and Reform Program Undertaken by the CEMAC Member Countries (Appendix I to the staff report), the central bank has issued specific measures to operationalize the enhanced foreign exchange regulations and will continue its outreach efforts to promote its smooth implementation. In particular, consultation meetings are being held with operators in the extractive sectors in the six countries to explain the regulation and will continue dialogue as needed. In addition to transmission of mining and oil contracts, BEAC is also requiring member countries to revise their national regulations as necessary to align them with the regional regulations.

In spite of a stabilization in the quality of banks' portfolio, non-performing loans (NPLs) remain a source of concern in CEMAC. In addition, the solvency and liquidity ratios of banks have deteriorated somewhat since end 2018. Against this backdrop, the regional banking commission COBAC views risk-based supervision as essential to ensuring financial stability. The Secretariat General of COBAC (SG-COBAC) has defined its priority actions for the coming months, which are embedded in its 2019-2021 strategic plan and centered around overhauling processes and tools to implement such a modern supervision, modernizing prudential norms and stepping up efforts against money laundering and terrorism financing. The SG-COBAC is addressing head-on NPLs and promoting the repair of banks' balance sheets by notably requiring troubled banks to submit an NPL reduction plan and continuing to prepare the transition to Basel II/III and IFRS standards.

The regional development bank (BDEAC) underscored efforts in its improving governance and advancing internal control reforms, including the operationalization of the audit committee. This progress should contribute to strengthening its financial health and reinforce its financial independence vis-à-vis central bank.

The CEMAC Commission puts value in strengthening its regional surveillance framework notably to ameliorate member states' compliance with convergence criteria, and, in this connection, it is requiring member countries to submit a triennial convergence program and credible domestic arrears clearance plans by end-2019. It is also elaborating a binding sanction scheme applicable in cases of breach of norms, which first draft could be ready in early 2020, In addition, an early warning tool to detect macroeconomic imbalances in a promptly manner is in preparation, with the assistance of World Bank and IMF.

The regional authorities consider bolstering economic diversification and regional integration as critical to enhance resilience and sustain growth. The regional reform program (PREF-CEMAC) envisions a strict compliance of extractive industries with the regional directives on transparency and measures to improve the business environment. The CEMAC Commission appreciate the reform priorities discussed with staff, notably pertaining to governance, the business climate, the contribution of the financial sector to private sector development and financial inclusion, regional taxation and internal barriers to trade.

Conclusion

Our CEMAC authorities remain committed to the regional strategy to exit the crisis. This strategy, which is fully supported by the Fund and other partners has started to bear fruit. The authorities have provided new policy assurances to support member states' actions to strengthen macroeconomic stability and the stability of the currency union. They appreciate Fund's continued support to all member countries of CEMAC and continue to stress the importance of timely disbursements of budget assistance committed by other external partners.

Mr. Alkhareif, Mr. Chikada, Mr. Keshava and Mr. Shimada submitted the following statement:

We thank staff for their comprehensive report and Mr. Raghani and Mr. N'Sonde for their informative buff statement. While the regional strategy has helped to avert a deeper 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. As staff rightly points out, the CEMAC is at a crossroad to consolidate progress and put its adjustment efforts on a sustainable path, hence further efforts are needed. As we broadly agree with the staff appraisal, we would limit our comments to the following points for emphasis.

We support the BEAC's policy stance to focus on external stability and welcome the increase in reserve coverage. We, however, take note that the level of reserves remains below the target for a resource-rich currency union, and BEAC needs to stand ready to tighten monetary policy further in case pressures on external reserves emerge or inflation rises strongly. We also concur with the staff for recommending BEAC to sterilize the excess liquidity as it could potentially represent a risk for external stability and inflation, while we understand the BEAC's prudent stance against sterilization given its potential cost. In this regard, could staff elaborate more on how BEAC could mitigate the cost generated from sterilization to avoid additional capitalization?

We commend BEAC's efforts to execute the foreign exchange regulations effectively with a thorough communication with various stakeholders. At the same time, as new FX regulations are categorized as capital flow management measures (CFMs), it is important to clarify the conditions which would enable the authorities to remove the regulations. We welcome staff's comments on this issue.

Banking sector needs to be strengthened through risk-based supervision by COBAC. Given the fact that NPLs which are mainly caused by government-related arrears prevent banks to finance the private sector, we concur with staff that COBAC needs to gather detailed data on these NPLs to promote NPL reduction. It is also important to establish effective scheme to resolve problem banks. In this context, we encourage the CEMAC countries' authorities to follow through on COBAC decisions. We also welcome the development of regional financial markets, which could improve the banking sector.

Regional institutions need to play an important role in addressing many constraints and supporting efforts by CEMAC national authorities based on the regional strategy. We welcome that regional and national authorities reiterated their commitment to the regional strategy and close cooperation with development partners including the Fund at the second CEMAC Tripartite Meeting. Regional-wide problems such as poor governance and adverse business climate should be addressed under the regional strategy to achieve inclusive growth. Given the fact that all CEMAC countries have or will have Fund programs and some of them do not have good track record of policy implementation, the role of regional institutions and cooperation between the Fund and these institutions as well as well-tailored Fund programs are important. In this connection, we welcome the progress made by the CEMAC Commission in its preparatory work to strengthen the regional surveillance framework. At the same time, we note with concern institutional capacity limitations of COBAC and BEAC due to budget constraints and understaffing. Could staff elaborate on how the regional institutions could address these constraints, considering possible Fund capacity building support for them?

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

We thank Mr. Raghani and Mr. N'Sonde for their helpful buff statement and staff for a well-written paper. We concur with the staff's appraisal that it is key to continue reducing CEMAC's external imbalances, strengthening domestic buffers, fostering economic growth and diversifying economic systems, particularly by improving the business climate, buttressing governance frameworks and improving the public budget transparency. We would like to add the following points.

Foreign exchange reserves should continue to rise. We welcome the recent rise and encourage the authorities to do more to achieve the reserve adequacy level for commodity-exporting countries (i.e. 5 months of imports). We agree with the importance of an effective implementation of the foreign exchange regulations.

On the issue of the foreign exchange regulations and their implementation for extractive industries, we encourage the BEAC and the oil companies to continue to consult to find a solution that could avoid possible adverse impact of these regulations on foreign investment decisions in the region.

Fiscal policy adjustment should proceed, but become more growth-friendly by relying more on non-oil revenue mobilization. While continuing with consolidation efforts, we support staff's view that non-oil revenues should rise to create space for capital expenditures and priority social spending. It is key to continue reducing government arrears and to improve public budget's transparency and accountability. This would also benefit the quality of banks' portfolios by helping to reduce the share of NPLs on total loans.

Fostering the development of the non-oil economy and the diversification of the economy is crucial to improve the medium-term prospects of the area. Given the moderate outlook ahead, we consider paramount that the authorities focus their efforts in improving the business climate and reinforcing the governance frameworks, including AML regulations, which seem to lag behind peers. Moreover, we believe it is essential removing the barriers to internal trade and to favor the simplification of business procedures while increasing their predictability.

On the CEMAC surveillance, we welcome the preparatory work of the CEMAC Commission to improve the effectiveness of its surveillance and underscore the importance of presenting the Convergence Reports timely together with adequate economic data. We look forward to future developments in this sector.

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

We thank staff for informative report and Mr. Raghani and Mr. N'Sonde for their useful buff statement. We welcome the CEMAC authorities' commitment to the regional strategy, which has stabilized the regional economic situation, reduced external imbalances, and helped to start rebuilding gross reserves. We also appreciate the strong fiscal adjustment efforts this year, which have enabled to meet fiscal deficit targets. Despite these positive developments, we note that the situation in CEMAC countries is still fragile as downward risks are significant, implementation of structural reforms has been weak, and economic growth remains sluggish. We support the CEMAC regional strategy and emphasize that policy implementation at the country level is key for the success of the strategy. We therefore urge the CEMAC members to strictly adhere to their respective IMF-supported program objectives, meet their non-oil fiscal consolidation targets, resolve government arrears, and improve governance to lay ground for sustainable economic growth. We broadly share staff's appraisal and offer the following comments for emphasis.

Maintaining a tight monetary policy stance is required to support the accumulation of external reserves. While the external reserves have gradually picked-up, we note that they are still relatively low to cushion external risks. We also note that the banking sector has large excess liquidity, which limits the effectiveness of monetary policy transmission. We concur with staff that the BEAC needs to closely monitor domestic and external economic developments and be ready to tighten the monetary policy stance to contain inflation and safeguard external reserves.

We welcome COBAC progress on the implementation of risk-based supervision. The implementation of the strategic plan is necessary to strengthen bank regulatory compliance, AML/CFT supervision, and to strengthen the financial system. We note that further action is needed by COBAC to lower bank high NPLs and to capitalize the significant number of weak banks. We also note that COBAC is significantly understaffed, which severely limits its institutional capacity. Therefore, we urge the BEAC to consider allocating additional resources to COBAC to enable it to address critical outstanding issues in member country financial sectors.

We welcome the BEAC's efforts to enforce the foreign exchange regulations, which resulted in an increase in external reserves earlier this year. We agree with staff that simpler rules are welcome to ensure adequate repatriation and to more strictly implement the foreign exchange regulations. We encourage the BEAC to continue dialogue with oil and mining companies to ensure their compliance with forex repatriation and surrendering requirements.

Strengthening governance and enhancing the business climate are vital to ensure sustained and more inclusive growth. We note that the governance indicators in CEMAC countries are one of the lowest in continent, which raises corruption risk, leads to poor management of public funds, and affects business climate. We fully agree with staff that regional institutions play a crucial role in supporting CEMAC national authorities in their efforts to strengthen governance and improve the business climate. We thereby urge the CEMAC Commission to consider policy actions on how to improve governance in their member countries.

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

Staff's characterization broadly aligns with our perspectives on CEMAC. We are comforted that following Fund advice, the authorities managed to prevent a deeper economic crisis and many member countries are steadily restoring macroeconomic stability and rebuilding external reserves. However, CEMAC's growth prospects are still weighed down by less-than-expected external buffers, weaknesses in structural reforms and an enduring security challenge. Given these outcomes, we urge the regional authorities to intensify policy actions to strengthening the external position and resolving development challenges in key areas, including enhancing governance, improving the business environment, promoting peaceful dialogue, and engendering economic diversification and inclusive growth.

We worry that public investment has disproportionately borne the weight of recent fiscal consolidation efforts. While we support the authorities' efforts aimed at ensuring sound fiscal health, we think such efforts should strike a balance between revenue mobilization and expenditure optimization. In the case of CEMAC, the disproportionate cuts in public investment seem to have adversely affected growth, which may in turn, make future consolidation unavoidable. Given that consultation with the authorities occur quite frequently, could staff comment on previous Fund advice regarding the composition of fiscal consolidation? As emphasized in the insightful buff Statement by Mr. Raghani and Mr. N'Sonde, we encourage CEMAC authorities to expand their fiscal consolidations through widening the revenue base, streamlining exemptions, strengthening non-oil revenue, improving tax and customs administration, and implementing well-managed government arrears repayment plans. We also urge the national authorities in Cameroon and Gabon to intensify efforts to address fiscal slippages that resurfaced in early 2019. While welcoming the latest three-year Extended Credit Facility arrangement approved with the Republic of DRC, we look forward to commencing new programs with Central Africa Republic and Equatorial Guinea before end-2019.

We are delighted with the progress made by relevant institutions in implementing the 2018 regional surveillance recommendations. Following these reforms, gross external reserves recovered, in the context of the BEAC's tightened monetary policy stance, renewed vigilance and rigorous enforcement of regional foreign exchange regulations, with collaborative oversight of COBAC. Despite these gains, we think BEAC still needs an enhancement of its liquidity allocation and we urge the Bank to adhere to advice from Fund staff on this matter. We think too that BEAC's focus on the new strategic plan spanning 2019–2021, which aims to drive future reforms and strengthen risk-based supervision is appropriate but needs to be more wide-ranging and forceful in order to resolve lingering issues with small insolvent banks.

In order to strengthen the financial sector, more urgency is needed to adopt comprehensive risk-based supervision. We note that banking sector liquidity remains high fueled by increase in the repatriation and surrendering of forex. The recent indicators of financial soundness significantly weakened, with both solvency and liquidity ratios declining from 19 percent and 164 percent at end-2018, to 18 percent and 145 percent, respectively, at end-September 2019. The ratio of overdue loans is a worrisome 22 percent at end-September 2019. Given all these, we believe the authorities need to act with urgency in adopting comprehensive risk-based supervision and implementing COBAC's new strategic plan, which aims to guide future reforms and strengthen oversight. Lastly, we look forward to completion and implementation of the early warning system, including immediate enforcement of the sanction mechanism for countries that are noncompliant with the regional convergence framework.

Mr. Rosen, Mr. Farber and Mr. Shenai submitted the following statement:

We thank staff for their well-written staff report and Mr. Raghani for his helpful buff statement.

The CEMAC strategy, adopted in the wake of the oil price shock of 2014-16, is paying dividends. The regional financial position is improving, while strong policy commitments, including those made during the Second Tripartite discussions, have helped to anchor expectations and provide a roadmap for future reforms. Fund engagement has averted a deeper crisis. Still, we are concerned that lingering vulnerabilities may derail hard-won gains. Non-oil growth continues to lag, and further reforms are urgently needed to facilitate structural transformation, enhance macroeconomic governance, and safeguard the recovery.

Fiscal policy: We welcome improvements in headline fiscal performance, which have helped reduce debt vulnerabilities and the region's twin deficits amid a significant decline in oil-related fiscal revenue. That said, as the staff report makes clear, consolidation has focused on reduced capital expenditure, which may drag on future potential growth and exacerbate the infrastructure deficit. Worryingly, the stock of government arrears remains high, further damaging the business climate and the health of the region's financial institutions. Staff's suggestion for the regional authorities to play a role in advising national governments in their arrears clearance strategy seems sensible, though we wonder about the burden of an additional technical mandate for the regional authorities given capacity constraints. Can staff provide an update on the arrears clearance strategy, including timing, and on how such a strategy would interact with national authorities' plans, including under their IMF programs?

Monetary policy: Tight monetary policy is key to rebuilding buffers and anchoring the fixed exchange rate amid terms of trade shocks, though further steps are needed to enhance transmission. We echo staff's views that the high level of excess liquidity in the banking sector can weaken the transmission mechanism and pose inflation risks. While we are sensitive to the authorities' concerns about sterilization costs, we believe that measures to address the liquidity overhang, including via higher reserve requirements and issuances of certificates of deposit by BEAC, may be warranted. We believe that the balance of risks may favor a faster approach than currently planned.

Foreign exchange regulations: We recognize that BEAC's repatriation and surrender requirements are needed to help address the region's low reserves, and that all companies benefit from price stability and a regional central bank with adequate external liquidity buffers. We note the BEAC's extension of the delay in applying the regulation to the oil, gas, and mining sectors until December 2020. We welcome the authorities' commitment to enhanced technical consultations during this period to find a path forward on the application of the regulation in the oil, gas, and mining sectors. More broadly, we urge continued improvements in communication and implementation procedures to mitigate potential adverse business climate impacts in the region due to the foreign exchange regulation. While the implementation delay is understandable, we wonder if it may drag on BEAC's NFA accumulation. Does staff have an estimate on potentially foregone foreign exchange reserves due to the delay in implementation for the oil, gas, and mining sectors to December 2020? Could staff provide an update on the status of consultations, including whether extractive industry companies have shared their contracts with the regional authorities, in line with the November 2019 circular?

Financial sector: We view financial sector development, reform, and enhanced supervision as macro-critical given the region's goal of economic diversification. We remain concerned about staffing gaps at COBAC, which staff rightly identify as a bottleneck for launching new initiatives and analyses. Planned measures to enhance financial transparency and credit quality, including the credit register and NPL strategies, can help address financial sector vulnerabilities. We strongly agree with staff that BEAC financing of the BDEAC is inadvisable and urge the region's authorities to focus on business climate improvements to attract private sector investment to help fill the regional infrastructure gap. We also welcome planned steps to enhance the regional surveillance framework, including via the EWT and convergence reports, and urge all CEMAC members to transmit their convergence plans swiftly.

External sector and structural reforms: At this juncture, sustained structural reforms—at both the regional and national level—are urgently needed. Given the fixed exchange rate and monetary union, the CEMAC countries must rely on business climate improvements and governance enhancements to boost external competitiveness. Fiscal and monetary consolidation can help address macroeconomic vulnerabilities, but complementary reforms to factor and product markets, as well as improved governance, are necessary to facilitate structural transformation of these oil-dependent economies. As staff notes, performance under the IMF programs has been mixed and key structural reforms have not been implemented. As a result, the CEMAC countries remain overly dependent on the oil industry for external and fiscal sustainability and economic growth.

We wish the regional and national authorities well in their reform efforts.

Mr. Tan, Mr. White, Mr. Iona, Mr. Kikiolo and Ms. Latu submitted the following joint statement:

We thank staff for the comprehensive report and Mr. Raghani and Mr. N’Sonde for the helpful buff statement. The regional strategy continues to be instrumental in stabilizing the economic situation and preventing a deeper crisis. Fiscal and external current account imbalances have reduced while external reserves have improved. However, a lot remains to be done in achieving higher, more diversified and inclusive growth. Strong commitments by member countries towards the regional strategy and individual programs will be needed in the context of a possible significant slowdown in global growth and decline in oil prices and the projected slowdown in oil production over the medium-term. We agree with staff on the critical role of regional institutions in supporting individual countries to overcome governance and business climate constraints and pursue pro-growth policies, and thereby restore the region’s internal and external stability.

We note that despite progress in macroeconomic adjustment over the past years, growth has remained stubbornly low. To date regional fiscal consolidation efforts have been successful in addressing CEMAC’s twin deficits, supported mainly by increased revenue in the oil sector and reductions in public investments. The latter is putting downward pressures on growth while lower social spending compared to targets is likely to affect the poorest the most. Noting the volatile nature of natural resource-based windfall revenues, we agree with staff that the fiscal adjustment strategy at the country level needs to focus on non-oil revenue mobilization. This will help create additional fiscal space to finance priority social spending and growth-friendly investments, as well as to pay down the large domestic government arrears that is weighing on both economic activities and financial stability. Such a move would entail aggressive efforts on streamlining exemptions and improving the efficiency of tax and customs administration. To this end, CEMAC Commission's efforts in guiding the implementation of the revised Tax Directives, Public Finance Directives and the revised Customs Code are vital.

We are encouraged by the authorities' commitment to pursue credible strategies for reducing legacy domestic arrears which has been a drag on growth and financial soundness. We note positively the pledge by the authorities in the recent CEMAC Tripartite Meeting to validate government arrears through audits and define a credible arrears clearance strategy that would be strictly adhered to by individual countries. Can staff please provide an update on the progress of audits and repayment plans?

Higher diversified growth will be further supported by reforms to enhance governance and improve the business environment. CEMAC countries underperformed against comparable countries in doing business and governance indicators according to the staff report. In this regard, we join staff in encouraging the authorities to step up efforts in the pursuit of structural reforms that enhance governance and the business climate to support macroeconomic stability. Improved transparency in the area of natural resource-based revenue management will also bolster revenue mobilization efforts.

Strong commitment from the regional bodies remains critical to the success of the regional strategy. We welcome the tight monetary policy stance BEAC is undertaking, in addition to the initiatives to support external stability such as enhancing the effectiveness of the implementation of the foreign exchange regulations, and efforts by COBAC to strengthen regulatory and supervisory frameworks. We urge national authorities to support the regional bodies to address non-performing loans and problem banks. Banks' excess liquidity remains a concern and we note differences in the speed in which staff and the authorities want to sterilize liquidity with staff preferring a swifter move as opposed to the authorities' very gradual approach. We invite staff to comment on the entailed sterilization costs within the budget constraints at BEAC and BEAC's shareholders' inability to recapitalize BEAC in the near term. Understaffing at COBAC is a major hindrance to the organization's ability to effectively discharge its supervisory duties and it is imperative that BEAC and COBAC address this issue soon.

Mr. Geadah and Ms. Al-Riffai submitted the following statement:

We welcome the well-coordinated regional response to the collapse in oil prices in 2015, complemented by external financing, which achieved significant reductions in fiscal and external imbalances. Nonetheless, continued efforts will be required to safeguard debt sustainability, the external position, and achieve more diversified and inclusive growth.

There has been a demonstrated commitment to continuing fiscal consolidation policies in CEMAC countries. We positively note the regional consensus around ensuring that budget implementation is in line with the fiscal consolidation strategy. To that end, further improvements in domestic revenue mobilization would help achieve the fiscal adjustment objectives without undermining much needed development spending.

The implementation of a well-managed plan for clearing government arrears is important. Estimated at six percent of CEMAC's GDP, these legacy arrears have weakened private sector activity, raised borrowing needs, increased NPLs, and impaired the banking system's willingness to extend credit. We positively note the lack of new government arrears accumulation and are reassured that the regional authorities intend to prioritize arrears clearance and see it as crucial to reviving growth, instilling confidence in the economy, improving banks' balance sheets, and re-establishing the credibility of the relevant governments as reliable payors.

BEAC has appropriately maintained a tight monetary policy and continues to modernize the monetary policy framework. Though currently there is an absence of inflationary pressures and strains on external reserves, excess liquidity can weaken monetary policy transmission, exert inflationary pressures, and place a burden on external reserves in the future. We commend BEAC's adoption of new regulations to contain the dependency of banks on BEAC refinancing, and see merit in staff's recommendation for avoiding financing agreements with BDEAC In the future. We positively note the efforts made in enhancing financial transparency which would have positive impacts on the development of credit and money markets. We thus see merit in staff's recommendation that COBAC explores the possibility of establishing a minimum standard of financial disclosure to foster market discipline and facilitate the development of the interbank market. The issuance by BEAC of liquidity absorbing instruments, such as certificates of deposits, could enhance the secure interbank market and help reduce its fragmentation.

BEAC is proceeding with full implementation of its foreign exchange regulations. We commend their wide outreach to stakeholders to clarify the procedures and requirements under the new regulation. We note the concerns expressed by the oil and mining companies on how the new regulation would adversely affect their operations and investment decisions, and also note that they have been reluctant to share their contracts with BEAC. We therefore see merit in BEAC's plans to hire experts to assist with these consultations and look forward to the ultimate sharing of the oil contracts with BEAC, as required by IMF supported programs.

Promoting inclusive growth is a major objective and improving governance and the business climate are pathways to achieve that objective. Especially pertinent, we find that enhancing the transparency and accountability of the management of petroleum resources, an obligation under the CEMAC guidelines on public financial management, would greatly contribute to revenue mobilization needed to tackle priority and infrastructure needs.

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

We thank Mr. Raghani and Mr. N'Sonde for their insightful buff statement and staff for their comprehensive report. We welcome the progress that has been made in implementing required policies by member states and regional institutions. These efforts have contributed to a stabilization in CEMAC's economic situation and a pickup in external reserves. Nevertheless, significant challenges remain which call for further progress in pursuing adjustment and reform agendas at both the national and regional levels. We share staff's assessment of the balance of risks being tilted to the downside and encourage staff and the authorities to monitor developments closely and take corrective measures as needed.

Implementation of policy commitments by all member states is crucial for the success of the regional strategy and the achievement of internal and external stability. We welcome the authorities' continued commitment to stay the course with the regional strategy as signaled at the second CEMAC Tripartite Meeting. Annex IV provides a helpful overview of the policy commitments made by member states, BEAC, COBAC and the CEMAC Commission. Future Tripartite discussions can help enhance coordination among institutions and facilitate discussion of policy responses in case of emerging risks or weak program implementation. Likewise, strong ownership at both regional and national levels is crucial for the success of programs in member countries.

Efforts to promote sustained and more inclusive growth should be a key priority. Growth in the non-oil sector has been constrained by poor governance, difficult business climate, an under-developed financial sector and barriers to regional trade. Regional institutions can play an important role in addressing these issues. We strongly encourage full implementation of CEMAC's public financial management framework, including provisions on budgetary transparency.

Strengthening the financial sector to promote private sector development and financial inclusion will also be important. The authorities should continue to make progress on addressing financial vulnerabilities in the CEMAC region. BEAC's recent initiatives to enhance financial transparency should contribute to further development of credit and money markets. We also take positive note of COBAC's progress on its 2019–21 strategic plan to strengthen the implementation of risk-based supervision. The measures planned to monitor reduction in banks' non-performing loans (NPLs) and strengthen compliance with AML/CFT and FX regulations should help in dealing with financial stability risks. That said, the legacy of government arrears and their impact on NPLs remain a concern.

Finally, we welcome the CEMAC Commission's initiatives to enhance the regional surveillance framework. It will be important to undertake efforts to enhance compliance with the regional convergence criteria. However, we note that budget constraints and understaffing at BEAC and COBAC are constraining the capacity of these institutions to launch new initiatives and undertake analysis, something that needs to be addressed in a timely manner.

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

We thank staff for the report and Mr. Raghani and Mr. N'Sonde for their insightful buff statement. The outlook for the CEMAC has improved, thanks to a broadly satisfactory implementation of the IMF-supported programs by member countries, higher oil receipts, and stricter implementation of forex regulations. At the same time, non-oil economic activity has been slow in gaining momentum, and downside risks remain substantial. In this context, the national authorities' continued commitment to the regional strategy and to their respective program objectives is essential. The policy commitments of the second Tripartite Meeting are promising in this regard.

Fiscal consolidation remains a key element to increase resilience. While the consolidation effort has been significant thus far, and targets were generally met, adjustment has mainly been based on the reduction of spending. Conversely, little progress has been made in increasing non-oil fiscal revenues. Social spending and public investment remain important elements to create the basis for a productive and competitive non-oil sector. Hence, it remains critical to move beyond one-off spending cuts and to broaden the revenue base.

Reducing excess liquidity remains key to ensure effective monetary policy transmission. The tight monetary stance remains a central pillar of external reserve accumulation. BEAC's monetary policy stance remains adequate, but the absorption of excess liquidity in the banking sector is necessary to strengthen the transmission mechanism. In this regard, we welcome the commitment to a neutral liquidity allocation and the start of liquidity absorption in January 2020, as laid out in BEAC's support letter.

We welcome the progress with the enforcement of foreign exchange regulations. The regional NFA objective for June was exceeded, and that of end-2019 is also set to be surpassed. This has helped to rebuild reserve buffers. However, reserve coverage remains well below the 2012-2015 period, and it would be incautious to expect a sustained large contribution from foreign exchange repatriation, considering the volatility of oil prices. Are the current regulations to repatriate and surrender foreign reserves the first-best way to ensure the build-up of reserves; would potential open market purchases by BEAC be preferable, and also more conducive to the region's private sector and its attractiveness for foreign direct investment?

We welcome the efforts to strengthen the regional surveillance framework. Regional convergence remains challenging, highlighting the need for enhanced enforcement power at the union level. Furthermore, while we see merit in the work initiated by the CEMAC Commission, we wonder whether a mechanism based on pecuniary incentives rather than sanctions would be more conducive to enhanced compliance. Could staff comment?

Addressing the high stock of NPLs should be a matter of priority. We welcome the efforts by the SG-COBAC to facilitate the reduction of the NPL stock. In this regard, we concur with staff that additional work may be useful to create a solid analytical basis to help inform decisions on arrears' clearance plans and their impact on the overall stock of NPLs, financial sector stability, and economic activity. Given ongoing difficulties to resolve ailing banks in the region, we call for more specific measures to be included in BEAC's support letter. Staff's comments would be welcome.

Progress with structural reforms is necessary to boost economic diversification and put growth on a solid footing. It is important to address impediments to growth in the non-oil sector, such as the unfavorable business climate, weak governance, and the large government arrears. Success in these areas will hinge on strict implementation of IMF-supported programs by CEMAC member countries, but the regional authorities could take a more active role in supporting efforts by national authorities. For instance, more could be done to improve the sharing of operating conditions governing oil concessions, which is an obligation under in the CEMAC guidelines on PFM.

Mr. Mojarrad and Mr. Osei Yeboah submitted the following statement:

We thank staff for a well-written report and Messrs. Raghani and N'Sonde for their insightful buff statement.

The coordinated regional response by CEMAC countries and institutions to the collapse in oil prices in 2015 has helped strengthen the region's macroeconomic stability. The recent tripartite meeting of regional and national authorities reiterated firm commitment to fiscal consolidation, arrears clearance, and continued strong engagement with development partners, including the Fund. Except for a few breaches, the CEMAC countries Fund-supported programs are progressing satisfactorily, while Equatorial Guinea and Central African Republic are at the final stages of new Fund-supported programs. We concur with the thrust of staff appraisal and offer the following comments for emphasis:

Fiscal consolidation is continuing, consistent with CEMAC countries' program objectives and the narrowing fiscal deficits are expected to contribute to a decline in the public debt. However, fiscal adjustment is driven largely by cuts in public investment and weighs on growth. Enhancing non-oil domestic revenue mobilization will help ease pressure on fiscal and external balances and create space for priority social and infrastructure outlays. We welcome plans to reduce governments' domestic arrears in a well-communicated manner to help instill business confidence and foster inclusive growth.

BEAC's appropriately tight policy stance has facilitated reduction in external imbalances and boosted reserves. We agree on the need to mop up excess liquidity to avert risk of pressure on inflation and external reserves, and note BEAC's preference for a gradual approach. BEAC's foreign exchange operations have been broadly effective and contributed to the improved reserves buildup. With reserves still short of the 5-month import cover for resource- rich countries, we agree that the authorities should bring oil and mining companies in compliance with regulation on repatriation and surrendering of foreign exchange.

We take positive note of proposals and initiatives aimed at increasing financial sector resilience and unclogging credit to the private sector. Putting in place a risk-based supervision framework, reducing NPLs, and introducing a sanction scheme to improve regulatory compliance are all steps in the right direction. That said, their successful implementation will to a large extent depend on addressing the significant understaffing at COBAC.

Notwithstanding the good progress made so far, significant work remains to be done on the structural front to strengthen resilience and boost growth, as indicated by Messrs. Raghani and N'Sonde. Economic activity remains below pre-crisis levels and growth is still subdued. The authorities are encouraged to intensify peace-building initiatives and improve governance, to help enhance the business climate, facilitate economic diversification, and enable higher and more inclusive growth. Enhanced transparency and accountability in the management of public resources will go a long way in helping real income per capita growth in CEMAC catch up with the rest of the continent.

We wish the CEMAC authorities every success in their future endeavors.

Mr. Saraiva and Mr. Nithder Pierre submitted the following statement:

We thank staff for the report on the common policies in the Central African Economic and Monetary Union (CEMAC), and Mr. Raghani and Mr. N'Sonde for their comprehensive statement. We welcome the CEMAC member countries' commitment to the regional strategy and their firm resolve to implement structural reforms and take actions to achieve the program objectives. In spite of a number of downside risks, the short-term economic outlook remains stable with robust fiscal consolidation and tighter monetary policy, which reduced external imbalances while helping increase international reserves in 2019. Notwithstanding these encouraging developments, we concur with staff that further efforts will be needed to address critical macroeconomic challenges and pave the way for strong and sustainable growth.

CEMAC's overall economic situation remains challenging and has not yet picked up as expected. In 2019, economic growth in the region is projected to remain at the same level, as in 2018 (2.5 percent). Non-oil activity, particularly in Congo and Gabon, has shown signs of improvement while in Cameroon, economic activity has slowed down, owing to unrest in some areas. Overall, the slight pick-up in non-oil growth has offset the slowdown in oil production. Furthermore, the private sector's contribution to growth has been greatly affected by the longstanding government arrears, which made it hard to finance working capital and new investment projects. Despite the excess liquidity in the banking sector, the monetary policy stance has been tight and average yearly inflation remained low at about 2 percent at the end of the year

We commend the CEMAC countries authorities for their efforts to maintain fiscal consolidation and urge the prompt implementation of a well-managed government arrears repayment plan. Fiscal deficit targets were broadly met, allowing adequate fiscal and reserve buffers to maintain public debt firmly on a declining path. Nonetheless, the fiscal adjustments were mainly based on reduction in spending, particularly on public investment while social spending was below target. We therefore stress the need to improve the quality of consolidation particularly by enhancing non-oil revenue and avoiding cuts on social and capital expenditure. Regarding the government arrears clearance strategy, we concur with staff that it is crucial to revive growth and instill confidence to economic agents and the financial sector. This process could be an important opportunity to signal commitment to enhance governance and re-establish governments' credibility.

Monetary policy tightening has tamed inflation pressures and led to significant results on external balance and international reserves accumulation. That notwithstanding, excess liquidity in the banking sector remains a salient risk and BEAC should start effective liquidity management with a view to enhance monetary policy transmission. As highlighted in the report, BEAC needs to weigh options to gradually cover higher sterilization costs. Could staff elaborate on these options? How long sterilization operations could last according to the excess liquidity estimation?

We welcome the continued progress in the modernization of the monetary policy operational framework. We support the implementation of a new regulation that will help monitor and support liquidity-stressed banks along with the adoption of the new framework allowing private claims to be accepted as collateral in refinancing operations. Furthermore, efforts to ensure a smoother yet effective implementation of the foreign exchange regulations are commendable. We agree with staff about the critical importance for national authorities to fully support its implementation by ensuring full compliance of all public entities with the regulation and by sharing with the BEAC oil contracts.

Despite the stabilization of banks' portfolio quality, financial soundness indicators have weakened and the process to resolve problem banks remains slow. The non-performing loans (NPL) ratio has remained high at 22 percent at end September 2019, owing mainly to the significant impact of outstanding government domestic arrears. Meanwhile, the solvency and liquidity ratios have declined compared to the same period last year. We encourage COBAC to advance its strategic plan geared towards a risk-based supervision. Such an approach should aim at strengthening the supervisory framework and tools, ensuring expeditious resolution of distressed banks, and prompting banks to prepare and implement NPL reduction plans. As noted by staff, significant number of banks remain undercapitalized and, in several cases, national authorities did not follow through on COBAC decisions to resolve small banks. Therefore, we encourage strict implementation of the resolution framework without accommodating unwarranted delays, while setting time limits to the resolution processes of small banks and defining strict minimum criteria and conditions to approve applications for bridge banks.

Poor business environment driven by weak governance, underdeveloped financial sector, and pervasive non-tariff barriers to regional trade continue to hinder growth. We encourage the national and regional authorities to intensify efforts to restore sustained inclusive growth and foster diversification, including by improving governance, public financial management, AML/CFT supervision; promoting regional integration; and supporting the development of financial markets.

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

We thank staff for the concise paper and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. The CEMAC region continues to recover gradually, on the back of tighter macroeconomic and financial policies. Looking forward, the authorities are encouraged to continue fiscal consolidation with more efforts in non-oil revenue mobilization, maintain tight monetary policy when addressing excess liquidity, implement the foreign exchange regulation with oil and mining companies in compliance, and strengthen the risk-based supervision framework while developing the financial markets. We broadly agree with the thrust of staff's appraisal and would limit our comments to the following for emphasis.

More efforts are needed to strengthen non-oil revenue mobilization. We take positive note that the fiscal consolidation continues in 2019 with deficit targets for program countries generally met. However, the consolidation is achieved mainly by cuts in public investment, with limited progress in non-oil revenue mobilization. We agree with staff that it is critical to boost the non-oil revenue to create much-needed room for priority social spending and pro-growth investment. Could staff shed light on how the CEMAC commission's work at the regional level could help to raise national non-oil revenue? In addition, we join staff in suggesting that the authorities should clear domestic arrears in a well-communicated and transparent manner, which could help to reinvigorate the non-oil sector and restore financial sector stability.

A tight monetary policy is appropriate while the liquidity absorption needs to be expedited. We agree with staff that the current tight monetary policy stance is appropriate, given the still low foreign reserve and moderate inflation environment. We take note of the BEAC's preference of a more gradual approach towards liquidity absorption operations. Nevertheless, we see merit in staff's suggestion of a swifter move, since the large excess liquidity in the banking sector could weaken the monetary policy transmission and create future inflation pressure. We encourage staff to provide technical assistance to help the BEAC to select the appropriate absorption instruments, taking the potential cost into account. In addition, we commend the BEAC for the newly-released regulation to contain banks' over-dependence on central bank's refinancing and support the BEAC's continuous efforts to modernize the monetary policy operational framework.

Bringing oil and mining companies in compliance with the foreign exchange regulation is important to ensure the effectiveness of the regulation. We note with concern that the oil and mining companies do not abide by the forex repatriation and surrendering requirements, as this exception could cause regulatory arbitrage and a non-level playing field. In this regard, we welcome the BEAC's timetable to ask oil and mining companies to fully comply with the forex regulation by the end of 2020. We would like to reiterate that these forex regulations, as capital flow management measures (CFMs), should not substitute for the macroeconomic adjustments and needs to phase out once macroeconomic stability is restored and reserves are strengthened.

The COBAC's progress in implementing risk-based supervision is welcome. We take positive note of the COBAC's roadmap to adopt Basel II/III standards. Recent progress in regulations on payment services, AML/CFT, and consumer protection is also welcome. The clearance of the government's domestic arrears will help to reduce nonperforming loans. But more could be done, including exploring the opportunity of one-off actions to clean-up fully provisioned loans. The authorities have made great efforts in promoting the development of financial markets. The establishment and operation of the first credit bureau is a step in the right direction. We encourage the authorities to continue enhancing information disclosure and transparency in the financial market.

Finally, we welcome the progress made by the CEMAC commission in strengthening the regional surveillance framework and encourage the authorities to closely coordinate with the Fund in this area.

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

We thank staff for their detailed reports, and Messrs. Raghani and N'Sonde for their helpful buff statement. We note that the Central African Economic and Monetary Community (CEMAC) has somewhat increased its resilience on the back of the fiscal performance of its member countries and an appropriately tight monetary policy. The regional strategy has thus been instrumental in achieving a modicum of macroeconomic stabilization. While the member countries need to sustain their fiscal efforts, which will require a broadening of tax revenue, we therefore agree with staff that BEAC has implemented the agreed policy assurances and commitments. We broadly share staff's assessment and emphasize the following points.

Measures to reinforce the sustainability of the fiscal performance are necessary to increase resilience to fluctuations in oil revenues and eliminate public arrears. Enhancements in revenue mobilization are needed to compensate for oil price shocks, in particular through improved tax collection and customs administration. The clearance of longstanding public arrears is critical to make resources available to the private sector; improve commercial relations between the public institutions and private companies; and prevent adverse spillover effects on the financial sector, which could be adversely affected by rising non-performing loans (NPLs). We share staff's view that this process could also help improve the perceptions of public governance. Could staff indicate if the establishment of a national or community sovereign wealth fund would be an option to create buffers against oil price shocks?

The monetary policy framework needs refinements to ensure stability in the currency union. We note that a tight monetary policy stance is warranted amid easing inflation, in an effort to maintain sufficient foreign exchange reserves. In this vein, we encourage the authorities to thoroughly implement the Foreign Exchange Regulation to enforce forex repatriation in the extractive industries. We are concerned by the excess liquidity in the banking sector, which could hamper the monetary policy transmission mechanism and pose pressures on inflation and the external reserves. The Central Bank of Central African States (BEAC) should consider the most effective measures to bring down the excess liquidity levels, in particular through an increase in the reserve requirement. We also welcome the recently adopted regulation on containing banks' excessive dependency on BEAC refinancing and encourage the BEAC to introduce more transparent rules for the recovery of stressed banks.

More effort is needed to move to risk-based supervision. We note that the interbank, credit market, money market, and securities markets are rather limited in their scope. We take positive note of the merger of the two stock exchanges and underscore that a credible legislative framework supported by a financial market infrastructure is critical for the effective operation of capital markets. While additional efforts by the Central African Banking Commission (COBAC) are needed to address the stock of NPLs and clean banks' balance sheets, we underscore that the resolution framework for banks should be strictly and speedily implemented. In order to have sufficient capacities for the assigned tasks, the COBAC's human and financial resources should be enhanced.

Regional economic growth and convergence in CEMAC has to be reinforced to prevent a buildup of macroeconomic imbalances. To this end, we support the Early Warning Tool of macroeconomic imbalances, initiated by the CEMAC Commission, and encourage the authorities to build capacities which would allow to reflect on its findings in policy decisions. In addition, we see merit in the framework for the evaluation of convergence reports submitted by individual CEMAC countries to the CEMAC Commission, which could also draw on experience from other currency unions and benefit from external expertise. We note that vulnerabilities in the governance framework of both national as well as regional institutions of the CEMAC countries are the key areas where significant progress has to be achieved.

Mr. Di Tata and Mr. Morales submitted the following statement:

We thank staff for a well-written report and Mr. Raghani and Mr. N'Sonde for their informative buff statement. We commend the authorities for their commitment to tight macroeconomic and financial policies and for their resolve to meet the objectives under the regional strategy agreed with the Fund. We encourage them to redouble their efforts to undertake the structural reforms necessary to achieve sustainable and inclusive growth.

Economic growth has remained subdued and non-oil economic activity has slowed down. While a moderate pick up in oil activity explains a slightly higher regional growth in 2018, growth remains below pre-crisis levels. Fiscal consolidation and the legacy of domestic arrears appear to have a larger than envisaged impact on non-oil growth. In addition, progress on reforms to improve governance and the business climate has been slow. To raise the region's growth potential, it is urgent to boost private sector participation to make the non-oil sector more dynamic.

While fiscal deficit targets were met, we are concerned about the composition of the fiscal adjustment. The region's overall balance is expected to improve this year supported by higher oil revenues, contributing to a decline in the public debt ratio of 2 percentage points of GDP. However, it is unfortunate that this decline has relied on lower public investment and sub-par social spending—again below targets—given the dramatic social challenges faced by the region. Faster progress on non-oil revenue mobilization is necessary to make the fiscal consolidation effort sustainable in the medium term, with a firm commitment to reduce the non-oil primary deficit from 8 percent of GDP in 2018 to 4 percent by 2022. As highlighted by staff, revenue measures such as streamlining exemptions and improving the efficiency of tax and customs administration should be given the highest priority.

Fiscal consolidation should be complemented by a consistent plan to repay government arrears. Uncertainty about these repayments has hurt private sector confidence and has increased credit risk for financial institutions. A strict timetable to clear these arrears should be designed, showing explicit and meaningful periodical targets to help restore governments' credibility. At the same time, the significant size of outstanding arrears requires careful planning to ensure that the timetable is realistic and that there is a consistent financial strategy to determine the most appropriate cash/security mix throughout the arrears-repayment period.

Gross foreign assets have recovered due to external financing and the implementation of CEMAC's foreign exchange regulations. Implementation of regulations has had partial success, although there is no regular reporting on the state of execution of these operations, and oil and mining companies are yet to comply with the regulations. We agree with staff that BEAC should aim at simplifying rules to ensure adequate repatriation and surrendering of foreign exchange receipts by introducing limits on banks' net open positions to replace those on foreign currency holdings associated with individual operations. Also, a prompt agreement with oil and mining companies on how to apply repatriation and surrendering rules to this sector appears urgent, following the recent extension of the deadline to comply with the regulations until end 2020. Further delaying this agreement could hamper credibility in the whole framework and introduce uncertainty on the path for international reserves accumulation. Could staff comment on what is the share of foreign exchange surrendered by oil and mining companies in projected reserve accumulation?

We welcome the complete overhaul of BEAC's monetary policy framework. Also, we find that BEAC's tight monetary policy stance aimed at further accumulating international reserves remains appropriate. We encourage BEAC's authorities to fully use monetary operations to absorb excess liquidity, currently equivalent to 2.2 percent of regional GDP, in order to prevent pressures on international reserves down the road. Looking forward, an adequate communication to financial institutions of absorption plans would help improve the transmission of monetary policy decisions to financial markets.

Financial credit risk remains high but contained, but banks' financial soundness is deteriorating. We welcome the forthcoming implementation of a regulation to strengthen the monitoring of banks excessively dependent on BEAC's refinancing, and we look forward to the enforcement of corrective plans by individual institutions. COBAC has strengthened financial supervision and introduced a strategic plan to guide future reforms to lay the ground for a more effective risk-based supervision. Moreover, COBAC is currently analyzing banks' NPL reduction strategies with a view to monitor their implementation and stipulate supervisory actions. We agree with staff that a review of write-offs and forbearance practices should complement these efforts to identify and contain moral hazard risks. Also, we encourage COBAC to implement its resolution framework and set time limits to national authorities to resolve pending cases involving small banks. On market development, the increase in interbank money market transactions following the introduction of a repo trading platform is encouraging.

Raising the region's growth potential requires actions in several fronts, and regional institutions should play a key role in driving these efforts. We believe that areas where regional coordination could make a significant difference are improving governance in the public sector, strengthening accountability in the management of commodity-related fiscal revenue, and removing barriers to intra-regional trade to help develop new export opportunities within the region and with the rest of the world. In this regard, we welcome the implementation of directives to harmonize and enhance public financial management, as well as the work on strengthening the regional surveillance framework and introducing an early warning tool, a sanctions mechanism, and convergence reports.

With these comments, we wish the authorities every success in their policy endeavors.

Mr. de Villeroché, Mr. Ronicle, Mr. Rozan, Mr. Comolet and Ms. Nelson submitted the following joint statement:

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

Staff's report underlines the successful stabilization effect that the authorities' engagement with the IMF has had since the launch of the coordinated regional strategy decided at the CEMAC's Heads of States Summit held in Yaoundé in December 2016. This being said, we note that CEMAC's economic situation remains fragile with risks tilted towards the downside. More also needs to be done to give momentum to the needed pro-growth policies. Though risks and security issues have remained high in some countries, the prospect for macroeconomic stabilization is indeed on track, especially when it comes to the fiscal and external sectors; the growth of external reserves beyond the target is much welcome. However, we concur with Staff that pro-growth fiscal policies, governance reforms and measures to improve the business environment are needed to substantially change the growth models and lift out of poverty the populations of the CEMAC countries. Against this background, the support of the Fund and of other partners, multilateral and bilateral, is paramount to making the adjustment path sustainable in a context in which diversification and poverty alleviation have to remain the key objectives.

We commend the authorities and staff for the efforts in pursuing IMF program arrangements in all CEMAC countries, in particular the agreement on an ECF for Congo in July 2019, and the request for EFF programs in Equatorial Guinea as well as in Central African Republic in December 2019. The continuation of programs with strong commitment of the authorities in other countries is paramount to ensuring a lasting stabilization. Good coordination with and among other bilateral and multilateral financial institutions continues to be particularly important to support structural evolution conducive to inclusive growth. In this regard, we are concerned that the World Bank has not been able to unlock the DPF it had committed to give to Congo as part of the launch of the program, by conditioning it to the first IMF review. In addition, we encourage the Congolese authorities to finalize the restructuring of its debt toward oil traders.

Now that imbalances are in the process of being fixed, a key issue is to look deeper into governance reforms and measures to improve the business climate to ensure that non-oil growth can sustainably pick up and raise development prospects for the private sector. We look forward to the implementation of a coordinated action plan by regional institutions in this regard, and this should be a central part of the IMF engagement with the region in the next three years.

Regarding the consolidation path, we commend the ongoing fiscal consolidation, as well as the decrease of the consolidated public debt in 2018 and 2019. It is particularly notable that the non-oil deficit is expected to decline by 1.2 percent by end 2019. However, we would like to reiterate our support to staff's assessment regarding the criticality of the quality of fiscal adjustment in developing countries. Indeed, fiscal consolidation in the CEMAC region has been mostly driven by spending cuts, notably in the public investment budget and social expenditures for the poorest. On the revenue side, we support staff's call for further progress in mobilizing domestic resources, especially non-oil domestic resources, in order to preserve fiscal space for development spending.

On the expenditure side, we strongly urge social spending to be protected. Overall, expenditure effectiveness should be improved. We also call the CEMAC's authorities to use the audit of the internal arrears to develop a strategy to repay them, since they have been hampering economic activity and weakening banking asset quality, standing at 6 percent of GDP in mid-2019.

On the external sector, the net foreign assets accumulation, exceeding the end June-2019 objective, is an important development. As highlighted by staff, BEAC and COBAC have delivered on the implementation of the policy commitments provided in the June 2019 Letter of Support to the Recovery and Reforms Programs Undertaken by the CEMAC Member Countries.

The measures taken by BEAC to increase foreign assets through monetary policy tightening and strengthened implementation of the foreign exchange regulation have started to bear fruit, though a good coordination between regional institutions and national authorities remains crucial. The regulation also has to be implemented without creating uncertainties for private investors and we encourage the BEAC, banks and their clients to exchange frequently. In this regard, we welcome the recent improvement of the situation, thanks to the publication of the implementation regulation last July, which have contributed to facilitate the situation. We strongly encourage continued discussions between the BEAC and several economic sectors, particularly with oil and mining companies, to ensure that their compliance to foreign exchange regulations can be quickly achieved to further support foreign reserve accumulation.

We value the monetary policy commitment provided by BEAC and reiterated in the November 2019 Follow-up to the Letter of Support. It shows strong commitments to reforming monetary policy implementation and strengthening bank supervision, as well as demonstrating the strong commitment of regional institutions to the IMF-supported programs' objectives. The beginning of mopping-up the excess liquidity in early 2020 will be key to increasing the effectiveness of monetary policy channels. Regarding banking supervision, we urge COBAC to finalize the resolution of ailing banks.

On the financial sector, we welcome the development of the implementation of a risk-based supervision but are concerned by the deterioration in soundness indicators. In particular the resolution framework's implementation appears crucial. However, we note that the capacity of COBAC seems stretched, both to resolve problem banks and to launch new initiatives. The importance of the Fund's technical assistance to support COBAC will therefore be critical.

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

We thank staff for a well-written report and Mr. Raghani and Mr. N'Sonde for their informative buff statement. The implementation of the CEMAC regional strategy in response to the oil price shock of 2014-15 has succeeded in restoring macroeconomic stability in the region and helped reignite growth. Fiscal consolidation is broadly on track and public debt is declining. Regional NFAs are increasing steadily against the backdrop of tight macroeconomic policies, improved foreign exchange repatriation, and continued donors' support. Rebuilding regional reserve buffers to the level appropriate for a resource-rich currency union is a key objective. It requires continued fiscal efforts from the member states, and adequately tight monetary policy by the monetary union institutions. The regional authorities should also implement effective structural measures to support inclusive growth.

The BEAC maintains appropriately tight monetary stance aimed at supporting reserves buffers. Large excess liquidity in the banking sector and very low credit growth show weaknesses of the monetary policy transmission mechanism. In this regard, more active liquidity absorption operations by the BEAC are advisable. We welcome strengthened enforcement of the foreign exchange regulation, which led to improved repatriation of export proceeds. The authorities should continue to streamline forex repatriation regulations to facilitate compliance. We note that oil and mining companies are expected to fully comply with forex regulations only by the end of 2020. As these companies provide the lion's share of the CEMAC's export proceeds, their compliance is macro-critical. Could staff provide more details on the reasons for exempting these companies?

On the fiscal side, we welcome the reduction in non-oil deficits and public debt. However, fiscal consolidation was achieved primarily through expenditure reduction, especially capital expenditures, which is weakening growth prospects. Non-oil revenue-enhancing measures should play a larger role, including those aimed at strengthening tax and customs administrations, reducing exemptions, and streamlining and harmonizing the tax legislation. Repayment of government arrears is essential to reduce NPLs level and support bank credit to the private sector. Therefore, arrears clearance strategies should be refined with the help of regional institutions and implemented vigorously.

The banking system remains over-liquid but constrained by substantial government arrears and growing NPLs. The COBAC should be more proactive in facilitating reduction of non-performing loans, encouraging resolution of government arrears and NPLs write-offs. The COBAC should also further strengthen its oversight based on the risk-based supervision and stricter enforcement of prudential regulation. We welcome the adoption of the credit bureau regulation, which should facilitate credit provision to the private sector.

Despite broadly satisfactory implementation of the regional strategy, none of the CEMAC countries was in full compliance with the regional convergence criteria in 2018. In this regard, we agree that it is important to find ways to improve regional coordination and enhance compliance. To this end, the regional authorities should strive to develop an appropriate sanctions mechanism. We welcome the semi-annual tripartite consultations between the national authorities, the regional institutions, and the IMF, which help strengthen the monitoring and implementation of the regional strategy and enhance cooperation on the regional issues.

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

We thank staff for the comprehensive report and Mr. Raghani and Mr. N'Sonde for their helpful buff statement. The CEMAC region has been able to weather negative shocks with a regional coordinated response. Going forward, in light of sub-regional security challenges and heightened external risks, a stronger regional strategy with a focus on growth-friendly enhancing measures will be needed for more diversified and inclusive development.

New IMF-supported programs in the region are an opportunity to enhance progress in several fronts and renew the commitment of the authorities to sound policies to secure inclusive growth. As staff notes, we agree strict adherence to the program objectives is needed. In the current volatile juncture, if the risks discussed in the report were to materialize, satisfactory program performance would be challenging considering that the current monetary policy stance would place further pressure in the fiscal adjustment.

BEAC has maintained an appropriate tight monetary policy and should be ready to act if additional external risks were to materialize or if NFAs differed significantly from the projected path. Furthermore, we strongly support staff's advice that mechanisms equivalent to government monetary financing should be avoided. Finally, we support efforts by BEAC to ensure a smoother yet effective implementation of the foreign exchange regulation.

On fiscal policy, we agree with staff that finding avenues to maintain fiscal consolidation will be important while preserving social spending and growth- enhancing investments. Fiscal consolidation has been broadly in line with the objectives in 2019, but we believe that commitment to the fiscal targets should not be at the expense of social policy. We encourage authorities to increase non-oil revenue and implement well managed repayment plans for government arrears.

In addition to increasing non-oil revenues, exploring mechanisms to provide fiscal policy buffers could be helpful considering oil revenue volatility. In this vein, we welcome the oil price and production smoothing mechanism that Chad plans to introduce in 2020. Do staff see scope for implementing a similar smoothing mechanism at the regional level? Would fine tuning the current CEMAC “reference balance” rule to explicitly require saving accumulated resources be helpful in this regard?

We believe there is scope to change the policy mix. As this chair has stated before, the policy mix pursued continues to rely on very strong fiscal adjustment with a tight monetary policy to support the peg and the buildup of international reserves. We still have the view that as in other programs, a certain degree of exchange rate flexibility could serve as a buffer and contribute to facilitate the adjustment. Can staff elaborate on the level of reserves needed if a flexible exchange rate is used in the model for optimal precautionary reserves for low income countries instead of a fixed exchange?

Steps towards strengthening the regional surveillance framework are in the right direction. We note the assistance provided by the World Bank and the IMF in this regard. We agree that pecuniary sanctions might not be useful and look forward to innovative ways to make the mechanism effective. We also support staff’s view that strong implementation will be crucial to the credibility of the sanctions mechanism. Can staff give an update on the timeline for the convergence reports to be issued by all members?

CEMAC should take advantage of its regional mechanisms to enhance governance. Enhancing governance, transparency and the rule of law could help support financial sector development and improve the business climate. Supporting national authorities through regional mechanisms can contribute to address capacity constraints.

We believe the IMF should continue its engagement with CEMAC countries at the regional and national level on Capacity Development. At the regional level, technical assistance to BEAC and COBAC will contribute to support implementation of policy commitments. At the national level, in particular countries with IMF-supported programs, aligning capacity development efforts with the program objectives will help successful program implementation.

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

Good afternoon, everyone. I hope you are not too much exhausted by the long discussion today. Let’s discuss today’s first agenda item on Central African Economic and Monetary Community. As you have noted, the CEMAC regional strategy has yielded significant improvements in fiscal and external positions. However, the growth has not yet recovered to pre-2015 levels and remains too low to generate enough jobs. The regional central bank, Banque des Etats de l'Afrique Centrale (BEAC), has maintained appropriately tight monetary policy and implemented more closely CEMAC's foreign exchange regulations supported by stronger supervision by the Community Options Business Advisory Council (COBAC) in this area.

CEMAC's fiscal performance continues to improve overall. The country authorities have implemented large fiscal adjustments, but these have been skewed towards cuts in capital expenditure with little progress in non-oil revenue mobilization. These combined policies contributed to a stronger recovery in regional external reserves.

Going forward, implementation of well-managed government arrears repayment plans will be central to revise non-oil growth and improve the position of the banking sector. The BEAC also needs to continue its collaboration with the oil and mining sector for effective implementation of the foreign exchange regulations, which is an important pillar in support of CEMAC's monetary arrangements.

The domestic revenue mobilization (DRM), better expenditure composition in favor of investment in social spending and ambitious structural reforms are also needed to spur more diversified and inclusive growth.

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

I will address a couple questions raised by Directors related to the foreign exchange regulations. One was about whether the current regulation was the first-best to build up reserves and another one about the reasons for the BEAC exempting the oil and mining companies until the end of 2020 and the impact of this extension.

On the first point, given the exchange rate regime of hard peg and also the current shallow state of the financial sector developments, the regulations to repatriate the foreign exchange in CEMAC are certainly a very important and key way to ensure the continued buildup of reserves, along with macroeconomic policies, including fiscal adjustment, and tight monetary policy.

Regarding other options which were suggested by some Directors, the central bank would not be in a position to purchase foreign exchange from banks at the market-determined rate because any rate that would be significantly more attractive than the fixed exchange rate could then qualify as a multi-currency practice. We believe that the BEAC should explore at some point leaving more room to banks for making interbank forex transactions to serve their clients' needs. We believe a system based on nonzero limits for banks' net open forex position could provide such room and certainly will be easier for BEAC to manage.

Regarding the extension that was granted by BEAC to the mining companies until the end of 2020 for complying with the forex regulations, we believe that this was a good and needed decision. It will provide the necessary space for BEAC and these companies to have thorough technical discussions and find a way to implement regulations while considering the specificities of the sectors which would be deemed needed.

The respective position of BEAC in the companies are still quite far apart, and so it will take some time for BEAC to work with these companies and make them accept the need for them to comply in an appropriate manner. Currently oil and mining companies in CEMAC repatriate, and so only a very small part of their export receipts besides what they are paying to the government is in the form of taxes and royalties. They told us this was in line with the contract that they signed with the national authorities, but it is also in breach with the superseding regulation. For these reasons it will be important that the BEAC works expeditiously with these companies to find a suitable way forward.

Regarding the impact of this extension, our balance of payments projections actually do not assume any additional positive impact from better compliance of the forex regulation by these companies, the reason being that we do not really know enough yet to assess what could be such an impact, and thus we consider it as an upside risk. Some believe that the first-round impact could be small, as companies are likely to transfer abroad a large share of their profits. Full compliance will certainly have significant benefits in terms of transparency and AML controls and to limit the risk of corruption and ensure that these very large revenues from extractive industries are managed in a much more transparent way. It is mainly from this perspective that we consider making oil and mining companies comply with the forex regulations as a critical objective for the regional strategy.

I would like to clarify one statement that we made in our written response regarding Gabon's progress on audits and strategies to clear the government arrears. We mentioned that Gabon has already adopted this strategy. It is only this strategy which would cover overdue loans to banks.

The overall strategy which would cover all the audited arrears will only be designed and prepared in the coming weeks and months, so in 2020.

Mr. de Villeroche made the following statement:

First, I will say that the strategy is delivering some results, and that is good news, and the success is good news for the IMF as well. It is not the end of the story, but still it has to be acknowledged. We think that BEAC has maintained its tight monetary stance. It has contributed to the recent increase in international reserves, and we welcome the efforts to increase the implementation of foreign exchange regulations. It has yielded results, too.

This has taken place in a context where oil prices are not very high, and some countries are facing some deeper security challenges, which was not the easiest situation. Looking forward, the different countries are at different stages in terms of Fund arrangements. We urge the authorities of Congo to finalize their debt negotiations with oil traders and Cameroon to make its best efforts to ensure the programs remain on track. We commend Gabon for past performance, and we support that Central African Republic and Equatorial Guinea need of a new programs to complement the regional approach. We will need something with Chad as well and will discuss it later.

Going to the content of such strategy, so the adjustment is still unfinished, and there will be some more progress to be made, but now to me the fundamental question is whether we can achieve some progress in terms of economic diversification. Not all these countries but most of them are oil-dependent countries, and they need to broaden the economic activities for governance reforms, business climate reforms. Opening markets should be fundamental elements going forward in the region.

Mr. Morales made the following statement:

We commend the authorities for committing to the regional strategy that is bearing fruit. It is helping to introduce sound macroeconomic policies and is reinforcing the regional institutions such as BEAC and COBAC. We look forward to the release of convergence reports in the future.

There are a few areas where progress is very limited or nonexistent. One of them is non-oil revenue. It is not only low, but it is below other countries in the region. The clearance of arrears with oil companies is a concern. The impact of foreign exchange regulations is still hard to grasp. We see in the figure at the bottom of page 14 of the report that the assets held by banks abroad are declining, but the assets of nonbanks are increasing, which means that progress is not really tangible in that area. We wonder if more concrete proposals should be discussed about how to improve in all these areas. I wonder if staff has any ideas of how to address this issue if it continues being a concern in the future.

Mr. Just made the following statement:

Like Mr. de Villeroche, we think that the regional strategy and the recent assurances by the CEMAC authorities have been instrumental in achieving external stability. Notably the CEMAC institutions are now operating more in line with their respective roles and responsibilities. Entrenching this good behavior both at the Union but also at the member country state level will be necessary for macro and external stability to become entrenched and to support the working of the Union. This can work better. As Mr. de Villeroche mentioned, we should now try to move from keeping macro stabilization but also move to diversification.

We would commend and encourage the CEMAC Commission to proceed with its preparatory work to strengthen the regional surveillance framework. This initiative could work toward achieving greater economic convergence across the CEMAC region to the forefront on economic policymaking in each country and support mutual economic cooperation in the region.

Mr. Saraiva made the following statement:

We welcome the progress that has been made under this regional strategy in CEMACIt has effectively helped to improve the fiscal situation and the external position. Even in a very delicate situation, as underlined by Mr. de Villeroche, the short-term economic outlook remains stable, and the ongoing fiscal consolidation and tight monetary policy stance has reduced external imbalances and helped increase international reserves.

Looking forward, we definitely see that there is an agenda to be pursued, and I believe that the individual country programs are very important for the regional strategy to be successful, so it is very important to continue with the strict implementation of the individual country programs in order to achieve the objectives set in the regional strategy.

I would highlight just two issues here. One is the need to improve the quality of the fiscal adjustment, by increasing non-oil revenue and by helping the government to implement their arrears payments plan.

We are also looking forward to the implementation of the COBAC 2019-21 strategic plan and with the risk-based supervision approach by strengthening the supervisory framework and tools, ensuring expeditious resolution of distressed banks and prompting banks to implement NPL reduction plans. I wish the authorities all success in their endeavors.

Mr. Alkhareif made the following statement:

I would like to support the point made by Mr. de Villeroche on the need to improve economic diversification efforts. Mr. Saraiva has highlighted the point on the need to increase reserves to help the country cushion against external shocks, and we support the authorities' efforts in this regard.

Mr. Inderbinen and Mr. Rosen and others raised the point in their grays that fiscal consolidation remains a key element to improve resilience and enhance the ability of countries to avoid fiscal risks. In my view, the composition of the consolidation is very important. We note that the consolidation has focused more on the capital expenditures (CapEx) rather than enhancing revenues and current expenditure, and we think closing the infrastructure gap and enhancing the potential GDP would be important going forward. We encourage the authorities to step up their efforts in improving the domestic revenue mobilization while keeping in mind the need to improve social spending.

Ms. Quaglierini made the following statement:

We believe it is essential to strengthen the administrative capacity of the regional institutions like BEAC or the regional central bank and the COBAC banking authority. Given the budget constraints of these bodies and the need to increase human resources, we encourage staff to provide technical assistance to overcome constraints of CEMAC regional bodies.

We also appreciate the additional comments provided by staff today on the foreign exchange regulations and the extractive industry. We appreciate the progress made with respect to the consultation between the BEAC and the oil companies, and more broadly, we understand it is important to strengthen transparency, and therefore we would suggest strengthening of the governance framework in the CEMAC countries.

Mr. Von Kleist made the following statement:

The situation in the CEMAC region remains fragile despite substantial adjustment efforts through tighter monetary policy and fiscal consolidation efforts. Risks remain tilted to the downside, notably a deteriorating security situation in some of the member states and an uncertain global outlook. High sensitivity to fluctuating oil prices puts additional pressure on fiscal and external stability in the region. To secure external and internal stability, fiscal consolidation in the region should continue and begin towards building adequate buffers to protect the declines in oil production and fluctuation of oil prices, and improved domestic resource mobilization is key in this context.

We reiterate our call from previous years that prudent policies and appropriate adjustment efforts in the individual member countries are key to maintaining stability at the level of the currency union. Corrective measures under the control of national authorities should remain targeted at the national level. Regional institutions should only be addressed to the extent that national adjustment policies are exhausted.

We echo staff that the regional strategy requires a shift in focus towards more ambitious structural reform efforts on the national level that strengthen governance, improve the business climate, and remove barriers to trade. Strengthening anti-corruption efforts and embedding these in the Fund’s conditionality will be of utmost importance given its macrocriticality in all member countries. This is essential to stimulate private sector activity and lay the foundations for diversified and inclusive growth. We note that most of the CEMAC members have a Fund-supported program in place and that progress has been made in implementing the recommendations of the 2018 surveillance consultation by the regional institutions. Success under these programs first and foremost depends on the reform ownership of national authorities. We share staff’s concerns that weaker implementation of IMF-supported programs could negatively impact external financing and reserve accumulation. We emphasize that the success of the regional strategy critically hinges on the authorities’ determination to implement macroeconomic adjustment and structural reforms.

Necessary reforms and adjustment efforts need to be adequately reflected in the program’s design, and we should not compromise on the quality and ambition of programs for the sake of just having a program with all members. In this context, we urge staff to take governance concerns extremely seriously, including through adequate prior actions in line with the Fund’s new framework for enhanced engagement on governance and also in light of potentially large reputational risks to the Fund. I wish all the member countries in the CEMAC all the best with their endeavors.

Mr. Shenai made the following statement:

I would like to agree with Mr. Fanizza and Mr. Doornbosch with regard to the foreign exchange regulation. We think that its implementation regional and the national authorities is really key to minimize the negative effects of the regulations on the business climate, therefore, we very much welcome the plans by the regional authorities to consult with the affected oil, gas, and mining companies to engage in constructive technical discussions. We think that the national authorities have a role here in terms of information sharing, as the staff report points out, so we would urge the CEMAC member countries to remain responsive to requests on information related to oil contracts. We welcome the continued harmonization of national and regional regulations to preserve evenhandedness and implementation of this regulation.

Secondly, we would like to echo some of the sentiment of Mr. de Villeroche, Mr. Alkhareif, Mr. Von Kleist, and others that the CEMAC strategy has worked to stabilize the region, in particular with regard to increase buffers and enhance resilience. We think the Fund engagement has been critical in this regard, but now it might be time to pass the baton from stabilization policy to structural transformation. We urge the countries to engage in a robust effort of structural reforms to boost and enhance non-oil productivity, reduce their fiscal reliance and external reliance on hydrocarbon exports, and encourage diversification. With that, we would like to wish the authorities well.

Mr. Inderbinen made the following statement:

In the gray that we put out, we noted the improved outlook for CEMAC, including due to the implementation of Fund-supported programs, also due to the higher oil receipts, However, we noted that downside risks do remain substantial. We emphasized the importance of ongoing fiscal consolidation, and like Mr. Alkhareif, we stressed the importance of achieving better quality in fiscal adjustment and including on social spending and public investment, which remain essential.

We had a question on the financial sector and the way to best cope with the difficulties in some countries in resolving some failing banks. Staff has provided a very clear answer to that, and staff do state that if there is a proliferation of undercapitalized bank or systemic bank requiring intervention from the regional level from the COBAC, that you would seek specific policy commitments at the regional levels. We think that was very clear and helpful. The reason we think this is important is that it would contribute avoiding the cycle of banks refinancing themselves at the central bank and then lending to the public sector, which then accumulates arrears, and then causes a buildup of nonperforming loans (NPLs) in the financial sector and inhibits banks to lend to intermediate credit. We think that advancing in this area would be one of the critical structural reform that would help the region grow after this period of stabilization.

Mr. Odonye made the following statement:

We recognize the positive contribution that Fund engagement with the countries have , and we welcome to find that two other countries, Central African Republic and Equatorial Guinea, are likely to come up before the end of the year. The question is how far are we really from getting these countries on board?

Secondly, we also noted like Mr. de Villeroche, the fact that it will be important that these countries actually work seriously on diversification their economies. We do believe that this is a very critical element. It will obviously take some time, and we recognize the fact that there are other issues, especially security-related factors in the region, which would take quite some time; however, we still want to have an update on some high-frequency indicators regarding the financial sector, especially since the last visit of staff, specifically if we got some improvements on matters like the solvency, liquidity ratios, as well as overdue loans and if we have had any update since then.

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

There was a question about whether we had more concrete proposals on trying to achieve better progress on non-oil revenue, repayment of government arrears, and repatriation of assets still held abroad. These were important objectives since the beginning of the country programs and part of the regional strategy, so we had concrete recommendations.

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[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.

On non-oil revenue, it is mostly to reduce exemptions, which are already widespread overall in the CEMAC countries, but also making improvement in the tax administration with better sharing of information between the various parts of the administration. What seems very difficult is to make progress on eliminating exemptions. It takes time to build a consensus to achieve that.

On arrears, the process is a bit slow, and for some reasons the audits in particular are taking longer than what we were expecting initially, but these are important parts of conditionality on the various country programs. The audits had been completed in a couple of countries and are underway in the others, and the strategies will then be designed based on these audits. We expect more concrete progress in the coming months.

Finally, on the issue of the assets being held abroad, which appear still large based on the Bank for International Settlements (BIS) data, I think it will require BEAC to gather more information, including from national authorities, to be able to track and then have more traction to implement measures to have repatriation of these assets. Therefore, this is an area where the support of national authorities will be critically important.

Regarding an update about the financial indicators, we provided in the report the latest data that we were able to gather. We have seen at the beginning of the year some further increase in nonperforming loans, but since the fourth quarter of the year, the level has stabilized. On the other hand, indicators about solvency and profitability have remained also stable. We continue to provide updates in the reports with the latest available data that we can publish.

Mr. Raghani made the following concluding statement:

I will begin by expressing the appreciation of the CEMAC authorities to this Board and to management for the continued support for the general strategy initiated in December 2016 and for the support to the CEMAC institutions' efforts in assessing and assisting country programs. I wish to thank staff, notably the mission chief, Mr. Toujas-Bernate, and his team for their hard work and candid and constructive dialogue maintained with the CEMAC authorities. I also thank them for the responses to the questions raised by Directors.

I welcome the broad recognition that the continued commitment of CEMAC countries and institutions to the regional strategy has been helpful in reaching the situation we are in today; that is stronger internal and external positions, and external debt on a downward trend. This is attributable to steadfast fiscal consolidation, tight monetary policy, stronger foreign exchange regulation, and greater enforcement of those rules. I greatly appreciate the valuable policy recommendations made by Directors going forward.

Besides pursuing actions I have just highlighted, there is a need for CEMAC to shift the focus of fiscal adjustment to raising non-oil revenue while protecting social spending and public investment. Today in our discussion many Directors raised and highlighted the importance of economic diversification and the quality of fiscal adjustment.

Advancing government arrears repayment plans is important to boost activity and improve the banks' portfolio. Regarding the financial sector, I note the call by Directors to push ahead with the implementation of COBAC's 2019-2021 strategic plan to reduce nonperforming loans, accelerate the resolution of troubled banks, implement the planned risk-based supervision, and strengthen the AML/CFT framework.

My CEMAC authorities also share the necessity to address development challenges facing the region, largely dependent on the extractive sector. Those challenges relate to economic diversification, governance, regional integration, and making growth stronger, sustained, and more inclusive.

On this last point, the highest authorities of CEMAC have requested during their recent summit in Yaounde a comprehensive reflection on the need to focus the second generation CEMAC program on growth and inclusiveness. Mr. Chairman let me add three brief points before concluding.

First, the regional institutions will continue to assist countries in the reform programs. The central bank, BEAC, and the supervisory body, COBAC, have reiterated their assistance in a follow-up letter of support addressed to the Managing Director containing specific policy commitments to further raise external buffers and preserve stability. The CEMAC Commission is engaged in enhancing the regional surveillance framework, notably through an early warning tool to oversee macro imbalances, an essential mechanism in case of breach of multilateral surveillance rules and requirement convergence report.

Second, the tripartite consultations with the Fund staff will continue, as it is a good framework to periodically assess progress made in implementing the regional strategy and anticipate policy action as needed.

Third, this Board has stressed in each of its last two meetings on CEMAC common policies the critical importance for the improvement in the regional situation for all CEMAC countries adopting Fund-supported programs. After the approval last July of the ECF arrangement for the Republic of Congo, it is time for Equatorial Guinea, which has implemented its Staff Monitored Program (SMP) in a broadly satisfactory manner but with still daunting challenges on the government's front, to join the solidary efforts of other CEMAC countries to rebuild reserves and enforce the region's macroeconomic stability.

To conclude, I reiterate my appreciation to the Board for the support, and I look forward to the completion of the review of the CEMAC countries that are under Fund-supported programs and the Board discussion and arrangement for the remaining country.

The following summing up was issued:

Executive Directors considered that the CEMAC is at a crossroad to consolidate the progress achieved by the regional strategy and put adjustment efforts on a sustainable path. They recognized that tighter macroeconomic and financial policies helped stabilize economic conditions and avert a deeper crisis and increase gross external reserves, which recently exceeded previous projections. However, Directors stressed that downside risks remain substantial and that stronger efforts are needed to support more diversified and inclusive growth, including structural reforms to enhance governance, improve the business climate, and spur social development.

Directors urged national authorities to strictly adhere to their respective IMF-supported program objectives, which will be key to secure domestic and external stability. They considered that the composition of fiscal consolidation efforts will need to be rebalanced by increasing non-oil domestic revenue, in order to preserve social spending and public investment. Implementing well-managed government arrears repayment plans will also be central to supporting the private sector and improving banks' balance sheets.

Directors considered that BEAC's monetary policy stance has remained appropriately tight and stressed that BEAC should stand ready to tighten if external pressures emerge. Directors encouraged BEAC to aim at more rapid absorption of the currently large excess liquidity in the banking sector to enhance monetary policy transmission. They also welcomed steps to deal with banks that excessively rely on the BEAC for their liquidity needs. Directors stressed that BEAC should avoid any new financing agreement with BDEAC.

Directors welcomed BEAC's effort to ensure a smoother yet effective implementation of the foreign exchange regulations. More support from national authorities is needed to ensure compliance by all public entities and further progress can be achieved to speed-up execution of forex transactions. Directors also encouraged BEAC to continue the dialogue with oil and mining companies to effectively enforce the regulations while taking account of their specificities as necessary.

Directors encouraged the COBAC to implement a more risk-based supervision. They welcomed the adoption of the new sanction mechanism to improve regulatory compliance, but noted that the process to resolve problem banks remains slow. Directors encouraged COBAC to support efforts to reduce currently very high non-performing loans, including following repayments of government arrears. Directors stressed the need to reinforce COBAC's capacity, especially staffing levels.

Directors underlined the importance of more ambitious and effective structural measures to support higher and more inclusive growth in non-oil sectors and greater diversification. These should address long-standing constraints stemming from weak governance, a poor business environment hampering investment, an under-developed financial sector, and pervasive non-tariff barriers to regional trade. Enhanced transparency and accountability in the management of public resources, together with better AML/CFT supervision, will be critical. More effective measures are also needed to promote faster convergence, including strengthening CEMAC's multilateral surveillance framework.

Directors noted that BEAC has implemented the policy commitments in the June 2019 Follow-up Letter of Policy Support, especially the assurance on NFA accumulation, which exceeded the targeted level. They further noted the policy commitments and endorsed the updated policy assurance outlined in the December 2019 follow up Letter from the BEAC Governor on achieving the projected end-December 2019 and end-June 2020 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 IMF-supported programs.

Directors emphasized that implementation of this policy assurance continues to be critical for the success of IMF-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: May 27, 2020

JIANHAI LIN
Secretary

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

Annex

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

Fiscal Policy

1. ***Given that consultation with the authorities occur quite frequently, could staff comment on previous Fund advice regarding the composition of fiscal consolidation?***

- Staff has consistently advised to rebalance the fiscal adjustment effort towards increasing non-oil revenue, the level of which is low relative to other regions in SSA, to finance priority and growth enhancing spending. Work in this area is and will be a priority going forward, requiring a combination of tax policy (e.g. elimination of tax exemptions) and tax administration measures.

2. ***Can staff provide an update on the arrears clearance strategy, including timing, and on how such a strategy would interact with national authorities' plans, including under their IMF programs?***

- As of end-November 2019, the stock of arrears is estimated at about 6½ percent of CEMAC's GDP. The audit of the stock of arrears and designing repayment strategies are important components of IMF supported programs with CEMAC countries, and are generally program structural benchmarks or prior actions, with deadlines between end-2019 or early 2020. In particular, such an audit was completed in Gabon and Chad. Audits are underway in other countries. A repayment strategy has been designed only in Gabon so far. Staff is advising that the audits be shared with the COBAC to help assess the impact on banks of the clearance strategies.

3. ***We note positively the pledge by the authorities in the recent CEMAC Tripartite Meeting to validate government arrears through audits and define a credible arrears clearance strategy that would be strictly adhered to by individual countries. Can staff please provide an update on the progress of audits and repayment plans?***

- See reply to question 2.

Monetary policy and external sector

4. ***We also concur with the staff for recommending BEAC to sterilize the excess liquidity as it could potentially represent a risk for external stability and inflation, while we understand the BEAC's prudent stance against sterilization given its potential cost. In this regard, could staff elaborate more on how BEAC could mitigate the cost generated from sterilization to avoid additional capitalization?***

- In 2018, general operating expenses and depreciation of recently-acquired regional agencies weighed heavily on BEAC's profit and loss account even before any sterilization operation. BEAC established a cross-functional working group to review its operating expenses and advise on ways to reduce them.
- According to staff projections, sterilization costs could still be covered by the interests earned on BEAC's advances to governments and BDEAC, as well as those earned on international reserves' placements, although net interest earning would be much smaller than in recent years and would not cover any more operating expenses and depreciation of fixed assets. In the medium-term, once the advances to governments and BDEAC are repaid, the BEAC could have a negative carry if the interest rate differential between interest on sterilization and interest on foreign assets were to persist.
- If BEAC would like to avoid the need for additional capitalization, the options that it can consider would include: (i) Further reduction of its operating expenses; (ii) introduction/increase of fees on the various services performed to banks; (iii) sale of gold reserves; (iv) sale of fixed assets.

5. ***We invite staff to comment on the entailed sterilization costs within the budget constraints at BEAC and BEAC's shareholders' inability to recapitalize BEAC in the near term.***

- See reply to question 4.

6. ***BEAC needs to weigh options to gradually cover higher sterilization costs. Could staff elaborate on these options? How long sterilization operations could last according to the excess liquidity estimation?***

- See reply to question 4
- According to the analysis of the autonomous factors of liquidity, the main factors which are injecting liquidity in the system are the Net Foreign Assets and the Net Credit to Governments. Sterilization could last as long as Net Foreign Assets flows are injecting liquidity in the system, and the share of governments' foreign exchange earnings is not translating into an increase in governments deposits at BEAC.

7. ***We note with concern institutional capacity limitations of COBAC and BEAC due to budget constraints and understaffing. Could staff elaborate on how the regional***

institutions could address these constraints, considering possible Fund capacity building support for them?

- Given the budget constraints that BEAC and COBAC are facing, the main avenue to address staff constraints will be to re-prioritize their operations and seek efficiency gains. These could include more automated processes in certain areas, investment in communication infrastructure to reduce travel needs, and enhanced delegation of responsibilities. A reallocation of staff from BEAC to COAC will also be needed in this context.
- Capacity building on Liquidity Management and Monetary Operations has been provided to BEAC for a period of 15 months through the placement of a resident advisor in the central bank. Capacity building to COBAC is extended through the regional resident advisor on Banking Supervision and Regulation in Afritac Central. Staff may consider to complement this assistance with an additional long-term expert on capacity building, if requested by COBAC and subject to IMF TA budget priorities.

8. ***Can staff elaborate on the level of reserves needed if a flexible exchange rate is used in the model for optimal precautionary reserves for low income countries instead of a fixed exchange?***

- Given CEMAC country's economic classification as resource rich credit constrained economy, the assessment of adequate external reserves is based on a cost/benefit analysis of holding reserves. Applying this methodology to CEMAC while assuming a flexible exchange rate regime would lead to an adequate reserves cover equivalent to 2.8 months of imports.

Foreign Exchange Regulation

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

- 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.

10. ***While the implementation delay is understandable, we wonder if it may drag on BEAC's NFA accumulation. Does staff have an estimate on potentially foregone foreign exchange reserves due to the delay in implementation for the oil, gas, and mining sectors to December 2020? Could staff provide an update on the status of consultations, including whether extractive industry companies have shared their contracts with the regional authorities, in line with the November 2019 circular?***

- Staff has no data on the level of foreign holdings of oil companies incorporated in the CEMAC. Currently, oil and mining companies are reportedly repatriating and surrendering only a very small part of their export receipts to cover their local expenses (local wages and services). BOP projections do not assume any change yet. Therefore, the extended period for complying granted by BEAC will not affect staff projections. It is unclear at this stage what net impact would full compliance of oil and mining companies have on regional reserves, as these companies would likely transfer abroad a large part of their profits. The compliance would however bring significant benefits in terms of enhanced transparency and AML controls.
- Initial consultations have been held between BEAC and oil and mining companies in each CEMAC country. So far, these consultations have stayed at a general level on principles. Such consultations will thus need to become much more technical to understand the possible business case for a specific approach to implement the foreign exchange regulation. So far, staff is not aware of any information having been provided by oil and mining companies, which have until end-January 2020 to respond to BEAC's request for information.

11. ***Are the current regulations to repatriate and surrender foreign reserves the first-best way to ensure the build-up of reserves; would potential open market purchases by BEAC be preferable, and also more conducive to the region's private sector and its attractiveness for foreign direct investment?***

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

12. ***Could staff comment on what is the share of foreign exchange surrendered by oil and mining companies in projected reserve accumulation?***

- Oil and mining companies are reportedly repatriating and surrendering only a very small part of their export receipts to cover their local expenses (local wages and services). Staff does not have detailed data on this.

13. ***We note that oil and mining companies are expected to fully comply with forex regulations only by the end of 2020. As these companies provide the lion's share of the CEMAC's export proceeds, their compliance is macro-critical. Could staff provide more details on the reasons for exempting these companies?***

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

Financial sector

14. ***Given ongoing difficulties to resolve ailing banks in the region, we call for more specific measures to be included in BEAC's support letter. Staff's comments would be welcome.***

- Staff continues to have a very close dialog with COBAC on the need for (i) strictly implementing the resolution framework without unwarranted delay, and (ii) exploring setting time limits to the resolution processes of small banks. Difficulties in resolving small ailing banks (which are not systemic and not macro-critical) are a combination of slow (or no) action by national authorities and some tendency of COBAC to accommodate delays. To further support COBAC in its efforts to limit the length of resolution processes, staff will continue to urge COBAC not to prolong provisory administrations beyond the time limits foreseen in the regulatory framework. In case of a proliferation of undercapitalized banks or of a systemic bank requiring intervention by COBAC, staff would seek a specific policy commitment that would be included in the letter of policy support.

Regional integration and surveillance

15. ***Could staff indicate if the establishment of a national or community sovereign wealth fund would be an option to create buffers against oil price shocks?***

- Since 2010, the BEAC offers to governments different types of accounts for accumulating fiscal buffers, including for the purpose of fiscal stabilization and for funds to pass on to future generations. Following the recent crisis, governments have very little resources left in these accounts. Beyond that, establishing a community wealth fund would raise significant difficulties, given the complex shared governance and coordination challenges that go with a regional wealth fund. Staff had discussed in the past (prior to the latest crisis) possible arrangements, but these discussions did not come to closure and were overtaken by the crisis policy response.

16. ***Could staff shed light on how the CEMAC commission's work at the regional level could help to raise national non-oil revenue?***

- The CEMAC Commission is leading and monitoring progress under the Regional Economic and Financial Reform Program (PREF). Pillar one of the PREF, relates to fiscal and budget policies and includes reforms to increase non-oil revenue. At its level, the Commission is working on a regional regulation aiming at limiting the scope of tax exemptions. The Commission is also monitoring implementation of regional directives to ensure proper exchange of information between national tax administrations, including customs, to minimize tax leakages.

17. ***We welcome the oil price and production smoothing mechanism that Chad plans to introduce in 2020. Do staff see scope for implementing a similar smoothing mechanism at the regional level? Would fine tuning the current CEMAC "reference balance" rule to explicitly require saving accumulated resources be helpful in this regard?***

- The regional fiscal convergence criterion aims at controlling the dynamic of net public debt while taking into account and mitigating the impact of fluctuations in oil revenues. As such, it should facilitate the build-up of fiscal buffers, but no formal savings mechanism was set at the regional level, and no other country than Chad has adopted such a mechanism. Given that the adequate level of fiscal buffers is country specific, it is not clear how a savings mechanism could be set up at the regional level. At the national level, before thinking of any mechanism, it would be useful to analyze what would be the adequate level of fiscal buffers to aim at, similar to the analysis regarding the regional external buffer (ie external reserves).

18. ***While we see merit in the work initiated by the CEMAC Commission, we wonder whether a mechanism based on pecuniary incentives rather than sanctions would be more conducive to enhanced compliance. Could staff comment?***

- Staff analysis on compliance of fiscal rules indeed found that pecuniary sanctions did not appear to be very effective. Instead, incentives for good performance appear more advisable. In the case of CEMAC, given the lack of available resources at the regional level, a mechanism based on pecuniary incentives would not seem feasible. Instead, other incentives could be explored, in terms of access to regional institutions financing (for example from the regional development bank). Also, reputational costs for weak performers may be more effective; the Commission is exploring options in this vein.

19. ***Can staff give an update on the timeline for the convergence reports to be issued by all members?***

- The Congo Triennial Convergence Program was adopted by the UEAC Council of Ministers on 20 November 2019. The Cameroon Program has been adopted since

March 2019. The Central African Republic and Chad have sent to the CEMAC Commission their draft Triennial Convergence Program for comments. The Equatorial Guinea has officially approached the CEMAC Commission to request assistance in the formulation of their Triennial Convergence Program, based on their initial work already underway. Gabon has not yet communicated its plans in this area.