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EXECUTIVE BOARD MEETING

EBS/20/199

December 23, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Central African Economic and Monetary Community—Staff Report on the Common Policies of Member Countries, and Common Policies in Support of Member Countries Reform Programs**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Tuesday, January 12, 2021**
Publication:	Yes*
Questions:	Mr. Toujas-Bernate, AFR (ext. 36936) Ms. Martin, AFR (ext. 35301) Mr. Lautier, AFR (ext. 37748)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank

***Unless an objection from the member authorities of the CEMAC countries is received prior to the conclusion of the Board's consideration, the document will be published.**

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

December 22, 2020

STAFF REPORT ON THE COMMON POLICIES OF MEMBER COUNTRIES, AND COMMON POLICIES IN SUPPORT OF MEMBER COUNTRIES REFORM PROGRAMS

KEY ISSUES

Context and risks. The economic shock associated with the COVID-19 pandemic is set to have long-lasting effects on the economic outlook for CEMAC. The pandemic itself seems to be now broadly under control in the region, and the policy response from national and regional authorities, supported by significant emergency financing by the Fund, helped mitigate the initial economic fallout. With lower medium-term oil prices, the outlook projects that CEMAC's fiscal and external adjustments will be slower than previously envisaged, entailing large external financing needs (around €6.6 billion for 2021–23). Gross international reserves will now reach the equivalent of 5 months of imports by 2025 vs. 2022 pre-pandemic, while net foreign assets (NFA) will be below previous expectations. Public debt would remain at elevated levels, albeit on a declining trend after the increase in 2020. This outlook is highly uncertain and contingent on the evolution of the pandemic and its impact on oil prices. Other significant risks include: delayed implementation of the ongoing or a second phase of new Fund-supported programs, difficulties in filling large external financing needs, and a deterioration in the security situation.

Policy recommendations

- In the second phase of the regional strategy, CEMAC's regional institutions and the national authorities should aim to radically transform the region by urgently implementing governance, transparency and business climate reforms that will lay the basis for a diversified, inclusive and sustainable growth.
- BEAC should continue to strike the right balance between preserving internal and external stability, gradually aim at absorbing excess bank liquidity after the current crisis fades and stimulate the interbank market.
- BEAC should continue full implementation of the foreign exchange regulation and bring the extractive sectors into compliance.
- COBAC should aim to increase further banks' compliance with prudential standards, duly apply the bank resolution framework, support NPLs reduction, make further progress towards risk-based supervision, and improve capacity to effectively carry out all of its duties.

Approved By
Vitaliy Kramarenko (AFR) and Gavin Gray (SPR)

Discussions were held from November 3–December 1, 2020 in Libreville (Gabon) and Yaoundé (Cameroon). The Staff team comprised Mr. Toujas-Bernaté (head), Mr. Lanci, Mr. Lautier, and Ms. Martin (all AFR); Ms. El Gemayel and Mr. Portier (MCM); Ms Garcia-Martinez (SPR). It was assisted by Messrs. Nsengiyumva and Poplawski (Resident Representatives in Cameroon and Gabon), and Mr. Ambassa (local economist in Cameroon). The mission held discussions with Mr. Abbas Mahamat Tolli, Governor of the Central Bank of Central African States (BEAC and Chairman of COBAC); Prof. Clément Belingaba, Commissioner for Economic, Monetary, and Financial Affairs (CEMAC Commission); Mr. Halilou Yerima Boubakari (Secretary General of COBAC); and other senior officials of these institutions. This report was prepared with the assistance of Ms. Adjahouinou.

This is a report on the annual consultation discussions with the regional institutions responsible for common policies in the Central African Economic and Monetary Union (CEMAC) pursuant to the Decision on the Modalities for Surveillance over Central African Economic and Monetary Union Policies in the Context of Article IV Consultations with Member Countries (Decision No. 13654-(06/01), as amended), as well as the common policies in support of CEMAC member countries' Fund-supported programs. Throughout the report, the term "authorities" refers to regional institutions responsible for common policies in the currency union.

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BACKGROUND AND RECENT DEVELOPMENTS

A. Background

1. The economic shock associated with the COVID-19 pandemic struck when the economic outlook for the CEMAC was improving. As the first phase of the regional strategy was ending in 2020, the authorities had made progress in improving macroeconomic balances and financial stability (see Annex I). However, reserves were still below the level considered appropriate for commodity-exporting economies, and structural reforms lagged, with only limited progress on non-oil revenue mobilization, and no significant change in governance or the business environment. With little progress achieved on economic diversification, the region was still highly vulnerable to oil price shocks (Figure 2). The oil price drop associated with the global slowdown triggered by the COVID-19 pandemic led to a sharp deterioration of fiscal and external balances, putting pressure on regional external reserves and complicating debt sustainability challenges which predated COVID-19.

2. The pandemic seems to be broadly under control in the region, and the policy response from national and regional authorities helped mitigate the economic fallout. Containment measures have been relaxed gradually in all CEMAC countries since the summer, as the number of reported new cases is decreasing. Testing remains however uneven across the CEMAC subregion. At end-October 2020, there were around 47,500 cumulative cases in the CEMAC, with only 1.25 new cases per 100,000 people for the last 14 days, well below the average for Sub-Saharan Africa. The number of reported COVID-19-related deaths reached 813 at end-October, indicating a case mortality rate of around 1.7 percent. At present, there is no information available on plans for acquiring or distributing vaccines. In response to the pandemic, CEMAC governments announced various support measures to firms and households in their revised budget laws. BEAC quickly eased monetary policy and introduced accommodative measures to ensure adequate liquidity in the banking system, and COBAC eased prudential regulations to help banks delay pandemic-related losses.

3. The Fund supported this response with significant emergency financing for the region, while three programs expired in 2020. Following the completion of program reviews with Cameroon, Chad and Gabon and approval of new programs with Equatorial Guinea and CAR around end-2019, program performance in the region was then affected by the COVID 19 crisis. Cameroon, the Central African Republic, Chad, and Gabon benefited from a first wave of Fund emergency assistance in April/May 2020 for an aggregate amount of $536 million and a second wave in July 2020 (Gabon and Chad) and October 2020 (Cameroon) for $377 million. Chad and the Central African Republic benefited from debt relief under the CCRT (SDR 23.1 million). Overall, Fund financing in 2020 exceeded the combined disbursements of the World Bank, AfDB, and bilateral partners (see Text Table 1). Fund-supported programs with Cameroon, Chad and Gabon expired during the summer and the three countries requested successor programs. The Central African Republic is expected to complete the combined first and second reviews of its ECF-supported program shortly. Debt vulnerabilities are very challenging throughout the CEMAC and have implications for the regional strategy. The four countries in the region which are eligible for DSSI debt relief have formally requested an aggregate amount of about U.S. $313 million.

4. The pandemic partly delayed the implementation of the recommendations of the 2019 regional surveillance consultation. Progress in implementing the CEMAC's foreign exchange regulations continued in 2020 but consultations with the extractive sector were delayed until October 2020. Progress of COBAC in the resolution of banks has been limited, mainly reflecting insufficient support from national authorities. Implementation of domestic arrears clearance strategies has made some progress recently in most countries and should help alleviate some of the additional economic pressure created by the COVID-19 crisis on domestic firms. The CEMAC Commission's work to strengthen the regional surveillance framework, including implementation of an early warning system and preparation of a draft sanction scheme for countries breaching the regional convergence framework, has been delayed until the economic impact of the pandemic fades. The lack of tangible improvements in governance and business climate continues to weigh heavily on investors' perception of the region and its growth potential.

5. The region is at a critical juncture, and the second phase of the regional strategy (SPRS) should aim to radically transform the region by urgently implementing reforms that will lay the basis for a diversified, inclusive and sustainable growth.

- The COVID-19 crisis has set back some of hard-gained stabilization achievements of the first phase of the regional strategy, and the lack of diversification from oil is a fundamental weakness. The SPRS should aim at increasing regional standards of living. The region needs to provide enough job opportunities for a working age population which is projected to grow by more than 2.5 percent annually in the coming decades (Text Figure 1).

- Increasing non-oil fiscal revenue will be key as the region will likely be confronted with limited additional funding availability and narrowing borrowing capacity. The management and effectiveness of public spending will need to improve to deliver faster results with fewer public resources.

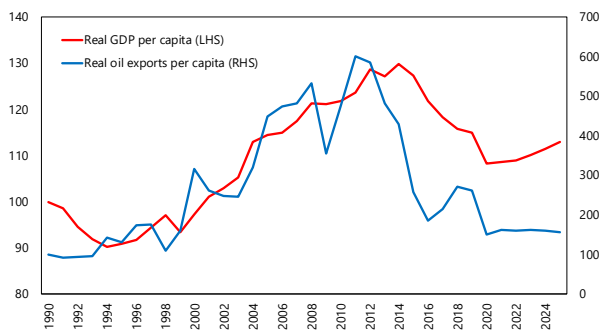
- In this context, a decisive acceleration of structural, transparency and governance reforms will be essential to boost private sector growth, economic diversification, and promote regional integration. Bottlenecks for reforms need to be addressed and discussed with a coordinated strategy possibly leveraging strong commitments at the highest policy making level.

- The regional institutions can support national authorities in this effort by ensuring macro-economic, external and financial stability, namely through i) maintaining appropriate monetary policy and bank liquidity management, ii) continuing to strictly implement the foreign exchange regulation and broadening its coverage to all economic actors, iii) supporting further development of regional financial markets and financial inclusion, including through digitalization, iv) accelerating banking sector reforms such as NPLs reduction, problem banks resolutions, and fully implementing risk-based prudential and AML/CFT supervision, v) supporting, monitoring and publishing CEMAC countries progress in improving the business climate and governance.

- Program engagement with the Fund in the context of new or on-going IMF-supported programs with all CEMAC countries will need to prioritize these key reforms to support growth while aiming at rebuilding fiscal and external buffers. Given that debt vulnerabilities were rising even before COVID, the second stage programs with some CEMAC countries will also require further progress on debt sustainability, which may be difficult in cases with collateralized debt or a large share of senior debt claims, including from the Fund.

Text Figure 1. CEMAC: Evolution of Real GDP per Capita Since 1990

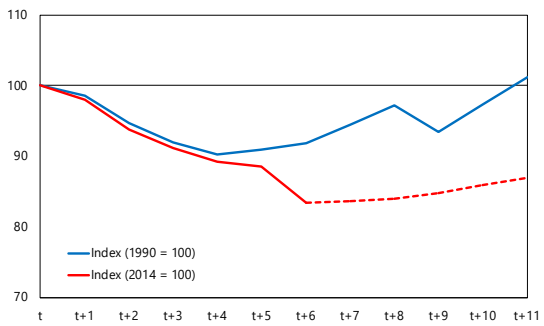
Real GDP and Oil Export per Capita, 1990–2025
(Index, 1990 = 100)



Source: WEO dataset. IMF staff estimates.

Note: Indexes for the CEMAC are computed using GDP deflators and CPI indexes across member countries with a unified base year in 1990. Series are in CFAF.

Real GDP per Capita
(Index, pre-crisis peak = 100)



Source: WEO dataset. IMF staff estimates.

Note: The index is computed using GDP deflators across CEMAC member countries with a unified base year in 1990. Series are in CFAF.

B. Recent Developments and 2020 Outlook

6. Overall growth and inflation were slightly lower than expected in 2019. Slightly better than expected growth in Gabon was not enough to compensate for disappointing performances in CAR and Congo (temporary technical disruptions in two oil fields) and overall growth reached 1.9 percent, or 0.6 percentage point lower than projected, broadly reflecting non-oil growth dynamics. Inflation decelerated more than anticipated and came under 2 percent at end-December 2019.

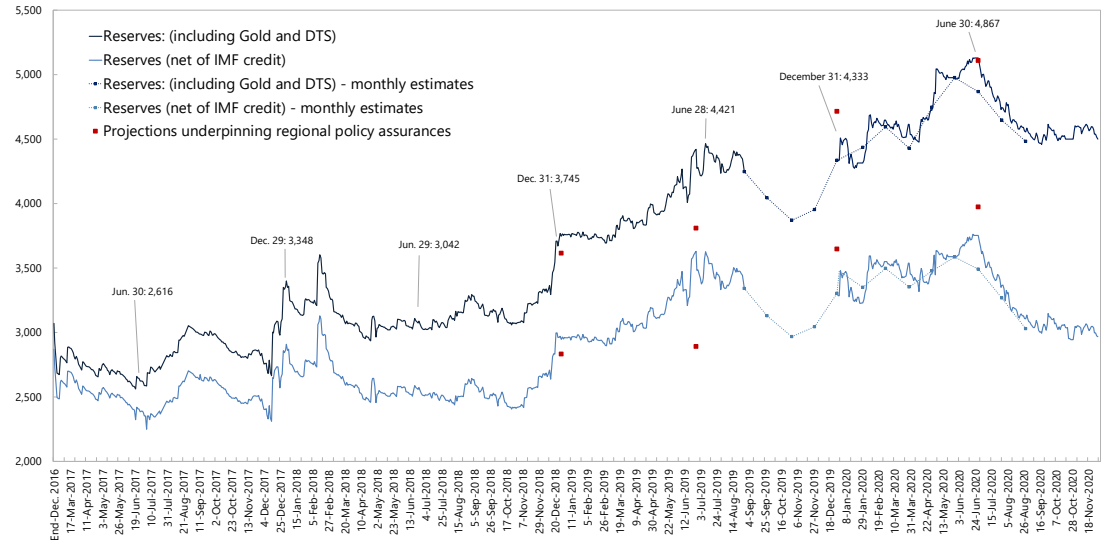
7. Budget performance deteriorated in the second half of 2019 in three countries. Overall budget implementation was broadly in line with objectives in the first half of 2019, but deficits worsened in the second half of the year. As a result, fiscal balances for 2019 remained on average broadly unchanged from 2018 to reach an overall deficit of -0.3 percent of GDP. The underperformance was concentrated in Cameroon, Congo and Gabon, due to both expenditure overruns and lack of progress in non-oil revenue mobilization. Public debt rose to close to 52 percent of GDP, with very challenging debt issues in some countries.

8. Tight regional policies helped maintain an improved external position in 2019, but external reserves fell short of the end-2019 and end-June 2020 objectives. A positive real policy rate since end-2018 and the stricter enforcement of foreign exchange regulations helped bolster

external reserves. After good performance in 2019H1, NFAs at end-December 2019 were lower than the projected levels referred to in the latest regional policy assurances (€4.0 billion against €4.7 billion) due to a shortfall in external financing during 2019H2 (by the equivalent of €0.4 billion) and some fiscal deficit over-runs. During 2020H1, with program external financing broadly as expected and an advanced Eurobond issuance by Gabon, NFA accumulation was in line with pre-COVID projections through June, but the end-June 2020 projection was also missed as the end-2019 shortfall was not compensated. Due to the lagged effect of the decline in oil prices, reserves declined during Q3 2020, erasing most (but not all) of the gains recorded since December-2019, and the gross reserves import cover was still equivalent to 3.5 months of imports at end-September 2020 (Text Figure 2).

Text Figure 2. CEMAC: Regional daily reserves, 2017–20 [1/ 2/]

(Billions of CFA francs)



Source: BEAC and IMF Staff calculation

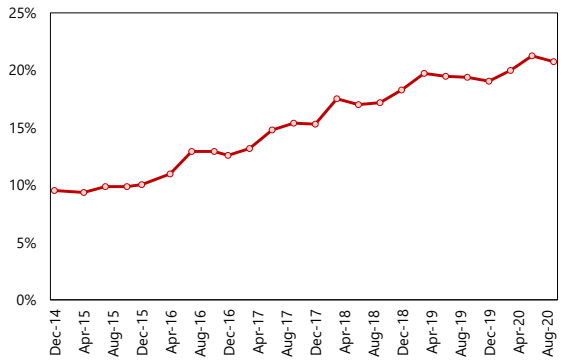
1/ Excludes the reserve position with the IMF (about CFAF 36 billion), which is not explicitly reported in the daily balance sheet.
2/ The red squares represent levels consistent with the previously endorsed (December 2018, June 2019, December 2019 and June 2020) NFA regional policy assurances

9. BEAC reversed course in response to the economic slowdown triggered by COVID-19. After maintaining an adequately tight monetary policy stance and having started liquidity absorption operations in early 2020, BEAC loosened monetary policy with a ¼ percentage point reduction in its policy rate in March and eased bank liquidity provision to cushion the possible impact from the pandemic. BEAC took additional measures in July, including: (i) a new temporary (6-month) government securities purchase program from banks; and (ii) the resumption of longer-term liquidity injections up to one year for banks which commit to maintain their levels of credit unchanged. Staff concurred with BEAC's view that the purchase program can provide useful temporary support to the regional securities market at a time when government domestic financing needs increased, while being consistent with the prohibition of direct monetary financing as per the BEAC's Charter. Countries need to submit revised securities issuances plans in line with budget provisions to activate

the program. Total purchases will be capped at CFAF 600 billion for the region (1.1 percent of regional GDP), with indicative caps by country. So far only Gabon benefited from this program in November 2020.

10. Banks continue to be very cautious in extending new credit and, instead, accumulate liquid assets at the central bank. Driven by still increasing the Central Bank's net foreign assets coupled with declining credit, the overall excess liquidity increased further in 2019 and early 2020. At end-June 2020, broad money growth reached 9 percent (a possible sign of suppressed private consumption and investment during the early stage of the pandemic) while credit to the private sector further declined by 2.5 percent (y-o-y). Instead, banks increased their holdings of government securities. In this context, there has been little demand by banks for new BEAC's liquidity injection operations. As the regional banking supervisor (COBAC) eased prudential requirements in mid-2020 to help banks absorb a possible impact on their balance sheets of the crisis, the analysis of the underlying quality of banks' portfolios will be more difficult.[1] While the banks' NPLs ratio further increased in 2020 (to 21 percent in September), most of the actual impact from the pandemic on banks' portfolio quality and solvency is expected to be reported in 2021.

Text Figure 3. CEMAC: Evolution of Non-Performing Loans (NPL)



IMF Staff Computations. Source: COBAC

MEDIUM-TERM OUTLOOK AND RISKS

11. The outlook for 2020 and beyond is subject to elevated uncertainty and risks are tilted to the downside. It is contingent on the evolution of the pandemic and in particular on its impact on international oil prices. The oil price decline triggered by the pandemic will likely be long-lasting, negatively affecting growth and fiscal revenue durably (see Figure 1). In light of the difficult social and poverty situation, fiscal consolidation can only be gradual, entailing large external financing needs (around €6.6 billion for 2021–23)

- The outlook assumes, in line with the latest WEO projections, oil prices to stay at around $41.7/barrel in 2020 and recover to around $45/barrel in 2021 as the COVID-19 pandemic recedes. It assumes a continuation of IMF-supported programs with Congo, CAR and Equatorial Guinea, some additional IMF emergency assistance for the region, and approval of three new IMF-supported programs (Cameroon, Chad, and Gabon) in 2021. The outlook also

[1] At its meeting in July, COBAC decided (i) to remove existing conditions for the immediate reclassification of restructured loans from the nonperforming to the sound category, (ii) to extend to 180 days from 90 days the period since the first payment default for the reclassification of sound loans to NPLs, both measures applicable to banks until end-2021, and (iii) to reduce the capital conservation buffer of 2.5 percent by 1 percentage point, thereby reducing the minimum capital adequacy ratio to 9.5 percent from 10.5 percent previously.

foresees a gradual repayment of domestic government arrears as per agreed arrear clearance strategies.

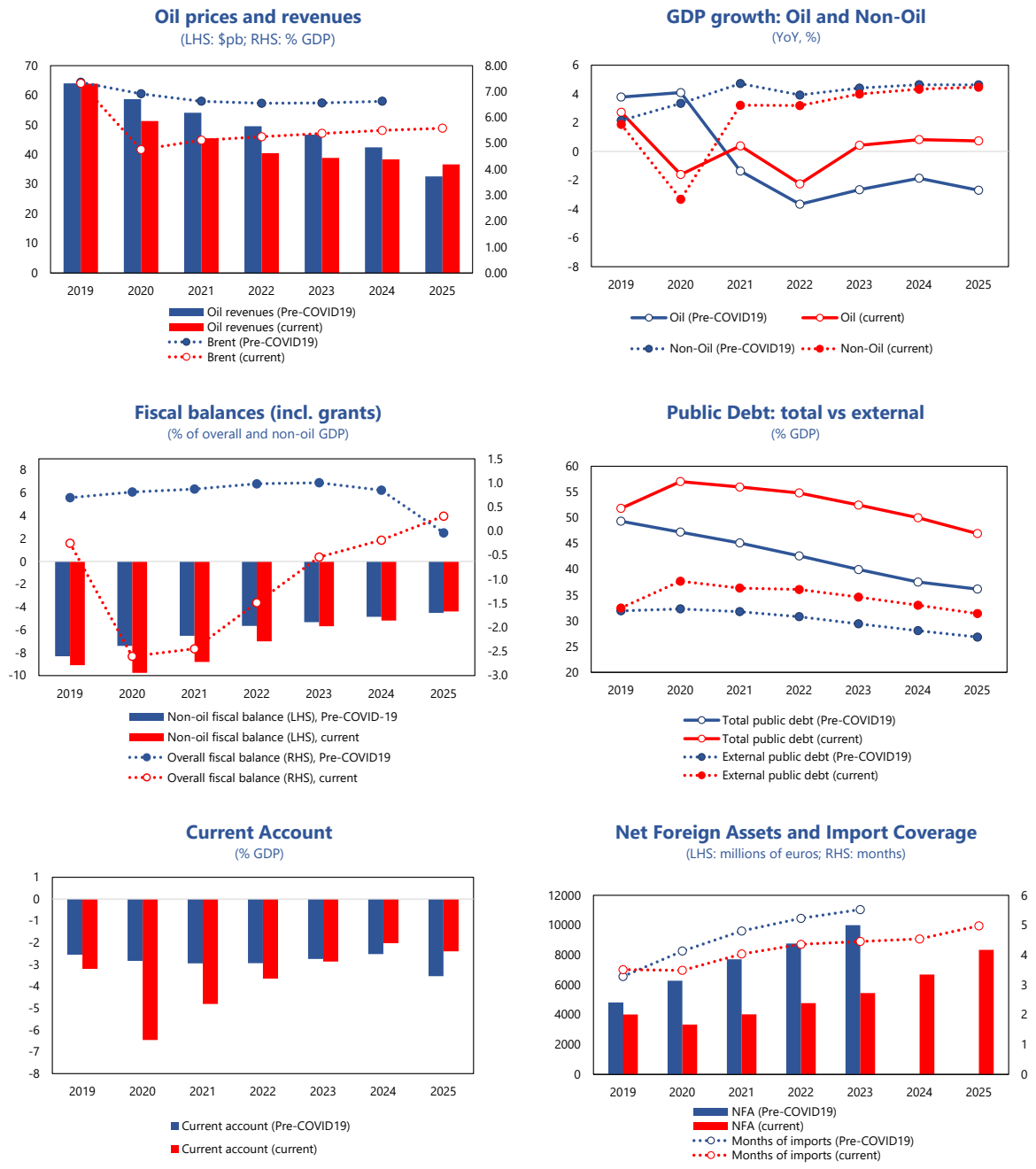
- Overall real GDP growth for the CEMAC region in 2020 is now projected to decline by about 6.5 percentage points relative to the pre-COVID-19 assessment, resulting in a recession of 3 percent. Oil output would be 5.7 percent lower than the pre-COVID-19 projections, due to lower demand and OPEC+ cuts. Non-oil GDP is projected to contract by 3.3 percent in 2020, reflecting weak demand and the impact of lock-down measures. The baseline forecasts a rebound in real GDP growth to 2.7 percent in 2021. Growth would continue to pick up very gradually in the medium term to around 3.5 percent by 2023. Inflation is expected to stay below 2½ percent in 2020 and increase slightly to 2.8 percent in 2021.

- Based on policy intentions broadly in line with staff advice, the overall fiscal deficit would deteriorate to -3.8 percent of GDP (excluding grants) in 2020 on average (compared with a projected balanced position pre-COVID-19), mainly reflecting lower revenue. The weak non-oil growth would continue to negatively impact non-oil revenues, adding to the expected fall in oil revenue. The resulting large financing needs would be filled in part by larger issuances of sovereign securities on the regional market and by external financial support, including by the Fund. Fiscal consolidation efforts, mostly through expenditure compression, would help reduce the overall deficit to -3.4 percent in 2021. In the medium term, the projection foresees balanced consolidation efforts to increase non-oil revenues and contain. Accordingly, the public debt-to-GDP ratio would increase by more than 5 percentage points of GDP in 2020 (to about 57 percent of GDP) before gradually coming down to 50 percent of GDP in 2024.

- The external current account deficit would significantly worsen to 6.5 percent of GDP in 2020 due to a large decline in oil exports (by 7.8 percentage points of GDP compared to 2019), only partly offset by lower imports. The financial account balance would remain broadly stable, partly helped by the Eurobond issuance by Gabon in February. Taking into account an adjustor for the temporary oil shock in 2020, the external position of the CEMAC region is assessed to be weaker than implied by fundamentals and desirable policies (Annex IV). With the projected gradual recovery in oil exports, the current account deficit would improve to around 4.8 percent of GDP in 2021. In the medium term, a partial recovery in oil exports and imports substitution would help bring the current account deficit back to around 3 percent of GDP by 2023.

- External reserves are projected to broadly stabilize after their sharp decline in 2020 Q3 at the equivalent of 3.5 months of imports at end-2020, well below the pre-COVID projections. With oil prices lower than pre-COVID over the medium term, reserves are projected to be re-built at a slower pace than previously envisaged but should reach the equivalent of 5 months of imports by 2025 (vs. 2022 pre-COVID), which is considered an adequate level for CEMAC. These projections also assume that still large external financing needs (of about €6.6 billion—US$7.9 billion-over 2021–23) could be covered in part through successor Fund-supported programs. It is crucial that additional financing be concessional resources from IFIs and bilateral donors, as well as grants and debt relief where needed to avoid a deterioration in debt sustainability in the region.

Figure 1. CEMAC: Medium-Term Economic Impact of the COVID-19 Pandemic



12. This outlook is subject to significant downside risks (see Annex II).

- A possible persistence of the fall resurgence in new COVID-19 cases in advanced economies could trigger a large and sustained decline in oil prices, that would further worsen the fiscal and external balances. Concerns about the sustainability of the monetary arrangement could arise if oil prices dropped further, with risks of capital flight.
- Slower than projected recovery in the region could weaken external sustainability.
- Falling short of the targets to increase non-oil fiscal revenue could derail fiscal consolidation and jeopardize debt sustainability.
- A deterioration in the security situation or social unrest could affect economic activity and undermine reform efforts (Cameroon, Chad, CAR).
- A lack of progress on new Fund-supported program negotiations, and delays in implementing reforms under ongoing programs would delay IMF financing and could negatively impact external financing and regional reserves accumulation.
- Reform fatigue could erode support for fiscal consolidation and structural reforms and further delay Fund-supported programs, negatively impacting external financing and reserves accumulation, as well as consumer and investor confidence.
- Filling the large external financing needs for 2021–23 may prove difficult. External financing needs for the next 3 years would amount to around € 6.6 billion, about half more than during 2017–19 and equivalent to about 8 ½ percent of 2020 regional GDP. This might be more difficult to fill than in recent years in a context of limited additional funding availability, especially concessional financing, and narrowing borrowing capacity with now higher debt levels.

Text Table 1. CEMAC: Program Countries: External Financing Sources [1]
(CFAF billion)

	2017-19	2020			2021			Total
		H1	H2	Projections	H1	H2	Projections	
1. Financing need	**3143**	**697**	**1551**	**2249**	**973**	**949**	**1921**	**7313**
2. IMF financing	**874**	**366**	**215**	**582**	**266**	**164**	**431**	**1887**
3. Budget support from other donors	**1994**	**132**	**380**	**512**	**163**	**291**	**454**	**2960**
World Bank	602	58	121	178	0	82	82	863
African Development Bank	791	53	163	216	103	102	205	1212
European Union	118	22	49	70	0	19	19	207
France	483	0	18	18	60	7	67	568
Other	0	0	29	29	0	0	0	29
4. Other external (non-project) financing [2]	**79**	**106**	**0**	**106**	**0**	**0**	**0**	**185**
5. Other exceptional financing [3]	**320**	**92**	**902**	**994**	**130**	**53**	**183**	**1497**
6. Residual financing gap	**0**	**0**	**54**	**55**	**413**	**440**	**853**	**908**

1/ Reflects Fund-supported programs for all six CEMAC countries

2/ Reflects one external short-term bridge loan in 2018, owing to a delayed external disbursement, to be fully repaid in 2019. The 106bn in 2020 corresponds to Gabon's eurobond issuance.

3/ Reflects debt restructuring operations and external arrears accumulation.

Source: IMF Staff computations.

13. Upside risks include:

- Faster than expected progress on a COVID-19 vaccine, leading to a faster than anticipated global economic recovery and higher oil prices.
- Faster than expected progress on FX repatriation by oil and mining companies, especially regarding oil fields rehabilitation funds, resulting in larger reserve accumulation.

IMPLEMENTATION OF THE REGIONAL STRATEGY TO ADDRESS THE CRISIS

A. Fiscal Consolidation Efforts

14. The regional institutions agreed with staff that fiscal consolidation efforts will need to resume post-crisis to maintain or bring debt back to a sustainable path and support the regional external position. The projected adjustment would bring the primary non-oil fiscal deficit to 4 percent of non-oil GDP by 2023, consistent with staff's recommended medium-term fiscal stance being discussed with each country. This will be critical to rebuild international reserves, put public debt firmly on a declining path, and reduce vulnerabilities to oil prices swings. The fiscal revenue base will need to expand and current expenditure to be rationalized to create space for well-targeted priority social spending and other growth-enhancing investments while achieving the consolidation targets. These objectives will guide program discussions with national authorities and be further assessed at the next tripartite ministerial meeting (at a date to be determined), as policies would need to adapt to a still very uncertain environment and outlook.

15. Staff concurred with the authorities that non-oil revenue-enhancing measures should play a more prominent role in meeting fiscal consolidation needs going forward. Before the COVID-19 crisis, fiscal consolidation efforts have essentially relied on the streamlining of non-priority and capital spending while non-oil revenue did not improve. Looking ahead, staff emphasized the need to continue to develop a harmonized regional approach; improve revenue administration; and focus on expanding the tax base, including through structural reforms aimed at diversifying the region's economies and through the streamlining of exemptions. At the same time, progress in governance reforms to maximize government oil revenues will be critical.

16. Staff advised the regional authorities to continue to encourage governments to accelerate the implementation of their arrears clearance plans to relieve the private and banking sectors. In Chad, the repayment of audited domestic arrears is ongoing. In Equatorial Guinea, audits of arrears at end-June 2019 have been finalized and repayment details are being discussed. In Gabon, the audit of 2015–17 domestic arrears has been concluded in June 2019 and payments have started. Some payments have been made in Congo, and in Cameroon, a debt restructuring agreement was reached in September 2020 between SONARA and local banks, while in the Central African Republic audits are still ongoing.

17. Staff discussed possible policy adjustments should downside scenarios materialize (Annex II). The regional institutions would have to envisage a tightening of monetary policy and faster implementation of the foreign exchange regulation for the oil and mining sectors. National governments would have to possibly accelerate and deepen fiscal adjustment and structural reforms, while being mindful of the impact of national measures on regional stability. Additional external financing, including from the Fund, would also be required. Staff also highlighted the significant disruptions associated with a no reform scenario leading to delays in external financing and larger drawdowns on government deposits. This would also lead to a forced and abrupt fiscal contraction with a reduction in public investment spending and associated slowdown in growth, ultimately weakening banks' balance sheets and the region's external stability.

B. Monetary Policy Stance and Operations

18. Staff and BEAC agreed that the accommodative monetary policy stance was appropriate in the context of COVID-19 related uncertainties. BEAC faces a tension between declining foreign reserve levels, and weak domestic demand due to economic recession, while inflation remains below the regional convergence criteria. The deterioration in reserve coverage, measured in months of imports, is largely due to the absorption of the large-scale shock. With the loosening of anti-COVID lockdown measures, domestic demand is expected to rebound while the improvement of supply conditions for goods and services should reduce inflationary pressures caused by the disruption in supply chains. By keeping its policy rate unchanged at 3.25 percent, BEAC strikes the right balance between preserving internal and external stability. Staff supported the current stance and recommended that BEAC should stand ready to tighten its monetary policy if the reserve position further deteriorates or if inflation pressures were to emerge.

19. Staff recommended that BEAC continues to monitor the impact of its liquidity injections. Staff and BEAC agreed that the liquidity management measures taken by BEAC have prevented a sharp tightening of financial conditions when the COVID-19 crisis hit. BEAC re-started weekly injections in March 2020 to ease banks funding liquidity stress and conducted 3 long-term liquidity injections, with a one-year maturity to support credit to the private sector. The offered weekly amounts were not fully taken up but ensured the transmission of the policy rate to the short-term interbank rate, and eased some banks' fears of a potential liquidity squeeze in a context where distribution of liquidity among banks remains uneven.[2] Staff pointed out that the banking system remains over-liquid overall, and agreed with BEAC that, once the economic recovery takes hold, liquidity absorption operations should resume to reduce the structural excess liquidity and stimulate the interbank market, which remains segmented. Staff advised that long-term liquidity injections should be phased out progressively to minimize a cliff effect at maturity. Ultimately, BEAC should gradually aim at reaching a neutral liquidity allocation, as planned at the time of the reform of the monetary operations framework in June 2018. BEAC should also continue to monitor the amounts and quality of collateral available at each bank and plan to reverse the reduction of haircuts, which was implemented at the start of the crisis, when the effects of the crisis will ease. Staff also urged

[2] Interbank market activity declined since BEAC renewed its liquidity injections. Nevertheless, the interbank rate remained slightly above the policy rate.

BEAC to accelerate the validation process of the refinancing plans of the two banks highly dependent on BEAC's refinancing which has been delayed by the crisis.

20. The mission encouraged BEAC to accelerate progress on the operationalization of the treasury single accounts (TSAs). So far, management of TSAs at BEAC has not yet been fully automated which is causing operational delays for countries already implementing TSAs. Improvement in TSA management with a new software platform within BEAC's accounting system has been delayed by the COVID-19 crisis, and BEAC estimates that it could take until mid-2021 to have the platform in place, about 6 months later than originally anticipated. Staff emphasized the importance of a swift implementation of this crucial reform to strengthen PFM transparency and treasury cash management, thereby helping avoid arrears accumulation and reduce recourse to costly short-term borrowing. This should also contribute to reducing banks' excess liquidity.

21. Staff supported BEAC's resolve to continue to refrain from extending direct monetary financing to its member states despite larger government financing needs. Staff reiterated that direct budget financing would raise serious concerns on the financial autonomy and stability of BEAC and would have significant implications for its credibility to carry out independent monetary policy. Staff underlined that BEAC could envisage extending the period for its securities purchase program, for an additional 6 months, if the envisaged envelopes are not fully used by end-2020. BEAC's CFAF 90 billion approved credit line to BDEAC to finance COVID-19-related well-identified and approved projects has not been drawn yet. Staff reiterated that countries should be mindful of the impact of this non-concessional financing on debt sustainability, and respect conditionality on debt limits in countries' Fund-supported programs.

22. Staff informed BEAC that an update safeguards assessment is due in 2021, in line with the four-year cycle for safeguards assessments of regional central banks under the IMF's safeguards policy.

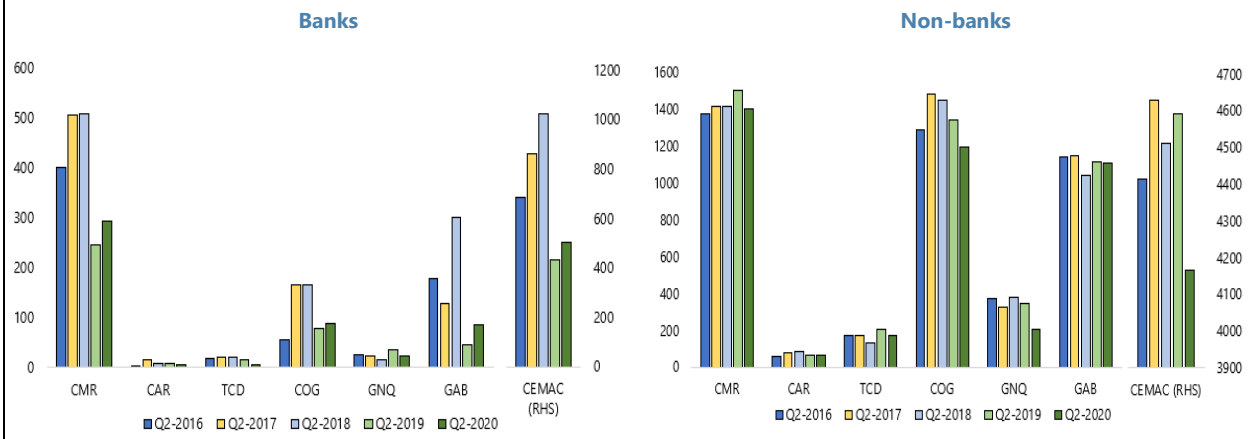
C. Enforcement of the Foreign Exchange Regulation

23. The implementation of the FX surrender requirements is satisfactory, but the enforcement of the FX repatriation remains difficult to assess. While the FX surrender requirement by domestic banks is being largely applied and is estimated to have reached 77 percent on average, BEAC does not have reliable estimates of the level of implementation of the repatriation requirement (see Text Figure 4). Staff emphasized that it is important that national authorities implement the measures which they committed to in support of BEAC's efforts for a stricter application of exchange regulations, in particular with regard to the rapid repatriation of the States' share in the revenues of the oil and mining sectors. Staff also advised BEAC to seek confirmation that public entities do not hold any deposits abroad. Regarding transactions abroad, staff welcomed BEAC's efforts to reduce the processing time for providing FX for transfers outside the monetary zone, now facilitated by the implementation of the "e-transfer" platform since September 2020, which dematerializes transfer processes.

24. In October, BEAC resumed bilateral consultations to bring oil and mining companies in compliance with the FX repatriation regulations, targeting full implementation for end-2021. Staff acknowledged the proposed extension of the compliance deadline by 12 months to end-2021, due to the pandemic, and encouraged BEAC to establish a credible timetable for the completion of the process. With support from external consultants, BEAC is working to determine and discussing with companies the share of export revenues that should be expected to be repatriated by the companies on the basis of all oil contracts, taking into account the specificities of the business model in these sectors. BEAC is also pushing for a speedy repatriation of the funds saved by companies to cover oil fields rehabilitation costs, which could be transferred into foreign currency deposits at BEAC.

Text Figure 4. Assets Held Abroad by CEMAC Residents.

(Outstanding, millions of U.S. dollars)



Source: BIS.

Note: Data shows the BIS data series for loans and deposits liabilities with a counterparty in CEMAC countries. As loans liabilities are generally very small, in particular for non-bank sector, staff has considered this data series to show mostly deposits

D. Developing the Financial Markets

25. The primary government securities market has played a crucial role in absorbing the significant financing needs of national governments resulting from the COVID-19 pandemic, and staff encouraged BEAC to continue its efforts to diversify the investor base. The outstanding stock of securities has continued to grow and reached FCFA 2,850 billion at end-October 2020 (5 percent of regional GDP). The preference by investors for shorter maturity issuances is reflected in increasing subscription rates for BTAs while yields on longer dated OTAs went up by 0.5 percent to 6 percent between December 2019 and October 2020. Activity on the secondary market remains relatively sluggish, with only a few recorded transactions, due to the development of interbank repo transactions. Banks owned 95 percent of outstanding government securities at end-September 2020 but BEAC's efforts to attract non-bank investors are starting to pay off with increasing participation of institutional investors and individuals, albeit from low levels. Staff welcomed this development which should help deepen the public securities market while limiting the growing bank exposure to sovereign risk.

26. Despite delays due to the pandemic, the BEAC continues to implement its financial transparency strategy. BEAC will launch its tender for a credit bureau before end-2020 and aims at selecting the first one by mid-2021. The implementation of a new financial statements' repository of CEMAC companies consistent with the new SYSCO OHADA plan is expected to be operational by end-2020 and the modernized credit register is expected to be completed by end-2021. Staff encouraged BEAC to actively pursue these efforts, which should facilitate financing for and development of sound businesses.

27. The BEAC launched its regional financial inclusion strategy project in October. So far, only Cameroon and Chad have a national strategy for financial inclusion. BEAC, with participation of national authorities' representatives, started a stocktaking exercise and aims to formulate a first vision of the regional strategy by end-June 2021. The strategy will determine a minimum list of free mandatory banking services and pay particular attention to the full connectivity of payment systems and the development of mobile banking in the region.

E. Strengthening the Banking Sector

28. Staff acknowledged measures taken by the SG COBAC to accompany the temporary easing of the prudential framework in mid-2020. COBAC had already restricted dividend payments for 2019 in April 2020. The temporary measures adopted in July 2020 now prevent all banks from distributing any dividend for the years 2020 and 2021. It also put in place ad-hoc reporting to closely monitor financial stability developments following the COVID-19 crisis. Banks have been requested since July 2020 to report monthly on impaired and restructured loans due to the pandemic, and report weekly on their liquidity position based on a new template. As of end-September, two thirds of banks were reporting. The SG COBAC is taking measures to have all banks reporting by end-2020 and launched a study to assess whether banks duly apply the temporary measures. Staff advised the SG COBAC to prepare regular analysis to assess asset quality developments both under the temporary as well as the permanent regulatory framework.

29. The SG COBAC intends to conduct various analyses to guide decisions on the exit strategy from the temporary prudential easing. It acknowledged that exiting from support measures post-crisis may pose challenges. Based on a preliminary September reporting, only a subset of banks reported to have made use of the temporary measures and declared significant volumes of loans impaired by the pandemic. The SG COBAC indicated that it was too soon to draw conclusions on the usefulness of the temporary easing measures and will wait until early 2021 to have a clearer picture. It is aware that such measures should not lead to delay corrective actions to deal with banks with pre-existing weaknesses. Staff advised the SG COBAC to present the monthly use of the temporary measures and develop by mid-2021 guidelines for the exit strategy. At the same time, the SG COBAC is conducting stress tests that will provide an estimate of banks' solvency at end-2021 and end-2022 based on the permanent regulatory framework. Currently working on a pilot with three banks, it will extend the exercise to the whole banking sector in early 2021. It shall thus provide a sense of the effective impact of the crisis independently of the temporary easing and serve as additional guidance for the exit strategy.

30. Staff advised the SG COBAC to alert all stakeholders more forcefully about the rise in non-performing loans (NPLs). Besides the possible impact of the crisis (which may not yet be reflected in these numbers, however), delays in the repayment of domestic arrears by national governments prevented the expected improvement in NPLs. Staff encouraged again the SG COBAC, which rightly sees these high NPLs as one of the major risks to financial stability, to regularly request inventories and audit reports of domestic arrears and their clearance plans from national authorities and the CEMAC Commission. Staff reiterated that cooperation from national authorities is essential to solve this issue. Such information would be key in (i) confirming amounts of domestic arrears, a key parameter in setting risk weights on government bonds, (ii) anticipating and understanding large movements in bank balance sheets and (iii) projecting NPLs and thus solvency developments. Staff emphasized that NPLs clearance strategies would need to be accelerated if conditions deteriorated further. Staff encouraged COBAC to ask banks to update their NPLs reduction strategies by end-2021 (these were last provided at end-2018).

31. Bank's compliance with prudential standards remains difficult, and there was little progress in bank resolution despite a first successful intervention by the deposit insurance fund (FOGADAC):

- The number of banks non-complying with minimum solvency, the individual exposure limit and short-term liquidity requirements is broadly unchanged from end 2019.[3] Only 19 banks out of 51, representing half of total banking assets, comply with all prudential ratios based on regulatory capital. Staff noted no progress in compliance with governance and risk management requirements and reiterated its suggestion to prepare a dashboard on these issues that could be updated regularly. To strengthen regulatory compliance, staff recommended to start using, even if only selectively during the crisis, the regulation on financial sanctions that COBAC adopted in 2019.

- Staff reiterated the need for COBAC to duly and timely apply the bank resolution framework. At end-September 2020, 15 banks out of 51 accounting for a quarter of CEMAC banking assets had solvency ratios lower than 9.5 percent, the current regulatory minimum. The SG COBAC indicated that the resolution framework is being applied, with several banks among these 15 being under restructuring while others are being liquidated. Staff reiterated its past advice to avoid accommodating unwarranted and repeated delays and to explore ways to further strengthen the resolution framework, including by limiting the power of national authorities to unduly delay COBAC's license withdrawals decisions as a disciplinary action and their implementation. Regarding ongoing liquidations, staff welcomed the first successful intervention by the FOGADAC and recommended enhanced collaboration with the liquidators while considering slightly extending the liquidation processes in view of difficulties linked to the pandemic. The SG COBAC indicated that difficulties in getting timely judicial decisions have been among the main reasons for lengthy liquidation processes.

[3] Banks noncomplying with minimum solvency, individual exposure limit and short-term liquidity requirements, were 15, 22 and 3 at end-September against 14, 23 and 5 at end-2019 respectively.

- Significant capacity improvements are still needed for COBAC to be fully effective. While onsite supervision shifted to virtual modalities since the start of the pandemic, only 7 inspections out of the planned 42 in 2020 were conducted and AML/CFT issues were covered only through self-assessments forms. Given the possibility of a second wave of the pandemic in the region, COBAC should develop a mechanism to conduct all aspects of its AML/CFT on-site inspections virtually, including as this may help to prevent and detect possible cases of corruption or of the diversion of public funds linked to COVID-19-related emergency spending. While meetings of COBAC Commissioners understandably focused on the crisis response since last March, staff strongly encouraged supervisors to resume COBAC's disciplinary sessions remotely to sanction banks in breach of prudential and AML/CFT regulations. Staff welcomed SG COBAC plans to enhance its data management systems, with the support of the World Bank, to better monitor and improve the quality of reported data, which reflect significant weaknesses.

32. Staff encouraged the SG COBAC to continue modernizing the regulatory framework at an appropriate pace. The SG COBAC adopted regulations in 2020 on concentration limits, the nomination and remuneration of provisional administrators and liquidators, and consumer protection. On the other hand, due to the pandemic, only slow progress was made with the gradual implementation of risk-based supervision and the Basel roadmap adopted in September 2019. So far most of the recommendations made by the 16 TA missions by AFRITAC-Centre since 2018 have reportedly been implemented or considered for implementation. Staff welcomed SG COBAC's plan to prioritize and introduce the leverage ratio in early 2021 in order to ensure a sound relationship between assets and capital. Noting that concentration of credit to key sectors or strategic companies represented a significant risk, the SG COBAC was adamant to push ahead with early implementation of the new regulation on concentration limits.

33. Staff commended COBAC's efforts to limit a further increase of the sovereign-banks nexus. Banks' exposure to the sovereign in mid-2020 amounted to 15 percent of banking assets (about three times that in WAEMU), and this could rise further as a result of the crisis and the larger government financing needs. Some countries recently increased use of a secured issuance mechanism, under which minimum resources are kept in a fiduciary account at BEAC to cover for annual bond servicing one year ahead and the bonds, upon approval by COBAC, can have zero risk weights. In this context, staff welcomed (i) the recent communication by the SG COBAC to set risk weights for government bonds for 2020–21 broadly in line with previous levels, and (ii) the initiative by COBAC to specify the conditions under which it could approve a zero risk weight on secured bond issuances. Staff also encouraged the SG COBAC to assess incentives it could set for banks to sell their bond holdings to their customers, in support of BEAC's strategy to develop the investor base and the market for government securities.

F. Enhancing the Regional Surveillance Framework

34. Staff emphasized that adhering to the regional convergence criteria within a reasonable timeframe is essential for the credibility of the regional surveillance framework. The pandemic disrupted the work program on the regional surveillance framework and most countries are expected

to breach several of the convergence criteria this year with 5 countries missing the fiscal convergence criterion, and several expected to miss the arrears clearance criterion. Yet, the crisis does not justify a temporary suspension of the criteria. Rather, to entrench the credibility of the regional convergence process in support of the monetary arrangement:

- Staff emphasized that it is crucial that countries design and implement credible three-year national convergence plans as required by the regional framework. So far, only two countries have articulated such plans, and these will need to be overhauled because of the COVID-19 crisis. Staff maintained further that these plans should be consistent with the recalibrated and new IMF programs. In the baseline scenario, while three countries would still breach the fiscal convergence criterion in 2021, all countries are expected to meet it by 2023.

- Staff urged the CEMAC Commission to continue exploring an appropriate sanction mechanism for breaches of regional surveillance rules which should include strong implementation mechanisms. The work has been understandably delayed by the crisis but is ongoing.

- Staff also emphasized the importance of adopting the early warning tool of macroeconomic imbalances. While staff welcomes the fact that the mechanism should be soon approved by the CEMAC council of ministers, it regretted that its planned introduction had been postponed by one year to 2022.

- Finally, staff also encouraged the commission to monitor the effective use of emergency spending for the pandemic and continue to promote budget transparency with national authorities, including on oil revenue management.

35. Staff welcomed the CEMAC Commission's efforts to monitor the effective implementation of key reforms under the CEMAC Economic and Financial Reform Plan (PREF). All countries but Equatorial Guinea have completed the transposition of the regional PFM directives. There has also been progress in strengthening the transparency of public finance management, in particular with the implementation of an annual budget calendar in all countries except Congo (currently being signed) detailing the preparation and adoption process of the draft budget law. Except for Equatorial Guinea, all countries produce Medium-Term Budget Frameworks. Staff welcomed the progress in the transposition and encouraged the Commission to continue monitoring the effective implementation of these directives in individual countries.

PROMOTING SUSTAINED AND MORE INCLUSIVE GROWTH AND THE SECOND PHASE OF THE REGIONAL STRATEGY

36. Staff presented the main conclusions of an analysis on current obstacles and ways to enhance inclusive growth prepared jointly with World Bank staff. Staff and the authorities agreed that the CEMAC's growth performance remains insufficient to lift the standards of living of a growing

population. The authorities agreed with staff that now is a good time to take stock of the reforms accomplished during the first phase of the regional strategy and IMF programs, and draw lessons to design a comprehensive reform agenda for the regional strategy. There was a consensus that structural, governance and transparency reforms are key to unlock the region's growth and the authorities noted the importance of better understanding the obstacles to these reforms including a better understanding of who benefits from the status quo. They also stressed that capacity constraints hinder the pace of reforms in some countries and added that multilateral institutions can play an effective role through capacity development assistance.

37. The IMF-World Bank staff analysis builds upon progress already achieved by the regional institutions and country authorities as part of the PREF and aim to propose a set of practical priority reform proposals, sequenced over a short to medium-term time horizon to accommodate capacity constraints. Main reform proposals are grouped under 6 pillars:

- improve public financial management, including the effective implementation of CEMAC PFM regional directives, in particular the umbrella directive on transparency and governance;
- improve management of public investment projects, including through strengthening national institutional and legal frameworks;
- enhance oversight, management, and transparency of SOEs;
- improve the business climate with the simplification of the tax structure and the modernization of the tax and customs administration;
- promote digital financial services to accelerate financial sector development and inclusion;
- leverage the regional market and the high potential of the agriculture sector to strengthen economic resiliency and take advantage of the opportunities offered by the African Continental Free Trade Area.

38. The analysis also aims to break with the past and provide a framework for ensuring that the reform momentum is widely communicated to involve a broad group of stakeholders, flagging the costs of not carrying the reforms and thereby increasing accountability. Regional institutions representatives concurred that political commitment, institutional capacity and an active involvement of civil society, are all required elements for change. Staff agreed to the suggestion that preparation to convene a Heads of State Summit to allow for commitments at the highest levels on these priority reforms should begin as soon as possible.

MONITORING OF REGIONAL DEVELOPMENTS AND POLICIES

39. At the CEMAC tripartite meeting in July, the regional and national authorities focused the discussion on the policy response to the crisis and its financing, while reiterating their

support to the regional strategy. They appreciated the rapid support provided by the Fund to the region to four countries, which helped cover the large financing needs created by increased priority spending and significantly lower revenues. They urged all parties to find ways to deliver similar assistance to CEMAC members that have not so far received such assistance. National authorities welcomed the BEAC's easing measures while the BEAC and staff reiterated that there should be no direct monetary financing of governments. There was consensus among all participants that the second phase of the regional strategy should focus on growth and development. National and regional authorities argued for larger borrowing space for investment projects going forward to support the recovery post-COVID, while IFIs and development partners emphasized the need to be mindful of debt sustainability issues. The authorities reiterated the plan to hold a high-level conference in the near future to discuss and pave the way for a more ambitious structural reform program as the core of the regional strategy going forward.

40. BEAC and COBAC have pursued the implementation of the policy commitments provided in the December 2019 Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries but progress was somewhat slower than expected because of the COVID-19 crisis. BEAC's monetary policy easing was moderate given the severity of the crisis, and policy remained appropriately calibrated, supporting the main objective of bolstering CEMAC's external reserve assets. Plans for implementing a neutral liquidity stance were justifiably put on hold until the impact of the pandemic fades. The NFAs at end-December 2019 were lower than the projections referred to in the December 2019 regional policy assurances (€4.0 billion against €4.7 billion) due to a shortfall in external financing during 2019H2 (by the equivalent of €0.4 billion due to delays in meeting disbursements-related conditionality) and some fiscal deficit over-runs. During 2020H1, NFA accumulation was in line with pre-COVID projections, but the end-June 2020 projection was also missed with a similar shortfall as at end-2019. Progress on other policy intentions was delayed by the pandemic: consultations with the extractive sector on the implementation of the foreign exchange regulations were delayed until October 2020; progress towards operationalizing TSAs has been slow; COBAC's implementation of modern-risk based supervision did not proceed as quickly as anticipated. The validation of the cash-flow recovery plans of two banks to reduce their dependence on BEAC refinancing within a period of two years has been slow.

41. The attached follow-up letter describes revised NFA projections through June 2021 which are proposed as modified regional policy assurances and other policy intentions by the regional institutions in support of national program objectives. The decline in international reserves has been contained, despite the severity of the COVID shock, by BEAC's decision to keep its policy rate unchanged at 3.25 percent (after an initial easing), supported by national authorities' budget revisions to prioritize

Text Table 2. Regional Policy Assurance on NFAs, 2020–21

(Billions of euros)

	Dec.2019	June. 2020	Dec. 2020	Jun.2021
Assurance endorsed in December 2019	4.50	5.20	….	…
Outcome	4.00	4.50	….	…
Proposed new assurances	…	…	3.30	3.40

spending and contain budget deficits. Going forward, BEAC is committed to maintain an appropriately tight monetary policy. It will resume efforts to target a neutral liquidity stance once the economic recovery takes hold to reduce the excess liquidity, stimulate the interbank market, and improve monetary policy transmission. BEAC will also continue to work towards effective implementation of the foreign exchange regulation by continuing consultations with oil and mining companies and find the best ways for bringing them to comply with these regulations during 2021. Consistent with staff projections, the end-2020 and end-June 2021 NFA projections covered by the updated policy assurance was set to € 3.3 and € 3.40 billion, respectively. This is consistent with national governments fiscal policy intentions and in line with staff advice and what is expected in Fund-supported programs. In the event of a deviation from the stated NFA accumulation projections which would not be assessed by Staff as minor or of a temporary nature, the follow-up letter also reiterates the commitment to identify and adopt any additional corrective measures that would be deemed necessary at the national and/or regional policy levels, including a further tightening of monetary policy, to allow the continuation of (or approval of new) financial support as part of the Fund-supported programs with CEMAC members.

STAFF APPRAISAL

42. As the crisis associated with the COVID-19 pandemic is expected to have long-lasting effects, CEMAC's fiscal and external adjustments will be slower than envisaged before the pandemic struck. The pandemic hit when the economic outlook for the CEMAC was improving, as the first phase of the regional strategy was ending. The region is still vulnerable to oil price shocks however, and CEMAC's goal of achieving an adequate level of reserves of 5 months of imports of goods and services would be delayed to 2025 vs. 2022 pre-pandemic. A large share of the projected reserves accumulation by 2025 would stem from borrowed funds. Slower fiscal consolidation would also complicate debt sustainability issues.

43. The regional authorities' policy response to mitigate the immediate economic impact of the COVID-19 pandemic has been pro-active and appropriate. CEMAC governments announced various support measures to firms and households in their revised budget laws while limiting the deterioration in fiscal balances. BEAC loosened monetary policy and quickly eased bank liquidity provision. To improve the transmission of monetary policy to longer term rates, and to support the market to cover growing government financing needs and increase attractiveness of government securities, BEAC resumed longer-term liquidity injections up to one year and introduced, in July, a new government securities purchase program from banks, consistent with the prohibition of direct monetary financing as per the BEAC's Charter. Overall, monetary policy strikes the right balance between preserving internal and external stability. The BEAC should however stand ready to tighten monetary policy if the external reserves position further deteriorates or if inflation pressures were to emerge. Staff supports BEAC's resolve to continue to refrain from extending any type of direct monetary financing to its member states and supports BEAC's intention to ensure that its government securities purchase program on the secondary market remains consistent with its charter.

44. Once the economic recovery takes hold, liquidity absorption operations should resume to reduce the structural excess liquidity and stimulate the interbank market. Ultimately, BEAC should aim at reaching a neutral liquidity allocation, as planned at the time of the reform of the monetary operations framework in June 2018. Accelerating progress on the operationalization of the TSAs both by governments and by the BEAC is also an important component of this strategy.

45. The steps taken by COBAC to strengthen banks' capital and monitor financial stability following the easing of prudential regulations were appropriate. While the COBAC temporarily amended the prudential framework to facilitate loan restructuring and delay the NPL classification, it prevented banks from distributing dividends in 2020 and 2021 to strengthen banks' capital and capacity to lend. The new ad-hoc reporting will allow to monitor asset quality development on a monthly basis and liquidity on a weekly basis. Furthermore, the stress tests being conducted by COBAC should provide an estimate of banks' solvency at end 2021 and 2022. Staff welcomed these measures which should guide delicate decisions in 2021 about the exit strategy from the temporary prudential easing.

46. The implementation momentum of COBAC's strategic plan, including risk-based prudential and AML/CFT supervision, and its Basel roadmap should resume once the logistical challenges resulting from the crisis fade. The implementation of the COBAC's reform agenda was delayed by shifting priorities and logistical challenges because of the COVID crisis. Banks compliance with prudential standards remains weak and resolution of problem banks has been slow. Going forward, improving compliance with prudential standards and tackling the high level of NPLs remain key. To protect financial stability, the COBAC should continue efforts to limit a further significant increase in banks' sovereign exposure. Progress on arrears clearance plans and avoiding new arrears accumulation are essential in view of the significant impact of still outstanding governments' domestic arrears on high levels of nonperforming loans. Finally, in the short term, COBAC should continue to strengthen its risk-based prudential and AML/CFT supervision and pursue its efforts, with World Bank support, to improve data quality, enhance its process effectiveness, and find a way with BEAC to address longstanding under-staffing issues.

47. Progress on the implementation of the foreign exchange regulation should continue. Processing times for FX transfers outside of the monetary zone have been reduced. FX surrendering levels are satisfactory, but repatriation compliance of deposits held by public entities abroad remains unknown. The pandemic has delayed consultations to bring oil and mining companies in compliance with the FX repatriation regulations, but discussions resumed in October 2020. Given current pressures on external reserves, aiming at full implementation of FX regulations by companies in extractive sectors by end-2021 is important while taking into account sectoral specificities.

48. The CEMAC is at a crossroads and should aim at a profound transformation. The first phase of the regional strategy broadly restored macroeconomic stability, but growth and regional standards of livings remain too low. A new phase of the regional strategy must therefore decisively focus on implementing structural, transparency and governance reforms to lay the basis for a diversified, inclusive, and sustainable growth. Increasing non-oil fiscal revenue will also be key to insulate macroeconomic balances from oil price swings and make room for priority development and

social spending. Since past reform attempts have yielded little in these areas, reform bottlenecks need to be addressed and discussed within a coordinated strategy based on strong commitment at the highest policy making level. The CEMAC Commission should continue to promote budget transparency through the effective implementation of all CEMAC PFM directives and strengthen the regional surveillance framework, including with an early warning system and a sanction scheme for non-compliant countries. Accelerating financial sector reforms is also essential to ensure the development of the private sector. Program engagement with the Fund in the context of each new or on-going IMF-supported programs will need to prioritize these key reforms to foster growth while aiming at rebuilding fiscal and external buffers.

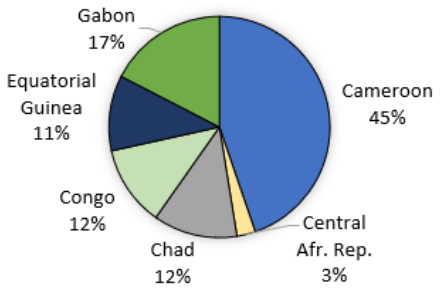
49. Overall, staff: (i) considers that BEAC and SG-COBAC were unable to fully implement the policy assurance on NFA provided in the December 2019 follow-up letter due to a shortfall in external financing during 2019H2 and some fiscal deficit over-runs; (ii) considers that BEAC and SG-COBAC have taken satisfactory corrective measures to address the end-June NFA underperformance given that the NFA accumulation during 2020H1 was in line with the policy assurance, and that monetary policy accommodation was very limited in response to the COVID-19 shock, and (iii) supports the updated policy assurance on NFA accumulation (to bring NFA to €3.30 billion and €3.40 billion at end-December 2020 and end-June 2021, respectively). Other policy commitments provided in the December 2019 follow-up letter were also implemented with delays, due to the COVID-19 pandemic. The continuation of external support to CEMAC countries will underpin the projected NFA accumulation based on BEAC's commitment to implement an adequately tight monetary policy, and on the commitment by member states to maintain macroeconomic stability, including through appropriate fiscal policy measures, and to implement quickly and decisively ambitious structural, transparency and governance measures to unlock the growth potential of the region. Meeting this policy assurance is critical to allow the continuation of (or approval of new) financial support as part of the Fund-supported programs with CEMAC members.

50. The surveillance discussions with the CEMAC authorities will remain on a 12-month cycle in accordance with Decision No. 13654-(06/1), adopted on January 6, 2006.

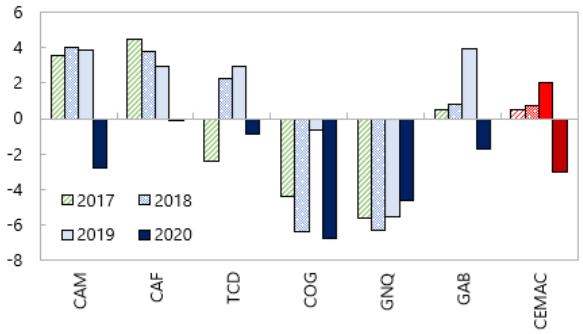
Figure 2. CEMAC: Selected Economic Indicators, 2000–20

Real GDP is forecasted to contract by -3 percent in 2020, with recessions registered in all member countries; non-oil GDP is estimated to shrink by 3.3 percent in 2020, adding to the fall in oil GDP of 1.6 percent

CEMAC: Nominal GDP, 2020
(National shares)

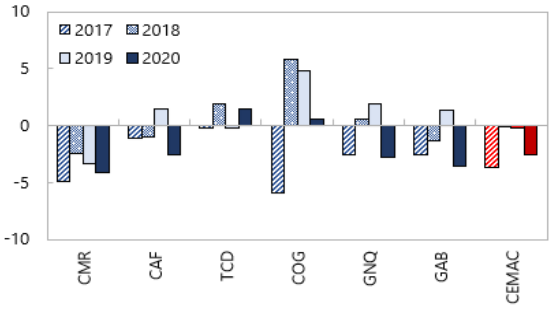


CEMAC: Real GDP Growth, 2017-20
(Percent)

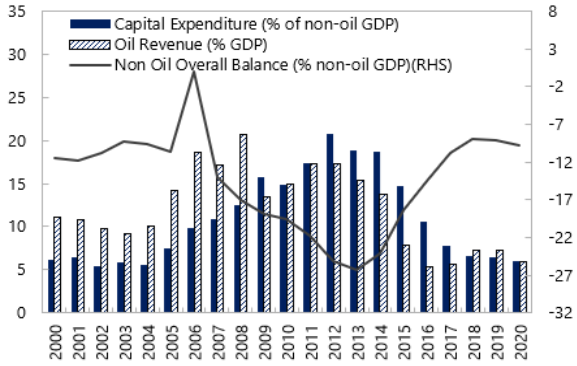


Overall fiscal balance is projected to decline to -3.9 percent in 2020, whereas the worsening of the non-oil fiscal deficit will reach -11.3 percent, reflecting the impact of the pandemic on the economy and weaker revenue mobilization.

CEMAC: Overall Fiscal Balance incl. grants, 2017-20
(Percent of GDP)

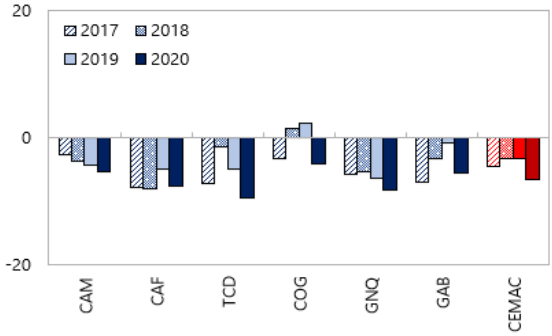


CEMAC: Selected Fiscal Indicators, 2000-20

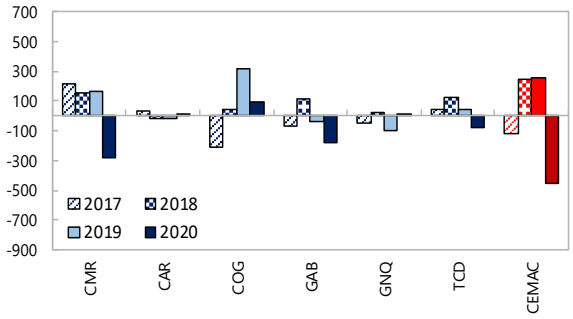


The current account deficit further widened in 2020 to reach -6.5 percent, as exports fell sharply while imports only decreased slightly. Reserves accumulation is forecasted to significantly deteriorate by the end of the year.

CEMAC: Current Account, 2017-20
(Percent of GDP)



CEMAC: Yearly change in NFA, 2017-20
(Billions of USD)

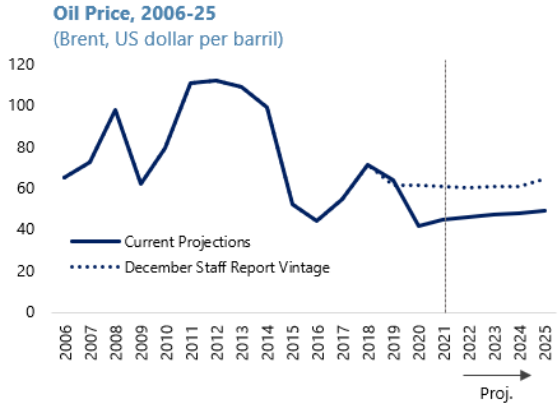


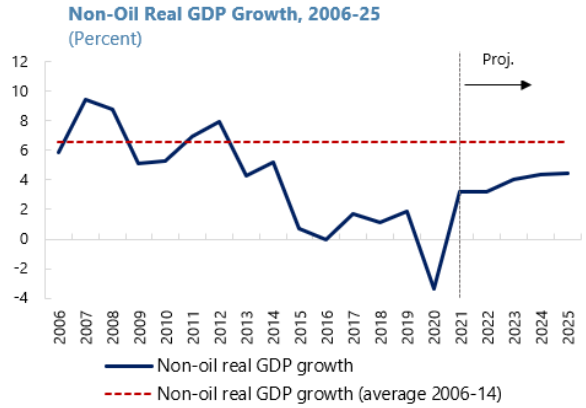
Note: Changes at the CEMAC level include unallocated reserves at the BEAC.

Sources: CEMAC authorities; and IMF staff estimates.

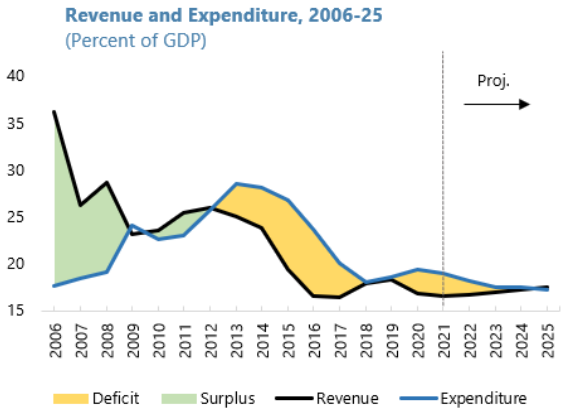
Figure 3. CEMAC: Selected Economic Indicators, 2006–25

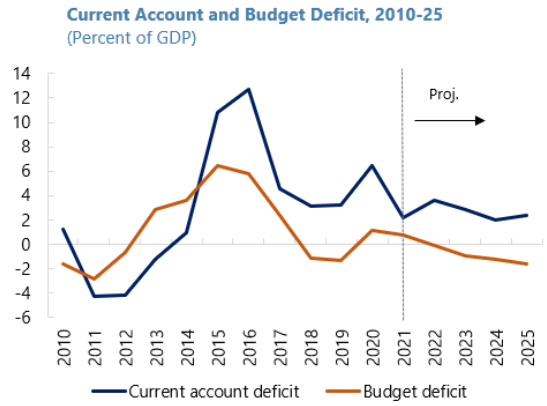
The end-year oil prices forecast was revised downward and is now projected to reach $41.7 per barrel. The demand shock triggered by the COVID-19 pandemic has impacted both oil and non-oil growth and led to lower revenue by about 2 percentage point of GDP.



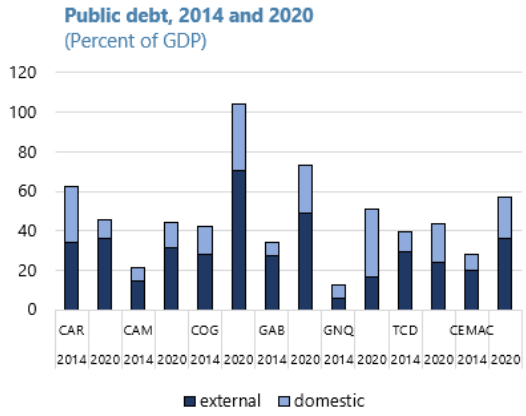


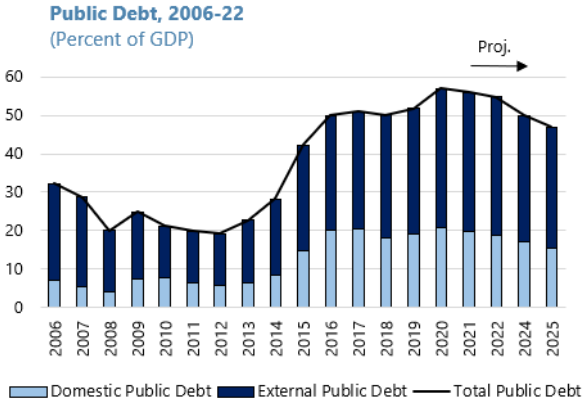
The large twin deficit in 2020 is reversing public debt dynamics and will lead to lower external reserves





Public debt increased to 57 percent of regional GDP in 2020 and is expected to gradually decline in the medium-term as the economic impact of the pandemic fades away and arrears repaid.



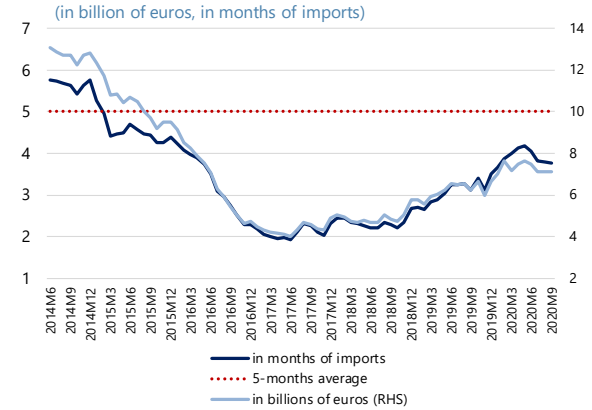


Sources: GAS Live, CEMAC authorities; and IMF staff estimates.

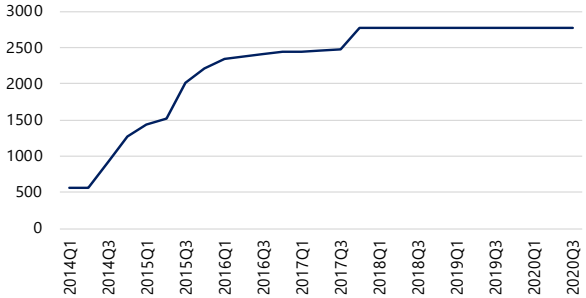
Figure 4. CEMAC: Monetary Indicators

In June 2020, NFA reverted to their end-2019 level and stabilized throughout the third quarter of the year. The reserves coverage in months of imports is forecasted to reach 3.5 months at end-2020.

Official Reserves' coverage, 2014-20
(in billion of euros, in months of imports)

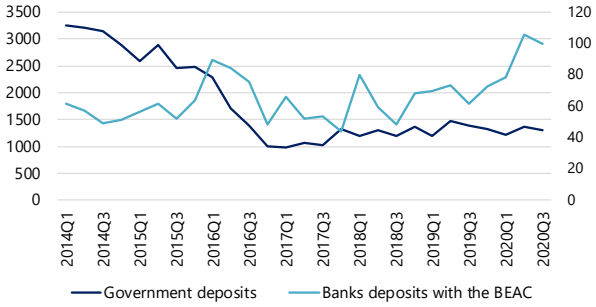


BEAC's credit to governments: Advances and consolidated debt, 2014-20
(in CFAF billions)

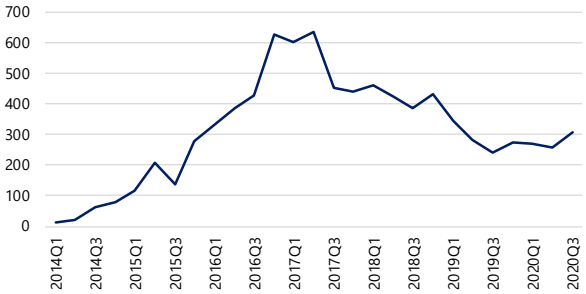


Governments deposits at the BEAC remained stable throughout Q3-2020, whereas deposits of banks increased. BEAC's refinancing to banks remains little changed.

Government and banks deposits at the BEAC, 2014-20
(in CFAF billions)

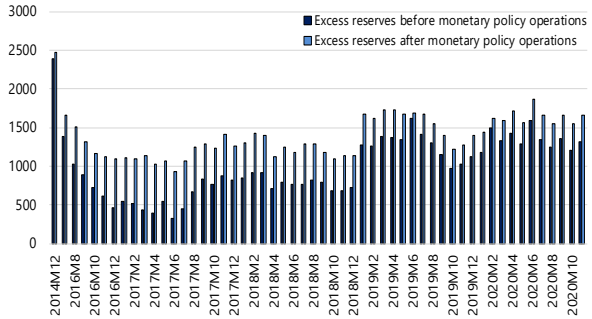


BEAC refinancing of banks
(in CFAF billions)

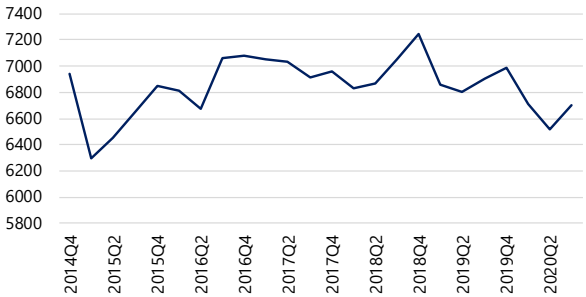


The banking sector's excess reserves augmented until June 2020 and credit to the private sector recently improved.

Banks' excess reserves, December 2014 - November 2020
(end-of-period, in CFAF billions)



Credit to the private sector, 2014-20
(in CFAF billions)



Sources: CEMAC; and IMF staff calculations.

Table 1. CEMAC: Selected Economic and Financial Indicators, 2016–25

	2016	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Pre-COVID19[4]	Est.	Pre-COVID19[4]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual change, in percent)											
National income and prices												
GDP at constant prices[1]	-1.6	0.5	0.8	2.5	2.0	3.5	-3.0	2.7	2.2	3.4	3.8	3.9
Oil GDP[1]	-7.7	-4.8	-0.8	3.8	2.7	4.1	-1.6	0.4	-2.2	0.4	0.8	0.7
Non-oil GDP[1]	0.0	1.7	1.1	2.2	1.9	3.3	-3.3	3.2	3.2	4.0	4.3	4.5
Consumer prices (period average)[2]	1.1	0.8	2.1	2.1	1.8	2.4	3.1	2.5	2.4	2.4	2.4	2.3
Consumer prices (end of period)[2]	0.3	1.2	3.0	2.3	1.9	2.3	2.3	2.8	2.4	2.4	2.4	2.3
	(Annual change, in percent of beginning-of-period broad money)											
Money and credit												
Net foreign assets	-31.4	-0.9	1.8	5.6	0.5	8.3	-3.3	...	...	...	...	...
Net domestic assets	26.7	0.5	6.3	2.2	5.3	-1.3	8.6	...	...	...	...	...
Broad money	-4.6	-0.4	8.1	7.9	5.9	7.1	5.3	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)											
Gross national savings	19.2	22.0	22.6	23.2	22.9	23.8	18.6	21.1	22.2	23.1	24.3	25.9
Gross domestic investment	31.7	26.6	25.6	25.6	26.0	26.6	24.9	25.6	25.7	25.9	26.3	28.3
Of which: public investment	9.0	7.2	5.9	4.9	5.7	5.3	5.3	5.4	5.2	5.2	5.5	5.5
Government financial operations												
Total revenue, excluding grants	15.9	15.7	17.2	17.7	17.5	17.5	15.5	15.6	15.8	16.1	16.5	16.6
Government expenditure	23.7	20.1	18.1	17.9	18.5	17.5	19.4	19.0	18.2	17.5	17.5	17.2
Primary fiscal basic balance[3]	-3.9	-0.5	2.6	3.6	3.1	3.9	0.2	1.0	1.8	2.6	3.0	3.3
Overall fiscal balance, excluding grants	-7.8	-4.4	-0.9	-0.2	-1.0	-0.1	-3.9	-3.4	-2.4	-1.4	-1.1	-0.6
Primary fiscal balance, including grants	-5.8	-2.4	1.1	1.9	1.3	2.0	-1.1	-0.8	0.1	0.9	1.2	1.6
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-15.3	-12.0	-10.1	-9.1	-10.2	-8.1	-11.3	-9.9	-8.1	-6.7	-6.2	-5.4
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-13.0	-9.5	-7.6	-6.5	-7.4	-5.6	-8.1	-6.9	-5.2	-4.0	-3.6	-3.0
Total Public Debt	49.9	51.0	50.2	48.6	51.8	46.5	57.0	56.0	54.8	52.5	50.0	46.9
External sector												
Exports of goods and nonfactor services	28.6	31.5	35.3	34.6	35.1	33.4	27.3	29.5	29.3	29.2	29.0	28.7
Imports of goods and nonfactor services	36.5	31.3	32.6	31.9	32.7	31.5	29.9	30.2	29.5	28.9	28.0	28.4
Balance on goods and nonfactor services	-7.9	0.2	2.7	2.8	2.4	1.9	-2.6	-0.7	-0.2	0.3	1.0	0.3
Current account, including grants	-12.7	-4.6	-3.2	-2.5	-3.2	-2.8	-6.5	-4.8	-3.6	-2.9	-2.0	-2.4
External public debt	28.5	32.0	30.9	31.5	32.5	31.8	37.7	36.4	36.1	34.6	33.0	31.4
Gross official reserves (end of period)												
Millions of U.S. dollars	4,972	5,807	6,555	8,169	7,390	10,460	8,204	9,791	10,962	11,568	12,693	14,369
Months of imports of goods and services (less intra regional imports)	2.3	2.3	2.7	3.3	3.5	4.1	3.5	4.0	4.4	4.5	4.5	5.0
Percent of broad money	29.3	30.6	33.2	39.2	36.3	46.4	35.9	40.2	42.9	42.5	44.0	46.8
Memorandum items:												
Nominal GDP (billions of CFA francs)	47,467	49,593	53,071	54,751	54,204	57,137	50,109	52,817	55,286	58,387	61,960	65,875
CFA francs per U.S. dollar, average	593	581	555	...	586	...	...	...	...	...	...	...
CFA francs per U.S. dollar, end-of-year	622	554	576	...	590	...	...	...	...	...	...	...
Oil production (thousands of barrels per day)	873.8	827.5	872.1	918.9	900.5	949.7	885.3	898.7	882.3	889.4	897.0	907.0
Oil prices (U.S. dollars per barrel, brent)	44.0	54.4	71.1	64.4	64.0	60.5	41.7	44.8	46.0	47.1	48.1	48.9

Sources: Authorities' data; and IMF staff estimates and projections.

[1] Estimated after rebasing the national real GDP series to 2005.

[2] Using as weights the shares of member countries in CEMAC's GDP in purchasing power parity in US dollars.

[3] Excluding grants and foreign-financed investment and interest payments.

[4] Refers to the projection published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing.

Table 2. CEMAC: National Accounts, 2016–25

	2016	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024	2025
				Pre-COVID19[1]		Pre-COVID19[1]						
	Est.	Est.	Est.		Est.		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual change, in percent)											
Real GDP												
Cameroon	4.6	3.5	4.1	3.9	3.9	3.8	-2.8	3.4	4.3	4.8	5.4	5.4
Central African Republic	4.7	4.5	3.8	4.5	3.0	5.0	0.0	3.5	5.0	5.0	5.0	5.0
Chad	-5.6	-2.4	2.3	3.0	3.0	3.9	-0.9	1.4	2.7	2.9	4.5	4.5
Congo, Republic of	-10.7	-4.4	-6.4	2.2	-0.6	4.6	-6.8	1.2	1.5	2.9	2.0	3.3
Equatorial Guinea	-8.8	-5.7	-6.4	-5.9	-5.6	-1.9	-4.6	3.1	-6.0	-1.4	-1.3	-3.2
Gabon	2.1	0.5	0.8	3.4	3.9	3.8	-1.7	1.8	2.5	3.2	3.4	3.8
CEMAC	-1.6	0.5	0.8	2.5	2.0	3.5	-3.0	2.7	2.2	3.4	3.8	3.9
Nominal GDP												
Cameroon	5.8	5.1	5.7	5.7	5.9	5.8	-1.5	5.9	6.0	6.6	7.4	7.4
Central African Republic	7.9	11.3	5.2	7.4	5.4	7.6	1.9	6.1	7.7	7.6	7.6	7.6
Chad	-6.6	-3.2	4.7	5.0	4.6	6.8	-3.8	4.8	5.8	6.0	7.3	7.2
Congo, Republic of	-14.3	7.2	15.3	1.0	-1.2	3.4	-19.6	4.7	4.1	5.7	4.8	6.0
Equatorial Guinea	-14.5	6.4	4.1	-8.8	-12.4	-1.5	-14.4	8.4	-0.2	3.1	3.4	2.0
Gabon	-2.3	4.3	8.1	6.1	5.5	4.0	-11.7	3.2	3.7	3.9	4.3	5.2
CEMAC	-3.3	4.5	7.0	3.0	2.1	4.4	-7.6	5.4	4.7	5.6	6.1	6.3
Real non-oil GDP												
Cameroon	5.3	5.0	4.4	3.8	3.6	4.0	-2.8	3.5	4.6	5.0	5.5	5.6
Central African Republic	4.7	4.5	3.8	4.5	3.0	5.0	0.0	3.5	5.0	5.0	5.0	5.0
Chad	-6.0	-0.5	0.3	2.0	2.0	3.0	-1.6	1.0	3.3	3.7	4.0	4.1
Congo, Republic of	-11.3	-8.6	-10.1	0.8	-1.7	2.5	-8.0	-1.5	1.5	2.0	2.5	3.5
Equatorial Guinea	-4.7	-0.1	-2.8	-5.0	-5.3	-0.3	-7.8	10.3	-2.4	0.7	0.4	-0.8
Gabon	3.3	2.5	1.5	2.5	3.3	4.0	-1.5	2.4	3.0	3.8	4.1	4.5
CEMAC	0.0	1.7	1.1	2.2	1.9	3.3	-3.3	3.2	3.2	4.0	4.3	4.5
Consumer price inflation (period average)												
Cameroon	0.9	0.6	1.1	2.4	2.5	2.4	2.8	2.3	2.1	2.0	2.0	2.0
Central African Republic	4.9	4.2	1.6	3.2	2.7	2.5	2.1	1.8	2.5	2.5	2.5	2.5
Chad	-1.6	-0.9	4.0	1.0	-1.0	3.0	3.5	3.0	3.0	3.0	3.0	3.0
Congo, Republic of	3.2	0.4	1.2	1.8	2.2	1.8	2.4	2.6	2.8	3.0	3.0	3.0
Equatorial Guinea	1.4	0.7	1.3	0.9	1.2	1.7	5.7	3.5	3.4	3.3	3.3	3.3
Gabon	2.1	2.7	4.8	3.0	2.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0
CEMAC	1.1	0.8	2.1	2.1	1.8	2.4	3.1	2.5	2.4	2.4	2.4	2.3
End of period inflation												
Cameroon	0.3	0.8	2.0	2.8	2.4	2.0	2.4	2.1	2.0	2.0	2.0	2.0
Central African Republic	-4.5	7.2	4.6	-0.3	-2.8	2.5	3.0	2.5	2.5	2.5	2.5	2.5
Chad	-5.0	3.1	4.4	1.5	-1.7	3.0	1.2	5.6	2.9	3.0	3.0	3.0
Congo, Republic of	0.0	1.8	0.9	1.8	3.8	2.5	2.5	2.7	3.0	3.0	3.0	3.0
Equatorial Guinea	2.0	-0.2	2.6	1.6	4.1	1.7	3.5	3.5	3.3	3.2	3.2	3.1
Gabon	4.1	1.1	6.3	3.0	1.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0
CEMAC	0.3	1.2	3.0	2.3	1.9	2.3	2.3	2.8	2.4	2.4	2.4	2.3
Gross national savings												
Cameroon	25.2	25.5	26.2	25.8	25.8	25.7	21.9	23.8	25.3	26.5	28.2	29.9
Central African Republic	8.2	5.7	8.4	10.5	9.7	10.6	11.1	9.8	10.8	11.5	12.3	13.0
Chad	6.1	13.6	17.5	22.8	18.5	24.0	14.5	16.4	16.8	16.1	17.4	19.7
Congo, Republic of	25.1	33.2	24.9	24.8	24.5	24.4	17.2	21.8	22.4	24.3	25.3	26.2
Equatorial Guinea	3.7	8.2	10.8	6.5	6.9	7.3	5.5	7.2	7.5	8.5	8.9	10.8
Gabon	24.1	24.8	27.2	30.0	30.0	31.4	23.5	27.8	28.7	29.4	29.7	30.6
CEMAC	19.2	22.0	22.6	23.2	22.9	23.8	18.6	21.1	22.2	23.1	24.3	25.9
Gross domestic investment												
Cameroon	28.4	28.1	29.8	29.4	30.1	29.3	27.2	28.2	28.7	29.1	30.1	31.4
Central African Republic	13.6	13.5	16.4	16.2	14.7	16.9	18.6	15.8	16.2	16.8	17.5	18.1
Chad	16.5	20.7	18.9	29.0	23.3	30.2	25.5	26.0	25.7	26.2	25.7	24.8
Congo, Republic of	73.8	36.5	23.4	17.7	22.2	19.3	21.3	24.9	25.9	26.1	26.6	26.3
Equatorial Guinea	16.7	14.0	16.2	12.2	13.2	13.1	13.7	12.6	12.5	12.8	13.1	27.6
Gabon	34.5	31.8	30.5	31.1	30.7	33.4	29.1	29.3	27.6	26.7	25.7	25.4
CEMAC	31.7	26.6	25.6	25.6	26.0	26.6	24.9	25.6	25.7	25.9	26.3	28.3

Sources: Authorities' data; and IMF staff estimates and projections.

[1] Refers to the projection published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing

Table 3a. CEMAC: Balance of Payments, 2016–25

(Billions of CFA francs)

	2016	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Pre-COVID19[3]	Est.	Pre-COVID19[3]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-6,047	-2,260	-1,683	-1,373	-1,735	-1,595	-3,237	-2,540	-2,015	-1,671	-1,255	-1,578
Balance on goods and services	-3,727	86	1,449	1,522	1,297	1,084	-1,301	-380	-104	200	628	202
Total exports	13,598	15,619	18,735	18,963	19,038	19,104	13,697	15,581	16,224	17,046	17,987	18,881
Exports of goods	11,714	13,545	16,597	16,763	16,761	16,826	11,840	13,350	13,695	14,344	15,105	15,794
Oil exports	7,841	9,351	12,401	12,169	12,148	11,870	7,579	8,377	8,324	8,560	8,840	8,999
Non-oil exports	3,873	4,194	4,196	4,594	4,614	4,956	4,261	4,973	5,370	5,784	6,265	6,795
Exports of services	1,884	2,074	2,138	2,200	2,277	2,278	1,857	2,231	2,529	2,702	2,882	3,087
Total imports	17,325	15,533	17,286	17,441	17,741	18,020	14,998	15,961	16,328	16,846	17,359	18,679
Imports of goods	11,044	9,338	10,122	10,288	10,392	10,760	8,987	9,489	9,687	10,087.6	10,408.8	11,506.6
Imports of services	6,282	6,196	7,164	7,153	7,349	7,259	6,011	6,473	6,641	6,759	6,950	7,172
Income, net	-2,281	-2,599	-3,268	-3,135	-3,337	-3,065	-2,358	-2,500	-2,434	-2,425	-2,456	-2,456
Income credits	202	209	224	238	250	249	242	251	263	273	282	291
Income debits	2,483	2,809	3,492	3,374	3,587	3,314	2,599	2,751	2,697	2,698	2,738	2,748
Investment income, debit	-1,923	-2,188	-2,814	-2,658	-2,844	-2,629	-1,974	-2,147	-2,113	-2,120	-2,159	-2,177
Of which: Interest paid on public debt	-354	-279	-312	-295	-441	-294	-277	-339	-324	-302	-293	-273
Of which: Interest paid on nonpublic debt	-98	-171	-21	-11	-12	0	-2	0	1	2	2	2
Current transfers, net	-23	241	98	240	224	386	421	340	523	554	574	676
Private current transfers, net	-41	200	72	146	151	197	208	147	333	385	391	478
Official current transfers, net	18	41	26	94	74	188	213	193	190	169	183	198
Balance on capital and financial accounts	2,408	1,560	1,307	1,076	1,803	1,944	1,128	1,421	1,145	1,070	1,490	2,300
Balance on capital account (incl. capital transfers)	172	357	205	223	190	245	304	255	260	283	329	354
Balance on financial account (incl. reserves)	2,237	1,203	1,102	854	1,613	1,699	824	1,166	885	787	1,161	1,946
Direct investment, net 1/	3,034	1,949	1,824	2,244	2,239	2,572	1,808	2,141	1,965	2,051.6	2,102.4	3,022.7
Portfolio investment, net	-8	14	-18	11	71	158	178	25	-105	-115	-113	-377
Other investment, net	-789	-759	-705	-1,401	-696	-1,031	-1,162	-1,000	-976	-1,149	-828	-700
of which: Long-term other investment, net	755	743	143	-624	232	-161	-808	85	114	-75	183	387
Errors and omissions, net	86	-123	0	0	0	0	0	0	0	0	1	2
Overall Balance	-3,553	-823	-376	-297	68	349	-2,109	-1,119	-871	-601	236	724
Financing	3,389	759	376	297	-68	-349	2,109	1,119	871	601	-236	-724
Reserve assets (accumulation -) 2/	3,303	-231	-599	-1,029	-550	-1,295	-139	-802	-604	-309	-598	-896
Exceptional financing	87	989	975	1,326	482	947	2,248	1,921	1,475	910	361	172
IMF financing	21	322	282	927	252	409	582	431	...	...	...	...
Budget support (excl. IMF)	0	798	689	313	665	225	512	454	...	...	...	...
Commercial	0	0	0	0	-79	0	106	0	...	...	...	...
Other exceptional financing	66	35	86	77	-77	194	994	183	...	...	...	...
Residual gap	0	-166	-82	9	-279	119	54	853	1,475	910	361	172
Memorandum items:												
Nominal GDP	47,467	49,593	53,071	54,751	54,204	57,137	50,109	52,817	55,286	58,387	61,960	65,875
Gross foreign assets (end of period)												
Billions CFAF	3,093	3,218	3,777	4801.1	4,362	6,095	4,544	5,347	5,950	6,259	6,857	7,752
Months of imports of goods and services	2.3	2.3	2.7	3.3	3.5	4.1	3.5	4.0	4.4	4.5	4.5	5.0
Oil prices (U.S. dollars per barrel, brent)	44.0	54.4	71.1	64.4	64.0	60.5	41.7	44.8	46.0	47.1	48.1	48.9

Sources: BEAC; and IMF staff estimates and projections.

1/ FDI data have been revised, including to better reflect the flows linked to the construction of the Moho-Nord platform in Congo.

2/ Does not reflect reserve accumulation by BEAC's central services.

3/ Refers to the projection published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing.

Table 3b. CEMAC: Balance of Payments, 2016–25

(Percent of GDP)

	2016	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Pre-COVID19[3]	Est.	Pre-COVID19[3]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-12.7	-4.6	-3.2	-2.5	-3.2	-2.8	-6.5	-4.8	-3.6	-2.9	-2.0	-2.4
Balance on goods and services	-7.9	0.2	2.7	2.8	2.4	1.9	-2.6	-0.7	-0.2	0.3	1.0	0.3
Total exports	28.6	31.5	35.3	34.6	35.1	33.4	27.3	29.5	29.3	29.2	29.0	28.7
Exports of goods	24.7	27.3	31.3	30.6	30.9	29.4	23.6	25.3	24.8	24.6	24.4	24.0
Oil exports	16.5	18.9	23.4	22.2	22.4	20.8	15.1	15.9	15.1	14.7	14.3	13.7
Non-oil exports	8.2	8.5	7.9	8.4	8.5	8.7	8.5	9.4	9.7	9.9	10.1	10.3
Exports of services	4.0	4.2	4.0	4.0	4.2	4.0	3.7	4.2	4.6	4.6	4.7	4.7
Total imports	36.5	31.3	32.6	31.9	32.7	31.5	29.9	30.2	29.5	28.9	28.0	28.4
Imports of goods	23.3	18.8	19.1	18.8	19.2	18.8	17.9	18.0	17.5	17.3	16.8	17.5
Imports of services	13.2	12.5	13.5	13.1	13.6	12.7	12.0	12.3	12.0	11.6	11.2	10.9
Income, net	-4.8	-5.2	-6.2	-5.7	-6.2	-5.4	-4.7	-4.7	-4.4	-4.2	-4.0	-3.7
Income credits	0.4	0.4	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.4
Income debits	5.2	5.7	6.6	6.2	6.6	5.8	5.2	5.2	4.9	4.6	4.4	4.2
Of which:												
Investment income, debit	-4.1	-4.4	-5.3	-4.9	-5.2	-4.6	-3.9	-4.1	-3.8	-3.6	-3.5	-3.3
Of which: Interest paid on public debt	-0.7	-0.6	-0.6	-0.5	-0.8	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4
Of which: Interest paid on nonpublic debt	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfers, net	0.0	0.5	0.2	0.4	0.4	0.7	0.8	0.6	0.9	0.9	0.9	1.0
Private current transfers, net	-0.1	0.4	0.1	0.3	0.3	0.3	0.4	0.3	0.6	0.7	0.6	0.7
Official current transfers, net	0.0	0.1	0.0	0.2	0.1	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Balance on capital and financial accounts	5.1	3.1	2.5	2.0	3.3	3.4	2.3	2.7	2.1	1.8	2.4	3.5
Balance on capital account (incl. capital transfers)	0.4	0.7	0.4	0.4	0.4	0.4	0.6	0.5	0.5	0.5	0.5	0.5
Balance on financial account	4.7	2.4	2.1	1.6	3.0	3.0	1.6	2.2	1.6	1.3	1.9	3.0
Direct investment, net[1]	6.4	3.9	3.4	4.1	4.1	4.5	3.6	4.1	3.6	3.5	3.4	4.6
Portfolio investment, net	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.0	-0.2	-0.2	-0.2	-0.6
Other investment, net	-1.7	-1.5	-1.3	-2.6	-1.3	-1.8	-2.3	-1.9	-1.8	-2.0	-1.3	-1.1
Of which: long-term other investment, net	1.6	1.5	0.3	-1.1	0.4	-0.3	-1.6	0.2	0.2	-0.1	0.3	0.6
Errors and omissions, net	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-7.5	-1.7	-0.7	-0.5	0.1	0.6	-4.2	-2.1	-1.6	-1.0	0.4	1.1
Financing	7.1	1.5	0.7	0.5	-0.1	-0.6	4.2	2.1	1.6	1.0	-0.4	-1.1
Reserve assets (accumulation -)[2]	7.0	-0.5	-1.1	-1.9	-1.0	-2.3	-0.3	-1.5	-1.1	-0.5	-1.0	-1.4
Exceptional financing	0.2	2.0	1.8	2.4	0.9	1.7	4.5	3.6	2.7	1.6	0.6	0.3
Memorandum items:												
Nominal GDP (billions of CFAF)	47,467	49,593	53,071	54,751	54,204	57,137	50,109	52,817	55,286	58,387	61,960	65,875

Sources: BEAC; and IMF staff estimates and projections.

[1] FDI data have been revised, including to better reflect the flows linked to the construction of the Moho-Nord platform in Congo.

[2] Does not reflect reserve accumulation by BEAC's central services.

[3] Refers to the projection published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing.

Table 4a. CEMAC: Fiscal Indicators, 2016–25

(Percent of GDP)

	2016	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Pre-COVID19[2]	Est.	Pre-COVID19[2]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Overall fiscal balance (excluding grants)												
Cameroon	-6.4	-5.2	-2.9	-2.7	-3.9	-2.6	-4.6	-3.5	-2.5	-1.5	-1.4	-1.1
Central African Republic	-4.7	-6.1	-8.7	-8.7	-8.2	-9.1	-15.8	-10.0	-8.4	-7.9	-8.0	-7.9
Chad	-4.8	-4.3	-1.3	-2.5	-1.8	-0.3	-3.4	-5.2	-4.1	-3.7	-2.9	-1.6
Congo, Republic of	-16.1	-6.4	5.7	7.4	4.0	7.1	-0.4	-0.4	0.1	1.8	2.3	2.4
Equatorial Guinea	-10.9	-2.6	0.5	1.3	1.9	1.1	-2.8	-2.3	-1.4	-0.9	-0.4	-0.4
Gabon	-5.0	-2.6	-1.3	1.8	1.4	1.2	-3.8	-3.0	-1.2	0.0	0.4	1.1
CEMAC	-7.8	-4.4	-0.9	-0.2	-1.0	-0.1	-3.9	-3.3	-2.2	-1.3	-1.0	-0.5
Overall fiscal balance (including grants)												
Cameroon	-6.1	-4.9	-2.5	-2.3	-3.3	-2.1	-4.2	-3.0	-2.1	-1.2	-1.1	-0.8
Central African Republic	1.1	-1.1	-1.0	2.0	1.4	-0.3	-2.5	-1.3	-0.4	-0.5	-1.1	-1.6
Chad	-1.9	-0.2	1.9	0.4	-0.2	2.8	1.6	-0.7	-0.4	-0.1	0.7	2.5
Congo, Republic of	-15.4	-5.9	5.8	7.8	4.8	7.4	0.6	0.4	0.7	2.4	2.9	3.0
Equatorial Guinea	-10.9	-2.6	0.5	1.3	1.9	1.1	-2.8	-2.3	-1.4	-0.9	-0.4	-0.4
Gabon	-5.0	-2.6	-1.3	1.8	1.4	1.4	-3.5	-3.0	-1.2	0.0	0.4	1.1
CEMAC	-7.1	-3.6	-0.2	0.7	-0.3	0.8	-2.6	-2.2	-1.3	-0.4	-0.1	0.4
Reference fiscal balance 1												
Cameroon	-5.2	-4.3	-2.9	-2.9	-4.2	-2.2	-3.8	-3.0	-2.2	-1.4	-1.3	-1.0
Central African Republic	1.1	-1.1	-1.0	2.0	1.4	-0.3	-2.5	-1.3	-0.4	-0.5	-1.1	-1.6
Chad	1.8	0.5	-0.8	-2.1	-2.1	-1.1	-3.8	-0.7	-0.6	0.3	-0.1	1.5
Congo, Republic of	-8.9	-3.3	-3.0	1.8	-2.6	4.1	-1.3	-2.1	-0.1	0.3	0.8	0.7
Equatorial Guinea	-6.2	-1.5	-2.4	-1.8	-2.0	-0.1	-3.2	-1.5	-0.7	-1.0	-0.9	-0.8
Gabon	0.1	-2.1	-2.5	-0.7	-1.4	0.1	-4.2	-2.9	-1.3	-0.6	-0.4	0.5
CEMAC	-2.6	-2.2	-2.4	-1.5	-2.6	-0.4	-3.0	-2.2	0.0	0.0	0.0	0.0
Primary fiscal balance (including grants)												
Cameroon	-5.3	-4.0	-1.6	-1.4	-2.3	-1.2	-3.2	-1.9	-1.1	-0.3	-0.4	-0.1
Central African Republic	1.6	-0.7	-0.6	2.3	1.8	0.1	-2.2	-1.0	-0.1	-0.3	-0.8	-1.3
Chad	0.1	1.3	3.0	1.4	0.8	3.7	2.5	0.2	0.4	0.7	1.4	3.0
Congo, Republic of	-13.4	-4.2	7.7	9.4	8.1	8.8	2.6	3.1	3.1	4.7	5.0	5.0
Equatorial Guinea	-10.5	-2.2	1.2	2.0	2.8	2.2	-1.4	-0.3	0.6	0.9	1.3	1.2
Gabon	-2.7	-0.1	1.1	4.1	3.6	3.7	-0.3	0.0	1.8	3.1	3.5	4.1
CEMAC	-5.8	-2.4	1.1	1.9	1.3	2.0	-1.1	-0.5	0.3	1.1	1.3	1.6
Government revenue (excluding grants)												
Cameroon	14.5	14.6	15.7	15.9	15.2	14.8	12.7	13.7	14.2	14.4	14.6	14.7
Central African Republic	7.4	7.8	8.9	8.7	8.7	9.7	8.5	9.3	10.2	10.7	10.9	11.1
Chad	9.5	10.6	12.0	12.7	12.6	15.2	16.4	13.0	13.6	13.6	14.1	14.6
Congo, Republic of	25.4	21.9	25.3	28.0	26.5	27.9	23.7	26.0	24.6	25.4	25.8	25.9
Equatorial Guinea	16.9	17.5	19.6	17.8	19.2	17.5	16.5	15.5	15.2	15.3	15.5	15.3
Gabon	17.1	16.4	16.9	18.8	19.5	18.7	17.1	17.2	18.2	18.9	19.4	19.8
CEMAC	15.9	15.7	17.2	17.7	17.5	17.5	15.5	15.8	16.0	16.3	16.6	16.7
Government expenditure (including net lending minus repayments)												
Cameroon	20.9	19.8	18.5	18.6	19.1	17.3	17.3	17.2	16.7	15.9	16.0	15.8
Central African Republic	12.1	13.9	17.6	17.4	16.9	18.8	24.3	19.3	18.6	18.6	18.8	19.0
Chad	14.4	14.9	13.3	15.2	14.4	15.5	19.8	18.2	17.7	17.3	16.9	16.2
Congo, Republic of	41.5	28.3	19.6	20.6	22.5	20.8	24.1	26.4	24.5	23.5	23.5	23.5
Equatorial Guinea	27.8	20.1	19.1	16.5	17.3	16.4	19.3	17.8	16.5	16.2	15.9	15.7
Gabon	22.1	19.0	18.2	17.0	18.2	17.5	20.9	20.2	19.4	18.9	19.1	18.6
CEMAC	23.7	20.1	18.1	17.9	18.5	17.5	19.4	19.0	18.2	17.6	17.5	17.3
Total public debt												
Cameroon	33.3	37.7	39.5	40.8	41.7	40.8	44.1	44.2	43.6	42.0	40.2	38.3
Central African Republic	53.9	50.3	50.0	47.1	47.2	42.6	45.9	43.4	40.3	38.2	36.5	35.2
Chad	51.3	50.3	49.1	44.4	44.3	39.7	43.6	45.6	47.2	48.7	48.3	45.1
Congo, Republic of	91.0	94.2	78.6	69.9	83.3	62.8	104.2	99.8	94.0	84.9	77.8	71.0
Equatorial Guinea	41.1	36.2	40.2	46.2	44.0	46.6	51.2	48.1	49.5	48.6	47.4	46.5
Gabon	64.2	62.9	60.9	55.4	62.4	53.0	73.2	71.6	69.3	66.4	63.6	58.9
CEMAC	49.9	51.0	50.2	48.6	51.8	46.5	57.0	56.0	54.8	52.5	50.0	46.9

Sources: Authorities' data; and IMF staff estimates and projections.

1 Overall budget balance excluding grants and foreign-financed investment.

2 Refers to the projection published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing.

Table 4b. CEMAC: Fiscal Indicators, 2016–25

(Percent of Non-oil GDP)

	2016	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Pre-COVID19[2]	Est.	Pre-COVID19[2]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Non-oil fiscal balance (excluding grants)												
Cameroon	-8.8	-7.3	-5.5	-5.3	-6.7	-4.6	-6.2	-5.3	-4.2	-3.1	-3.0	-2.6
Central African Republic	-4.7	-6.1	-8.7	-8.7	-8.2	-9.1	-15.8	-10.0	-8.4	-7.9	-8.0	-7.9
Chad	-9.6	-9.3	-8.4	-10.1	-8.7	-10.1	-14.7	-12.5	-11.2	-10.2	-9.2	-7.8
Congo, Republic of	-31.8	-21.8	-19.3	-17.7	-22.7	-15.1	-20.2	-23.1	-19.2	-17.1	-16.1	-15.5
Equatorial Guinea	-31.9	-22.0	-21.1	-18.5	-18.0	-16.1	-18.9	-15.7	-12.8	-11.2	-9.9	-8.8
Gabon	-14.3	-13.3	-11.1	-8.1	-9.2	-7.8	-13.7	-11.2	-8.5	-6.7	-5.9	-4.5
CEMAC	-15.3	-12.0	-10.1	-9.1	-10.2	-8.1	-11.3	-9.9	-8.1	-6.7	-6.2	-5.5
Non-oil fiscal balance (including grants)												
Cameroon	-8.5	-7.0	-5.1	-4.8	-6.1	-4.1	-5.8	-4.9	-3.8	-2.7	-2.7	-2.3
Central African Republic	1.1	-1.1	-1.0	2.0	1.4	-0.3	-2.5	-1.3	-0.4	-0.5	-1.1	-1.6
Chad	-6.0	-4.5	-4.4	-6.5	-6.6	-6.2	-8.9	-7.1	-6.9	-5.8	-5.0	-3.0
Congo, Republic of	-31.3	-21.2	-19.2	-17.0	-21.4	-14.5	-18.8	-22.0	-18.4	-16.2	-15.2	-14.5
Equatorial Guinea	-31.9	-22.0	-21.1	-18.5	-18.0	-16.1	-18.9	-15.7	-12.8	-11.2	-9.9	-8.8
Gabon	-13.8	-12.0	-9.5	-7.5	-8.1	-7.6	-13.3	-11.2	-8.5	-6.7	-5.9	-4.5
CEMAC	-14.5	-10.9	-9.0	-8.0	-9.1	-7.1	-9.7	-8.7	-7.0	-5.7	-5.2	-4.4
Basic balance1												
Cameroon	-4.0	-1.4	0.6	0.7	0.2	0.8	-1.6	-0.4	0.6	1.6	2.0	2.3
Central African Republic	-2.0	-2.4	-2.1	-3.1	-3.9	-2.9	-6.6	-4.4	-3.1	-2.8	-2.8	-2.8
Chad	-3.4	-1.5	1.2	0.8	0.3	3.7	0.8	-1.7	-0.3	0.3	1.4	2.8
Congo, Republic of	-12.8	-3.3	10.5	15.3	10.6	14.2	0.1	2.8	3.3	5.7	6.3	6.2
Equatorial Guinea	-14.7	-3.4	0.7	1.9	2.5	1.5	-3.4	-2.8	-1.6	-1.1	-0.5	-0.5
Gabon	-2.6	-1.4	2.3	5.9	4.8	5.8	-1.6	-0.4	0.9	1.9	2.5	3.5
CEMAC	-6.1	-1.9	1.9	3.0	2.1	3.2	-1.5	-0.6	0.4	1.4	2.0	2.4
Non-oil primary fiscal balance (including grants)												
Cameroon	-7.7	-6.1	-4.1	-3.9	-5.1	-3.2	-4.8	-3.7	-2.7	-1.8	-1.9	-1.6
Central African Republic	1.6	-0.7	-0.6	2.3	1.8	0.1	-2.2	-1.0	-0.1	-0.3	-0.8	-1.3
Chad	-3.5	-2.5	-3.0	-5.2	-5.3	-5.1	-7.8	-6.0	-5.9	-5.0	-4.2	-2.4
Congo, Republic of	-28.7	-19.0	-15.9	-14.4	-16.1	-12.3	-16.0	-18.1	-14.9	-13.0	-12.2	-11.7
Equatorial Guinea	-31.3	-21.5	-20.2	-17.6	-16.8	-14.5	-17.2	-13.3	-10.5	-9.1	-7.9	-6.9
Gabon	-11.0	-9.7	-7.6	-4.6	-5.8	-4.2	-8.9	-7.1	-4.4	-2.5	-1.8	-0.6
CEMAC	-13.0	-9.5	-7.6	-6.5	-7.4	-5.6	-8.0	-6.8	-5.2	-4.0	-3.7	-3.0
Government revenue (excluding grants)												
Cameroon	15.0	15.2	16.4	16.6	15.8	15.3	13.1	14.2	14.6	14.7	14.9	15.0
Central African Republic	7.4	7.8	8.9	8.7	8.7	9.7	8.5	9.3	10.2	10.7	10.9	11.1
Chad	11.9	12.9	14.9	15.8	15.7	19.1	19.4	15.4	16.1	16.0	16.5	17.2
Congo, Republic of	29.2	28.3	42.0	45.7	43.3	45.2	33.0	37.5	35.4	36.7	37.1	36.9
Equatorial Guinea	22.7	23.3	26.7	25.4	25.9	24.0	20.4	18.5	17.7	17.6	17.6	17.1
Gabon	24.2	23.6	25.0	27.8	29.0	26.9	23.5	23.5	24.6	25.4	25.8	26.0
CEMAC	18.5	18.5	21.3	21.9	21.4	21.3	17.9	18.2	18.3	18.6	18.8	18.9
Government expenditure (including net lending minus repayments)												
Cameroon	21.6	20.6	19.5	19.5	19.9	18.0	17.8	17.7	17.2	16.3	16.4	16.2
Central African Republic	12.1	13.9	17.6	17.4	16.9	18.8	24.3	19.3	18.6	18.6	18.8	19.0
Chad	18.0	18.0	16.5	18.9	18.0	19.5	23.4	21.7	20.9	20.3	19.9	19.0
Congo, Republic of	47.7	36.5	32.6	33.6	36.7	33.7	33.5	38.1	35.2	34.1	33.7	33.6
Equatorial Guinea	37.4	26.7	26.0	23.5	23.3	22.5	23.9	21.2	19.2	18.7	18.1	17.6
Gabon	31.3	27.4	26.9	25.2	27.0	25.1	28.7	27.5	26.2	25.4	25.4	24.5
CEMAC	27.6	23.7	22.4	22.1	22.7	21.4	22.4	21.9	20.9	20.0	19.9	19.5
Non-oil revenues (excluding grants)												
Cameroon	12.7	13.2	14.0	14.2	13.1	13.4	11.6	12.4	13.0	13.2	13.4	13.6
Central African Republic	7.4	7.8	8.9	8.7	8.7	9.7	8.5	9.3	10.2	10.7	10.9	11.1
Chad	8.4	8.7	8.1	8.8	9.4	9.4	8.6	9.2	9.7	10.2	10.7	11.2
Congo, Republic of	15.9	14.7	13.3	16.0	14.0	18.6	13.3	15.0	16.0	17.0	17.7	18.1
Equatorial Guinea	5.6	4.7	5.0	5.0	5.3	6.5	5.0	5.6	6.5	7.5	8.2	8.8
Gabon	17.0	14.1	15.8	17.1	17.8	17.3	15.0	16.3	17.7	18.7	19.4	19.9
CEMAC	12.2	11.8	12.2	13.0	12.5	13.2	11.1	12.0	12.7	13.3	13.7	14.0

Sources: Authorities' data; and IMF staff estimates and projections.

1 Overall budget balance excluding grants and foreign-financed investment.

2 Refers to the projection published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing

Table 5. CEMAC: Compliance with Convergence Criteria, 2016–25

	2016	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Pre-COVID19[4]	Est.	Pre-COVID19[4]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Reference fiscal balance (fiscal balance before 2016)[1]					(in percent of GDP)							
Cameroon	-3.8	-4.3	-2.9	-2.9	-4.2	-2.2	-3.8	-3.0	-2.2	-1.4	-1.3	-1.0
Central African Republic	-2.0	-1.1	-1.0	2.0	1.4	-0.3	-2.5	-1.3	-0.4	-0.5	-1.1	-1.6
Chad	-2.7	0.5	-0.8	-2.1	-2.1	-1.1	-3.8	-0.7	-0.6	0.3	-0.1	1.5
Congo, Republic of	-11.1	-3.3	-3.0	1.8	-2.6	4.1	-1.3	-2.1	-0.1	0.3	0.8	0.7
Equatorial Guinea	-10.9	-1.5	-2.4	-1.8	-2.0	-0.1	-3.2	-1.5	-0.7	-1.0	-0.9	-0.8
Gabon	-1.8	-2.1	-2.5	-0.7	-1.4	0.1	-4.2	-2.9	-1.3	-0.6	-0.4	0.5
Number of countries violating	6	4	4	3	4	1	5	3	1	0	0	1
Consumer price inflation (≤ 3%)					(in percent)							
Cameroon	0.9	0.6	1.1	2.4	2.5	2.4	2.8	2.3	2.1	2.0	2.0	2.0
Central African Republic	4.9	4.2	1.6	3.2	2.7	2.5	2.1	1.8	2.5	2.5	2.5	2.5
Chad	-1.6	-0.9	4.0	1.0	-1.0	3.0	3.5	3.0	3.0	3.0	3.0	3.0
Congo, Republic of	3.2	0.4	1.2	1.8	2.2	1.8	2.4	2.6	2.8	3.0	3.0	3.0
Equatorial Guinea	1.4	0.7	1.3	0.9	1.2	1.7	5.7	3.5	3.4	3.3	3.3	3.3
Gabon	2.1	2.7	4.8	3.0	2.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0
Number of countries violating	2	1	2	1	0	0	2	1	1	1	1	1
Level of public debt (≤ 70% GDP)					(in percent of GDP)							
Cameroon	33.3	37.7	39.5	40.8	41.7	40.8	44.1	44.2	43.6	42.0	40.2	38.3
Central African Republic	53.9	50.3	50.0	47.1	47.2	42.6	45.9	43.4	40.3	38.2	36.5	35.2
Chad	51.3	50.3	49.1	44.4	44.3	39.7	43.6	45.6	47.2	48.7	48.3	45.1
Congo, Republic of	91.0	94.2	78.6	78.5	83.3	70.5	104.2	99.8	94.0	84.9	77.8	71.0
Equatorial Guinea	41.1	36.2	40.2	46.2	44.0	46.6	51.2	48.1	49.5	48.6	47.4	46.5
Gabon	64.2	62.9	60.9	55.4	62.4	53.0	73.2	71.6	69.3	66.4	63.6	58.9
Number of countries violating	1	1	1	1	1	1	2	2	1	1	1	1
Non-accumulation of government arrears[2] (≤ 0)					(in percent of GDP)							
Cameroon	...	1.4	-2.0	-1.2	0.3	-0.4	-0.4	-0.8	-0.4	0.0	0.0	0.0
Central African Republic	-5.3	-8.0	-2.3	-3.8	-3.5	-2.5	-1.9	-0.7	-0.7	0.0	0.0	0.0
Chad	0.7	0.5	-1.1	-1.6	-1.7	-0.8	-2.6	-0.6	-0.5	-1.1	-1.1	-1.1
Congo, Republic of	2.3	11.9	7.0	-3.4	-5.1	-4.2	-7.5	-2.4	...	...	...	...
Equatorial Guinea	5.4	-3.5	-1.3	0.1	0.5	-1.2	0.8	-2.1	-0.8	0.0	0.0	0.0
Gabon	...	-5.1	-1.5	-2.6	-2.1	-0.2	0.0	-0.9	0.0	0.0	0.0	0.0
Number of countries violating[3]	...	...	...	...	...	...	...	...	...	...	...	...

Sources: Authorities' data; and IMF staff estimates.

Note: For the first criteria, the number of countries violating them reflects the estimates from the CEMAC Commission until 2017, and IMF staff estimated going forward. For the criteria on non-accumulation of arrears, the number of countries violating the criteria reflects IMF Staff estimates.

[1] Until 2016, the basic fiscal balance (i.e. the overall budget balance, excluding grants and foreign-financed investment) had to be positive. From 2017 onward, the reference fiscal balance (i.e. the overall budget balance minus 20 percent of oil revenue and minus 80 percent of the oil revenue in excess of the average observed during the 3 previous years) must exceed -1.5 percent of GDP.

[2] Change in the stock of arrears-to-GDP ratio. Includes external and domestic payments arrears, and based on data reported by country authorities (which may differ from CEMAC teams' findings).

[3] Assessment by the CEMAC Comission based on: (i) the non-accumulation of new arrears during the current year; and (ii) the gradual repayment of existing arrears in line with a published schedule.

[4] Refers to the projections published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing.

Table 6. CEMAC: Monetary Survey, 2016–25

(Billions of CFA francs, unless otherwise indicated)

	2016	2017	2018	2019	2020 Jun.	2020 Sept.	2020 Pre-COVID19[2]	2020	2021 Jun.	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Est.	Est.	Est.		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
						(In CFAF billions)								
Net foreign assets	2,416	2,322	2,509	2,572	2,906	2,253	4,174	2,173	2,192	2,626	3,091	3,545	4,393	5,621
Of which: BEAC	2,254	2,131	2,379	2,634	2,954	2,362	4,117	2,189	2,241	2,556	2,995	3,391	4,189	5,368
Foreign assets	3,093	3,218	3,777	4,362	4,905	4,616	6,095	4,544	4,869	5,347	5,950	6,259	6,857	7,752
Of which: Operations account	1,156	2,552	3,360	3,740	4,264	3,915	3,657	2,272	2,434	2,673	2,975	3,129	3,428	3,876
Foreign liabilities	-839	-1,088	-1,398	-1,727	-1,950	-2,254	-1,978	-2,355	-2,628	-2,791	-2,955	-2,868	-2,668	-2,385
Commercial banks	162	191	130	-63	-48	-110	57	-17	-49	70	96	154	204	253
Foreign assets	754	802	735	526	409	344	728	618	574	695	720	781	834	888
Foreign liabilities[1]	-592	-611	-605	-589	-457	-454	-670	-635	-623	-625	-624	-627	-630	-635
Net domestic assets	8,140	8,190	8,854	9,459	9,631	10,430	8,952	10,493	10,967	10,665	10,800	11,184	11,200	10,968
Net credit to government	2,689	2,937	3,464	4,266	4,802	5,382	3,382	5,997	5,547	6,468	6,682	6,690	6,376	5,957
BEAC, net	1,645	1,946	2,209	2,469	2,692	2,936	1,306	3,171	3,234	3,378	3,329	3,187	2,746	2,213
Of which:														
Advances and consolidated debt	2,446	2,770	2,773	2,772	2,771	2,771	2,773	2,787	2,772	2,779	2,562	2,332	2,119	1,851
IMF lending	201	491	798	1,020	1,288	1,469	932	1,696	1,824	2,040	2,194	2,108	1,892	1,649
Government deposits	-1,002	-1,316	-1,363	-1,323	-1,366	-1,303	-2,398	-1,312	-1,362	-1,441	-1,427	-1,253	-1,266	-1,286
Commercial banks, net	1,044	991	1,256	1,798	2,109	2,446	2,076	2,825	2,313	3,090	3,353	3,503	3,630	3,744
Of which: Government deposits	867	873	781	794	881	956	-	-	-	-	-	-	-	-
Net credit to public agencies	-418	-371	-280	-281	-254	-200	-279	-157	-142	-141	-122	-108	-82	-42
Credit to private sector	7,082	6,955	7,243	6,988	6,518	6,702	7,705	6,585	7,506	6,345	6,323	6,760	7,140	7,362
Other items, net	-1,213	-1,331	-1,573	-1,514	-1,435	-1,454	-1,856	-1,932	-1,945	-2,007	-2,083	-2,158	-2,233	-2,309
Broad money	10,556	10,512	11,363	12,031	12,537	12,682	13,127	12,666	13,159	13,291	13,891	14,729	15,592	16,589
Currency outside banks	2,432	2,436	2,577	2,752	2,811	2,872	3,019	2,854	2,934	3,117	3,351	3,624	3,967	4,287
Bank deposits	8,123	8,076	8,787	9,279	9,726	9,811	10,108	9,811	10,225	10,174	10,540	11,105	11,626	12,302
						(Annual change in percent of beginning-of-period broad money)								
Net foreign assets	-31.4	-0.9	1.8	0.5	1.4	-1.9	8.3	-3.3	-5.7	3.6	3.5	3.3	5.8	7.9
Net domestic assets	26.7	0.5	6.3	5.3	7.6	9.4	-1.3	8.6	10.7	1.4	1.0	2.8	0.1	-1.5
Net credit to government	24.3	2.4	5.0	7.1	7.5	10.0	-5.2	14.4	5.9	3.7	1.6	0.1	-2.1	-2.7
Net credit to the private sector	2.1	-1.2	2.7	-2.2	-2.5	-1.7	3.7	-3.3	7.9	-1.9	-0.2	3.1	2.6	1.4
Other items, net	-0.6	-1.1	-2.3	0.5	2.6	0.6	0.2	-3.5	-4.1	-0.6	-0.6	-0.5	-0.5	-0.5
Broad money	-4.6	-0.4	8.1	5.9	9.0	7.5	7.1	5.3	5.0	4.9	4.5	6.0	5.9	6.4
Velocity (GDP/broad money)	4.5	4.7	4.7	4.5	4.0	4.0	4.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0
						(Percent of GDP)								
Broad money	22.2	21.2	21.4	22.2	25.0	25.3	23.0	25.3	24.9	25.2	25.1	25.2	25.2	25.2
Private bank deposits	12.3	11.7	11.9	12.3	14.0	14.1	12.7	14.1	13.9	13.9	13.7	13.7	13.5	13.4
Net credit to the private sector	14.9	14.0	13.6	12.9	13.0	13.4	13.5	13.1	14.2	12.0	11.4	11.6	11.5	11.2

Sources: BEAC; and IMF staff estimates.

[1] Data on the commercial banks' foreign liabilities have been revised to include the medium- and long-term liabilities (hitherto reported in the other items, net).

[2] Refers to the projections published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing.

Table 7. CEMAC: Summary Accounts of the Central Bank, 2017–25

(Billions of CFA francs, unless otherwise indicated)

	2017	2018	2019	2020 Jun.	2020 Sept.	2020 Pre-COVID19[2]	2020	2021 Jun.	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Est.	Est.		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	2,131	2,379	2,634	2,954	2,362	4,117	2,189	2,241	2,556	2,995	3,391	4,189	5,368
Assets[1]	3,218	3,777	4,362	4,905	4,616	6,095	4,544	4,869	5,347	5,950	6,259	6,857	7,752
Unallocated	638	452	308	360	301	413	301	301	301	301	301	301	301
Cameroon	1,770	2,004	2,199	2,244	2,182	2,315	2,192	2,260	2,328	2,537	2,648	2,896	3,307
CAR	206	215	214	227	249	288	245	264	282	297	321	349	381
Congo	216	251	617	706	655	713	711	814	1,070	1,196	1,149	1,260	1,536
Gabon	537	766	813	1,022	908	1,621	808	821	834	899	972	1,031	1,076
EG	-31	-5	21	23	31	359	72	178	284	438	546	649	781
Chad	-117	93	191	323	290	384	216	231	247	282	323	371	370
Of which:													
Operations account	2,552	3,360	3,740	4,264	3,915	3,657	2,272	2,434	2,673	2,975	3,129	3,428	3,876
Liabilities	-1,088	-1,398	-1,727	-1,950	-2,254	-1,978	-2,355	-2,628	-2,791	-2,955	-2,868	-2,668	-2,385
Unallocated	-17	-16	-16	-17	-17	-16	-16	-17	-16	-16	-16	-16	-16
Cameroon	-448	-529	-546	-749	-739	-649	-816	-816	-816	-816	-785	-738	-665
CAR	-132	-163	-177	-205	-200	-204	-204	-231	-238	-248	-234	-214	-188
Congo	-96	-89	-138	-132	-142	-218	-138	-252	-327	-416	-416	-416	-413
Gabon	-230	-348	-428	-427	-586	-497	-601	-599	-596	-578	-509	-376	-274
EG	-24	-26	-146	-145	-196	-97	-197	-292	-336	-382	-382	-360	-328
Chad	-140	-227	-276	-274	-373	-298	-383	-422	-461	-500	-526	-549	-500
Net domestic assets	2,066	2,316	2,412	2,503	3,036	1,163	3,213	3,253	3,205	3,088	2,979	2,507	1,745
Net credit to government	1,946	2,209	2,469	2,692	2,936	1,306	3,171	3,234	3,378	3,329	3,187	2,746	2,213
Claims	3,261	3,571	3,792	4,059	4,239	3,705	4,483	4,596	4,819	4,756	4,440	4,011	3,500
Advances and consolidated debt	2,770	2,773	2,772	2,771	2,771	2,773	2,787	2,772	2,779	2,562	2,332	2,119	1,851
IMF credit	491	798	1,020	1,288	1,469	932	1,696	1,824	2,040	2,194	2,108	1,892	1,649
Government deposits	-1,316	-1,362.6	-1,323.1	-1,366.4	-1,303.4	-2,398	-1,312	-1,362	-1,441	-1,427	-1,253	-1,266	-1,286
o.w. Unallocated	-1	-2	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Cameroon	-656	-558	-496	-533	-519	-643	-380	-336	-292	-246	-88	-55	-31
Central African Republic	-45	-39	-37	-29	-28	-42	-27	-10	-23	-20	-25	-23	-17
Chad	-93	-227	-113	-254	-202	-180	-124	-135	-146	-170	-192	-231	-239
Congo, Republic of	-93	-64	-214	-159	-174	-430	-402	-520	-579	-558	-500	-481	-521
Equatorial Guinea	-114	-157	-225	-198	-179	-370	-145	-145	-145	-145	-128	-126	-101
Gabon	-315	-316	-237	-192	-205	-733	-232	-215	-255	-287	-319	-349	-378
Net claims on financial institutions	440	432	274	259	309	92	373	350	157	90	122	92	-138
Other items, net	-319	-325	-331	-448	-209	-235	-331	-331	-331	-331	-331	-331	-331
Base money	4,197	4,695	5,046	5,458	5,398	5,281	5,403	5,495	5,761	6,083	6,370	6,696	7,112
Currency in circulation	2,436	2,577	2,752	2,811	2,872	3,019	2,854	2,934	3,117	3,351	3,624	3,967	4,287
Banks' reserves	1,717	2,050	2,222	2,541	2,427	2,105	2,519	2,540	2,521	2,523	2,517	2,517	2,555
o.w. Required reserves	442	569	700	715	725	759	740	771	767	795	837	877	928
Excess reserves	977	1,125	1,160	1,493	1,346	1,001.4	1,396	1,386	1,356	1,316	1,246	1,186	1,146
Cash in vaults	297	356	363	333	355	344.2	384	383	398	412	434	455	481
Others	44	68	72	106	100	157.5	29	20	123	209	228	212	270
Memorandum items:													
Reserve coverage of broad money (in percent)	31	33	36	39	36	46.4	36	37	40	43	42	44	46.7
Base money/deposits (in percent)	52.0	53.4	54.4	56.1	55.0	52.2	55.1	53.7	56.6	57.7	57.4	57.6	57.8

Sources: BEAC.

[1] Gross foreign reserves, including gold, foreign currency reserves, IMF reserve position, and net overall balance of the operations account at the French Treasury.

[2] Refers to the projections published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing

Table 8. CEMAC: Net Foreign Assets of the Central Bank, 2016–25

(Billions of CFA francs)

	2016	2017	2018	2019	2020 Jun.	2020 Sept.	2020	2020	2021 Jun.	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Est.	Est.	Est.	Pre-COVID19[1]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
BEAC's net foreign assets														
Stock	2,254	2,131	2,379	2,634	2,954	2,362	4,117	2,189	2,241	2,556	2,995	3,391	4,189	5,368
Change since end of previous year	-3,294	-123	248	252	320	-272	985	-445	52	367	439	396	798	1,179
o.w. Cameroon	-824	216	152	179	-159	-210	73	-278	68	137	209	142	296	483
Central African Republic	12	35	-22	-15	-15	12	19	3	-8	4	5	37	48	58
Congo	-912	-207	43	313	92	32	149	95	-14	170	37	-47	111	279
Gabon	-630	-64	111	-34	210	-63	432	-178	15	30	84	141	192	147
Equatorial Guinea	-712	-43	25	-95	3	-40	210	0	11	73	108	108	126	163
Chad	-448	45	123	48	134	2	103	-82	-23	-47	-4	15	25	49
Unallocated	220	-105	-185	-144	52	-8	0	-7	-1	0	0	0	0	0

Sources: BEAC; and IMF staff projections.

[1] Refers to the projections published in the IMF Country Report No 19/383 corrected for Congo's GDP rebasing

Table 9. CEMAC: Financial Soundness Indicators, 2015–20

(Percent)

	2015	2016	2017	2018	2019 [4]	2020 [4] Q1	2020 [4] Q2
Capital							
Regulatory capital to risk-weighted assets[1, 2]	14.0	13.4	16.1	16.5	13.0	12.6	12.6
Asset quality							
Non-performing loans (gross) to total loans (gross)	9.6	11.9	14.6	17.4	19.1	20.0	21.3
Earnings and profitability							
Return on equity	16.4	23.5	16.4	30.8	17.1	...	...
Return on assets[3]	1.7	2.5	1.9	3.7	1.9	...	...
Liquidity							
Ratio of liquid assets to short-term liabilities	151.9	141.3	158.2	163.5	153.5	166.6	176.9
Total deposits to total (noninterbank) loans	111.6	102.3	101.5	104.2	114.1	115.4	132.7
Credit							
Gross loan (banks' book) - bn FCFA	8486	8991	8814	9071	10761	7773	8235
Gross loan - annualized growth rate	10.2	5.9	-2.0	2.9	18.63	-9.38	-23.34

Source: Banking Commission of Central Africa (COBAC).

1 Current year profits are excluded from the definition of regulatory capital, following the Basel I capital accord guidelines. General provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets. Regulatory capital is the sum of Tier 1 capital, and the minimum of Tier 1 and Tier 2 capital.

2 The risk-weighted assets are estimated using the following risk weights: 0% - cash reserves in domestic and foreign currency and claims on the central bank; 100% - all other assets.

3 The ratio of after-tax profits to the average of beginning and end-period total assets.

4 Provisional data.

Table 10. CEMAC: Financing Needs and Sources, 2020–23
(Billions of CFA francs)

	2020 Proj.	2021 Proj.	2022 /1 Proj.	2023 /1 Proj.
Financing needs	2248	1921	1475	910
Overall balance of payments	-2109	-1119	-871	-601
Reserves assets (-accumulation)	-139	-802	-604	-309
Financing sources				
IMF support	582	431	88	0
Budget support from other donors	512	454	84	0

1/ Provisonal data.

Annex I. Taking Stock of the First Phase of the Regional Strategy

The completion of the first round of Fund-supported programs around mid-2020 provides a pivotal opportunity to take stock of the performance of the first phase of the regional strategy and draw lessons for the design of the second phase of the regional strategy. Performance during the first phase of the regional strategy was mixed. While the strategy succeeded in avoiding a crisis and delivering macroeconomic stabilization by end-2019, growth was weak and progress towards diversification from oil, which is essential to bolster the economic resilience of the region and shield living standards from oil price swings, has been limited.

1. **Following the oil price shock that started in mid-2014, the CEMAC countries were on the brink of a crisis by end-2016**. International reserves reached a critically low level (US$4.2 billion, or around 2 month of import coverage, from US$15.3 billion at end-2014), reflecting the severe impact of the terms of trade shock but also insufficient policy adjustment. Real GDP growth was negative (-1.6 percent), the fiscal deficit was -7.1 percent of GDP, with all six countries breaching the regional convergence criteria, and the regional current account deficit was 12.6% of GDP.

2. **The CEMAC Heads of States called for an extraordinary summit in December 2016 to adopt concerted efforts to stem the crisis**. A mission to regional institutions followed in early 2017; and the June 2017 CEMAC Staff Report on Common Policies identified the following key objectives: (i) increase FX reserves up to 3.2 months of imports by end-2019; (ii) correct fiscal positions by 6 percent of GDP (3 percent of GDP in domestic revenue mobilization and 3 percent of GDP in expenditure reduction); (iii) improve monetary policy transmission; (iv) strengthen financial stability, via stronger prudential regulations and resolution actions; and (v) adopt structural reforms to diversify economies and boost non-oil growth.

3. **A comprehensive regional strategy was designed, with a first round of Fund-supported programs for all six countries, aiming to restore external and fiscal sustainability.** CAR already had an ECF-supported program as of July 2016 (and entered a new ECF-supported program in January 2020). Cameroon, and Chad started three-year ECF-supported arrangements in June 2017, Gabon started a three year EFF-supported program at the same date, while Congo's and Equatorial Guinea's ECF- and EFF-supported programs, respectively, only started in July and December 2019, respectively. Policy commitments and policy assurances were also sought from regional institutions, in line with the Fund's policies in support of country-level programs.

4. **Despite various delays and setbacks in program implementation, this strategy enabled the CEMAC to avoid a crisis, and macro stabilization was largely achieved at the regional level by end-2019**.

- **External stability improved, with FX reserves reaching 3.5 months of imports by end-2019,** higher than the initial objective. This was partly helped by higher-than-projected oil prices in 2018–19 which more than offset the impact of lower budget support compared to initial projections. The current account deficits were lower than initially projected, due to a larger import contraction. However, the reserve coverage remained well below the 5 months of imports assessed as adequate for a resource-rich currency union such as CEMAC.

- **Fiscal performance improved significantly and faster than originally envisaged, with an overall fiscal balance improving on average from about -6 percent of GDP in 2016 to -1 percent of GDP in 2019**. This is in part thanks to higher than projected international oil prices. The composition of fiscal adjustment was however tilted towards spending cuts—with the brunt disproportionally borne by capital expenditure (with the caveat that capex levels reached excessively high levels prior to 2017 reflecting the adoption of very ambitious development plans).

5. **There was also a significant contribution from reforms at regional institutions and modernized policies:**

- **The monetary policy framework was strengthened to support external stability, develop the interbank market and enhance the effectiveness of monetary policy**. The monetary policy stance was tightened (55 basis points to 3.50 percent in October 2018), while enforcement of foreign exchange regulations was strengthened. Statutory advances were eliminated and converted into long-term bonds in 2018, liquidity management is now based on autonomous factors forecasts; liquidity is being provided through competitive auctions; government securities used as collateral are subject to differentiated haircuts reflecting countries' sovereign risks; and the emergency liquidity assistance system is fully operational. The interest rate corridor, comprising the marginal deposit and borrowing facilities to which the banks can freely access, were formally established. The regional securities market deepened, and the two regional stock exchange were merged to provide a broader base for investors.

- **COBAC worked to improve the banking prudential regulatory and resolution frameworks, but compliance remains difficult, and risks to financial stability are still elevated.** COBAC focused on gradually moving towards full risk-based supervision aligned with the Basel standards. Meanwhile, NPLs steadily increased as limited progress was made by governments in their arrears' repayment strategies. COBAC also worked to strengthen the sanctioning framework to enhance enforcement of both prudential and AML/CFT regulations, but compliance remains uneven. BEAC prepared and started implementing regulations to guide banks with liquidity problems in resolving their situation, in addition to changes to the foreign exchange regulations that helped strengthen its implementation. However, work to make companies in extractive sectors comply with the regulation is still on-going.

6. Progress towards diversification from oil, which is absolutely essential to bolster the economic resilience of the region and shield living standards from oil price swings, was however limited. The economic performance of the region is very much dominated by oil price dynamics, which can generate large swings in current accounts, fiscal, and growth outcomes. Five years after the collapse of oil prices, per capita incomes were still almost 7 percent below the pre-crisis level and growth (overall and non-oil) remains below pre-oil price shock levels. Reducing the oil dependency is a long term multi-pronged effort, and progress was insufficient during the first phase of the regional strategy.

- **Non-oil revenues fiscal revenues disappointed and did not recover to their 2016 level**. Raising non-oil revenue is essential to secure a stable source of revenue to finance growth-enhancing reforms and investment.

- **The implementation of the structural agenda was incomplete.** Weak governance and a difficult business environment feature amongst the main constraints for more diversified growth in CEMAC. Implementation of structural reforms was weak under most Fund-supported programs, as less than half of structural benchmarks were met in a timely manner. There has been very limited progress in improving governance since 2010. In particular, there is limited transparency in the management of oil resources, including regarding the sharing of operating conditions governing oil concessions—an obligation under the CEMAC guidelines on public financial management. The lack of attractiveness of CEMAC's business environment is another constraint. The region is lagging behind peer SSA countries regarding most aspects of doing business, with starting a business, enforcing contracts, and trade barriers being the most cumbersome areas.

7. Other long-standing fiscal issues will need to be resolved in the second phase of the regional strategy:

- **Debt dynamics are increasingly challenging.** This is due to a combination of growth underperformance, weak primary balance positions, and protracted debt restructurings planned under Fund-supported programs— as debt restructuring was finalized for Chad only in 2018 (and is still underway in Congo).

- **Significant domestic payment arrears and NPLs remain largely unresolved.** CEMAC has a high stock of domestic payment arrears, reflecting inter alia delays in repaying wages, subsidies to public companies, and private sector suppliers of goods and services. Clearance has been slow, and the stock of arrears remains significant, affecting private sector development and economic growth. These arrears have contributed to a large and increasing stock of NPLs, increasing the vulnerability of the financial sector and placing pressure on private lending, holding back growth.

Text Table 1. CEMAC: Selected Economic Indicators, 2014–19

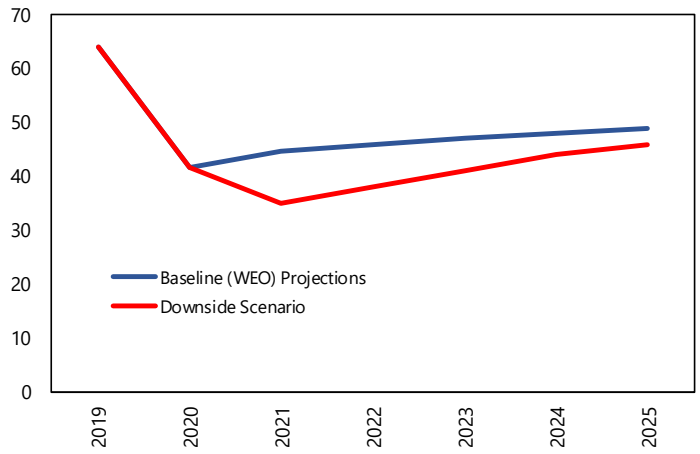
	2014	2015	2016	2017	2018	2019
	Est.	Est.	Est.	Est.	Est.	Est.
National income and prices			*(Annual Change, in percent)*			
Growth	4.9	0.9	-1.6	0.5	0.8	2.0
Oil	3.5	1.9	-7.7	-4.8	-0.8	2.7
Non-Oil	5.2	0.7	0.0	1.7	1.1	1.9
Inflation (eop)	2.6	1.5	0.3	1.2	3.0	1.9
External Sector			*(In percent of GDP, unless otherwise indicated)*			
Current Account Balance	-2.1	-12.6	-12.7	-4.6	-3.2	-3.2
Overall Balance	-0.7	-5.0	-7.3	-2.2	-0.9	-1.0
Gross foreign Assets (end of period)						
Billions CFAF	8,417	6,238	3,093	3,218	3,777	4,362
Months of imports of goods and services	5.8	4.4	2.3	2.3	2.7	3.5
Public finances			*(In percent of GDP)*			
Revenue and Grants	24.5	20.4	16.6	16.5	17.8	18.2
Oil Revenue	13.4	7.5	5.4	5.7	7.3	7.3
Non-Oil Revenue	9.9	11.3	10.5	10.0	9.8	10.1
Expenditure	28.2	26.8	23.7	20.1	18.1	18.5
Current	14.2	14.6	14.7	13.5	12.7	13.2
Capex	14.0	12.2	9.0	6.6	5.4	5.3
Fiscal Balance	-3.6	-6.5	-7.1	-3.6	-0.2	-0.3
Public Debt	28.3	42.3	49.9	51.0	50.2	51.8
Oil prices (U.S. dollars per barrel, brent)	96.2	50.8	44.0	54.4	71.1	64.0

Sources: Authorities' data and IMF staff estimates and projections.

Annex II. Oil Price Downside Scenario

1. The downside scenario is illustrative and aims at assessing risks to the region stemming from another hypothetical fall in oil prices, with a resurgence of the pandemic leading to a protracted economic slowdown. This scenario is based on the following assumptions:

Figure 1. Oil Price Assumptions, 2019–25
(Brent, U.S. dollar per barrel)



- Lower oil prices at $35 per barrel in 2021, slowly recovering to $ 44 per barrel by 2024. This represents a 16% downward shock to the average price level in 2020, and a downward shock of more than 20 percent to the projected price level in 2021 with prices slowly recovering and still about 8% below the baseline in 2024.

- No significant increase in external financing compared to the baseline scenario.

2. In this scenario, the CEMAC fiscal and external deficits would widen, but output volume would be broadly unchanged. The level of reserves would decline but lower imports would keep reserve coverage around 4 months of imports. Public debt would increase by about 2 percentage points of GDP in 2020 raising further concerns about debt sustainability and would only slowly revert to 2019 level by 2024–25 if the oil price recovers as projected and necessary corrective actions are taken.

- Total budget revenue in 2021 would decline by about 1 percentage point of GDP, mostly because of a mechanical fall in oil revenue and to a lesser extent the spillover impact of lower oil prices on non-oil growth. Policy reactions to offset part of the impact on the fiscal deficit are assumed to include some postponement of domestic arrears repayments

and a reduction in public investment. Nevertheless, the fiscal deficit would still widen to -4.2 percent of GDP in 2021 and would only narrow to -0.8 percent in 2025.

- Assuming oil output remains broadly unchanged[1], economic activity would be about 0.3 percent lower than in the baseline in real terms in 2021, mostly due to the impact on non-oil growth of reduced government spending coupled with the slower repayment of domestic arrears. Non-oil growth would then gradually get back to baseline.

- The external current account deficit would widen to reach 5.6 percent GDP in 2021 as the lower oil price would depress export receipts and would be only partly offset by lower imports due to lower price of imported fuel products (in Cameroon and Equatorial Guinea) and indirect effects of lower nominal GDP. The external current account deficit would slowly converge to the baseline levels with the recovery of oil prices and higher non-oil exports.

- The deterioration in fiscal balances would trigger additional financing needs of around CFA 411 billion in 2021, assumed to be mostly covered by drawing on government deposits at the BEAC, additional securities issuances on the regional market, and delayed repayments of domestic arrears.

- Gross external reserves would be about 3 percent lower than in the baseline at end-2021. The reserves cover of imports would still improve to the equivalent of around 4 months at end-2021 (partly reflecting also lower imports).

- The public debt-to-GDP ratio would increase further in 2021 and be around 2 percentage points of GDP higher than in the baseline being back on a downward trend from 2022 onwards, thanks to a forecasted recovery of economic activity and lower fiscal deficit.

- Banks would likely see an increase in nonperforming loans from the private sector due to the slower repayment of government domestic arrears and the economic slowdown triggered by lower oil prices. Reduced government revenues could also trigger the emergence of new payment arrears. This will likely induce banks to slowdown the provision of credit to the private sector in 2021, possibly further exacerbating the recession in the non-oil sector.

3. Potential additional downside risks are not reflected in this scenario:

- Oil output could be significantly cut by oil operators triggered by a protracted period of low prices and depressed demand. This would further exacerbate the slowdown in economic activity. Investment in the oil sector could also decline and thereby accelerate

[1] Based on oil producer's reaction over 2020 during which oil production remained broadly similar to its 2019 level.

the trend decline in oil production from mature fields. This would have knock-on lasting effects on domestic demand for non-oil sectors and further reduce government revenue.

- The regional market may not absorb the assumed increased issuances under this scenario, which could then force additional policy adjustment which would further weigh on growth.
- The further large decline in oil prices assumed in 2021 could be perceived as more permanent by investors, which could in turn weaken the confidence in the monetary regime and heighten risks of capital flight.

Text Table 1. CEMAC: Downside Scenario: Selected Economic and Financial Indicators, 2021–25

	2021	2022	2023	2024	2025
	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual change, in percent)				
National income and prices					
GDP at constant prices[1]	2.4	2.1	3.3	3.7	3.8
Oil GDP[1]	0.3	-2.5	0.3	0.7	0.6
Non-oil GDP[1]	2.9	3.1	3.9	4.3	4.4
	(In percent of GDP, unless otherwise indicated)				
Gross national savings	20.2	21.5	22.7	24.1	25.9
Gross domestic investment	25.7	25.6	25.9	26.2	28.1
Of which: public investment	5.1	5.0	5.0	5.4	5.5
Government financial operations					
Total revenue, excluding grants	14.7	15.1	15.7	16.1	16.4
Government expenditure	18.9	18.1	17.4	17.4	17.2
Overall fiscal balance, excluding grants	-4.2	-3.0	-1.8	-1.4	-0.8
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-9.5	-7.7	-6.4	-5.9	-5.2
Total Public Debt	57.9	56.9	54.6	52.2	49.1
External sector					
Exports of goods and nonfactor services	27.3	27.9	28.2	28.5	28.5
Imports of goods and nonfactor services	29.1	28.8	28.4	27.8	28.3
Current account, including grants	-5.6	-4.2	-3.2	-2.2	-2.4
External public debt	37.4	36.9	35.3	33.5	31.8
Gross official reserves (end of period)					
Millions of U.S. dollars	9,449	10,492	10,983	11,982	13,675
Months of imports of goods and services (less intra regional imports)	4.1	4.3	4.3	4.3	4.8
Percent of broad money	38.9	41.2	40.6	41.7	44.8
Memorandum items:					
Nominal GDP (billions of CFA francs)	51,434	54,103	57,393	61,171	65,228
Oil production (thousands of barrels per day)	896.7	880.3	887.4	895.0	905.0
Oil prices (U.S. dollars per barrel, brent)	35	38	41	44	46

Sources: Authorities' data; and IMF staff estimates and projections.

[1] Estimated after rebasing the national real GDP series to 2005.

Annex III. The Sovereign-Banks Nexus in CEMAC — An Update[1]

A. Introduction

1. Three years after the publication of a Selected Issues Paper (SIP) highlighting the risks of a strong sovereign-banks nexus for financial stability in CEMAC, this update takes stock of recent developments and reforms that have been taken to mitigate this risk and suggests a prioritized action plan. Strong links between sovereign and banks exist, which can amplify vulnerabilities in each sector. The Global Financial Crisis in Western countries, mainly the United States and Europe, illustrated well the negative spillovers that can arise. Direct involvement of governments was often required to manage banking crises, and similarly some banks were put at risk by sovereign crisis. Such links between sovereigns and banks cannot and should not be fully severed, in particular since sovereigns largely rely on banks for their financing, and banks on government bonds for safe and liquid assets, as well as to get easy refinancing from central banks.

B. Main Causes of the Sovereign-Banks Nexus in CEMAC

2. Banks and sovereigns are linked by multiple direct and indirect interacting channels, which are all relevant in the CEMAC. Three main channels can be highlighted: (i) the sovereign-exposure channel (banks hold large amounts of sovereign debt); (ii) the safety net channel (banks are protected by explicit and implicit government guarantees) and; (iii) the macroeconomic channel (banks' and governments' financial positions affect and are affected by economic activity). Additionally, indirect channels, including banking supervision and implementation of monetary policy reinforce the latter.

3. In CEMAC, exogenous oil price shocks have affected both countries' fiscal positions and the banking system and created a negative feedback loop through NPLs. With the decline in oil prices and mechanically lower fiscal revenues, countries have accumulated payment arrears. This, in turn, has generated an increase in nonperforming loans (NPLs) as the banks finance suppliers for public purchases and projects who fall in default. In turn, these NPLs weigh on bank profitability and crowd out the already narrow deposit base of banks, leaving banks with limited resources available to fund and help private sector firms generate profits. Subdued banks' and firms' performances translate into weaker growth and even lower fiscal revenues.

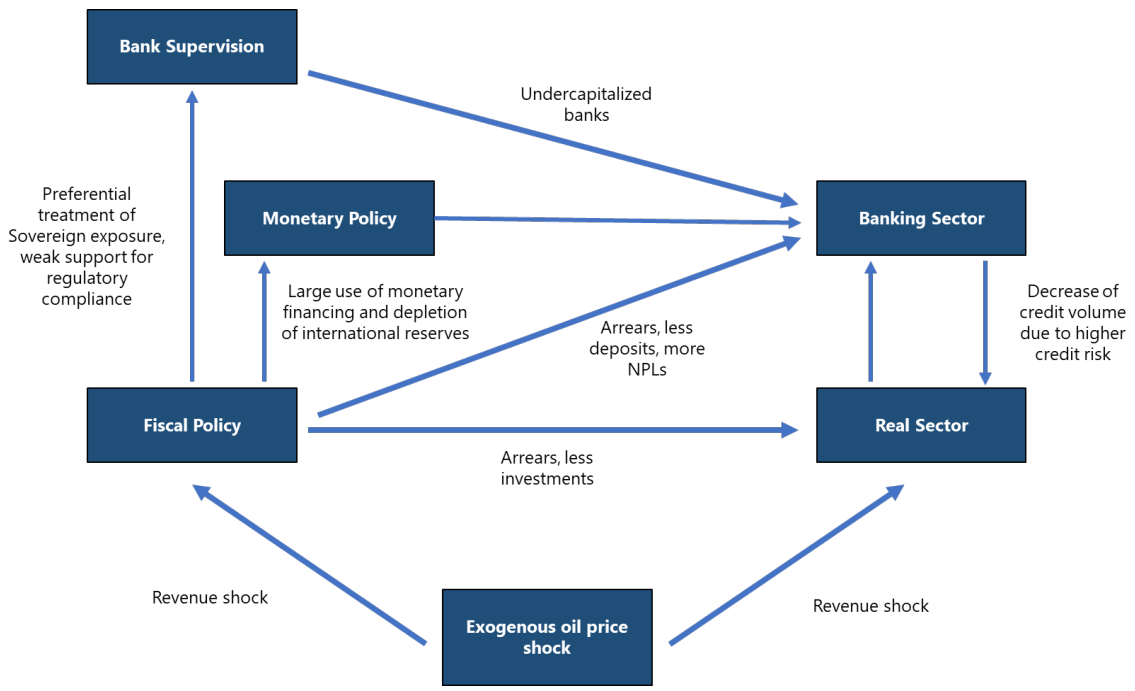
4. The sovereign-banks nexus is amplified by the lack of diversification from oil in CEMAC. Banks invest heavily in government bonds due to the lack of lending opportunities to the private sector. Countries rely on banks to purchase their bonds due to shallow sovereign debt markets and the absence of a diversified investor base. Both parties have a common incentive to lobby the regional Banking Commission (COBAC) to maintain a preferential prudential treatment

[1] Prepared by Jean Portier and Loic Lanci.

for sovereign assets. As a result, banking sectors in some countries have reached extreme levels of sovereign exposure by international standards (above 20 percent of banking assets).

5. Additionally, the countries failure to comply with and to support the regional banking framework has impeded the development of a sound financial sector. CEMAC countries have engaged directly and indirectly in banking activities: (i) as owners of public banks, which have often suffered from bad governance, and (ii) by implicitly guaranteeing the loans on state contracts, which often suffer from payment delays. In addition, compliance with the regional regulatory framework is weak in some countries, leading to an endemic situation of noncompliance and the multiplication of insolvent banks.

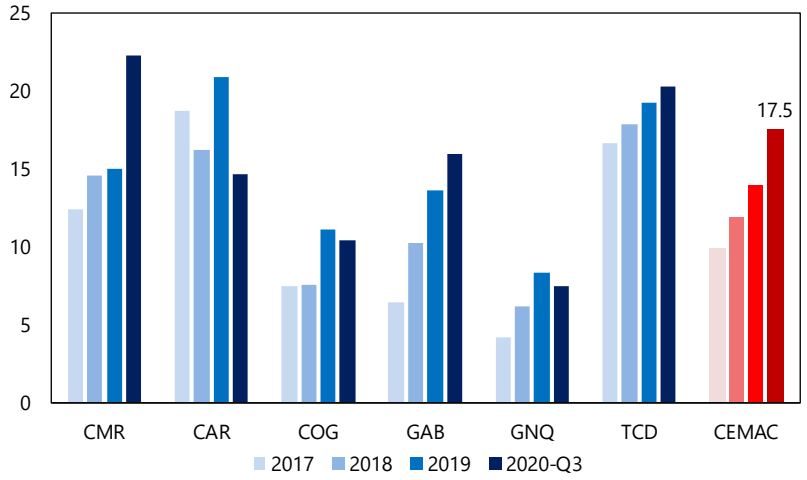
Figure 1. CEMAC: Macrofinancial Linkages



C. Recent Developments

6. The sovereign-banks nexus has intensified in the 2016–19 period as banks' exposure to sovereign debt grew faster than GDP. While banks' sovereign exposure had already jumped during the 2014–15 oil price shock to 10 percent of banking assets at end-2016 from 6 percent at end-2014, it reached almost 18 percent of banking assets, or two and a half times banks' regulatory capital at end-September 2020.

Figure 2. CEMAC: Commercial Bank's Exposure to Sovereign
(Percent of total asset)



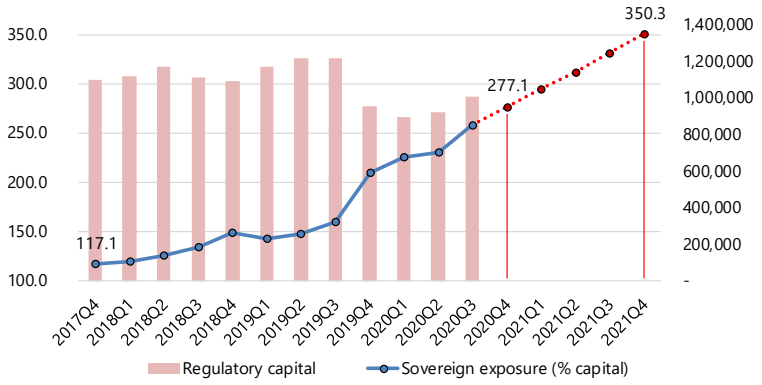
Sources: COBAC and IMF staff estimates.

7. Banks' exposure to state-owned enterprises and so called "strategic firms"[2], mainly in extractive industries, also grew with banks increasingly breaching concentration limits. At end-September 2020, almost half of banks, accounting for close to a third of banking assets, were in breach of the criteria on the largest exposure to a single counterparty (capped at 45 percent of regulatory capital) and 12 institutions, representing 12 percent of banking assets, were breaching the limit on aggregated large exposures (capped at 800 percent of capital). At end-2016, less than a third of the banks, representing a quarter of CEMAC banking assets were breaching the concentration limit on a single exposure and only 7 banks representing 4 percent of banking assets were breaching the aggregated concentration limit.

8. With the recent sharp fall in oil revenue, simulations show that banks' sovereign exposure could even reach three and a half times regulatory capital by end-2021. A large increase in the sovereign-banks nexus took place at end-2019 with a reduction of the regulatory capital base resulting from the implementation of Basel II norms. It then kept increasing throughout the pandemic, as countries covered part of their increasing financing needs from the banking sector. Under the current rate of domestic absorption, sovereign exposure could reach 2.7 times that of 2016 by end-2021 or three and a half times banks' regulatory capital, a level that clearly puts CEMAC's banking sector at risk.[3]

[2] Firms defined as strategic in CEMAC benefit from preferential prudential treatment (e.g., exposure weighted at 50 percent for the purpose of assessing compliance with concentration limits).
[3] We forecast treasury issuances until end-2021 by using the calendar of issuances in 2020 and a forecasting method accounting for seasonality in 2021. For each period we apply an absorption coefficient (continued) of 22 percent by the banking sector, which we estimate historically as the average coefficient between treasury issuances and the increase in sovereign exposures in banks' portfolio for each period since 2018. Capital is held constant as of September 2020.

Figure 3. CEMAC: Sovereign Exposure, 2017–21
(LHS: % capital; RHS: million FCFA)



Sources: COBAC and IMF staff estimates.

9. Banks have continued to buy government debt, crowding out credit to the private sector. Since 2017, credit to the private sector has decreased by 1.5 percent on average per year, whereas holdings of government debt have grown by 21.9 percent on average per year. In CEMAC, banks have long favored lending to sovereigns or economic agents related to sovereigns, such as government's suppliers, civil servants, or credit guaranteed by governments, because of their preferential treatment in the banking supervision framework. Credit to other sectors, in particular to small and medium sized enterprises has always remained limited, even when bank liquidity was abundant, thereby limiting financial inclusion.

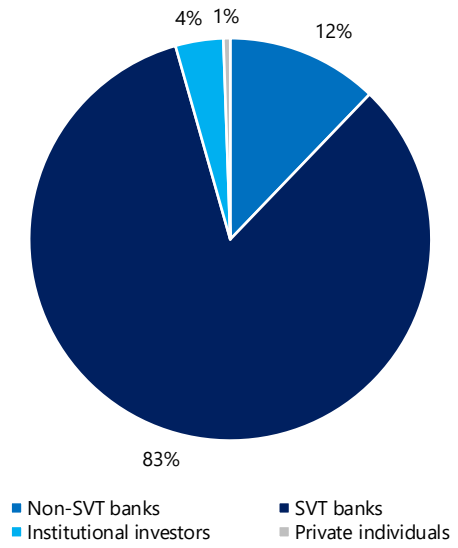
10. The resolution of problem banks has been slow, and governments have recently increased their share of bank ownership. While several non-systemic banks, accounting for over 10 percent of banking assets in CEMAC have negative capital, almost no such banks were resolved in the last decade. Besides Gabon, where authorities decided to liquidate three insolvent public banks, authorities in other countries found it difficult to sort out such issues, usually delaying decisions at the expense of a likely higher future fiscal cost. In one country, the government acquired a majority in one systemic bank, which brought state ownership in the banking sector for the region as a whole to 16 percent of total banking assets at end-September 2020 from slightly above 10 percent at end-2019.

11. The direct or indirect state involvement in banking has also reportedly negatively affected deposit collection. The fragile situation of banks in some countries led to deposit withdrawals and liquidity stress, particularly in poorly governed public banks or banks with high NPLs to government contractors. In most countries, SMEs remain reportedly reluctant to bring their assets to banks due to mistrust in banks and country authorities.

12. Regional institutions took measures to broaden the investor base and to moderate bank appetite for government bonds

- **Although only nascent, the broadening of the investor base has started.** Encouraged by communication campaigns and the implementation of transaction platforms by the central bank (BEAC), institutional investors have started to invest in government securities. At the regional level, banks still own about 95 percent of the government bond portfolio against almost 100 percent three years ago.

Figure 4. CEMAC: Stock of Government Securities per Holders, September 2020



Sources: BEAC and IMF Staff estimates.

- **BEAC has taken measures to moderate banks' appetite for government bonds**. In 2019, BEAC set a refinancing exposure ceiling of 10 percent of a bank's total assets, above which a bank needs to provide a plan to reduce its refinancing exposure. This helps limit banks acquiring government bonds for the sole purpose of refinancing them at BEAC. The central bank is also strictly applying the CEMAC regulation and rejects bank refinancing requests backed by securities from a State that would be in arrears on its outstanding T-bills/-bonds. As a result, in Chad, while the rollover mechanism of the central bank to address short-term liquidity pressures for some banks is still in place, the sovereign-banks nexus has started to slowly decrease.

- **COBAC lowered slightly risk weights of bank claims on governments for most countries but maintained them at a credible level**.[4] For most countries, risk weights were lowered in 2020 in line with the mechanism of convergence criteria in place in CEMAC. Risk weights are now in the range of 65-85 percent against 65–95 percent previously. Importantly, COBAC is also working on specifying the conditions under which "secured issuances" can benefit from a zero-risk weighting by banks. In 2020, COBAC extended an exception rule for another three years by which individual banks can apply against some strict conditions for a temporary waiver on risks weights for their claims on governments, an option used by two banks so far.

[4] In WAEMU, convergence criteria have been suspended in April 2020 and risk weights on government bonds have been set to zero.

- **BEAC has taken measures to alleviate government financing constraints, which should help to moderate a further increase of banks' exposure to sovereigns.** BEAC announced in July 2020 a bond purchase program on the secondary market, in line with its statutes which prohibit direct monetary financing. With its renewable six-month program that started in August 2019, BEAC can purchase from banks parts of new T-bonds issued by governments up to a total regional ceiling of CFAF 600 billion under certain safeguards, including a minimum uptake by banks. While BEAC is likely to build up its own stock of government bonds, the program will help mitigating a sharp uptick in banks' exposure to sovereigns.

D. Reducing the Sovereign-Banks Nexus in CEMAC Going Forward

13. The recommendations made in the previous SIP were unevenly implemented and remain broadly valid. These included (i) broadening CEMAC investors' base for government securities; (ii) reviewing in-depth the risk weighting rules for CEMAC domestic sovereigns; (iii) improving arrears and debt management in CEMAC countries; and (iv) reinforcing independence and management of public banks.

14. Considering the increase in the Sovereign-Banks nexus, this update offers a prioritized action plan in 5 areas:

- **Action 1: reduce state involvement in the banking sector.** In the short term, states should establish privatization strategies for systemic banks they own. At most, they could maintain majority ownership in a very few non-systemic institutions, only if there is a strong governance framework which guarantees management independence from the government.

- **Action 2: rapidly broaden the investor base.** In the short term, while BEAC should continue providing advice and technical facilitation, including completing the BEAC/CRCT electronic platform for centralizing government bonds secondary transactions, governments should continue to broaden the investor base by dedicating a significant quota of their issuances to non-bank investors, including institutional (e.g. insurance, pension schemes) and individuals. SVTs should play an active market maker role, provide a market price at request and serve their clients if these clients request to buy government bonds; non-cooperation would be fined by the CRCT and repeated non-cooperation would be sanctioned by SVT license withdrawal.

- **Action 3: reduce bank appetite for sovereign exposure.** In the short term, COBAC should rapidly implement a new regulation on the leverage ratio in order to ensure a minimum capital requirement for any category of bank asset, including zero-weighted government bonds and specify the conditions for weighing such bonds at zero. In the medium term, it should eliminate this exception and ensure that all issuances are weighted similarly. In line with past recommendations, COBAC could review the rationale

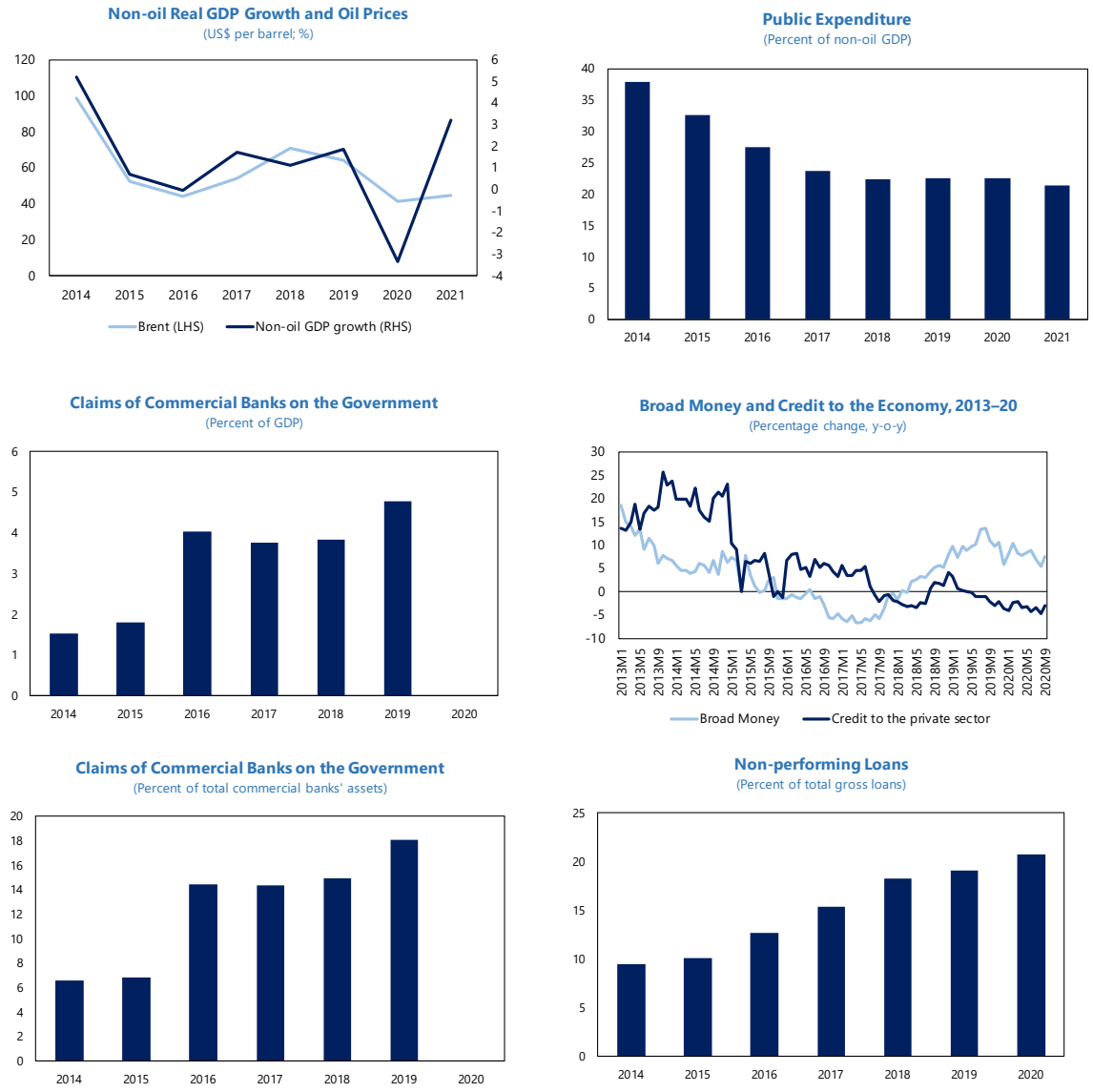
guiding risk weighting and propose a risk weight system based on credit risk rather than convergence criteria. Additionally, in the short term, COBAC could operationalize (i) the regulations on financial sanctions adopted in 2019 to better enforce regulatory compliance; and (ii) cautiously and gradually implement its new regulation adopted in 2020 strengthening concentration limits. Whenever possible, it should (i) set dissuasive, and in any case, much higher risk weights for direct loans to sovereigns compared to bonds, as the former have been historically by far the main source of default and (ii) set progressive provisioning obligations on sovereign-backed corporate loans, which so far don't have to be provisioned but have become recently a significant source of nonperforming loans and liquidity stress in banks.[5] Finally, at the next opportunity, COBAC should eliminate its exemption rules authorizing some banks not to weigh government bonds at all. The central bank should decide whether an SVT that is not respecting minimum solvency requirements, concentration limits or its placement obligations as SVT should be allowed to continue participating in government bond issuances.

- **Action 4: increase banks' incentives to lend to the private sector.** In the short term, governments should finalize and implement their domestic arrears repayment strategies, possibly in close coordination with COBAC. This will strengthen banks' capacity to lend and provide them with clarity on the viability of firms which rely on government contracts. The Groupement Interbancaire Monétique de l'Afrique Centrale (GIMAC) should continue working at achieving the full interoperability of mobile and digital payments in the region. This should improve deposit collection and funding capacity of banks. In the medium term, the central bank and governments should develop and implement consistent regional and national financial inclusion strategies, to improve access to finance and reduce the cost of financial services. Finally, governments should focus on improving public governance and finance management, judiciary capacity and the overall business to diversify their economies and generate bankable private sector projects.

- **Action 5: strengthen regional institutional capacity and coordination.** In the short term, the capacity of regional institutions, and specifically the staffing situation, the processes and the systems of COBAC, should be significantly improved. Also, an even closer coordination between BEAC and COBAC would enhance the effectiveness of their respective actions.

[5] Several examples exist internationally of gradual provisioning obligation for secured loans (e.g. EU, Ireland).

Figure 5. CEMAC: Oil Price Shock and Sovereign-Bank Nexus



Sources: IMF Staff estimates, BEAC, COBAC.

Annex IV. External Sector Assessment

The external position of the CEMAC region is assessed to be weaker than implied by fundamentals and desirable policies at end-2020. The current account deficit is estimated to deteriorate to 6.5 percent of GDP in 2020 due to the COVID-19 pandemic impact, but it is expected to improve in 2021 and continue to narrow in the medium term. Despite the 2020 current account deterioration, regional gross reserves slightly increased in 2020, mainly due to the Fund emergency financing support, and are projected to increase steadily, but to remain below levels that are appropriate for oil exporting economies according to reserve adequacy metrics. Prudent fiscal and monetary policies combined with more forceful implementation of structural reforms to improve competitiveness, and full implementation of the strengthened FX regulation are needed to strengthen the external position.

A. Current Account Developments and Reserves Adequacy

1. The regional external current account deficit stabilized between 2018 and 2019 at about 3 percent but is expected to worsen significantly due to the impact of the COVID-19 pandemic before improving in the medium term (Figure 1). After several years of double-digit current account deficits reflecting the evolution of poor trade balances, the regional current account deficit improved from 4.6 percent in 2017 to about 3.2 percent in 2018 and 2019 on the back of higher oil prices, tighter fiscal policy stances, and the dollar appreciation against the CFA Franc. Accumulation of regional foreign reserves improved the reserve coverage ratio from 2.3 months of imports in 2017 to 3.5 months of imports in 2019 (Figure 2). However, in 2020, the external position is expected to deteriorate, as national authorities faced large declines in budget revenue and increased public spending to address the economic and social fallouts of the COVID-19 pandemic in the context of lower oil prices. Nonetheless, gross reserves are estimated to remain broadly constant at 3.6 months of imports at end-2020, mainly supported by the Fund emergency assistance. In the medium term, the current account deficits are projected to decline gradually. As a result, reserves are projected to increase but remain below the 5 months of imports threshold by 2023.

Figure 1. CEMAC: Current Account, 2012–23

(Percent of GDP)

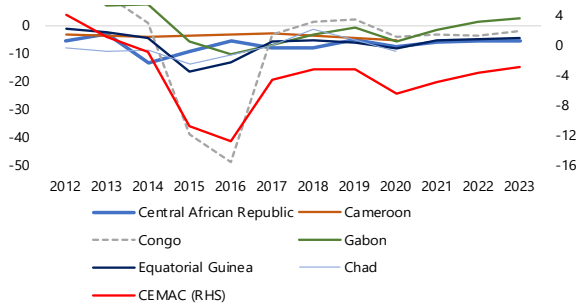
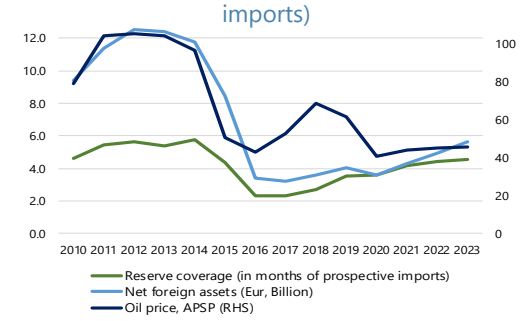


Figure 2. Oil Price and Reserves Coverage

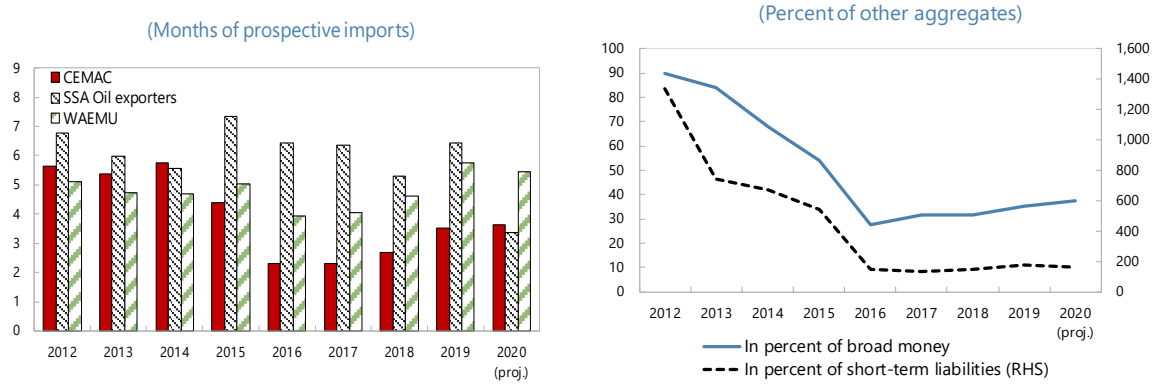
(U.S. dollar per barrel, and months of prospective imports)



Sources: BEAC, Country authorities, WEO and IMF staff calculations.

2. Regional fundamentals contributed to structurally weak external positions. Structural fiscal deficits, low levels of public health expenditures and a restricted credit market for the private sector all contributed to the structurally weak external position. The main transmission mechanisms include: (i) under-developed export markets in the non-oil sector, harmed by the limited availability of private sector credits; (ii) weak governance and public investment management practices, which further contribute to the weaker external position; and (iv) a relatively restrictive capital control environment compared to peers. The structural overvaluation of the FCFA is explained by the prevalence of Dutch Disease effects in a region with structural competitiveness issues.

Figure 3. BEAC: International Reserves Coverage



Source: AFR REO-database and IMF staff calculations.

3. The benchmark of 5 months of prospective imports continues to be considered as appropriate for the CEMAC, a resource-rich monetary union exposed to volatile oil prices. The cost-benefit analysis for credit constrained economies with a fixed exchange rate regime indicates that the optimal level of reserves for the CEMAC region could oscillate from 6.3 to 9.7 months of imports depending on the scenario.[1] However, the French Treasury guarantee to cover negative reserve positions is an important offsetting factor that reduces the need for higher reserves buffer. In view of these specific considerations for the CEMAC region, staff assess that the benchmark of 5-months of prospective imports continues to be appropriate. While latest projections indicate that regional reserves are expected to remain below the 5-months threshold over the medium-term, the broad money and short-term liability ratios (respectively at 35 and 175 percent in 2019) appear adequate compared to the minimum thresholds of 20 and 100 percent, respectively (Figure 3).

4. Rebuilding reserves buffers in the medium term requires an appropriate policy mix. The reserve coverage is projected to increase gradually in the medium term on the ground of

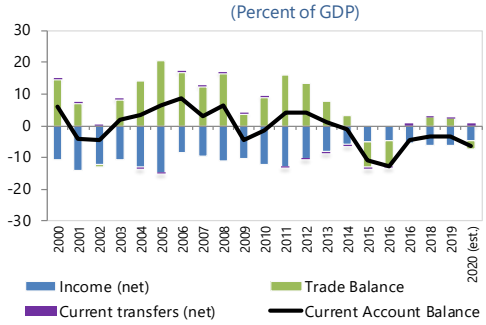
[1] Dabble-Norris, E. J, I. Kim, and K. Shoran, "Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefits Analysis" IMF Working Paper 11/249, 2011.

fiscal consolidation, adequately tight monetary policy and the implementation of structural reforms to pave the basis for higher and more diversified growth. Full implementation of the strengthened FX regulation would also help rebuild reserves in the medium term.

Figure 4. CEMAC: External Sector Developments, 2000–20

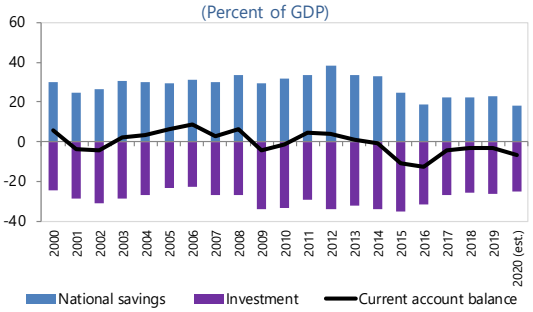
The regional current account balance worsened - reflecting the evolution of trade balance and ...

CEMAC: Current Account Balance, 2000–20
(Percent of GDP)



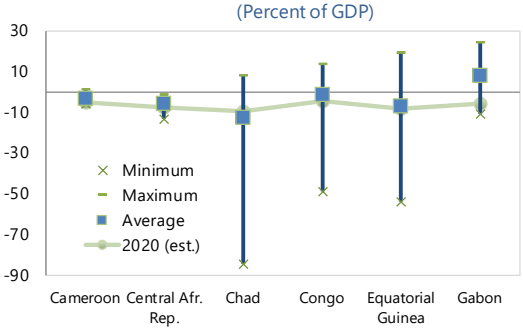
... a sizeable decrease in savings ...

CEMAC: Current Account Balance, 2000–20
(Percent of GDP)



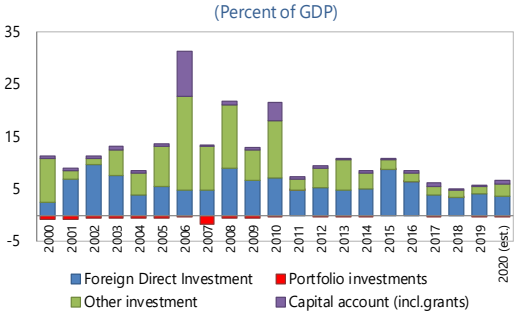
... in all CEMAC countries, with a performance often below the average of the past two decades.

CEMAC: Current Account Balances, 2000–20
(Percent of GDP)



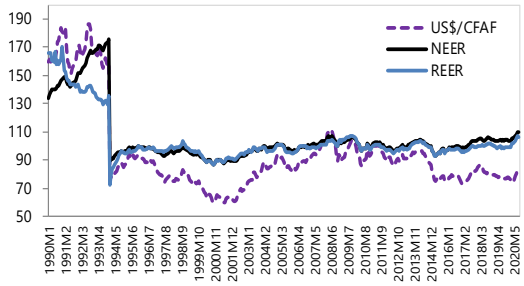
As the region was hit by the pandemic, foreign direct investments that constituted a stable source of external financing started decreasing.

CEMAC: Current Account Financing, 2000–20
(Percent of GDP)



In the past months, the regional real effective exchange rate appreciated reflecting the appreciation of the euro combined to a weaker US dollar...

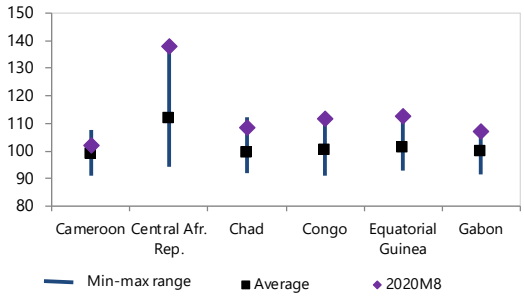
CEMAC: Real and Nominal Effective Exchange Rates, 1990-2020
(2010M1 = 100)



Note: REER and NEER are first computed across CEMAC member countries and weighted using nominal gross domestic product in purchasing-power-parity dollars.

... the appreciation effect is unified across CEMAC countries, while inflationary pressures remain subdued in the sub-region.

CEMAC: Real Effective Exchange Rate of CEMAC Countries, 2007–2020
(2010=100)



B. Current Account, Exchange Rate Assessments and Capital flows

5. The approach and methodology used for the external sector assessment is based on the *Revised EBA-Lite's Current Account (CA)* model. The CA model is calibrated to compare the regional current account balance with the model-estimated current account norm. The model is calibrated to reflect the latest desirable policies with: (i) a projected cyclically adjusted fiscal balance reflecting recommended medium-term fiscal objectives; (ii) the level of public health expenditures at 2 percent of regional GDP; (iii) a revised desired change in reserves that positions the CEMAC on the path to reach 5 months of import coverage at end-2025[2]; (iv) the private sector credit level at 17 percent of GDP reflecting member countries' fundamentals; and (v) the assumption of less restrictive regional capital controls. Our estimation includes the new measure of the potential impact of natural disasters and conflicts on the current account deficit. The elasticity of the current account to REER at -0.22 is calculated using an average of countries' elasticities. We also introduced an adjustor for the temporary oil shock of -0.021 in 2020, calculated as 0.6 times the temporary portion of the change in oil balances to measure the impact of the 2020 oil shock on the cyclically adjusted current account. At the same time, the REER appreciated through 2020 on the back of a weak US dollar (Figure 4).

6. The assessment of the 2020 current account suggests a moderately weaker external position than warranted by fundamentals and desirable policies. The EBA-Lite CA model applied to 2020 data, estimates a CA norm of -2.1 percent of GDP against a cyclically adjusted CA of -4.4 percent of GDP. This implies a gap of -2.3 percent of GDP under current policies, equivalent to an overvaluation of the real exchange rate of 10 percent. On the other hand, the REER model shows an undervaluation of 3.8 percent. The combination of these two models suggests that the overall end-2020 external position is moderately weaker than warranted by fundamentals and desirable policy settings (see Text Table on EBA-Lite CA and ER Approach). The REER has been broadly stable since the late 1990s, after the 1994 devaluation, with some year-to-year fluctuations not exceeding 10 percent. Overall, the price competitiveness gains achieved with the 1994 devaluation appear to have been preserved over the last decades. However, in 2020, it has appreciated by about 8 percent, reflecting the nominal appreciation of the Euro vis-à-vis the US dollar.

7. Capital inflows are expected to remain low and subject to downside risks. In 2020, net capital inflows decreased by 1.4 ppt of GDP from 2019. The decrease was due to lower direct investment and other investment outflows due to the higher global uncertainty (despite more official support). This decrease is estimated to be reflected on by 1 ppt of GDP decrease in the positive balance of the financial account. In the medium term, under baseline projections, portfolio outflows are expected to surpass inflows, while FDI inflows are projected to spike in 2021 and remain relatively constant at the 2020 level afterwards. There are risks that net capital inflows remain durably lower, and outflows surpass inflows in the wake of the COVID-19 crisis. Concerns about debt sustainability and the fragility of the economic recovery may complicate chances of return of Eurobond issuers on international markets. In addition, there are also risks that official creditors may not provide as much

[2] The calibration relies on gross foreign assets statistics from the BEAC's monetary survey and the most recent CEMAC macro framework projections.

financing in the coming years as they did during the COVID-19 crisis. Policies to attract more capital inflows in the medium term could focus on: implementing long-overdue structural reforms and improving the business climate; advancing revenue mobilization (to improve the debt service capacity); and strengthening the implementation of the foreign exchange regulations.

Table 1. EBA-Lite CA and ER Approach

	2020	
	CA Model 1/	**REER Model**
Current Account	**-6.5%**	
o/w Oil shock adjustor	-2.1%	
Current Account Actual	**-4.4%**	
o/w Cyclical Contributions (from model)	-0.5%	
Cyclically adjusted Current Account	**-3.8%**	
Natural disasters and Conflicts	-0.1%	
Policy Gap	**2.7%**	**-0.8%**
Residual	-4.9%	
Current Account Norm 2/	**-2.1%**	
CA Gap (Actual-Norm)	**-2.3%**	
REER Gap	**10.0%**	**-3.8%**
Elasticity	-0.22	

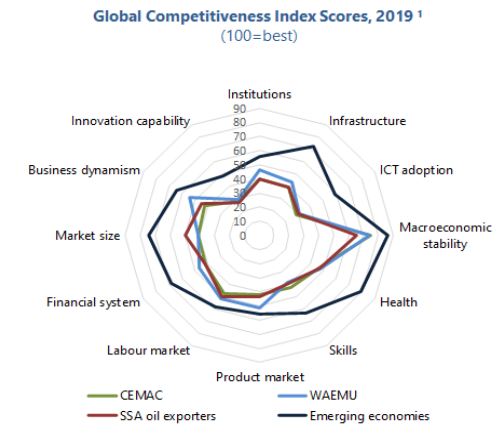
Sources: IMF staff estimates.
1/ Results reflecting the lastest SPR template and model calibrated with a new desired change in reserves, fiscal balance target and desired level of private sector credit.
2/ Computed as the difference between the CA-fitted, the policy gap and a measure of potential natural disasters and conflicts shocks on the CA.

C. Structural Competitiveness

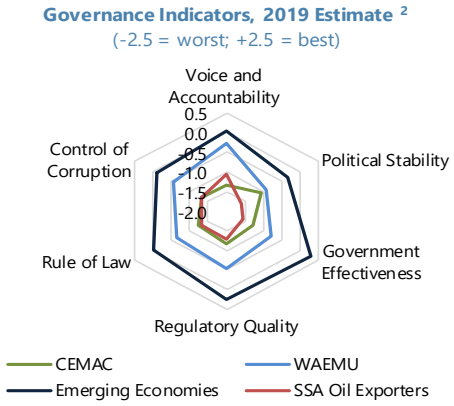
8. Competitiveness in the CEMAC region remains seriously hampered by significant structural constraints. Despite the fact that the Global Competitiveness indicators (World Economic Forum) suggests that the CEMAC countries included do not perform very differently from some regional peers (WAEMU), a few of the CEMAC countries (e.g. Chad) are among the worst performers in the world. Across the different indicators of the overall competitiveness index ranking, the more pronounced constraints for the CEMAC region are found to be innovation capability and product markets. In addition to the lack of adequate infrastructure and the difficulties for ICT adoption, the limitations of human skills, which is probably linked to the bad performance of the health indicator, continue to be key challenges for development. The region is prominently lagging behind on governance indicators, especially in voice and accountability, corruption and rule of law. It is concerning that the governance indicators for the CEMAC region worsened from 2010 to 2019.

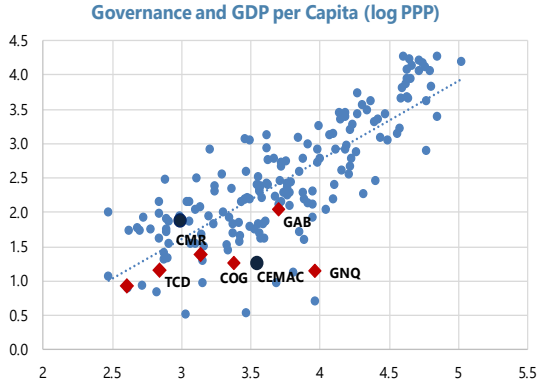
Figure 6. CEMAC: Governance and Business Indicators

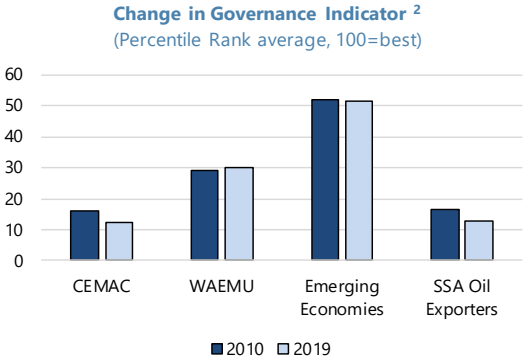
1/ CEMAC averages include Cameroon, Gabon and Chad. Data unavailable for the other Member countries.

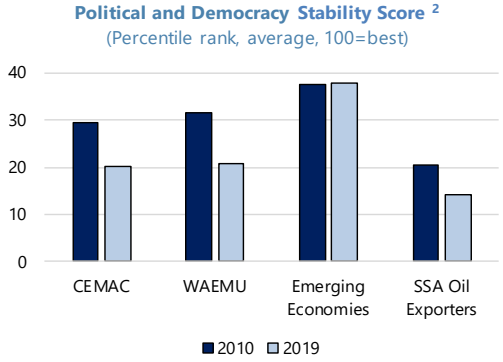


1/ CEMAC averaees include Cameroon. Gabon and Chad. Data unavailable for the other countries.









Sources: World Governance Indicators 2019 and IMF staff calculations.

[1] SSA oil exporters = Angola, Nigeria, and South Sudan.

[2] WGI overall governance indicator is calculated as the simple average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability and voice and accountability.

Annex V. Risk Assessment Matrix[1]

Risks	Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Conjunctural Shocks and Scenario			
Unexpected shift in the COVID-19 pandemic. **Downside.** The disease proves harder to eradicate (e.g., due to difficulties in finding/distributing a vaccine), requiring more containment efforts and impacting economic activity directly. Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability. Financing difficulties extend to vulnerable sovereigns, leading to cascading debt defaults, capital outflows, depreciation pressures, and in some cases inflation.	**High**	**High** Demand for contact-intensive sectors remains low for longer. Markets reassess real economy risks unmasking debt-related vulnerabilities, weakening banks forcing them to reduce credit (further weighing on growth)	Increase public health measures, including testing capacity and follow WHO guidelines
Oversupply and volatility in the oil market. Supply increases following OPEC+ disagreements and lower demand keep energy prices close to historical lows, but uncertainty about possible production cuts and the pace of demand recovery lead to bouts of volatility.	**Medium**	**High** Given CEMAC's dependency on oil revenue and export proceeds, a protracted and large decline in oil prices could undermine the monetary framework	Successfully complete and communicate the full implementation of the new foreign exchange law, including with extractive industries. Strengthen efforts to repatriate foreign exchange held abroad, including by SOEs Impress on the need to implement structural measures to diversify the economy, enhance competitiveness and deepen regional integration

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Conjunctural Shocks and Scenario			
Intensified geopolitical tensions and security risks (e.g., in response to pandemic) cause socio-economic and political disruption, disorderly migration, higher commodity prices (if supply is disrupted), and lower confidence.	**High**	**Medium**	A deterioration in the security situation or social unrest could affect economic activity and undermine reform efforts (Cameroon, Chad, CAR). Authorities should keep effective social dialogue, ensure that priority spending in social sector is protected.
Structural Risks			
Delays in the implementation of regional reforms possible delays for new Fund-supported programs and more limited room for financial support than 3 years ago, as well as reform fatigue, eroding the support to needed structural reforms, negatively impacting external financing and reserves accumulation, as well as confidence of private investors and households.	**High**	**High**	Seek renewed high-level commitments from heads of states to an ambitious reform agenda. Step up the Fund's catalytical role with the international financial community to secure needed external financing. Define key parameters for possible additional debt operations where needed. Deepen dialog on needed reforms to improve governance and enhance transparency, based on joint World Bank/IMF staff work. Redefine under programs the role of public institutions in the economic area and address wide-spread perception of corruption.

Annex VI. Response to Past IMF Advice

2019 Regional Consultation Recommendations		CEMAC Authorities' Response
Policy mix	• Achieving the respective fiscal consolidation targets and reduce the non-oil primary deficit from 8 percent of non-oil GDP in 2018 to less than 6 percent in 2020 • Implement the government arrears clearance strategy • Structural reforms to diversify the economy and restore sustained growth.	• After good performances in 2019H1, slippages were observed across all CEMAC countries but Equatorial Guinea in the second half of 2019. The fiscal policy response to mitigate the economic slowdown triggered by the COVID-19 pandemic was broadly appropriate but widened deficits. • Some progress has been made (Gabon and Chad) although increasing financing needs triggered by the COVID-19 pandemic has made execution difficult. • The PREF's overall implementation is lagging, with gaps in strengthening governance of tax authorities and improving the business environment.
Monetary policy and safeguards reform	• Consider a tightening of the monetary stance would reserve accumulation fall short of objectives • Tighten liquidity management with a view to enhance monetary policy transmission. • Explore simplified rules for ensuring adequate repatriation and surrendering of foreign exchange receipts and continue the dialogue with oil and mining companies in order to bring these companies in compliance with the regulation	• BEAC maintained a tight monetary stance to support reserve accumulation until March 2020. To mitigate the economic slowdown triggered by the COVID-19 pandemic, BEAC loosened the monetary policy stance slightly in March 2020. • BEAC gradually tightened its liquidity management by reducing its liquidity injections but has pushed back, for some time, on absorption operations in line with the neutral liquidity allocation to enhance the monetary policy transmission. In late February 2020, it conducted three consecutive weekly absorption operations but resumed the liquidity injections to ease bank's liquidity stress following the COVID outbreak. • BEAC and COBAC have strengthened the enforcement of foreign exchange regulations. While little progress has been achieved on the enforcement of the repatriation requirement, FX surrendering by domestic banks is largely applied. BEAC started direct consultations with oil and mining companies with the help of a specialized consulting firm with the aim of finalizing discussions by end November.

2019 Regional Consultation Recommendations		CEMAC Authorities' Response
Macrofinancial linkages and the financial sector	• Move towards full implementation of a risk-based supervision • Revise the short-term liquidity prudential ratio • Support the NPL reduction strategies • (i) strictly implement the resolution framework at COBAC's level without accommodating unwarranted delays; (ii) explore setting time limits to the resolution processes of small banks; and (iii) define strict criteria and minimum conditions to approve applications for bridge banks.	• A new sanction mechanism to improve regulatory compliance was adopted but procedures remain long, especially for state-owned banks. The relaxation of prudential regulation to ease the impact of the COVID 19 pandemic on banks and capacity constraints has limited bank resolutions in 2020.
Regional integration and convergence framework	• Strengthen enforcement of the regional surveillance framework.	• Limited progress after a draft sanction scheme for countries non-compliant with the regional convergence framework was prepared, together with an early warning system.

Appendix I. Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries

BANK OF CENTRAL AFRICAN STATES
Office of the Governor

Yaoundé, December 22, 2020

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
United States of America

Subject: Follow-up to the letter of support for recovery and reform programs undertaken by CEMAC member countries

Dear Madame Georgieva:

This letter is an update of the assurances provided in December 2019 by the community institutions in support of the economic recovery and reform programs undertaken by the member states of the Central African Economic and Monetary Community (CEMAC). It reflects the discussions that took place during regional consultations by IMF staff with the CEMAC institutions from November 3 through November 23, 2020. At the conclusion of these discussions, I am pleased to report to you on the status of measures undertaken by the Bank of Central African States (BEAC) and the Central African Banking Commission (COBAC), as well as those which they are planning to implement in the coming months.

As you know, the COVID-19 pandemic has severely affected the economic outlook for the CEMAC countries and disproportionately affected the most vulnerable populations. Unfortunately, the uncertainties surrounding our economic forecasts are greater than in the past. We expect that the region will experience a 3 percent recession in 2020, mainly due to the economic slowdown caused by the lockdown measures taken in the first half of 2020 and weakening oil prices. Other macroeconomic variables would record a sharp deterioration. Budget balances would worsen mainly due to the negative impact of the pandemic on member countries' public finances. The external current account deficit would widen considerably to reach 6.5 percent of GDP in 2020 due to a sharp

drop in oil exports, which would only be partially offset by a decrease in imports. Inflation would remain contained below the regional convergence criteria at 2.5 percent.

The deterioration of the macroeconomic situation of the region has led countries and the Central Bank to change their strategies to safeguard social standards. Notwithstanding reduced fiscal room, CEMAC member states reshuffled their budgets by passing revised budget laws in order to free up the necessary resources to support businesses and households affected by the crisis, while ensuring that budget deficits are under control. BEAC quickly eased monetary policy and implemented accommodative measures to facilitate financing for member states and ensure a sufficient supply of banking liquidity. COBAC has relaxed prudential regulations to allow banks absorb losses due to the pandemic. In addition, emergency financing granted by the Fund to four CEMAC countries also helped ease the shock on the regional economy, while programs of Cameroon, Gabon and Chad expired.

Our projections for regional net foreign assets (NFA) for December 2019, endorsed by the IMF Executive Board as a regional policy assurance contained in my letter of December 2019, was unfortunately not met (€4.0 billion instead of €4.7 billion) due to delays in securing external financing (€0.4 billion) and fiscal slippages. Despite the health crisis the NFA accumulation has been in line with pre-COVID projections during the first semester of 2020. However, the end-June 2020 target was not met, as the end-2019 shortfall could not be compensated. The pandemic has also disrupted the pace of reform implementation in the areas of foreign exchange regulations, domestic arrears repayment strategy, single treasury accounts, and banking supervision. However, we are committed to continuing our efforts during this difficult time and accelerating progress once the pandemic is firmly behind us.

Regarding monetary policy, BEAC had committed to gradually move towards a neutral liquidity allocation to guarantee the external stability of the currency. We reduced the liquidity injections volumes at end-2019 and started liquidity absorption operations in February 2020 to drain excess liquidity from the banking sector. However, the consequences of the health crisis led BEAC to adopt a series of measures aimed at supporting demand and preventing potential banking liquidity crises. These measures have been welcomed by the banking system even though banks' liquidity needs have remained low, in part because the level of credit has continued to decline. However, they disrupted monetary transmission channels and slowed the development of the interbank market in 2020.

Moreover, the development of the pandemic and the subsequent increase in governments' financing needs led BEAC to take additional measures in July 2020. Long-maturity liquidity injection operations resumed for an amount of CFAF 150 billion in order to help credit institutions cover their short- and medium-term needs. We have also set up a bond purchase program for government securities on the secondary market with a ceiling of CFAF 600 billion, or CFAF 100 billion per country within their financing needs limits and for a 6-month renewable period. In accordance with its statutes BEAC remains firmly committed to refrain from providing direct monetary financing to countries.

We will closely monitor the evolution of the COVID-19 pandemic and its impact on the economies of the region to decide on the modalities and the timing for the gradual withdrawal of these exceptional measures when applicable. However, we continue to consider that the excess liquidity held by some banks does not constitute a significant risk for CEMAC's monetary and financial stability since the banks' credit policies are prudent. Once the economic recovery takes hold, we plan to reduce our liquidity injections and eventually resume liquidity absorption operations to absorb structural excess liquidity and stimulate interbank market development.

With regards to foreign exchange regulations, despite pandemic-related disturbances, we have made significant progress on the foreign exchange surrender requirements by banks for assets repatriated by all economic agents. The delays in processing currency transfers outside the monetary zone are now resolved, in part thanks to the implementation of the "e-transfer" platform since September 1, 2020, which dematerializes transfer processes. All contracts concluded between CEMAC countries and extractive industries companies have been submitted to BEAC, which is supported by Groupement BDO Tunisie Consulting, in order to study their compliance with the foreign exchange regulations. Since the beginning of October 2020, BEAC has started bilateral consultations with the companies operating in the extractive sectors. These consultations, which will continue until the beginning of 2021, relate in particular to: (i) the treatment of site rehabilitation funds, including the possible opening of foreign currency accounts at BEAC for these funds; and (ii) the assessment of the share of export earnings to be repatriated, taking into account the specificities of the oil and mining sectors. Due to the delays in launching these discussions created by the pandemic, we granted all oil and mining companies an additional delay until end-December 2021, for bringing them in compliance with the foreign exchange regulations.

COBAC faced constraints related to travel bans and delays necessary to set up a remote supervision system. It acknowledges that compliance with prudential standards remains insufficient, problem banks resolution procedures are experiencing delays and monitoring of banks' non-performing loans reduction plans has not been possible. However, following the temporary adaptation of the prudential framework to deal with the effects of the pandemic, COBAC has strengthened the reporting system allowing close monitoring of changes in credit quality and banking liquidity. The reform of processes and tools for a modern risk-based supervision continues, and so does the modernization of certain prudential rules based on Basel standards.

All in all, our policies will continue to be focused on our main objective of ensuring the internal and external stability of the currency. To this end, the monetary policy stance will remain accommodative for the duration of the crisis. However, should the external sector's position deteriorate further, BEAC stands ready to tighten monetary policy.

Once the effects of the COVID-19 pandemic fade, the measures described in this letter, combined with Member States' fiscal consolidation programs, a second generation of Fund arrangements for the countries that have requested them, the implementation of foreign exchange regulations to the extractive sector by end-June 2021, and budget support from development partners should help net

foreign assets increase and make it possible to reach 3.30 billion euros at the end of 2020 and 3.40 billion euros at the end of June 2021.

I would like to stress that the achievement of these objectives does not depend only on the actions of BEAC. The volatility observed in oil markets since the start of the COVID-19 pandemic significantly increases the margins of uncertainty in our forecasts. Moreover, the pace of disbursements of the totality of budget support from our external partners other than the IMF, including other exceptional external financing net of change in arrears, forecast at 1.06 billion euros in the second half of 2020 and at 1.08 billion euros in the first half of 2021 would also contribute to achieve the objectives that we set.

BEAC and COBAC will maintain their efforts to ensure close monitoring of the development of programs in CEMAC countries and will work in close cooperation with IMF staff for the success of the regional strategy. They stand ready to notify and consult Fund Staff in a timely manner on economic developments likely to affect CEMAC's external stability by June 2021.

I remain available to work alongside the IMF and the CEMAC member states to restore macroeconomic balances in the region. Please accept, Madame Managing Director, the assurances of my highest consideration.

/s/
Abbas Mahamat Tolli

PRESS RELEASE

PR[YY/XX]

Appendix II. — Draft Press Release

IMF Executive Board Concludes Annual Discussions on CEMAC Common Policies, and Common Policies in Support of Member Countries Reform Programs

FOR IMMEDIATE RELEASE

IMF Executive Board Concludes Annual Discussions on CEMAC Common Policies, and Common Policies in Support of Member Countries Reform Programs

- The economic shock associated with the COVID-19 pandemic led to a sharp deterioration of fiscal and external balances in 2020 and is set to have long lasting effects on the regional economic outlook, with fiscal and external adjustments slower than previously anticipated.
- Reforms to support a more diversified and inclusive growth, including by improving governance and the business climate, are critical to external sustainability and should gain momentum.

On January 12, 2021, the IMF Executive Board concluded the annual discussions with the Central African Economic and Monetary Community (CEMAC) on Common Policies of Member Countries and Common Policies in Support of Member Countries Reform Programs[1].

The economic shock associated with the COVID-19 pandemic struck when the economic outlook for the region was improving. Tight regional policies helped maintain an improved external position in 2019. The current account deficit shrank to 2.5% of GDP, and external reserves increased. Fiscal balances remained broadly unchanged from 2018 at -0.3 percent of GDP, bringing public debt to 52 percent of GDP. Overall regional growth was 1.9 percent in 2019.

While the pandemic seems to be under control in the region at the moment, the related oil price shock led to a sharp deterioration of fiscal and external balances in 2020. CEMAC is

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of these bilateral Article IV consultation discussion, staff hold separate annual discussions with the regional institutions responsible for common policies in four currency unions – the Euro Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collects economic and financial information, and discusses with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member.

expected to experience a 3 percent recession in 2020. The current account deficit is expected to worsen to 6.5 percent of GDP, and external reserve coverage to remain at 3.5 months of imports of goods and services. The fiscal deficit would deteriorate to 3.8 percent of GDP, and public debt increase to 57 percent of GDP.

The policy response from national and regional authorities helped mitigate the economic fallout in 2020. CEMAC governments announced various support measures to firms and households in their revised budget laws. BEAC quickly eased monetary policy and introduced accommodative measures to ensure adequate liquidity in the banking system and stroke the right balance between supporting internal and external stability. COBAC eased prudential regulations to help banks delay pandemic-related losses. The Fund supported this response with significant emergency financing for the region while three programs expired in 2020.

The shock is set to have long-lasting effects on the economic outlook for the CEMAC. With lower medium-term oil prices, the outlook projects that CEMAC's fiscal and external adjustments will be slower than previously envisaged, and risks are tilted to the downside. Growth is expected to rebound in 2021 to 2.7 percent and continue to pick up gradually to around 3.5 percent in the medium term, as reforms to improve governance and the business climate are assumed to slowly take hold. Balanced fiscal consolidation efforts would increase non-oil revenues and contain expenditure. Reserves are projected to be re-built at a slower pace than previously envisaged but should reach the equivalent of 5 months of imports by 2025. Inflation is projected to stay at around 2.5 percent over the medium term, below the regional convergence criterion, as monetary policy would remain appropriately tight. This outlook is highly uncertain and contingent on the evolution of the pandemic and its impact on oil prices. It also assumes a continuation of IMF-supported programs with Congo, CAR and Equatorial Guinea, some additional IMF emergency assistance for the region, and approval of three new IMF-supported programs (Cameroon, Chad, and Gabon) in 2021. The region is at a critical juncture, as the second phase of the regional strategy is about to begin. CEMAC's regional institutions and the national authorities should aim to radically transform the region by implementing governance, transparency and business climate reforms that will lay the basis for a diversified, inclusive and sustainable growth.

Executive Board Assessment[2]

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.