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**Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane on Central
African Economic and Monetary Community
Executive Board Meeting
January 12, 2021**

1. On behalf of the CEMAC authorities, we would like to express our appreciation to Management and staff for their strong support to some member countries during these difficult times brought about by the COVID-19 pandemic, the associated sharp fall in oil prices, and protracted security challenges in the Lake Chad. The staff report gives a good account of the discussions held virtually in November.
2. The pandemic started at a time when the outlook for CEMAC was improving as the CEMAC's national authorities and regional institutions were implementing their regional strategy to strengthen fiscal and external stability. Significant progress was being made in terms of fiscal consolidation and buildup of international reserves at the regional central bank BEAC. The CEMAC authorities, both national and regional, swiftly responded to the pandemic, with support from international organizations, to contain its human, economic and social impact. The CEMAC authorities are grateful for the rapid Fund support provided to four out of the six countries in the region and are hopeful that similar support will be provided to the two others which are still experiencing daunting financial difficulties due to the pandemic and the oil price and production shock.
3. While the increase of COVID-19 cases in the region is decelerating, the continuous pandemic worldwide continues to have a heavy toll on CEMAC economies. The CEMAC regional authorities broadly agree with staff policy recommendations looking forward and have reiterated their policy assurances in a follow-up letter of support to members' policy and reform programs. Fund's continued support, notably through second generation programs but also emergency assistance as needed, will be critical to help address challenges ahead.

I. Impact of the Pandemic on the Regional Strategy

Implementation of the Regional Strategy Prior to the Pandemic

4. The implementation of the regional strategy to strengthen internal and external stability was advancing prior to the pandemic. Fiscal balances had improved as fiscal policy adjusted to lower revenues by a better control of expenditures. The domestic arrears payment strategies started to be implemented.

5. Tight monetary policy helped support reserves accumulation which now stand at 3.5 months of imports as of September 2020 compared to a few weeks of imports four years ago. The central bank pursued a neutral liquidity management to enhance monetary policy transmission. The foreign exchange regulation has been enhanced and enforced with domestic banks which are now compliant with FX surrender requirements. BEAC has started consultations with oil and mining companies on the application of the FX repatriation requirement and postponed the deadline for the extractive sectors to comply with the regulation by one year to end-2021.

6. As regard banking supervision, a new sanction mechanism to improve regulatory compliance was adopted. Delays in securing external financing and the deterioration of fiscal balances in the second half of 2019 prevented reaching the target for regional net foreign assets (NFA) for December 2019. Nevertheless, NFA accumulation in the first half of 2020 was broadly in line with projections despite the pandemic. The latter however disrupted monetary transmission channels and delayed further progress in the implementation of some reforms, notably those related to single treasury accounts, the development of capital markets, and the strengthening of the regional surveillance framework by the CEMAC Commission.

Adjustment of Policies following the Pandemic

7. Economic growth in 2020 is expected to decline by almost 5 percentage points of GDP to -3 percent due to the economic slowdown caused by the containment measures and lower oil prices. Inflation should remain below the regional convergence criterion of 3 percent. Fiscal balances are projected to worsen in 2020 owing to adverse impact of the pandemic on oil revenues and the cost of pandemic-related support measures. Debt vulnerabilities have increased with weaker fiscal positions. Adverse developments in the oil sector led to a degradation of external current account balances. After increasing in the first half of 2020, international reserves declined in the third quarter owing to lower oil revenues.

8. The CEMAC authorities have taken several fiscal, monetary and prudential measures to limit the impact of the pandemic on the population and businesses. At the national level, budget laws were revised to accommodate higher health and social spending and tax relief measures and account for lower fiscal revenue, notably oil revenue. At the regional level, monetary policy was eased to facilitate financing for member states and provide sufficient

liquidity to the banking system. In this regard, the central bank resorted to unconventional measures with notably the introduction of a bond purchase program for government securities on the secondary market. Prudential regulations were relaxed to allow banks absorb losses caused by the pandemic.

9. Those measures have been supported by external financing, especially from the Fund in the form of emergency financing, augmentation of access under active arrangements and debt relief under the Catastrophe Containment and Relief Trust (CCRT). It is worth noting that to date, the requests for emergency support by the Republic of Congo and Equatorial Guinea have yet to be considered. Requests for debt relief under the G20's Debt Service Suspension Initiative (DSSI) were also made by the four eligible countries in the region (Cameroon, CAR, Chad and the Republic of Congo).

10. The macroeconomic situation of the region is expected to improve in 2021. Nonetheless, recent reports of new, more rapidly transmissible, variants of the novel coronavirus have increased uncertainties about the evolution of the pandemic and the downside risks to the growth recovery outlook.

II. Pursuing the Regional Strategy Amid the Pandemic and Beyond

11. The CEMAC's national authorities and regional institutions remain committed to pursuing their efforts towards pursuing internal and external stability during these difficult times while laying the ground for sustained, diversified and inclusive growth as the regional strategy enters a second phase. In the near term, priority will continue to be placed on mitigating the impact of the pandemic and supporting economic recovery. To this end, the national authorities and the regional institutions will maintain the current policy mix adopted during the crisis. In that context, it has become evident that the initial medium-term quantitative objectives for fiscal balances, NFA and international reserves will not be met and have been adjusted accordingly. The CEMAC authorities will continue to closely monitor macroeconomic developments and stand ready to adjust policies as needed. In particular, the national authorities are committed to unwind support measures and resume a gradual fiscal consolidation when the crisis subsides. The CEMAC's regional institutions will continue to support member countries in the implementation of reforms that lagged and ensure continued progress toward external stability, notably in the context of the CEMAC Economic and Financial Reform Plan (PREF CEMAC).

12. Continued engagement with the Fund to support a second generation of programs remains of paramount importance moving forward. Fund financial assistance and its catalytic effect which have been helpful in strengthening the external position of the region since 2017 will be critical to close financing gaps and make further progress in the implementation of the regional strategy. In this regard, a successor arrangement with CAR has already been approved and three other countries (Cameroon, Chad, Gabon) have expressed an interest in

new arrangements following the recent expiration of their respective Fund-supported medium-term programs. The Fund arrangements with the Republic of Congo and Equatorial Guinea might need to be recalibrated as they were approved a few months prior to the pandemic and the first reviews have yet to be concluded. Regarding the Republic of Congo, the authorities have requested an extension of the 2019-2022 ECF arrangement.

13. It is worth stressing that the CEMAC authorities see merit in the two countries receiving emergency assistance from the Fund to cope with the continued fallout of the pandemic, noting their corrective actions to address weaknesses in public financial management and governance frameworks, address debt vulnerabilities—notably through debt restructuring efforts—and bring their programs back on track. This emergency support is critical to the region. Given the catalytic role of Fund support, delays in providing emergency assistance to the two countries is exacerbating the impact of the pandemic and delaying highly needed external support to address it while affecting the trajectory of international reserves at the regional level. The authorities strongly urge the Fund to exercise flexibility regarding those two countries considering the exceptional and unprecedented shock.

14. The CEMAC authorities share the view that second-generation programs should be geared towards supporting economic recovery, increasing regional integration and improving living and social conditions. They agree that fiscal adjustment should focus more on domestic revenue mobilization, including through rationalization of fiscal expenditures and a widening of the tax base, to increase fiscal space for social and infrastructure spending. Improving revenue mobilization will be also critical to advance the clearance of domestic payment arrears and hence reduce vulnerabilities in the domestic banking systems. Strengthening social safety nets will remain a priority to increase social resilience to shocks. The authorities also concur that governance weaknesses and transparency gaps in public financial management should be forcefully addressed to improve the efficiency and quality of spending.

15. The modernization of the monetary policy and supervision frameworks remain high in the authorities' agenda. BEAC will steam ahead with the application of the foreign exchange regulations, notably the repatriation of external receipts, to further build up external buffers. Compliance by oil and mining companies with the new regulation following the ongoing consultations will help boost international reserves well above the target of 5 months of imports. BEAC will continue to refrain from providing direct monetary financing to countries and will carry out the development of the regional financial inclusion strategy initiated in October 2020. The banking supervision and resolution frameworks will continue to be enhanced under the oversight of the Secretariat General of the banking supervisor COBAC (SG COBAC). Compliance with these frameworks will be further enforced to contain risks to financial stability. At the same time, analyses will be conducted to guide the withdrawal of relaxed prudential measures.

16. The CEMAC authorities recognize delays in some key structural reforms to advance economic diversification, increase economic resilience to shocks, accelerate regional integration and improve the attractiveness of the region to private investment. They expressed their intention to accelerate their implementation over the medium-term. In this regard, the CEMAC Commission already adopted a regional industrialization strategy and decided to reduce exports of logs to develop domestic wood processing industries. They will press ahead with the implementation of regional integration projects, in partnerships with the private sector. Macroeconomic regional convergence will resume as soon as the current crisis abates.

III. Conclusion

17. Progress has been made between 2017 and 2020 in the implementation of the regional strategy to restore macroeconomic balances in the CEMAC region. However, the pandemic has limited further progress and is even threatening to roll back gains achieved to date. Against this backdrop, the CEMAC authorities fully agree that additional efforts are needed to improve fiscal and debt sustainability and the region's external position. Key measures pertaining to the foreign exchange regulations and governance will be accelerated. The authorities are committed to phasing out the current shock mitigation measures once the crisis subsides. In the face of higher financing needs due to the pandemic, continued Fund support to a second generation of economic and financial programs will be essential to advance the regional strategy.