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Statement by Mr. Hosseini and Mr. Ahmed on Central African Economic and Monetary Community
(Preliminary)
Executive Board Meeting
January 12, 2021

We thank staff for a well-written report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their insightful Buff statement. We broadly concur with the thrust of the staff appraisal and policy recommendations.

Prior to the Covid-19 outbreak, the Central African Economic and Monetary Union (CEMAC) was at a crossroad to consolidate the progress achieved by the regional strategy and put adjustment efforts on a sustainable path. Tighter macroeconomic and financial policies helped stabilize economic conditions and avert a deeper crisis and increase gross external reserves and the outlook for CEMAC was improving. However, reserves were still below the appropriate level for commodity-exporting economies, and progress lagged on structural reforms, including on non-oil revenue mobilization, improving governance and the business environment, and spurring social development. With little progress achieved on economic diversification, the region was still highly vulnerable to oil price shock. With the Covid-19 outbreak, the focus of CEMAC policies shifted towards supporting the firms and households and the pandemic shock is likely to have long-lasting effects on the economic outlook for the region.

We welcome the policy response of the national and regional authorities, supported by the emergency financing by the Fund, which has contained the initial economic fallout of the pandemic. We note that, with lower medium-term oil prices, the projected 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 are now projected to 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. We consider that downside risks remain substantial and stronger efforts are needed to support recovery, more diversified and inclusive growth, and structural reforms. *Considering that real GDP per capita will return to the pre-Pandemic level in several years, we would like to have more information on social safety nets and relief polices in member countries.*

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

We consider that Bank of Central African States (BEAC) has pursued a well-calibrated monetary policy during the pandemic, and stress that BEAC should stand ready to tighten if the external pressures or inflation emerge. We agree with staff that BEAC should continue to strike the right balance between preserving internal and external stability. In that context, we encourage BEAC to aim at more rapid absorption of the excess liquidity in the banking sector to enhance monetary policy transmission, after the current crises abates, and stimulate the interbank market. We also welcome steps to deal with banks that excessively rely on the BEAC for their liquidity needs.

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

We encourage the Central African Banking Commission (COBAC), to implement a more risk-based supervision. We welcome the adoption of the new sanction mechanism to improve regulatory compliance, but note that the process to resolve problem banks remains slow. We encourage COBAC to support efforts to reduce currently very high non-performing loans, including following repayments of government arrears. We stress the need to reinforce COBAC's capacity, especially staffing levels.

We note that 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. We further note the policy commitments and endorse the updated policy assurance, including the revised

NFA projections through June 2021, outlined in the December 2020 follow up Letter from the BEAC Governor. We emphasize that implementation of this policy assurance will be critical for the success of IMF-supported programs with CEMAC member countries.

We wish the authorities every success in their endeavors.