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Joint Statement by Mr. Alkhareif, Mr. Chikada, Mr. Keshava, and Mr. Shimada on Central African Economic and Monetary Community
(Preliminary)
Executive Board Meeting
January 12, 2021

We thank staff for the informative report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their insightful Buff statement. The CEMAC region is severely hit by the COVID-19 pandemic. However, we find it encouraging that the pandemic itself is broadly under control, and the policy responses by the regional and national authorities, reinforced by the Fund’s emergency support, have alleviated its economic fallout. Nonetheless, the pandemic has severely damaged the region’s fragile economy, particularly through the decline in oil prices, which has led to the decline in foreign reserves and large financing needs going forward. As staff rightly points out, the region is at crossroads. The CEMAC needs to maintain macroeconomic stability, which was hard-won during the first phase of the regional strategy, and achieve more inclusive and sustainable growth by addressing long-standing structural issues. As we broadly agree with the staff appraisal, we will provide the following comments for emphasis.

We agree with staff that BEAC has struck the right balance between internal and external stability. The monetary easing and the liquidity injection by BEAC are appropriate to mitigate the economic impact from the pandemic. We also welcome the new government securities purchase program, which would help in meeting the increasing government financing needs while avoiding direct monetary financing. However, BEAC should stand ready to tighten its monetary policy if the reserve position further deteriorates or if inflation pressures were to emerge. Once the pandemic abates, BEAC should gradually sterilize the excess liquidity, while closely monitoring its potential cost.

Given the decline in foreign reserves, it is important to execute the foreign exchange regulations effectively with a thorough communication with various stakeholders. While we understand the proposed extension of the compliance deadline by one year due to the pandemic, the authorities should ensure that the oil and mining companies comply with the FX repatriation regulations within the revised deadline, which would help with reserve accumulation*. In this regard, could staff elaborate on the progress with the negotiation with the oil and mining companies, including the possible obstacles for the full implementation of the regulations by the deadline, if any?*

Financial sector warrants closer monitoring. The crisis has amplified the financial vulnerabilities, which existed before the pandemic. The region's sovereign-banks nexus, which is well explained in Annex III, is the key source of vulnerabilities. We note with concern that NPLs are already increasing despite the regulatory forbearance, which could mask the real situation regarding the bank asset quality. In this regard, we welcome that COBAC has required the banks to frequently report their asset and liquidity conditions and two-thirds of the banks follow the new reporting requirement. We urge the authorities to make the remaining banks comply with these requirements. Going forward, structural vulnerabilities need to be addressed, through diversifying the investor base of government securities, improving the governance of public banks, and thereby improving the public trust in the financial sector. We agree with staff that COBAC should continue to strengthen its risk-based AML/CFT supervision.

In order to achieve more inclusive and sustainable growth, it is indispensable to address structural issues such as governance and business climate, and promote economic diversification. Considering the region is prominently lagging behind on governance indicators, which have worsened from 2010 to 2019, the improvement in governance is essential to attract foreign investors. We believe that economic diversification would start virtuous circle, through increasing non-oil revenue and making the region more resilient to external shocks, and increasing the lending capacity and appetite of banks for private sector, thereby further expanding its role. *Since innovation capability and product markets are particular constraints in the region, we would like staff to elaborate on the type of industries which could be promising candidates for growth.*

We would like to emphasize that steady implementation of structural reforms is key for the success of the Fund-supported programs as well as garnering other IFIs' and donor countries' support. Given the large financing needs as well as limited borrowing space with debt sustainability concerns, the CEMAC countries should seek concessional financing as well as grant financing. We also encourage the national authorities to consider the use of common framework endorsed by the G20, where needed.

Last but not least, regional institutions need to play an important role in addressing many constraints and supporting efforts by CEMAC national authorities. We welcome that the regional authorities and national authorities agree on the necessity of the next phase of regional strategy, and will hold a high-level conference in the near future to discuss and pave the way for a more ambitious structural reform agenda in the region. Also, the regional surveillance framework should be enhanced by strengthening the sanction mechanism in the case of non-compliance. In this connection, we note with concern that regional authorities are also facing capacity constraints, including understaffing of COBAC. *Given the limited capacity at both regional and national levels, we wonder whether the establishment of CD strategy at the regional level could help in an effective TA delivery, through streamlining and prioritizing TAs considering both the needs of regional and national authorities. Staff comments are welcome.*