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January 8, 2021

Statement by Mr. Rosen, Ms. Shortino, and Ms. Lyngaas on Central African Economic and Monetary Community
(Preliminary)
Executive Board Meeting
January 12, 2021

We thank staff for their work on CEMAC member country programs and this report as well as Mr. Adrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their helpful Buff statement. The First Phase of the CEMAC Regional Strategy resulted in improvements in the regional financial position, and the IMF's engagement has helped to avert a deeper crisis. However, we are concerned that lower medium-term oil prices will exacerbate the already-deteriorated fiscal and external outlook for CEMAC member countries. Non-oil growth continues to lag, necessitating the need for urgent reforms that will enhance macroeconomic governance and safeguard the region's recovery. **Looking ahead, the next phase of the Regional Strategy should be backed by a strong political commitment for reform from the CEMAC regional and national authorities.** These reform commitments will help underpin the next round of upper-credit tranche programs.

We note that staff assess BEAC and COBAC were unable to fully implement the policy assurance for regional net foreign assets (NFA), and the pandemic has disrupted the pace of other reform commitments. **We therefore urge regional institutions to follow through on the updated policy assurance on NFA accumulation to allow the continuation of or approval of new Fund programs.**

<u>Regional issues and structural reforms.</u> The region will face large external financing gaps due to lower medium-term oil prices, underscoring the urgent need for structural reforms at both the regional and national levels. CEMAC member countries share many vulnerabilities, including a lack of diversification from oil, rising debt, and longstanding governance challenges. We therefore see a need for greater harmonization and coordination on some of these issues across individual IMF programs. *To this end, do staff envisage engaging with the BEAC and national authorities at a higher political level on large external financing gaps*

and rising debt vulnerabilities? Has staff reinforced with regional institutions the need for a common approach? We take note of national and regional authorities' request for more borrowing space at the CEMAC tripartite meeting in July. In light of existing weaknesses in public investment management in the region, we encourage the authorities to couple their requests with a strong commitment to implement public financial management reforms.

<u>Foreign exchange regulations.</u> We welcome the authorities' continued commitment to contain the decline in international reserves despite the severity of the COVID-19 shock. The authorities should continue to focus on raising regional NFA to maintain adequate support for the monetary union. To this end, we urge the BEAC to enhance its communication with the extractive industries to help ensure that its foreign exchange regulations can be fully implemented by end-2021. More broadly, we encourage continued improvements in the BEAC's communication and implementation procedures to mitigate adverse business climate impacts for the region, as investment flows will be important to mitigate persistent current account deficits. *Do staff have an assessment of how much foreign exchange extractive industries would contribute to reserves if required to comply with the repatriation requirements, and whether this would enable the BEAC to meet its reserve target, assuming oil prices recover to $45/bbl? We would also welcome staff's clarification on whether public entities abroad have also complied with these repatriation requirements.*

<u>Financial sector.</u> Financial sector development, reform, and supervision are macro-critical given the region's goal of economic diversification. The CEMAC regional institutions undertook an appropriate response to the COVID-19 pandemic, including through the BEAC's liquidity support for local banks. However, given the excess liquidity in the interbank market, we encourage the BEAC to lay out benchmarks for when tighter monetary policy will be introduced. We are concerned by the delays in implementation of COBAC's strategic plan and note that key financial sector indicators, including banks' non-performing loans (NPLs) ratios, are deteriorating. The financial sector remains overexposed to sovereign borrowers and state-owned enterprises (SOEs), and COBAC faces longstanding institutional capacity constraints to oversee restructurings, liquidations, and take disciplinary actions. We concur with staff's recommendation to implement a privatization strategy to reduce state involvement in the banking sector. However, we encourage the Fund to work with the authorities to identify what staffing and other resources might be needed to carry out this strategy, with targeted capacity development support as needed. Finally, we encourage COBAC to consult with the Task Force for Money Laundering in Central Africa (GABAC) to strengthen its risk-based AML/CFT standards.

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