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Joint Statement by Mr. De Lannoy, Mr. Massourakis, Ms. Quaglierini, Mr. Manchev, and Ms. Mateus on Central African Economic and Monetary Community (Preliminary) Executive Board Meeting January 12, 2021

We thank staff for the focused report and Messrs. Andrianarivelo, N'Sonde and Nguema-Affane for their informative Buff statement. While the CEMAC authorities had made some progress in improving macroeconomic balances and financial stability during the first phase of the regional reform strategy, the BEAC and COBAC advances in implementing 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 was somewhat slower than expected, because of the COVID-19 pandemic. The oil price drop associated with the global slowdown triggered by the pandemic also led to a significant deterioration of fiscal and external balances of the member states, thus putting additional pressure on policy targets, increasing the financing gaps, and complicating debt sustainability challenges. We broadly share the thrust of the staff appraisal and recommendations and encourage the authorities to implement an ambitious second phase of the regional reform strategy with continuous support of the Fund, to mitigate growing risks to the regional outlook. We highlight the importance of enhancing the business climate and providing an economic environment which is conducive to attracting foreign investments and spurring economic prospects.

The adequate policy response from national and regional authorities to the pandemic, supported by the timely emergency Fund financing, helped mitigate the initial economic fallout. We agree with staff that the pandemic seems to be broadly under control in the region, which provides a window of opportunity for the authorities to speedily progress with the plans for acquiring or distributing vaccines, and implementing the second phase of the regional strategy to lay the basis for a diversified, inclusive, and sustainable growth.

Continuous Fund engagement would be critical at the current juncture to help the authorities rebuild fiscal and external buffers and prioritize the key reforms. In line with the staff recommendations, the regional institutions should continue efforts to ensure macro-economic, external, and financial stability, through appropriate common policies, and strengthening surveillance and credibility of the regional surveillance framework. However, corrective measures in response to adverse developments under the control of national authorities are also warranted.

Common Monetary and Foreign Exchange Policies

Despite greater government financing needs, BEAC should refrain from extending direct monetary financing to its member states and continue efforts to develop regional financial markets. The national authorities, BEAC and COBAC should also strengthen cooperation on implementing the foreign exchange (FX) regulation. We welcome the renewed authorities' consultations with extractive companies on implementation of the common FX regulations in the sector and encourage the counterparties to find a viable solution that could avoid any possible adverse impact of these regulations on foreign investment decisions in the region, particularly in the oil sector, which would be highly detrimental to economic growth and potential output.

Fiscal discipline, regional surveillance and sustainable development

We are encouraged that the CEMAC tripartite high-level meeting in July reiterated support to the regional strategy as a comprehensive policy response to the new emerging challenges. The fiscal consolidation efforts at all levels should resume once the pandemic abates to bring debts back to a sustainable path, support the regional external position, and reduce vulnerabilities to oil price swings. We agree with staff that future program discussions with the national authorities hinge on setting reasonable consolidation targets to broaden and expand the fiscal revenue base and rationalize current expenditure, to create space for well-targeted priority social spending and other growth-enhancing investments. These objectives should be further assessed and clarified at the tripartite meetings on a regular basis. The authorities should also accelerate implementation of their arrears clearance plans to relieve the private and banking sectors.

CEMAC needs to further strengthen and enhance implementation of the multilateral surveillance framework. We especially encourage implementation of the key public finance management directives, given that the continued fiscal consolidation remains critical for rebuilding buffers and ensuring fiscal sustainability. In the Fund-supported programs, staff and the authorities should proactively address the transparency and governance issues at both the regional and national level. Implementation of the early warning system should not be further postponed. We encourage the CEMAC Council of Ministers to soon adopt the early warning tool of macroeconomic imbalances, which is key to detecting the signs of potential breaches of the convergence criteria by the member states, and to facilitating further work on developing appropriate corrective measures.

Financial stability

We welcome the temporary easing of the prudential framework in response to the pandemic and encourage COBAC to soon prepare a credible exit strategy. We also noted the first successful intervention by the deposit insurance fund. However, the CEMAC financial stability framework and implementation need to be further strengthened and we encourage the authorities to continue improving the regulatory frameworks and ensuring closer supervisory practices, also in virtual formats. Banks' compliance with prudential standards remains low, which makes proper use and implementation of the banking resolution framework even more important. Implementation of a modern risk-based supervision by the COBAC was delayed, which poses additional challenges to monitoring and maintaining financial stability. Streamlining the information-sharing and coordination between COBAC and BEAC will be critical to addressing the current excess liquidity of the banking system and enhancing compliance with the new FX and AML/CFT regulations. Lack of timely and reliable information on NPLs is worrisome, and delays in the repayment of domestic arrears by national governments prevented the expected improvement in NPLs. We encourage the authorities to devise a strategy for the rise in NPLs. Going forward, we believe that an ex-post evaluation of the temporary easing measures and overall implementation of the CEMAC financial stability framework would be helpful. *Staff comments are welcome.*