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January 8, 2021

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

We thank staff for the comprehensive report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for the insightful Buff. We broadly agree with the thrust of the assessment. The CEMAC region has been deeply affected by the Covid-19 economic shock and the associated decline in oil prices and deteriorating security situation which are likely to leave their marks on economic developments for some time. The crisis has also slowed down much needed reform momentum in the region and reduced hard-won macroeconomic buffers, particularly CEMAC's common pool of currency reserves. Moreover, pre-existing debt vulnerabilities have been exacerbated by the Covid-19-related shock while external financing needs have increased significantly. Regional authorities are therefore encouraged to support ambitious, growth-enhancing reforms at the national level and aim at convergence among heterogeneous member states while preserving macroeconomic stability.

We welcome the "Banque des États de l'Afrique Centrale's" (BEAC) accommodative and balanced policy stance since the onset of the crisis. A rigorous deployment of available monetary tools while keeping the policy rate constant at 3.25 % has prevented further depletion of reserves and helped to keep inflation in check. Over the medium term, BEAC would be well advised to absorb excess liquidity from the financial system and to stand ready to tighten the policy stance should inflationary pressures materialize, or reserves be depleted quickly again.

We take positive note on progress with the implementation of the foreign exchange regulation amidst the ongoing crisis. Fully applying the foreign exchange regulations

for all sectors of the economies by end-2021 would be an important step towards balance of payments adjustment and rebuilding reserves. The obligation to repatriate hydrocarbon revenues and oil field rehabilitation funds should be extended to public entities holding deposits abroad. We call on the national authorities to implement the measures they committed to in the context of foreign exchange regulations.

Given the risks associated with rising debt levels in many member countries, we encourage national authorities to adhere to CEMAC's convergence criteria and particularly urge returning to the common non-oil primary fiscal deficit target of 4 % of GDP by 2023.

We recognize that poverty has risen sharply in many member countries. Against this background, priority expenditure should clearly be protected, and focus on growth-enhancing reforms. At the same time, rationalization of fiscal expenditure and broadening of the tax base remain crucial elements to return to a viable fiscal path. We therefore encourage member countries to set up a credible strategy for achieving the fiscal deficit target over the coming years. Further efforts to strengthening transparent and effective PFM systems as well as domestic resource mobilization will be key to rebuild trust and help attract much needed private investment.

As regards public debt management, it is crucial that full debt transparency is ensured and that rising vulnerabilities are addressed in a proactive manner and as appropriate. Importantly, this includes external financing needs being addressed through concessional resources from IFIs and bilateral donors, as well as grants, complemented by debt relief where needed. In this context, staff rightly refers to the potentially counter-productive role played by senior debt claims (besides that of collateralized debt), which underlines the need to ensure a sufficiently catalytic effect of any Fund financing going forward.

Implementing ambitious reforms to improve the business climate and diversify the region's economies away from hydrocarbon exports is of the essence going forward. On a specific note, governments should be encouraged to clear domestic arrears thus freeing up investment momentum for the local private and banking sectors.

Finally, we would like to point out that long-term regional stability of the monetary union might only be secured if regional-level policies are underpinned by prudent policies, appropriate adjustment efforts, and reforms at the national level. While regional authorities play an important part in safeguarding macroeconomic stability, it is crucial that member countries do their part in supporting the viability of the monetary community. This is all the more important as risks for the coherence of CEMAC in terms of regional security, debt sustainability, and economic heterogeneity seem currently to be tilted to the downside.