DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.

GRAY/21/49

January 8, 2021

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

We thank staff for the well-focused and detailed report, and Messrs. Andrianarivelo, N'Sonde, and Nguema-Affane for their helpful Buff statement. We agree with staff that the Central African Economic and Monetary Community's (CEMAC) institutions, as well as the national authorities, need to urgently implement the recommended reforms to help ensure external stability and the viability of the monetary and economic union.

The decline in oil prices triggered an economic crisis in CEMAC member states that was further amplified by the COVID-19 crisis. Overdependence on oil revenue and exposure to highly volatile oil prices present a significant downside risk to fiscal and external balances. Consequently, CEMAC member states face continuing liquidity pressures, as they struggle to fund large government deficits and very high debt levels amid shrinking financing options. We agree with staff that the outlook for CEMAC is highly uncertain and exacerbated by the lack of adherence to and implementation of regional policies at the national level.

Lower-for-longer oil prices would result in a sharp increase in external financing needs, as current account balances will further deteriorate. CEMAC's external position will weaken without economic diversification and broadening of the tax base, and result in the need for prolonged support from development institutions also to defend the peg. We call on the member countries of CEMAC to do their part. We positively note the Central Bank of Central African States' (BEAC) efforts to diversify the investor base by developing the financial markets and *would appreciate staff's comments on the feasibility and practicality of issuing regional bonds.*

We are concerned about the extension of the deadline to comply with the FX repatriation regulations for oil and mining companies, as it increases risk to external financial stability. We are concerned that the new CEMAC regulation may not be implemented in the aftermath of the pandemic, and that continued non-compliance by the industry will pose significant systemic risks to CEMAC's financial stability. To mitigate FX risk and obtain financial stability, we support staff's recommendation that BEAC should pursue the full implementation of the foreign exchange regulation and bring the extractive sectors into compliance.

Increasing bank's compliance with prudential standards would make the financial sector more stable, while ensuring it can support the economy. The number of banks complying with prudential standards remains broadly unchanged since 2019. We are concerned about rising non-performing loans (NPLs), in conjunction with often significant domestic official arrears. NPLs are a significant burden for banks, which present a constant threat to financial stability and should be resolved. Staff correctly points out that cooperation from the national authorities is essential to resolve this issue. *Can staff elaborate on the near-term NPL reduction strategies for CEMAC member countries?* Ineffective supervision creates a moral hazard and needs to be addressed. Strengthening the supervision of the banking sector by the banking commission COBAC, and adherence to, as well as the transposition of, regional regulations at the national level are key to safeguard financial stability. We encourage the authorities to fully implement, with the help of the Fund, staff's recommendations.

We are concerned that the hard-won macroeconomic stabilization of the first phase of the regional strategy is increasingly at risk. While we welcome the updated policy assurances, those will need to be met for a continued financial engagement by the Fund. We agree with staff that a new phase of the regional strategy must decisively focus on implementing structural, transparency, and governance reforms, which should be fully reflected in the program design for CEMAC member states.