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Statement by Mr. Mozhin and Mr. Tolstikov 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 helpful Buff statement.

Prior to the COVID-19 pandemic the CEMAC economies were successfully recovering from the 2015-16 crisis. This process was directed by the first phase of the Regional Strategy, supported by the Fund's programs. It allowed to stabilize the macroeconomic situation, reduce domestic and external imbalances, and restore policy buffers. Some progress has been made in strengthening institutions and public finance management. Unfortunately, the COVID-19 pandemic has undermined progress in many areas. The CEMAC authorities had to focus on containing the pandemic and its economic fallout, and the implementation of necessary reforms was delayed.

By now, the CEMAC economies have largely adapted to new conditions, but the medium-term prospects remain precarious. The growth performance in the CEMAC region has been disappointing -- for the last six years regional real GDP per capita has been declining (Text Figure 1). Thus, it is time to adopt a comprehensive reform agenda for the second phase of the Regional Strategy in order to boost growth and improve living standards of the rapidly growing population. Failure to do so will exacerbate the already difficult conditions in the CEMAC countries. In this regard, we welcome staff's analysis of the recent experience and priority reform proposals. We will provide only a few comments for emphasis.

The CEMAC countries' growth prospects are constrained by the challenging debt situation and the need for fiscal consolidation. Fiscal consolidation is also needed in order to rebuild international reserves to the levels appropriate for commodities-exporting economies. However, due to precarious political and social conditions, consolidation can only be gradual, which means that the CEMAC countries will require sizeable external financing for a prolonged time period, preferably in the form of grant financing, concessional loans or debt relief. Continued engagement with the Fund and other multilateral partners, therefore, remains of paramount importance.

Fiscal consolidation should become more balanced, with more emphasis on non-oil revenue-enhancing measures. Previously, fiscal consolidation was achieved primarily through expenditure reduction, especially of capital expenditures, weakening growth prospects. Additional efforts are needed to raise revenue through expansion of the tax base and improvements in the effectiveness of revenue administration. At the same time, the regional authorities should also aim at raising oil revenues through improved taxpayer compliance. On the expenditure side, there is large room for improvement in public finance management (PFM) and management of public investment projects. Strengthening the PFM can facilitate arrears clearance, which is important also for reducing a high level of nonperforming loans and supporting bank credit to the private sector.

In view of the recent decline of international reserves, the BEAC has little room for providing monetary stimulus to the economy. Moreover, the BEAC has to stand ready to tighten monetary policy if international reserves decline further. This highlights the urgency of enforcing compliance with the FX repatriation regulations. Oil and mining companies are reportedly repatriating and surrendering only a small part of their export receipts. As these companies provide the lion's share of the CEMAC's export proceeds, their compliance with forex regulations is macro-critical. It is disappointing that the deadline for their compliance has been repeatedly postponed, this time until the end of 2021. *Could staff explain what the main obstacles are for making these companies comply with the laws and regulations?*

The situation in the financial system across the region requires more resolute remedial measures. The banking systems are constrained by substantial government arrears and growing NPLs, but at the same time remain over-liquid. Excess liquidity increased in 2019 and early 2020, while credit to the private sector further declined. Instead of increasing lending, banks raised their holdings of government securities. Banks' compliance with prudential standards remains weak. In this situation, the COBAC should be more proactive in facilitating reduction of NPLs, encouraging resolution of government arrears and NPLs write-offs, and beginning to use the bank resolution framework to clean up the banking system. The COBAC should also continue efforts to limit a further increase in banks' sovereign exposure.

As the overall economic and social prospects in the CEMAC region are deteriorating, staff call for urgent and radical transformation. The second phase of the Regional Strategy must focus on implementing structural, transparency, and governance reforms. To undertake such decisive transformation, full ownership from the authorities of all CEMAC countries is needed. At the same time, given the prolonged need for external financing and the catalytic role of the IMF support, these reforms should only be undertaken in the context of new or ongoing IMF-supported programs. We note that two CEMAC countries – the Republic of Congo and Equatorial Guinea – have still failed to obtain even the emergency support from the Fund, despite their very difficult situations. In the absence of the Fund-supported programs, the BEAC has to maintain ring-fencing to protect regional reserves, which may further aggravate the economic difficulties in these countries and in the monetary union as a whole. *We would welcome a brief update on the discussions with these countries' authorities.*