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January 8, 2021

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

1. We thank Staff for a comprehensive report on the Central African Economic and Monetary Community (CEMAC) and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for a helpful Buff statement.

2. We note that prior to the pandemic the region was underperforming in terms of structural reforms, economic diversification, dependence on oil exports, and governance issues. With the onset of pandemic and global slowdown, gains made earlier have also come under pressure, and progress on the reforms such as regional surveillance framework, including implementation of an early warning system has got delayed further.

3. Nevertheless, we welcome the authorities' swift response to contain the spread of the pandemic. Pandemic has remained broadly under control and the infection rate is below the average for sub-Saharan Africa. Also, the financial assistance from the Fund, the World Bank, AfDB, and bilateral partners, has enabled CEMAC governments to implement policies to support the economic activity. Four countries in the region are expected to receive relief under DSSI.

4. We observe that inability to diversify to non-oil economic activities adequately has severely impacted the economies in the region as oil demand and prices have fallen due to the pandemic. Not only has this led to growth slowdown and lower revenue, targets to build up reserves have also been missed. Delayed global recovery and continued depressed oil prices may cause a widening of external imbalances, and the financing gap may rise significantly in the medium term.

5. We agree with the Staff that fiscal consolidation efforts will need to resume post-crisis to bring debt back to a sustainable path and improve external balances. It is desirable that the region improve revenue administration, focus on structural reforms aimed at diversifying the region's economies, and streamline exemptions. At the same time, current expenditure needs to be rationalized in order to augment social spending and capital expenditure to raise growth potential. However, we would like to caution that policy support should not be restricted prematurely given continued economic uncertainty.

6. We welcome the accommodative monetary policy stance taken by the authorities to contain the economic impact of COVID-19. We agree with Staff recommendation that authorities should be prepared to normalize the policy stance if inflation pressures were to emerge. However, as in the case of the fiscal stance, we would like to caution that any premature withdrawal of policy support could be counterproductive.

7. We take a positive note of authorities' steps to maintain banks' capital and financial stability as prudential regulations were eased. While loan restructuring was facilitated, banks were restrained from distributing the dividend. Similarly, authorities are closely monitoring asset quality and liquidity developments on a monthly/ weekly basis.