GRAY/21/66

January 8, 2021

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

We thank staff for the comprehensive report and Messrs. Andrianarivelo, N'Sonde, and Nguema-Affane for their insightful statement.

The CEMAC economies' steady improvement was stalled by the outbreak of the COVID-19 pandemic. We welcome that policy response from national and regional authorities supported by IMF's emergency financing has brought the shock under control and mitigated the initial economic fallout. Significant progress was recorded on fiscal consolidation and buildup of international reserves. Nevertheless, the recurring pandemic in key partner countries continues to weigh down demand for export commodities and fiscal revenues. Growth prospects remain challenged by the widening fiscal imbalances with increasing financing needs and elevated public indebtedness. In this regard, we broadly support the staff recommendation that authorities continue pursuing critical fiscal reforms to mobilize domestic resources and create fiscal space to support their development agenda while prioritizing structural reforms to promote economic diversification and enhance future resilience to shocks.

Fiscal reforms remain key to unlock potential resources for financing critical social and development spending and clearing arrears. While some governments in the region made notable progress in adhering to the arrears' clearance strategy, sustaining the effort would be challenged by limited improvements in non-oil revenue and lack of progress in expanding the tax base. In addition, delays in the reforms could elevate the debt levels that continue to rely on high external financing. Absent needed reforms, the likelihood of a forced and disruptive fiscal contraction may be unavoidable with undesirable consequences. The buff statement alluded to delays in the provision of emergency support amplifying the impact of the pandemic on two member countries, including the accumulation of reserves at the regional level. *Could staff elaborate on the implications of the delays in offering emergency financing to the Republic of Congo and Equatorial Guinea? What might be the way out to their* *requests under these circumstances and the possible risks of maintaining the current status should a second cycle materialize in the region?*

Like staff, we welcome the Central Bank of Central African States' (BEAC) additional measures including temporary government securities purchases and the resumption of longer-term liquidity injections up to one year for banks. These measures would strengthen the capital market and create the necessary avenue to meet government financing needs without resorting to monetary financing. This notwithstanding, we urge BEAC to watch out for inflation and resume monetary tightening to mop up excess liquidity. Strong communication is key to keep the banks abreast with the plans and ensure internal and external stability while stimulating the interbank market, once the recovery picks up.

We positively note that a stricter enforcement of the foreign exchange regulations by the BEAC has helped strengthen external reserves. The testament has been reflected in reserve accumulation, which stood at 3.5 months of imports in September 2020 compared with a few weeks of imports four years back. Going forward, we urge the authorities to continue improving the performance to enhance market confidence and compliance with the union's reserve adequacy levels. However, the foreign exchange repatriation regulations to bolster reserve levels have not been fully implemented by all the national authorities. In this context, we support the ongoing bilateral consultations with oil and mining companies to comply with the foreign exchange regulations by end-2021.

Continued strengthening of the banking sector remains crucial for the region and the Central African Banking Commission (COBAC) will need to intensify work on implementing a risk-based supervision framework and the Basel roadmap. We support the temporary measures to enhance liquidity including the requirement for banks to provide monthly data on impaired and restructured loans, which would strengthen oversight and enhance assessment of asset quality. Given that high NPLs could pose significant financial stability risks if the asset quality were to deteriorate further, we urge the authorities to expedite arrears clearance to reverse the trend. Further, the authorities should promptly address the breaches in the concentration limits on banks' exposure to SOEs and the so-called strategic firms in the region.

Structural reforms would need to be intensified to create the enabling environment for private sector investment, employment opportunities, and potentially reduce regional conflicts. We support the consensus among the authorities that the next phase of the regional strategy should focus on growth and raising living standards. Additional efforts to address the social needs should also rank high on the agenda to ensure a fair and equitable distribution of wealth for all. This approach would pay dividends in terms of regional peace and stability. However, the implantation of regional surveillance framework has been slowed by the pandemic, while breaches have been noted on the fiscal convergence and arrears clearance. In this vein, we encourage the authorities to strive hard to restore the regional convergence efforts, which is key for the credibility of the regional integration process.