Executive Board Minutes 21/3-2

January 12, 2021–3:05 p.m.

Central African Economic and Monetary Community—Common Policies of Member Countries, and Common Policies in Support of Member Countries Reform Programs

Documents: EBS/20/199 and Sup.1

Staff: Toujas-Bernate, AFR; Gray, SPR

Length: 1 hour 11 minutes

ISSUED: September 14, 2022
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CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They noted that the crisis associated with the COVID-19 pandemic struck when the economic outlook for the CEMAC was improving. The crisis is expected to have long lasting effects and CEMAC's fiscal and external adjustments will be slower than envisaged previously.

Directors recognized that the regional authorities' policy response to mitigate the immediate economic impact of the COVID-19 pandemic has been pro-active and appropriate. They welcomed BEAC's actions to loosen monetary policy and quickly ease bank liquidity provision. Directors also viewed steps taken by COBAC to strengthen banks' capital and monitor financial stability following the easing of prudential regulations as appropriate.

Directors considered that BEAC's monetary policy stance continues to strike the right balance between preserving internal and external stability. They stressed that BEAC should stand ready to tighten monetary policy if the external reserves position deteriorated further. Directors welcomed BEAC's resolve to continue to refrain from extending any type of direct monetary financing to its member states. They encouraged BEAC to continue effective implementation of the foreign exchange regulation. In this context, Directors supported a dialogue with oil and mining companies to effectively enforce the regulation to these sectors by end-2021 while taking account of their specificities.

Directors urged the SG-COBAC to accelerate implementation of its strategic plan for moving towards risk-based supervision as banks' compliance with prudential standards remains weak and resolution of problem banks has been slow. They emphasized the need to reduce currently high non-performing loans and continue efforts to limit a further increase in banks' sovereign exposure. Further efforts to strengthen AML/CFT implementation are also needed. Directors noted that reinforcing SG-COBAC's human resources would be key to meeting these objectives.

Directors stressed that the CEMAC is at a crossroads and should aim at a profound transformation. The second phase of the regional strategy must decisively focus on implementing structural, transparency and governance reforms to lay the basis for diversified, inclusive and sustainable growth while aiming at rebuilding fiscal and external buffers.

Directors noted that BEAC was unable to fully implement the policy assurance on NFA accumulation at end-December 2019 and end-June 2020 provided in the December 2019 Follow-up Letter of Policy Support due to a shortfall in external financing during the second half of 2019 and fiscal deficit over-runs. They considered that BEAC has taken satisfactory corrective measures to address the underperformance, including limited monetary policy accommodation in response to the COVID-19 shock. Directors endorsed the updated policy assurance outlined in the December 2020 Follow-up Letter from the BEAC Governor on achieving the NFA accumulation for end-December 2020 and end-June 2021. This assurance is based on BEAC's commitment to implement an adequately tight monetary policy together with commitments by member states to implement adjustment policies in the context of IMF-supported programs. Directors emphasized that implementation of this assurance will be critical for the success of IMF-supported programs with CEMAC member countries.

The views expressed by Directors will form part of the Article IV consultation discussions on individual members of the CEMAC that take place until the next Board discussion of common policies. It is expected that the next discussion of CEMAC common policies will be held on the standard 12-month cycle.

EXECUTIVE BOARD ATTENDANCE[1]

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	O. Odonye (AE)
A. Andrianarivelo (AF)	
	R. Morales (AG), Temporary
	A. Grant (AP)
A. Bevilaqua (BR)	
	Z. Zhang (CC)
P. Moreno (CE)	
L. Levonian (CO)	
D. Palotai (EC)	
A. Buisse (FF)	
	K. Merk (GR)
S. Bhalla (IN)	
	M. Massourakis (IT)
	K. Chikada (JA)
H. Hosseini (MD)	
	F. Al-Kohlany (MI), Temporary
	A. De Lannoy (NE)
M. Poso (NO)	
A. Mozhin (RU)	
M. Mouminah (SA)	
A. Mahasandana (ST)	
P. Trabinski (SZ)	
	D. Ronicle (UK)
M. Rosen (US)	

C. Ogada, Acting Secretary
S. Kalra, Summing Up Officer
R. Smith Yee, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: P. Egoume Bossogo, V. Kramarenko, L. Lanci, E. Lautier, B. Loko, A. Martin, F. Nsengiyumva, M. Poplawski Ribeiro, A. Selassie, J. Toujas-Bernate. Communications Department: L. Mboto Fouda. Finance Department: G. Fernandez,

[1] For countries in each constituency, please see the Constituency Codes in the annex.

Z. Murgasova. Legal Department: J. Swanepoel. Monetary and Capital Markets Department: J. El Gemayel, J. Portier. Research Department: G. Melina. Strategy, Policy, and Review Department: P. Garcia Martinez, W. Gray, D. Kim, A. Popescu. World Bank Group: R. Singh. Executive Director: I. Mannathoko (AE), M. Mahmoud (MI), E. Shortino (US), R. von Kleist (GR). Alternate Executive Director: B. Alhomaly (SA), A. Alhosani (MI), H. Azal (EC), M. El Qorchi (MD), C. Just (EC), F. Mochtar (ST), W. Nakunyada (AE), R. N'Sonde (AF), F. O'Brolchain (CO), L. Palei (RU), P. Rozan (FF), B. Saraiva (BR), F. Sylla (AF). Senior Advisors to Executive Directors: S. Ahmed (MD), H. Andrianometiana (AF), M. Choueiri (MI), J. Damgaard (NO), Patterson C. Ekeocha (AE), R. Farber (US), R. Goyal (IN), M. Ismail (AE), S. Keshava (SA), B. Lischinsky (AG), M. Maidi (AE), T. Nguema-Affane (AF), C. Quaglierini (IT), F. Rivera Molina (CE), M. Sidi Bouna (AF), T. Sitima-wina (AE), A. Tolstikov (RU), G. Vasishtha (CO), R. Velloso (BR), C. Wehrle (SZ), M. Zhunusbekova (SZ). Advisors to Executive Directors: P. Al-Riffai (MI), Campbell (UK), E. Cartagena Guardado (CE), T. Cham (AE), K. Florestal (BR), Rachel Lyngaas (US), Z. Huang (CC), T. Iona (AP), H. Koh (GR), T. Manchev (NE), M. Merhi (MI), A. Nainda (AE), M. Pucnik (EC), A. Ribeiro Mateus (IT), M. Shimada (JA), L. Siliva (AP), B. Singh (IN), S. Yoe (ST), F. Lopez (CE), E. Comolet (FF).

DISCUSSION RECORD[2]

The Acting Chair (Mr. Furusawa):

The agenda this afternoon is on the Central African Economic and Monetary Community (CEMAC). The World Bank staff is attending this meeting. All Directors issued gray statements.

As noted by Directors, significant progress in improving macroeconomic balances and financial stability were made in CEMAC during the first phase of the regional strategy, and a crisis was avoided. Tight regional policies helped maintain an improved external position in 2019. However, budget performance deteriorated in the second half of 2019 in three countries, and net foreign assets (NFA) objectives were missed in December 2019 and June 2020, mostly due to delays in external financing. Structural reforms lagged, and little progress was achieved on economic diversification.

In this context, the COVID-19 pandemic and the related oil price shock led to an economic recession and a sharp deterioration of fiscal and external balances in 2020. The debt sustainability issues, which predate the pandemic, became even more challenging. And the transition period for implementing the foreign exchange (FX) regulation to extractive industries had to be extended until end-2021, as discussions between the Bank of Central African States (BEAC) and companies operating in these sectors were delayed due to the pandemic.

In response to the economic slowdown, regional and national authorities implemented mitigating measures, and the Fund supported this response with significant emergency financing for the region, while Fund-supported programs with three CEMAC countries expired in 2020.

Going forward, as noted by Directors, the BEAC should continue to strike the right balance between preserving internal and external stability and should stand ready to tighten its monetary policy if the reserve position further deteriorates or if inflation pressures were to emerge. Fiscal consolidation efforts will need to resume post-crisis to bring debt back to a sustainable path and support the regional external position, notably, through faster progress on domestic non-oil revenue mobilization. Continuing progress on government arrears repayments will also be central to revive non-oil growth and improve the position of the banking sector.

[2] Edited for clarity.

Finally, the region is at a critical juncture, as the second phase of the regional strategy begins. CEMAC regional institutions and the national authorities should aim to radically transform the region by urgently implementing governance, transparency, and business climate reforms that will lay the basis for diversified, inclusive, and sustainable growth.

The staff representative from the African Department (Mr. Toujas-Bernate):

I can address a few of the issues which were raised by Executive Directors in their gray statements regarding the planned focus areas of the new program; the status of discussions with Equatorial Guinea and Congo about their request for emergency assistance; and then progress on the discussions between BEAC and oil companies on the implementation of the foreign exchange regulation.

Regarding the planned focus areas of the new programs expected for Cameroon, Gabon, and Chad, the programs were already requested by the authorities of these three countries, and will be a part of the second phase of the regional strategy.

While addressing a few country-specific issues, these programs are expected to have quite a lot in common in terms of all the objectives. Initially, as the impact of the pandemic would fade, programs would aim at reversing the fiscal deterioration recorded in 2020 and reduce the public debt vulnerabilities made more acute by the crisis. This will call for growth-friendly fiscal consolidation efforts based on gradually higher non-oil revenue, while protecting social and priority development spending, together with debt management operations, when needed--for example, in Chad.

At the same time, programs should urgently lay the ground for a more diversified and prudent course, which would lift standards of living in the region. This will require tackling structural impediments to growth through ambitious reforms to improve fiscal governance and transparency, to address financial sector vulnerabilities, including by accelerating the payment of domestic government arrears, and to reduce barriers to competition to facilitate diversification.

To support the common approach across the region and promote synergies, the staff plan to induce discussions on these priority structural reforms in the coming weeks and months, with national and regional authorities, based on the joint work with the World Bank which is being finalized. We also aim at participating in a heads of state meeting, at a date to be determined, at which commitments at the highest levels would be sought for such key reforms.

Now, turning to the status of the discussions with Congo and Equatorial Guinea, about their request for emergency assistance and the implications and risk of delays in such assistance.

For both Congo and Equatorial Guinea, discussions with the authorities on their requests for emergency assistance are well advanced. However, conditions remain to be fulfilled before these requests can be presented to this Board.

In the case of Congo, additional progress in the discussions between the authorities and their commercial creditors on restructuring public external commercial debt is needed in order for the staff to be in a position to assess that Congo's debt is sustainable on a forward-looking basis.

In the case of Equatorial Guinea, the submission to the council of ministers and the publication of a list of meaningful public assets for privatization remains under discussion with the authorities. This is part of a missed end-June 2020 structural benchmark under the Extended Fund Facility (EFF) program, which also meant to help cover the large financing gap. I would note that, in both the cases, progress of the satisfactory resolution of these issues will also allow for a resumption of discussions for the continuation of the respective ECF and EFF-supported programs.

In this context, both countries received very little external support, if any, to deal with the impact of the pandemic and had to mitigate the economic and social fallout of the crisis largely with their own means and domestic financing.

The staff is engaging actively with the authorities of both countries to resolve outstanding issues, which would pave the way for Fund financing and would help to avoid the situation that these countries experienced when program discussions were delayed between 2017 and 2019. At that time, a forced fiscal retrenchment was undertaken, with negative impacts on growth and social development and increased vulnerabilities for public debt and in the financial sector. In addition, delayed donor support would also prevent these two countries from positively contributing to the rebuilding of regional reserves in the period ahead.

Now turning to the progress on the discussions between BEAC and the oil and mining companies to implement the foreign exchange regulation in these sectors and the main obstacles for making these companies comply with this regulation.

Just as a reminder, the CEMAC foreign exchange regulation requiring a repatriation and centralization of CEMAC regional external reserves at the regional central bank, BEAC, have been in place, actually, for many years but were not strictly enforced until 2019, particularly for oil companies. Currently, oil and mining companies repatriate and surrender only a very small part of their exports' receipts, besides the share which is due to governments in the form of tax and royalties. According to the companies, this is in line with the contracts which they have signed with the national authorities, but this is in breach with the superseding regional regulation.

Oil companies have emphasized, since BEAC sought to enforce the forex regulation in 2019, that this regulation could seriously impact their ability to finance projects and investments, and carry on business in a manner, they contend, the oil and gas industry operates around the world.

They also mentioned that repatriating and converting their proceeds into CFA francs would expose them to exchange rate risks. And most companies are subsidiaries of international companies and use cash pooling to finance the investments of their subsidiaries.

In this context, BEAC is aiming at working with these companies to find a suitable way forward. The objective is to find practical solutions to ensure equitable compliance with the regulations in a way which would not unduly restrict economic activity, while adhering to the principles underpinning the foreign exchange regulations. For that work, BEAC needed the help of external consultants, experts in extractive industries operations, who were hired in April 2020 with the World Bank financing.

However, due to the pandemic and travel restrictions, the work of these experts in analyzing all the specificities of the oil and mining agreements signed between national authorities and companies was delayed. The first phase of this work was completed in the fall of 2020. At that time, BEAC held bilateral discussions with 13 companies operating in the region, between October and December 2020. These discussions allowed to clarify a few of the issues at stake but led also to the need for BEAC to receive additional information from companies, including on the operations of their offshore accounts and financial arrangements. BEAC asked to receive this additional information by April 2021. The experts hired by BEAC will then be expected to provide their complete analysis before June 2021, on the basis of which BEAC expects to conclude discussions with oil companies during the second half of 2021, before the end of the extended transition period.

Progress could, however, be quicker regarding a particular issue, which is the repatriation of the funds put aside by companies, according to their contracts, for oil fields' rehabilitation. BEAC, indeed, hopes that these funds could start being repatriated and deposited in accounts at BEAC already this year.

Mr. Rosen:

The CEMAC region is at a crossroads. While the regional financial position improved over the first phase of the regional strategy, CEMAC members remain dependent on commodity exports, which poses significant risks to the fiscal and external outlooks. We, therefore, encourage CEMAC members to make a high-level political commitment to enact urgent reforms, as the staff emphasize today. Reforms in the areas of public financial management, economic diversification, and governance, will help safeguard the recovery. These reform commitments should underpin any future upper-credit tranche programs.

We have issued a gray statement; I will just focus on a couple of points.

First, the BEAC must follow through on the updated policy assurance on net foreign asset accumulation, including by implementing FX regulations. This commitment is a key prerequisite, in our view, in support of ongoing or new Fund programs in CEMAC member countries. The BEAC should request capacity development (CD) support, as needed, to implement these reforms.

Second, we believe the Fund can play an important role in working with CEMAC members and regional institutions to encourage a greater harmonization on common issues across individual IMF programs. The region will face large external financing gaps and debt vulnerabilities. We are pleased to see the staff's plan for high-level engagement with national authorities in their responses to questions from Directors. When do the staff envisage convening the heads of states summit? Will all CEMAC countries as well as regional institutions be invited?

We also welcome the CEMAC authorities' attention to domestic revenue mobilization, as noted in Mr. Andrianarivelo's buff statement.

Mr. Hosseini:

We have issued a gray statement; I will make a few additional comments.

First, at present, there is no information available on CEMAC governments' plan for procuring or distributing vaccines. Although the pandemic seems to be under control in the region, given the resurgence of COVID-19 in many parts of the world, we would welcome a clarification on the vaccination policies of CEMAC members.

Second, we note that, with lower medium-term oil prices, the projected CEMAC's fiscal and external adjustments will be slower than previously envisaged, entailing large external financing needs. Although external financing is needed to stabilize domestic economies, the reduction of global oil prices and the deflation of reserves pose serious challenges to the CEMAC economies. Given the lack of a deep public domestic debt market, the dependence on external financing continues unabated. If such a high external dependence coincides with an FX market shock, this could become a source of instability in the CEMAC economies. We would welcome the staff's comments on the mitigation of such potential threats and suggestions to improve the structure of debt markets.

Finally, the report says, in paragraph 11, that fiscal consolidation efforts, mostly through expenditure compression, would help to reduce the overall fiscal deficit in 2021. We consider that such a fiscal contraction stifles economic growth as well. While an accommodative monetary policy is suggested to stimulate the weak domestic demand, we do not find it convincing to have contractionary fiscal policy in a low growth environment. Both monetary and fiscal policies should work in tandem to achieve the best outcome.

Mr. Bevilaqua:

We issued a detailed gray statement; therefore, I will make a few brief points for emphasis.

I would like to underscore the importance of the Fund's continued support to the CEMAC region. The Fund is uniquely placed to assist the

CEMAC member countries, while considering the risks and challenges they face, as well as the opportunities to foster economic diversification and inclusive growth. However, in the end, it is up to the member countries to implement the much-needed policies and reforms. Therefore, they must stay the course on their policy commitments and work in close collaboration with regional institutions to deliver on a successful implementation of CEMAC's second phase of the regional strategy.

We support the staff and management's efforts in pursuing IMF arrangements in all CEMAC member countries to help them implement the regional strategy. Given the challenges facing these countries, program design and implementation should be sufficiently flexible to ensure that the difficult international and regional contexts, as well as individual country characteristics are considered. It is also important to take account of differences in natural resource endowments, institutional capacity, the soundness of the fiscal sector, and the coverage of social safety nets. Improving governance is more important than ever to secure an economic recovery that is shared by everyone, and not just the privileged few.

The supportive measures adopted in the region will need to be phased out gradually and carefully as the pandemic abates. The region's economic outlook remains uncertain, with downside risks prevailing, as international oil prices are projected to remain subdued and security challenges are expected to persist in at least three CEMAC member countries. Therefore, we join others in encouraging the adoption of ambitious yet realistic post-pandemic objectives.

I would encourage the authorities and the staff to carefully study the trade-offs implied by the pace of fiscal consolidation in the region. This is important, given the need to support the economic recovery and protect the most vulnerable, including from the risks of rising food insecurity. Also, a quick return to the regional fiscal conversion criteria may be more difficult for countries that face particularly acute social needs and are subject to multiple shocks, including security challenges.

Mr. Buissé:

We thank staff for the very comprehensive report and for the answers to our many technical questions, as well as Mr. Toujas-Bernate for his intervention today. We issued a joint gray statement with Mr. Ronicle, and I will make four points for emphasis.

First, in light of the economic and financial but also social and security-related challenges, we continue to be very supportive of a strong engagement of the Fund in the CEMAC region and in its countries. We thank the staff for its update on the country cases this afternoon, as well as for the very good overview presented in the paper. Indeed, the efforts made in 2020 to weather the pandemic-induced turmoil are to be commended. Understandably, these measures have had an impact on the macro trajectory of the region. Both in the short- and in the medium-term, challenges remain and are to be addressed through Fund's financing and support for a flexible and adaptive approach, in line with our lending strategy.

It is important that the Fund is able to help all its membership as much as possible. To this end, constructive discussions with the three CEMAC countries under a program and with the three requesting new arrangements remain critical. In this context, it will be key to have continued strong ownership of the program objectives by country authorities to ensure that they reap the full benefits of their engagement with the Fund.

Second, the presentation of the conclusions of the process regarding the joint analysis with the World Bank for the second phase of the regional strategy is much welcome. To sustain and implement this regional strategy, we agree with the staff that strong efforts to coordinate national reform programs across the CEMAC, with a regional orientation, while still taking country-specific issues into account, is fundamental. The coordination with the World Bank and other international financial institutions (IFIs) is another key component to ensure the efficiency of external support for CEMAC and to seize the opportunity for the region to commit to a renewed growth model. In addition to macro stabilization, there is a need to move away from oil-led growth and to further develop the business environment and enhance governance.

Third, we welcome the efforts made by the regional authorities to implement pragmatically the foreign exchange regulations. It should allow for a good regulation of capital flows and support reserve accumulation, especially in times of crisis, while enabling inflows for important investments. The ongoing discussions between BEAC and the key economic actors, to take into consideration their specificities, are welcome. BEAC should continue to be fully mobilized toward resolving any lingering difficulties.

Lastly, let me underline the importance of capacity development, as other colleagues have mentioned, to help the authorities develop their growth model, given the domestic constraints. The information provided by the staff was useful in this regard.

We remember from the last CD update that the level of liquidity in the regional center was low, and it will be important to make sure there is sufficient funding to support the authorities.

Mr. Pösö:

We will have a chance to discuss country-specific issues in future Board meetings; I will focus my remarks this afternoon on topics related to the central bank and banking supervision for the currency union.

As regards central bank operations, maintaining ample liquidity conditions in the banking system seems the right strategy for the central bank to follow. The opportunity costs of having structural excess liquidity are currently low, and the banks are likely to prefer considerably higher liquidity buffers than normally due to the high uncertainty.

I took note that the central bank had reduced the collateral haircuts. I would like to ask the staff how much the collateral haircuts were reduced and how much they see that the financial risks of the central bank have increased due to these measures.

On foreign reserves, it appears appropriate that the accumulation of net foreign assets is facilitated, first and foremost, by the more effective enforcement of the FX repatriation. Similarly, the monetary policy stance should be defined mostly by internal stability objectives, and especially by the inflation outlook, which is currently contained.

Against this background, it seems somewhat surprising that the staff recommended the central bank to tighten its monetary policy if FX repatriation is not sufficient and the reserve position further deteriorates. The staff's comments are welcome.

Finally, I would like to say a few words on banking supervision. I understand the need to ease a few of the prudential requirements during this crisis, and I welcome the accompanying measures to counter the effects of this easing; for instance, the restrictions on dividend payoffs. However, I do see scope for a stricter application of the regulatory framework. In this context, it is important to note that compliance with reporting and prudential capital requirements cannot be a voluntary choice but must be a strict condition if banks want to stay in business.

In addition, the resolution framework should be strengthened to give the banking supervisor, the Central African Banking Commission (COBAC), the tools to move forward with resolution, without being unduly delayed by the national authorities.

Mr. Massourakis:

We have issued a joint gray statement with Mr. De Lannoy; I will focus on a few points today.

The impact of the pandemic and the drop in oil prices has inevitably caused some delays in the achievement of the policy targets set for the CEMAC countries and has made policy choices more difficult for the regional and national authorities. At the same time, structural reform efforts seem to have weakened somewhat.

Against such background, we encourage a close cooperation between the Fund and the CEMAC regional authorities and countries in the entire spectrum of Fund activities--surveillance, lending, and capacity development. Such cooperation will help to reinvigorate the necessary reforms aimed at diversifying economic systems, fostering the business environment, strengthening fiscal sustainability, enhancing governance frameworks, and rebuilding foreign exchange reserves. Pursuing critical structural reforms will be especially important for CEMAC program countries.

We agree that fiscal consolidation should resume once the pandemic abates and that the strategy should aim at raising non-oil revenues, while prioritizing growth-enhancing public investment.

We also consider it critical to strengthen public financial management and to further implement the plans to clear government arrears.

Regarding the foreign exchange reserves in the extractive industries, we appreciate the continued dialogue on the FX regulation implementation between BEAC and the firms operating in such sectors, particularly oil companies. This dialogue should be strengthened, while considering sectoral particularities to prevent possible adverse effects on securing and attracting foreign direct investments, which are an integral part of the external adjustment strategy.

Ms. Mahasandana:

We issued a joint gray statement with Ms. Grant; I will make only two points today for emphasis.

First, while we recognize the challenging situation from the pandemic, we emphasize the importance for the regional and national authorities to remain committed to the second phase of the regional strategy. It is critical that they continue to implement the priority reforms identified, such as diversifying away from oil and improving the business climate and governance to build on the progress achieved in the first phase and to lay the foundations for diversified, inclusive, and sustainable growth in the region.

To sustain the reform momentum, we encourage the regional authorities to strengthen the regional surveillance framework. With most countries expected to breach the convergence criteria, CEMAC countries should consider implementing an early warning system and find a way to reduce noncompliance countries to preserve the credibility of the regional surveillance framework.

At the same time, we support the commitment by the CEMAC regional institutions to continue to support member countries in the implementation of reforms. Strong cooperation between national and regional authorities will help to ensure the steadfast implementation of reforms.

Second, we see the Fund playing an effective role in supporting the reforms through CD and financial assistance. As capacity constraints have been highlighted as a factor hindering the pace of the reforms, we encourage the Fund to continue to provide strong capacity development support at both the regional and national levels. In this regard, we take comfort that the Fund has already developed a CD strategy note for the regional institutions and also delivers TA both to the region and to national institutions.

We also look forward to the Fund reaching agreement on the program-requesting countries as soon as feasible. The design of the Fund-supported programs must ensure the program objectives are aligned with the regional strategy.

Mr. Odonye:

We issued a detailed gray statement, supporting the authorities' requests, and would restrict my intervention to two points.

First, last year was an exceptionally difficult year, likely driven by COVID-19 and its complications. We are further nervous to learn from the staff report that banks' compliance with prudential rules remains difficult, with minimal progress on governance and risk management. While encouraging the BEAC to expedite action on the recovery plans for two troubled banks, we would appreciate the staff's comments on the factors driving compliance with the approved prudential-related banking rules. Whether the COBAC financial sanctions, adopted in 2019, are not enforceable? Are there further reinforcements that need to be put in place?

Secondly, on a related point: the high sovereign-bank nexus remains a major risk to the financial sector, and this is clearly shown in the 2020 third quarter elevated non-performing loans (NPLs), seen among the state-owned enterprises (SOE) and the strategy firms. In this regard, we encourage the regional authorities to join forces with their national counterparts to continue addressing the negative linkages through further reforms in the financial sector.

Mr. Al-Kohlany:

We issued a gray statement, in which we welcomed the effective regional response to the pandemic, supported by the measures under the first phase of the regional strategy and the Fund's programs with the CEMAC member countries.

The fragile economic situation in the CEMAC region calls for continuous collective efforts to safeguard debt sustainability, the external position, and to achieve more diversified and inclusive growth. Further efforts are also needed to address vulnerabilities in the banking sector.

As we issued a gray statement, I would like to make one additional comment on financial inclusion, which is low in the CEMAC region. According to the World Bank, less than 15 percent of the adult population have access to bank accounts. The links between financial inclusion and economic growth and poverty reduction are well established. The staff mentioned that out of the six member countries, only Chad and Cameroon have national strategies for financial inclusion, and we encourage the BEAC to work with the remaining member countries toward the development of their strategies.

At the regional level, it will be important to deepen the financial sector in order to strengthen its contribution to private sector development, financial inclusion, and, ultimately, job creation. We encourage the staff to shed more light on this issue in future reports, with a focus on how fintech can contribute to bridging the inclusion gap by improving access to banking services and strengthening the payment systems.

Mr. Morales:

As we said in our gray statement, the authorities are to be commended for their effective policy response to the COVID crisis. Still, they should maintain a cautious approach in relaxing containment measures, given the surrounding uncertainties. The impact of the pandemic has narrowed policy space and delayed policy implementation in some areas, with an impact on regional convergence and limited progress on improving governance and the business climate.

Looking ahead, structural reforms in this and related areas to attract additional investments that, in turn, support the diversification of the CEMAC economies beyond oil production will be the only way to ensure sustainable and inclusive growth. In the meantime, managing available resources more efficiently and more effectively will be imperative.

We understand the challenges to keep in place policy commitments in the current situation, with rising debt vulnerabilities and limited buffers, as public investment is delayed and domestic debt arrears remain unresolved, among other difficulties. However, rolling out the second phase of the CEMAC regional strategy will not only be possible but also very necessary.

The six reform pillars identified by the IMF-World Bank staff include many policy areas, for which the main constraints are not their financial costs but, instead, capacity limitations and the need to overcome political resistance at all levels. Therefore, we encourage the staff to align capacity development priorities to the authorities' policy commitments in these areas and to continuously reassess the CD strategy to adapt to the emerging constraints in the delivery of technical assistance. We also encourage the authorities to make all efforts necessary to align political support for key reforms that would allow the region to move forward, even in these difficult circumstances.

Mr. Merk:

The CEMAC region has been deeply affected by the COVID-19 economic shock and the associated decline in oil prices and the deteriorating security situation, which are likely to leave their marks on economic developments for some time. Regional authorities are, therefore, encouraged to support ambitious, growth-enhancing reforms at the national levels, and to aim at convergence among heterogenous member states, while preserving macroeconomic stability.

Given the risk associated with the rising debt levels in many member countries, we encourage national authorities to adhere to CEMAC's convergence criteria. And, as regards public debt management, it is crucial that full debt transparency is ensured and that rising vulnerabilities are addressed.

Lastly, we would like to point out that the long-term regional stability of the monetary union demands regional-level policies to be underpinned by prudent policies, appropriate adjustment efforts, and reforms at the national levels.

Mr. Moreno:

First, to emphasize the longer-term issues; the pandemic is going to have long-lasting effects on the region. And it is important, while one has to address the shorter-term issues now, it is important not to lose sight of the longer-term and more structural issues. We would emphasize a few issues.

First, I would underscore the importance of IMF programs. Like Mr. Buissé, we encourage the staff to move ahead with the remaining programs and like Mr. Rosen, emphasize the importance of harmonization—a few elements of harmonization of the program in a few countries in the CEMAC.

Second, the importance also of accelerating the implementation of the second phase of the regional strategy. Here, we think that the key priorities will remain diversification and inclusion, and reforms such as expanding the revenue base, particularly non-oil revenue mobilization, improving public expenditure management, developing financial markets, and also the health of the banking system. Here, we are concerned that how the financial sector will resist the growth in NPLs. It will be important not only to improve the risk-based prudential supervision but also strengthen the resolution framework. I am not sure if there are projects of capacity development in this area in the region, we would be interested in that.

We would also highlight the importance of keeping the credibility of the surveillance framework. We echo the call for upgrading the framework, with the introduction of an early warning system and to explore mechanisms to reinforce their compliance. This is key for an integration process.

Finally, to highlight, again, the importance of capacity development. This is not only for CEMAC countries but more generally, linking the capacity development clearly to the program objectives, which is a general problem in many countries.

Mr. Palotai:

We have issued a gray statement and would like to add a few additional points.

First, in view of the highly uncertain outlook, we would like to stress the importance of a timely implementation of the reforms, as recommended by the staff, as the CEMAC countries' overdependence on oil revenue and their exposure to highly volatile oil prices does present a significant downside risk to both fiscal and external balances. Like Mr. Merk and Mr. Buissé, we also emphasize that diversifying the region's economies away from hydrocarbon exports will be essential going forward.

Second, we would like to mention that we are concerned that the extension of the deadline to comply with the FX repatriation regulations points to lobbying by extractive companies at the BEAC level. And the non-implementation of the new CEMAC regulations in the aftermath of the pandemic would have significant systemic risks to the CEMAC's financial stability on the whole.

Finally, like Mr. Bevilaqua and Mr. De Lannoy, we believe that the authorities, and especially COBAC, should continue to closely monitor the financial sector developments. The implementation of a multilateral surveillance framework is essential to ensure that banks comply with the existing envisioned prudential standards.

Finally, the increased surveillance of banks is the key to safeguard financial stability, in our view.

The staff representative from the African Department (Mr. Toujas-Bernate):

Firstly, on the question on the vaccine plans: as we indicated in our written responses, these plans are not well advanced at this stage. Maybe, Congo has made some progress. There is no planned coordination at the general level either, like what we could have seen in the European Union. This is related to the capacity of authorities. We hope that the authorities will soon be in a position to draw these plans, with the help of partners with expertise in this field. We hope that the authorities will also have the financial resources to cover the plans for the vaccination of their populations. As we indicated, there are budget lines in the finance laws for this year, which already planned for COVID-related spending, including for vaccinations.

Mr. Hosseini also had a question about the kind of financing mix between external and domestic, reminding us that CEMAC countries are highly dependent on external financing. This being said, we have seen a lot of progress in terms of development in the regional securities markets in the last couple of years, including in 2020, when the issuances--the stock of government T-bills and T-bonds more than doubled during last year.

The BEAC is working toward further developing these markets to diversify the investor base. Also, as we indicated, until now, it is mostly the banks which are buying these government securities. They hold about 95 percent of the stock; but, indeed, outreach is being done by BEAC to other potential investors, including other financial institutions, as well as to the larger population. These efforts, we hope, should lead to a better mix of financing opportunities for the CEMAC countries, reducing somewhat the dependence on external financing.

This being said, external financing needs will be high for the coming three years, about €6.6 billion euros for 2021/2023, which is higher than what we have seen in the recent years, with a problematic debt situation of countries. There will be a need for being careful with regard to borrowing plans by the authorities.

Mr. Hosseini also raised a question about the policy mix, noting that for 2021, the start of the fiscal consolidation that is being envisaged to put public debt back on a downward trend would initially rely mostly on the prioritization of investment spending. Over the medium-term, clearly, this is not the preferred option. On the contrary, there is a need for the CEMAC countries to increase their domestic revenue mobilization, but these reforms will likely take time. Therefore, we see only gradual efforts on this front which would allow, over the medium-term, to, indeed, have a better mix in terms of fiscal consolidation efforts.

Mr. Rosen asked about the plans for a heads of state meeting. It is not in our hands and will be called by the heads of state. But, we will be ready. We discussed with the regional authorities our readiness to participate in such a meeting, as was the case at the heads of state meeting of December 2016, which basically saw the launch of the first phase of the regional strategy. We would expect to discuss at that meeting the key structural reforms, on which we would seek commitments from the national authorities at the highest level. We are preparing for such a meeting and are hoping also to discuss this at the ministerial level, before these key reforms, in the coming weeks and months, including at the next tripartite meeting, which will likely take place toward the end of this quarter.

Mr. Pösö asked about the haircut on collateral. Basically, the haircut on sovereign was cut by 800 basis points, for only a temporary period of six months, as well as a freeze to revise the credit risk haircuts. This was expected to provide additional financing, refinancing capacity for the banks; but so far, we--and the BEAC—has seen little demand for additional refinancing from the banks. This has not led to any additional risk for the BEAC's portfolio and holdings of assets as collateral for the refinancing of banks.

Mr. Pösö also asked about the need to tighten monetary policy in case of a significant fall in the external reserves. This would be a policy response which we would see only in a downside scenario. This would be similar to what the BEAC had implemented in early 2017 in response, at that time, to a very negative trend in reserves. The BEAC, together with the fiscal consolidation efforts from each CEMAC country, had tightened monetary policy by increasing the policy rate and tightening the liquidity conditions. We would expect a similar response, should we see a significant decline in reserves. Of course, this would have implications for growth, but the alternative would be a large-scale or a possible large-scale balance of payments crisis, which would be even more problematic.

There was a question from Mr. Odonye regarding the sanctions imposed by COBAC or the sanction system which has not yet been implemented. Also, it became effective toward the end of 2019. The reason is that, COBAC was not in a position--because of the pandemic--to hold disciplinary meetings of the commission because the current arrangements of COBAC do not allow virtual meetings for disciplinary decisions. But we expect that, as soon as the situation will allow it, COBAC will, indeed, start implementing this sanction system, possibly by deferring the payment of these sanctions, if the situation of the banks do not allow it during the pandemic. Certainly, this is the staff's recommendation, to, indeed, implement this sanction system as soon as feasible under the present circumstances.

On Mr. Moreno's question with regard to capacity development in risk-based supervision, it has been an area where the Fund, through the African Regional Technical Assistance Center (AFRITAC) Central, has provided a lot of technical assistance over the last four years and will continue to do so. COBAC, indeed, was able to benefit from this assistance to draw its current plans to move gradually toward risk-based supervision. This is definitely an area where the Fund has been very present in terms of providing assistance.

Mr. Andrianarivelo:

On behalf of my CEMAC authorities, let me thank Executive Directors and management for the completion of this regional consultation, as well as the staff, especially the mission chief, Mr. Toujas-Bernate, and his team for the constructive policy dialogue with the authorities and for the excellent account of their discussions. I also appreciate the staff's comprehensive responses to the questions raised by Directors in their gray statements and oral interventions this afternoon.

Let me express our appreciation to Directors for their insightful comments and recommendations, which I will faithfully convey to my CEMAC authorities.

I welcome the broad recognition of the progress made in the implementation of the regional strategy, launched in late 2016. As prior to the pandemic, the CEMAC authorities will implement the updated policy commitments stated in the follow-up letter to support member countries' recovery and reform programs. They are preparing a heads of states summit but will reaffirm their commitment to the regional strategy, notably, in its second phase to foster diversified and sustained growth, while further strengthening buffers and external stability.

The current policy mix should be maintained in the near term to continue addressing the pandemic and should be reversed only when the crisis abates and the recovery firms up.

The CEMAC authorities share Directors' view on the reforms needed to enhance macroeconomic stability and achieve the most sustained and inclusive growth post-COVID.

I have also noted the broad agreement between the authorities, Directors, and the staff on fiscal, monetary, and prudential policy measures to be taken to support the recovery in the meantime, considering the lengthy impact of the pandemic.

Let me briefly go through a few policy areas.

First, Directors' gray statements and interventions this afternoon have put a strong emphasis on the need to increase domestic revenue mobilization by expanding non-oil revenue and creating room for investment and social spending and lower debt vulnerabilities. This is well taken, and the authorities fully agree with this stance, as we highlighted in our buff statement.

Second, there is concern about preserving financial stability, notably, by reinforcing banking supervision and troubled bank resolution frameworks. I would like to reassure Directors that this is being done in the context of COBAC's strategic plan, and compliance with the resolution framework and prudential standards will be enforced most strictly as the pandemic wanes. The authorities also agree on pressing ahead with the clearance of domestic payments arrears, recognizing the strong sovereign-financial nexus.

Third, on monetary and foreign exchange policies, the regional authorities are determined to avoid monetary financing of the fiscal deficit and help put in place the infrastructure needed for the operationalization of the single treasury accounts. They will pursue the implementation of a foreign exchange regulation, which is progressing quite well. To support reserve accumulation, the BEAC authorities remain open to helping the extractive industries make a smooth transition to comply with the new regulation. Discussions are ongoing in this regard, while the moratorium of compliance with the new regulation for the oil and mining company has been extended to end-2021.

Finally, Mr. Chairman, I welcome Directors' agreement that the close engagement with the Fund, including through the second generation of programs, remains critical to sustain the regional strategy. This gives me the opportunity to stress, again, the importance of considering the requests for a new programs by Cameroon, Gabon, and Chad, and the need to revive the Fund arrangements with the Republic of the Congo and Equatorial Guinea, considering the action taken to bring their programs back on track, but more urgent is the need to provide the emergency assistance that was requested by these two countries to help them mitigate the impact of the pandemic. It is important that the Fund's support to the regional strategy also translates into emergency assistance to those members, as the prospects of a few does impact the regional effort.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Director's Technical Questions
- Constituency Codes

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BUFF/ED/21/3

January 7, 2021

Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane on Central African Economic and Monetary Community
Executive Board Meeting
January 12, 2021

1. On behalf of the CEMAC authorities, we would like to express our appreciation to Management and staff for their strong support to some member countries during these difficult times brought about by the COVID-19 pandemic, the associated sharp fall in oil prices, and protracted security challenges in the Lake Chad. The staff report gives a good account of the discussions held virtually in November.

2. The pandemic started at a time when the outlook for CEMAC was improving as the CEMAC's national authorities and regional institutions were implementing their regional strategy to strengthen fiscal and external stability. Significant progress was being made in terms of fiscal consolidation and buildup of international reserves at the regional central bank BEAC. The CEMAC authorities, both national and regional, swiftly responded to the pandemic, with support from international organizations. to contain its human, economic and social impact. The CEMAC authorities are grateful for the rapid Fund support provided to four out of the six countries in the region and are hopeful that similar support will be provided to the two others which are still experiencing daunting financial difficulties due to the pandemic and the oil price and production shock.

3. While the increase of COVID-19 cases in the region is decelerating, the continuous pandemic worldwide continues to have a heavy toll on CEMAC economies. The CEMAC regional authorities broadly agree with staff policy recommendations looking forward and have reiterated their policy assurances in a follow-up letter of support to members' policy and reform programs. Fund's continued support, notably through second generation programs but also emergency assistance as needed, will be critical to help address challenges ahead.

I. Impact of the Pandemic on the Regional Strategy

Implementation of the Regional Strategy Prior to the Pandemic

4. The implementation of the regional strategy to strengthen internal and external stability was advancing prior to the pandemic. Fiscal balances had improved as fiscal policy adjusted to lower revenues by a better control of expenditures. The domestic arrears payment strategies started to be implemented.

5. Tight monetary policy helped support reserves accumulation which now stand at 3.5 months of imports as of September 2020 compared to a few weeks of imports four years ago. The central bank pursued a neutral liquidity management to enhance monetary policy transmission. The foreign exchange regulation has been enhanced and enforced with domestic banks which are now compliant with FX surrender requirements. BEAC has started consultations with oil and mining companies on the application of the FX repatriation requirement and postponed the deadline for the extractive sectors to comply with the regulation by one year to end-2021.

6. As regard banking supervision, a new sanction mechanism to improve regulatory compliance was adopted. Delays in securing external financing and the deterioration of fiscal balances in the second half of 2019 prevented reaching the target for regional net foreign assets (NFA) for December 2019. Nevertheless, NFA accumulation in the first half of 2020 was broadly in line with projections despite the pandemic. The latter however disrupted monetary transmission channels and delayed further progress in the implementation of some reforms, notably those related to single treasury accounts, the development of capital markets, and the strengthening of the regional surveillance framework by the CEMAC Commission.

Adjustment of Policies following the Pandemic

7. Economic growth in 2020 is expected to decline by almost 5 percentage points of GDP to -3 percent due to the economic slowdown caused by the containment measures and lower oil prices. Inflation should remain below the regional convergence criterion of 3 percent. Fiscal balances are projected to worsen in 2020 owing to adverse impact of the pandemic on oil revenues and the cost of pandemic-related support measures. Debt vulnerabilities have increased with weaker fiscal positions. Adverse developments in the oil sector led to a degradation of external current account balances. After increasing in the first half of 2020, international reserves declined in the third quarter owing to lower oil revenues.

8. The CEMAC authorities have taken several fiscal, monetary and prudential measures to limit the impact of the pandemic on the population and businesses. At the national level, budget laws were revised to accommodate higher health and social spending and tax relief measures and account for lower fiscal revenue, notably oil revenue. At the regional level, monetary policy was eased to facilitate financing for member states and provide sufficient liquidity to the banking system. In this regard, the central bank resorted to unconventional measures with notably the introduction of a bond purchase program for government

securities on the secondary market. Prudential regulations were relaxed to allow banks absorb losses caused by the pandemic.

9. Those measures have been supported by external financing, especially from the Fund in the form of emergency financing, augmentation of access under active arrangements and debt relief under the Catastrophe Containment and Relief Trust (CCRT). It is worth noting that to date, the requests for emergency support by the Republic of Congo and Equatorial Guinea have yet to be considered. Requests for debt relief under the G20's Debt Service Suspension Initiative (DSSI) were also made by the four eligible countries in the region (Cameroon, CAR, Chad and the Republic of Congo).

10. The macroeconomic situation of the region is expected to improve in 2021. Nonetheless, recent reports of new, more rapidly transmissible, variants of the novel coronavirus have increased uncertainties about the evolution of the pandemic and the downside risks to the growth recovery outlook.

II. Pursuing the Regional Strategy Amid the Pandemic and Beyond

11. The CEMAC's national authorities and regional institutions remain committed to pursuing their efforts towards pursuing internal and external stability during these difficult times while laying the ground for sustained, diversified and inclusive growth as the regional strategy enters a second phase. In the near term, priority will continue to be placed on mitigating the impact of the pandemic and supporting economic recovery. To this end, the national authorities and the regional institutions will maintain the current policy mix adopted during the crisis. In that context, it has become evident that the initial medium-term quantitative objectives for fiscal balances, NFA and international reserves will not be met and have been adjusted accordingly. The CEMAC authorities will continue to closely monitor macroeconomic developments and stand ready to adjust policies as needed. In particular, the national authorities are committed to unwind support measures and resume a gradual fiscal consolidation when the crisis subsides. The CEMAC's regional institutions will continue to support member countries in the implementation of reforms that lagged and ensure continued progress toward external stability, notably in the context of the CEMAC Economic and Financial Reform Plan (PREF CEMAC).

12. Continued engagement with the Fund to support a second generation of programs remains of paramount importance moving forward. Fund financial assistance and its catalytic effect which have been helpful in strengthening the external position of the region since 2017 will be critical to close financing gaps and make further progress in the implementation of the regional strategy. In this regard, a successor arrangement with CAR has already been approved and three other countries (Cameroon, Chad, Gabon) have expressed an interest in new arrangements following the recent expiration of their respective Fund-supported medium-term programs. The Fund arrangements with the Republic of Congo and Equatorial

Guinea might need to be recalibrated as they were approved a few months prior to the pandemic and the first reviews have yet to be concluded. Regarding the Republic of Congo, the authorities have requested an extension of the 2019-2022 ECF arrangement.

13. It is worth stressing that the CEMAC authorities see merit in the two countries receiving emergency assistance from the Fund to cope with the continued fallout of the pandemic, noting their corrective actions to address weaknesses in public financial management and governance frameworks, address debt vulnerabilities—notably through debt restructuring efforts—and bring their programs back on track. This emergency support is critical to the region. Given the catalytic role of Fund support, delays in providing emergency assistance to the two countries is exacerbating the impact of the pandemic and delaying highly needed external support to address it while affecting the trajectory of international reserves at the regional level. The authorities strongly urge the Fund to exercise flexibility regarding those two countries considering the exceptional and unprecedented shock.

14. The CEMAC authorities share the view that second-generation programs should be geared towards supporting economic recovery, increasing regional integration and improving living and social conditions. They agree that fiscal adjustment should focus more on domestic revenue mobilization, including through rationalization of fiscal expenditures and a widening of the tax base, to increase fiscal space for social and infrastructure spending. Improving revenue mobilization will be also critical to advance the clearance of domestic payment arrears and hence reduce vulnerabilities in the domestic banking systems. Strengthening social safety nets will remain a priority to increase social resilience to shocks. The authorities also concur that governance weaknesses and transparency gaps in public financial management should be forcefully addressed to improve the efficiency and quality of spending.

15. The modernization of the monetary policy and supervision frameworks remain high in the authorities' agenda. BEAC will steam ahead with the application of the foreign exchange regulations, notably the repatriation of external receipts, to further build up external buffers. Compliance by oil and mining companies with the new regulation following the ongoing consultations will help boost international reserves well above the target of 5 months of imports. BEAC will continue to refrain from providing direct monetary financing to countries and will carry out the development of the regional financial inclusion strategy initiated in October 2020. The banking supervision and resolution frameworks will continue to be enhanced under the oversight of the Secretariat General of the banking supervisor COBAC (SG COBAC). Compliance with these frameworks will be further enforced to contain risks to financial stability. At the same time, analyses will be conducted to guide the withdrawal of relaxed prudential measures.

16. The CEMAC authorities recognize delays in some key structural reforms to advance economic diversification, increase economic resilience to shocks, accelerate regional

integration and improve the attractiveness of the region to private investment. They expressed their intention to accelerate their implementation over the medium-term. In this regard, the CEMAC Commission already adopted a regional industrialization strategy and decided to reduce exports of logs to develop domestic wood processing industries. They will press ahead with the implementation of regional integration projects, in partnerships with the private sector. Macroeconomic regional convergence will resume as soon as the current crisis abates.

III. Conclusion

17. Progress has been made between 2017 and 2020 in the implementation of the regional strategy to restore macroeconomic balances in the CEMAC region. However, the pandemic has limited further progress and is even threatening to roll back gains achieved to date. Against this backdrop, the CEMAC authorities fully agree that additional efforts are needed to improve fiscal and debt sustainability and the region's external position. Key measures pertaining to the foreign exchange regulations and governance will be accelerated. The authorities are committed to phasing out the current shock mitigation measures once the crisis subsides. In the face of higher financing needs due to the pandemic, continued Fund support to a second generation of economic and financial programs will be essential to advance the regional strategy.

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GRAY/21/12

January 7, 2021

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

We thank staff for a well-written report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their insightful Buff statement. We broadly concur with the thrust of the staff appraisal and policy recommendations.

Prior to the Covid-19 outbreak, the Central African Economic and Monetary Union (CEMAC) was at a crossroad to consolidate the progress achieved by the regional strategy and put adjustment efforts on a sustainable path. Tighter macroeconomic and financial policies helped stabilize economic conditions and avert a deeper crisis and increase gross external reserves and the outlook for CEMAC was improving. However, reserves were still below the appropriate level for commodity-exporting economies, and progress lagged on structural reforms, including on non-oil revenue mobilization, improving governance and the business environment, and spurring social development. With little progress achieved on economic diversification, the region was still highly vulnerable to oil price shock. With the Covid-19 outbreak, the focus of CEMAC policies shifted towards supporting the firms and households and the pandemic shock is likely to have long-lasting effects on the economic outlook for the region.

We welcome the policy response of the national and regional authorities, supported by the emergency financing by the Fund, which has contained the initial economic fallout of the pandemic. We note that, with lower medium-term oil prices, the projected CEMAC's fiscal and external adjustments will be slower than previously envisaged, entailing large external financing needs (around €6.6 billion for 2021–23). Gross international reserves are now projected to reach the equivalent of 5 months of imports by 2025 vs. 2022 pre-pandemic, while net foreign assets (NFA) will be below previous expectations. Public debt would remain at elevated levels, albeit on a declining trend after the increase in 2020. This outlook is highly uncertain and contingent on the evolution of the pandemic and its impact on oil prices. We consider that downside risks remain substantial and stronger efforts are needed to support recovery, more diversified and inclusive growth, and structural reforms. *Considering that real GDP per capita will return to the pre-Pandemic level in several years, we would like to have more information on social safety nets and relief polices in member countries.*

We urge national authorities to strictly adhere to their respective IMF-supported program objectives, which will be key to secure domestic and external stability. We consider that the composition of fiscal consolidation efforts will need to be rebalanced by increasing non-oil domestic revenue, in order to preserve social spending and public investment. Implementing well-managed government arrears repayment plans will also be central to supporting the private sector and improving banks' balance sheets.

We consider that Bank of Central African States (BEAC) has pursued a well-calibrated monetary policy during the pandemic, and stress that BEAC should stand ready to tighten if the external pressures or inflation emerge. We agree with staff that BEAC should continue to strike the right balance between preserving internal and external stability. In that context, we encourage BEAC to aim at more rapid absorption of the excess liquidity in the banking sector to enhance monetary policy transmission, after the current crises abates, and stimulate the interbank market. We also welcome steps to deal with banks that excessively rely on the BEAC for their liquidity needs.

We welcome BEAC's effort to ensure a smoother yet effective implementation of the foreign exchange regulations. More support from national authorities is needed to ensure compliance by all public entities and further progress can be achieved to speed-up execution of forex transactions. We also take a positive note of the BEAC's dialogue with oil and mining companies to effectively enforce the regulations while taking account of their specificities as necessary.

We encourage the Central African Banking Commission (COBAC), to implement a more risk-based supervision. We welcome the adoption of the new sanction mechanism to improve regulatory compliance, but note that the process to resolve problem banks remains slow. We encourage COBAC to support efforts to reduce currently very high non-performing loans, including following repayments of government arrears. We stress the need to reinforce COBAC's capacity, especially staffing levels.

We note that BEAC and COBAC have pursued the implementation of the policy commitments provided in the December 2019 Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries, but progress was somewhat slower than expected because of the Covid-19 crisis. We further note the policy commitments and endorse the updated policy assurance, including the revised NFA projections through June 2021, outlined in the December 2020 follow up Letter from the BEAC Governor. We emphasize that implementation of this policy assurance will be critical for the success of IMF-supported programs with CEMAC member countries.

We wish the authorities every success in their endeavors.

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GRAY/21/29

January 8, 2021

Joint Statement by Mr. Alkhareif, Mr. Chikada, Mr. Keshava, and Mr. Shimada 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 insightful Buff statement. The CEMAC region is severely hit by the COVID-19 pandemic. However, we find it encouraging that the pandemic itself is broadly under control, and the policy responses by the regional and national authorities, reinforced by the Fund's emergency support, have alleviated its economic fallout. Nonetheless, the pandemic has severely damaged the region's fragile economy, particularly through the decline in oil prices, which has led to the decline in foreign reserves and large financing needs going forward. As staff rightly points out, the region is at crossroads. The CEMAC needs to maintain macroeconomic stability, which was hard-won during the first phase of the regional strategy, and achieve more inclusive and sustainable growth by addressing long-standing structural issues. As we broadly agree with the staff appraisal, we will provide the following comments for emphasis.

We agree with staff that BEAC has struck the right balance between internal and external stability. The monetary easing and the liquidity injection by BEAC are appropriate to mitigate the economic impact from the pandemic. We also welcome the new government securities purchase program, which would help in meeting the increasing government financing needs while avoiding direct monetary financing. However, BEAC should stand ready to tighten its monetary policy if the reserve position further deteriorates or if inflation pressures were to emerge. Once the pandemic abates, BEAC should gradually sterilize the excess liquidity, while closely monitoring its potential cost.

Given the decline in foreign reserves, it is important to execute the foreign exchange regulations effectively with a thorough communication with various stakeholders. While we understand the proposed extension of the compliance deadline by one year due to the pandemic, the authorities should ensure that the oil and mining companies comply with the FX repatriation regulations within the revised deadline, which would help with reserve accumulation*. In this regard, could staff elaborate on the progress with the negotiation with the oil and mining companies, including the possible obstacles for the full implementation of the regulations by the deadline, if any?*

Financial sector warrants closer monitoring. The crisis has amplified the financial vulnerabilities, which existed before the pandemic. The region's sovereign-banks nexus, which is well explained in Annex III, is the key source of vulnerabilities. We note with concern that NPLs are already increasing despite the regulatory forbearance, which could mask the real situation regarding the bank asset quality. In this regard, we welcome that COBAC has required the banks to frequently report their asset and liquidity conditions and two-thirds of the banks follow the new reporting requirement. We urge the authorities to make the remaining banks comply with these requirements. Going forward, structural vulnerabilities need to be addressed, through diversifying the investor base of government securities, improving the governance of public banks, and thereby improving the public trust in the financial sector. We agree with staff that COBAC should continue to strengthen its risk-based AML/CFT supervision.

In order to achieve more inclusive and sustainable growth, it is indispensable to address structural issues such as governance and business climate, and promote economic diversification. Considering the region is prominently lagging behind on governance indicators, which have worsened from 2010 to 2019, the improvement in governance is essential to attract foreign investors. We believe that economic diversification would start virtuous circle, through increasing non-oil revenue and making the region more resilient to external shocks, and increasing the lending capacity and appetite of banks for private sector, thereby further expanding its role. *Since innovation capability and product markets are particular constraints in the region, we would like staff to elaborate on the type of industries which could be promising candidates for growth.*

We would like to emphasize that steady implementation of structural reforms is key for the success of the Fund-supported programs as well as garnering other IFIs' and donor countries' support. Given the large financing needs as well as limited borrowing space with debt sustainability concerns, the CEMAC countries should seek concessional financing as well as grant financing. We also encourage the national authorities to consider the use of common framework endorsed by the G20, where needed.

Last but not least, regional institutions need to play an important role in addressing many constraints and supporting efforts by CEMAC national authorities. We welcome that the regional authorities and national authorities agree on the necessity of the next phase of regional strategy, and will hold a high-level conference in the near future to discuss and pave the way for a more ambitious structural reform agenda in the region. Also, the regional surveillance framework should be enhanced by strengthening the sanction mechanism in the case of non-compliance. In this connection, we note with concern that regional authorities are also facing capacity constraints, including understaffing of COBAC. *Given the limited capacity at both regional and national levels, we wonder whether the establishment of CD strategy at the regional level could help in an effective TA delivery, through streamlining and prioritizing TAs considering both the needs of regional and national authorities. Staff comments are welcome.*

GRAY/21/32

January 8, 2021

Joint Statement by Ms. Mahasandana, Ms. Grant, Mr. Iona, Mr. Tui Siliva, and Ms. Yoe 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 their insightful Buff statement.

We commend the CEMAC authorities for their policy response to mitigate the impact of the COVID-19 pandemic as well as the progress made towards macroeconomic adjustment and financial stability. Notwithstanding these efforts, the economic outlook for the region remains highly uncertain and vulnerable to downside risks on both internal and external fronts. While the pandemic is currently broadly under control, the sharp decline in oil prices has led to a deterioration in fiscal and external balances, adding further pressure to international reserves and pre-existing debt sustainability challenges. To achieve the program objectives and promote sustainable and inclusive growth, steadfast reform efforts are needed to address ongoing macroeconomic challenges and enhance governance and transparency. We broadly agree with staff's appraisal and would limit our comments to the following for emphasis.

We welcome the plans of CEMAC country authorities to resume fiscal consolidation to bring public debt down to a sustainable path once the pandemic abates. This will be crucial to help rebuild fiscal and reserve buffers and set public debt on a downward trajectory going forward. Given the heightened risks and uncertainty being caused by the pandemic, we concur with staff that the CEMAC member countries should advance regional strategy objectives and develop a harmonized regional approach to improve revenue administration and public financial management. In line with this, continued efforts to enhance fiscal consolidation by increasing non-oil domestic revenue, maximizing oil revenue and prioritizing social spending and public investment will be equally important. On debt sustainability, we join staff and encourage regional authorities to accelerate implementation of government arrears repayment plans to help promote financial stability and private sector development. We note that the report highlights there is no information available on plans for acquiring or distributing vaccines. *We welcome the views on staff on how the purchase and distribution of a vaccine could affect the near-term fiscal position of CEMAC countries. Further, we welcome views on the fiscal challenges that could arise given the significant divergence in economic projections across CEMAC countries. We would also welcome any comments that staff have concerning labor market conditions across CEMAC countries.*

The BEAC's monetary policy stance remains appropriate despite low foreign reserves and COVID-19 related uncertainties. We take positive note of the measures taken by the BEAC to inject liquidity to the banking system and to cushion the banking sector from the impact of the pandemic. Nonetheless, the BEAC should to continue to strike the right balance between preserving internal and external stability, standing ready to tighten monetary policy in the event that the foreign reserves position deteriorates further. Moreover, accelerating the operationalization process of the Treasury single accounts (TSAs) will also be crucial to strengthen public financial management and transparency. Once conditions become more conducive, we encourage the BEAC to return to its liquidity absorption operations plan and to continue to refrain from extending direct monetary financing to its member states.

To ensure the effectiveness of regulation, bringing the extractive sectors into compliance with FX regulation is warranted. We welcome the news of the BEAC's efforts to attract non-bank investors and that the primary government securities market has played a crucial role in absorbing the financing needs of national governments as the result of the pandemic. We also see merit in the BEAC's recently launched regional financial inclusion strategy and commitment towards its financial transparency strategy. Moving forward, the BEAC is encouraged to continue its dialogue with oil and mining companies to effectively ensure compliance with the FX regulations, while considering their specificities by end-2021 as recommended by staff.

Advancing on proactive banking supervision in the CEMAC region is warranted in light of worsening banking sector vulnerability. We welcome the measures and steps taken by the COBAC to secure financial stability and temporary easing of the prudential regulations. While we agree that COBAC's strategic plan, including risk-based prudential and AML/CFT supervision, and its Basel roadmap should resume once conditions permit, it is imperative for the COBAC to overcome the associated difficulties of the legacy of government arrears and the very high non-performing loans (NPLs). We welcome the intention of the COBAC to conduct various analyses to guide decisions on the exit strategy from the temporary prudential easing and encourage the COBAC to continue to strengthen its risk-based prudential and AML/CFT supervision and address its longstanding under-staffing issues and capacity gap. In addition, we support staff's recommendation to introduce disciplinary actions to strengthen the timely application of the bank resolution framework. These efforts will help mitigate financial sector vulnerabilities and promote financial stability for the post-pandemic recovery.

GRAY/21/33

January 8, 2021

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

We thank staff for its insightful report and Messrs. Andrianarivelo, N'Sonde and Nguema-Affane for their helpful Buff statement. We broadly share staff's appraisal and policy recommendations and welcome authorities' commitment, as expressed in the Buff, to recover a good implementation pace of the regional strategy as the crisis abates.

The COVID-19 crisis will have long-lasting effects on the region, especially due to the pandemic-related oil price shock. Despite the national and regional policy response, supported by significant emergency assistance from international institutions, the large dependency on commodity exports will hinder CEMAC's fiscal and external adjustments. Furthermore, uncertainty and risks to growth are clearly tilted to the downside, including from pandemic dynamics, security challenges and delays in the implementation of structural reforms.

It is critical to strengthen engagement with the Fund through new and ongoing UCT programs. We encourage authorities to continue working in close collaboration with the IMF and other IFIs to advance a comprehensive and ambitious reform agenda with strong ownership and broad involvement of social groups. The implementation of the policy assurance contained in the follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries will be critical for program success. The catalytic role of Fund's support will be essential to cover the growing external financing needs of the region.

Accordingly, national and regional authorities must reinforce their long-term agenda though a full implementation of the second phase of the regional strategy. During the first phase of the regional strategy good progress was achieved in several areas, although economic diversification continues to lag and poverty and living standards remain high.

Going forward, the focus should be on private-growth-friendly measures to achieve a more diversified and inclusive development. It is especially worrisome the lack of progress in governance and business climate reforms, which seriously damages investors' sentiment and hinders potential growth. Deep institutional reforms are instrumental to face main challenges in the region, such as expanding the revenue base, improving public spending structure and management, increasing fiscal transparency, ensuring monetary stability and enhancing banking sector health. As rightly pointed out by staff, new and ongoing programs should prioritize reforms in all these areas, along with tackling the rising debt vulnerabilities and the high levels of domestic payment arrears and NPLs.

Fiscal consolidation efforts should be adapted to the new post-pandemic environment, while ensuring fiscal sustainability and helping external adjustment. We note the deterioration of the fiscal balance in 2020 compared to pre-crisis targets and welcome the projected consolidation efforts afterwards. Non-oil revenue mobilization is an even more pressing issue—in the context of cloudy oil price prospects—to ensure debt sustainability and protect inclusive policies. Additionally, reviewing spending priorities and implementing reforms to enhance spending control and management are instrumental to create fiscal space for targeted investments in social, education, health, environmental and infrastructure projects. We also encourage authorities to implement well-managed repayment plans for government arrears, which will ease the additional liquidity pressures on firms and banks due to the COVID-19 crisis.

On monetary policy, the current accommodative stance seems appropriate given the pandemic-related uncertainties. Liquidity injections have prevented a tightening of financial conditions and help banks and businesses to weather liquidity shortages and support credit flows. Once the crisis is over, we share staff's advice to progressively resume liquidity absorption operations and target a neutral liquidity stance. Furthermore, we strongly encourage BEAC to avoid mechanisms equivalent to government monetary financing and to fully operationalize the management of treasury single accounts.

Efforts to ensure a credible and effective implementation of the foreign exchange regulation are warranted. This strategy, along with an appropriate medium-term policy mix, should help rebuilding reserve buffers in the medium term. Nonetheless, we still have the view that a certain degree of exchange rate flexibility could serve as a buffer and contribute to facilitate economic adjustments and policy management.

On the financial front, big challenges remain on the development of domestic financial markets and on improving the health of the banking system. Domestic sovereign debt markets play a key role in covering public financing needs, but the investors base is too narrow and concentrated in the banking system, which exacerbates the bank-sovereign doom loop. We support BEAC's efforts to expand the investors base and attract institutional investors. *We kindly ask staff to provide some input on how this strategy could be reinforced* *at a regional level.* Regarding the banking system, we share staff's view that COBAC should continue to strengthen its risk-based prudential and AML/CFT supervision. We are worried about further deterioration of banks' assets during the pandemic and banks' capacity to manage the large stock of NPLs. Additionally, we note that banks' regulatory compliance is weak and the resolution framework fragile. Therefore, we encourage the authorities to request banks to release realistic strategies to reduce NPLs as soon as possible. We also concur with staff's recommendations to effectively apply the existing framework to problematic banks and modernize the framework at an appropriate pace.

The credibility of the regional surveillance framework must be preserved. Due to the pandemic, most countries are expected to breach some convergence criteria. Authorities should strongly commit to the framework with the design and implementation of credible COVID-calibrated national plans. We urge the authorities to upgrade the framework with the introduction of early warning systems and to explore mechanisms to enforce compliance.

As capacity constraints hinder progress in the structural reform agenda, the IMF should continue its engagement with CEMAC countries at the regional and national levels on capacity development. In program countries, aligning capacity development efforts with program objectives will help a successful program implementation.

GRAY/21/35

January 8, 2021

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

We thank staff for their work on CEMAC member country programs and this report as well as Mr. Adrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their helpful Buff statement. The First Phase of the CEMAC Regional Strategy resulted in improvements in the regional financial position, and the IMF's engagement has helped to avert a deeper crisis. However, we are concerned that lower medium-term oil prices will exacerbate the already-deteriorated fiscal and external outlook for CEMAC member countries. Non-oil growth continues to lag, necessitating the need for urgent reforms that will enhance macroeconomic governance and safeguard the region's recovery. **Looking ahead, the next phase of the Regional Strategy should be backed by a strong political commitment for reform from the CEMAC regional and national authorities.** These reform commitments will help underpin the next round of upper-credit tranche programs.

We note that staff assess BEAC and COBAC were unable to fully implement the policy assurance for regional net foreign assets (NFA), and the pandemic has disrupted the pace of other reform commitments. **We therefore urge regional institutions to follow through on the updated policy assurance on NFA accumulation to allow the continuation of or approval of new Fund programs.**

Regional issues and structural reforms. The region will face large external financing gaps due to lower medium-term oil prices, underscoring the urgent need for structural reforms at both the regional and national levels. CEMAC member countries share many vulnerabilities, including a lack of diversification from oil, rising debt, and longstanding governance challenges. We therefore see a need for greater harmonization and coordination on some of these issues across individual IMF programs. *To this end, do staff envisage engaging with the BEAC and national authorities at a higher political level on large external financing gaps and rising debt vulnerabilities? Has staff reinforced with regional institutions the need for a common approach?* We take note of national and regional authorities' request for more borrowing space at the CEMAC tripartite meeting in July. In light of existing weaknesses in public investment management in the region, we encourage the authorities to couple their requests with a strong commitment to implement public financial management reforms.

Foreign exchange regulations. We welcome the authorities' continued commitment to contain the decline in international reserves despite the severity of the COVID-19 shock. The authorities should continue to focus on raising regional NFA to maintain adequate support for the monetary union. To this end, we urge the BEAC to enhance its communication with the extractive industries to help ensure that its foreign exchange regulations can be fully implemented by end-2021. More broadly, we encourage continued improvements in the BEAC's communication and implementation procedures to mitigate adverse business climate impacts for the region, as investment flows will be important to mitigate persistent current account deficits. *Do staff have an assessment of how much foreign exchange extractive industries would contribute to reserves if required to comply with the repatriation requirements, and whether this would enable the BEAC to meet its reserve target, assuming oil prices recover to $45/bbl? We would also welcome staff's clarification on whether public entities abroad have also complied with these repatriation requirements.*

Financial sector. Financial sector development, reform, and supervision are macro-critical given the region's goal of economic diversification. The CEMAC regional institutions undertook an appropriate response to the COVID-19 pandemic, including through the BEAC's liquidity support for local banks. However, given the excess liquidity in the interbank market, we encourage the BEAC to lay out benchmarks for when tighter monetary policy will be introduced. We are concerned by the delays in implementation of COBAC's strategic plan and note that key financial sector indicators, including banks' non-performing loans (NPLs) ratios, are deteriorating. The financial sector remains overexposed to sovereign borrowers and state-owned enterprises (SOEs), and COBAC faces longstanding institutional capacity constraints to oversee restructurings, liquidations, and take disciplinary actions. We concur with staff's recommendation to implement a privatization strategy to reduce state involvement in the banking sector. However, we encourage the Fund to work with the authorities to identify what staffing and other resources might be needed to carry out this strategy, with targeted capacity development support as needed. Finally, we encourage COBAC to consult with the Task Force for Money Laundering in Central Africa (GABAC) to strengthen its risk-based AML/CFT standards.

We wish the regional and national authorities well in their reform efforts.

GRAY/21/36

January 8, 2021

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

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

The CEMAC region is at a pivotal moment as it embarks on the second phase of the regional strategy (SPRS). The first phase of the regional strategy, which was completed in mid-2020, enabled the region to avoid a crisis and contributed to regional macroeconomic stabilization. The regional institutions, BEAC and COBAC, have made noteworthy progress in implementing required policies and reforms. Nevertheless, the COVID-19 crisis has set back some of the hard-won stabilization achievements and significant challenges remain, which call for further progress in pursuing reforms at both the national and regional levels. We echo staff's view that the SPRS should urgently focus on facilitating economic diversification, strengthening governance and transparency, and improving the business climate to lay the foundations for strong, inclusive, and sustainable growth.

Gradual fiscal consolidation should begin once the crisis abates, to put debt on a firmly declining path and reduce vulnerabilities to oil price fluctuations. Going forward, fiscal policy adjustment should rely more heavily on non-oil revenue enhancing measures to strike an appropriate balance between revenue mobilization and expenditure optimization. This will help create additional fiscal space to finance priority social spending and growth-friendly investments. Furthermore, fiscal consolidation should be complemented by a consistent plan to repay government arrears that continue to weigh on economic activity and financial stability.

BEAC has appropriately maintained an accommodative monetary policy stance in the wake of the pandemic. While liquidity management measures have prevented a sharp tightening of financial conditions, we take note of staff's view that the banking system remains over-liquid overall, limiting the effectiveness of monetary policy transmission. Once the recovery is firmly entrenched, BEAC should resume liquidity absorption operations to address structural excess liquidity and stimulate the interbank market. We welcome BEAC's resolve to avoid extending direct monetary financing to member countries as such actions would have significant implications for its financial autonomy as well as its credibility to implement independent monetary policy.

Further progress is needed to strengthen the banking sector. Once the economic recovery takes hold, COBAC should resume the implementation of its strategic plan, including risk-based supervision of banks, AML/CFT supervision, and the Basel roadmap. The high level of non-performing loans (NPLs) remains a significant risk to financial stability and should be addressed on a priority basis.

Measures to promote sustained and more inclusive growth should be a key priority. Growth in the non-oil sector has been constrained by poor governance, difficult business environment, an under-developed financial sector, and barriers to regional trade. Regional institutions can play an important role in supporting CEMAC national authorities in their efforts to address these issues. We strongly encourage the effective implementation of CEMAC's public financial management regional directives, including the provisions on transparency and governance.

Finally, the credibility of the regional surveillance framework hinges on the national authorities adhering to the regional convergence criteria within a realistic timeframe. While we acknowledge that most member countries are expected to breach several convergence criteria as a result of COVID-19, we encourage them to undertake efforts to design and implement credible convergence plans. We are concerned that long-standing budget constraints and understaffing at BEAC and COBAC are constraining the capacity of these institutions to effectively fulfill their mandates. These issues need to be addressed in a timely manner. *What specific advice does staff have for the regional institutions to address these issues, including the role of capacity development efforts by the IMF and the World Bank?*

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GRAY/21/39

January 8, 2021

Statement by Mr. Pösö and Mr. Damgaard 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 their informative Buff statement. We welcome the national authorities' efforts to contain the spread of the virus but take note of the pandemic's adverse impact on economic growth and the external position, particularly due to the drop in oil prices. In this sense, the pandemic has exacerbated existing vulnerabilities and shown the need to continue the reform efforts to increase economic diversification as well as improve governance and the business climate to achieve more sustainable and inclusive growth. **We broadly concur with staff's appraisal and offer the following points for emphasis.**

We fully agree with staff and the regional institutions that fiscal consolidation efforts should be resumed once the crisis abates to ensure debt sustainability. Ambitious plans for enhanced revenue mobilization with a special emphasis on increasing non-oil revenues should be a key priority. Moreover, we urge the authorities of the CEMAC countries to speed up the implementation of their plans for arrears clearance. We also encourage the national authorities to develop fiscal contingency plans to be prepared if downside risks materialize.

We welcome the BEAC's accommodative monetary policy stance given the severe economic impact of the pandemic. The long-term liquidity injections have supported credit supply to the private sector but should be phased out gradually. In addition, we welcome the BEAC's decision to refrain from direct monetary financing to preserve its independence. We also support the plans to develop the financial markets and increase financial transparency. We note that only Cameroon and Chad have a national strategy for financial inclusion and encourage the BEAC, and all national CEMAC authorities, to prioritize the development of a regional strategy.

While we recognize the need for temporary prudential easing during the pandemic, we underscore the need for close risk monitoring and a carefully planned exit strategy. We welcome the increased reporting requirements during the ongoing crisis but stress the importance of achieving full compliance. Moreover, we support COBAC's decision to prevent all banks from distributing any dividends in 2020 and 2021, which will help safeguard the banks' capital base. The development of NPLs should be monitored closely, and we encourage COBAC to request an update of banks' NPL reduction strategies. We regret to see that only 19 of 51 banks comply with all prudential capital requirements and urge COBAC to apply the resolution framework in a timely fashion and explore ways to strengthen it. We also stress the importance of conducting AML/CFT inspections, potentially in a virtual format if the pandemic does not allow for physical on-site visits.

National authorities must develop and implement credible plans to adhere to the regional convergence criteria. These plans should be fully consistent with adjusted as well as new Fund programs. We also encourage the CEMAC Commission to push ahead with the work to create an appropriate sanction mechanism for breaches of surveillance rules. In addition, we agree with staff that the Commission should monitor the effective use of pandemic spending and promote budget transparency to ensure that funds are used for the intended purposes.

We support the conclusions of the joint IMF/World Bank staff analysis on ways to enhance inclusive growth and encourage the authorities to implement the proposals as part of the CEMAC Economic and Financial Reform Plan. Improvements in public financial management, governance, and the business climate will be vital to boost potential growth and should also be pillars of Fund programs in the CEMAC countries.

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January 8, 2021

Joint Statement by Mr. De Lannoy, Mr. Massourakis, Ms. Quaglierini, Mr. Manchev, and Ms. Mateus on Central African Economic and Monetary Community (Preliminary)
Executive Board Meeting
January 12, 2021

We thank staff for the focused report and Messrs. Andrianarivelo, N'Sonde and Nguema-Affane for their informative Buff statement. While the CEMAC authorities had made some progress in improving macroeconomic balances and financial stability during the first phase of the regional reform strategy, the BEAC and COBAC advances in implementing policy commitments provided in the December 2019 Follow-up to the Letter of Support to the Recovery and Reform Programs undertaken by the CEMAC Member Countries was somewhat slower than expected, because of the COVID-19 pandemic. The oil price drop associated with the global slowdown triggered by the pandemic also led to a significant deterioration of fiscal and external balances of the member states, thus putting additional pressure on policy targets, increasing the financing gaps, and complicating debt sustainability challenges. We broadly share the thrust of the staff appraisal and recommendations and encourage the authorities to implement an ambitious second phase of the regional reform strategy with continuous support of the Fund, to mitigate growing risks to the regional outlook. We highlight the importance of enhancing the business climate and providing an economic environment which is conducive to attracting foreign investments and spurring economic prospects.

The adequate policy response from national and regional authorities to the pandemic, supported by the timely emergency Fund financing, helped mitigate the initial economic fallout. We agree with staff that the pandemic seems to be broadly under control in the region, which provides a window of opportunity for the authorities to speedily progress with the plans for acquiring or distributing vaccines, and implementing the second phase of the regional strategy to lay the basis for a diversified, inclusive, and sustainable growth.

Continuous Fund engagement would be critical at the current juncture to help the authorities rebuild fiscal and external buffers and prioritize the key reforms. In line with the staff recommendations, the regional institutions should continue efforts to ensure macro-economic, external, and financial stability, through appropriate common policies, and strengthening surveillance and credibility of the regional surveillance framework. However, corrective measures in response to adverse developments under the control of national authorities are also warranted.

Common Monetary and Foreign Exchange Policies

Despite greater government financing needs, BEAC should refrain from extending direct monetary financing to its member states and continue efforts to develop regional financial markets. The national authorities, BEAC and COBAC should also strengthen cooperation on implementing the foreign exchange (FX) regulation. We welcome the renewed authorities' consultations with extractive companies on implementation of the common FX regulations in the sector and encourage the counterparties to find a viable solution that could avoid any possible adverse impact of these regulations on foreign investment decisions in the region, particularly in the oil sector, which would be highly detrimental to economic growth and potential output.

Fiscal discipline, regional surveillance and sustainable development

We are encouraged that the CEMAC tripartite high-level meeting in July reiterated support to the regional strategy as a comprehensive policy response to the new emerging challenges. The fiscal consolidation efforts at all levels should resume once the pandemic abates to bring debts back to a sustainable path, support the regional external position, and reduce vulnerabilities to oil price swings. We agree with staff that future program discussions with the national authorities hinge on setting reasonable consolidation targets to broaden and expand the fiscal revenue base and rationalize current expenditure, to create space for well-targeted priority social spending and other growth-enhancing investments. These objectives should be further assessed and clarified at the tripartite meetings on a regular basis. The authorities should also accelerate implementation of their arrears clearance plans to relieve the private and banking sectors.

CEMAC needs to further strengthen and enhance implementation of the multilateral surveillance framework. We especially encourage implementation of the key public finance management directives, given that the continued fiscal consolidation remains critical for rebuilding buffers and ensuring fiscal sustainability. In the Fund-supported programs, staff and the authorities should proactively address the transparency and governance issues at both the regional and national level. Implementation of the early warning system should not be further postponed. We encourage the CEMAC Council of Ministers to soon adopt the early warning tool of macroeconomic imbalances, which is key to detecting the signs of potential breaches of the convergence criteria by the member states, and to facilitating further work on developing appropriate corrective measures.

Financial stability

We welcome the temporary easing of the prudential framework in response to the pandemic and encourage COBAC to soon prepare a credible exit strategy. We also noted the first successful intervention by the deposit insurance fund. However, the CEMAC financial stability framework and implementation need to be further strengthened and we encourage the authorities to continue improving the regulatory frameworks and ensuring closer supervisory practices, also in virtual formats. Banks' compliance with prudential standards remains low, which makes proper use and implementation of the banking resolution framework even more important. Implementation of a modern risk-based supervision by the COBAC was delayed, which poses additional challenges to monitoring and maintaining financial stability. Streamlining the information-sharing and coordination between COBAC and BEAC will be critical to addressing the current excess liquidity of the banking system and enhancing compliance with the new FX and AML/CFT regulations. Lack of timely and reliable information on NPLs is worrisome, and delays in the repayment of domestic arrears by national governments prevented the expected improvement in NPLs. We encourage the authorities to devise a strategy for the rise in NPLs. Going forward, we believe that an ex-post evaluation of the temporary easing measures and overall implementation of the CEMAC financial stability framework would be helpful. *Staff comments are welcome.*

GRAY/21/43

January 8, 2021

Statement by Mr. Bevilaqua, Mr. Velloso, and Ms. Florestal 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 statement.

While the pandemic seems to be under control in the CEMAC member countries, the region must still confront its lingering economic and social impact. Member countries have registered a sharp deterioration in macroeconomic variables in 2020, including a real GDP contraction and higher fiscal and external deficits. Also, the region's economic outlook remains uncertain, with downside risks prevailing as international oil prices are projected to remain subdued and security challenges are expected to persist in at least three member countries.

A strong private sector will be crucial for the economic recovery and achieving diversified, sustainable and inclusive growth over the medium term. Improving the business climate and governance, particularly in the management of the oil sector, is more important than ever. Having said this, the progress in implementing CEMAC's Economic and Financial Reform Plan (PREF), especially in strengthening transparency in public financial management, is encouraging. Also, the installation of the Treasury Single Account platform, acceleration of the modernization of the credit registry and inauguration of the credit bureau are positive steps. In addition, we commend BEAC for launching the regional financial inclusion strategy, as SMEs are expected to play an important role in achieving inclusive growth going forward. The ongoing efforts to develop a market base for government securities will be helpful to close fiscal financing gaps while protecting the access of private firms to domestic credit markets.

It will be important for member countries to strictly adhere to CEMAC agreements in order to achieve their regional objectives. This is particularly relevant regarding bank resolution as well as oil and mining companies' forex surrender requirements in order to meet NFA targets. That said, we commend BEAC's implementation of key safeguards assessment's recommendations and COBAC's efforts to improve its technical capacity to carry out its supervisory duties. We concur with staff that fiscal consolidation should be gradual given the need to support the recovery and the uncertain outlook.

The authorities should continue to monitor closely financial sector developments. The temporary easing of prudential norms was rightly complemented by COBAC's closer monitoring of banks' liquidity and profitability indicators. It is reassuring that banks' compliance with requirements for minimum solvency, individual exposure and short-term liquidity have not deteriorated during the pandemic. However, the maintenance of the status-quo implies that fifteen banks representing no less than one-quarter of CEMAC banking system's assets continue to register solvency ratios below norms. Ongoing liquidations and restructurings by COBAC are steps in the right direction and should be accelerated. Also, concentration of credit continues to be a significant risk for the banking system, which already posted high NPLs before the pandemic. Hence, COBAC's intention to push ahead with early implementation of the new regulation on concentration limits seems reasonable.

The supportive measures adopted by BEAC and COBAC will need to be phased out gradually and carefully as the pandemic abates. Both institutions will have to walk a fine line to avoid providing support for too long or withdrawing support too early. Liquidity management will be particularly challenging given the risks posed by sovereign debt rollover and that the banking system is structurally too liquid and the interbank market is segmented. While BEAC has refrained from providing direct financing to governments, it has launched a long-maturity liquidity operation, put together a securities purchase program and made available a credit line for member countries through the region's development Bank, BDEAC. *We wonder why no member country except Gabon has taken advantage of the securities purchase program and why the credit line to BDEAC has so far remained unused. Staff's comments would be appreciated.*

With these remarks we wish success to the CEMAC authorities in their reform efforts.

GRAY/21/44

January 8, 2021

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

We thank staff for the informative reports and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their helpful Buff statement. We broadly agree with the thrust of staff's appraisal and would like to limit our comments to the following for emphasis.

The pandemic and associated decline in oil prices are expected to have a long-lasting impact on the economic outlook of the CEMAC region. Thanks to the authorities' decisive actions, the pandemic itself seems to be broadly under control. However, the economic impact could last longer. The GDP growth is projected at -3 percent in 2020 and would gradually recover henceforth. The pace of fiscal consolidation and foreign reserve accumulation would also have to be slower than previously envisaged. While a downside scenario analysis would be helpful for contingency planning, the oil price assumption of $35 per barrel in 2021 might be a little bit too pessimistic. Given the region's high reliance on oil-related activities, the economic outlook and debt sustainability is highly sensitive to oil price fluctuation. In this regard, we encourage staff to update their scenario analysis based on the developments in international oil market in a timely manner. We take note that two countries in this region still do not receive emergency financing from the Fund. We encourage staff to work closely with the authorities to resolve the outstanding issues and bring their requests to the Board in a timely manner.

Fiscal consolidation should resume after the crisis and focus more on non-oil revenue mobilization. We regret to see that the fiscal adjustment during the first round of Fund-supported programs is mainly achieved by cutting spending, in particular capital expenditure. We agree with staff that as the crisis abates, more should be done to raise non-oil revenues, including by improving revenue administration and broadening the tax base. To this end, more concrete measures should be deployed to stimulate the development of non-oil sectors. We encourage staff to incorporate this in successive programs design. In the meantime, more efforts are needed to improve the governance of oil revenues and the efficiency of expenditure. We look forward to more technical assistance from the Fund in these areas if necessary. The large amount of domestic arrears is a key obstacle for private sector development and a major source of financial stability risks. The authorities are encouraged to accelerate the audit and clearance of the arrears.

Monetary policy has struck a delicate balance between supporting economic recovery and accumulating foreign reserves. We take note that achieving an adequate level of reserves covering 5 months of imports would be delayed from 2022 to 2025. Bringing oil and mining companies in compliance with the foreign exchange repatriation regulations would help to prevent regulatory arbitrage and accumulate foreign reserves. We encourage the authorities to complete this process with no further delay. Given the robust growth in broad money and continuous decline in credit to the private sector, which is one of our concerns, we agree with staff that the banking sector remains to be over-liquid. While the liquidity injection should be gradually shifted to liquidity absorption, more should be done to address the anemic credits to the private sector. Limiting banks' borrowing to sovereign, so as to avoid crowding out credits to the private sector, is a step in the right direction. In this regard, we find the Annex III of updates on the sovereign-banks nexus very helpful. The authorities are encouraged to follow staff's policy recommendations.

The mixed picture of the financial sector warrants closer monitoring and swift actions. We take positive note of the progress made in developing the financial markets. The regional local currency bond market has provided important financing support to national authorities during the pandemic. However, the secondary market remains under-developed and the non-bank investors are still nascent. We encourage the authorities to continue their efforts to develop the financial market infrastructure, including the well-functioning credit bureau and robust information disclosure rules. With more than half of banks not in compliance with prudential ratios, the banking sector is a source of concern. Like staff, we encourage the COBAC to strengthen the risk-based prudential supervision and apply the bank resolution framework in a timely manner. As the temporary easing of prudential requirements comes to an end in the future, the already elevated non-performing loans (NPLs) is expected to rise further. A comprehensive NPLs clearance strategy should be in place in that case.

Finally, we welcome the progress made by the CEMAC commission in strengthening the regional surveillance framework and encourage the authorities to closely coordinate with the Fund in this area.

GRAY/21/46

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.

GRAY/21/48

January 8, 2021

Joint Statement by Mr. Buissé, Mr. Ronicle, Mr. Rozan, Ms. Campbell, and Mr. Comolet on Central African Economic and Monetary Community (Preliminary) Executive Board Meeting January 12, 2021

We thank staff for a comprehensive and well written report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for the insightful Buff statement.

We welcome staff's timely report which gives an excellent overview of the regional challenges in the wake of the 2020 crisis and the end of the first generation of reforms launched at the CEMAC's Heads of State Summit of December 2016. This exercise provides a very useful policy anchor to support regional stability. We generally commend the regional authorities' policy response to mitigate the immediate economic impact of the COVID-19 pandemic, though the impact of the crisis, in particular through the drop in oil prices, has had a negative impact on key macroeconomic targets, and in particular deficits and reserves. Indeed, the region remains vulnerable to external shocks, and we very much thank staff for its useful annex on a downside scenario and contingent policies. We also commend the Fund for its swift and sizeable financing support to some of the CEMAC countries in the midst of the pandemic induced economic turmoil, though we regret that some have not come through yet.

The second phase of regional strategy will be critical in supporting regional stability and national shared prosperity agendas, as risks and security issues remain high. Indeed, beyond macroeconomic stabilization and coping with the legacies of the crisis, there is a need to transform the growth model of the CEMAC regions to enhance its resilience. In this regard, we welcome the main conclusions of the analysis on current obstacles and ways to enhance inclusive growth, jointly prepared with World Bank staff. We agree that governance and anti-corruptions reforms and non-oil growth performance are critical, and that an understanding of obstacles to these reforms is vital. Continuing to enhance the business environment is key and should be promoted in the new generation of programs; the region urgently needs to diversify away from its dependence on oil, both given the context of weak oil prices and the uncertain future of the oil sector as the world seeks to address climate change. The improvement of public financial management, and SOEs through audits, is an area of particular relevance for future engagement. *Could staff elaborate on the process to* *make progress on key reforms identified in the joint analysis, including through the planned Heads of State Summit?*

Strong engagement between CEMAC countries and the IMF, through programs, is key to sustain and implement the regional strategy. We therefore strongly support the efforts made by staff in pursuing IMF arrangements in all CEMAC countries, in the lead up to successor programs in Chad, Gabon and Cameroon and the continuation of the arrangements in Central African Republic as well as Republic of Congo and Equatorial Guinea. We remain supportive of the Fund's constructive engagement with all countries in the region while ensuring good coordination with and among other bilateral and multilateral partners. Given the challenges facing these countries, adequate flexibility should be implemented by staff to ensure that this context is taken into consideration in program design and implementation. Finally, Fund programs play a catalytic role and are important to gather donor support for the CEMAC countries. Strong coordination with the World Bank will be essential in this regard.

Regarding the fiscal consolidation path, we agree with staff that in light of the social and poverty situation, it has to be gradual, entailing large external financing needs (around €6.6 billion for 2021–23), with the overall fiscal deficit at -3.8 percent of GDP (excluding grants) in 2020 on average. Several of the convergence criteria were breached this year with 5 countries missing the fiscal convergence criterion, and several expected to miss the arrears clearance criterion. We therefore support fiscal consolidation efforts, to reduce the overall deficit to -3.4 percent in 2021. This should include improving the quality of public spending and domestic resource mobilization, as rightly pointed out by staff. This will be critical to continue to rebuild international reserves. Accelerating the implementation of the authorities' arrears clearance plans is also very important for the clean-up both for fiscal and financial accounts. Public debt rose to close to 52 percent of GDP, with very challenging debt issues in some countries. This requires, in some countries, debt renegotiations with both private and public creditors, and we hope that negotiations can be concluded as quickly as possible to ensure debt sustainability and trigger Fund support. Where needed, the Common Framework should be applied. *Could staff elaborate on its debt sustainability analysis with regards to an ambitious development plan needing large financing in the region?*

We welcome the decisions of monetary policy taken by the BEAC in 2020 and support the elaboration of a strategy for the upcoming months regarding the evolution of external reserves, potential inflationary tensions and the risk for financial stability. We also concur with staff that BEAC should accelerate progress on the operationalization of the treasury single accounts (TSAs) and refrains frommonetary financing of government fiscal needs. **Moreover, we welcome efforts made in implementing foreign exchange regulation,** and support close consultation and dialogue, in particular with the extractive sector, taking into account sectoral particularities. We note that staff deems the implementation of the FX surrender requirements satisfactory, though the enforcement of the FX repatriation is difficult to assess. A pragmatic implementation should enable good regulation of capital flows and support reserve accumulation, while ensuring that sizable investment projects are implemented smoothly.

We support staff recommendations to COBAC and BEAC regarding the strengthening of the banking sector, i**n particular the resolution and liquidation framework's implementation.** It is important to have a good picture of NPL levels and of the impact of COBAC's recent prudential measures to enable proper functioning of financial actors and regulations. Also, national AML-CFT frameworks, tools and resources need to be broadened and strengthened, and at the regional level, the GABAC should be supported. We also welcome the BEAC's efforts to stimulate the development of financial markets.

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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.

GRAY/21/50

January 8, 2021

Statement by Mr. Mohieldin, Mr. Al-Kohlany, and Ms. Al-Riffai on Central African Economic and Monetary Community
(Preliminary)
Executive Board Meeting
January 12, 2021

We thank staff for their reports and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their helpful statement. We welcome the effective regional response to the dual shock of the COVID-19 pandemic and the decline in oil prices. CEMAC member authorities, with the support of the CEMAC regional institutions, managed to contain the recession in 2020 to 3 percent, despite the lockdown measures, health impact, and the drop in oil revenue due to the weakened oil prices. We are also pleased to note that Fund financing and program support to CEMAC member states helped in mitigating the shocks' immediate economic impact. Nonetheless, the challenges facing the region have been exacerbated requiring continued collective efforts to safeguard debt sustainability, the external position, and achieve more diversified and inclusive growth.

The efforts of the regional monetary authority (BEAC) and the banking supervision authority (COBAC) need to be complemented by the full implementation of policy commitments by CEMAC member states in line with their commitments under the Economic and Financial Reform Program and the respective Fund arrangements. We note staff assumptions for three new Fund programs, with Cameroon, Chad, and Congo, to replace the programs expired in 2020. *Could staff provide additional details on the planned focus areas of the programs?* We encourage staff and authorities to ensure synergy of objectives with the planned second phase of the regional strategy, prioritizing economic recovery over the short term, and supporting diversified and sustainable growth while rebuilding fiscal and external buffers in the medium term.

On monetary policy, we agree with BEAC's accommodative policy stance that provided liquidity support to the banking system during the crisis, in a context of subdued economic and credit growth and low inflation. BEAC should monitor the buildup of structural excess liquidity and stimulate the interbank market which would assist with sterilization and monetary transmission. Vigilant and data-driven monetary policy should be maintained, and the BEAC should stand ready to adjust monetary conditions as needed.

On financial policy, steps were taken by COBAC to ease prudential regulations may be warranted by the crisis, however, we encourage the authorities to shorten the forbearance period in order to contain banking sector risks. We share staff concern that 15 out of 51 banks are assessed to have a solvency ratio below the current regulatory minimum, and that non-performing loans (NPLs) levels further increased in 2020 to 21 percent. It is important to gradually resume banks' full compliance with prudential standards, with a focus on strengthening bank solvency, applying the bank resolution framework, and reducing NPL levels. We support COBAC's plans to expand the ongoing stress testing exercise to cover the whole banking sector which should provide important guidance an estimate banks' solvency based on the permanent regulatory framework and evaluate the impact of the crisis on the banking system. We welcome efforts to limit a further increase of the sovereign-banks nexus especially since exposure may increase as a result of the crisis and the larger government financing needs. *Could staff comment if there are plans to conduct Financial System Stability Assessment for the CEMAC's financial system?*

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GRAY/21/52

January 8, 2021

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.*

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GRAY/21/53

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.

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GRAY/21/59

January 8, 2021

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

We welcome the broadly sound response of CEMAC and national authorities to the pandemic. This said, COVID-19 is expected to have a long-lasting impact on the economic and financial situation in the region. Above all, debt vulnerabilities remain a concern and will need to be addressed decisively, including in the context of the CEMAC countries' engagement with the Fund. Going forward, Fund programs will need to focus on building sustainable fiscal and external positions, while expanding the non-oil fiscal base. Once crisis abates, fiscal consolidation efforts will be essential to bring debt back to a sustainable path and support the regional external position. In this context, strengthened budget frameworks and transparency remain essential to promote regional convergence, while reform bottlenecks would need to be addressed within a coordinated strategy based on strong commitment at the highest policy making level.

The CEMAC countries should remain fully committed to the second phase of the regional strategy. The performance of the first phase of the regional strategy was mixed. Progress towards diversification away from oil, which would be critical to prepare union members for the projected decline in oil production over the medium term, was limited. We thus encourage the CEMAC countries to set solid premises for a productive and competitive non-oil sector, including through structural reforms and effective public investment. At the same time, it will be important to ensure that growth is more broad-based through adequate levels of social spending.

We urge further progress on strengthening COBAC's powers to enhance compliance with prudential standards and ensure swifter bank resolutions. We welcome COBAC's guidance for the exit strategy from the temporary prudential easing measures. Nonetheless, more decisive action is needed to enhance COBAC's capacity to enforce prudential standards, upgrade the regulatory and supervisory frameworks in line with international standards, and strengthen oversight on AML/CFT issues. We regret the lack of progress on strengthening the resolution framework by constraining the power of national authorities to unduly delay COBAC's resolution decisions, notwithstanding the fact that this is a longstanding issue. *Could staff elaborate on how progress in this regard could be incentivized?*

The full implementation and enforcement of the new foreign exchange regulation by end-2021 will be important. This includes both advancing negotiations with the oil and mining sector on the methodology to calculate the FX repatriations and tackling FX held abroad by state-owned entities.

We encourage further efforts towards strengthening the regional surveillance framework, as improvements in governance and the business climate are key for attracting investment. In a crisis context, regional convergence remains challenging with most CEMAC countries expected to breach the fiscal convergence criterion. To entrench the credibility of the regional process, the CEMAC Commission would need to enhance enforcement power at the union level to ensure compliance and implementation of objectives. This would need to be based on well-designed and credible three-year national convergence plans, including the effective implementation of PFM directives, an early warning system, and a sanction scheme for non-compliant countries.

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GRAY/21/63

January 8, 2021

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

We thank staff for a comprehensive and clear staff report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane for their insightful Buff statement.

We commend the CEMAC countries and regional authorities for their effective policy response to keep the pandemic broadly under control and mitigate its economic and social impact, with significant emergency financing from the Fund. However, there is no room for complacency, as the outlook still looks uncertain and policy space has narrowed. Against this backdrop, we agree with the authorities' cautious approach to relaxing containment measures, and we encourage them to redouble efforts to rebuild fiscal and external buffers as the economy reopens.

The impact of the pandemic at the domestic and international levels has slowed down policy implementation in some areas. While we note progress in foreign exchange regulations and the implementation of a domestic arrears clearance strategy, public finance management policies and the implementation of the banking resolution strategy have been delayed. In addition, limited progress on regional convergence and improvements in governance and the business climate discourage potential investors from initiating or expanding activities in the region. We agree with staff that structural, transparency, and governance reforms should be implemented decisively, with proactive coordination of regional authorities to encourage adherence to policy commitments, while at the same time countries in the region reinforce health and social safety nets.

Fiscal deficits widened in the second half of the year, with underperformance observed in Cameroon, Congo, and Gabon. We encourage the authorities to closely monitor expenditure commitments to avoid further overruns, as revenue measures would be more difficult to adopt promptly in the current circumstances. Regarding financing, we note that staff and the authorities agreed on a temporary scheme for banks' purchases of regional securities up to 1.1 percent of regional GDP with indicative caps by country*. We wonder about the features of this temporary scheme given reported high banks' liquidity and still significant arrears. We would appreciate if staff could expand on the explanation of this scheme, including details on envisaged commitments, incentives, and requirements for banks during this six-month period.*

The impact of stagnant oil prices on fiscal revenues and the balance of payments is significant. In this regard, we are concerned that the external position of the CEMAC region is assessed by staff to be weaker than implied by fundamentals and desirable policies. **We encourage the authorities to take further steps to accelerate progress on foreign exchange repatriation**. However, even after corrective measures, significant additional financing equivalent to about 8½ percent of 2020 regional GDP would be needed in 2021-23, likely supported by Fund programs in an environment of significant downside risks. Against this backdrop, delays in agreeing on Fund programs could lead to a further deterioration of the outlook.

Structural reforms, in particular oriented towards growth diversification, to make the region's economy less dependent on oil revenue should be a key component of Fund programs and would help secure additional financing from other creditors. In this connection, we welcome the authorities' intention to accelerate the implementation of key structural reforms, as indicated by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane in their Buff statement, and we look forward to the planned high-level conference mentioned by staff, where the authorities will discuss a more ambitious structural reform program.

With these remarks, we wish the authorities success in their policy endeavors.

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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.

CEMAC

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/21/3—January 12, 2021

Staff's responses to technical and factual questions are below. Broader policy questions on prospects and objective of new programs, implications of delays in offering emergency financing to the Republic of Congo and Equatorial Guinea, and status of discussions with oil companies on the implementation of Forex regulations will be addressed in staff's oral intervention at the Board meeting.

Fiscal Policy

1. ***Considering that real GDP per capita will return to the pre-Pandemic level in several years, we would like to have more information on social safety nets and relief polices in member countries.***

   CEMAC members have each implemented relief measures for both households and businesses. While the measures vary from one country to the next, they encompass the following:

   - For households: food banks and food distribution programs; increase in existing allowances; increase in some pensions; payments of overdue benefits; and temporary suspension of electricity and water bills;

   - For businesses: tax and fees moratoria and deferred payments, accelerated repayment of government domestic arrears, state guarantees for loans for private sector companies and some specific sectoral support.

   Details of these measures are also available in the Policy Responses to COVID-19 on the IMF external website: COVID-19 Policy Response Tracker

2. ***We welcome the views of staff on how the purchase and distribution of a vaccine could affect the near-term fiscal position of CEMAC countries.***

   CEMAC countries preparation for the purchase and distribution of a vaccine are still in preliminary stage in most countries and have not been finalized yet. The near-term impact on the fiscal position would of course depend on how the vaccines are financed. Several options for the choice of vaccine and related financing are still being studied in most countries, and there is no firm estimate of the cost yet. Recently approved budgets usually have a "COVID 19 expenditure" line without details for vaccines specifically.

   CEMAC countries are coordinating with various UN agencies like the WHO and UNICEF as well as COVAX, a platform helping with the acquisition of vaccines by low-income countries coordinated by GAVI (Global Alliance for Vaccines and Immunization, founded in 2000 in Geneva). This has implications for the vaccination strategy, the choice and delivery of vaccines and their financing.

For example, in Congo, the World Bank is working with GAVI (Covax) to distribute vaccines under World Bank loan financing. The cost is about $12 million and is supposed to cover about 28 percent of the population. The government is also working on securing additional vaccines for a larger share of the population. Gabon intends to provide vaccines to the entire population, but the strategy and financing to that aim are still being discussed.

3. ***We would welcome views on the fiscal challenges that could arise given the significant divergence in economic projections across CEMAC countries. We would also welcome any comments that staff have concerning labor market conditions across CEMAC countries.***

Fiscal challenges are country specific and the magnitude of the necessary fiscal consolidation going forward will depend in particular on debt-to-GDP levels. Nonetheless, across the region, it will be crucial to increase non-oil fiscal revenue in order to finance investment and enhance social spending without jeopardizing debt sustainability. The management and effectiveness of public spending will also need to improve to deliver faster results with fewer public resources, and spending will need to be prioritized.

These challenges would become even more acute in case oil prices would be lower than projected, as illustrated in the downside scenario assessment presented in Annex 2 of the staff report. In particular, countries would face larger fiscal deficits due to lower than projected fiscal oil revenue and to a lesser extent the spillover impact of lower oil prices on non-oil growth. This could lead to some postponement of domestic arrears repayments and a reduction in public investment, both of which would weigh on growth. Larger fiscal deficits would lead to additional financing needs, which could erode further fiscal and external buffers public debt vulnerabilities would significantly increase, possibly requiring broader and deeper debt restructuring operations.

Given the very large size of the informal sector, labor data in the CEMAC region are scarce and unreliable. Therefore, assessing labor market conditions across CEMAC countries remains challenging.

4. ***While we acknowledge that most member countries are expected to breach several convergence criteria as a result of COVID-19, we encourage them to undertake efforts to design and implement credible convergence plans. We are concerned that long-standing budget constraints and understaffing at BEAC and COBAC are constraining the capacity of these institutions to effectively fulfill their mandates. These issues need to be addressed in a timely manner. What specific advice does staff have for the regional institutions to address these issues, including the role of capacity development efforts by the IMF and the World Bank***?

Regional convergence criteria are monitored by the CEMAC commission, with the support of member countries. To better assist member countries with capacity building, a regional seminar was organized by AFRITAC Central and AFRISTAT in November 2019 for representatives of the commission and member countries on Macro-Fiscal analysis (including factors affecting revisions in projections, regional and international comparison, and role of Macro-Fiscal units). The monitoring capacity of the convergence criteria at the

CEMAC commission appears to be satisfactory. However, an adequate framework for the enforcement of sanctions to member countries in breach has remained difficult to implement.

External Sector

5. ***Do staff have an assessment of how much foreign exchange extractive industries would contribute to reserves if required to comply with the repatriation requirements, and whether this would enable the BEAC to meet its reserve target, assuming oil prices recover to $45/bbl? We would also welcome staff's clarification on whether public entities abroad have also complied with these repatriation requirements.***

In Staff's discussions with BEAC, BEAC indicated that because discussions with extractive sector companies on the implementation of the FX regulations are still ongoing, they have not yet been able to estimate the amounts that could be repatriated by extractive industries when these will comply with the FX regulations. BEAC envisages to be able to estimate these amounts by end-2021, when details about how the regulation will apply to these industries will be better known.

As for public entities, BEAC has indicated that based on available information, these entities now comply with FX regulations. According to BIS statistics, deposits of CEMAC's General Government with reporting banks stood at around US$ 330 million in June 2020. It is however unclear to which extent these liabilities may be linked to borrowing arrangements in place (such as escrow accounts).

6. ***Could staff elaborate on its debt sustainability analysis with regards to an ambitious development plan needing large financing in the region?***

Debt sustainability analysis is carried out on a country basis. At the regional level, Staff has emphasized that public investment needs will have to be balanced with debt sustainability requirements. To increase investment without jeopardizing debt sustainability, staff has emphasized that increasing non-oil fiscal revenue will be key. The management and effectiveness of public spending will also need to improve to deliver faster results with fewer public resources. CEMAC members in such circumstances should also seek to work with MDBs and other development partners—given their expertise in developing plans coupled with their capacity to provide grants and long-term, highly concessional financing. Program engagement with the Fund in the context of new or on-going IMF-supported programs with all CEMAC countries will need to prioritize these key reforms to support growth while aiming at rebuilding fiscal and external buffers. At the regional level, these issues are also expected to be discussed in the context of the Tripartite consultations with national and regional authorities.

Government Securities regional market

7. ***Domestic sovereign debt markets play a key role in covering public financing needs, but the investors base is too narrow and concentrated in the banking system, which exacerbates the bank-sovereign doom loop. We support BEAC's efforts to expand the investors base and attract institutional investors. We kindly ask staff to provide some input on how this strategy could be reinforced at a regional level.***

BEAC is continuing its efforts to diversify the investor base, as the breakdown of outstanding securities by type of holder confirms the still predominant share of banks. BEAC's efforts to reach out non-bank investors and to ensure that bank investors comply with their obligation as Primary Dealers to place securities with customers could start to bear fruit. The share of government securities held by banks declined slightly from 97.5% to 95% between April and September 2020, with the rest of the portfolio being held at 4% by other institutions and 1% by individuals. Staff encouraged BEAC to pursue its communication efforts towards non-bank investors and to strictly implement the safeguards which limit incentives for banks to hold government securities (including discounts government securities used as collateral for BEAC refinancing and non-zero risk weighting for prudential ratios).

8. ***CEMAC member countries share many vulnerabilities, including a lack of diversification from oil, rising debt, and longstanding governance challenges. We therefore see a need for greater harmonization and coordination on some of these issues across individual IMF programs. To this end, do staff envisage engaging with the BEAC and national authorities at a higher political level on large external financing gaps and rising debt vulnerabilities? Has staff reinforced with regional institutions the need for a common approach?***

Since the start of the regional strategy, there has been very strong efforts to coordinate national reform programs across the CEMAC, while taking country-specific issues into account. Regional economic issues have been discussed during tripartite meetings between the regional and national authorities and international partners. Monitoring of the regional convergence criteria by the CEMAC commission also ensures some coordination of national and regional policies towards common goals.

These coordination efforts will redouble within the same framework, with the second phase of the regional strategy, which is about to start, with Chad, Gabon and Cameroon having requested new programs. Large external financing gaps and rising external vulnerabilities will be crucial issues in the coming period, together with increasing non-oil revenue, and a decisive acceleration of structural, transparency and governance reforms. During the mission, staff agreed to the suggestion that preparation to convene a Heads of State Summit to allow for commitments at the highest levels on these priority reforms should begin as soon as possible.

The IMF is also assisting regional authorities and CEMAC countries in developing the regional debt market to help member countries cover their financing needs. In December 2019, an agreement was reached with the BEAC on a 3-year TA program to help further the development of the regional debt market. A first mission took place in March-April 2020 and helped the authorities to develop modalities and approaches to the use of domestic syndications, non-competitive bidding, reopening of issuance, and government securities buybacks and exchanges. These modalities were recently adopted by the BEAC, national Treasuries and primary dealers. Four professionals from the BEAC also received intensive training on the coordination model for issues of public securities in place in the West African Economic and Monetary Union. The AFRITAC Central Center also participated in the preparation of an action plan to deepen the regional public securities market and in the development of the mechanisms for the implementation of the new regulatory framework for the CEMAC public securities market

9. ***We wonder why no member country except Gabon has taken advantage of the securities purchase program and why the credit line to BDEAC has so far remained unused. Staff's comments would be appreciated.***

The program has thus far been accessed only by Gabon, but Cameroon and Congo have made formal requests to the BEAC as well. The take-up has been slow because CEMAC members were able to finance themselves relatively comfortably so far. In addition, eligibility to the program required assessing (i) the revised 2020 budgets, (ii) the revised issuance schedule for the fourth quarter of 2020, and (iii) the report on consultations with the primary dealers on the buyback program.

10. ***Regarding financing, we note that staff and the authorities agreed on a temporary scheme for banks' purchases of regional securities up to 1.1 percent of regional GDP with indicative caps by country. We wonder about the features of this temporary scheme given reported high banks' liquidity and still significant arrears. We would appreciate if staff could expand on the explanation of this scheme, including details on envisaged commitments, incentives, and requirements for banks during this six-month period.***

BEAC announced in July 2020 a bond purchase program on the secondary market, in line with its statutes which prohibits direct monetary financing. The program was initially for 6 months, but it has been extended by an additional 6-months (starting March 1st, 2021) at the December 2020 Monetary Policy Committee meeting. Under certain safeguards, including a minimum uptake by banks of 50 percent of issuances, the BEAC can purchase from banks part of new T-bonds issued by governments up to a total regional ceiling of CFAF 600 billion or CFAF 100 billion per country within their financing needs limits. Eligibility to the program requires assessing (i) the revised 2020 budgets, (ii) the revised issuance schedule for the fourth quarter of 2020, and (iii) the report on consultations with the SVTs on the buyback program.

This program is aimed at improving monetary policy transmission, by helping reduce pressure on long term bond yields. At the same time, while BEAC is likely to build up its own stock of government bonds, the program will help mitigating a sharp uptick in banks' exposure to sovereigns.

11. ***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.***

All CEMAC countries regularly issue T-bills and bonds denominated in CFA francs on the regional market. With limited perspectives for additional external borrowing, CEMAC countries will likely increase these issuances going forward.

Staff is aware that the BDEAC has plans for issuing regional bonds, in particular for the financing of regional infrastructure projects, but there has been no issuance yet.
Staff is not aware of any plan to issue regional bonds with joint liability by several sovereigns.

Financial sector

12. ***Going forward, we believe that an ex-post evaluation of the temporary easing measures [of the prudential framework] and overall implementation of the CEMAC financial stability framework would be helpful. Staff comments are welcome.***

We take good note of the recommendation to conduct an ex-post evaluation of the temporary easing measures and will suggest to the COBAC to conduct such analysis after the impact of the pandemic has faded. Such evaluation should indeed help the COBAC refining and strengthening its approach to crisis management in the future.

13. ***Can staff elaborate on the near term NPL reduction strategies for CEMAC member countries?***

In the near term, after the impact of the pandemic has faded, the COBAC plans to request and monitor updated NPL reduction strategies from banks. Staff is also encouraging the COBAC to cooperate more closely with national authorities, request plans to repay domestic arrears, as well as assess and monitor the impact of such plans on bank balance sheets (NPLs, solvency, liquidity).

14. ***Could staff comment if there are plans to conduct Financial System Stability Assessment for the CEMAC's financial system?***

No FSAP is planned at the moment in the CEMAC. However, we agree that an FSAP could be useful to take stock of progress once the economic activity has normalized and temporary mitigating measures have been terminated.

15. ***We regret the lack of progress on strengthening the resolution framework by constraining the power of national authorities to unduly delay COBAC's resolution decisions, notwithstanding the fact that this is a longstanding issue. Could staff elaborate on how progress in this regard could be incentivized?***

To strengthen the soundness of the banking sector, the COBAC should not only apply more strictly its resolution framework, but also apply corrective actions early and incentivize market discipline. This could be done by timely and systematically applying disciplinary proceedings to severe prudential breaches, and by enhancing financial transparency and disclosure requirements, respectively.

Structural Reforms

16. ***Since innovation capability and product markets are particular constraints in the region, we would like staff to elaborate on the type of industries which could be promising candidates for growth.***

Promising prospects would include:

- Agriculture and agro-processing, but also horticulture, although this would require improved refrigeration, storage and transport infrastructure;
- Natural resources processing beyond extraction such as liquefied gas, batteries, oil refining, renewable energy, power generation and water resource development; and
- Tourism

In the long term, there may be potential to leapfrog the industrialization phase and enter services and Information technology provided that governments adopt the right set of policies to improve internet coverage and digital (self)education to the new generation.

17. ***Could staff elaborate on the progress with the negotiation with the oil and mining companies, including the possible obstacles for the full implementation of the regulations by the deadline, if any?***

Staff will respond orally

18. ***Could staff elaborate on the process to make progress on key reforms identified in the joint analysis, including through the planned Heads of State Summit?***

The Staff joint analysis with the World Bank aims at identifying and sequencing key reforms to facilitate implementation and set the region on a path of stronger and more inclusive growth. As detailed in the staff report, main reform proposals are grouped under 6 pillars sequenced over the short, medium and long term. Staff have discussed findings with representatives of regional institutions during the recent virtual mission and collected feedback from authorities who broadly agreed with the findings of the joint note. The lessons and recommendations drawn from the analysis should be first discussed at an upcoming ministerial meeting. Subsequently, commitments to reforms would be sought and formalized at a Heads of States summit to ensure support at the highest level and gather momentum for rapid progress on reforms with the support of international partners.

19. ***Could staff explain what the main obstacles are for making oil and mining companies comply with the laws and regulations?***

Staff will respond orally.

Capacity Development

20. ***Given the limited capacity at both regional and national levels, we wonder whether the establishment of CD strategy at the regional level could help in an effective TA delivery, through streamlining and prioritizing TAs considering both the needs of regional and national authorities. Staff comments are welcome.***

The CEMAC team has drafted a Capacity development strategy note for the regional institutions on an annual basis to specify and prioritize CD needs at the regional level. The note is structured toward enhancing CD-surveillance integration and serve as input to the Fund-wide strategic planning and prioritization, as well as to the medium-term budget and resource allocation processes (RAP). TA is delivered through a mix of HQ based staff and RTAC's (Afritac Center) experts who deliver TA both at the national and Regional level.

CEMAC Country Programs and Status of Emergency Assistance

21. ***We note staff assumptions for three new Fund programs, with Cameroon, Chad, and Congo, to replace the programs expired in 2020. Could staff provide additional details on the planned focus areas of the programs? We encourage staff and authorities to ensure synergy of objectives with the planned second phase of the regional strategy, prioritizing economic recovery over the short term, and supporting diversified and sustainable growth while rebuilding fiscal and external buffers in the medium term.***

Staff will respond orally

22. ***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?***

Staff will respond orally.

23. ***We would welcome a brief update on the discussions with these [Congo and Equatorial Guinea] countries' authorities.***

Staff will respond orally.

CONSTITUENCY CODES

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States