INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/176

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

STAFF REPORT ON THE COMMON POLICIES IN SUPPORT OF MEMBER COUNTRIES REFORM PROGRAMS

June 2017

This paper on Central African and Monetary Community was prepared by a staff team of the International Monetary Fund as background documentation for new requests for arrangements with CEMAC member countries. It is based on the information available at the time when it was completed on June 6, 2017.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

June 6, 2017

STAFF REPORT ON THE COMMON POLICIES IN SUPPORT OF MEMBER COUNTRIES REFORM PROGRAMS

EXECUTIVE SUMMARY

Context. The sharp decline in oil prices has profoundly impaired the region's external and fiscal balances. Oil export proceeds and budget oil revenues have plummeted between 2014 and 2016. The oil revenue shock and accommodative fiscal policy by member countries supported by expansionary regional monetary policies contributed to a fall in international reserves to a near critical point, despite initial spending cuts by some member countries. As a result of widening fiscal deficits and accommodative monetary policy, the current account deficit also widened substantially. International reserves reached the equivalent of 2.3 months of imports in December 2016.

Regional Strategy. A strategy, first discussed by Heads of State of CEMAC members and Fund management, and operationalized in discussions between staff and the regional authorities envisages at the country level: (i) a sizable fiscal adjustment to help avert the depletion of and start rebuild reserve assets in the short term; and (ii) structural reforms to strengthen public financial management and enhance the business environment, as well as other country-specific steps needed to restore sustainable growth. These objectives will be supported by regional actions to: (iii) tighten monetary policy and liquidity management consistent with external stability; and (iv) strengthen the financial sector. In conjunction, national and regional policies are designed to restore the sustainability of each member, and in turn the sustainability of the common currency.

Regional Policy Commitments. Several measures have been taken or are planned by the BEAC to support countries' adjustment programs and help re-build reserves. They include the following. First, BEAC has started to tighten the monetary policy stance with a first increase in its policy rate. Second, the BEAC will gradually eliminate its statutory advances to member countries. Third, the BEAC will ensure implementation of strict limits aimed at restricting bank refinancing using government securities as collateral. Fourth, the BEAC will modernize its liquidity management framework and simplify its monetary policy instruments to improve monetary policy transmission. The BEAC has also taken important steps in implementing roll-over safeguards recommendations. Moreover, COBAC will take measures to strengthen banking supervision over the medium term and ensure better implementation of the existing supervisory framework.

Approved By
Anne-Marie Gulde-Wolf (AFR) and Zuzana Murgasova (SPR)

Discussions were held in Yaoundé and Libreville from February 21–March 3, 2017 and in Washington DC from April 20–23, 2017. The staff team comprised Mr. Toujas-Bernaté (head), and Messrs. Gijon, Rosa (all AFR), Fleuriet, Dupont (all MCM) and Kpodar (SPR), and was assisted by Mr. Kalonji (resident representative, AFR). The mission held discussions with Mr. Abbas Mahamat Tolli, Governor of Central Bank of Central African States (BEAC); Mr. Halilou Yerima Boubakary, Secretary General of the Banking Commission of the Central African States (COBAC); Mr. Paul Tasong, Commissaire of the CEMAC Commission; and other senior officials of BEAC, COBAC and CEMAC Commission.

CONTENTS

ANNEXES

APPENDIX

This report provides an overview of the discussions between staff and CEMAC regional institutions on the macroeconomic challenges facing the region owing to the sharp reduction in oil prices and revenues, and the suggested strategy to support the countries' adjustment paths through consistent regional policies. These commitments at the regional level are spelled out in a Letter of Policy Support signed by the Governor of the BEAC (also Chairman of the COBAC – see Appendix I), to back national adjustment plans supported by IMF programs.

BACKGROUND AND RECENT DEVELOPMENTS

1. CEMAC countries have been hit by severe shocks since 2014. A sharp decline in oil prices, compounded by security threats from Boko Haram in the Lake Chad region and civil unrest in CAR, has profoundly impaired the region's external and fiscal balances. Oil export proceeds and budget oil revenues declined by half and two thirds, respectively, between 2014 and 2016. The loss in oil revenues and the ensuing reduction in public spending initiated in 2015 has depressed non-oil growth, which declined from 4½ percent in 2014 to about 1½ percent in 2015 and 2016. Compounded by a decline in oil production, this contributed to reduce region-wide growth in 2016 to its lowest level in more than 20 years (- 1 percent). Meanwhile, inflation has been slightly declining.

2. CEMAC countries could not fully offset the loss in revenues with adjustment measures. The oil price shock hit at a time when several countries had launched ambitious public investment programs to address critical development needs. Nevertheless, these countries started to reduce their non-oil budget deficit quite substantially, resulting in a large decline in the non-oil primary fiscal deficit (from 22 ¾ percent of non-oil GDP in 2014 to 13 percent in 2016). However, the policy adjustment was not sufficient to fully offset the oil revenue shortfall, resulting in a widening of the regional primary deficit (from 2.7 percent of GDP in 2014 to 5.7 percent in 2016) and a significant increase in public debt (from 29 to 47 percent of GDP between 2014 and 2016).

3. As governments faced large financing needs and a depletion of their cash buffers, monetary policy became accommodative. Large statutory advances from the regional central bank (BEAC), cuts in banks' reserve requirement rate by 50 percent, and increases in the ceilings on bank refinancing helped to finance uncovered public and private imbalances, but represented a reversal from the BEAC policy to limit central bank credit to governments.[1] BEAC's support was

[1] BEAC provides monetary financing (i.e., statutory advances) to CEMAC members states up to a ceiling of 20 percent of previous year's fiscal revenues. In 2010, BEAC decided to phase these advances out by freezing the ceilings at 2008 fiscal revenues and reducing their amount by 10 percent each year. In 2015, because of budgetary pressures in certain member states, BEAC reversed its policy and re-instated the advances at their statutory level (i.e., 20 percent of the previous year fiscal revenue). These advances are defined as short-term facilities, which have effectively been rolled over.

particularly large for the Republic of Congo, Equatorial Guinea and Gabon. Two countries, Cameroon and Gabon, issued two Eurobonds to cover part of their financing needs, thereby limiting the drawdown in reserves, but, for the region as a whole, the budget financing mix has been heavily tilted toward domestic financing since 2014.[2]

4. The oil revenue shock and accommodative fiscal and monetary policies contributed to bring international reserves down to a critical point. The current account deficit widened substantially (from 3.9 percent of GDP in 2014 to 9.3 percent in 2016). This, together with lower net capital flows and lower external borrowing, has resulted in a continued rapid loss of reserves, which reached the equivalent of 2.3 months of imports at end-2016 (US$4.9 billion from US$15.5 billion at end-2014).

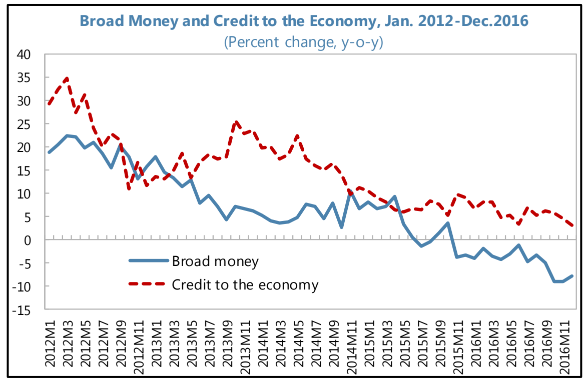
CEMAC: 2016 Selected Macroeconomic Indicators
(in percent of GDP)

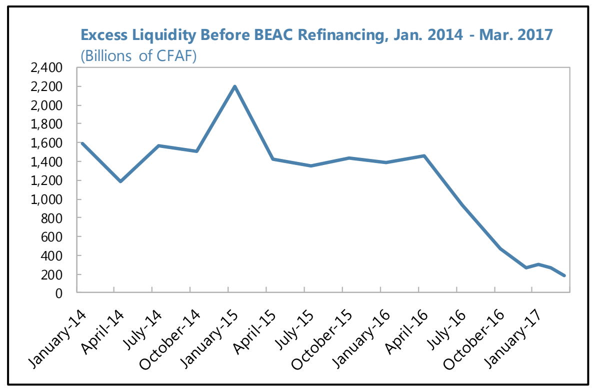
	Cameroon	Central African Republic	Chad	Congo, Republic of	Equatorial Guinea	Gabon	CEMAC
Real GDP growth (in percent)	4.7	5.7	-6.4	-2.8	-9.7	2.1	-0.9
Inflation (in percent)	0.9	2.0	-1.1	3.6	1.4	2.1	1.3
Overall fiscal balance, excl. grants	-6.7	1.6	-4.9	-18.2	-9.8	-4.7	-7.8
Non-oil primary balance, incl. grants (in percent of non-oil GDP)	-8.4	2.1	-3.5	-40.0	-25.7	-11.0	-12.9
Public debt	35.2	42.7	51.1	83.4	21.7	64.2	46.5
of which external debt	21.8	16.2	25.8	54.3	11.4	35.6	22.6
Current account balance	-3.6	-9.1	-9.2	-28.7	-9.8	-10.1	-9.3
Non-oil current account (in percent of non-oil GDP)	-3.4	-9.1	-8.9	-51.1	-40.6	-22.7	-16.8
Imputed reserves coverage (end-2016)	3.7	4.8	0.1	1.7	0.2	1.8	2.3
Cumulative changes from 2014 to 2016							
Overall fiscal balance, excl. grants	-2.4	-1.4	1.3	-10.0	-2.5	-10.7	-3.8
Non-oil primary balance, incl. grants (in percent of non-oil GDP)	0.0	-1.5	13.1	47.2	21.2	0.5	9.9
Public debt	9.1	-10.0	11.7	39.6	13.0	30.1	17.8
Current account balance	0.7	-3.5	-0.3	-17.1	-5.5	-17.5	-5.4
Non-oil current account (in percent of non-oil GDP)	0.7	-3.5	8.9	23.6	34.6	10.1	12.2
BEAC's net foreign assets (in billions of CFAF)	-341	-28	-837	-2,208	-1,580	-856	-5,585

5. Since end-2016, the decline in reserves has slowed down but not yet reversed. This reflects some ongoing adjustment in the majority of the CEMAC countries and the attendant decline in imports as well as a moderate tightening of monetary policy. At end-April, 2017 BEAC's gross reserves stood at US$4.5 billion (2.1 months of imports).

[2] The refinancing and foreign currency risks from the issuance of Eurobonds should be carefully managed.

6. The financial sector has also been impacted by the oil price shock. While the level of loan in arrears (LAs) has been traditionally high in CEMAC, rapid accumulation of domestic fiscal arrears in most countries has contributed to further increases in LAs to 15 percent of total loans on average in 2016 from around 10 percent in 2014. All countries are affected but the deterioration is more significant in the most oil-dependent ones (Chad, Equatorial Guinea, Gabon, and Republic of Congo). At the same time, banks' liquidity has declined sharply since end-2014; the relatively large excess liquidity that banks held in prior years dwindled in recent months despite the decline in reserves requirements. This mainly reflected declining broad money since end-2015. In this context, growth in credit to the economy was recently much lower than what was recorded when oil prices were higher. Recent stress tests showed that banks vulnerabilities have increased and the solvency and liquidity of the banking sector may deteriorate further soon in view of macroeconomic risks (see Table 10).





REGIONAL STRATEGY TO ADDRESS THE CRISIS, OUTLOOK, AND RISKS

7. At the extraordinary summit of December 23, 2016, CEMAC's Heads of State committed to implement a strong policy adjustment by each member state to help avert the depletion of reserves and continue to support the monetary union arrangement. They also agreed to start immediately discussions with the IMF staff of possible Fund-supported programs (Cameroon, Congo, Gabon, Equatorial Guinea), or a recalibration of existing programs (CAR and Chad). Support from the IMF and other IFIs is being sought to smooth the adjustment, thereby helping to protect social spending and growth. Negotiations of new programs were concluded at staff level with Cameroon, Gabon, and Chad, and are under way with Equatorial Guinea and the Republic of Congo. Discussions for the second review under the ECF arrangement with CAR are also well advanced.

8. All Fund-supported programs under discussion are being designed to address each country's specific imbalances and financing needs which vastly vary across countries. CEMAC countries were hit to various degrees by the oil price shock, resulting in varying fiscal and external imbalances and debt levels (overall fiscal balances in 2016 range from a deficit of 18 ¼ to a surplus of 1½ percent of GDP, current account deficits range from 28¾ to 3½ percent of GDP and public debt ratios range from 22 to 83 percent of GDP). Accordingly, country programs aim at different adjustment efforts tailored to restore domestic and external sustainability for each country.

9. At the same time, restoring the external sustainability of the monetary union as a whole will be key to the success of individual Fund-supported programs. This will be predicated on adequate regional monetary and financial sector policies, to support national efforts. Therefore, while programs design and conditionality are country-specific, engagement in parallel with regional institutions on common policies as well as close coordination of the individual member policies will also be essential in this context.

10. The strategy discussed between staff and the country authorities is joint action of all members with adjustment policies based on an unchanged exchange rate. The authorities reaffirmed their commitment to maintain the peg of the CFA franc at its current level which is a program assumption underlying the individual Fund-supported programs. The fixed exchange rate to the euro, guaranteed by France, has been the region's policy anchor for decades, and is deeply engrained in the social and economic fabric. In this context, the regional strategy's main objectives include: (i) restoring regional and national external stability; (ii) maintaining the peg at the current parity and accumulation of the necessary reserves to support it; (iii) improving the business environment for private sector investment and growth; (iv) strengthening and deepening of the financial sector; and (v) enhancing regional institutional and operational frameworks to strengthen regional safeguards mechanisms.

11. To achieve the country programs' objectives, staff discussed with national and regional authorities a set of strategies based on significant fiscal adjustment, a return to sound monetary policy, and initiation of substantial structural reforms:

- *Fiscal adjustment*: As the main policy lever at the country level, a continued substantial fiscal adjustment will be required by individual members to achieve the necessary external adjustment and reverse the loss of regional reserves. Overall, the sum of countries' efforts would result in the regional primary fiscal deficit declining from 5.7 percent of GDP in 2016 to 1.6 percent in 2017 and turning into a surplus of 0.2 percent by 2019[3]. As structural improvement in revenue performance would be gradual, adjustments will rest initially primarily on spending cuts (by 3 percentage points of GDP in 2017 on average), especially on domestically financed capital expenditure—which have large direct impact on the external account given their high import content. At the same time, space would be made for preserving social protection programs and gradual repayment of arrears.

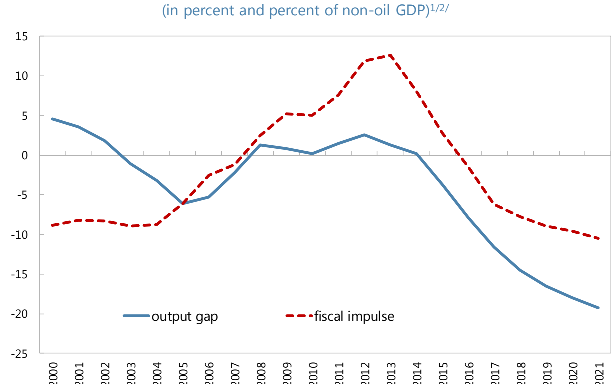
[3] The regional outlook at this stage is based on reform program scenarios for Cameroon, Chad, CAR, Republic of Congo, and Gabon, and a baseline scenario for Equatorial Guinea. The program scenario used for the Republic of Congo remains tentative at this stage.

- *Tight monetary policy and credit growth*: Credit conditions will need to remain tight to also reduce pressures on the external accounts coming from the non-government sector and to stabilize capital flows. Following its recent increase, further possible increases in BEAC's policy rate would be considered if reserves would deviate significantly from their expected path. Possible changes in the reserve requirement rates would also be considered depending on the overall bank liquidity position, in a context of rapidly declining bank liquidity in recent months. The BEAC will also introduce an active liquidity management framework by end-2017 to keep banks' excess liquidity low and stable.

- *Structural reforms*: structural reforms aimed at substantially improving the business climate and diversifying the economies will need to be pursued more energetically than in the past in each country program to provide a less volatile budget revenue base and more stable forex earnings. Regional institutions, in particular the CEMAC Commission, can play an important role in promoting PFM reforms at the national level, including implementation of regional directives for harmonized PFM systems. Reforms to support broad financial sector development will also be critical to address what has been a substantial impediment to growth. Progress in this area will be guided by the CEMAC Economic and Financial Reform Program (Programme de Réformes Economiques et Financières de la CEMAC-PREF CEMC), placed under the leadership of the President of the Republic of Congo (see Box 1).

12. In staff's view, adjustment will have unavoidable short-term costs but prevent a much more costly crisis. The continued negative non-oil fiscal impulse will weigh again on non-oil growth through sluggish public and private consumption and low investment. However, as further spending cuts would generally focus on expenditure with high import content and low efficiency, their negative impact on growth could be reduced compared with the last two years. Still, regional non-oil GDP growth is projected to remain subdued at around 1½–2 percent in 2017, well below the past trend of 5–6 percent growth during 2001–14, and would only gradually pick up to around 4 percent by 2020. Altogether, the estimated output gap (using for illustrative purpose the trend growth over 2001–14 as potential growth) is projected to become increasingly negative over the next three years. However, the alternative of doing nothing would entail even larger costs, as seen in cases of balance of payments crisis elsewhere. Moreover, restoring confidence with strong and credible policies should gradually boost private investment and growth.

CEMAC: Non-oil output gap and non-oil fiscal impulse, 2000-2021
(in percent and percent of non-oil GDP)[1/2/]



[1/] The non-oil output gap is the difference between the actual and the projected non-oil GDP levels, and its trend over 2000-2014.
[2/] The non-oil fiscal impulse is the opposite of the difference between the non-oil primary balance in the current year and the average non-oil primary balance over 2000-2014, all in percent of non-oil GDP.
Sources: IMF staff estimations.

Box 1. CEMAC's Program of Economic and Financial Reforms plan (PREF-CEMAC) Responding to the Shock—Setting the Stage for More Inclusive Growth

To respond to the shock caused by the abrupt decline in the price of oil and other commodities, in 2016 the authorities launched an ambitious Program of Economic and Financial Reforms plan (PREF), placed under the leadership of Republic of Congo's president. The PREF covers a rich set of time bound priority measures—organized in a detailed matrix—to support the structural transformation of the region and reduce the dependency on oil.

This plan consists of 2.1 specific measures organized around five pillars: (i) public finance policies (specific measures include strengthening non-oil revenue collection, enhancing quality of public spending, and accelerate the implementation of CEMAC harmonized PFM directives), 9ii) monetary and financial sector policies to rebuild reserves and promote a stronger financial sector (specific measures include a stricter implementation of the foreign exchange law by foreign companies and the elimination of accounts abroad by governments);
(iii) structural reforms to improve the business climate and promote a more inclusive and diversified regional economy (specific measures include the activation of the Observatory on the Business Environment, the promotion of Private Public Partnership (PPP), and the securitization of domestic debt); (iv) regional integration to deepen the domestic market (specific measures include strengthening and make effective the customs union and enhance cross-border transport infrastructures); and (v) international cooperation to better engage with the IMF and other bilateral/multilateral partners (a specific measure includes enhanced coordination between countries and CEMAC Commission staff to ensure that Fund-supported programs cover mutually reinforcing reform objectives, through regular meeting and exchange of information on program implementation).

Consistent with this common platform, each member country has elaborated a more detailed national Plan of Economic Revival (PER), defining concrete measures and reforms to be reflected in their budget laws. The PER specifies, for instance, the priority public infrastructure spending to be covered by the budget law, and what part will be carried over through public-private partnerships.

The PREF team oversees the consistency between the national PERs and the regional PREF. It is assisted by a Monitoring Committee (Comité de Pilotage-COPIL, with participation by the Minister of Economy of each CEMAC country), which meets every quarter to monitor and report on progress.

13. The adjustment may weigh on banks' asset quality and growth. As companies under contract with the government sector (e.g. construction) could face difficulties servicing their bank loans, the asset quality in the financial sector could be affected negatively, although repayments of government arrears to private suppliers would mitigate this impact. While most banks have capital buffers to withstand a further increase in NPLs, several banks might require new capital in such a scenario, and continuous monitoring of financial sector health by the regional supervisor (COBAC) and national monetary authorities will be a key part of the programs.[4] Overall, tight credit conditions would still constrain private sector activity and growth initially before liquidity conditions improve. The BEAC is planning to develop an emergency liquidity assistance (ELA) framework to assist solvent banks and ease temporary liquidity constraints. The BEAC will also assess how to support the development of the interbank market, to funnel the excessive liquidity of certain banks to other ones in deficit of liquidity.

14. In staff's view, these policies, including strong fiscal adjustments as cornerstone, would provide a strong basis to restore the external sustainability of the monetary union, but would still require large external financing to smooth the adjustment path.

- The regional current account deficit is projected to decline from 9.3 to 2.3 percent of GDP between 2016 and 2019. This would bring the regional external position back to a sustainable position in the medium term, with no indication of significant exchange rate misalignment (Annex I).

- External financing needs for each country, after their adjustment, would remain large. Total remaining external financing needs over 2017–20 are currently estimated at about CFAF 5.1 trillion (about US$8.4 billion) for five CEMAC countries at this stage (excluding Equatorial Guinea) (see Table below). IMF resources would cover just below 30 percent on

CEMAC: Financing Sources [1/], 2017–20
(Billions of CFAF)

	2017	2018	2019	2020	Total
1. Financing gap	**1,885**	**1,457**	**1,296**	**503**	**5,141**
2. IMF financing	**514**	**396**	**375**	**152**	**1,437**
3. Budget support from other donors	**1,155**	**858**	**711**	**163**	**2,887**
4. Other exceptional financing	**216**	**203**	**211**	**188**	**818**
Memorandum items					
IMF financing					
Share of total financing	27	27	29	30	28
Percent of quota	68	52	50	20	190

Sources: CEMAC country authorities and IMF team projections.
1/ Includes all CEMAC countries, except Equatorial Guinea. The scenario used for the Republic of Congo remains tentative.

[4] A simplified stress test shows that an increase in loans in arrears by 5 percentage points would consume excess capital of almost one-fifth of the banks. This would come in addition to currently almost one-fifth of banks not respecting minimum capital requirements.

average of these financing needs. On average, given the BOP need in each country, their financing needs and the strength of the envisaged adjustment programs, access equivalent on average to about 190 percent of quota would be required. Other IFIs (World Bank and African Development Bank) and creditors/donors (France and EU) would cover close to 55 percent of the aggregate financing needs of the region. In addition, expected debt restructuring will help cover the remaining financing needs in some countries where debt service in coming years will be a particularly heavy burden. This exceptional financing will help smooth the severity of adjustment needed and help protect the social sector.

- The combined adjustment in the external current account deficit and exceptional financing would contribute to stabilize the reserves coverage of imports in 2017 and increase it to 3.2 months of imports by end-2019 and to 3.9 months by 2021. This would remain somewhat short of the level of reserves considered appropriate for a currency union of 5 months of imports, but the French Treasury's unlimited guarantee for the convertibility of the CFA franc provides strong additional backing. While the improvement in net reserves would be relatively modest in the next couple of years, maintaining a strengthened policy stance beyond 2019 would contribute to larger increases in net reserves then.

15. While the set of strong monetary and financial sector policies envisaged by the BEAC provides a strong backing to ensure the success of the individual Fund-supported programs, there are still important downside risks that could impact the success of these programs.

- The main risks relate to the possibility of free-rider behavior, specifically the possibility that even one CEMAC country does not pursue appropriate adjustment policies needed to restore external stability which would negatively impact the success of individual Fund-supported programs. Upcoming elections in certain countries may also undermine the political will for the adjustment strategy. Staff's view, however, is that the policy measures included in the policy support letter from the BEAC will minimize these risks. In particular, commitments by the BEAC not to extend new gross credit to governments and gradually have the outstanding balances repaid and to implement strict limits on bank refinancing, as well as peer pressure among CEMAC countries would mitigate these risks. In addition, timely consultations between staff and the BEAC will be pursued in the event of significant deviations from the target reserve path to identify corrective measures, either at the regional or national level.

- A second risk relates to possible exogenous shocks and/or a more negative macroeconomic outlook. The main risk for the CEMAC oil producers would be a new sharp decline in oil prices, although global risks in this regard are currently seen as balanced. Another risk could take the form of a sudden increase in interest rates or rising uncertainties due to geopolitical problems resulting in a sharp decline of capital inflow and a widening gap in the financial account of the balance of payments, which would impact regional reserves. The expected slow recovery in investors' confidence and investment may also be even slower, and the negative impact of fiscal consolidation may be larger than projected, resulting in even more subdued growth in the coming period. Such scenario would likely require a combination of additional adjustment and financing.

- A third risk is possible poor program implementation owing to capacity constraint or lack of support. The central piece of these programs is a sharp fiscal adjustment, which requires fast tracking reforms to enhance PFM systems and increase non-oil revenue collection. If capacity in these areas is not enhanced, programs might fall short of their objectives, arrears may continue to accumulate and the market confidence on the adjustment path would be undermined. Sustained capacity building in PFM and revenue administration with IMF technical assistance should limit those risks.

COMMON POLICIES TO SUPPORT CEMAC COUNTRIES REFORM PROGRAMS

16. The BEAC and COBAC overall concurred with staff's assessment on the priority policies needed to restore external stability. They agreed that monetary policy must be appropriately re-calibrated and the policy instruments enhanced to support achieving the reserve target in the coming years. Consequently, they intend to tailor the monetary policy stance for the region to ensure the success of countries' adjustments efforts and, collectively, build reserves. The authorities also recognized the risks of one or few countries not adequately contributing to the regional adjustment effort and intend to implement measures to mitigate such risk of "free rider" (see Box 2). Finally, the COBAC is committed to strengthen banking supervision and enhance prudential regulations to mitigate the risks of increasing weaknesses in banks' portfolios to become a deeper and systemic banking sector crisis.

17. BEAC will strengthen monetary policy implementation through the following:

- First, the BEAC has started to tighten its policy stance. The expansionary policies followed recently, which sought to help countries in the zone absorb the exogenous shocks, contributed to the decline in reserves over the last two years. In this context, the BEAC monetary policy committee (comité de politique monétaire—CPM), at its March 22, 2017 meeting, raised its policy rate by 50 bps (to 2.95 percent). Further stepwise increases in the policy rate will be considered in conjunction with adjustments in other monetary policy instruments (including reserves requirements) if developments in international reserves deviate substantially from the expected path. At the same time, a further monetary policy tightening could pose some risk for the banking sector. The recent decline in overall liquidity has forced many banks to resort to the BEAC borrowing facility, increasing their refinancing costs, and hence weakening their balance sheet. The COBAC will need to better assess banks' vulnerabilities in this context, including by conducting well designed stress tests. Furthermore, an increase in financing costs would also weaken the government and other economic agents' financial conditions, which could in turn result in a further increase in NPLs.

- Second, the BEAC will gradually eliminate its statutory advances to member countries. Ceilings on these advances, which all but one country already reached, are now frozen and the BEAC aims to reach agreement with each member country on a schedule for gradual reduction in these ceilings and corresponding repayment of the balances until full elimination of statutory advances by 2027. Repayments of statutory advances will be reflected in the country programs after agreement is reached between member states and BEAC, which is expected by end-2017.[5] Exceptional advances provided to a couple of countries will be repaid and eliminated within the same timeframe.

- Third, the BEAC will continue to implement ceilings on the amounts of government securities that can be brought as collateral by banks for refinancing from BEAC. This mechanism should impose increased market discipline on governments as they will find it increasingly costly to get bank financing in case of fiscal slippages. The CPM also decided on May 22, 2017 to reduce bank refinancing ceilings in countries with low or negative imputed reserves positions.[6] While useful as a matter of signaling, the system of country-specific refinancing ceilings raises other problems for monetary policy operations. This system will be replaced soon by a more standard monetary policy implementation framework (see below).

- Fourth, the BEAC will modernize its liquidity management framework and simplify its monetary policy instruments to improve monetary policy transmission by end-2017. The new framework will include a primary refinancing instrument and two permanent facilities (deposit and loan). Liquidity through primary refinancing operations will be provided on a competitive basis with a minimum rate equal to the BEAC's policy rate and, in aggregate, will be limited to amounts consistent with the regional international reserves targets. Moreover, the BEAC plans to base its monetary policy framework on autonomous liquidity factors, rather than monetary programming. This new approach will calibrate policy decision to eliminate the persistent excess liquidity within the CEMAC and therefore support an effective monetary tightening. It will be implemented during the coming months with technical assistance from IMF staff. To further strengthen monetary policy transmission, national and regional CEMAC authorities will need to prioritize capital markets development.

18. The BEAC is also committed to ensure greater transparency and compliance in the application of foreign exchange regulations. One area of concern relates to the agreements signed between states and operators in the extractive industries, including the oil sector, regarding repatriation of foreign exchange. The BEAC requested copies of these agreements as a basis to actively monitoring proper implementation of the foreign exchange regulations, in cooperation with

---

[5] Ceilings on BEAC net credit to governments will be monitored under each country program through a performance criterion.

[6] These ceilings are reduced by 10 percent when imputed reserves are below 20 percent of monetary liabilities and by an additional 10 percent when imputed reserves become negative.

Box 2. CEMAC – Safeguards to Support Fiscal Discipline

The success of a strategy to restore the external sustainability of a currency union depends critically on the coherent implementation of corrective policies by each member. A risk for the success of such a strategy is therefore the possibility of even just few countries not following the agreed adjustment path and hence jeopardizing the objective of re-building reserves for the region. This box presents the set of CEMAC policy measures to control for this risk, around (1) statutory advances, (2) refinancing ceiling, (3) banking regulatory framework, and (4) enhanced surveillance framework.

Elimination of statutory advance. The increase in statutory advances to member countries has weighed heavily on international reserves; the BEAC has undertaken to work with the CEMAC member countries to eliminate these advances by 2027 at the latest. Following the decision made by the Heads of State at the summit of December 2016, ceilings on statutory advances for each member country are now frozen based on 2014 fiscal revenue (2008 for the CAR). As all CEMAC countries, except Cameroon, have reached their respective ceilings, the BEAC will not extend new credit to these five countries (Cameroon has also committed to certain ceilings on net BEAC credit under its program). At its last meeting, the CPM instructed the BEAC Government to reach agreement with each member country on a schedule for gradual reduction in statutory advances ceilings and corresponding repayment of the amounts advanced to date, starting in 2018 at the latest, until full elimination of these BEAC advances by 2027. Exceptional advances, which have been consolidated into long-term loans, will be repaid and eliminated within the same timeframe.

Reduction of the refinancing ceilings. The BEAC will strictly apply the mechanisms provided in its charter to protect regional reserves. This charter already makes provision for the Governor of the BEAC to request from the authorities of countries with a debit balance in the operations account at the central bank, together with the CEMAC Council of ministers, to design and implement adjustment measures. The BEAC will also ensure strict compliance with current prudential ceilings on refinancing supported by government securities used as collateral; the total amounts of government securities of one particular country brought by all banks in the region to the BEAC for refinancing cannot exceed 15 percent of budget revenues of that particular country. In addition, the BEAC will explore other options for strengthening these mechanisms to reduce incentives for banks to buy government bonds of countries which would not implement adequate fiscal policies. It has already reduced banks' refinancing ceilings in the countries with too low imputed reserves; an additional option would be to apply large discounts at its refinancing operations to securities issued by governments that do not comply with regional convergence criteria.

Implementation of regulatory compliance by commercial banks. The COBAC has undertaken to ensure the strict application of the rule, already existing, on risk-weighting of exposures to CEMAC member countries. Risks should be non-zero for countries which do not comply with regional convergence criteria. Banks in breach of such regulations, for instance holding sovereign bonds of countries running arrears or with low reserves, will be required by September 2017 to implement the appropriate corrective actions as set forth in the relevant CEMAC and COBAC regulations.

Enhanced regional surveillance framework. In 2016, the CEMAC revamped its regional surveillance framework which will apply on 2017 outcomes onward. Its pillars are four multilateral surveillance criteria comprised of a floor on the overall budget balance augmented of oil revenue savings, and ceilings on average annual inflation, total public and publicly-guaranteed debt, and arrears accumulation. Deviations from targets are to be addressed through adoption and implementation of an adjustment program requested by the regional ministerial council.

member countries. The BEAC will also encourage governments to re-patriate all their foreign currency deposits.

19. The BEAC intends to enhance the framework underpinning its emergency liquidity and the application of the foreign exchange law. It has decided to fast-track work to put in place an ELA mechanism by the end of 2017, with assistance from Fund staff. A preliminary framework with appropriate conditionality to protect BEAC's balance sheet should be in place by June 2017 and the BEAC should continue its effort to finalize the full ELA framework soon after.

20. The BEAC has taken important steps to finalize the implementation of remaining priority recommendations as part of the IMF safeguards "rolling measures". In particular, the BEAC Board of Directors adopted legal reforms to strengthen governance and is finalizing amendments to the BEAC's Charter with a focus on reinforcing the collegiality in the decision-making process, to facilitate checks and balances at the corporate management level and strengthen internal controls. In addition, preparations are under way for the BEAC's full transition to the international financial reporting standards (IFRS) to strengthen financial transparency.

21. Measures will be adopted to address problem banks in an orderly fashion, in the short term. Several small and non-systemic banks are in difficulty. The COBAC already decided in March 2017 to liquidate two banks in Gabon and put a third one under conservatorship. COBAC will also call on national monetary authorities to make definitive proposals to resolve other insolvent banks, either with restructuring plans or decisions for orderly liquidation. The COBAC will assess the opportunity to amend the regulation that commands the resolution of banks in distress by 2018 (in particular to facilitate the orderly resolution of non-systemic banks). Finally, in 2018 the rules governing the functioning of the deposit insurance (*Fonds de Garantie des Dépôts en Afrique Centrale* (FOGADAC)) will be revised, to align them with international best practices.

22. Important reforms are in train to strengthen banking supervision by COBAC. The main challenge is to ensure that the existing prudential framework is properly implemented. Key areas include connected lending, risk concentration, proper rules for members of the board of a bank, and provisioning of nonperforming loans. The COBAC is committed to strictly implement prudential norms in these areas. Moreover, from 2018, the supervision would gradually be conducted based on risk and on a consolidated basis, which is more adequate given the existence of banks with links to other sectors and across the borders. COBAC will assess by end-2018 whether its set of corrective measures is sufficient to ensure strict enforcement of prudential regulations. In the fall of 2017, staff will assist COBAC in designing concrete measures to support financial stability and the strengthening of the financial sector in the CEMAC. These would include action plans to: (i) improve the resolution of NPLs by commercial banks; (ii) resolve banks in distress; (iii) strengthen application of or revise key prudential regulations (related party lending, provisioning, concentration of risks, governance, resolution of distressed banks); (iv) review the efficiency of corrective measures; and (v) upgrade the onsite inspection program of all banks in the region. Staff will assist the authorities with developing a package of targeted measures as part of these action plans will be ready in the fall of 2017, to be reflected in an updated letter of policy support.

MONITORING OF REGIONAL DEVELOPMENTS AND POLICIES

23. BEAC and COBAC agreed to have very close and continuous engagement with staff to monitor developments and discuss the possible need for adjustments in regional policies. The authorities already started to compile and share with staff at higher frequency various monetary and banking sector indicators. They are committed to expand the coverage of these indicators to facilitate close monitoring of developments, in particular as seen through the BEAC balance sheet. In addition to regular exchanges with staff, BEAC and COBAC authorities agreed to regular visits by staff (quarterly if needed) to review developments and discuss whether the regional policies stance remains adequate to support achieving CEMAC countries' programs objectives. In this regard, the Fund would be in a position to assess on an ongoing basis the implementation of the assurances provided in the attached letter of policy support; a favorable assessment of the implementation record would be needed to allow individual program reviews to be successfully completed. Implementation of the assurances in regard to ceilings on statutory advances and to maintaining firm control over the extension of credit to banks would be of particular importance in forming an assessment. On the basis of these assessments, the letter of policy support would be updated semi-annually to inform the Executive Board's consideration of the reviews under the individual IMF-supported programs.

24. The next consultation on CEMAC common policies is tentatively planned for the fall of 2017.

STAFF ASSESSMENT

25. CEMAC's macroeconomic stability has been seriously undermined by two severe shocks since mid-2014. A lasting oil-price shock and the security crisis in the lake Chad region have taken a toll on the oil-producing Community. Insufficient policy response to these twin shocks contributed to bring regional international reserves down to a critical point. In this context, any further deterioration of the economic context could jeopardize external sustainability and have lasting consequences for economic and social development of the region, affecting the most vulnerable parts of the population.

26. Bold and coordinated policies at national and regional levels are needed to avert reserves depletion and to support the monetary arrangement. Possible Fund-supported programs have been or are being designed to address national imbalances and financing needs but are also part of a regional strategy based on a significant fiscal adjustment, a return to sound monetary and financial sector policies, and the implementation of ambitious structural reforms aimed at improving regional business climate and diversifying the economies.

27. The envisaged Fund-supported programs and regional policies will provide the basis to restore external sustainability of individual members, and thus of the region, but will also require sufficient financing to smooth the adjustment path. In addition to IMF financial support, program support is expected to be provided by the World Bank, the African Development Bank, France and the EU. Debt restructuring will be necessary in some cases to cover the remaining financing needs. Combined strong adjustment and adequate financing will be essential to ensure the success of the policy adjustment strategy and bring regional reserves back to an adequate level.

28. BEAC's strong commitment to mitigate some downside risks will also be key for the success of Fund-supported programs. A main risk relates to a possible free-riding behavior of a CEMAC country lacking the commitment to the adjustment path needed to restore external stability. In recent past, insufficient adjustment efforts by individual member countries were largely accommodated by lax monetary policy and weak enforcement of the various regional safeguards mechanisms aimed at supporting fiscal discipline. BEAC's commitment not to accommodate any such slippage from now on and implement incentives for increased market discipline should help mitigate this risk. Peer pressure among CEMAC countries, based on enhanced economic and financial data dissemination through regional institutions, will also play an important role.

29. BEAC's monetary policy will need to support achieving the targeted foreign reserves path. The decision to reverse monetary financing of governments by phasing out BEAC's statutory advances to member countries is an important first step. It will need to be complemented by limiting banks' refinancing to appropriate levels, using a combination of tools, including gradually higher policy rate and strict calibration of its main open market operations. At the same time, the BEAC will need to closely monitor the effectiveness of monetary policy in terms of reserves accumulation against its potential costs. In particular, in using its various monetary policy tools, it will also need to consider the financial sector conditions, to prevent any further negative effects on the banking sector.

30. Progress achieved in BEAC safeguards reform is welcome. The BEAC made significant progress in the implementation of safeguards priority recommendations and is finalizing its Charter reform, which will strengthen decision making, facilitate checks and balances and enhance internal controls. Addressing these governance challenges should ensure adequate implementation of regional policies.

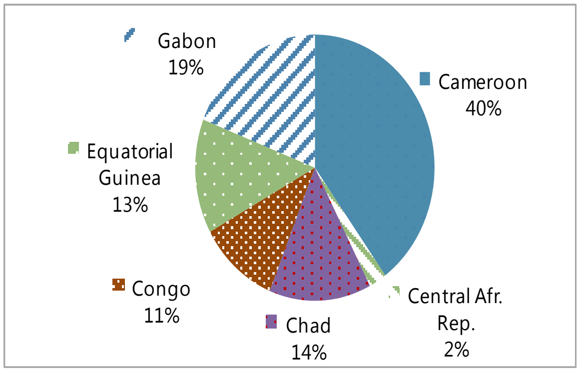
31. The COBAC will need to build on its efforts to enforce prudential regulations and achieve resolution of banks in financial difficulty. It will be important that COBAC reinforces the implementation of the most critical prudential rules (including connected lending and concentration risk) and assesses the effectiveness of (and if necessary review) its corrective measures to reduce the number of infractions of banks. It will also need to play an active role, in coordination with national authorities, to resolve the situation of the non-systemic banks in distress. Also, it will be important that the COBAC takes a more active stance for the treatment of NPLs, either by identifying the key elements that hinder banks to treat their NPLs or by reinforcing credit risk supervision.

32. Staff welcomes CEMAC regional authorities' commitment to continue a very close dialogue to review developments and discuss the stance of regional policies needed to support achieving CEMAC countries' programs objectives.

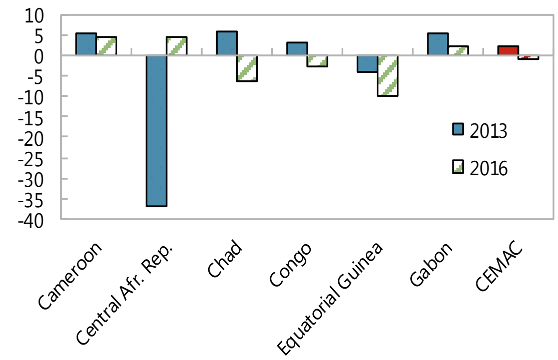
Figure 1. CEMAC: Selected Economic Indicators, 2000–16

Growth has slowed down markedly in the CEMAC over last years and has moved into negative territory for the first time in decades, largely due to a sharp decline in oil prices and uncoordinated initial cuts in public spending by some members.

CEMAC: Nominal GDP, 2016
(National shares)

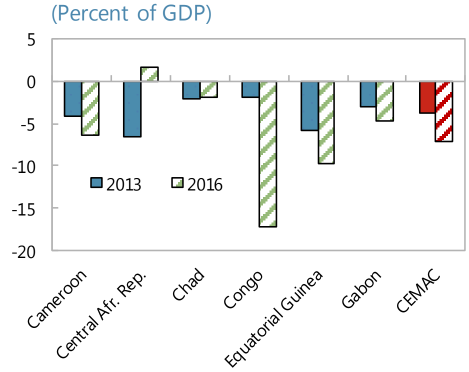


CEMAC: Real GDP Growth, 2013-16
(Percent)

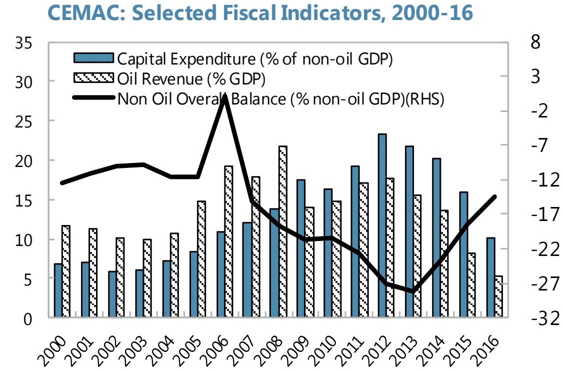


Together, a sharp decline in oil revenues and insufficient fiscal adjustment led to a sharp widening of the deficit.

CEMAC: Overall Fiscal Balance, 2013-16
(Percent of GDP)

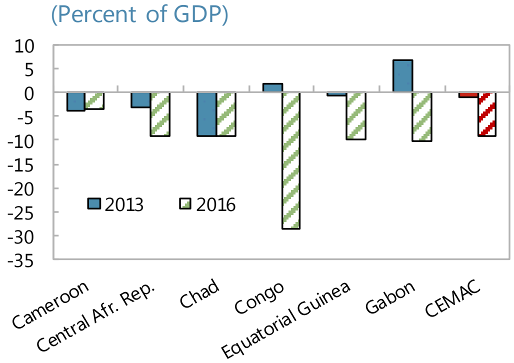


CEMAC: Selected Fiscal Indicators, 2000-16

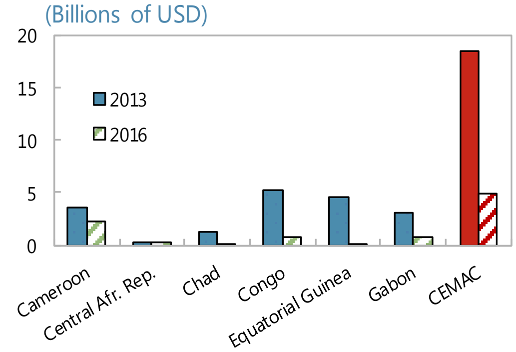


As a result, the external balance for the region has worsened contributing to a quasi-depletion of the pooled international reserves.

CEMAC: Current Account, 2013-16
(Percent of GDP)



CEMAC: International Reserves, 2013-16
(Billions of USD)

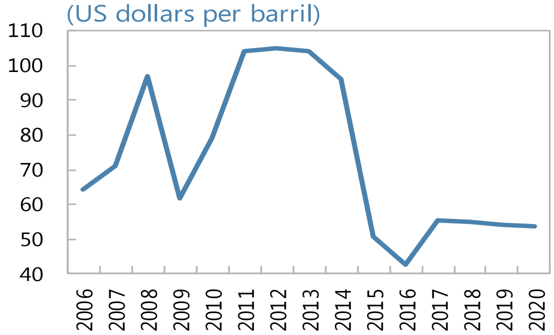


Sources: AFR Regional Economic Outlook, February 2016; CEMAC authorities; and IMF staff estimates.

Figure 2. CEMAC: Selected Economic Indicators, 2006–20

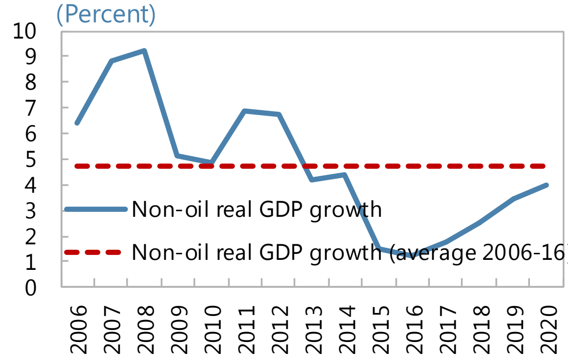
Oil price has plummeted relative to its past peak, and is projected to remain subdued over the medium term.

Oil Price, 2006-20
(US dollars per barril)



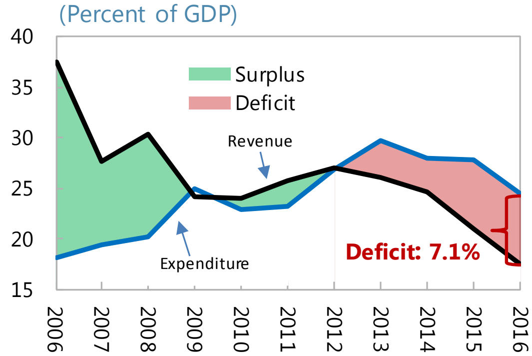
Non-oil growth has been severely impacted due to spending cuts and large budget arrears, but is set to gradually pick up over the medium term.

Non-Oil Real GDP Growth, 2006-20
(Percent)

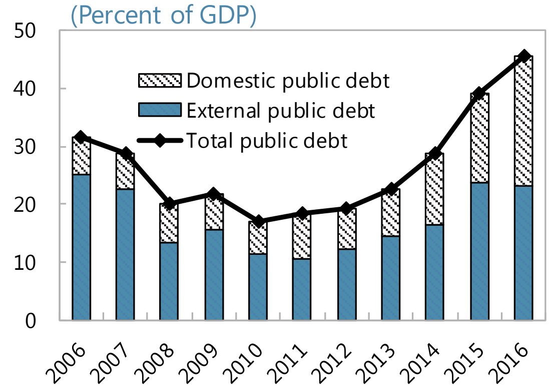


Together, this has resulted in a widening fiscal deficit, contributing to rapidly rising public debt.

Revenue and Expenditure, 2006-16
(Percent of GDP)

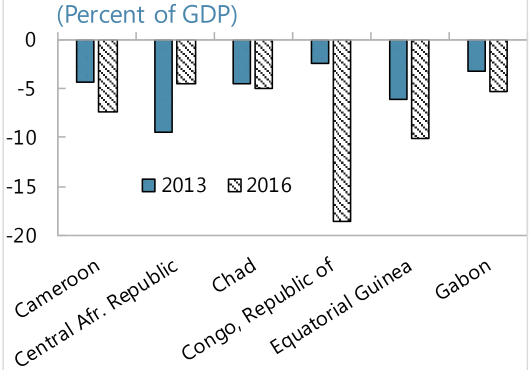


Public Debt, 2006-16
(Percent of GDP)

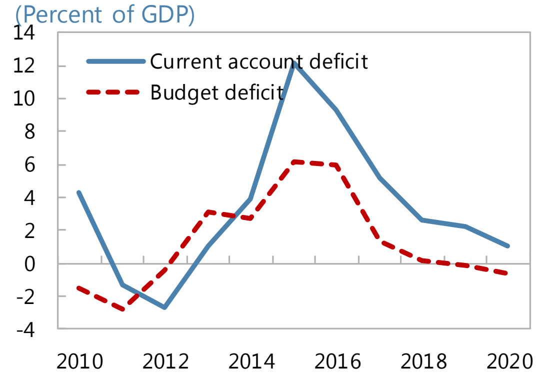


The overall fiscal deficit has widened due to the large terms of trade shock pushing the current account deficit to a level not consistent with the peg arrangement.

Overall Fiscal Balance, 2013-16
(Percent of GDP)



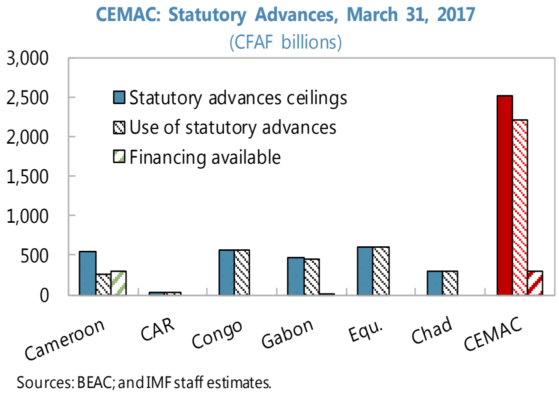
Current Account and Budget Deficit, 2010-20
(Percent of GDP)

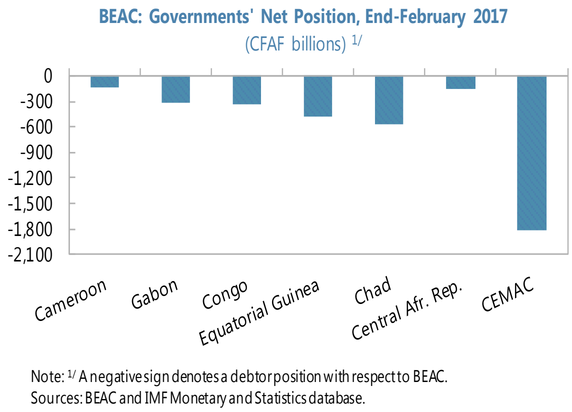


Sources: CEMAC authorities; and IMF staff estimates.

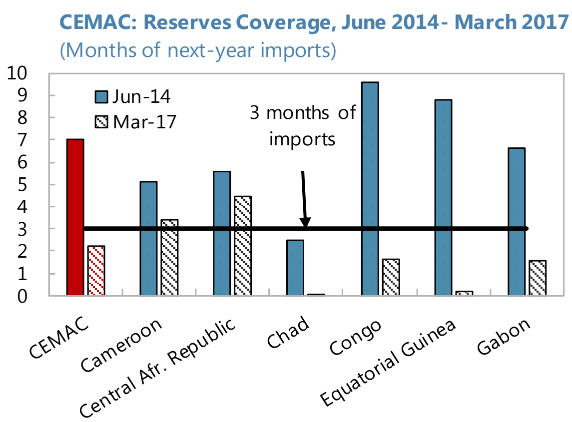
Figure 3. CEMAC: Reserves Coverage and Financing, 2012–17

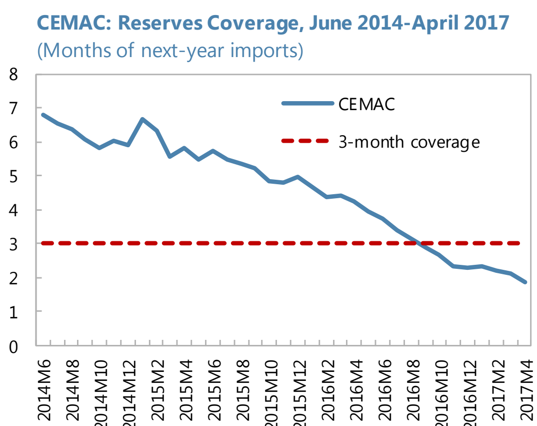
With the collapse of oil restricting fiscal space, countries have resorted in large central bank financing, close to statutory maximum ceilings,



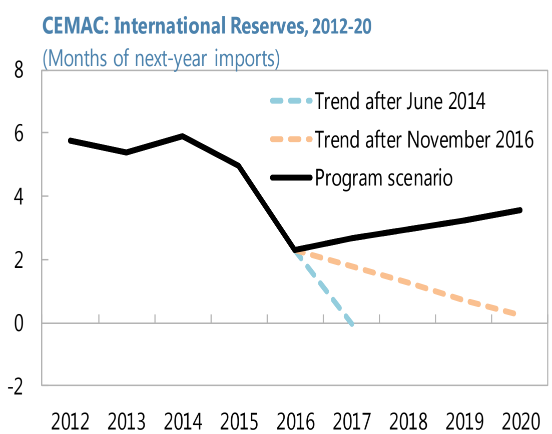


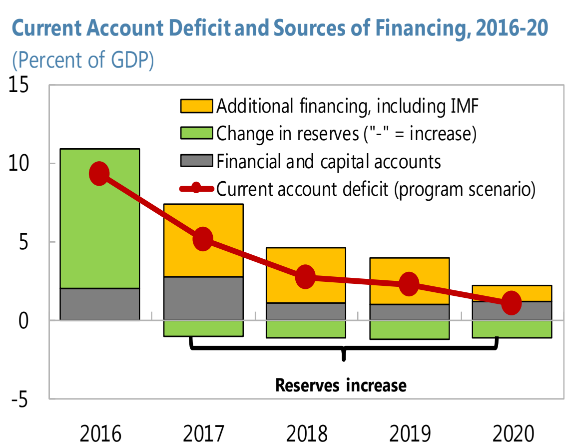
The accommodative monetary policy may have contributed to postpone the needed adjustment but has also put downward pressure on foreign exchange.





At current policies, international reserves are on the path of fast depletion, calling for bold and coordinated adjustment supported by external financing





Sources: CEMAC authorities; and IMF staff estimates.

Table 1. CEMAC: Selected Economic and Financial Indicators, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
		Estim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change)							
National income and prices								
GDP at constant prices	4.6	1.6	-0.9	0.7	3.2	2.8	3.5	3.8
Oil GDP	3.6	2.3	-8.2	-1.6	7.9	-1.4	0.2	0.3
Non-oil GDP	4.4	1.5	1.3	1.8	2.7	3.5	4.1	4.3
Consumer prices (period average)[1]	2.7	2.7	1.3	1.2	1.6	1.9	2.2	2.2
Consumer prices (end of period)[1]	2.4	1.8	0.6	1.3	1.8	1.8	2.4	2.2
	(Annual changes in percent of beginning-of-period broad money)							
Money and credit								
Net foreign assets	-7.6	-17.7	-29.4	0.5	...	...	...	...
Net domestic assets	14.5	15.6	24.7	3.4	...	...	...	...
Broad money	9.4	-2.2	-4.7	3.9	...	...	...	...
	(Percent of GDP, unless otherwise indicated)							
Gross national savings	27.1	17.7	13.7	17.4	19.9	20.7	21.9	23.2
Gross domestic investment	31.0	30.0	23.1	22.5	22.5	23.0	23.0	22.9
Of which: public investment	14.4	12.8	7.8	7.3	6.8	6.5	6.1	6.0
Government financial operations								
Total revenue, excluding grants	24.0	20.2	16.7	17.5	18.0	17.9	18.0	18.2
Government expenditure	27.9	27.8	24.3	21.4	20.3	19.9	19.3	18.8
Primary fiscal basic balance[2]	-0.4	-4.6	-4.1	0.2	1.7	2.1	2.4	3.0
Overall fiscal balance, excluding grants	-4.0	-7.7	-7.8	-4.0	-2.7	-2.2	-1.6	-0.6
Overall fiscal balance-adjusted, excluding grants	-5.0	-10.6	-9.4	-4.0	-2.7	-2.2	-1.6	-0.6
Primary fiscal balance	-2.7	-6.1	-5.7	-1.4	-0.1	0.2	0.8	1.2
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-24.6	-19.4	-15.3	-11.7	-10.0	-8.7	-7.8	-6.3
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-22.8	-17.5	-12.9	-8.5	-6.9	-5.7	-5.0	-4.2
Total Public Debt	28.6	38.8	46.5	46.7	45.6	44.9	42.5	40.0
External sector								
Exports of goods and nonfactor services	44.8	35.8	31.3	36.4	37.7	36.8	38.9	38.9
Imports of goods and nonfactor services	41.7	42.8	35.3	35.9	34.2	33.6	33.4	32.4
Balance on goods and nonfactor services	3.1	-7.0	-4.0	0.5	3.6	3.2	5.4	6.5
Current account, including grants	-3.9	-12.2	-9.3	-5.1	-2.6	-2.3	-0.9	0.3
External public debt	16.2	21.1	22.6	26.9	28.9	30.0	29.1	27.9
Gross official reserves (end of period)								
Millions of U.S. dollars	15,525	10,354	4,881	5,610	6,465	7,427	8,422	9,421
Months of imports of goods and services (less intra regional imports)	5.9	4.9	2.3	2.7	3.0	3.2	3.6	3.9
Percent of broad money	65.2	53.1	26.4	30.4	...	...	...	...
Memorandum items:								
Nominal GDP (billions of CFA francs)	50,159	44,971	43,447	45,323	47,361	49,563	52,459	55,859
CFA francs per U.S. dollar, average	494	591	593	...	...	...	...	...
CFA francs per U.S. dollar, end-of-year	540	603	622	...	...	...	...	...
Oil production (thousands of barrels per day)	900	941	881	854	932	913	912	909
Oil prices (US dollars per barrel)	96	51	43	55	55	54	54	54

Source: IMF staff compilations.

[1] Using as weights the shares of member countries in CEMAC's GDP in purchasing power parity in US dollars.

[2] Excluding grants and foreign-financed investment and interest payments.

Table 2a. CEMAC: Balance of Payments, 2014–21 (CFAF Billion)

	2014	2015	2016	2017	2018	2019	2020	2021
		Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
				(CFAF billions)				
Balance on current account	-1,964	-5,490	-4,049	-2,328	-1,254	-1,126	-490	154
Balance on goods and services	1,557	-3,128	-1,755	222	1,693	1,591	2,855	3,633
Total exports	22,479	16,100	13,587	16,493	17,868	18,258	20,397	21,728
Exports of goods	20,366	14,143	11,567	14,442	15,719	15,960	17,979	19,073
Oil exports	16,619	10,358	7,975	10,331	11,299	11,108	11,871	12,163
Non-oil exports	3,747	3,784	3,593	4,111	4,420	4,852	6,108	6,910
Exports of services	2,113	1,957	2,020	2,050	2,149	2,298	2,418	2,655
Total imports	20,922	19,228	15,342	16,271	16,175	16,667	17,543	18,095
Imports of goods	12,831	12,167	9,226	9,521	9,517	9,754	10,476	10,799
Imports of services	8,091	7,061	6,116	6,750	6,658	6,913	7,067	7,296
Income, net	-4,018	-2,757	-2,663	-3,054	-3,433	-3,224	-3,267	-3,212
Income credits	344	416	381	403	444	492	549	608
Income debits	-4,206	-2,986	-2,894	-3,294	-3,696	-3,516	-3,576	-3,533
Of which:								
Investment income, debit	-1,411	-7	-715	-1,650	-2,110	-2,095	-2,137	-2,200
Of which: Interest paid on public debt	-92	-126	-239	-232	-236	-230	-231	-227
Of which: Interest paid on nonpublic debt	-4	-4	-4	-5	-5	-5	-6	-6
Current transfers, net	498	395	369	509	487	509	674	641
Private current transfers, net	324	262	234	366	338	355	505	472
Official current transfers, net	173	133	136	144	149	154	169	169
Balance on capital and financial accounts	2,200	3,769	897	623	162	304	573	269
Balance on capital account (incl. capital transfers)	159	199	178	192	218	245	262	283
Balance on financial account (incl. reserves)	2,041	3,570	719	431	-56	59	311	-14
Direct investment, net	2,745	2,993	2,468	2,204	2,153	2,342	2,330	1,998
Portfolio investment, net	13	-10	13	14	14	15	15	15
Other investment, net	-717	587	-1,762	-1,787	-2,223	-2,298	-2,034	-2,027
Errors and omissions, net	-1,830	-1,675	-767	0	0	0	0	0
Overall Balance	-1,594	-3,396	-3,919	-1,705	-1,092	-822	82	423
Financing	1,594	3,396	3,919	1,705	1,092	822	-82	-423
Reserve assets (accumulation -)	1,440	3,057	3,487	-450	-530	-596	-616	-620
Financing gap	154	340	431	2,155	1,622	1,418	534	197
Memorandum items:								
Nominal GDP	50,159	44,971	43,447	45,323	47,361	49,563	52,459	55,859
Gross official reserves (end of period)								
Millions U.S. dollars	15,525	10,354	4,881	5,610	6,465	7,427	8,422	9,421
Months of imports of goods and services	5.9	4.9	2.3	2.7	3.0	3.2	3.6	3.9

Sources: BEAC; and IMF staff estimates and projections.

Table 2b. CEMAC: Balance of Payments, 2014–21

(Percent of GDP)

	2014	2015 Est.	2016 Est.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Balance on current account	-3.9	-12.2	-9.3	-5.1	-2.6	-2.3	-0.9	0.3
Balance on goods and services	3.1	-7.0	-4.0	0.5	3.6	3.2	5.4	6.5
Total exports	44.8	35.8	31.3	36.4	37.7	36.8	38.9	38.9
Exports of goods	40.6	31.4	26.6	31.9	33.2	32.2	34.3	34.1
Oil exports	33.1	23.0	18.4	22.8	23.9	22.4	22.6	21.8
Non-oil exports	7.5	8.4	8.3	9.1	9.3	9.8	11.6	12.4
Exports of services	4.2	4.4	4.6	4.5	4.5	4.6	4.6	4.8
Total imports	41.7	42.8	35.3	35.9	34.2	33.6	33.4	32.4
Imports of goods	25.6	27.1	21.2	21.0	20.1	19.7	20.0	19.3
Imports of services	16.1	15.7	14.1	14.9	14.1	13.9	13.5	13.1
Income, net	-8.0	-6.1	-6.1	-6.7	-7.2	-6.5	-6.2	-5.8
Income credits	0.7	0.9	0.9	0.9	0.9	1.0	1.0	1.1
Income debits	-8.4	-6.6	-6.7	-7.3	-7.8	-7.1	-6.8	-6.3
Of which:								
Investment income, debit	-2.8	0.0	-1.6	-3.6	-4.5	-4.2	-4.1	-3.9
Of which: Interest paid on public debt	-0.2	-0.3	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4
Of which: Interest paid on nonpublic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfers, net	1.0	0.9	0.8	1.1	1.0	1.0	1.3	1.1
Private current transfers, net	0.6	0.6	0.5	0.8	0.7	0.7	1.0	0.8
Official current transfers, net	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Balance on capital and financial accounts	4.4	8.4	2.1	1.4	0.3	0.6	1.1	0.5
Balance on capital account (incl. capital transfers)	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Balance on financial account	4.1	7.9	1.7	1.0	-0.1	0.1	0.6	0.0
Direct investment, net	5.5	6.7	5.7	4.9	4.5	4.7	4.4	3.6
Portfolio investment, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-1.4	1.3	-4.1	-3.9	-4.7	-4.6	-3.9	-3.6
Errors and omissions, net	-3.6	-3.7	-1.8	0.0	0.0	0.0	0.0	0.0
Overall Balance	-3.2	-7.6	-9.0	-3.8	-2.3	-1.7	0.2	0.8
Financing	3.2	7.6	9.0	3.8	2.3	1.7	-0.2	-0.8
Reserve assets (accumulation -)	2.9	6.8	8.0	-1.0	-1.1	-1.2	-1.2	-1.1
Financing gap	0.3	0.8	1.0	4.8	3.4	2.9	1.0	0.4
Memorandum items:								
Nominal GDP (billions of CFAF)	50,159	44,971	43,447	45,323	47,361	49,563	52,459	55,859
Gross official reserves (end of period)								
Months of imports of goods and services	5.9	4.9	2.3	2.7	3.0	3.2	3.6	3.9

Sources: BEAC; and IMF staff estimates and projections.

Table 3a. CEMAC: Fiscal Balances, 2014–21
(Percent of GDP)

	2014	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Overall fiscal balance (excluding grants)								
Cameroon	-4.4	-2.8	-6.7	-4.1	-3.9	-3.1	-2.7	-1.5
Central African Republic	-7.8	-7.8	-4.4	-5.7	-5.4	-5.4	-5.1	-3.9
Chad	-6.1	-6.5	-4.9	-3.2	-2.5	-2.6	-2.1	-1.6
Congo, Republic of	-8.2	-19.5	-18.2	-2.3	1.9	0.3	2.8	4.3
Equatorial Guinea	-7.2	-19.6	-9.8	-6.4	-5.0	-3.0	-3.0	-2.2
Gabon	6.0	-1.1	-4.7	-3.3	-1.2	-0.6	-0.3	0.4
CEMAC	-4.0	-7.7	-7.8	-4.0	-2.7	-2.2	-1.6	-0.6
Overall fiscal balance (including grants)								
Cameroon	-4.1	-2.8	-6.4	-3.7	-3.6	-2.8	-2.4	-1.2
Central African Republic	3.0	-0.6	1.6	-0.3	-0.1	0.0	0.3	1.1
Chad	-4.2	-3.1	-2.0	1.7	1.5	1.0	1.3	1.2
Congo, Republic of	-7.7	-18.7	-17.3	-1.4	2.7	0.7	3.1	4.6
Equatorial Guinea	-7.2	-19.6	-9.8	-6.4	-5.0	-3.0	-3.0	-2.2
Gabon	6.0	-1.1	-4.7	-3.3	-1.2	-0.6	-0.3	0.4
CEMAC	-3.4	-6.9	-6.9	-2.9	-1.8	-1.4	-0.8	0.1
Basic balance[1]								
Cameroon	-0.3	0.3	-3.9	-1.1	-0.7	-0.1	0.2	1.4
Central African Republic	-5.8	-3.5	-1.6	-2.4	-2.0	-1.6	-1.2	0.0
Chad	-3.9	-4.2	-2.7	-0.5	0.4	0.5	1.0	1.6
Congo, Republic of	-2.9	-16.2	-15.1	0.6	4.7	2.6	4.6	6.1
Equatorial Guinea	-7.2	-19.6	-9.8	-6.4	-5.0	-3.0	-3.0	-2.2
Gabon	9.0	1.0	-1.8	0.1	2.0	2.9	2.3	2.9
CEMAC	-1.0	-5.3	-5.2	-1.3	0.4	0.8	1.2	1.9
Primary fiscal balance (including grants)								
Cameroon	-3.6	-2.3	-5.6	-2.5	-1.7	-1.1	-0.8	-0.5
Central African Republic	3.6	-0.1	2.1	0.1	0.4	0.6	0.9	1.5
Chad	-3.6	-2.7	0.1	3.7	2.8	2.2	2.4	2.2
Congo, Republic of	-7.5	-18.1	-16.6	-0.2	3.9	2.2	4.5	5.8
Equatorial Guinea	-6.8	-19.2	-9.0	-5.8	-4.3	-2.3	-2.2	-1.5
Gabon	7.6	1.1	-2.7	-0.1	1.5	2.1	2.4	2.9
CEMAC	-2.7	-6.1	-5.7	-1.4	-0.1	0.2	0.8	1.2
Government revenue (excluding grants)								
Cameroon	17.8	17.9	16.0	16.3	16.9	17.3	17.4	17.6
Central African Republic	4.9	7.1	8.2	8.8	9.4	9.9	10.8	12.0
Chad	15.8	10.5	9.6	11.6	11.9	12.0	12.4	12.7
Congo, Republic of	40.2	28.8	26.6	24.9	26.5	25.2	26.4	27.2
Equatorial Guinea	24.4	28.8	18.7	20.6	20.1	19.7	17.8	17.3
Gabon	29.7	21.1	17.1	18.8	18.9	19.1	19.1	19.2
CEMAC	24.0	20.2	16.7	17.5	18.0	17.9	18.0	18.2
Government expenditure								
Cameroon	22.2	20.6	22.5	20.1	19.9	19.6	19.3	19.0
Central African Republic	12.7	14.9	12.6	14.5	14.8	15.3	15.9	15.9
Chad	22.0	17.0	14.5	14.8	14.4	14.6	14.5	14.3
Congo, Republic of	48.4	48.3	44.8	27.2	24.6	25.3	24.1	23.4
Equatorial Guinea	31.6	48.4	28.5	27.0	25.1	22.7	20.8	19.6
Gabon	23.8	22.3	21.8	22.0	20.1	19.7	19.4	18.9
CEMAC	27.9	27.8	24.3	21.4	20.3	19.9	19.3	18.8
Memo item:								
Non-oil revenue (CEMAC)	10.6	12.2	11.6	11.9	12.5	13.0	13.1	13.5

Sources: Authorities' data; and IMF staff estimates and projections.
[1] Overall budget balance excluding grants and foreign-financed investment.

Table 3b. CEMAC: Fiscal Balances, 2014–21
(Percent of non-oil GDP)

	2014	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Non-oil fiscal balance (excluding grants)								
Cameroon	-9.3	-6.5	-9.6	-6.9	-6.7	-5.7	-5.0	-3.7
Central African Republic	-7.8	-7.8	-4.4	-5.7	-5.4	-5.4	-5.1	-3.9
Chad	-19.9	-13.0	-9.6	-10.3	-9.6	-9.6	-8.8	-8.1
Congo, Republic of	-88.8	-50.0	-42.4	-17.8	-15.5	-14.6	-12.4	-9.3
Equatorial Guinea	-47.6	-53.5	-26.6	-25.0	-20.6	-17.0	-16.0	-14.1
Gabon	-14.1	-12.1	-14.3	-13.3	-9.9	-8.1	-7.3	-5.9
CEMAC	-24.6	-19.4	-15.3	-11.7	-10.0	-8.7	-7.8	-6.3
Non-oil fiscal balance (including grants)								
Cameroon	-8.9	-6.3	-9.0	-6.2	-5.3	-4.4	-3.9	-3.5
Central African Republic	3.0	-0.6	1.6	-0.3	-0.1	0.0	0.3	1.1
Chad	-17.3	-8.7	-6.0	-4.3	-4.7	-5.0	-4.5	-4.6
Congo, Republic of	-87.7	-48.6	-41.1	-16.3	-14.0	-13.9	-11.7	-8.7
Equatorial Guinea	-47.6	-53.5	-26.6	-25.0	-20.6	-17.0	-16.0	-14.1
Gabon	-14.1	-12.1	-14.3	-13.3	-9.9	-8.1	-7.3	-5.9
CEMAC	-23.8	-18.4	-14.2	-10.3	-8.5	-7.3	-6.5	-5.5
Basic balance[1]								
Cameroon	-0.3	0.3	-4.1	-1.2	-0.8	-0.1	0.3	1.5
Central African Republic	-5.8	-3.5	-1.6	-2.4	-2.0	-1.6	-1.2	0.0
Chad	-5.2	-5.3	-3.4	-0.6	0.5	0.6	1.3	2.1
Congo, Republic of	-7.2	-26.7	-23.6	1.1	8.8	4.7	8.5	11.4
Equatorial Guinea	-12.2	-24.5	-11.1	-7.7	-5.7	-3.3	-3.1	-2.2
Gabon	14.5	1.5	-2.6	0.1	2.8	4.0	3.1	3.9
CEMAC	-1.4	-6.5	-6.2	-1.5	0.5	1.0	1.4	2.2
Non-oil primary fiscal balance (including grants)								
Cameroon	-8.4	-5.9	-8.4	-5.2	-4.4	-3.6	-3.1	-2.8
Central African Republic	3.6	-0.1	2.1	0.1	0.4	0.6	0.9	1.5
Chad	-16.5	-8.3	-3.5	-1.8	-3.0	-3.5	-3.2	-3.4
Congo, Republic of	-87.1	-47.7	-40.0	-14.2	-11.8	-11.0	-9.1	-6.3
Equatorial Guinea	-46.8	-53.0	-25.7	-24.2	-19.8	-16.2	-15.2	-13.4
Gabon	-11.5	-9.0	-11.0	-8.9	-6.0	-4.3	-3.6	-2.5
CEMAC	-22.8	-17.5	-12.9	-8.5	-6.9	-5.7	-5.0	-4.2
Government revenue (excluding grants)								
Cameroon	19.0	18.8	16.7	17.2	17.8	18.1	18.1	18.2
Central African Republic	4.9	7.1	8.2	8.8	9.4	9.9	10.8	12.0
Chad	21.1	13.2	11.9	14.5	14.9	15.1	15.6	15.9
Congo, Republic of	99.0	47.4	41.7	43.3	49.3	46.0	48.9	51.3
Equatorial Guinea	41.0	36.0	21.3	24.7	23.1	21.6	18.6	17.3
Gabon	47.9	31.7	24.2	26.9	26.7	26.2	25.8	25.7
CEMAC	33.8	24.8	19.7	21.2	21.7	21.4	21.2	21.4
Government expenditure								
Cameroon	23.6	21.8	23.5	21.1	20.9	20.4	20.0	19.8
Central African Republic	12.7	14.9	12.6	14.5	14.8	15.3	15.9	15.9
Chad	29.3	21.2	18.0	18.4	18.0	18.4	18.3	17.9
Congo, Republic of	119.1	79.5	70.1	47.2	45.7	46.3	44.6	44.0
Equatorial Guinea	53.2	60.5	32.4	32.4	28.9	24.9	21.7	19.6
Gabon	38.3	33.3	30.9	31.6	28.4	27.1	26.2	25.2
CEMAC	39.3	34.3	28.7	25.8	24.5	23.7	22.7	22.1
Memo item:								
Non-oil revenue (CEMAC)	15.0	15.1	13.7	14.4	15.0	15.5	15.5	15.9

Sources: Authorities' data; and IMF staff estimates and projections.

[1] Overall budget balance excluding grants and foreign-financed investment.

Table 4. CEMAC: Monetary Survey, 2015–19

	2015	2016	2017 Proj.	2018 Proj.	2019 Proj.
		(CFAF billions)			
Net foreign assets	5,888	2,498	2,548	2,687	2,959
Of which: BEAC	5,548	2,135	2,144	2,284	2,541
Foreign assets	6,238	3,037	3,470	4,005	4,596
Of which:					
Operations account	3,288	1,227	1,735	2,002	2,298
Foreign liabilities	-691	-902	-1,327	-1,721	-2,055
Commercial banks	341	362	404	403	419
Foreign assets	735	755	798	801	817
Foreign liabilities	-395	-392	-394	-398	-398
Net domestic assets	5,633	8,481	8,859	9,175	9,497
Net credit to government	-6	2,435	3,052	2,637	2,447
BEAC, net	-96	1,639	2,059	1,923	1,829
Of which:					
Advances	2,130	2,360	2,371	2,321	2,222
IMF lending	0	0	689	1,058	1,408
Consolidated debt	84	86	83	84	84
Other	-3	14	32	9	10
Government deposits	-2,484	-1,000	-1,116	-1,548	-1,896
Commercial banks, net	90	796	993	714	618
Net credit to public agencies	-516	-408	-399	-387	-398
Net credit to private sector	6,851	7,075	7,026	7,746	8,267
Other items, net	-696	-620	-820	-820	-820
Broad money	11,522	10,979	11,407	11,863	12,457
Currency outside banks	3,008	2,881	2,967	3,031	3,112
Bank deposits	8,513	8,099	8,441	8,832	9,344
		(Annual change in percent of beginning-of-period broad money)			
Net foreign assets	-17.7	-29.4	0.5	1.2	2.3
Net domestic assets	15.6	24.7	3.4	2.8	2.7
Net credit to government	14.5	21.2	5.6	-3.6	-1.6
Net credit to the private sector	-0.8	2.0	-0.4	6.3	4.4
Other items, net	4.0	0.7	-1.8	0.0	0.0
Broad money	-2.2	-4.7	3.9	4.0	5.0
Velocity (GDP/broad money)	3.9	4.0	4.0	4.0	4.0
		(Percent of GDP)			
Broad money	25.6	25.3	25.2	25.0	25.1
Private bank deposits	13.6	13.4	13.4	13.4	13.6
Net credit to the private sector	15.2	16.3	15.5	16.4	16.7

Sources: BEAC; and IMF staff estimates.

Table 5. CEMAC: Summary Accounts of the Central Bank, 2015–19

	2015 Dec.	2016 Dec. Est.	2017 March. Est.	2017 June Proj.	2017 Sept. Proj.	2017 Dec. Proj.	2018 June Proj.	2018 Dec. Proj.	2019 Dec. Proj.
					(CFAF billions)				
Net foreign assets	5,548	2,135	1,955	1,911	1,903	2,144	2,077	2,284	2,541
Assets[1]	6,238	3,037	2,996	2,978	2,928	3,470	3,749	4,005	4,596
Of which:									
Operations account	3,288	1,227	2,238	1,489	1,464	1,735	1,874	2,002	2,298
Liabilities	-691	-902	-1,041	-1,066	-1,025	-1,327	-1,672	-1,721	-2,055
Net domestic assets	-70	1,973	1,945	2,258	2,397	2,236	2,398	2,285	2,274
Net credit to government	-96	1,639	1,652	1,941	2,088	1,947	2,068	1,936	1,851
Claims	2,388	2,639	2,638	2,878	2,935	3,150	3,347	3,485	3,748
Consolidated debt	84	86	86	86	86	86	86	86	87
Advances	2,130	2,360	2,365	2,396	2,396	2,371	2,371	2,321	2,222
o.w. Cameroon	138	231	266	266	266	266	266	266	266
Central African Republic	27	27	27	27	27	27	27	27	27
Chad	423	459	459	459	459	459	459	459	411
Congo, Republic of	572	572	572	572	572	572	572	572	572
Equatorial Guinea	517	618	618	618	618	618	618	618	618
Gabon	453	453	453	453	453	428	428	378	328
IMF credit	177	178	187	397	453	689	881	1,058	1,408
o.w. Cameroon	68	50	41	148	139	210	257	288	366
Central African Republic	61	58	70	81	81	92	97	102	105
Chad	41	65	75	105	105	134	163	193	240
Congo, Republic of	7	6	5	5	70	136	188	240	344
Equatorial Guinea	0	0	0	0	0	0	0	0	0
Gabon	0	0	0	59	59	118	177	236	353
Other claims	-3	14	0	0	0	5	10	20	30
Government deposits	-2,484	-1,000	-985	-938	-846	-1,203	-1,280	-1,548	-1,896
o.w. Cameroon	-782	-301	-301	-300	-215	-553	-541	-679	-805
Central African Republic	-14	-31	-20	-28	-37	-43	-45	-35	-33
Chad	-123	-77	-10	-15	-15	-16	-20	-26	-31
Congo, Republic of	-709	-206	-237	-237	-237	-237	-321	-404	-499
Equatorial Guinea	-323	-177	-161	-146	-130	-115	-115	-115	-115
Gabon	-532	-208	-212	-212	-212	-238	-238	-289	-413
Net claims on financial institutions	277	628	603	638	629	610	651	670	744
Other items, net	-250	-293	-311	-321	-320	-321	-321	-321	-321
Base money	5,478	4,108	3,900	4,169	4,300	4,380	4,474	4,569	4,815
Currency in circulation	3,008	2,881	2,707	2,923	2,945	2,967	3,031	3,031	3,112
Banks' reserves[2]	2,199	974	959	989	995	1,003	1,025	1,047	1,103
Others	271	254	233	257	361	410	419	492	600
Memorandum items:									
Reserve coverage of broad money (in percent)	79.9	61.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Base money/deposits (in percent)	64.3	50.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: BEAC.

[1] Gross foreign reserves, including gold, foreign currency reserves, IMF reserve position, and balance of the operations account at the French Treasury.

[2] Includes cash in vault and deposits of commercial banks with the BEAC.

Table 6. CEMAC: Net Foreign Assets of Central Bank, 2016–19
(In CFAF billions)

	2016 Dec. Est.	2017 Mar. Proj.	2017 Jun. Proj.	2017 Sep. Proj.	2017 Dec. Proj.	2018 Jun. Proj.	2018 Dec. Proj.	2019 Dec. Proj.	Cumulative change 2017-19
BEAC's net foreign assets									
Stock	2,135	1,955	1,911	1,903	2,144	2,077	2,284	2,541	...
Change since end of previous year	-3,413	-180	-224	-232	9	-67	140	257	406
o.w. Cameroon	-824	-88	-239	-374	-15	-9	60	32	77
CAR	2	-16	-4	4	-17	-41	-36	21	-32
Congo	-880	-55	-19	18	-143	17	34	18	-90
Gabon	-630	-29	-17	11	52	-31	39	118	209
Equatorial Guinea	-733	22	22	22	39	0	0	0	39
Chad	-448	11	33	87	108	-4	39	71	219

Sources: BEAC; and IMF staff projections.

Table 7. CEMAC: Relative Size of CEMAC Economies and Importance of Oil Sector, 2014–2021

	2014	2015	2016	2017	2018	2019	2020	2021
			Estim.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of CEMAC's nominal GDP)							
Nominal GDP								
Cameroon	31.6	37.4	40.0	40.2	40.7	41.4	41.8	42.2
Central African Republic	1.7	2.1	2.4	2.5	2.7	2.8	3.0	3.1
Chad	13.8	14.4	13.8	13.3	13.2	13.4	13.5	13.5
Congo, Republic of	13.9	11.2	10.8	11.1	11.9	11.7	11.9	12.2
Equatorial Guinea	21.2	16.0	13.9	13.8	12.8	11.8	10.9	10.2
Gabon	17.9	18.9	19.1	19.0	18.7	18.9	18.9	18.8
CEMAC	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(Percent of each country's nominal GDP)							
Nominal oil GDP								
Cameroon	6.2	5.2	4.0	5.0	4.7	4.2	3.8	3.8
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	25.1	19.9	19.2	19.6	20.2	20.6	20.8	20.5
Congo, Republic of	59.3	39.3	36.1	42.4	46.3	45.3	46.0	46.9
Equatorial Guinea	40.8	33.6	26.3	31.6	30.6	29.7	29.0	28.8
Gabon	37.9	33.3	29.2	30.3	29.2	27.4	25.9	25.1
CEMAC [1/]	29.1	20.9	17.4	19.5	19.5	18.5	17.9	17.7
	(Percent of each country's total exports)							
Oil exports								
Cameroon	41.7	38.1	28.5	32.5	31.1	28.9	26.5	25.5
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	81.9	76.6	72.4	78.7	78.7	78.3	78.2	77.5
Congo, Republic of	88.0	78.9	80.0	84.5	87.6	86.3	84.9	83.4
Equatorial Guinea	96.7	98.3	99.0	97.8	97.7	97.6	83.0	81.9
Gabon	83.9	75.2	72.4	69.2	66.9	62.8	58.0	53.8
CEMAC [2/]	81.6	73.2	68.9	71.5	71.9	69.6	66.0	63.8
	(Percent of each country's total fiscal revenues)							
Fiscal oil revenue								
Cameroon	23.7	18.5	15.0	14.6	14.2	12.9	12.2	11.9
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	49.3	28.1	22.8	31.2	32.9	31.8	31.0	31.3
Congo, Republic of	68.6	36.7	32.5	31.0	37.4	31.8	34.8	32.9
Equatorial Guinea	86.5	80.5	72.8	69.9	64.3	63.3	69.0	68.7
Gabon	49.5	33.6	29.7	32.2	30.5	27.7	26.7	24.9
CEMAC [3/]	55.1	38.5	29.8	30.7	29.8	26.8	26.6	25.3

Sources: Authorities' data; and IMF staff estimates and projections.

[1/] The sum of the countries' nominal oil GDP divided by CEMAC's nominal GDP.

[2/] The sum of the countries' oil exports divided by CEMAC's total exports.

[3/] The sum of the countries' fiscal oil revenues divided by CEMAC's fiscal revenues.

Table 8. CEMAC: Financial Soundness Indicators for the Banking Sector, 2010–16

	2010	2011	2012	2013	2014	2015	2016	2017 (Feb)
Capital								
Regulatory capital to risk-weighted assets[1, 2]	14.8	11.2	12.4	13.0	13.7	14.0	13.4	13.8
Asset quality								
Non-performing loans (gross) to total loans (gross)	6.9	6.8	6.4	8.3	9.1	9.6	11.9	11.8
Non-performing loans less provisions to regulatory capital	7.5	0.2	1.0	25.9	22.4	22.9	35.4	32.2
Earnings and profitability								
Return on equity	18.2	23.9	23.2	27.2	20.3	16.4	-	-
Return on assets[3]	2.0	2.2	2.1	2.5	2.0	1.7	-	-
Liquidity								
Ratio of liquid assets to short-term liabilities	188.6	165.2	182.5	150.8	156.3	151.9	141.3	135.2
Total deposits to total (noninterbank) loans	125.7	138.0	145.7	130.4	127.4	111.6	102.3	100.8
Credit								
Gross loan (banks' book) - bn FCFA	4837	5273	5948	7111	7699	8486	8991	9000
Gross loan - annualized growth rate	-	9.0	12.8	19.5	8.3	10.2	5.9	7.4

Source: Banking Commission of Central Africa (COBAC).

1 Current year profits are excluded from the definition of regulatory capital, following the Basel I capital accord guidelines. General provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets. Regulatory capital is the sum of Tier 1 capital, and the minimum of Tier 1 and Tier 2 capital.

2 The risk-weighted assets are estimated using the following risk weights: 0% - cash reserves in domestic and foreign currency and claims on the central bank; 100% - all other assets.

3 The ratio of after-tax profits to the average of beginning and end-period total assets.

Annex I. CEMAC: External Sustainability Assessment

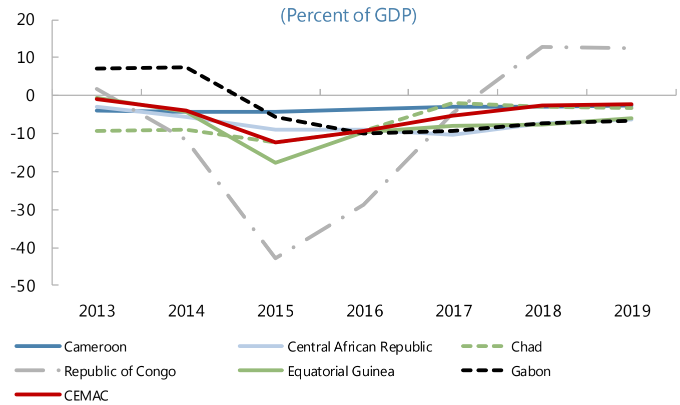
The oil price shock, coupled with expansionary fiscal policies, has led to deteriorating current account deficits in the CEMAC region, pushing foreign reserves to levels most reserve adequacy metrics deem inadequate. Foreign reserves are expected to recover gradually in the medium term as the envisaged fiscal consolidation takes hold. Meanwhile, the assessment of the real effective exchange rate points to a moderate overvaluation, whereas non-price competitiveness indicators highlights the urgent need to address key impediments to the business environment.

A. Recent Developments in External Accounts

1. **The regional external current account deteriorated amid the slump in oil prices and expansionary fiscal policies.** From a level of 3.9 percent of GDP in 2014, the current account widened three-fold to reach an estimated 12.2 percent of GDP in 2015 (Figure 1) before declining to 9.3 percent of GDP in 2016. While the sharp drop in international oil prices from mid-2014—and hence lower oil export receipts—explains to a large extent the worsening in the region's external position, deteriorating fiscal positions are also contributing factors. The primary fiscal deficit increased sharply to 6.4 percent of GDP in 2015, and remained high in 2016 (5.7 percent of GDP), partly on account of large infrastructure spending in most member countries. In particular, failure to scale down public spending in oil-exporting countries despite the drop in international oil prices has exacerbated fiscal imbalances. The high import content of investment projects largely contributed to the deterioration in the current account stemming from public spending. The current account deficit is estimated to have slightly declined in 2016 as international oil prices bottomed up and fiscal policy started to be tightened in some countries with the largest current account deficits. The regional averages, however, hide significant cross-country disparities. External imbalances are largest in the Republic of Congo (28 percent of GDP) while the current account deficit was less than 4 percent of GDP in Cameroon.

Figure 1. CEMAC: Current Account Balance, 2013–19

(Percent of GDP)



Sources: CEMAC authorities; and IMF staff estimates.

2. **Medium-term projections envisage a reduction in external imbalances, mainly supported by tighter fiscal policies.** The current account deficit is projected to return below the pre-2015 level by 2018. This is predicated on a modest recovery in international oil prices, and more importantly on a sizeable region-wide fiscal consolidation that aims to bring the region's overall fiscal balance to about 1 percent of GDP by 2019, down from 6.9 percent of GDP in 2016.

3. Foreign direct investments (FDI) contributed significantly to external financing flows. On average, FDI amounted to 5 percent of GDP in the last decade and has been relatively stable (Figure 2). It is expected to remain close to this level in the medium term as the policy environment would improve and the implementation of sound macroeconomic policies would help restore confidence. Official aid would remain also relatively stable at an average of 1 percent of GDP in the medium term, up from 0.7 percent in 2005–15, reflecting the expected stepped-up donors' commitments to support CEMAC countries in their consolidation efforts. Portfolio investment is relatively marginal, and on average contributed negatively (-0.3 percent of GDP). Overall, external financings fell short of what was required to finance the large current account deficits in 2015–16, thus leading to a depletion of foreign reserves.

B. Reserves Adequacy

4. CEMAC's reserve coverage at end-2016 came below prudent levels. Regional official reserves are estimated to have dropped from 4.9 months of prospective extra-regional imports at end-2015 to just 2.3 months at end-2016 (Figure 3). Reserve adequacy assessment methods provide somewhat diverging results. While reserve coverage in 2016 appears adequate when considering the broad money and short-term liabilities ratios—respectively 27 percent and 196 percent—the reserve adequacy ratio stood at 89 percent which is below the range of 100-150 percent considered as broadly adequate for precautionary purposes. Similarly, in terms of the most widely used metric (i.e., reserves in terms of prospective imports), reserve coverage in 2016 fell well below what is considered appropriate for a resource-rich currency union (i.e., 5 months of imports),[1,2] The cost-benefit analysis,[3] also indicates that the level of reserves is below the optimal range, which varies between 5 and 12 months of imports, depending on the interest rate differential with the rest of the world. However, considering that the French Treasury is committed to provide an unlimited guarantee for the convertibility of the CFA Franc, the level of optimal reserves for the CEMAC may be lower.

5. Going forward, fiscal consolidation is paramount to rebuild reserves and preserve external stability. The reserve coverage is projected to gradually recover to 3.6 months of imports by 2020 aided by fiscal tightening resulting primarily from unwinding public investment spending. Although this would involve a significant tightening in the primary fiscal balance of about 7 percent of GDP over 2016-20, the medium-term reserve coverage would remain somewhat lower that what is deemed as adequate for a resource-rich currency union, thus leaving the region vulnerable to adverse external shocks.

---

[1] "Assessing Reserves Adequacy", IMF Policy Paper, February 2011; and "Assessing Reserves Adequacy—Specific Proposals", IMF Policy Paper, April 2015.

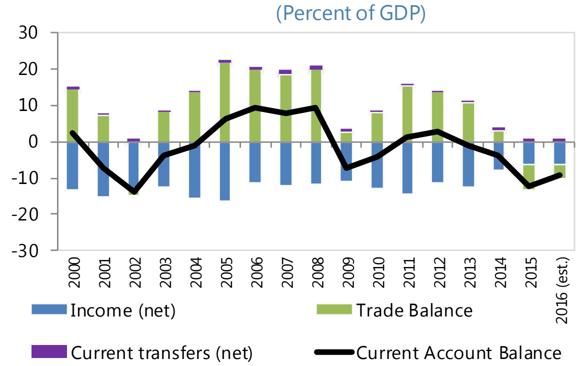
[2] These approaches do not take into account the access to reserves guaranteed by the French Treasury under the Franc Zone arrangements. For more details on the methodology, see IMF Country Report 13/322, 2013.

[3] Dabla-Norris, E., J, .I. Kim, and K. Shorono, "Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefits Analysis", IMF Working Paper 11/249, 2011.

Figure 2. CEMAC: External Sector Developments, 2000–16

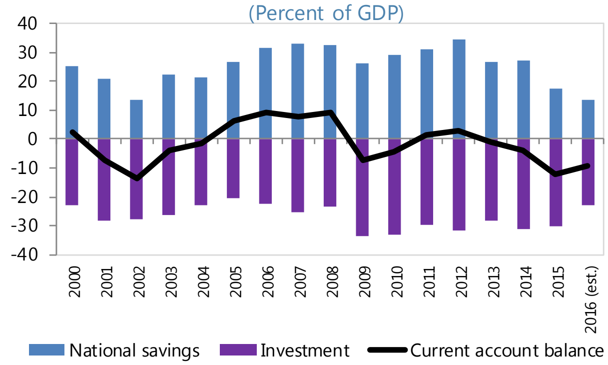
The regional current account balance has deteriorated - reflecting the evolution of trade balance and ...

CEMAC: Current Account Balance, 2000–16
(Percent of GDP)



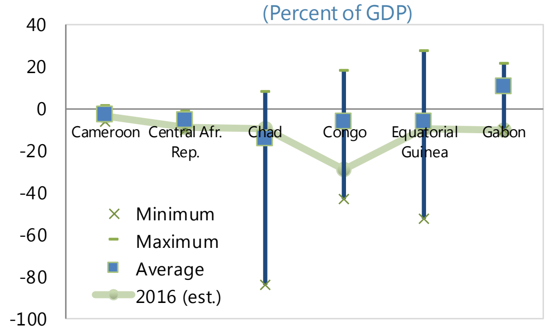
... important investment efforts ...

CEMAC: Current Account Balance, 2000–16
(Percent of GDP)



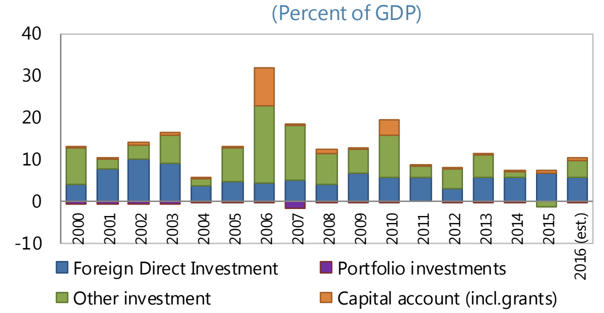
... in most CEMAC countries.

CEMAC: Current Account Balances, 2000–16
(Percent of GDP)



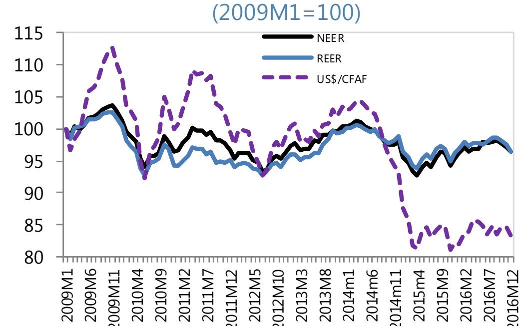
Foreign direct investment constitutes a stable source of external financing, although loans have been decreasing.

CEMAC: Current Account Financing, 2000–16
(Percent of GDP)



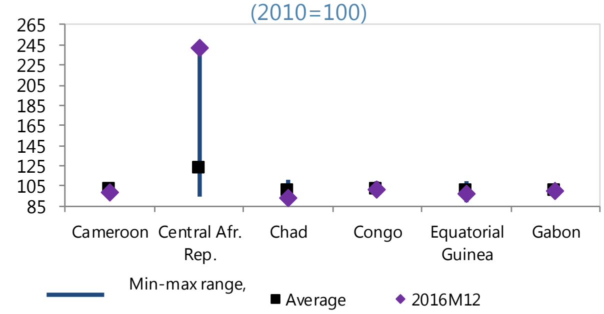
The regional real effective exchange rate has appreciated reflecting the appreciation of the euro and ...

CEMAC: Real and Nominal Effective Exchange Rates, 2009-December 2016
(2009M1=100)



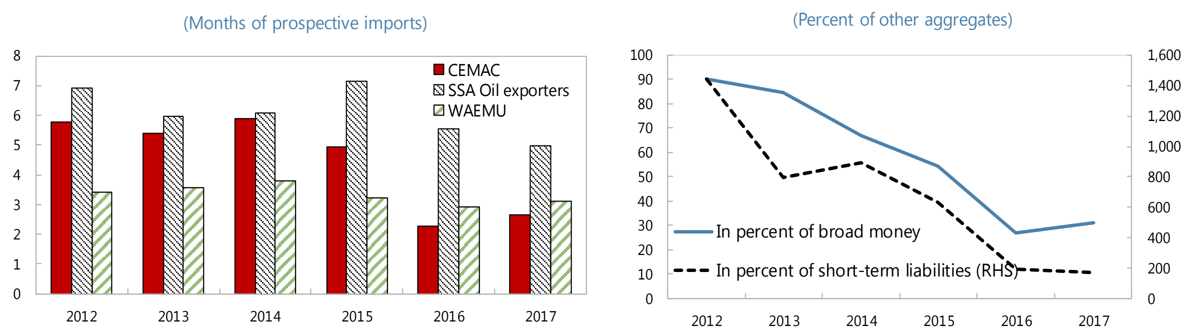
...inflationary pressures in some CEMAC countries.

CEMAC: Real Effective Exchange Rate of CEMAC Countries, 2007–December 2016
(2010=100)



Sources: CEMAC authorities; International Financial Statistics (IFS); and IMF staff calculations.

Figure 3. BEAC: International Reserves Coverage, 2012–17



Sources: AFR REO-database and IMF staff calculations.

C. Price Competitiveness

6. The assessments of the current account and real effective exchange rate (REER) at the regional level do not indicate a significant misalignment or price-competitiveness issues. The REER remained broadly unchanged in 2016, having appreciated by only 1.7 percent. The appreciation of the nominal effective exchange rate (NEER) reflecting the CFA franc's appreciation vis-à-vis the US dollar and other trading partners' currencies was partly offset by the negative inflation differential vis-a-vis trading partners. Nevertheless, some divergences could be noticed at the individual country level with a real depreciation in Chad, a relatively stable REER in Gabon, Cameroon and Equatorial Guinea, and a sharp real appreciation in the Central African Republic. Model-based and other assessments indicate a moderate overvaluation by up to 10 ½ percent (Box 1).

D. Structural Competitiveness

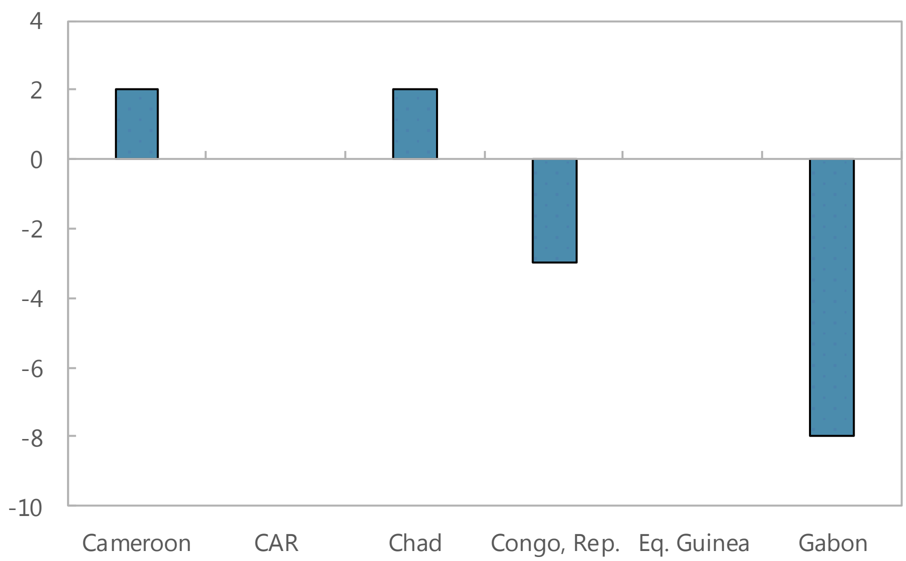
7. The World Bank "Doing Business Indicators" suggest that there is a large scope for improvement in the CEMAC countries. The weak business environment, reflected in the low scores of CEMAC countries relative to others, hampers private sector growth and job creation. Specifically:

- **Looking at the overall doing business ranking, CEMAC countries lag behind peers** in the West African Economic and Monetary Union (WAEMU) region, and more broadly in sub-Saharan Africa, although they fared marginally better than SSA oil exporters. Progress in doing business ranking was uneven across CEMAC countries. Between 2005 and 2017, the rankings of Cameroon and Chad marginally improved, that of CAR and Equatorial Guinea stagnated, while Congo and Gabon's fell noticeably (Figures 4).[4] The weak performance of CEMAC countries spans across the different sub-components of the overall doing business indicators, with the more pronounced impediments to business in the areas of starting a business, getting electricity, and enforcing contracts (Figure 5). In addition, the lack of adequate infrastructure and reliable energy supply remains a challenge. Further, procedures for paying taxes and registering properties continue to be cumbersome.

- **CEMAC countries also underperformed in terms of governance indicators**. CEMAC countries trailed behind their peers according to the World Bank's "Governance Indicators", as governance indicators worsened in the last 15 years. Governance is weaker in CEMAC even after accounting for income per capita levels.

Figure 4. CEMAC: Change in Doing Business Rankings, 2015–17

(Change in rank)



Source: World Bank Doing Business Report 2017.

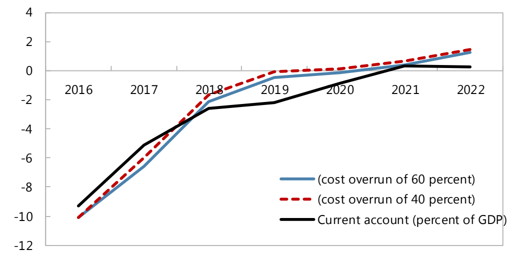
[4] Caution is needed when interpreting the results given the small number of respondents, a limited geographical coverage, and standardized assumptions about business constraints and information availability.

Box 1. CEMAC: Current Account and Real Effective Exchange Rate Assessments[1]

Alternative approaches are applied to assess regional current account and real effective exchange rate (REER) developments.

- The first approach is "EBA-Lite's" Current Account (CA) model, which compares the underlying current account balance with the model-estimated current account norm. This model shows a 9 percent overvaluation of the REER in 2016.
- The second approach is EBA-Lite's Index Real Effective Exchange Rate (IREER). The IREER regression result for CEMAC indicates a 2016 REER close to equilibrium (0.4 overvaluation).
- The third approach uses the Bems and Carvalho's real annuity method to better account for natural resource windfall revenues in CEMAC countries.[2] It computes the current account norm consistent with a long-term trend in net foreign assets to account for the impact of oil revenues. This method points to an overvaluation of 7.3 to 10.6 percent in 2016, depending on the trade elasticity used. However, the drawback of this approach is that it ignores other factors, such as temporary investment needs, financial frictions, and low investment productivity, which are non-negligible in CEMAC countries.[3]
- The fourth approach uses Araujo et al.'*s.* model, which corrects these drawbacks.[4] It estimates the current account norm consistent with natural resources revenue, investment needs, and real and financial frictions (absorptive capacities, investment productivity and efficiency, borrowing constraints). The model indicates a 1.8–3 percent REER overvaluation in 2016, depending on the cost overrun assumptions in the model (60 percent and 40 percent; see figure above) and the trade elasticity.

Figure 4. Model-Based Current Account Benchmark
(Percent of GDP)



Sources: IMF staff estmates using Araujo et al. (2013).

Taking into account CEMAC-specific factors, namely the monetary union and the French Treasury's guarantee, the results point to overall moderate overvaluation of the real effective exchange rate, provided that the current account deficit narrows as expected in the medium term.

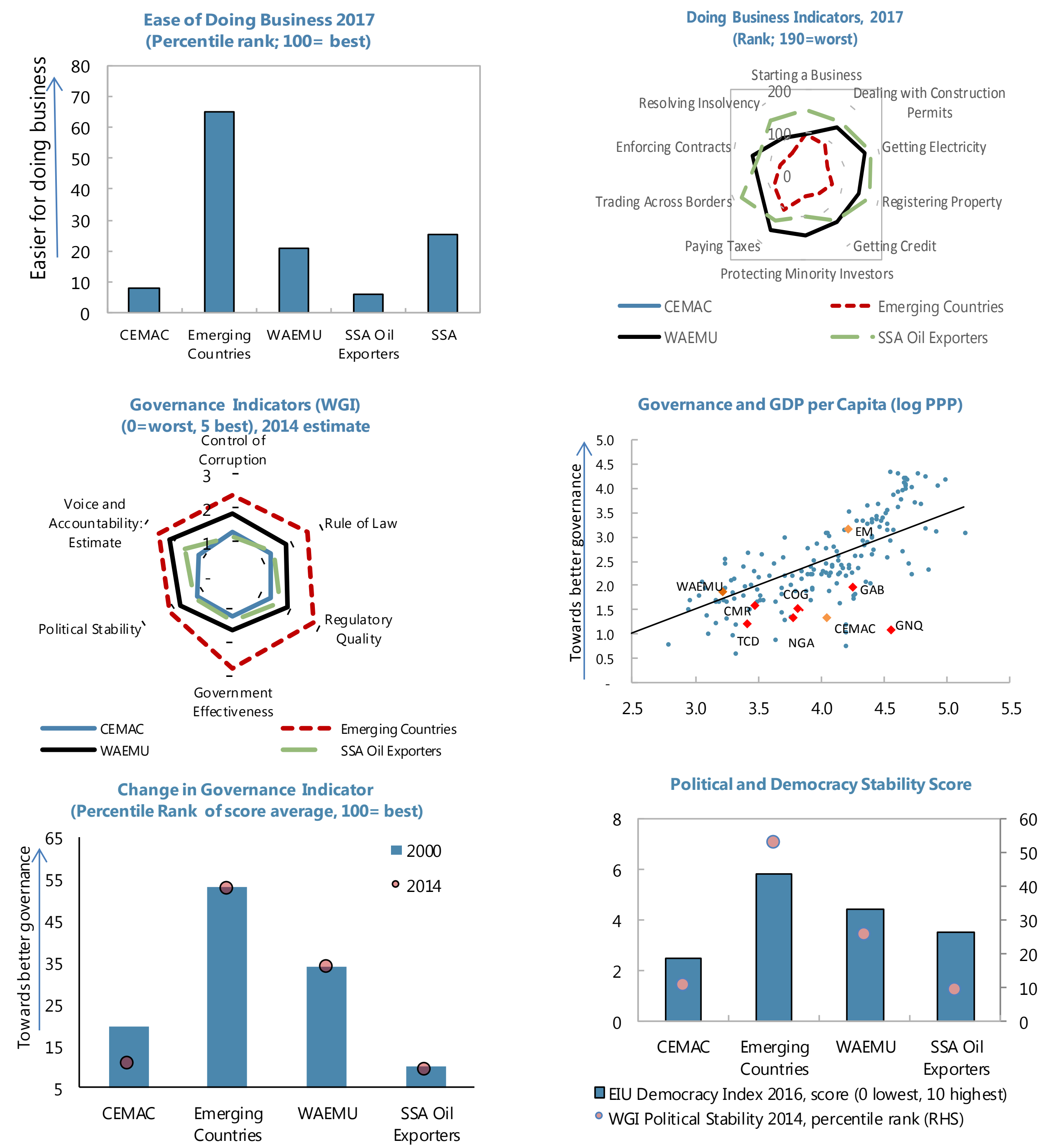
CEMAC: External Stability Assessments

	EBA-Lite, 2016		Other Assessments, 2022		
			Bems and Carvalho	Araujo et al.	
	Current Account (CA)	Index Real Effective Exchange Rate (IREER)	Constant Real Annuity	Cost overrun of 40 percent	Cost overrun of 60 percent
Current account norm (percent of GDP)	-7.6		4.5	1.5	1.3
Underylying current account (percent of GDP)	-9.3		0.3	0.3	0.3
Log REER - norm (percent)		4.61			
Log REER - actual (percent)		4.62			
Overvaluation (+)/undervaluation (-) (percent)[1]			10.6	3.0	2.5
Overvaluation (+)/undervaluation (-) (percent)[2]	6.4	0.4	7.3	2.1	1.8

Source: IMF staff estimates.
[1] Based on 0.4 trade elasticity for the Bems and Carvalho, and Araujo et al. methodologies.
[2] Based on 0.6 trade elasticity is estimated assuming exports volume and imports volume elasticities equal to zero.
Hakura and Billmeier (2008): "Trade Elasticities in the Middle East and Central Asia: What is the Role of Oil?", WP/08/216, IMF.

[1]The alternative Araujo et al. model-based approach was prepared in collaboration with Bin Li and Michele Andreolli. The EBA-Lite models do not provide a specific template for CEMAC. Hence, as a proxy, we use the EBA-Lite regression coefficients provided by the IMF's Strategy and Policy Review Department and CEMAC data, based on purchasing power parity GDP-weighted averages from the six member countries.
[2] Bems, R., Carvalho I. (2009) "Exchange Rate Assessments: Methodologies for Oil Exporting Countries", IMF Working Paper 09/281.
[3] "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries," IMF Policy Paper, August 2012.
[4]Araujo, J., Li B., Poplawski-Ribeiro M., Zanna L-F., (2013), "Current Account Norms in Natural Resource Rich and Capital Scare Economies", IMF Working Paper 13/80.

Figure 5. CEMAC: Governance and Business Indicators



Sources: World Bank Doing Business Report 2017; Economist Intelligence Unit Democracy Index 2016; World Governance Indicators 2014; and, IMF staff calculations.

1/ SSA oil exporters = Angola, Nigeria, and South Sudan.

2/ WGI overall governance indicator is calculated as the simple average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability and voice and accountability.

Appendix I. BEAC and COBAC — Letter of Policy Support for the Recovery and Reform Programs Adopted by the CEMAC Member Countries

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431
USA

Ms. Managing Director,

Following the discussions between the International Monetary Fund (IMF) and the CEMAC Institutions which took place from February 20 to March 3, 2017 in Yaoundé and Libreville, I have the honor to inform you of the measures which the Bank of Central African States (BEAC) and the Central African Banking Commission (COBAC) are considering, in support of the economic recovery and reform programs undertaken by the Member States of the Economic and Monetary Community of Central Africa (CEMAC) with the support of the IMF and other development partners.

1. **The CEMAC countries are facing a serious crisis.** Due to the impact of exogenous shocks (falling oil prices and security crisis) and insufficient adjustment efforts, the foreign reserve holdings of the BEAC have declined significantly over the last two years. Only an ambitious adjustment effort by CEMAC governments and appropriately tight monetary policy can avoid a regional balance of payments crisis.

2. **Recognizing the economic challenges facing the region, CEMAC Heads of State, at their extraordinary summit held in December 2016, have decided to restoring the conditions for macroeconomic stability and laying the basis for higher and more sustainable growth.** They also reiterated their commitment to the integrity of the exchange rate regime that has contributed to the region's financial stability in recent decades. In this context, they committed to pursuing strong adjustment programs to maintain the exchange rate peg, restore national fiscal positions, and contribute to rebuilding BEAC's external reserve position, while preserving the objectives of providing adequate social protection and promoting economic development. They also agreed that each would seek IMF assistance to support the adjustment efforts of their countries.

3. **Against this background, the BEAC and COBAC commit to supporting the recovery and reform efforts to be undertaken by all CEMAC countries through appropriate monetary and banking policies in their core areas of responsibility while facilitating coordination of policy actions across countries.** In setting regional monetary and financial sector policies, we are committed as a priority to support rebuilding regional international reserves to levels consistent with providing strong backing for the current exchange rate regime. We will also act vigorously,

cooperating with national governments as needed, to help maintain financial sector stability in member countries.

4. Rebuilding foreign reserves will require strong support from policy actions by member countries, as specified in national adjustment programs, as well as appropriate policies at the regional level. If national programs are implemented and external financial support is provided as envisaged, BEAC expects to raise its holding of foreign reserves from Euros 4.6 billion (2.3 months of projected imports of goods and services) at end-2016 to Euros 5.3 billion (2.7 months of import coverage) at end-2017; we anticipate that reserves will stabilize at Euros 4.5 billion by end-June 2017, if fiscal plans materialize as intended and with appropriate monetary policy. Looking beyond this year, we intend to continue accumulating reserves in 2018-19, reaching Euros 7.0 billion (3.2 months of import cover) by end-2019.

5. Starting from this objective, the letter describes the policy actions that BEAC and COBAC will take to support these objectives. Thanks to the national recovery and reform programs of CEMAC members, these actions will help ensure the integrity of the monetary union and of the current exchange rate regime.

MONETARY POLICY

Monetary policy stance

6. The monetary policy stance will be adjusted as needed to help rebuild external reserves and support the exchange rate peg. The expansionary policies implemented recently, which sought to help countries in the zone to absorb part of the exogenous shocks, contributed at the same time to the significant decline in reserves over the last two years. The continuation of these trends could jeopardize the anchor provided by the fixed exchange rate of the F. CFA. Going forward, the BEAC will aim at supporting international reserves accumulation. In this context, the monetary policy committee (*Comité de Politique Monétaire* - CPM) raised at its meeting of March 22, 2017 the BEAC policy rate by 50 bps (to 2.95%). Further stepwise increases in the policy rate will be implemented in conjunction with adjustments in other monetary policy instruments (including reserves requirements) if the trend of international reserves diverges substantially from the target. Closer monitoring of the situation is being set up to allow rapid policy responses when necessary, including through extraordinary meetings of the CPM held in between its regular quarterly meetings.

Gradual elimination of the BEAC's statutory advances to the member states

7. The increase in statutory advances to member states has weighed heavily on international reserves; the BEAC will work with the CEMAC member states to eliminate these advances by 2027 at the latest. Following the decision made by the Heads of State at the summit of December 2016, ceilings on statutory advances for each member country are now frozen based on 2014 fiscal revenue (2008 for the CAR). At its March 2017 meeting, the CPM instructed the BEAC Government to reach agreement with each member country on a schedule for gradual reduction in statutory advances ceilings and corresponding repayment of the amounts advanced to date, starting in 2018 at the latest, until full elimination of these BEAC advances by 2027. Exceptional advances, also currently frozen, will be repaid and eliminated within the same timeframe. We intend to formalize this reform of eliminating the overdraft facilities in the BEAC charter through their actual suppression.

8. Phasing out the use of statutory advances over time will need to be accompanied by further development of the regional government securities market. This will ensure that governments have access to alternative domestic sources of financing. We will seek technical assistance to develop options for improving the regional bond market.

Reform of the monetary policy framework and instruments

9. The BEAC will modernize its liquidity management framework to improve monetary policy transmission. Until now the BEAC has used monetary programming; by end-December 2017, it will calibrate its monetary policy operations based on autonomous liquidity factors forecasts. This new approach, adopted by the CPM of the BEAC, will be implemented during the upcoming months with technical assistance from IMF staff. It will make it possible to better manage liquidity within the CEMAC and thus contribute to better transmission of monetary policy, thereby better protecting international reserves. We note moreover that excess liquidity has dwindled and refinancing need in the market is already increasing. By October 2017, we will analyze the obstacles to the development of the interbank market and propose an action plan for 2018 (for example: strengthening the legal framework for the repurchase agreement, reducing transaction costs, expanding the publication of financial information concerning credit institutions).

10. The BEAC will simplify its monetary policy instruments. The new scheme will include a primary refinancing instrument and two permanent facilities (deposit and loan). Liquidity through primary refinancing operations will be provided on a competitive basis with a minimum rate equal to the BEAC's policy rate and, in aggregate, will be limited to amounts consistent with the regional international reserves targets. The corridor between the two permanent facilities will be sufficiently broad to encourage the development of the money market and price discovery. In addition, the new standardized methods for calculating required reserves on average will allow for better liquidity management by the banks.

Introduction of an emergency liquidity facility

11. The BEAC will define a framework for the provision of emergency liquidity to banks by end-December 2017. Mindful of the possible impact of the monetary tightening and members' states recovery plan on financial stability, the BEAC will introduce, with technical assistance from IMF staff, emergency liquidity assistance to help solvent banks with liquidity issue. ELA will be provided against (i) credit claims that are not eligible for monetary policy operations and (ii) government securities of members having reached their refinancing limit. The ELA will be provided at a higher interest rate than the one for monetary policy operation. An ELA request will trigger enhanced control of banks' financing needs (financing plan), enhanced supervision and specific supervisory measures to reduce bank's financing needs until emergency liquidity assistance has been repaid.

Financial information

12. The BEAC pursues the modernization of its credit register ("la centrale des risques"). The BEAC will upgrade the credit register by December 2018 with a new IT platform. The available information will be expanded to provide more comprehensive information on the credit history of clients and their current loans. It will also cover microfinance institutions. The project for the establishment of the register of balance sheets will be finalized before December 2017. This register will include information on the financial statements of the main CEMAC companies. In parallel, the BEAC will lay the foundations for the creation of a private credit bureau. To this end, the new credit contracts will include, as from July 2017, a clause whereby borrowers authorize credit institutions to transfer credit information to credit bureau.

EXCHANGE REGULATIONS AND REPATRIATION OF FOREIGN EXCHANGE EARNINGS

13. The BEAC will seek increased transparency in the application of the existing foreign exchange regulations and rules for the repatriation of foreign exchange. A specific area relates to the conventions signed between certain states and operators in the extractive industries. These conventions may grant exemptions with respect to the repatriation of revenue from exports.
In May 2017, the BEAC has sent requests in order to obtain copies of these conventions, including information related to the respect of foreign exchange regulations. Based on the information it will receive, the BEAC will require resident operators to re-patriate assets held overseas and to provide the necessary documentation establishing their compliance with exchange regulations. Separately, the BEAC will encourage governments to re-patriate their foreign currency deposits. In the meanwhile, the BEAC expresses gratitude for the commitment already undertaken by the IMF to help the CEMAC to better deal with this problem.

SAFEGUARD MEASURES

14. The BEAC is finalizing the implementation of remaining priority recommendations as part of the IMF safeguards "rolling measures". In fact, following numerous measures already adopted in recent years, at end-March 2017 the BEAC Board of Directors adopted legal reforms, with approval by the CEMAC Ministerial Committee, to amend the BEAC's Charter with a focus on governance provisions, particularly the collegiality in the decision making process, to facilitate checks and balances at the corporate management level and strengthen internal controls. In addition, preparations are under way for the BEAC's full transition to the international financial reporting standards (IFRS) to strengthen financial transparency. In this regards, a cabinet has been selected to support the BEAC in this reform effort. A report setting a time-bound calendar for the implementation of the IFRS is planned by the end of the first semester in 2017.

15. The BEAC will strictly apply the mechanisms provided in its charter to protect regional reserves. The BEAC charter makes provision for the Governor of the BEAC to request from the authorities concerned, together with the CEMAC Ministerial Committee, to design and implement adjustment measures when a country's situation shows a debit balance in the operations account at the central bank (Article 11.2). The BEAC will use all means at its disposal to encourage the states concerned to introduce remedial measures. It will ensure strict compliance with prudential ceilings on refinancing supported by government securities used as collateral. It will also analyze possible options for strengthening these mechanisms to have more constraining instruments for mitigating risks of potential "free riders" and thus more effectively to protect international reserves. The CPM already decided at its extraordinary meeting in May 2017 to reduce banks' refinancing ceilings in the countries with too low reserves. Other options include applying large discounts at its refinancing operations to securities issued by governments that do not comply with regional convergence criteria or lag in adopting adjustment programs. These measures will be discussed during a forthcoming meeting of the CPM.

CHALLENGES OF BANKING SUPERVISION

16. The financial sector's situation has deteriorated since 2014, having been directly impacted by the weakening of the states' fiscal balances and the decline in economic activity. The two main problems for the financial sector are the increase in nonperforming loans mainly due to domestic arrears accumulated by the CEMAC governments to certain bank customers, and the rapid reduction in liquidity due to reduced deposits.

17. Against this background, we are committed to taking a comprehensive package of measures to strengthen the resilience of the financial system, upgrade the banking supervision framework and reinforce the effectiveness of the financial safety net.

Address the accumulation of nonperforming loans associated with the states' arrears

18. We will address the recent increase in nonperforming loans through assessing the magnitude of risk related to government arrears. The COBAC will quantify by end-August 2017 the direct and indirect risks related to government arrears. Credit institution will have to decide themselves regarding the type of restructuring of their loans, to be implemented according to the modalities envisaged in Chapter UU of the COBAC Regulation R 2014/01 concerning the classification, accounting treatment, and provisioning of loans.

Deal with the situation of distressed banks

19. The situation of banks in financial difficulty will continue to be resolved in the coming months in accordance with CEMAC Regulation 02/14.[1] Given that the plans for restructuring distressed public banks has already been put together with deadlines, the COBAC will take the appropriate decisions depending on the specific situation of each bank in its next sessions. At its meeting of March 20, 2017, COBAC (i) decided to withdraw the banking license and proceed with the liquidation of two Gabonese banks as well as to place under controlled administration a third one, (ii) extended the period for the controlled administration of one Cameroonian bank until

[1] Decisions have already been taken on three of the nine banks in financial difficulty, including two withdrawals of license and one provisional administration.

September 30, 2017 at the latest, and (iii) started a disciplinary procedure against a second Cameroonian bank. Regarding the other distressed banks, COBAC will request the shareholders to submit a restructuring plan. If the commissioners deem that the restructuring plan is not credible or the conditions are not met to ensure a normal operation of the bank, they will decide to take appropriate measures in function of the gravity of the situation and in accordance with the current regulation concerning the treatment of banks in difficulty.

Ensure the proper application of supervision rules

20. The COBAC will ensure that all commercial banks permanently comply with all prudential regulation. Immediate priorities include enforcement of the following regulations: (i) related party lending; (ii) prudential provisions; (iii) exposure diversification; (iv) bank governance rules, particularly regarding requirements related to persons who are members of the board of directors of a credit institution; and (v) risk-weighting of exposures to CEMAC member states. Banks in breaches of such regulations will be required systematically to implement the appropriate corrective actions as set forth in the relevant CEMAC and COBAC regulations.

21. The COBAC will rely on strengthened actions to ensure regulatory compliance. Between now and end-2018 it will analyze the effectiveness of the corrective measures available in order to determine whether the penalties are sufficient and adequately applied. Starting in 2018, COBAC will gradually include in its on-site annual inspections program a risk-based supervision approach. Moreover, AFRITAC is currently supporting the COBAC in the implementation of a risk-based supervision approach.

Strengthening of the supervision rules

22. Between now and the end of 2018, the COBAC will examine the opportunity to strengthen existing regulations: this assessment will focus on (i) the rules related to exposure diversification, in order to maintain or reduce gradually the maximum exposure; and: (ii) the rules for provisioning and risk-weighting of secured loans and NPLs to better reflect the limited economic value of such collateral. Concerning the microfinance supervisory framework, the regulation already drafted will be adopted by the CEMAC Ministerial Committee before end-2017.

23. The COBAC will also start to implement several structural reforms in the period 2018–19. Within the context of its strategic action plan, it will introduce (i) risk-based supervision; (ii) supervision on a consolidated basis; (iii) control of financial holding companies; (iv) supervision of electronic payment services; and (v) integration of operational and (if material) market risks in the calculation of capital requirements. To further improve the efficiency and comprehensiveness of its supervisory framework, it will introduce (i) a regulatory requirement that financial groups operating in the region through separate banks be structured around a holding company (subject to the consolidated supervision and the resolution framework of the COBAC), (ii) a regulation on the designation of systemically-important credit institutions, and (iii) a regulation on the sound management of interest rate risk on banks' banking books.

Strengthening the financial safety net

24. To strengthen the framework for addressing banks in difficulty, the COBAC is planning as part of its 2016–18 strategic plan to adopt by the end of 2017 the implementation law for Regulation 02/14 on the treatment of institutions in difficulty (institutions of systemic importance, definition of the banking and non-banking sector, calculation of penalty payments for the implementation of preventive measures, treatment of first-tier distressed microfinance institutions, destiny of the subsidiary under the single authorization). Specific measures regarding the implementation of the special restructuring will be defined in 2018. These texts will define in practical terms the ways in which the difficulties of the institutions are dealt with. A first review of the implementation of this text will be carried out at the end of 2018 and the necessary adjustments could then be submitted to the Ministerial Committee of the UMAC following the assent of the BEAC Board of Directors. In 2018, COBAC will also consider the opportunity of revising Regulation 02/14, in particular to correct deficiencies and clarify certain issues related to the treatment of non-systemic institutions in financial difficulty.

25. We are committed to improving the effectiveness of the deposit insurance fund (FOGADAC), to address the shortcomings identified by the 2015 FSAP. To this end, as planned in its strategic plan, the COBAC will launch the needed procedures by end-2017 to make the FOGADAC more operational and better prepared to address bank failures. Thus, a COBAC regulation organizing FOGADAC's procedures and mechanisms for compensation and intervention will complement the current system.

26. We plan to improve the crisis preparedness of the safety net participants by strengthening and operationalizing the information-sharing and coordination between them. To this end, we will build upon the existing Financial Stability Committee of Central Africa (FDA-CA), which will include the FOGADAC as a member by end-2017. Pending its admission as an official member of the CSF-AC, FOGADAC will be invited to the next meetings of the Committee, as will the Financial Market Commission of Cameroon. By end-2018, the FDA-CA will also define its operational rules and procedures to strengthen the risk management function.

MONITORING OF DEVELOPMENTS AND DISCUSSIONS WITH IMF STAFF

27. The BEAC and COBAC will seek to improve the quality of economic and financial statistics to ensure close monitoring of monetary developments. From June 2017, the BEAC will produce and send to IMF staff a dashboard of pertinent weekly and monthly indicators (see Table attached) for close monitoring of macroeconomic developments. The COBAC will also provide IMF staff all the appropriate information to allow a close monitoring of the situation of the CEMAC banking system. For their part, IMF staff will share with the BEAC and COBAC the studies and analyzes carried out based on the information provided.

28. The BEAC and COBAC will work closely with IMF staff to support the strategy described above. Close dialogue will focus on possible implementation challenges and the potential need to recalibrate monetary and financial sector policies as developments unfold.

Ongoing dialogue via video-conferences and correspondence will be supplemented by quarterly visits by IMF staff to the CEMAC's regional institutions. Against this background, a consultation with the IMF staff will occur within a very short timeline in the case where regional reserves would deviate substantially from the expected path.

Accept the assurances of my highest consideration.

/s/

Abbas Mahamat Tolli

BEAC Dashboard: Indicators to be Provided to the IMF

Institution	Responsible unit	Indicator	Transmission to the IMF
BEAC	DC [1/]	Overall BEAC balance sheet, including level of regional foreign exchange reserves, by type of external asset, at each end of week	The following Wednesday
BEAC	DOF [2/]	10-day middle office report on regional reserves prepared for BEAC Government	Every 10 days, after the end of the end of the decate
BEAC	DC	Balance of government deposits at BEAC	Every 10 days
BEAC	DC, DCMCCB[3/]	Balance of banks deposits (i.e. reserve requirements, current accounts and deposits and investments) at BEAC	Every 10 days
BEAC	DCMCCB	Monthly table of daily liquidity injections and withdrawals vis-a-vis financial institutions with intervention rates	10 days after the end of the month
BEAC	DCMCCB	Monthly table of treasury bonds (BTA in French) and treasury bills (OAT in French) by country, including new issuances and repayments.	10 days after the end of the month
BEAC	DC	BEAC balance sheet with breakdown by country at the end of the month	20 days after the end of the month
BEAC	DESF [4/]	Monetary situation of the Zone at the end of the month with country-allocations	30 days after the end of the month
BEAC	DSMP [5/]	Monthly statement of entries and exits of foreign exchange by economic agent (public, private and other sectors)	30 days after the end of the month
COBAC	DRE [6/]	Monthly table of the financial stability indicators of the Zone [7/]	30 days after the end of the month, send them to the IMF's CEMAC team
COBAC	DRE	Monthly table of the financial stability indicators of each member state [8/]	30 days after the end of the month, send them to the IMF's CEMAC team
COBAC	DREC	Customer deposits at the end of the month	30 days after the end of the month
COBAC	DRE	Outstanding loans at the end of the month	30 days after the end of the month
COBAC	DRE	Outstanding doubtful loans at the end of the month	30 days after the end of the month

Notes:
[1/] DC: Directorate of Accounting;
[2/] DOF: Directorate of Financial Operations;
[3/] DCMCCB: Directorate of Credit, Capital Markets and Banking Supervision;
[4/] DESF: Directorate of Studies and Financial Stability;
[5/] DSMP: Directorate of Systems and Means of Payment;
[6/] DRE: Directorate of Studies and Regulation of COBAC;
[7/] This table is not provided by the COBAC to the IMF's Statistics Department;
[8/] This table is provided by COBAC to the IMF's Statistics Department, but goes through a process of methodological validation before reaching the Africa Department with some delay. A direct transmission to the CEMAC team would greatly reduce the transmission time for follow-up