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CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

December 2017

COMMON POLICIES OF MEMBER COUNTRIES, AND COMMON POLICIES IN SUPPORT OF MEMBER COUNTRIES REFORM PROGRAMS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR

In the context of the common policies of member countries, and common policies in support of member countries reform programs, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 15, 2017, following discussions with regional institutions that ended on October 31, 2017. Based on information available at the time of these discussions, the staff report was completed on November 29, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director.**

The document listed below will be separately released.

Selected Issues

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IMF Executive Board Concludes Annual Discussions on CEMAC Common Policies, and Common Policies in Support of Member Countries Reform Programs

On December 15, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the annual discussions with the Central African Economic and Monetary Community (CEMAC) on Common Policies of Member Countries and Common Policies in Support of Member Countries Reform Programs.[1]

The sharp decline in oil revenues since 2014 continues to impair the regional economic situation. Growth has sharply declined since 2014 to -1 percent in 2016, reflecting a deterioration in oil production (-6 percent) and subdued non-oil GDP growth (around 1 percent). This stemmed from a sizeable reduction in public spending by most countries and the large accumulation of budget arrears over that period. The short-term outlook for the region continues to be weak, with growth projected to remain negative at -½ percent in 2017, due to reduced public spending and further declining oil production. Inflation remains low as economic activity is weak.

Reflecting the continuation of fiscal consolidation efforts, the average non-oil primary fiscal deficit would continue to decline to about 8 ½ percent of non-oil GDP in 2017 from 13 ½ percent in 2016. The estimated total public debt-to GDP ratio for the region has been revised upwards to just above 50 percent of GDP at end-2016, up from 28 percent at end-2014. The current account deficit is projected to decline from 10 percent of GDP in 2016 to about 5 percent of GDP in 2017, due to larger oil and non-oil exports and compression in imports. Following a rapid decline in the external reserves coverage ratio from 5.8 months of imports at end-2014 to 2.2 months at end-2016, external reserves have stabilized and picked up in the third quarter of 2017, reflecting

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of these bilateral Article IV consultation discussion, staff hold separate annual discussions with the regional institutions responsible for common policies in four currency unions – the Euro Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collects economic and financial information, and discusses with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member.

a combination of IMF disbursements and underlying fiscal adjustment by member countries. Meanwhile, the financial sector continues to show signs of weaknesses, with declining bank deposits, flat credit to the economy and increasing non-performing loans.

CEMAC's national authorities and regional institutions have taken initial steps to restore external and fiscal stability following the sharp drop in oil prices. They have resolved to put in place a strong and coordinated policy response by all member countries and each agreed to seek IMF support for implementing this strategy. Three countries (Cameroon, Chad, and Gabon) have adopted new IMF-supported programs, while CAR has adjusted an existing one. The regional central bank (BEAC) and the regional banking supervisor (COBAC) have started implementing supportive policies to help rebuild regional reserves and ensure financial sector stability, as part of a comprehensive package of policy commitments. In particular, the BEAC has pursued tighter monetary policy, with an increase in its policy rate in March 2017 and a strict control on bank refinancing, and decided to eliminate statutory advances by end-2017. COBAC has taken initial steps to enhance risk-based supervision and address several banks in difficulty.

The medium-term outlook remains challenging. It foresees a gradual improvement in the economic and financial situation in the region, assuming full implementation of policy commitments by CEMAC member states and regional institutions. It assumes continued fiscal consolidation (about 6 percent of GDP improvement in the overall fiscal balance from 2016 to 2019), initially through cuts in non-priority public investment and a gradual increase in non-oil budget revenue. Policies to diversify the economies by improving the business environment, including through enhanced governance and transparency, would support higher growth in the medium term. The monetary policy stance would be kept tight as needed to support external stability and reserves accumulation. This outlook entails important risks related to the global economic developments and its impact on oil prices, possible weaker-than-expected policies owing to constraints and/or lack of political support, possible delays in concluding programs with the remaining CEMAC countries, and still difficult security conditions.

Executive Board Assessment[2]

Executive Directors noted that the sharp decline in oil revenues since 2014 continues to impair the region, with regional economic growth turning negative, and fiscal and external imbalances widening in the past two years. While the acute phase of the crisis has somewhat lessened, the outlook will continue to face substantial risks. Directors stressed that full implementation of policy commitments by CEMAC member states and regional institutions would be essential to support a gradual improvement in the regional economic and financial situation over the medium term.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the initial steps taken by CEMAC countries' national authorities and the regional institutions to avert a crisis and restore external and fiscal stability. They noted that the implementation of national budget policies under Fund-supported programs has been broadly satisfactory and, along with BEAC's tighter monetary policy and financial support from development partners, have contributed to a recovery in BEAC's foreign exchange reserves.

Directors urged CEMAC countries' national authorities to fully implement their commitment to steadfast fiscal adjustment to restore the external sustainability of individual members. Continued efforts to diversify the economy, including in the context of the regional program for economic and financial reforms, would also help reduce vulnerabilities to oil price shocks and pave the way for sustained and inclusive growth. Directors noted that the regional strategy remains incomplete until all CEMAC members have embarked on reform programs that could be supported by development partners. In this context, they encouraged BEAC to continue to mitigate risks of undue pressure on regional reserves from some member countries.

Directors commended BEAC's resolve to support the regional strategy and implement reforms to enhance its effectiveness. They supported the monetary policy tightening in 2017 and welcomed the early decision to eliminate statutory advances. They welcomed BEAC's commitment to consider a further monetary policy tightening should reserves accumulation fall short of BEAC's objectives. Directors noted that the modernization of the monetary policy framework will help strengthen monetary policy transmission, and welcomed the steps taken to implement the outstanding safeguards recommendations. Continued efforts to strengthen implementation of foreign exchange regulations will also be important.

Directors welcomed the initial actions taken by the regional banking supervisor to mitigate risks to the financial sector. They encouraged COBAC to implement more forcefully its measures to address weaknesses in the banking sector, in particular to work with banks on reducing nonperforming loans, enhance enforcement of prudential rules, and resolve insolvent banks. They also welcomed the shift to risk-based supervision.

Directors noted that the new regional convergence framework could help strengthen macroeconomic policies in member countries but would need to be better enforced. They urged the regional institutions to continue to enhance their macroeconomic management capacity and address shortcomings in regional statistics.

Directors considered that BEAC and COBAC have implemented the policy assurances provided in the June 2017 Letter of Policy Support, and endorsed the actions outlined in the follow-up letter from the BEAC Governor. They emphasized the importance of regularly assessing the union-level policy actions and seeking additional union-level policy assurances if material policy or reform changes were to become necessary. They welcomed staff's intention to report regularly on their discussions with the regional authorities on their policies in support of CEMAC countries' reform programs.

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

CEMAC: Selected Economic and Financial Indicators, 2014-21

	2014	2015	2016 Est.	2017 CR[4]	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
	(Annual percent change)								
National income and prices									
GDP at constant prices[1]	4.6	1.6	-1.0	0.7	-0.6	1.6	3.2	3.8	3.7
Oil GDP[1]	3.6	2.5	-6.2	-1.6	-3.7	7.0	1.7	0.3	-3.7
Non-oil GDP[1]	4.3	0.9	1.1	1.8	1.3	1.9	3.9	4.6	5.0
Consumer prices (period average)[2]	2.7	2.8	1.3	1.2	1.1	1.5	1.8	2.2	2.3
Consumer prices (end of period)[2]	2.4	1.9	0.4	1.3	1.3	1.7	1.8	2.3	2.4
	(Annual changes in percent of beginning-of-period broad money)								
Money and credit									
Net foreign assets	-7.6	-17.7	-28.4	0.5	-1.1	2.3	2.2	…	…
Net domestic assets	17.0	15.6	23.5	3.4	-2.4	4.8	3.9	…	…
Broad money	9.4	-2.2	-4.9	3.9	-3.5	7.1	6.2	…	…
	(Percent of GDP, unless otherwise indicated)								
Gross national savings	28.9	13.8	12.6	17.4	15.6	16.8	17.8	19.3	20.2
Gross domestic investment	30.4	26.8	22.5	22.5	20.6	21.0	23.0	21.9	21.7
Of which: public investment	13.0	9.0	7.3	7.3	5.1	4.9	4.9	4.9	4.9
Government financial operations									
Total revenue, excluding grants	23.2	19.1	16.1	17.5	15.8	16.5	16.8	17.0	17.0
Government expenditure	28.3	27.2	24.4	21.4	20.2	18.9	18.4	17.9	17.7
Primary fiscal basic balance[3]	-1.7	-5.0	-4.3	0.2	-0.2	1.6	2.4	3.0	3.2
Overall fiscal balance, excluding grants	-5.2	-7.2	-7.9	-4.0	-4.8	-2.9	-1.8	-1.2	-0.7
Primary fiscal balance	-4.0	-6.5	-6.2	-1.4	-1.9	-0.1	0.6	1.2	1.2
	(Percent of non-oil GDP, unless otherwise indicated)								
Non-oil overall fiscal balance, excluding grants	-25.6	-18.3	-15.5	-11.7	-12.0	-9.8	-8.1	-7.0	-5.9
Non-oil primary fiscal balance, including grants	-23.9	-17.4	-13.5	-8.5	-8.5	-6.4	-5.2	-4.2	-3.7
Total Public Debt (percent of GDP)	28.3	42.7	50.4	46.7	52.1	52.5	51.4	49.2	46.7
External sector	(Percent of GDP, unless otherwise indicated)								
Exports of goods and nonfactor services	43.5	34.5	30.2	36.4	32.2	31.4	30.8	31.0	30.7
Imports of goods and nonfactor services	40.4	43.2	35.0	35.9	32.8	31.9	32.6	30.4	29.1
Balance on goods and nonfactor services	3.1	-8.7	-4.7	0.5	-0.6	-0.5	-1.8	0.6	1.6
Current account, including grants	-1.5	-13.0	-9.9	-5.1	-5.0	-4.3	-5.2	-2.6	-1.5
External public debt	19.4	28.1	29.9	26.9	32.6	34.2	35.6	35.2	34.2
Gross official reserves (end of period)									
Millions of U.S. dollars	15,823	10,344	4,969	5,610	5,890	7,199	8,422	10,003	10,770
Months of imports of goods and services (less intra-intraregional imports)	5.8	4.8	2.2	2.7	2.7	3.0	3.6	4.2	4.5
Percent of broad money	71.5	54.1	28.2	30.4	31.1	35.4	38.8	42.5	44.3
Memorandum items:									
Nominal GDP (billions of CFA francs)	51,590	46,449	45,093	45,323	46,206	47,633	49,990	52,861	55,825
CFA francs per U.S. dollar, average	494	591	593	…	…	…	…	…	…
CFA francs per U.S. dollar, end-of-year	532	603	622	…	…	…	…	…	…
Oil production (thousands of barrels per day)	902.2	941.1	879.0	854.0	828.4	884.5	889.7	881.6	827.7
Oil prices (US dollars per barrel)	96.2	50.8	42.8	55.0	50.3	50.2	50.5	51.1	51.9

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

[1]Absent a common base year for all countries, regional growth rates are derived as weighted averages of national growth rates (with weights corresponding to the previous year nominal GDPs, estimated in PPP terms for total GDP and in non-PPP terms for oil and non-oil GDP).

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

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

[4] Refers to the projections published in the IMF Report No 17/176.

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

November 29, 2017

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

KEY ISSUES

Context and risks. The sharp decline in oil revenues since 2014 continues to impair the region. In the last two years, regional economic growth has turned negative, fiscal and external imbalances have widened, public debt has risen rapidly, and financial sector vulnerabilities have increased. CEMAC national authorities are implementing fiscal adjustment policies to restore their external and fiscal stability, with the support of the IMF in four countries (Cameroon, Central African Republic, Chad and Gabon). Regional institutions also adjusted policies to assist the rebuilding of regional reserves and ensure financial sector stability. Since mid-2017, the decline in reserves has stopped, but the economic situation remains difficult. Main risks relate to an uncertain macroeconomic outlook dependent on oil prices, possible weaker-than-expected policies owing to capacity constraints and/or lack of political support, possible delays in concluding programs with the remaining countries, and still difficult security conditions.

Policy recommendations

- **Policy mix.** The policy strategy pursued by the regional and country authorities is broadly appropriate. It envisages a sizable fiscal adjustment in each CEMAC member country supported by appropriately tight monetary policy to restore external stability. The authorities are taking initial steps to mitigate risks to the financial sector. Policies to diversify the economy will be key to reduce vulnerabilities to oil price shocks and restore sustained growth.

- **Monetary policy and financial sector reforms.** The monetary policy stance is appropriately calibrated for now. Should reserve accumulation fall short of the regional central bank's objectives, a further tightening should be considered. Important initial steps are being taken to enhance the financial sector supervisory framework, moving towards a risk-based approach. The reform momentum should be maintained and put COBAC supervision on a full risk-basis, enhance enforcement of prudential rules, and deliver resolution of insolvent banks.

- **Regional integration and convergence framework.** The new regional convergence criteria allow for saving part of oil tax revenue, a step in the right direction. It will be important to strengthen enforcement of the regional surveillance framework to help prevent future crisis. Efforts to deepen regional integration should be reinforced to support higher growth and strengthen the region's resilience to shocks. This will require overcoming the capacity constraints that the regional institutions are facing.

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

Discussions were held during October 18–31, 2017 in Libreville (Gabon), Douala and Yaoundé (Cameroon), and N'Djamena (Chad). The staff team comprised Messrs. Toujas-Bernaté (head), Martin, and Rosa, Ms. Perinet (all AFR), and Messrs. Fleuriet, Dupont (MCM), and Kpodar (SPR). The mission held discussions with Mr. Abbas Mahamat Tolli, Governor of the Central Bank of Central African States (BEAC); Mr. Halilou Yerima Boubakary, Secretary General of the Banking Commission of the Central African States; Mr. Paul Tasong, Commissaire of the CEMAC Commission; and other senior officials of these institutions and of the banking sector.

This is a report on the annual consultation discussions with the regional institutions responsible for common policies in the Central African Economic and Monetary Union (CEMAC) pursuant to the Decision on the Modalities for Surveillance over Central African Economic and Monetary Union Policies in the Context of Article IV Consultations with Member Countries (Decision No. 13654-(06/01), as amended), as well as the common policies in support of CEMAC member countries' Fund-supported programs

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BACKGROUND AND RECENT DEVELOPMENTS

1. CEMAC's national authorities and regional institutions have taken initial steps to avert an outright crisis and restore external and fiscal stability following the sharp drop in oil prices. Against the backdrop of fast declining regional reserves and lower growth since 2014, CEMAC's Heads of States, at an extraordinary summit in December 2016, resolved to put in place a strong and coordinated policy response by all member countries and each agreed to seek IMF support for implementing this strategy (see IMF Country Report No. 17/176).[1] Since then, three countries (Cameroon, Chad, and Gabon) have adopted new IMF-supported programs, while CAR has recalibrated an existing one. Discussions with the Republic of Congo and Equatorial Guinea have been delayed but are ongoing. At the same time, regional institutions (BEAC, COBAC) have started implementing supportive policies, complementing fiscal adjustment by member countries, to help rebuild regional reserves and ensure financial sector stability as part of a comprehensive package of policy commitments. The adjusted regional policies reflect a number of past IMF staff recommendations (see Annex II).

2. The regional economic situation remains difficult. Growth has sharply declined since 2014 to -1 percent in 2016, reflecting a deterioration in oil production (-6 percent) and subdued non-oil GDP growth (around 1 percent). This stemmed from a sizeable reduction in public spending by most countries and the large accumulation of budget arrears over that period. The short-term outlook for the region continues to be weak, with growth now projected to remain negative at -½ percent in 2017 (down from +¾ percent in previous projections), reflecting low non-oil growth still dragged by declining public spending and further declining oil production. Such growth slowdown is often experienced during periods of adjustment in countries with fixed exchange rate regimes. Still low oil prices on average in 2017 have added pressure on government revenue, which are compensated by reprofiling budget execution, and on exports proceeds. Inflation is low and is projected to remain well below the regional convergence ceiling, largely reflecting weak activity.

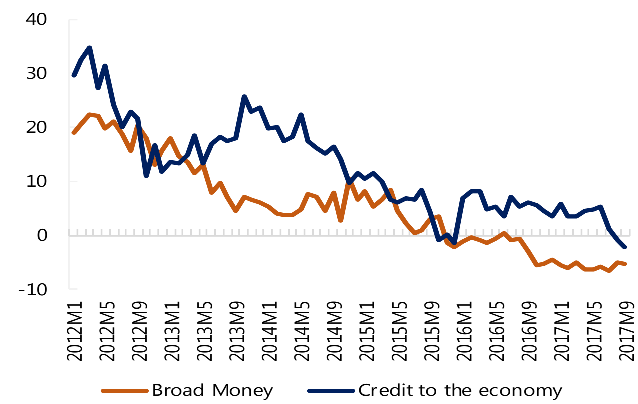
3. The implementation of national budget policies under Fund-supported programs is broadly on track. Against lower oil and non-oil revenue than previously projected, further reduction in budgetary expenditure should bring the average non-oil primary deficit down as planned to about 8½ percent of non-oil GDP in 2017 from 13½ percent in 2016. The estimated total public debt-to-GDP ratio for the region has been revised upwards to just above 50 percent at end-2016, up from 28 percent at end-2014, reflecting large fiscal deficits during the period as well as upward revisions in public debt data (including arrears) in some countries.

4. The regional central bank (BEAC) has maintained a tight monetary policy stance, consistent with the focus on regional external stability. After increasing its policy rate by 50 bps in March 2017, the BEAC maintained a strict control on bank refinancing, which declined through October 2017. With a freeze on gross credit to governments, BEAC's net domestic assets have been

[1] Previous projections mentioned in the text below refer to those presented in this country report.

kept broadly stable since end-2016, below previous projections, and are projected to remain so through end-2017. As broad money declined more than previously projected, by 5.4 percent y-o-y in September 2017, banks face low liquidity and have remained cautious in buying government securities and extending credit to the private sector. As a result, credit to the private sector declined by 2.1 percent y-o-y in September.

Text Figure 1. CEMAC: Broad Money and Credit to the Economy, Jan. 2012–Sept. 2017
(Percentage change, y-o-y)



Source: IMF; IFS.

5. External reserves have stopped declining and picked up in the third quarter of 2017. After declining during the first half of the year by about €700 million, reserves have increased by about € 600 million during the third quarter, to reach about € 4.6 billion by end-September (BEAC NFA accumulation between March and September 2017 was larger than previously projected). This accumulation reflects a combination of IMF disbursements (about € 270 million in the third quarter) and underlying fiscal adjustment and import compression by member countries. It also reflects stricter controls on the implementation of the foreign exchange law by BEAC. The current account deficit is projected to decline from 10 percent of GPD in 2016 to about 5 percent of GDP in 2017, as previously projected, reflecting larger oil and non-oil exports and a sizeable compression in imports. With external budget support projected to attain about €1.5 billion in the last quarter of 2017, regional reserves are projected to increase to €5 billion by end-year. This will be equivalent to about 2.7 months of imports, up from 2.2 months at end-2016, in line with previous projections.

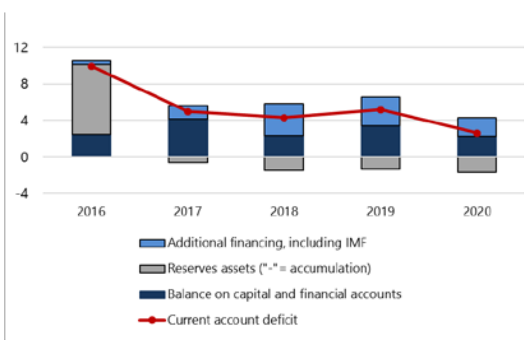
6. The financial sector continues to show increasing weaknesses. The weak economic activity and the fiscal consolidation are impacting both sides of commercial banks' balance sheet, with a further increase in nonperforming loans, from already high levels, and a decline in deposits (see Table 11). The accumulation of large domestic government arrears, which continues in some countries, has been a prominent factor in the increase of NPLs. Together, these developments have further increased the vulnerabilities of the financial sector. Nevertheless, banks' profitability remained stable in 2016 and the average capital adequacy ratio increased in 2017. The resolution of non-systemic troubled banks remains difficult, but several decisions were recently taken by the banking commission (COBAC) to move the process forward, including to liquidate two public Gabonese banks and put a third one under conservatorship (see Annex IV).

OUTLOOK AND RISKS

7. The medium-term outlook foresees a gradual improvement in the economic and financial situation in the region, assuming full implementation of policy commitments by CEMAC member states and regional institutions.[2] It assumes continued fiscal consolidation (about 6 percent of GDP improvement in the overall fiscal balance from 2016 to 2019), initially through cuts in non-priority public investment, and, in a second stage, an increase in non-oil budget revenue. The monetary policy stance would be kept tight as needed to support external stability and reserve accumulation. Repayment of government arrears coupled with continued focus on improving the business environment and strengthening the financial sector to support increased credit to the private sector will be critical to enhance growth prospects in non-oil sectors, resulting in growth increasing gradually to 3 percent by 2019 and hovering at about 3¾ percent beyond. After reaching 52 percent of GDP in 2017, total public debt would broadly stabilize in 2018 and then gradually decline to about 47 percent of GDP by 2021, supported by ongoing fiscal adjustment. The external current account deficit is projected to gradually decline to about 1½ percent of GDP by 2021, as a further import compression and increase in non-oil exports would more than offset the projected decline in oil exports. While the external position of the CEMAC region is assessed to be weaker than implied by fundamentals and desirable policies (Annex V), the projected consolidation of the current account would bring the regional external position back to a sustainable position in the medium term. As a result, reserves coverage would exceed 3½ months of imports by 2019, and be close to 4½ months of imports by 2021. This outlook has been revised relative to previous projections (see Text Table 1), mainly to reflect: (i) the recognition of extra-budgetary spending previously not captured in official data for the Republic of Congo; (ii) lower oil production and revenues in some CEMAC countries; (iii) lower oil and non-oil growth in 2017 and 2018; and (iv) projected higher FDI in

Current Account Deficit and Sources of Financing, 2016-20

(in percent of GDP)



Net Foreign Assets of the Central Bank, 2017–19

(in CFAF billions)

Sources: BEAC and IMF Staff estimates.

[2] In staff's current framework, the outlook for Republic of Congo and Equatorial Guinea reflects an expectation for possible IMF-supported programs with both countries, assumed to start during 2018. These projections are provisional and subject to discussions with the authorities and staff agreement.

some countries related to newly identified projects. All these changes resulted in somewhat higher gross official reserves in the outer years than previously projected.

8. This outlook entails important risks related to the global economic developments, policies implementation, and security conditions (Annex I):

- A first set of risks stems from the uncertainty about the macroeconomic outlook. A further drop in oil prices, possibly resulting from lower global growth, would put additional pressure on fiscal and external balances. The combined strong fiscal consolidation and tight monetary policy could also have a larger negative impact than currently anticipated on non-oil growth, which would weaken debt dynamics. A weaker macroeconomic environment would also further weaken the financial sector, which could in turn place further pressure on the public sector and external accounts. If these risks were to materialize, additional fiscal and external adjustment would be required. On the other hand, higher oil revenues than currently projected, part of which would be saved under the IMF-supported programs, would contribute to more rapid reserves accumulation.

- A second risk is weaker-than-expected adjustment policy implementation, owing to capacity constraints and/or lack of political support. Meeting the ambitious fiscal adjustment objectives will require steadfast implementation of far-reaching reforms to enhance PFM systems and increase non-oil revenue collection, which proved challenging in the past. Country authorities will need to continue to demonstrate strong resolve to guard against possible reform fatigue.

- Other downside risks relate to possible shortfall in external financing, including from debt restructuring.

- Uncertainties remain about whether and when ongoing discussions with Equatorial Guinea and Republic of Congo on possible Fund-supported programs can be completed. Until then, maintaining the solid ring-fencing that BEAC has implemented so far will be critical to protect regional reserves but may risk plunging these two countries into deeper liquidity crisis if it lasts too long. In addition, until programs are concluded and new external financing is provided, these two countries would not be able to contribute to the regional reserves build-up envisaged in the regional strategy. Under such a scenario, both countries would have to further compress their public spending because of much tighter financing and cash constraints, leading to even deeper declines in economic activity and substantial negative spillovers to the financial sectors. Additional adjustment in regional and other countries' policies would be needed to achieve current objectives for reserves accumulation.

- The security situation remains precarious in some areas, including CAR, the Lake Chad region, and the Pool region in Congo. Lingering or deepening security risks would negatively affect economic activity and lead to increased military spending.

Text Table 1. CEMAC: Selected Macroeconomic Indicators

	Country Report No 17/176 [1]					Current Projections				
	2016	**2017**	**2018**	**2019**	**2020**	**2016**	**2017**	**2018**	**2019**	**2020**
National income and prices	(annual percent change)					(annual percent change)				
GDP at constant prices	-0.9	0.7	3.2	2.8	3.5	-1.0	-0.6	1.6	3.2	3.8
Oil GDP	-8.2	-1.6	7.9	-1.4	0.2	-6.2	-3.7	7.0	1.7	0.3
Non-oil GDP	1.3	1.8	2.7	3.5	4.1	1.1	1.3	1.9	3.9	4.6
Consumer prices (period average)	1.3	1.2	1.6	1.9	2.2	1.3	1.1	1.5	1.8	2.2
External sector	(percent of GDP, unless otherwise indicated)					(percent of GDP, unless otherwise indicated)				
Current account, including grants	-9.3	-5.1	-2.6	-2.3	-0.9	-9.9	-5.0	-4.3	-5.2	-2.6
Government financial operations										
Primary fiscal balance	-5.7	-1.4	-0.1	0.2	0.8	-6.2	-1.9	-0.1	0.6	1.2
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-12.9	-8.5	-6.9	-5.7	-5.0	-13.5	-8.5	-6.4	-5.2	-4.2
Total public debt	46.5	46.7	45.6	44.9	42.5	50.4	52.1	52.5	51.4	49.2
Gross official reserves (end of period)										
Months of imports of goods and services	2.3	2.7	3.0	3.2	3.6	2.2	2.7	3.0	3.6	4.2
Net foreign assets (annual change in billion CFAF)	-3.413	9	140	257	...	-3,294	-107	259	245	125

[1] Refers to the IMF Staff Report on the common policies in support of member countries reform programs, published in June 2017.

Sources: IMF Staff Estimates.

IMPLEMENTATION OF THE REGIONAL STRATEGY TO ADDRESS THE CRISIS

Staff discussed with the regional authorities how the regional strategy aimed at re-establishing external sustainability and ensuring financial stability in the region is being implemented. With national fiscal policies in countries with IMF-supported programs broadly on track so far, the discussions focused on supportive actions by the BEAC and the COBAC to maintain an appropriate monetary policy stance, support the build-up of regional reserves, and support financial sector stability. These policy commitments— which were laid out in BEAC's Letter of Policy Support of June 2017 and have started being implemented—remain valid and their implementation will continue to be monitored closely by staff (see Table 13).

A. Fiscal Consolidation

9. **At the national level, member-states are pursuing fiscal consolidation efforts to ensure fiscal sustainability and contribute to the rebuilding of an adequate level of international reserves.** As envisaged at the outset of the regional strategy, these efforts focus primarily on cuts in non-priority spending in 2017. While this streamlining will continue over the medium term, measures to increase non-oil revenue will play a more prominent role starting in 2018. Overall, these efforts should provide for a reduction of the overall fiscal deficit across member countries from 4.8 percent of GDP in 2017 to 0.7 percent of GDP in 2021, despite a decline in oil revenue, while preserving social protection programs. This decline will in turn allow both for the repayment of budgetary arrears and, along with the gradual recovery in nominal growth, for the stabilization of public debt in 2018 and its gradual reduction from 2019 onward. Consistent with the objectives of rebuilding an adequate reserve buffer, the budgetary financing mix has shifted toward external financing. As a result, domestic debt is expected to decline from close to 20 percent of GDP at end-2017 to about 12½ percent at end-2021, while external debt would remain broadly stable.

10. In staff's view, continued strong fiscal adjustment will be a cornerstone to contribute to the external sustainability of the monetary union but will still require large external financing to smooth the adjustment path. Despite strong adjustment efforts, external financing needs for each country will remain large. Total remaining external financing needs over 2017–20 are currently estimated at about CFAF 4.0 trillion (about US$ 7.2 billion) for the four CEMAC countries with IMF-supported programs at this stage (see Table below). IMF resources are projected to cover about 25 percent on average of these financing needs. Other IFIs (World Bank and African Development Bank) and creditors/donors (France and EU) as well as expected debt restructuring in some countries where debt service has become a heavy burden would cover the remaining financing needs. Delays in disbursements from other external creditors are however putting severe pressures on treasuries' cashflows and may delay in some cases repayments of arrears.

Text Table 2. CEMAC: Financing Sources [1]

(Billions of CFAF)

	2017	2018	2019	2020	Total
1. Financing gap	**1,499**	**1,208**	**997**	**368**	**4,073**
2. IMF financing	**372**	**290**	**260**	**93**	**1,014**
3. Budget support from other donors	**1,024**	**685**	**544**	**115**	**2,355**
World Bank	317	212	207	40	777
African Development Bank	493	261	119	7	880
European Union	58	55	58	34	205
France	154	154	150	34	493
Other [2]	1	2	9	0	12
4. Other exceptional financing	**104**	**233**	**194**	**161**	**692**
5. Residual financing gap (1-2-3-4)	**0**	**0**	**0**	**0**	**0**

[1] Relative to the June round, no changes in external financing for CEMAC program countries are expected for C.A.R., Cameroon, and Gabon; for Chad, budget support is expected to be slightly higher in 2017 due to higher WB and AfDB disbursement. 2018 onward, budget support is however slightly lower to du CFAF appreciation vis a vis the USD.

[2] In 2019, mainly reflects a budget support to CAR from developing partners for which discussion is in advanced stage.

B. Monetary Policy and Other Central Bank Measures to Protect Reserves

11. BEAC remains firmly committed to implement monetary policy aiming primarily at rebuilding a sufficient reserves buffer over the medium term. Staff concurred with the authorities that in view of the recent upturn in reserves coverage (broadly in line with expectations), the downward revision to growth and inflation prospects, the tightening of fiscal policies, as well as the atony of credit to the private sector, a further increase in BEAC's policy rate was not warranted at this stage. It emphasized, however, that, with reserves still well short of an adequate level, the BEAC should remain vigilant, monitoring closely domestic and external economic and financial developments, and stand ready to increase its policy rate should the reserves start diverging from current expectations. BEAC notably agreed on the need to closely monitor bank liquidity and use its liquidity management instruments (required reserve rate and open market operations) to ensure that it remains at a level consistent with domestic and external financial stability. While an increase in reserves requirements now would push a number of banks into a liquidity crisis given the existing ceilings on BEAC refinancing and on collaterals, the absence of an operational emergency liquidity assistance facility and money market imperfections (see Annex III), staff recommended that such an increase should be seriously considered when the new liquidity management framework is implemented. Lastly, staff underlined the need for the authorities to conduct stress tests to assess banks' vulnerability to a possible further policy rate increase.

12. **Monetary financing of budget deficits has been a key factor in delaying the needed fiscal adjustment in member countries following the collapse in oil prices and related revenues**. Meant to be a temporary, counter-cyclical measure, it turned out to be inconsistent with what proved to be a structural shift in global oil supply and demand, leading to a stabilization of prices well below their peak level. In the event, the BEAC provided additional direct financing, with the instrument of statutory advances (allowing the central bank to finance up to 20 percent of the reference year tax revenue). This allowed public spending to remain well above the level consistent with internal stability, putting considerable downward pressure on foreign reserves given the very high import content of public spending on infrastructure.

13. **Against this background, the mission commended the BEAC for the recent decision to eliminate statutory advances by end-2017.** While certain elements of this reform have been revised by the authorities relative to initial plans (by including a 4-year grace period and a longer repayment period of 14 years), this is a decisive step, implemented earlier than originally planned. It will help restore fiscal discipline in the region and contribute to strengthening monetary policy transmission over time. To operationalize this decision adopted in August 2017, the BEAC will sign agreements with all member-states by end-2017 to convert existing outstanding balances into long-term securities (agreements were already signed with four countries by end-November). It will also adopt the necessary amendments to the BEAC's charter by end-2017 to eliminate central bank advances to governments.

14. **The BEAC continues to implement measures aimed at imposing increased market discipline on governments but will need to adapt its framework with the implementation of its new monetary policy operations.** The BEAC has strictly maintained ceilings on the amounts of government securities that can be brought as collateral by banks for refinancing from BEAC (these ceilings are fixed at 15 percent of the country's budget revenue). This has contributed to limiting banks' appetite for government securities, including for countries which do not have yet an IMF-supported program. However, this system will likely cause difficulties for the modernized approach of monetary policy implementation and the establishment of an emergency liquidity assistance starting in early 2018 (see Annex III). In this context, staff advised the BEAC to consider a number of reforms to strengthen its collateral framework. The specific ceilings on government securities eligible for open market operations will need to be removed eventually. At the same time, a

new set of haircut rules should be established, taking fully into account the level of sovereign risk. To this end, the new haircut rules could consider using the level of compliance with some CEMAC convergence criteria. Moreover, a situation of sovereign default or unsustainable debt could systematically lead to the ineligibility of the concerned government securities for open market operations.

15. To support reserve accumulation, the BEAC will pursue its efforts to strengthen the implementation of foreign exchange regulations. Data suggests that foreign exchange inflows to the BEAC are often smaller than the underlying economic transactions (exports, grants, and external financing). Staff supported BEAC's intent to deepen its analysis of foreign exchange transactions, determine the reasons behind this discrepancy, and address them so as to maximize net foreign exchange inflows. Staff also encouraged the BEAC to intensify its efforts to obtain copies of the agreements signed between states and operators in the extractive industries regarding repatriation of foreign exchange to ensure that they were duly implemented. Staff was encouraged by BEAC's stepped-up efforts to control more strictly the documents required to justify foreign exchange purchases, which has contributed to reduce foreign exchange outflows, but noted that these controls should not introduce undue delays for legitimate demands for transfers and payments for current international transactions to be met. Staff concurred with the BEAC that efforts should continue to urge member-states to re-patriate all their foreign currency deposits.

16. The BEAC is progressing with implementation of the priority recommendations of the 2017 safeguards assessment of the central bank. The IMF reverted to the periodic four-year cycle of safeguards assessments for regional central banks at the conclusion of the last assessment.[3] The assessment noted the positive steps taken by BEAC to complete amendments to the BEAC's Charter to strengthen governance provisions and plans to strengthen financial reporting transparency. Subsequently, the BEAC has shifted the focus to operational implementation of the legal reforms and will prepare by end-2017, in consultation with the IMF, revisions to the secondary legal instruments (including By-Laws and codes of ethics and deontology) to align these with the amended Charter. The revisions should be adopted by mid-2018, after which the internal delegation framework will be reviewed and codified by mid-2019. In addition, the BEAC has committed to complete full transition to international financial reporting standards (IFRS) beginning with the 2018 financial statements and will reinforce the capacity of its accounting function, including through training and professional certification. Furthermore, efforts to strengthen internal controls include close oversight by the Audit Committee of the Board and establishment of an independent risk management unit by mid-2018 to reinforce risk management practices through additional skilled resources and training. Following the entry into force of BEAC's new charter, a new reserve management framework with new governance arrangements and revised documentation (master document, the Investment Policy, and by-laws) is being prepared with IMF technical assistance and planned to be approved by end-2017. The IMF

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[3] In light of its progress on governance reforms and adoption of IFRS as its accounting framework, the BEAC is no longer subject to annual monitoring of IMF safeguards "rolling measures" established in 2009.

technical assistance indicates that the current structure of BEAC foreign reserves' investments poses no immediate major risk but the increase in relative exposure to gold should be monitored.

C. Strengthening the Banking Sector

17. The banking sector continues to feel the negative impact of the oil price shock through its direct and indirect exposure to government spending. Non-performing loans (NPLs), already very high, are on the rise and the decline in deposits is putting pressure on banks' liquidity. Several banks are in breach of key prudential indicators (Table 12), and flat credit growth could put pressure on future profits. The Secretariat General of COBAC (SG-COBAC) is further developing risk-based supervision, with more inspections focused on provisioning policy, while capital requirements will progressively be increased from 8 to 10.5 percent by 2019. Despite a recent increase in banks' capital levels in the first part of 2017, all these factors taken together may lead to a downward reduction of capital buffers. In addition, the SG-COBAC is preparing additional capital requirements for counter-cyclical risks and systemically important banks, as well as capital charges for operational and market risks. Moreover, the situation of several banks in distress has been dragging for a long time, with slow action in many cases until recently.

18. Staff emphasized the need to address the high and increasing level of NPLs and quickly resolve banks in difficulty. This is critical to restore banks' capacity to lend to the economy and preserve confidence in the financial sector. The high volume of NPLs mobilizes capital and liquidity which hampers banks in financing the economy of the member-states. If these conditions were to persist, the banking sector would insufficiently support the diversification of the CEMAC away from oil and public sector. Also, the situation of the banks in difficulty should be resolved quickly. These banks are not systemic but the persistence of their non-respect of prudential rules undermines the credibility of the supervisor in its ability to apply rules consistently. Moreover, the longer the banks are in distress, the higher potential fiscal costs of bank restructuring may be.

19. The COBAC has developed several initiatives outlined in an action plan to help banks address high NPLs, strengthen the implementation of certain supervision rules, and resolve banks in difficulty (see Annex IV for more details):

- **Addressing NPLs**. The SG-COBAC will reinforce the implementation of provisioning rules in 2018, with an on-site inspection program focused on credit quality. It will also issue by end-2017 a regulation to clarify how provisioning rules should be applied. SG-COBAC's assessment is that resuming a normal credit flow will largely depend on addressing the problem of bank's exposure to government. To this effect, the SG-COBAC will finalize by end-2017 its analysis of the amount of NPLs directly or indirectly caused by government arrears. It will also supervise the implementation of the new regulation on internal control, which requires banks to reinforce their credit risk policies.
- **Strengthening the implementation of prudential rules**. The SG-COBAC will first develop a better understanding of underlying factors contributing to the systematic breach of some rules, with a focus on risk concentration and connected party lending rules. Regarding risk

concentration, one third of solvent banks are in breach of the CEMAC regulation. The SG-COBAC will assess the main underlying reasons and options to improve compliance. If fully implemented, the envisaged very large increase (to 75–90 percent) in the risk weights applied to the debt of member-states having missed the regional convergence criteria would likely push more banks to breach this risk concentration prudential ratio. Accordingly, the COBAC recently clarified conditions under which banks could be temporarily (for 1–2 years) exempted, on a case-by-case basis, from implementing these additional risk weights. In particular, exemptions will be granted only for government securities of countries under IMF-supported programs. Regarding connected party lending, several targeted inspections will be organized in 2017 to better capture the magnitude of this problem.[4] Finally, the COBAC will modify the penalties system by end-2017, to ensure that large banks receive sufficiently constraining penalties, and will accelerate procedures to impose these penalties. Furthermore, in 2018, the SG-COBAC will review the efficiency of its corrective measures.

- **Resolution of banks in difficulty**. The COBAC has taken decisions concerning all banks in difficulty in the CEMAC, ranging from appointing liquidators for two of them, to requesting other banks to provide restructuring plans. Several banks have been given delays to find solutions to be recapitalized. The SG-COBAC will continue to push for speedy decisions on bank resolutions by the 12-member banking commission.

20. Staff welcomed SG-COBAC's initiatives but noted that additional actions would be necessary. While these initiatives will help SGCOBAC better supervise loans classification and provisioning, staff encouraged SG-COBAC to aim at a broader implementation of risk-based supervision and to develop a capacity for assessing the quality of the credit risk instruments of banks. Also, the SG-COBAC will likely need to reinforce its capacity to assess and monitor banks' NPL resolution plans. The SG-COBAC should also ask banks most at risk to provide a detailed report on the source of their NPLs and their plans to address them. Concerning the resolution of banks in difficulty, staff encouraged the SG-COBAC to continue its efforts to persuade the members of the banking commission of the urgency of resolving all banks in distress, as the commission has in the past not always followed SG-COBAC recommendations in this area. In light of these considerations, staff will continue to discuss with the SG-COBAC how to further strengthen its action plan to address vulnerabilities in the financial sector.

21. The staff also welcomed SG-COBAC's continued implementation of its strategy plan aimed primarily at implementing risk-based supervision. In this context, risk-based supervision processes will be formalized (with technical assistance from the World Bank and IMF AFRITAC), several regulations concerning institutions in difficulty will be adopted by December 2017 and principles of operational, market and interest rates risks will be gradually introduced in COBAC's

[4] Data collected by the SG-COBAC indicate very small amounts of loans to connected persons (shareholders, managers). However, the data may not correctly capture the problems related to connected firms (where a same person is a shareholder of both the bank and the firm benefitting from a credit).

regulatory corpus from 2018. Staff welcomed the adoption of the new regulatory framework for microfinance, which will strengthen and stabilize the sector.[5] Staff also recommended that the texts governing the functioning of deposit insurance fund (FOGADAC) be adopted rapidly to make it fully operational, including to clearly defined conditions and procedures for reimbursing depositors under various circumstances.

BUILDING RESILIENCE WITHIN A MORE INTEGRATED UNION

Staff also discussed with the regional authorities key reforms to enhance the resilience and growth potential of the monetary union. Such reforms include: making the regional surveillance framework more effective; modernizing monetary policy operations to enhance its transmission; deepening financial markets; and enhancing regional integration.

A. Strengthening the Regional Surveillance Framework

22. In 2016, CEMAC's heads of states adopted a number of revisions, proposed by the CEMAC commission, to the regional convergence framework. These changes, which were aimed at strengthening regional convergence in the aftermath of the sharp drop in oil prices, comprised: (i) the revision of the fiscal balance criterion, which now better takes into account each country oil revenues, is more closely related to debt dynamics, and allows for less pro-cyclical policies; (ii) the introduction of debt break, aimed at limiting debt accumulation over the medium term; (iii) the revision of the inflation criterion to a three-year average; and (iv) the introduction of additional secondary indicators. The new convergence criteria will apply first for the assessment of 2017 outcomes.

23. Staff sees strengthening the implementation of the regional surveillance framework as a priority to reduce the risk of a recurrence of financial imbalances in the future. One key weakness is the absence of credible mechanisms to bring countries back to the convergence path, when they seriously depart from it. As an example, whereas the Commission's latest surveillance report notes that each of the member-state has missed at least 2 of the 4 primary convergence criteria in 2016, including the one on government payment arrears, none of them has been asked to prepare an adjustment plan, as envisaged under the regional surveillance framework.

24. The CEMAC Commission concurred with staff on the need to strengthen the surveillance framework. A centerpiece to make progress in this area is to help member-states prepare triennial convergence plans, which would become the cornerstone of a rejuvenated surveillance framework. Technical assistance in this area will be provided by the EU. The Commission agreed that a number of

[5] The new regulatory framework will: induce a consolidation of institutions (small ones should regroup under holding bodies); reinforce the financial strength of independent institutions by increasing the threshold of regulatory capital; and impose better management of credit risk by lowering the ceiling on the amounts of credit granted to a single counterparty.

other measures should be considered, including: reflecting the fiscal convergence criteria in the national budget laws; enhancing fiscal data dissemination (which will contribute to market discipline), including through the publication by the Commission of reports on each member-state's fiscal situation and prospects ; strengthening the Commission's monitoring capacity; and clarifying potential sanctions for non-observance and their adoption process.[6] Staff encouraged the Commission to submit to the Monitoring Committee (Comité de Pilotage) an action plan to that end. Finally, the CEMAC Commission faces daunting challenges both in terms of finances and capacity, which will need to be addressed with the support of member states.

25. The framework to produce comparable macroeconomic statistics for surveillance purposes also needs to be strengthened. A key challenge is that the foundation for provision of timely data on budget execution rests on the translation of six community directives, starting with the one on fiscal transparency and accountability. These directives define the specific budget classification, the main elements of the expenditure chain, and statistical concepts such as arrears. To date, less than one third of these directives have been adopted by CEMAC countries. Staff encouraged the CEMAC Commission to give work in this area new momentum and discuss with member-states a concrete plan for the implementation of the directives. Reform in this area will build stronger foundation for the compilation and dissemination of more regular statistics on budget execution and public debt. Meanwhile, staff suggested that member countries be asked to send to the CEMAC Commission their draft budget law, to allow ex-ante assessment of the respect of convergence criteria.

B. Enhancing Monetary Policy Transmission

Modernizing the monetary policy framework and instruments

26. BEAC has been working to strengthen its liquidity management, addressing weaknesses that have impaired monetary policy transmission. While large liquidity was available in the system in the years of oil price boom, the BEAC did not take necessary actions to mop up the large excess liquidity. This was amplified by large recourse to monetary financing by governments. Hence, the interbank market was virtually non-existent. Lending rates applied to the private sector were mostly function of the client's status and did not necessarily reflect the cost of refinancing with the central bank. In this framework, the monetary transmission mechanism was very weak. The crisis has somehow changed this balance. With systemic liquidity declining, banks have become a little more active on the interbank market, hence helping to improve monetary policy transmission. Nevertheless, the not-very-active interbank market leaves a number of banks in great difficulty to access liquidity outside of BEAC, while other banks have some excess liquidity. In this context, it is important that BEAC take steps to support interbank market development while ensuring that overall liquidity is tight. Moreover, the system of country-specific refinancing and collateral ceilings does not facilitate

[6] See Selected Issue Paper on "Implementing the new fiscal convergence framework".

the effective mopping-up of the excess liquidity held by some banks without risking plunging a number of other banks into a liquidity crisis.

27. The authorities concurred with this analysis and have resolved to modernize BEAC's liquidity management and monetary policy instruments. In line with the commitments presented in the June 2017 Letter of Policy Support, the BEAC will put in place a new monetary policy framework in early 2018 (see Annex III). The new liquidity management framework will take a regional approach for the control of banks' liquidity and will aim at avoiding the build-up of significant excess liquidity and steering the interbank rate close to the policy rate. The new set of monetary policy instruments to be used from early 2018 will be in line with best practices. Moreover, the BEAC will carry out its open market operations based on a competitive basis.

28. The BEAC will also strengthen its reserve requirement framework. On July 1, 2017, the BEAC started implementing harmonized (non-country-specific) rules for banks' reserve requirements, which should allow for better liquidity management.[7] The constitution of these reserve requirements will now be on average (over a month), which will facilitate liquidity management for banks. Staff recommended that the current system of gradual constitution of reserves should be eliminated, as it would remove certain distortions among banks.

Emergency liquidity assistance

29. The BEAC intends to finalize by end-2017 its framework for emergency liquidity assistance (ELA). The BEAC already provided ELA-like to Chadian banks in June, to facilitate large roll-overs of Chadian government securities. The formal ELA framework will be in line with the commitments of the June 2017 Letter of Policy Support and the recommendations of the IMF's technical assistance missions. Following the adoption of the master agreement by BEAC's Board in August 2017, this will require the signing of specific agreements between the BEAC and solvent banks under ELA. These agreements will provide the legal basis allowing the BEAC and COBAC to closely monitor banks' plans to redress their liquidity situation. A framework for evaluating the eligible assets used for ELA as well as the operating procedures relating to it were also developed. The ELA scheme should enter into force in January 2018, after implementing regulations are finalized. In Staff's assessment, establishing the ELA will be a critical reform to address solvent banks with real temporary liquidity problems and assist them within properly calibrated conditionality.

C. Development of Financial Markets

30. The BEAC will continue its efforts to reduce the obstacles to the development of financial markets. Factors explaining the underdevelopment of the money market, which has hampered monetary policy transmission, include the limited availability of financial information; the reluctance of commercial banks to provide liquidity to competitors; the excess systemic liquidity that prevailed until 2016; direct government borrowing from banks through non-marketable loans; and

[7] Only four Chadian banks with liquidity difficulties are exempt now.

banks' willingness to keep government bonds on their balance sheet to benefit from good tax free revenues. To develop the money market, the BEAC will need to effectively fully absorb the excess systemic liquidity, when it emerges. In parallel, the BEAC continues its efforts to strengthen the quality of financial information (see below). Regarding the capital market, it has remained for years embryonic and fragmented, owing to the competition of two stock exchanges within the CEMAC, a regional stock exchange and a national stock exchange in Cameroon, which were supervised by a regional and national regulator, respectively. The decision of the heads of states on October 31, 2017 to merge the two stock exchanges and have a single regional regulator should help to develop a truly regional CEMAC capital market over the medium term.

31. The BEAC is advancing in establishing financial sector databases. This includes a database covering financial information of firms by end 2017; a payment incident database starting in 2018; and completing the IT upgrade of the credit risk database by mid-2019. Also, the BEAC has moved forward on the framework to establish a private credit bureau.[8] All these initiatives will help banks to better assess credit and counterparty risks.[9]

32. Sound development of financial markets will also be facilitated by reducing the strong interactions between banks and sovereigns and its related macro-financial risks.[10] Such interactions in CEMAC include the dominant position of governments in the economy, a relatively large share of government assets in banks' portfolio, the almost exclusive use of government securities as collateral for bank refinancing, the incidence of member states compliance with regional convergence criteria on key prudential ratios, and the often-important role governments play in bank resolution. Staff suggested that CEMAC institutions keep a close eye on these links, with the objective to reduce negative spillovers and strengthen financial stability. Following recent reforms, some links between banks and sovereigns would be weakened. For example, the new role of the FOGADAC could reduce governments' involvement in bank resolutions. Broadening the investors' base for government securities (some insurance companies or pension funds hold significant unused liquidities) should also be encouraged.

D. Paving the Way for More Inclusive and Sustained Higher Growth

33. Work continues to lay the foundation for more inclusive and sustained growth in the context of the regional Program of Economic and Financial Reforms (PREF). This regional development strategy aims at reducing the excessive dependency on oil export and related revenues. It includes a rich set of actions, organized around five main themes. The PREF outlines in particular specific measures over 2017–19 to: (i) enhance the business environment; and (ii) accelerate the build-up of a common and integrated regional market. Envisaged actions related to the business environment include for example: (i) the establishment of trade courts, to facilitate the settlement of

[8] Progress in this area will depend on TA cooperation with the IFC and World Bank.

[9] As Cameroon has also been developing a national credit bureau and payment incident database, cooperation with BEAC will be needed to avoid duplication of work and information for banks.

[10] See Selected Issues Paper on Sovereign-Banks nexus.

commercial disputes; (ii) the creation of one-stop shops to reduce the time and cost for creating a new company; and (iii) the establishment of incubator centers to facilitate the creation and new businesses through sharing best practices. Actions aimed at deepening regional integration include measures to: (i) harmonize and reduce custom exemptions through a revised Customs Code; (ii) ensure full implementation of the Common External Tarif; and (iii) enact the freedom to establish companies. The recent lifting of visa requirements for CEMAC residents by Equatorial Guinea and Gabon was an important symbolic decision to facilitate free movement of people within the region.

34. Efforts will be needed to ensure the consistency between the PREF and national reform plans. The PREF covers several areas that require close cooperation with member-states, such as improving cross-border physical infrastructures and the establishment of a single CEMAC broad-band platform. The CEMAC Commission believes that these reforms need to be appropriately prioritized through a consistent approach by member-states, based on realistic financing envelopes. The CEMAC Commission will also emphasize the need to avoid tax competition among member-states. This will apply for instance to the need to reduce ad hoc exemptions, improve excise performance, and rationalize tax expenditures. Work in this area is advancing, in cooperation with the Foundation for Studies and Research on International Development (FERDI). In particular, ad hoc exemptions are planned to be eliminated as part of 2019 budget laws.

MONITORING OF REGIONAL DEVELOPMENTS AND POLICIES

35. BEAC and COBAC have implemented the assurances provided in the June 2017 Letter of Policy Support. A letter to follow up on the June 2017 letter of policy support is attached, which provides an update on the critical policy assurances. In particular, BEAC: has pursued tighter monetary policy, maintaining a firm control over the extension of refinancing to banks; decided to eliminate statutory advances by end-2017; and strictly implemented foreign exchange regulations. For its part, COBAC has intensified its efforts to resolve banks in difficulty and strengthen banking supervision, and has prepared action plans to tackle the outstanding financial sector issues. The two institutions have also maintained a continuous engagement with staff, allowing for a close monitoring of economic and policy developments and for an assessment on an ongoing basis of the implementation of the assurances they had provided. This continuous engagement will continue in the period ahead, including through regular visits by staff. In this regard, the Fund would continue to be in a position to assess on an ongoing basis the implementation of the assurances provided in the June 2017 letter of policy support and in the follow-up letter. A favorable assessment of the implementation of the critical policies would be needed to allow individual reviews to be successfully completed. Implementation of the assurances in regard to an adequate monetary policy stance aiming at the build-up of external reserves, gradually bringing and maintaining banking liquidity to a level adequate for an efficient monetary policy transmission, the planned elimination of statutory advances and further advancement in the resolution of insolvent banks would be of particular importance in forming an assessment. The BEAC Governor is committed to provide an updated letter of policy support if material policy or reform changes turn out to be necessary to support the achievement of the country programs objectives. IMF staff would provide updated assessments of regional developments and implementation of regional policies semi-annually to inform the Executive Board's consideration of the reviews under the individual IMF-supported programs.

STAFF APPRAISAL

36. CEMAC's economic situation remains fragile. Growth is subdued, reflecting the sharp reduction in public spending, sizeable accumulation of domestic arrears, as well as lower-than-expected oil production. The medium-term outlook foresees a gradual improvement in the economic and financial situation, assuming full implementation of policy commitments by CEMAC member states and regional institutions. While the external position of the CEMAC region is assessed to be weaker than implied by fundamentals and desirable policies, the projected consolidation of the current account would bring the regional external position back to a sustainable position in the medium term. Main risks to the CEMAC are a deterioration of the global economic outlook, poor implementation of Fund-supported national programs, owing to lack of ownership or capacity, and further delays in concluding program agreements with the remaining countries.

37. The initial policy response to the crisis by CEMAC national authorities and regional institutions has been appropriate so far. The implementation of fiscal consolidation plans by national authorities has been broadly satisfactory and has been backed by a tightening of the monetary policy to support the accumulation of regional reserves. However, the regional strategy remains incomplete until all CEMAC members have embarked on reform programs that could be supported by development partners, including the IMF. Until then, the regional central bank should continue to implement measures at its disposal to mitigate the risks of undue pressure on regional reserves from some member countries.

38. The success of the regional strategy to restore external sustainability of individual members will continue to require steadfast fiscal adjustment efforts together with sufficient financing to smooth the adjustment path. The cornerstone of the strategy will rest on the full implementation of adjustment policies by member countries under IMF-supported programs. External financing will be a critical complement, also to reduce the impact on priority sectors. In addition to IMF financial support, external support from the World Bank, the African Development Bank, France and the EU started to be provided to countries under IMF-supported programs, although with some delays. Decisive progress in debt restructuring is also key in some cases to cover the remaining financing needs.

39. The monetary policy stance is adequately tight at this stage and the BEAC should be commended for its early decision to eliminate statutory advances and measures to protect reserves. Given the observed and expected accumulation of reserves after mid-2017, the reduction of liquidity and credit in the system, and the large fiscal adjustment underway, monetary policy does not need to be tightened further for now. BEAC's readiness to take action, including by further raising its policy rate, should the accumulation of reserves fall short of the target set by the BEAC or market conditions result in the buildup of excess liquidity, is welcome. The elimination of statutory advances by end-2017 is a decisive step which will help restore fiscal discipline in the region. The implementation in early 2018 of a modernized monetary policy operations framework and new instruments will be an important step for enhancing monetary policy transmission.

40. The SG-COBAC will need to implement more forcefully several measures planned to address increasing weaknesses in the banking sector. Actions are planned to: deal with ailing banks within a clear timeframe; enhance adherence of critical prudential norms (including connected lending and concentration of risk); and strengthen the supervisory framework. The SG-COBAC also plans to enhance its support to the treatment of NPLs, which have continued to increase from already high levels, through focused analysis of contributing factors, and reinforcing credit risk supervision. These are steps in the right direction which will need to be followed through more strongly than in recent past and complemented with other actions, including working with banks on NPLs reduction plans.

41. The new convergence framework can help strengthen regional macroeconomic management and prevent the build-up of domestic and external imbalances in the future. Its success will, however, depend on substantially improving monitoring and enforcement mechanisms of the convergence criteria, involving regional and national authorities. CEMAC authorities should strengthen regional coordination and harmonization in the area of key macroeconomic statistics. This calls for the full implementation of the six CEMAC PFM directives.

42. The BEAC is taking steps for the implementation of outstanding safeguards recommendations. The BEAC is preparing revisions to the secondary legal instruments (including By-Laws and codes of ethics and deontology) to align these with the Charter, already amended as per IMF recommendations. BEAC is also progressing towards full transition to IFRS beginning with the 2018 financial statements.

43. Weak capacity of some of the regional institutions and shortcomings in regional statistics remain a concern. Some institutions lack human and financial resources to contribute effectively to the creation of an integrated common market. Although regional authorities (the BEAC and the SG-COBAC) have made efforts to improve the quality of key economic information, important gaps remain. Timely statistical information of good quality is essential for good policy implementation in the current difficult context.

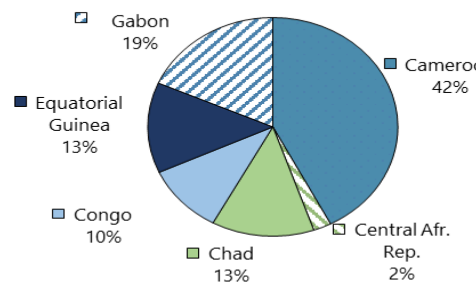
44. Overall, staff considers that BEAC and COBAC have implemented the policy assurances provided in the June Letter of Policy Support, including tighter monetary policy, elimination of statutory advances and maintaining firm control over the extension of credit to banks.

45. The surveillance discussions with the CEMAC authorities will remain on a 12-month cycle in accordance with Decision No.13654-(06/1), adopted on January 6, 2006. Staff also welcomes CEMAC regional authorities' continued commitment to a very close and ongoing dialogue on the stance of regional policies needed to support achieving CEMAC countries' programs objectives. Staff plans to report regularly on these discussions to support completion of country program reviews.

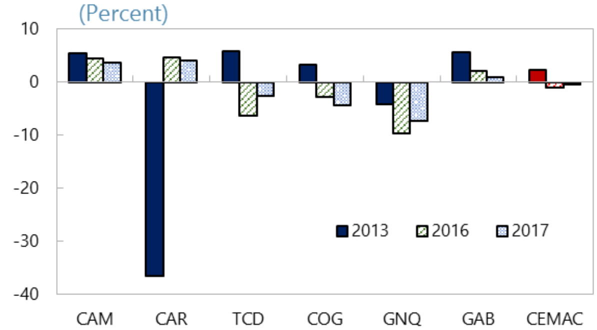
Figure 1. CEMAC: Selected Economic Indicators, 2000–17

Economic activity is expected to contract in 2017, reflecting a decline in oil production and a limited acceleration in non-oil activity in a context of continued fiscal consolidation efforts.

CEMAC: Nominal GDP, 2016
(National shares)

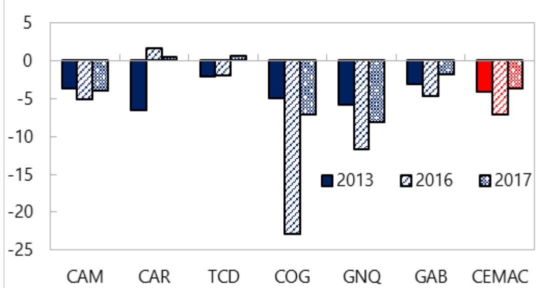


CEMAC: Real GDP Growth, 2013-17
(Percent)

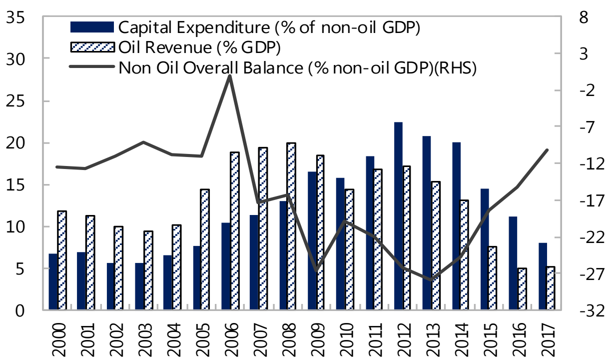


These efforts, which will continue to rely primarily on a reduction in capital expenditure, will contribute to a significant improvement in the non-oil overall balance, to a level not seen since the global financial crisis.

CEMAC: Overall Fiscal Balance, 2013-17
(Percent of GDP)

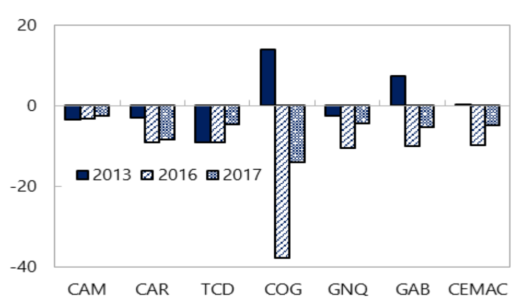


CEMAC: Selected Fiscal Indicators, 2000-17

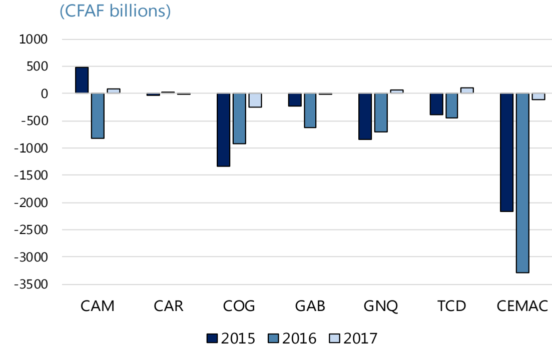


They will also contribute, through import contraction, to a sizeable reduction in the current account deficit, and, along with financing from donors, to a stabilization in BEAC's net foreign assets.

CEMAC: Current Account, 2013-17
(Percent of GDP)



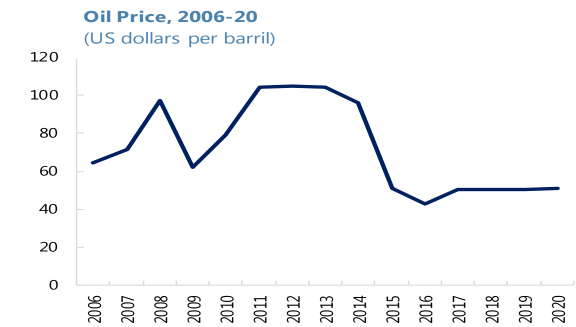
CEMAC: Change in Net Foreign Assets, 2015-17
(CFAF billions)

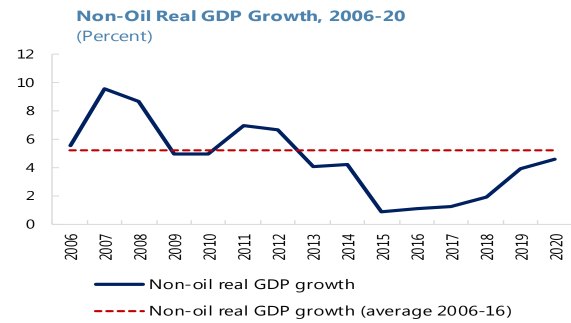


Sources: CEMAC authorities; and IMF Staff estimates.

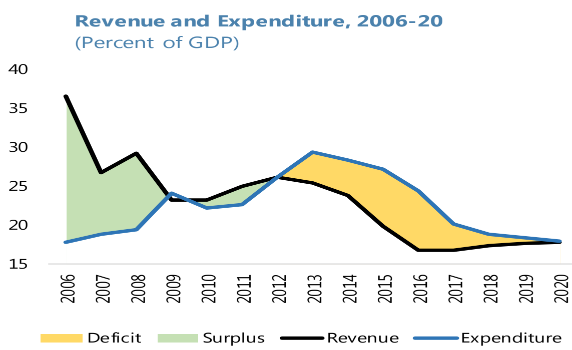
Figure 2. CEMAC: Selected Economic Indicators, 2006–20

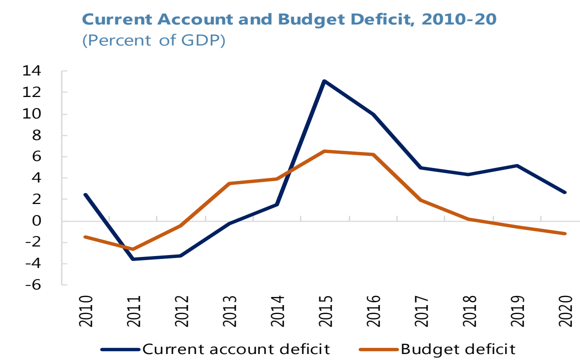
After recovering slightly in 2017, oil prices are expected to remain broadly stable over the medium term, well below the peak level. Non-oil growth is expected to pick up gradually over the medium term.



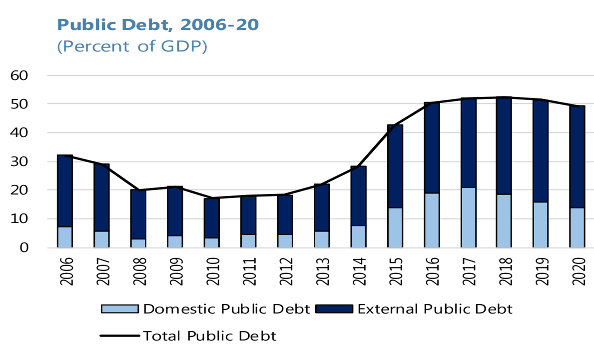


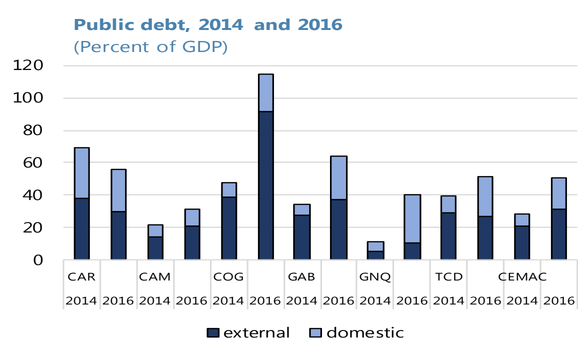
Consolidation efforts will rely both on expenditure rationalization and non-oil revenue-enhancing measures over the medium term.





After a large increase in public debt in 2014-16, it is expected to stabilize and decline gradually.

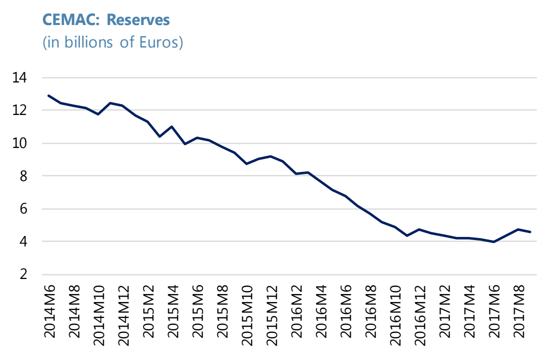




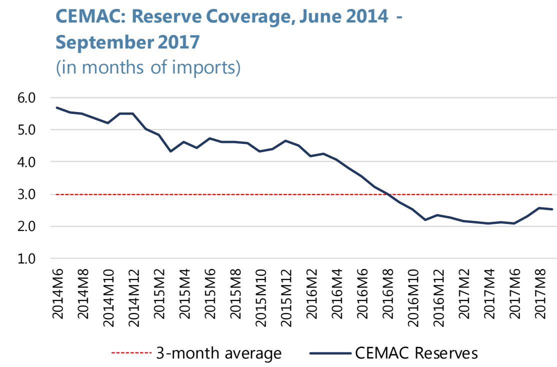
Sources: GAS Live, CEMAC authorities; and IMF Staff estimates.

Figure 3. CEMAC: Selected Indicators on Reserves, Central Bank Financing, and Government Deposits, 2014–17

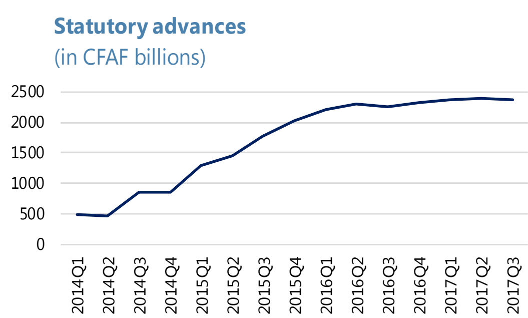
Reserves declined substantially with the sharp reduction in oil prices and export proceeds from past peak levels….



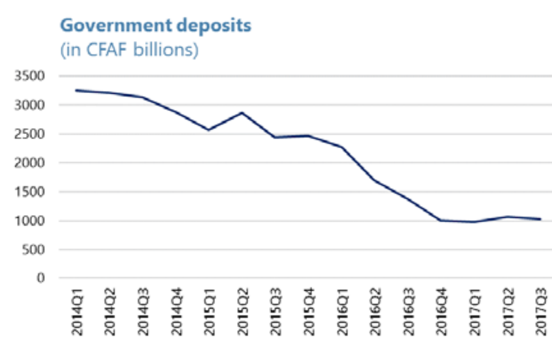
…bringing reserve coverage at about 2 months of imports through mid-2017, but have stabilized and started to increase.



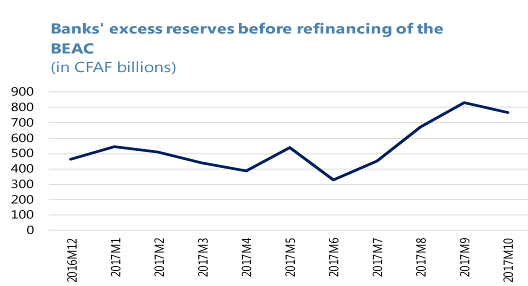
With declining oil revenue, budget execution increasingly resorted to direct financing by the BEAC in 2015-16, but this has stopped in 2017.



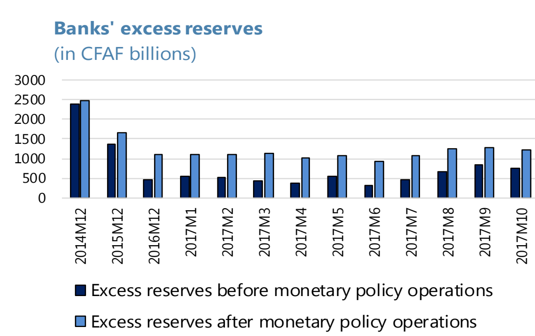
Government deposits declined to a point where some governments are now cash constrained.



BEAC stepped up its refinancing operations as liquidity generated by oil exports declined.



Banks' excess reserves have remained broadly stable in 2017 after having strongly declined since 2014.



Sources: BEAC and IMF Staff calculations.

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

	2014	2015	2016	2017	2017	2018	2019	2020	2021
			Est.	CR 17/176 [4]	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change)								
National income and prices									
GDP at constant prices[1]	4.6	1.6	-1.0	0.7	-0.6	1.6	3.2	3.8	3.7
Oil GDP[1]	3.6	2.5	-6.2	-1.6	-3.7	7.0	1.7	0.3	-3.7
Non-oil GDP[1]	4.3	0.9	1.1	1.8	1.3	1.9	3.9	4.6	5.0
Consumer prices (period average)[2]	2.7	2.8	1.3	1.2	1.1	1.5	1.8	2.2	2.3
Consumer prices (end of period)[2]	2.4	1.9	0.4	1.3	1.3	1.7	1.8	2.3	2.4
	(Annual changes in percent of beginning-of-period broad money)								
Money and credit									
Net foreign assets	-7.6	-17.7	-28.4	0.5	-1.1	2.3	2.2	…	…
Net domestic assets	17.0	15.6	23.5	3.4	-2.4	4.8	3.9	…	…
Broad money	9.4	-2.2	-4.9	3.9	-3.5	7.1	6.2	…	…
	(Percent of GDP, unless otherwise indicated)								
Gross national savings	28.9	13.8	12.6	17.4	15.6	16.8	17.8	19.3	20.2
Gross domestic investment	30.4	26.8	22.5	22.5	20.6	21.0	23.0	21.9	21.7
Of which: public investment	13.0	9.0	7.3	7.3	5.1	4.9	4.9	4.9	4.9
Government financial operations									
Total revenue, excluding grants	23.2	19.1	16.1	17.5	15.8	16.5	16.8	17.0	17.0
Government expenditure	28.3	27.2	24.4	21.4	20.2	18.9	18.4	17.9	17.7
Primary fiscal basic balance[3]	-1.7	-5.0	-4.3	0.2	-0.2	1.6	2.4	3.0	3.2
Overall fiscal balance, excluding grants	-5.2	-7.2	-7.9	-4.0	-4.8	-2.9	-1.8	-1.2	-0.7
Primary fiscal balance	-4.0	-6.5	-6.2	-1.4	-1.9	-0.1	0.6	1.2	1.2
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-25.6	-18.3	-15.5	-11.7	-12.0	-9.8	-8.1	-7.0	-5.9
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-23.9	-17.4	-13.5	-8.5	-8.5	-6.4	-5.2	-4.2	-3.7
Total Public Debt	28.3	42.7	50.4	46.7	52.1	52.5	51.4	49.2	46.7
External sector									
Exports of goods and nonfactor services	43.5	34.5	30.2	36.4	32.2	31.4	30.8	31.0	30.7
Imports of goods and nonfactor services	40.4	43.2	35.0	35.9	32.8	31.9	32.6	30.4	29.1
Balance on goods and nonfactor services	3.1	-8.7	-4.7	0.5	-0.6	-0.5	-1.8	0.6	1.6
Current account, including grants	-1.5	-13.0	-9.9	-5.1	-5.0	-4.3	-5.2	-2.6	-1.5
External public debt	19.4	28.1	29.9	26.9	32.6	34.2	35.6	35.2	34.2
Gross official reserves (end of period)									
Millions of U.S. dollars	15,823	10,344	4,969	5,610	5,890	7,199	8,422	10,003	10,770
Months of imports of goods and services (less intra regional imports)	5.8	4.8	2.2	2.7	2.7	3.0	3.6	4.2	4.5
Percent of broad money	71.5	54.1	28.2	30.4	31.1	35.4	38.8	42.5	44.3
Memorandum items:									
Nominal GDP (billions of CFA francs)	51,590	46,449	45,093	45,323	46,206	47,633	49,990	52,861	55,825
CFA francs per U.S. dollar, average	494	591	593	…	…	…	…	…	…
CFA francs per U.S. dollar, end-of-year	532	603	622	…	…	…	…	…	…
Oil production (thousands of barrels per day)	902.2	941.1	879.0	854.0	828.4	884.5	889.7	881.6	827.7
Oil prices (US dollars per barrel)	96.2	50.8	42.8	55.0	50.3	50.2	50.5	51.1	51.9

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

[1] Absent a common base year for all countries, regional growth rates are derived as weighted averages of national growth rates (with weights corresponding to the previous year nominal GDPs, estimated in PPP terms for total GDP and in non-PPP terms for oil and non-oil GDP).

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

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

[4] Refers to the estimates published in the IMF Report No 17/176.

Table 2. CEMAC: Sustainable Development Goals, 2016

	2016 [1]	2030 Target
Goal 1: End Poverty in all its forms everywhere		
Proportion of population below the international poverty line of US$1.90 per day	32.7	Eradicate extreme poverty for all people living on less than $1.90 per day
Proportion of population below national poverty line	50.4	Reduce the proportion of all people living in poverty according to national definitions
Proportion of employed population covered in the event of work injury	...	
Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture		
Prevalence of undernourishment	25.5	End hunger and ensure access by all people to food year round
Proportion of wasted children (weight for height below minus two standard deviations from the median) under the age of 5 years	3.9	End all forms of malnutrition
Goal 3: Ensure healthy lives and promote well-being for all at all ages		
Maternal mortality ratio (per 100,000 live births)	568.2	Reduce the global maternity mortality ratio to less than 70 per 100,000 live births
Proportion of births attended by skilled health personnel (percent)	...	Reduce the global maternity mortality ratio to less than 70 per 100,000 live births
Neonatal mortality rate (per 1000 live births)	29.3	End preventable deaths of children under 5 years of age to at least as low as 25 per 1,000 live births
Under-five mortality rate	87.2	End preventable deaths of newborns to at least as low as 12 per 1,000 live births
Estimated HIV incidence rate	3.7	End the AIDS epidemic
Malaria incidence per 1,000 population	223.0	End the malaria epidemic
Tuberculosis incidence per 100,000 population	295.2	End the tuberculosis epidemic
Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all		
Proportion of teachers in primary education who have received at least the minimum organized teacher training (e.g. pedagogical training) pre-service or in-service required for teaching at the relevant level in a given country	66.4	Increase the supply of qualified teachers
Goal 5: Achieve gender equality and empower all women and girls		
Proportion of women aged 20-24 years who were married by age 18	42.9	Eliminate all harmful practices, such as child/early marriage and female genital mutilation
Proportion of seats held by women in national parliaments	16.8	Ensure women's full participation and equal opportunities for leadership
Goal 6: Ensure availability and sustainable management of water and sanitation for all		
Proportion of population using improved drinking water sources	56.0	Achieve universal access to safe drinking water
Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all		
Proportion of population with primary reliance on clean fuels and technology	22.6	Ensure universal access to affordable and reliable energy services
Proportion of population with access to electricity	46.2	Ensure universal access to affordable and reliable energy services
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all		
Proportion of children aged 5-17 years engaged in labour	42.1	Eradicate forced labour and secure the prohibition and elimination of the worst forms of child labour
Number of commercial bank branches per 100,000 adults	4.2	Expand access to banking, insurance, and financial services
Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation		
Freight volume (tonne kilometres), by air transport	3.3	Develop quality, reliable, sustainable and resilient infrastructure
Passenger volume (passenger kilometres), by air transport	255268.3	Develop quality, reliable, sustainable and resilient infrastructure
Goal 10: Reduce inequality within and among countries		
Labour share of GDP, comprising wages and social protection transfers	...	Adopt fiscal, wage and social protection policies to achieve greater equality
Total assistance for development, (in millions USD)	325.4	Encourage development assistance and financial flows to States where the need is greatest
Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable		
Proportion of urban population living in slums	66.3	Ensure access for all to adequate, safe and affordable housing
Direct disaster economic loss, average annual loss in relation to global GDP	...	Reduce the number of disaster-related deaths and direct economic losses
Goal 12: Ensure sustainable consumption and production patterns		
Material footprint per capita	...	Achieve sustainable management and efficient use of natural resources
Material footprint per unit of GDP	...	Achieve sustainable management and efficient use of natural resources
Goal 13: Take urgent action to combat climate change and its impact		
Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development		
Terrestrial and marine protected areas (% of total territorial area)	15.5	Conserve at least 10 per cent of coastal and marine areas
Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss		
Forest area as a proportion of total land area	48.3	Ensure the conservation, restoration and sustainable use of terrestrial ecosystems
Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels		
Number of victims of intentional homicide per 100,000 population	13.5	Significantly reduce all forms of violence and related death rates everywhere
Goal 17: Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development		
Volume of remittances (in United States dollars) as a proportion of total GDP	0.2	Mobilize additional financial resources for developing countries

[1] Due to data availability, series are computed using the latest available data for each country

Source: United Nations Sustainable Development Goals. https://unstats.un.org/sdgs/indicators/database

Table 3. CEMAC: National Accounts, 2014–21

	2014	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
	(Annual percent change)							
Real GDP								
Cameroon	5.9	5.7	4.5	3.7	4.2	4.8	5.0	5.4
Central African Republic	1.0	4.8	4.5	4.0	4.0	4.0	4.0	4.0
Chad	6.9	1.8	-6.4	-2.7	3.7	2.9	6.8	4.8
Congo, Republic of	6.8	2.6	-2.8	-4.4	0.3	3.3	-0.5	-2.5
Equatorial Guinea	-0.7	-9.1	-9.7	-7.4	-8.1	-2.8	0.3	1.9
Gabon	4.4	3.9	2.1	0.8	2.7	3.7	4.3	4.7
CEMAC	4.6	1.6	-1.0	-0.6	1.6	3.2	3.8	3.7
Nominal GDP								
Cameroon	8.1	5.8	4.5	3.7	4.8	5.7	6.6	7.0
Central African Republic	12.2	11.3	11.1	7.7	7.9	7.3	7.1	7.0
Chad	7.7	-6.3	-7.6	-2.6	5.5	5.3	10.2	8.0
Congo, Republic of	0.5	-27.3	-8.7	4.1	4.5	5.2	-1.3	-4.9
Equatorial Guinea	-2.1	-32.2	-16.1	-2.0	-6.0	0.8	3.2	4.4
Gabon	3.4	-5.4	-2.3	5.0	2.4	5.1	6.0	6.6
CEMAC	4.0	-10.0	-2.9	2.5	3.1	4.9	5.7	5.6
Real non-oil GDP								
Cameroon	5.4	4.4	5.1	4.3	4.4	5.3	5.4	5.8
Central African Republic	1.0	4.8	4.5	4.0	4.0	4.0	4.0	4.0
Chad	7.1	-2.9	-6.0	0.0	1.6	2.6	3.7	4.0
Congo, Republic of	7.9	5.3	-3.2	-8.5	-7.7	1.7	2.5	3.6
Equatorial Guinea	-2.3	-10.1	-5.9	-4.6	-4.8	-0.4	1.7	2.6
Gabon	5.1	3.8	3.3	1.7	3.0	4.5	5.2	5.5
CEMAC	4.3	0.9	1.1	1.3	1.9	3.9	4.6	5.0
Consumer price inflation (period average)								
Cameroon	1.9	2.7	0.9	0.5	1.0	1.2	2.0	2.0
Central African Republic	11.6	4.5	4.6	3.8	3.5	3.2	3.0	3.0
Chad	1.7	6.8	-1.1	0.2	1.9	2.4	3.0	3.0
Congo, Republic of	0.9	3.2	3.2	0.2	0.3	1.3	1.8	2.3
Equatorial Guinea	4.3	1.7	1.4	1.6	1.8	2.0	2.0	2.1
Gabon	4.5	-0.1	2.1	3.0	2.8	2.5	2.5	2.5
CEMAC	2.7	2.8	1.3	1.1	1.5	1.8	2.2	2.3
End of period inflation								
Cameroon	2.6	1.5	0.3	1.0	1.0	1.2	2.0	2.0
Central African Republic	9.7	4.8	4.7	3.6	3.6	3.4	3.0	3.0
Chad	3.7	4.1	-4.9	0.7	2.3	2.7	3.2	3.0
Congo, Republic of	0.5	4.1	-0.1	-0.3	1.1	1.6	2.1	2.6
Equatorial Guinea	2.6	1.6	1.6	1.7	1.9	2.0	2.1	2.1
Gabon	1.7	-1.2	4.1	3.0	2.8	2.5	2.5	2.5
CEMAC	2.4	1.9	0.4	1.3	1.7	1.8	2.3	2.4
	(percent of GDP)							
Gross national savings								
Cameroon	18.0	16.7	16.7	16.3	16.6	17.1	17.8	18.7
Central African Republic	4.6	4.9	4.6	4.9	5.7	7.1	8.2	9.1
Chad	21.5	14.6	7.5	16.4	19.6	19.2	20.5	20.6
Congo, Republic of	53.0	-8.3	0.1	9.7	18.5	21.0	21.4	20.5
Equatorial Guinea	25.2	4.0	-0.1	3.1	-1.5	1.1	4.8	6.1
Gabon	43.5	29.2	24.1	26.5	27.0	28.3	30.5	32.8
CEMAC	28.9	13.8	12.6	15.6	16.8	17.8	19.3	20.2
Gross domestic investment								
Cameroon	21.9	20.5	19.9	18.9	19.1	19.4	19.5	19.9
Central African Republic	10.2	13.9	13.7	13.4	14.0	14.6	14.9	15.0
Chad	30.4	26.9	16.7	21.1	25.1	24.6	25.6	25.5
Congo, Republic of	48.2	45.8	38.0	23.8	19.2	18.1	17.4	20.1
Equatorial Guinea	29.5	21.7	10.4	7.5	8.2	24.5	12.7	10.4
Gabon	35.9	34.8	34.2	31.9	32.7	33.3	33.4	31.3
CEMAC	30.4	26.8	22.5	20.6	21.0	23.0	21.9	21.7

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

Table 4a. CEMAC: Fiscal Balances, 2014–21

(Percent of GDP)

	2014	2015	2016	2017	2017	2018	2019	2020	2021
			Est.	CR 17/176	Proj.	Proj.	Proj.	Proj.	Proj.
Overall fiscal balance (excluding grants)									
Cameroon	-4.5	-2.5	-5.4	-4.1	-4.3	-3.8	-2.7	-2.3	-1.3
Central African Republic	-7.8	-7.8	-4.4	-5.7	-5.5	-5.4	-5.5	-5.5	-5.2
Chad	-6.1	-6.5	-4.9	-3.2	-4.6	-3.3	-3.2	-2.4	-1.7
Congo, Republic of	-17.0	-28.1	-23.4	-2.3	-7.5	2.0	3.8	3.9	2.1
Equatorial Guinea	-7.2	-12.6	-11.7	-6.4	-8.1	-5.8	-3.5	-1.0	-0.5
Gabon	6.0	-1.1	-4.7	-3.3	-1.9	-1.2	-0.5	0.1	0.7
CEMAC	-5.2	-7.2	-7.9	-4.0	-4.8	-2.9	-1.8	-1.2	-0.7
Overall fiscal balance (including grants)									
Cameroon	-4.3	-2.5	-5.1	-3.7	-3.9	-3.5	-2.5	-2.0	-1.1
Central African Republic	3.0	-0.6	1.6	-0.3	0.4	1.0	0.9	0.4	0.4
Chad	-4.2	-3.1	-2.0	1.7	0.6	0.6	0.3	0.8	0.9
Congo, Republic of	-16.6	-27.2	-22.8	-1.4	-7.1	2.6	4.3	4.5	2.8
Equatorial Guinea	-7.2	-12.6	-11.7	-6.4	-8.1	-5.8	-3.5	-1.0	-0.5
Gabon	6.0	-1.1	-4.7	-3.3	-1.9	-1.2	-0.5	0.1	0.7
CEMAC	-4.6	-6.5	-7.2	-2.9	-3.7	-2.1	-1.0	-0.4	0.0
Basic balance[1]									
Cameroon	-0.7	0.3	-2.8	-1.1	-1.1	-1.0	0.0	0.5	1.4
Central African Republic	-5.8	-3.5	-1.6	-2.4	-2.1	-1.6	-1.4	-1.2	-0.8
Chad	-3.9	-4.2	-2.8	-0.5	-1.8	-0.3	-0.1	0.7	1.4
Congo, Republic of	-11.9	-24.8	-16.9	0.6	-2.3	4.7	6.4	6.4	4.8
Equatorial Guinea	-7.2	-12.6	-11.7	-6.4	-8.1	-5.8	-3.5	-1.0	-0.5
Gabon	9.0	1.0	-1.8	0.1	0.3	1.6	2.8	3.4	3.8
CEMAC	-2.4	-5.8	-5.7	-1.3	-1.6	0.1	1.1	1.7	1.9
Primary fiscal balance (including grants)									
Cameroon	-3.8	-4.0	-5.4	-2.5	-2.1	-1.5	-1.1	-0.8	-0.5
Central African Republic	3.6	-0.1	2.1	0.1	0.8	1.3	1.2	0.7	0.7
Chad	-3.6	-2.7	0.1	3.7	2.2	1.2	0.8	1.9	1.9
Congo, Republic of	-16.3	-26.3	-19.8	-0.2	-5.1	5.7	7.0	6.9	5.2
Equatorial Guinea	-6.8	-12.2	-10.8	-5.8	-7.2	-4.3	-1.8	0.7	1.1
Gabon	7.6	1.1	-2.7	-0.1	0.6	1.3	2.2	2.7	3.1
CEMAC	-4.0	-6.5	-6.2	-1.4	-1.9	-0.1	0.6	1.2	1.2
Government revenue (excluding grants)									
Cameroon	16.4	16.4	14.7	16.3	14.3	14.8	15.3	15.5	15.7
Central African Republic	4.9	7.1	8.2	8.8	9.1	9.6	9.9	10.2	10.5
Chad	15.8	10.5	9.6	11.6	10.4	10.6	10.9	11.9	12.2
Congo, Republic of	39.2	25.1	26.6	24.9	23.6	27.8	28.1	28.6	29.4
Equatorial Guinea	24.4	28.8	18.7	20.6	18.7	18.3	17.8	17.7	17.3
Gabon	29.7	21.1	17.1	18.8	17.6	17.8	18.6	18.7	18.7
CEMAC	23.2	19.1	16.1	17.5	15.8	16.5	16.8	17.0	17.0
Government expenditure									
Cameroon	20.8	20.9	21.2	20.1	17.7	17.5	17.3	17.2	17.0
Central African Republic	12.7	14.9	12.6	14.5	14.6	14.9	15.4	15.7	15.7
Chad	22.0	17.0	14.6	14.8	14.9	13.9	14.2	14.3	14.0
Congo, Republic of	56.3	53.2	50.3	27.2	31.2	25.7	24.4	24.6	27.2
Equatorial Guinea	31.6	41.4	30.4	27.0	26.8	24.1	21.2	18.7	17.9
Gabon	23.8	22.3	21.8	22.0	19.4	19.1	19.1	18.6	18.0
CEMAC	28.3	27.2	24.4	21.4	20.2	18.9	18.4	17.9	17.7
Total public debt									
Cameroon	21.5	30.9	31.6	...	33.7	34.5	34.4	33.7	32.4
Central African Republic	69.2	64.0	56.0	...	51.8	47.0	42.9	39.6	36.6
Chad	39.4	43.3	51.1	...	49.3	46.7	44.9	40.8	38.0
Congo, Republic of	47.6	97.1	114.6	...	126.6	119.1	111.3	110.3	113.6
Equatorial Guinea	11.4	28.8	40.1	...	45.5	56.5	61.0	63.2	59.5
Gabon	34.1	44.7	64.2	...	59.0	59.1	57.4	53.0	49.8
CEMAC	28.3	42.7	50.4	...	52.1	52.5	51.4	49.2	46.7
Memo item:									
Non-oil revenue (CEMAC)	10.2	11.7	11.1	11.9	10.8	11.4	12.1	12.5	12.9

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

Table 4b. CEMAC: Fiscal Non-Oil Balances, 2014–21

(Percent of non-oil GDP)

	2014	2015	2016	2017	2017	2018	2019	2020	2021
			Est.	CR 17/176	Proj.	Proj.	Proj.	Proj.	Proj.
Non-oil fiscal balance (excluding grants)									
Cameroon	-9.0	-5.8	-7.9	-6.9	-6.3	-5.9	-4.7	-4.2	-3.1
Central African Republic	-7.8	-7.8	-4.4	-5.7	-5.5	-5.4	-5.5	-5.5	-5.2
Chad	-19.9	-13.0	-9.7	-10.3	-9.7	-8.6	-8.5	-8.6	-8.0
Congo, Republic of	-108.0	-57.9	-50.7	-17.8	-26.9	-22.1	-19.5	-16.8	-15.9
Equatorial Guinea	-48.4	-51.4	-34.4	-25.0	-29.5	-24.0	-18.7	-14.2	-12.8
Gabon	-14.1	-12.1	-14.3	-13.3	-13.2	-9.6	-8.0	-6.7	-5.5
CEMAC	-25.6	-18.3	-15.5	-11.7	-12.0	-9.8	-8.1	-7.0	-5.9
Non-oil fiscal balance (including grants)									
Cameroon	-8.7	-7.8	-8.7	-6.2	-5.2	-4.3	-3.7	-3.3	-2.8
Central African Republic	3.0	-0.6	1.6	-0.3	0.4	1.0	0.9	0.4	0.4
Chad	-17.3	-8.7	-6.0	-4.3	-3.5	-3.9	-4.1	-4.5	-4.6
Congo, Republic of	-106.9	-56.6	-49.8	-16.3	-26.0	-20.9	-18.3	-15.6	-14.7
Equatorial Guinea	-48.4	-51.4	-34.4	-25.0	-29.5	-24.0	-18.7	-14.2	-12.8
Gabon	-14.1	-12.1	-14.3	-13.3	-13.2	-9.6	-8.0	-6.7	-5.5
CEMAC	-24.8	-18.4	-15.1	-10.3	-10.3	-8.1	-6.8	-5.8	-5.1
Basic balance[1]									
Cameroon	-0.8	0.3	-2.9	-1.2	-1.1	-1.0	0.0	0.5	1.5
Central African Republic	-5.8	-3.5	-1.6	-2.4	-2.1	-1.6	-1.4	-1.2	-0.8
Chad	-5.2	-5.3	-3.5	-0.6	-2.2	-0.4	-0.1	0.9	1.8
Congo, Republic of	-29.3	-40.8	-26.9	1.1	-4.3	9.9	13.7	13.1	8.8
Equatorial Guinea	-12.1	-17.7	-15.5	-7.7	-10.7	-7.4	-4.3	-1.2	-0.7
Gabon	14.5	1.5	-2.6	0.1	0.4	2.2	3.9	4.6	5.1
CEMAC	-3.3	-7.1	-6.8	-1.5	-2.0	0.2	1.3	2.0	2.2
Non-oil primary fiscal balance (including grants)									
Cameroon	-8.2	-7.4	-7.9	-5.2	-4.1	-3.5	-2.9	-2.6	-2.3
Central African Republic	3.6	-0.1	2.1	0.1	0.8	1.3	1.2	0.7	0.7
Chad	-16.5	-8.3	-3.5	-1.8	-1.6	-3.1	-3.5	-3.2	-3.4
Congo, Republic of	-106.3	-55.1	-45.1	-14.2	-22.5	-14.4	-12.6	-10.8	-10.4
Equatorial Guinea	-47.6	-50.8	-33.3	-24.2	-28.4	-22.0	-16.6	-12.1	-10.8
Gabon	-11.5	-9.0	-11.0	-8.9	-9.2	-6.1	-4.3	-3.1	-2.2
CEMAC	-23.9	-17.4	-13.5	-8.5	-8.5	-6.4	-5.2	-4.2	-3.7
Government revenue (excluding grants)									
Cameroon	17.5	17.2	15.2	17.2	14.8	15.3	15.7	16.0	16.1
Central African Republic	4.9	7.1	8.2	8.8	9.1	9.6	9.9	10.2	10.5
Chad	21.1	13.2	11.9	14.5	12.4	13.0	13.4	15.1	15.7
Congo, Republic of	96.5	41.3	42.2	43.3	43.4	58.3	60.5	58.1	53.6
Equatorial Guinea	40.8	40.4	24.8	24.7	24.8	23.2	22.0	21.6	21.0
Gabon	47.9	31.7	24.2	26.9	25.1	24.9	25.5	25.2	25.0
CEMAC	32.4	23.7	19.3	21.2	19.1	19.9	20.2	20.3	20.0
Government expenditure									
Cameroon	22.3	21.8	21.9	21.1	18.4	18.1	17.8	17.7	17.5
Central African Republic	12.7	14.9	12.6	14.5	14.6	14.9	15.4	15.7	15.7
Chad	29.3	21.2	18.0	18.4	17.9	17.0	17.4	18.1	17.9
Congo, Republic of	138.4	87.5	79.8	47.2	57.2	54.0	52.4	50.1	49.6
Equatorial Guinea	53.0	58.1	40.3	32.4	35.4	30.5	26.3	22.8	21.6
Gabon	38.3	33.3	30.9	31.6	27.8	26.6	26.1	25.1	24.0
CEMAC	39.6	33.7	29.2	25.8	24.3	22.8	22.0	21.3	20.8
Memo item:									
Non-oil revenue (CEMAC)	14.3	14.5	13.3	14.4	13.1	13.8	14.5	14.9	15.1

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

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

Table 5a. CEMAC: Balance of Payments, 2014–21
(CFAF billions, unless otherwise indicated)

	2014	2015	2016	2017	2017	2018	2019	2020	2021
		Est.	Est.	CR 17/176	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-796	-6,057	-4,480	-2,328	-2,298	-2,040	-2,584	-1,379	-856
Balance on goods and services	1,624	-4,039	-2,140	222	-267	-220	-919	337	906
Total exports	22,449	16,046	13,630	16,493	14,873	14,970	15,397	16,386	17,160
Exports of goods	20,381	14,133	11,669	14,442	12,863	12,915	13,260	14,127	14,703
Oil exports	16,644	10,316	8,084	10,331	9,010	8,818	8,755	8,972	8,876
Non-oil exports	3,737	3,817	3,586	4,111	3,853	4,097	4,505	5,156	5,828
Exports of services	2,068	1,912	1,960	2,050	2,010	2,055	2,138	2,258	2,457
Total imports	20,824	20,084	15,770	16,271	15,140	15,190	16,317	16,048	16,254
Imports of goods	12,794	12,532	9,322	9,521	8,873	8,939	9,819	9,330	9,383
Imports of services	8,031	7,552	6,448	6,750	6,267	6,250	6,498	6,719	6,871
Income, net	-2,903	-2,282	-2,587	-3,054	-2,545	-2,304	-2,195	-2,279	-2,310
Income credits	180	211	219	403	231	243	268	287	302
Income debits	-3,086	-2,497	-2,805	-3,294	-2,777	-2,548	-2,466	-2,568	-2,613
Of which:									
Investment income, debit	-67	-678	-1,071	-1,650	-1,090	-1,157	-250	-1,070	-1,324
Of which: Interest paid on public debt	-92	-126	-331	-232	-292	-266	-271	-288	-279
Of which: Interest paid on nonpublic debt	-31	-18	-34	-5	-33	-25	-16	-7	-5
Current transfers, net	483	264	247	509	513	484	531	563	548
Private current transfers, net	386	266	220	366	461	387	415	433	415
Official current transfers, net	97	-2	27	144	52	96	116	130	134
Balance on capital and financial accounts	590	3,354	1,122	623	1,907	1,120	1,708	1,201	921
Balance on capital account (incl. capital transfers)	152	191	177	192	223	200	221	238	259
Balance on financial account (incl. reserves)	438	3,163	944	431	1,684	920	1,487	963	663
Direct investment, net	2,011	4,214	2,562	2,204	2,490	2,866	3,849	3,395	2,984
Portfolio investment, net	3	-23	-13	14	-6	-5	-7	-5	-5
Other investment, net	-1,576	-1,028	-1,606	-1,787	-800	-1,941	-2,356	-2,427	-2,316
Errors and omissions, net	-682	135	-267	0	0	0	0	0	0
Overall Balance	-887	-2,568	-3,625	-1,705	-391	-921	-876	-178	66
Financing	888	2,568	3,625	1,705	391	921	876	178	-66
Reserve assets (accumulation -)	642	2,443	3,450	-450	-296	-724	-681	-891	-460
Exceptional financing	246	125	175	2,155	688	1,644	1,557	1,070	394
Expected financing (excluding IMF)	242	87	99	868	277	467	376	119	72
IMF financing	4	38	46	376	362	282	252	88	-9
Residual gap	0	0	30	911	49	896	929	863	332
Memorandum items:									
Nominal GDP	51,590	46,449	45,093	45,323	46,206	47,633	49,990	52,861	55,825
Gross foreign assets (end of period)									
Billions CFAF	8,417	6,238	3,093	3,464	3,285	4,004	4,668	5,551	6,001
Millions U.S. dollars	15,823	10,344	4,969	5,610	5,890	7,199	8,422	10,003	10,770
Months of imports of goods and services	5.8	4.8	2.2	2.7	2.7	3.0	3.6	4.2	4.5
Net foreign assets (end of period)									
Billions CFAF	7,720	5,548	2,254	2,208	2,147	2,405	2,651	2,776	3,001
Millions U.S. dollars	15,639	9,385	3,802	3,576	3,691	4,314	4,776	5,009	5,396
Months of imports of goods and services	4.8	4.4	1.8	1.7	1.7	1.8	2.0	2.1	2.2

Sources: BEAC; and IMF staff estimates and projections.

Table 5b. CEMAC: Balance of Payments Indicators, 2014–21

(Percent of GDP, unless otherwise indicated)

	2014	2015	2016	2017	2017	2018	2019	2020	2021
		Est.	Est.	CR 17/176	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-1.5	-13.0	-9.9	-5.1	-5.0	-4.3	-5.2	-2.6	-1.5
Balance on goods and services	3.1	-8.7	-4.7	0.5	-0.6	-0.5	-1.8	0.6	1.6
Total exports	43.5	34.5	30.2	36.4	32.2	31.4	30.8	31.0	30.7
Exports of goods	39.5	30.4	25.9	31.9	27.8	27.1	26.5	26.7	26.3
Oil exports	32.3	22.2	17.9	22.8	19.5	18.5	17.5	17.0	15.9
Non-oil exports	7.2	8.2	8.0	9.1	8.3	8.6	9.0	9.8	10.4
Exports of services	4.0	4.1	4.3	4.5	4.3	4.3	4.3	4.3	4.4
Total imports	40.4	43.2	35.0	35.9	32.8	31.9	32.6	30.4	29.1
Imports of goods	24.8	27.0	20.7	21.0	19.2	18.8	19.6	17.6	16.8
Imports of services	15.6	16.3	14.3	14.9	13.6	13.1	13.0	12.7	12.3
Income, net	-5.6	-4.9	-5.7	-6.7	-5.5	-4.8	-4.4	-4.3	-4.1
Income credits	0.3	0.5	0.5	0.9	0.5	0.5	0.5	0.5	0.5
Income debits	-6.0	-5.4	-6.2	-7.3	-6.0	-5.3	-4.9	-4.9	-4.7
Of which:									
Investment income, debit	-0.1	-1.5	-2.4	-3.6	-2.4	-2.4	-0.5	-2.0	-2.4
Of which: Interest paid on public debt	-0.2	-0.3	-0.7	-0.5	-0.6	-0.6	-0.5	-0.5	-0.5
Of which: Interest paid on nonpublic debt	-0.1	0.0	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0
Current transfers, net	0.9	0.6	0.5	1.1	1.1	1.0	1.1	1.1	1.0
Private current transfers, net	0.7	0.6	0.5	0.8	1.0	0.8	0.8	0.8	0.7
Official current transfers, net	0.2	0.0	0.1	0.3	0.1	0.2	0.2	0.2	0.2
Balance on capital and financial accounts	1.1	7.2	2.5	1.4	4.1	2.4	3.4	2.3	1.7
Balance on capital account (incl. capital transfers)	0.3	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.5
Balance on financial account	0.8	6.8	2.1	1.0	3.6	1.9	3.0	1.8	1.2
Direct investment, net	3.9	9.1	5.7	4.9	5.4	6.0	7.7	6.4	5.3
Portfolio investment, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-3.1	-2.2	-3.6	-3.9	-1.7	-4.1	-4.7	-4.6	-4.1
Errors and omissions, net	-1.3	0.3	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-1.7	-5.5	-8.0	-3.8	-0.8	-1.9	-1.8	-0.3	0.1
Financing	1.7	5.5	8.0	3.8	0.8	1.9	1.8	0.3	-0.1
Reserve assets (accumulation -)	1.2	5.3	7.7	-1.0	-0.6	-1.5	-1.4	-1.7	-0.8
Financing gap	0.5	0.3	0.4	4.8	1.5	3.5	3.1	2.0	0.7
Expected financing (excluding IMF)	0.5	0.2	0.2	1.9	0.6	1.0	0.8	0.2	0.1
IMF financing	0.0	0.1	0.1	0.8	0.8	0.6	0.5	0.2	0.0
Residual gap	0.0	0.0	0.1	2.0	0.1	1.9	1.9	1.6	0.6
Memorandum items:									
Nominal GDP (billions of CFAF)	51,590	46,449	45,093	45,323	46,206	47,633	49,990	52,861	55,825
Gross official reserves (end of period)									
Billions CFAF	16.3	13.4	6.9	7.6	7.1	8.4	9.3	10.5	10.8
Millions U.S. dollars	30.7	22.3	11.0	12.4	12.7	15.1	16.8	18.9	19.3
Months of imports of goods and services	5.8	4.8	2.2	2.7	2.7	3.0	3.6	4.2	4.5

Sources: BEAC; and IMF staff estimates and projections.

Table 6. CEMAC: Compliance with Convergence Criteria, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.
				(Percent of GDP)				
Fiscal balance[1]								
Cameroon	-0.7	0.3	-2.8	-3.3	-3.5	-2.7	-2.3	-1.3
Central African Republic	-5.8	-3.5	-1.6	0.4	1.0	0.9	0.4	0.4
Chad	-3.9	-4.2	-2.8	1.2	-0.4	-0.7	-0.6	-0.4
Congo, Republic of	-11.9	-24.8	-16.9	-2.8	-3.9	-1.0	1.0	2.0
Equatorial Guinea	-7.2	-12.6	-11.7	-6.4	-4.9	-4.0	-1.3	-1.2
Gabon	9.0	1.0	-1.8	-1.7	-1.8	-1.1	-0.1	0.2
Number of countries violating	*5.0*	*4.0*	*6.0*	4.0	4.0	2.0	1.0	0.0
Consumer price inflation (≤ 3%)								
Cameroon	1.9	2.7	0.9	0.5	1.0	1.2	2.0	2.0
Central African Republic	11.6	4.5	4.6	3.8	3.5	3.2	3.0	3.0
Chad	1.7	6.8	-1.1	0.2	1.9	2.4	3.0	3.0
Congo, Republic of	0.9	3.2	3.2	0.2	0.3	1.3	1.8	2.3
Equatorial Guinea	4.3	1.7	1.4	1.6	1.8	2.0	2.0	2.1
Gabon	4.5	-0.1	2.1	3.0	2.8	2.5	2.5	2.5
Number of countries violating	*3.0*	*3.0*	*2.0*	*1.0*	*1.0*	*1.0*	*1.0*	*2.0*
Level of public debt (≤ 70% GDP)								
Cameroon	21.5	30.9	31.6	33.7	34.5	34.4	33.7	32.4
Central African Republic	69.2	64.0	56.0	51.8	47.0	42.9	39.6	36.6
Chad	39.4	43.3	51.1	49.3	46.7	44.9	40.8	38.0
Congo, Republic of	47.6	97.1	114.6	126.6	119.1	111.3	110.3	113.6
Equatorial Guinea	11.4	28.8	40.1	45.5	56.5	61.0	63.2	59.5
Gabon	34.1	44.7	64.2	59.0	59.1	57.4	53.0	49.8
Number of countries violating	*0.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*
Non-accumulation of government arrears[2] (≤ 0)								
Cameroon	...	3.3	0.0	-0.4	-0.8	-0.8	-0.7	-0.5
Central African Republic	...	-3.3	-3.7	-9.6	-3.9	-3.2	-0.8	-0.8
Chad	...	2.3	0.0	-0.5	-0.9	-0.8	-0.4	-0.2
Congo, Republic of	...	2.0	2.3	14.1	-3.0	-2.9	-1.5	-0.8
Equatorial Guinea	...	9.9	4.2	6.0	0.5	-2.0	-2.4	-1.6
Gabon	...	...	...	-5.0	-2.4	-1.2	-1.1	0.0
Number of countries violating	...	*5.0*	*4.0*	*2.0*	*1.0*	*0.0*	*0.0*	*0.0*

Sources: Authorities' data; and IMF staff estimates.

[1] Until 2016, the basic fiscal balance (i.e. the overall budget balance, excluding grants and foreign-financed investment) had to be positive. From 2017 onward, the reference fiscal balance (i.e. the overall budget balance minus 20 percent of oil revenue and minus 80 percent of the oil revenue in excess of the average observed during the 3 previous years) must exceed -1.5 percent of GDP.

[2] Includes external and domestic payments arrears. Data reported by country authorities which may not coincide with CEMAC teams' findings. A negative sign indicates a reduction in the stock of past arrears.

Table 7. CEMAC: Monetary Survey, 2015–19

	2015	2016	2017 June Est.	2017 Sept. Est.	2017 CR 17/176	2017 Proj.	Jun. 2017 Est.	2018 Proj.	2019 Proj.
	(CFAF billions)								
Net foreign assets	5,888	2,616	2,192	2,314	2,548	2,495	2,192	2,735	2,988
Of which: BEAC	5,548	2,254	1,768	2,049	2,144	2,147	1,768	2,405	2,651
Foreign assets	6,238	3,093	2,624	3,014	3,470	3,285	2,624	4,004	4,668
Of which:									
Operations account	3,288	1,156	1,961	2,438	1,735	2,300	1,961	2,002	2,334
Foreign liabilities	-691	-839	-857	-965	-1,327	-1,139	-857	-1,599	-2,017
Commercial banks	341	362	424	265	404	348	424	329	337
Foreign assets	735	754	797	688	798	734	797	719	728
Foreign liabilities	-395	-392	-373	-423	-394	-386	-373	-390	-391
Net domestic assets	5,633	8,338	8,325	8,203	8,859	8,080	8,325	8,587	9,032
Net credit to government	-6	2,689	2,666	2,706	3,052	2,564	2,666	2,688	2,444
BEAC, net	-96	1,645	1,636	1,796	2,059	1,671	1,636	1,819	1,639
Of which:									
Advances	2,130	2,360	2,382	2,388	2,371	2,668	2,382	2,668	2,668
IMF lending	177	201	235	354	689	543	235	1,008	1,444
Consolidated debt	84	86	86	86	83	86	86	86	86
Other	-3	0	0	0	32	0	0	0	0
Government deposits	-2,484	-1,002	-1,067	-1,032	-1,116	-1,626	-1,067	-1,942	-2,558
Commercial banks, net	90	1,044	1,031	910	993	893	1,031	869	805
Net credit to public agencies	-516	-418	-480	-373	-399	-419	-480	-425	-434
Net credit to private sector	6,851	7,082	7,033	6,911	7,026	7,027	7,033	7,378	8,036
Other items, net	-696	-1,015	-894	-1,041	-820	-1,093	-894	-1,054	-1,014
Broad money	11,522	10,954	10,517	10,517	11,407	10,575	10,517	11,322	12,020
Currency outside banks	3,008	2,881	2,650	2,626	2,967	2,601	2,650	2,790	2,848
Bank deposits	8,513	8,073	7,867	7,892	8,441	7,973	7,867	8,532	9,171
	(Annual change in percent of beginning-of-period broad money)								
Net foreign assets	-17.7	-28.4	-18.1	-7.8	0.5	-1.1	-18.1	2.3	2.2
Net domestic assets	15.6	23.5	12.4	2.4	3.4	-2.4	12.4	4.8	3.9
Net credit to government	14.5	23.4	11.0	8.0	5.6	-1.1	11.0	1.2	-2.2
Net credit to the private sector	-0.8	2.0	3.2	-1.3	-0.4	-0.5	3.2	3.3	5.8
Other items, net	4.0	-2.8	-2.5	-5.0	-1.8	-0.7	-2.5	0.4	0.3
Broad money	-2.2	-4.9	-5.7	-5.4	3.9	-3.5	-5.7	7.1	6.2
Velocity (GDP/broad money)	4.0	4.1	4.4	4.4	4.0	4.4	4.4	4.2	4.2
	(Percent of GDP)								
Broad money	24.8	24.3	22.8	22.8	25.2	22.9	22.8	23.8	24.0
Private bank deposits	13.2	12.9	12.3	12.3	13.4	12.4	12.3	12.9	13.2
Net credit to the private sector	14.7	15.7	15.2	15.0	15.5	15.2	15.2	15.5	16.1

Sources: BEAC; and IMF staff estimates.

Table 8. CEMAC: Summary Accounts of the Central Bank, 2016–19

(CFAF billions, unless otherwise indicated)

	2016 Dec. Est.	2017 Mar. Est.	2017 June CR 17/176	2017 June Est.	2017 Sept. Est.	2017 Dec. CR 17/176	2017 Dec. Proj.	2018 Mar. Proj.	2018 June Proj.	2018 Sept. Proj.	2018 Dec. Proj.	2019 Dec. Proj.
Net foreign assets [1,2]	2,254	1,955	1,911	1,768	2,049	2,144	2,147	2,154	2,270	2,340	2,405	2,651
Assets	3,093	2,766	2,978	2,624	3,014	3,470	3,285	3,348	3,648	3,765	4,004	4,668
Of which:												
Operations account	1,156	2,008	1,489	1,961	2,438	1,735	2,300	2,176	2,189	2,071	2,002	2,334
Liabilities	-839	-811	-1,066	-857	-965	-1,327	-1,139	-1,195	-1,377	-1,425	-1,599	-2,017
Net domestic assets	1,864	1,945	2,258	1,960	1,954	2,236	1,868	1,894	1,837	1,802	1,821	1,640
Net credit to government	1,645	1,652	1,941	1,636	1,796	1,947	1,671	1,741	1,764	1,774	1,819	1,639
Claims	2,647	2,638	2,878	2,703	2,827	3,150	3,297	3,367	3,535	3,551	3,762	4,197
Consolidated debt	86	86	86	86	86	86	86	86	86	86	86	86
Advances	2,360	2,365	2,396	2,382	2,388	2,371	2,668	2,668	2,668	2,668	2,668	2,668
o.w. Cameroon	231	266	266	281	294	266	577	577	577	577	577	577
Central African Republic	27	27	27	27	27	27	27	27	27	27	27	27
Chad	459	431	459	433	435	459	435	435	435	435	435	435
Congo, Republic of	572	572	572	572	572	572	572	572	572	572	572	572
Equatorial Guinea	618	615	618	615	606	618	604	604	604	604	604	604
Gabon	453	453	453	453	453	428	453	453	453	453	453	453
IMF credit	201	187	397	235	354	689	543	614	782	797	1,008	1,444
o.w. Cameroon	50	41	148	39	128	210	200	200	243	235	270	341
Central African Republic	70	67	81	62	68	92	93	90	105	102	122	133
Chad	75	75	105	72	98	134	130	130	158	158	185	229
Congo, Republic of	6	5	5	4	4	136	5	52	52	52	99	192
Equatorial Guinea	0	0	0	0	0	0	0	26	52	79	105	209
Gabon	0	0	59	58	56	118	115	115	172	172	227	339
Government deposits	-1,002	-985	-938	-1,067	-1,032	-1,203	-1,626	-1,627	-1,771	-1,777	-1,942	-2,558
o.w. Unallocated	-1	-1	...	-1	-1	...	-1	-1	-1	-1	-1	-1
Cameroon	-299	-308	-300	-343	-303	-553	-880	-852	-934	-938	-1,009	-1,225
Central African Republic	-35	-21	-28	-16	-32	-43	-40	-22	-42	-27	-49	-43
Chad	-77	-75	-15	-77	-122	-16	-117	-137	-127	-117	-111	-116
Congo, Republic of	-206	-237	-237	-106	-122	-237	-121	-150	-178	-207	-235	-360
Equatorial Guinea	-177	-144	-146	-280	-217	-115	-234	-232	-230	-228	-225	-307
Gabon	-208	-200	-212	-245	-235	-238	-232	-234	-259	-259	-311	-505
Net claims on financial institutions	628	603	638	634	453	610	509	466	385	340	314	313
Other items, net	-409	-311	-321	-310	-295	-321	-313	-313	-313	-313	-313	-313
Base money	4,118	3,900	4,169	3,727	4,002	4,380	4,014	4,048	4,107	4,142	4,227	4,291
Currency in circulation	2,881	2,707	2,923	2,650	2,626	2,967	2,601	2,623	2,670	2,717	2,790	2,848
Banks' reserves[3]	978	959	989	893	1,210	1,003	1,201	1,211	1,221	1,231	1,242	1,277
Others	259	233	257	185	167	410	212	214	216	193	195	166
Memorandum items:												
Reserve coverage of broad money (in percent)	28.2	25.9	n.a	25.0	28.7	n.a	31.1	n.a.	n.a.	n.a.	35.4	38.8
Base money/deposits (in percent)	50.7	48.9	n.a	47.4	50.7	n.a	50.3	n.a.	n.a.	n.a.	49.5	46.8

Sources: BEAC.

[1] The end-March 2017 foreign assets and foreign liabilities estimates were both revised downward by CFAF 230 billion, to correct the fact that the estimates reported in June were based on countries monetary statistics that classified negative imputed reserves as positive liabilities.

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

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

Table 9. CEMAC: Net Foreign Assets of the Central Bank, 2016–19

(CFAF billions)

	2016 Dec. Est.	2017 Mar. Est	2017 Jun. EBS 17/53	2017 Jun. Est	2017 Sep. Est.	2017 Dec. EBS 17/53	2017 Dec. Proj.	2018 Mar. Proj.	2018 Jun. Proj.	2018 Sep. Proj.	2018 Dec. Proj.	2019 Dec. Proj.	Cumulative change 2017-19
BEAC's net foreign assets													
Stock	2,254	1,955	1,911	1,768	2,049	2,144	2,147	2,154	2,270	2,340	2,405	2,651	...
Change since end of previous year	-3,294	-298	-224	-486	-205	9	-107	7	124	194	259	245	397
o.w. Cameroon	-824	-88	-239	-106	70	-15	83	-28	11	23	-17	24	90
Central African Republic	12	4	-4	20	27	-17	-15	-8	-15	-23	-30	-15	-61
Congo	-912	-61	-19	-220	-219	-143	-247	75	149	224	298	6	57
Gabon	-630	-27	-17	-145	-105	52	-10	6	32	36	75	132	197
Equatorial Guinea	-712	-54	22	30	82	39	70	-25	-50	-74	-99	32	3
Chad	-448	-16	33	0	33	108	105	-13	-3	7	32	67	204
Unallocated	220	-56	0	-65	-93	0	-93	0	0	0	0	0	-93

Sources: BEAC; and IMF staff projections.

Table 10. CEMAC: Bank Ratings, December 2015[1,2/]

(Units)

	1	2	3	4	5	Not Rated
Country (number of banks)						
Cameroon (14)	0	5	5	2	2	0
Central African Republic (4)	0	1	3	0	0	0
Chad (8)	0	1	4	2	1	0
Republic of Congo (11)	0	3	6	1	1	0
Equatorial Guinea (5)	0	2	2	1	0	0
Gabon (10)	1	2	3	2	2	0
CEMAC (52)	1	14	23	8	6	0

Source: Banking Commission of Central Africa (COBAC)

1/ Ratings: 1= strong, 2=good, 3= not fully satisfactory, 4=fragile, 5=critical

2/ Because it uses stringent criteria, the COBAC deems banks in the first three categories to be broadly in good condition.

Table 11. CEMAC: Financial Soundness Indicators, 2010–17
(Percent)

	2010	2011	2012	2013	2014	2015	2016	Jul-17
Capital								
Regulatory capital to risk-weighted assets [1, 2]	14.8	11.2	12.4	13.0	13.7	14.0	13.4	15.7
Asset quality								
Non-performing loans (gross) to total loans (gross)	6.9	6.8	6.4	8.3	9.1	9.6	11.9	14.0
Non-performing loans less provisions to regulatory capital	7.5	0.2	1.0	25.9	22.4	22.9	35.4	43.3
Earnings and profitability								
Return on equity	18.2	23.9	23.2	27.2	20.3	16.4	23.5	-
Return on assets [3]	2.0	2.2	2.1	2.5	2.0	1.7	2.5	-
Liquidity								
Ratio of liquid assets to short-term liabilities	188.6	165.2	182.5	150.8	156.3	151.9	141.3	138.4
Total deposits to total (noninterbank) loans	125.7	138.0	145.7	130.4	127.4	111.6	102.3	99.4
Credit								
Gross loan (banks' book) - bn FCFA	4837	5273	5948	7111	7699	8486	8991	8950.8
Gross loan - annualized growth rate		9.0	12.8	19.5	8.3	10.2	5.9	2.2

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.

Table 12. CEMAC: Violations of Prudential Ratios, 2014–17

	Capital Adequacy				Liquidity[1]				Fixed Assets[2]				Maturity[3] Transformation				Minimum[4] Capital				Limit on Single[5] large exposure			
	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
	8%				Min 100%				Min 100%				Min 50%				Min CFAF 10 billions				Max 45%			
Country (number of banks)	Units																							
Cameroon (14)	4	3	3	4	3	3	3	3	4	4	5	5	4	3	3	3	3	4	5	5	5	5	6	10
Central African Republic (4)	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	3	2	2	2	1	2	2
Chad (8)	1	1	1	1	0	1	1	3	2	2	1	1	1	3	3	3	2	2	2	1	3	1	2	2
Republic of Congo (11)	0	1	1	1	0	4	4	6	1	5	3	3	1	2	2	2	1	4	3	4	2	2	1	3
Equatorial Guinea (5)	1	0	0	0	0	0	4	0	1	0	4	0	1	0	3	0	0	0	0	1	1	1	2	2
Gabon (10)	3	3	3	3	3	2	1	4	4	4	0	4	3	4	0	3	1	5	4	4	4	5	3	7
CEMAC (52)	9	8	8	9	6	10	0	16	12	15	14	14	10	12	11	11	7	18	16	17	17	14	15	25
	(Percent of Deposits[6])																							
Cameroon (14)	24	29	n.a	n.a	21	6	n.a	n.a	24	23	n.a	n.a	24	6	n.a	n.a	9	n.a	n.a	n.a	29	29	n.a	n.a
Central African Republic (4)	0	0	n.a	n.a	0	0	n.a	n.a	0	0	n.a	n.a	0	0	n.a	n.a	0	46.5	n.a	n.a	24	24	n.a	n.a
Chad (8)	13	1	n.a	n.a	0	12	n.a	n.a	18	16	n.a	n.a	13	28	n.a	n.a	6	15.8	n.a	n.a	38	15	n.a	n.a
Republic of Congo (11)	0	n.a	n.a	n.a	0	56	n.a	n.a	2	19	n.a	n.a	2	1	n.a	n.a	0	10.5	n.a	n.a	4	n.a	n.a	n.a
Equatorial Guinea (5)	32	0	n.a	n.a	0	0	n.a	n.a	32	0	n.a	n.a	32	0	n.a	n.a	0	0	n.a	n.a	32	23	n.a	n.a
Gabon (10)	5	4	n.a	n.a	19	2	n.a	n.a	19	21	n.a	n.a	5	10	n.a	n.a	2	11.6	n.a	n.a	19	21	n.a	n.a

Source: Banking Commission of Central Africa (COBAC).

[1] Short-term assets of up to one month (remaining maturity) over short-term liabilities of up to one month (remaining maturity).

[2] Net capital and other premanent resources over fixed assets.

[3] Long-term assets of more than five years over long term liabilities of more than five years.

[4] Minimum capital varied by country until May 2010 (CFA millions): Cameroon 1000; Central African Republic 200; Chad 150; Republic of Congo 150; Equatorial Guinea 300; Gabon 1000. From June 2010, minimum capital is 5 billion CFAF for all the countries.

[5] Single large exposure is limited to 45 percent of capital.

[6] Percentage of deposits represented by the number of banks in violation in the country.

Table 13. CEMAC: Policy Commitments and Reforms to Support Member Countries' Adjustment Programs. 1/

	Measure	Description	Deadline	Status
		Monetary policy		
1	Maintaining appropriately tight monetary policy	Maintaining appropriately tight monetary policy. BEAC to stand ready to increase policy rate should reserve fall short of policy objectives.	Continuous	Monetary policy stance appropriately tight so far, in view of reserve accumulation and liquidity conditions
2	Elimination of statutory advances	Monetary financing from the budget by the regional central bank to be eliminated. Existing balances converted into long-term	End-2017	Conventions between the BEAC and the member states are being signed. Amendment of the BEAC charter will be adopted by end-2017.
3	Introduce an emergency liquidity assistance (ELA) facility	Facility to support solvent banks facing unexpected liquidity problems. The liquidity is to be provided under strict conditionality.	End-January 2018	Work on eligible collateral finalized. Regulation defining the ELA legal framework in preparation. Work being implemented based on extensive TA from the IMF.
4	Enhance transparency in the application of foreign exchange regulation	Enhance transparency in the application of foreign exchange regulation by requesting copies of exemption convention and requiring the repatriation of assets held overseas.	Continuous	Exemption conventions not provided by member states. The BEAC has stepped up internal control on demand for foreign exchange to ensure their materiality and economic rationale. It plans to adopt a new regulation to limit the scope for bilateral exemptions and strengthen control.
5	Reduce refinancing ceiling to protect regional reserves and analyze possible options for strenthening ringfencing mechanisms	Strictly apply the mechanisms provided in the BEAC charter, in particular encourage members with low or negative imputed reserves to introduce remedial measures and comply with prudential ceilings on refinancing	Continuous	Based on Article 11.2 of BEAC charter, refinincing ceiling for Chard and Equatorial Guinea were reduced in May 2017. Since then, no other country fell undert the application of this Article. An MCM TA mission in November 2017 will explore with the BEAC options for haircuts on government securities used as collateral for bank refinancing.
6	Enhance liquidity management	Modernize the liquidity management framework by calibrating monetary policy operations based on autonomous factor forecast.	By March-2018	Substantial preparatory work finalized.
7	Enhance data sharing from the BEAC	The BEAC to provide to IMF staff detailed indicators on the financial sectors, and all the legal text supporting these (specified in the annexed table of Policy Assurances Letter signed by the Governor of the BEAC).	Continuous	BEAC is providing on a regular basis the full set of agreed indicators.

1/ This table presents near-term measures discussed between IMF staff and the regional authorities (BEAC and COBC) in the area of monetary policy and banking supervision. This is a selection of the measures critical to macroeconomic and financial stability, part of a wider set of commitments described in the June 2017 Letter of Policy Support signed by the BEAC's Governor, who is also President of the COBAC.

Table 13. CEMAC: Policy Commitments and Reforms to Support Member Countries' Adjustment Programs (concluded).

	Measure	Description	Deadline	Status
		Bank supervision		
8	Ensure strict compliance of prudential regulati	Ensure strict compliance of prudential regulations by all commercial banks on classification of NPL, provisioning rules, restriction of connected lending, and verification of credit risk policies by banks.	Continuous, starting in 2018	COBAC's 2018 work program adopted to reflect enhanced compliance in this area.
9	Enhance risk-based supervision	Boost frequency and strength of onsite inspection based on a risk based approach.	Continuous, starting in 2018	COBAC's 2018 work program adopted to reflect enhanced compliance in this area.
10	Resolution of distressed banks	Give banks a specific deadline for resolution. Alternatively, initiate the liquidation of distressed banks.	Continuous, starting in 2018	In 2017, the COBAC Commission has adopted several decisions concerning CEMAC banks in difficulty (from appointing liquidators for two of them, to requesting other banks to provide restructuring plans). Several banks have been given specific deadline to finalize their recapitalization.
11	Enhance data sharing from the COBAC	The COBAC to provide to the IMF staff detailed indicators on the financial sectors, and all the legal text supporting these (specified in the annexed table of Policy Assurances Letter signed by the Governor of the BEAC-also President of the COBAC).	Continuous, starting in 2018	Data on financial sector conditions and updates on main decisions provided regularly. A description of the strategic priorities and actions in 2018 also provided after the October 2017 Regional Consultation mission.

Annex I. Risk Assessment Matrix[1]

Source/Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Sharper-than-expected global growth slowdown	Medium	
● **Significant China slowdown**. Efforts to rein in financial sector risks, expose vulnerabilities of indebted entities and reduce near-term growth. Over the medium term, overly ambitious growth targets lead to unsustainable policies, reducing fiscal space, and further increasing financial imbalances. A sharp adjustment could entail weak domestic demand, lower commodity prices, roil global financial markets, and reduce global growth. . **Likelihood: low in the short term, medium thereafter.**	● Lower growth in China will continue to depress commodity prices, including oil, and will have a negative impact on regional exports. Lower commodity revenues will further undermine fiscal sustainability in most CEMAC countries.	**In the short-term:** ● Ensure solid implementation of fiscal and monetary adjustment policies across the region to reduce the twin deficits, collectively, and ensure external sustainability. ● Develop the regional debt market to cover CEMAC members' financing needs.
Persistently lower energy prices	High	
● **Persistently lower energy prices**, driven by stronger-than-expected U.S. shale and/or recovery of oil production in the African continent. **Likelihood: high over the medium term.**	A "permanent" downward price shock on oil and other commodity prices will lower regional exports. Lower hydrocarbon revenues will erode fiscal sustainability further in most CEMAC countries and will hinder efforts to re-build an adequate foreign reserve buffer.	●**In the short-term:** Launch reforms to widen the non-oil tax base, notably excises, and reduce VAT-related and other exemptions; ensure prompt repatriation of oil export proceed, in line with the foreign exchange law; spur competition in the non-oil import sector. Improve external competitiveness through structural reforms to improve the regional business climate and deepen the regional market.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent; "medium" a probability between 10 and 30 percent; and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source/Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Delays in the implementation of regional reforms	High	
● Weak implementation capacity and bureaucratic delays at the regional and national levels hamper the pace of reforms. In a low oil price environment and eroded buffers, CEMAC countries may find it even more challenging to find resources and support for regional integration. **Likelihood: medium in the short term**.	● Delays in reforms to address BEAC/CEMAC governance and operational weaknesses could adversely affect policy responsiveness. ● Lackluster momentum for financial sector reform could prevent regional authorities from taking decisive actions to deal with weak financial institutions and cause fiscal liabilities. ● The absence of significant progress in public finance and financial sector reforms could constrain private investment and undermine efforts to diversify the regional economy. ● The lack of progress in rebuilding regional reserves could lead to capital outflows, and strain the CFA franc's peg to the Euro.	Establish credible and time-bound plans to implement much delayed reforms in key regional institutions. For the BEAC, the priority is to finalization it enhanced monetary policy and liquidity management The CEMAC Commission should enhance processes and fill legislative gaps to implement the new regional surveillance framework, including full transposition of CEMAC's public finance directives by member states. ● Coordinate national and regional efforts to jump-start measures to enhance the business environment.
Lack of commitment on adjustment efforts by some member	High	
● Possibility of free-rider behavior, if even just one CEMAC country does not pursue appropriate adjustment policies needed to restore regional external stability; this would negatively impact the success of individual Fund-supported programs. **Likelihood: medium in the short term**.	This behavior could undermine regional cooperation and the other countries' willingness to pursue adjustment efforts, thereby jeopardizing external sustainability.	● Intensify regional peer pressure on the authorities of any free-rider country to pursue adequately strong policies. Enhance mechanisms to address countries which derail from the agreed adjustment path both at the BEAC and CEMAC Commission level.
Deterioration of the security in the region	Medium	
● Possible deterioration of the security situation in the region, already fragile and exacerbated by the challenging economic situation and the impact of fiscal consolidation on the poorest. **Likelihood: medium in the short term**.	This could undermine the already fragile economic recovery, affect negatively expectations of the private sector, and weaken the business environment.	● Keep effective social dialogue, ensure that priority spending in social sector is protected.

Annex II. CEMAC: Response to Past IMF Advice

	2016 Regional Consultation Recommendations	Authorities' Response
Policy mix	• Accelerate fiscal adjustment. • Improve the business climate.	• As part of the regional strategy, the member states have committed to, and started implementing, fiscal consolidation programs consistent with Fund advice. • While the authorities have adopted a structural reform program to support inclusive growth, limited progress has been made so far to improve the business climate.
Monetary policy and safeguards reform	• Tighten the monetary stance. • Strengthen monetary transmission channels. • Proceed with safeguards recommendations.	• Consistent with Fund advice, the BEAC has started increasing its policy rate, and will eliminate statutory advances by year-end. • Work is ongoing to strengthen monetary transmission, including through simplifying its policy instruments, basing its policy framework on autonomous liquidity factors, and development of interbank market. • The BEAC has taken important steps to finalize the implementation of remaining priority safeguards recommendations, in particular with regard to governance. Preparation is under way for BEAC's full transition to IFRS.
Macrofinancial linkages and the financial sector	• Do not accumulate arrears, so as to ensure the stability of the banking system. • Strengthen the microprudential framework to sustain macrofinancial stability.	• Additional arrears were accumulated in 2016. As part of their fiscal consolidation programs, member states have committed to the gradual reimbursement of external and domestic arrears. Work is underway to strengthen regional surveillance in this area. • The authorities have initiated the liquidation process of 2 banks, while putting a third one under conservatorship. An emergency liquidity facility will be established by year-end. Further progress is needed to identify and implement specific measures to support financial stability and the strengthening of the financial sector.
Regional integration and convergence framework	• Strengthen regional coordination and harmonization. • Strengthen CEMAC institutions.	• The implementation of the safeguards recommendations helped strengthen BEAC's governance, while the elimination of statutory advances will enhance its independence. Progress is still required to strengthen the CEMAC commission, including in its capacity to enforce the convergence framework.

Annex III. Modernizing the Monetary Policy Framework and its Implementation

1. **Until last year, BEAC's accommodative monetary policy led to high levels of excess liquidity, hampering the development of the interbank market and monetary policy transmission.** Monetary policy relied on the targeting of monetary aggregates and was conducted through the allotment of liquidity to the different countries. BEAC's decision not to fully sterilize its accumulation of foreign assets at the time of the oil price boom resulted, however, in a very high level of excess liquidity. This excess liquidity subsided only gradually following the sharp drop in oil prices, as the BEAC then provided additional liquidity both to the governments (through the expansion of statutory advances) and to commercial banks (through the reduction of the required reserve ratio and refinancing operations). As most banks enjoyed comfortable levels of liquidity, they did not have much need to participate in the interbank market—which until recently was virtually nonexistent—or to request refinancing from BEAC. As a result, commercial banks' lending and deposit rates were disconnected from the policy/interbank rate—and mostly reflected the clients' credit status—and the monetary transmission mechanism was very weak.

2. **To strengthen monetary policy transmission, the BEAC has started implementing a multi-pronged modernizing strategy.** With excess liquidity now at much lower levels, the BEAC has an opportunity to accompany the development of the interbank market (with banks with positive excess balances channeling their liquidities to other banks), by ensuring, through the use of its instruments, that the interbank rate remains close to its policy rate, and in turn that changes in the policy rate are passed through to the commercial bank's deposit and lending rates. To do so, the BEAC has initiated reforms to modernize the monetary policy operations framework, which will now use the policy rate (rather than monetary aggregates) as the intermediate target. These reforms include: (i) a simplification of its monetary policy instruments; (ii) basing liquidity management on the projection of autonomous factors; and (iii) the strengthening of the framework for required reserves. These reforms will in turn require changes in BEAC's collateral framework, as the current system could make adequate calibration of new monetary operations more difficult.

Monetary policy instruments

3. **The BEAC has embarked on a deep reform of its monetary policy instruments.** The purpose of this reform, which was decided during the May 2016 CPM meeting is to enhance the monetary policy transmission. The new and simpler toolset will comprise: (i) open market operations; (ii) permanent deposit and lending facilities; (iii) intraday advances; and (iv) medium-term refinancing operations. The characteristics of these instruments are in line with best practices (including the interest rate differential between the two standing facilities, which should guide interbank conditions) and will ensure a more effective transmission of monetary policy. Their implementation has been approved and is now planned for early 2018. Moreover, the BEAC will carry out from January 2018 its open market operations based on a competitive basis, with a floor rate equal to its policy rate.

Liquidity management

4. **Liquidity management will now be based on autonomous factor projections.** The main objective of this new approach will be to steer the interbank rate close to the policy rate. To do so, the BEAC will project the autonomous factors of liquidity.[1] It will then use its new monetary policy toolset, including its open market operations, to absorb any excessive liquidity or provide additional liquidity, to ensure that the interbank rate remains close to the policy rate.[2] To better calibrate its interventions, the BEAC will first estimate the incompressible level of excess bank liquidity, taking into account the current frictions of the regional money market, and then endeavor to maintain excess liquidity around the estimated incompressible level. The new liquidity management framework should be operational in early 2018.

5. **The authorities have also strengthened the frameworks for required reserves and repurchase agreements.** On July 1, 2017, the BEAC started implementing more harmonized rules for banks' reserve requirements, eliminating previous country-specific rules, which had blurred the message of monetary policy and distorted competition. The constitution of these reserve requirements will now be on average, which will also facilitate banks' liquidity management. In addition, the former reserve requirement exemption for Central African banks was lifted, with only four Chadian banks with liquidity difficulties still exempt. The BEAC is also working toward introducing repurchase agreements for money market transactions (these agreements reduce significantly the counterparty risk) and to strengthen the quality of financial information. This should contribute to the development of the market, in terms of volumes as well as maturities.

6. **BEAC also intends to finalize by end-2017 its framework for emergency liquidity assistance (ELA)**. Following the adoption of the master agreement by the Board of Directors on August 5, 2017, this will require the signing of specific agreements between the BEAC and the banks under ELA. These agreements will provide the legal basis allowing the BEAC to intensively monitor the banks' cash-flow plans. Moreover, under the agreement the BEAC, as well as the COBAC, will conduct specific controls to ensure that the plans to address the root cause for the liquidity problem are implemented. A framework for evaluating the eligible assets used for ELA as well as the operating procedures relating to it were also developed. It remains to finalize the implementing regulation setting the legal framework of ELA. The overall ELA scheme should enter into force in January 2018.[3]

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[1] These include BEAC's net foreign assets and net claims on the government, as well as currency in circulation and other items.

[2] The implementation by the end of 2017 of a more systematic reporting of the money market operations, carried out by the banks, should help the BEAC evaluate the effectiveness of this transmission.

[3] Due to the non-repayment of weekly main refinancing operations, two Chadian banks are currently refinancing at the 7 percent penalty rate. With the ELA rate expected to be set between 6.2 and 6.7 per cent, both banks could have advantage to move to the ELA scheme.

Collateral Framework

4. BEAC's relatively simple collateral framework is reaching its limits, especially with the planned implementation of an ELA framework and a liquidity management based on autonomous factors. Currently, the collateral framework consists of: (i) ceilings on the amount of government securities eligible for open market operations;[4] and (ii) haircuts based on the collateral residual maturities (different rules apply to different asset classes). There is no discrimination based on credit quality within an asset class. While the current collateral framework has helped limit risk taking on sovereigns, it may cause difficulties for the revised approach of monetary policy implementation. Limiting the availability of collateral (even good quality one) may make an adequate calibration of open market operations more difficult. This would also create unfair discrimination among banks by excluding some from open market operations, whatever their financial soundness and the quality of their collateral, since sound collateral would be excluded from open market operations, beyond the above-mentioned ceilings, and only eligible to ELA.

5. A good collateral framework is a key prerequisite for effective monetary policy implementation. The collateral framework of a central bank is important not only for risk protection of central bank balance sheet and the feasibility of central bank operations, but also for financial conditions, financial stability and the transmission mechanism of monetary policy, in particular in stress situations. Also, a collateral framework and its criteria should not lead to the preferential treatment of distinct asset classes, issuers or sectors and should avoid market distortion. Finally, collateral sets for ELA are typically defined separately

6. BEAC should therefore consider a number of reforms to strengthen this framework. First, BEAC's revised collateral framework should allow for: (i) a strict separation between the eligibility criteria for open market operations and those for ELA; and (ii) a more granular haircut system. The first objective will eventually require removing the ceilings on government securities. The second will require the establishment of new haircut rules taking fully into account the level of credit risk, potentially relating to appropriate budgetary discipline for government securities. More specifically, the new rules could consider using the level of compliance with some of CEMAC convergence criteria to calibrate haircuts, but not only. In addition, a default of a sovereign or a situation of unsustainable debt could systematically lead to their ineligibility for open market operations.

[4] BEAC is limiting the amount of government securities it accepts as collateral to 15 percent of budget revenue for each country.

Annex IV. Actions by the Regional Banking Supervisor

1. The CEMAC regional banking supervisor (COBAC) has outlined in an action plan its current and planned initiatives to address the development of loans in arrears, the need to strengthen the implementation of certain supervision rules, and the resolution of banks in difficulty. The main initiatives and actions are outlined below.

Addressing Nonperforming Loans (NPLs)

- The COBAC will reinforce the application of provisioning rules in 2018, having prepared an inspection program focused on the quality of credits. Inspections will now be guided by a new COBAC Inspection Manual for risk-based supervision. Banks to be inspected will be selected on the basis of their risk profile established by the SYSCO system operated by COBAC. From 2018, inspections will systematically provide a document detailing the reasons why credits are improperly classified or provisioned.

- The COBAC will publish by end-2017 a new regulation that clarifies the rules of application of the current provisioning rules. It will cover in particular the prudential treatment of credits for which restructuring has failed, general provisions, leasing, and clarifications about deadlines for needed provisioning.

- The COBAC will finalize by end-2017 its analysis of the amount of NPLs caused by government arrears, which weights directly and indirectly on banks' portfolios. This analysis will be conducted on the basis of information provided by banks, and will focus on loans granted to governments or loans that benefit from an explicit government guarantee (including for public contracts).

- The COBAC will supervise the application of the new regulation on internal control, which requires banks to reinforce their credit risk policies and develop rating instruments. However, the COBAC has not developed yet the capacity to assess credit risk tools put in place by banks (rating, scoring, etc.), and no decision has been taken yet concerning potential actions in this area.

Strengthening the Implementation of Certain Prudential Rules

- **Risk concentration**. One third of solvent banks are in breach of the CEMAC regulation. The COBAC will assess the main underlying reasons and options to redress the compliance rate. It will also in this context provide exemption options to the banks that are in breach of risk concentration rules because of the recent large increase in risk weighting of sovereign debt (exemptions granted on a case-by-case basis will allow banks to spread the increase in risk-weight over three years, provided banks meet certain conditions, including providing a plan to address the problem or partial dividend ban and be in a country with an IMF-supported program).

- **Lending to connected parties.** The data collected by the COBAC shows that the problem of accumulation of loans to connected parties (shareholders, managers) is relatively limited. However, the data might not correctly capture the problems related to connected firms (where a same person is a shareholder of the bank and the firm benefitting from a credit). Several targeted inspections will be organized in 2017 to capture the magnitude of this problem. Decisions will be taken once the results of the inspection are known.

- Finally, the COBAC will modify the amounts of penalties before the end of the year, to ensure that large banks receive sufficiently constraining penalties, and it is starting to implement accelerated procedures to impose penalties. In 2018, the COBAC will review the efficiency of its corrective measures more broadly.

Treatment of Banks in Difficulty

- Two Gabonese banks have been put under liquidation (liquidators were installed in early November 2017). They have one year to complete the liquidation of the two banks.
- One Gabonese bank has been recently placed under conservatorship for a six-month period. The administrator was asked to send a report to the COBAC by end-November 2017 providing his/her views on the bank's viability.
- A decision was taken in July 2017 to put a Congolese bank under conservatorship. However, the COBAC has faced difficulties so far to find a suitable administrator for this bank.
- A Chadian bank was summoned to provide a restructuring plan to COBAC by end-December 2017.
- Regarding a Cameroonian bank under conservatorship, a six-month extension (until March 2018) has been granted to extend the mandate of the administrator to (i) finalize negotiations with the Cameroon authorities to transfer impaired assets to the national Asset Management Company, and (ii) to conduct negotiations for the entry of new private investors. The decision to extend was based on this bank's activity having been profitable in the last two years.
- The COBAC summoned a second Cameroonian bank to provide a restructuring plan before September 2017 and to implement this plan by end-December 2017.
- For a third Cameroonian bank, the COBAC obtained the commitment of the main shareholder that the bank will be recapitalized before end-December 2017.
- Overall, the COBAC has taken individual decisions concerning all banks in difficulty in the CEMAC, ranging from the appointment of liquidators for two of them, to the request to provide restructuring plans for others. Several banks have been given delays to find solutions to be recapitalized. In describing its actions in this area, the Secretary General of COBAC (SG-COBAC) clarified the specific institutional set-up, whereby the SG-COBAC can submit specific proposals to address ailing banks to the 12-member Banking Commission (chaired by the BEAC Governor), which is ultimately responsible for adopting these decisions.

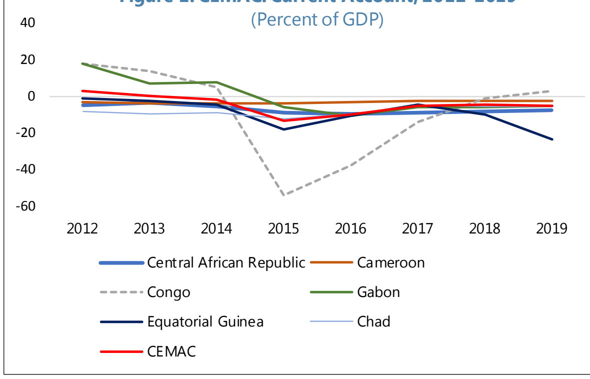
Annex V. External Sector Assessment

The current account deficit in the CEMAC region deteriorated significantly amid the oil price shock, combined with expansionary fiscal and monetary policies. This has contributed to the depletion of foreign reserves far below levels that are appropriate according to reserve adequacy metrics. The REER model indicates a modest overvaluation of the exchange rate by 5 percent in 2017, whereas the current account model suggests an overvaluation of 13 percent, suggesting that the external position of the CEMAC region is weaker than implied by fundamentals and desirable policies. Further, non-price competitiveness indicators raise concerns, thus calling for urgent reforms to foster an enabling business environment.

A. Recent Developments in External Accounts

1. **The regional external current account deteriorated in the past few years.** Weak commodity prices, combined with expansionary fiscal and monetary policies have contributed to widen the current account deficit in the CEMAC region to 10 percent of GDP in 2016, from a surplus of 3.3 percent of GDP in 2012 (Figure 1). Nevertheless, this hides considerable cross-country heterogeneity as the sharp worsening in Congo's external accounts in 2015–16 weighted on the regional current account. This partly resulted from exceptional imports associated with a large investment in the oil sector in 2015–16.[1] While import substitution, tighter fiscal stance and weak domestic demand helped narrow the current account deficit in Cameroon, Chad and Equatorial Guinea, fiscal restraint was not strong enough to curb imports and offset the decline in oil exports in Gabon, thus leading to a wider current account deficit in 2015-16.

Figure 1. CEMAC: Current Account, 2012-2019
(Percent of GDP)



2. **In the medium term, the current account deficit is projected to return back to pre-crisis levels.** Supported by strong fiscal consolidation, and tighter monetary policy (in the context of IMF-supported programs), as well as a modest recovery in international oil prices, the current account deficit is projected to narrow to 5 percent of GDP in 2017, and further in the medium term to reach 1½ percent of GDP by 2021. As a result, reserve levels are projected to improve to about 4½ months of imports by 2021, from 2.2 months of imports at end-2016.

3. **Although foreign direct investment (FDI) has traditionally dominated external financing flows, the non-repatriation of export proceeds has recently put pressure on the**

[1] The Moho Nord deep offshore field, developed by Total jointly with Chevron and the national oil company SNPC, is a USD 10 billion (122 percent of GDP) project that started production in 2017, and which at full capacity will increase the country's total oil production by 40 percent.

capital account. FDI has been relatively stable in the last 5 years, reaching an average of 6¼ percent of GDP. Despite the crisis, FDI has not slowed down markedly because it is mainly driven by reinvested earnings. In the medium term, an increase in FDI is projected as commodity prices recover and structural reforms take hold. On the other hand, uncertainties brought by the crisis in the region and the resulting fear of devaluation has led to the non-repatriation of export proceeds and possibly capital outflows. The implementation of sound macroeconomic policies will restore confidence, and this combined with stricter enforcement of the foreign exchange regulations should support the recovery in foreign reserves.

B. Reserves Adequacy

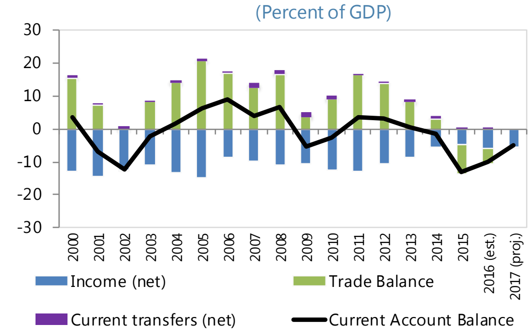
4. CEMAC's reserve coverage at end-2016 fell short of appropriate levels. In the last 2 years, reserve coverage more than halved to reach just 2.2 months of prospective extra-regional imports at end-2016 (Figure 3). This is far below the benchmark of 5 months of imports considered appropriate for a resource-rich currency union. In the same vein, the cost-benefit analysis[2] 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, one might argue that the optimal reserve level may be lower, considering the guarantee of the French Treasury for the convertibility of the CFA Franc. Further, at end-2016 reserves amounted to no more than 50 percent of the IMF reserve adequacy metric, well below the range of 100–150 percent deemed broadly adequate for precautionary purposes. However, the reserve adequacy assessment looks somewhat more favorable when considering the broad money and short-term liability ratios (respectively 27 and 184 percent, compared to minimum thresholds of 20 and 100 percent).

[2] 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, 2000–17

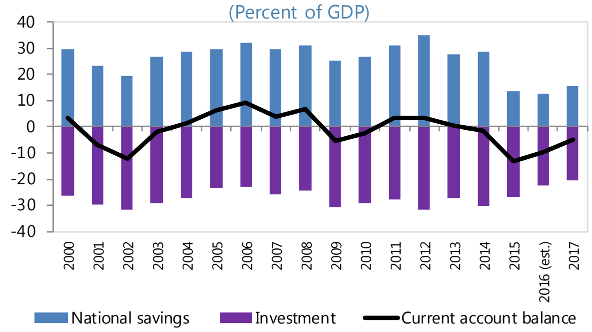
The regional current account balance has deteriorated - reflecting the evolution of trade balance and ...

CEMAC: Current Account Balance, 2000–17
(Percent of GDP)



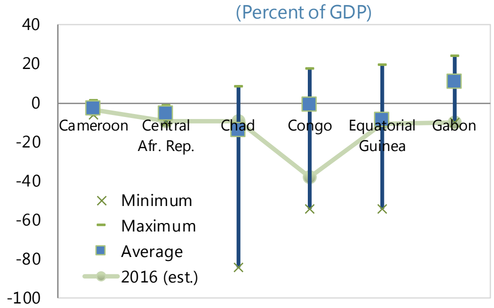
... important investment efforts ...

CEMAC: Current Account Balance, 2000–17
(Percent of GDP)



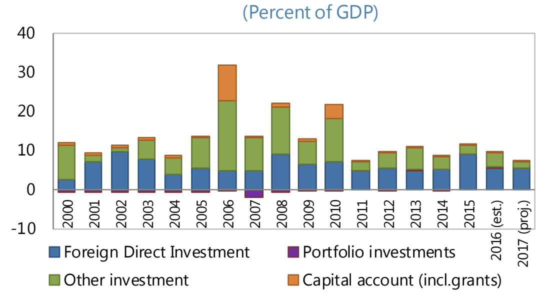
... in most CEMAC countries.

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



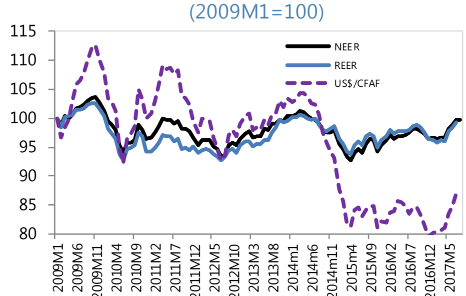
Foreign direct investment constitutes a stable source of external financing, although loans have been decreasing.

CEMAC: Current Account Financing, 2000–17
(Percent of GDP)



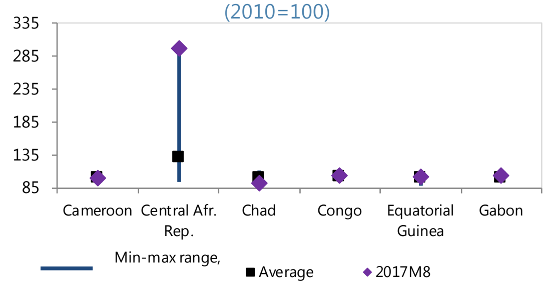
The regional real effective exchange rate has appreciated reflecting the appreciation of the euro and ...

CEMAC: Real and Nominal Effective Exchange Rates, 2009-August 2017
(2009M1=100)



...inflationary pressures in some CEMAC countries.

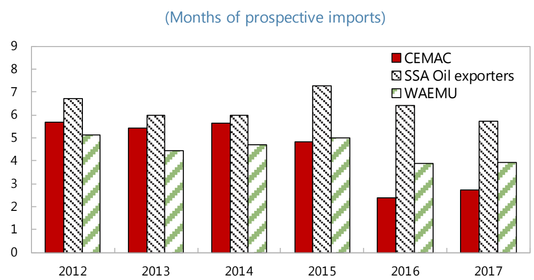
CEMAC: Real Effective Exchange Rate of CEMAC Countries, 2007–August 2017
(2010=100)

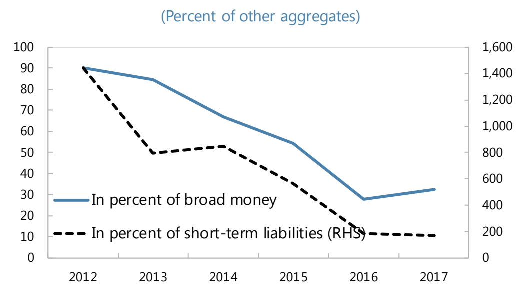


Sources: CEMAC authorities; International Financial Statistics (IFS); and IMF staff calculations.

5. Rebuilding reserves buffers in the medium term requires an appropriate policy mix. The reserve coverage is expected to recover gradually in the medium term as fiscal consolidation takes hold and monetary policy is being tightened, while being mindful of growth and financial stability. Data up to September 2017 suggest that BEAC reserves reached an inflection point and are on track to reverse the decline observed since the beginning of the year, partly thanks to the disbursement of IMF loans for Cameroon, Gabon, Chad and CAR in July 2017, but also reflecting the impact of adjustment efforts. Nonetheless, even if current projections materialize, the medium-term reserve coverage would still remain somewhat lower that what is deemed as adequate for a resource-rich currency union, thus leaving the region vulnerable to adverse external shocks.

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





Sources: AFR REO-database and IMF staff calculations.

C. Exchange Rate Assessment

6. The assessments of the current account and real effective exchange rate (REER) do not suggest sizeable deviations from fundamentals. After being broadly stable in Jan-Dec 2016, the REER has appreciated by about 1 percent on a year-on-year basis in August 2017, reflecting mainly a strengthening of the euro with respect to the US dollar. Two standard approaches have been used to assess the external position of the CEMAC region. The first approach is the EBA-Lite's Index Real Effective Exchange Rate (IREER), for which the comparison of the fitted IREER and the norm indicates a modest overvaluation of 5 percent in 2017. The second approach is the "EBA-Lite's" Current Account (CA) model, which compares the underlying current account balance with the model-estimated current account norm. This model suggests a moderate overvaluation by 13 percent with the 2017 current account deficit projected at 5 percent of GDP against a norm of 1.8 percent of GDP (assuming an elasticity of the current account to REER of -0.24). The external position is therefore assessed to be weaker than implied by fundamentals and desirable policies.

External Sector Assessment Results

Implied over (+)/under(-) valuation (percent)	
REER model	5
Current Account (CA) model	13
Memorandum items (percent of GDP)	
2017 CA projection	-5
CA norm	-1.8
CA-Gap	-3.1
o/w Policy gap	-0.1

Source: IMF staff estimates

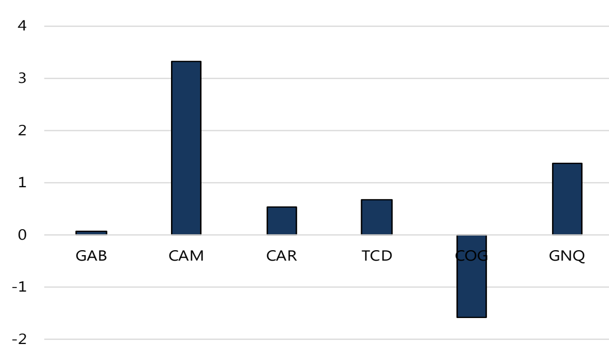
D. Structural Competitiveness

7. According to the World Bank "Doing Business Indicators", CEMAC countries continue to underperform relative to comparable countries, indicating ample room for strengthening the business environment. It is widely recognized that weaknesses in the business environment, reflected in the relative low scores of CEMAC countries, undermine private sector growth and job creation, which are needed to reduce reliance to public spending-led growth and tackle poverty in a durable manner. Specifically:

- **Looking at the overall doing business ranking, CEMAC countries lag behind peers** in the West African Economic and Monetary Union (WAEMU) region, although they are comparable to SSA oil exporters. Progress in doing business ranking was uneven across CEMAC countries. Between 2005 and 2017, some progress has been achieved in Cameroon, while other countries showed little progress or even a deterioration in the quality of business environment (Figure 4).[3] 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, enforcing contracts and trading across borders (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.

Figure 4. CEMAC: Change in Doing Business Distance to the Frontier (2015–2017)

(A positive number indicates an improvement)



Source: World Bank Doing Business Report 2018.

- **Governance indicators also suggest disappointing performance of CEMAC countries**. Indeed, CEMAC countries trailed behind their peers in WAEMU and emerging economies according to the World Bank's "Governance Indicators", and has improved in the last 15 years by a smaller margin than in other country groups. Moreover, governance is weaker in CEMAC even after accounting for income per capita levels (Figure 5).

[3] 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.

Figure 5. CEMAC: Governance and Business Indicators

Sources: World Bank Doing Business Report 2018; World Governance Indicators 2016; 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. Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries

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

Ms. Managing Director,

In my letter dated June 6, 2017, I informed you of the measures that the Bank of Central African States (BEAC) and the Central African Banking Commission (COBAC) aimed to take to support the economic recovery and reform programs undertaken by the Member States of the Economic and Monetary Community of Central Africa (CEMAC).

At the end of October 2017, the staff of BEAC and COBAC, together with the International Monetary Fund (IMF) staff, reviewed the recent developments and economic and financial outlook of the region, as well as the implementation status of the measures undertaken by the regional institutions. Despite a still difficult economic and financial environment, I am pleased to emphasize that significant progress has been made toward stabilizing the region, including with regard to the stabilization of foreign exchange reserves. Indeed, as planned, the policies and measures implemented by BEAC and COBAC have made it possible to support the efforts undertaken by the CEMAC member states as part of their reform programs, and remain appropriate to contribute to the expected recovery of the region. Moreover, the BEAC has strengthened its governance with amendments to its charter and will continue to implement the remaining safeguards measures.

In light of this significant progress, I would like to hereby reiterate my determination to pursue the actions undertaken by BEAC and COBAC, in particular with regard to:

- The implementation by BEAC of a **monetary policy** focused on the objective of rebuilding the level of foreign exchange reserves. This policy, combined with the reform programs of Member States and the expected external budget support, should result in an increase in net foreign assets of around € 0.3 billion between March and December 2017, € 0.4 billion in 2018, and € 0.3 billion in 2019. Accordingly, the level of gross foreign exchange reserves would amount to 2.7 months of imports at end-2017, before reaching 3.6 months of imports at end-2019.

- **The elimination of statutory advances**. BEAC's Board of Directors decided on August 5, 2017 to abolish the monetary financing of member states by the end-2017. Pursuant to this decision, four countries (Central African Republic, Republic of Congo, Equatorial Guinea, Chad) have already signed conventions on the consolidation of BEAC's advances to these states and the conversion of existing advances into long-term loans. The two other countries will sign this convention by end-December 2017 at the latest, and BEAC's Charter will be amended accordingly.

- **Reform of the monetary policy framework and implementation**. Expected from early 2018, this reform will notably include: the simplification of monetary policy instruments; the calibration of monetary policy operations on the basis of forecasts of autonomous liquidity factors; and the establishment of an emergency liquidity assistance facility. Within this framework, the BEAC will continue to monitor closely banking liquidity and will use the instruments at its disposal to gradually bring it to and maintain it at a level adequate for an efficient monetary policy transmission.

- **Strengthening the situation of the banking sector**. For its part, the Secretariat General of COBAC has prepared and will implement an action plan to strengthen the situation of the banking sector. This action plan, which has been transmitted to IMF staff, aims to address the most important vulnerabilities of the CEMAC banking system, through: the resolution of banks in difficulty; addressing non-performing loans; and the strengthened enforcement of several supervision rules. In this regard, it should be noted that since July 2017, COBAC has already taken several decisions relating to the resolution of banks in difficulty.

At the same time, in line with the intentions stated in my June 2017 letter, BEAC and COBAC will pursue their efforts to facilitate the close monitoring of developments, and will continue to work closely with IMF staff to support the regional strategy. As appropriate, I will make sure to inform you would substantial policy and reform changes turn out to be necessary to support the recovery programs undertaken by CEMAC member states.

In addition, in my view, it is essential to ensure that certain vulnerabilities observed today in the programs do not persist to the point of jeopardizing the success of the exit strategy. Disbursements from some development partners are behind schedule, making the achievement of country programs objectives more difficult. I would appreciate it if the IMF could encourage other development partners to work with CEMAC member states to unblock delayed disbursements and to provide additional support if necessary to safeguard the sustainability of the programs in the short and medium term.

Please accept, Ms. Managing Director, the expression of my highest consideration,

/s/

ABBAS MAHAMAT TOLLI

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

November 29, 2017

STAFF REPORT ON THE COMMON POLICIES OF MEMBER COUNTRIES, AND COMMON POLICIES IN SUPPORT OF MEMBER COUNTRIES REFORM PROGRAMS—INFORMATIONAL ANNEX

Prepared By

The African Department
(In Consultation with other Departments)

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RELATIONS OF CEMAC MEMBER COUNTRIES WITH THE FUND

Cameroon, Central African Republic (CAR), Chad, Republic of Congo, and Gabon joined the IMF in 1963, and Equatorial Guinea joined in 1969. All Central African Economic and Monetary Community (CEMAC) members accepted Article VIII of the IMF articles of agreement on June 1, 1996.

Relations of the CEMAC Member Countries with the Fund

Cameroon. On June 26, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) with Cameroon for SDR 483 million (about US$666.2 million, or 175 percent of Cameroon's quota) to support the country's economic and financial reform program. The last Article IV consultation was concluded on November 18, 2015. Cameroon is on a 12-month consultation cycle.

Central African Republic. The ECF arrangement for the Central African Republic was approved by the Executive Board on July 20, 2016 for SDR 83.55 million (about US$116.5 million, 75 percent of Central African Republic's quota at the IMF). On July 17, 2017, the Executive Board of the International Monetary Fund (IMF) completed the second review under the Extended Credit Facility (ECF) arrangement for the Central African Republic. The Executive Board also approved a request for augmentation of the ECF arrangement in the amount of SDR 11.14 million (about US$15.5 million, 10 percent of quota), to be disbursed upon the completion of the third review. The last Article IV consultation was concluded on July 20, 2016. CAR is on a 12-month consultation cycle.

Chad. On June 30, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for Chad for SDR 224.32 million (about US$ 312.1 million, or 160 percent of Chad's quota) to support the country's stabilization and recovery strategy. On April 29, 2015, the Executive Boards of both IDA and IMF decided that Chad had reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative and supported a debt relief of US$1.1 billion. The last Article IV consultation was concluded on July 22, 2016. Chad is on a 24-month consultation cycle.

Republic of Congo. The Executive Board approved a three-year PRGF arrangement for Congo in an amount equivalent to SDR 8.5 million (about US$12.5 million) on December 8, 2008.The country reached the Decision Point under the enhanced HIPC initiative on March 8, 2006 and the Completion Point on January 27, 2010. The three-year Extended Credit Facility (ECF) arrangement was completed in August 2011. The last Article IV consultation was concluded on July 17, 2015. Congo has been on a 12-month consultation cycle but conclusion of the 2016 Article IV consultation has been delayed by ongoing discussions of a possible program supported by a new three-year arrangement.

Equatorial Guinea. The last financial arrangement, an Extended Credit Facility (ECF)F arrangement, in an amount equivalent to SDR 12.88 million, expired on February 2, 1996. The country is not eligible for assistance under the HIPC initiative. The last Article IV consultation was on August 29, 2016. Equatorial Guinea is on a 12-month consultation cycle.

Gabon. On June 19, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Fund Facility (EFF) with Gabon for SDR 464.4 million (about US$642 million, or 215 percent of Gabon's quota) to support the country's economic and financial reform program. Gabon is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on February 19, 2016. Gabon is on a 24-month consultation cycle.

Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of CEMAC. A full safeguards assessments (SA) under the periodic four-year cycle for regional central banks was completed in August 2017. The assessment noted the positive steps taken by the BEAC to complete amendments to its Charter to strengthen governance provisions and plans to enhance financial reporting transparency through full transition to the international financial reporting standards (IFRS) beginning with the 2018 financial statements.[1] The focus will now shift to implementation of the reforms in daily decision-making and secondary legal instruments. The assessment noted, however, that the BEAC will need to reinforce the capacity of its accounting, internal audit, and risk management functions, and that the governance arrangements over reserves management be aligned with the new BEAC charter. Staff will maintain close engagement with the BEAC as it embarks on the operational implementation of the governance reforms and transition to IFRS.

Exchange System

CEMAC's currency is the CFA franc. From 1948 to 1999, it was pegged to the French franc. Since the euro was introduced in 1999, it has been pegged to the euro at the rate of CFAF 655.957 per euro.

Article IV Consultation

Following an Executive Board decision in January 2006, discussions with monetary unions have been formalized and are part of the Article IV consultation process with member countries. The discussions reported in the companion staff report are thus in relation with Article IV consultations with the six CEMAC member countries. The Executive Board concluded the last discussion on common policies of CEMAC members on July 13, 2016. Such discussions are held on a 12-month cycle.

FSAP Participation and ROSCs

The first regional Financial Sector Assessment Program (FSAP) was carried out during January-March 2006. Regional Reports on Observance of Standards and Codes (ROSCs) were done in the areas of monetary and financial policy transparency, banking supervision, and anti-money laundering and combating the financing of terrorism (AML/CFT) in June 2006. A FSAP update took place during November 2014-January 2015.

[1] In light of its progress on governance reforms and adoption of IFRS as its accounting framework, the BEAC is no longer subject to annual monitoring of IMF safeguards "rolling measures" established in 2009.

Technical Assistance to the Bank of the Central African States, 2011–17

November 2017: MCM TA on the BEAC framework for lender of last resort/emergency assistance facility

October 2017: MCM TA on Reserve Management.

June 2017: MCM TA on Reserve Management.

June 2017: MCM TA on the BEAC framework for lender of last resort/emergency assistance facility.

May 2017: MCM TA on BEAC Central Banking Operations, Monetary Policy Design, and Implementation.

April 2017: FAD participation on in a CEMAC workshop on Parliament oversight.

April 2016: MCM workshop on banking supervision to the COBAC.

February 2016: MCM technical assistance (TA) on IFRS implementation.

November 2015: LEG TA on BEAC Charter reform.

June 2015: MCM TA on Liquidity forecasting and management.

June 2015: MCM TA on central bank accounting.

June 2015: MCM TA (AFRITAC Central) on liability management.

April 2015: MCM TA on bank supervision and regulations and financial stability.

November–December 2014: MCM TA bank supervision and regulations.

October 2014: MCM TA risk-based supervision.

May 2014: MCM TA liability management.

April 2014: MCM TA debt management.

March 2014: MCM TA financial soundness indicators.

December 2013: MCM TA sub-regional course on macroeconomic management and debt issues.

July 2013: MCM TA on prudential framework update.

May 2013: MCM TA on central bank governance.

March–April 2012: MCM advisory mission on central bank accounting, monetary operations, and stress testing.

March 2012: STA TA on development and improvement of monetary and financial statistics and financial soundness indicators.

October 2011: MCM resident advisor assigned at the COBAC.

July 2011: MCM advisory mission on monetary policy design and implementation.

May 2011: MCM resident general advisor assigned to the Governor of the BEAC on governance, accounting, and internal controls.

Technical Assistance to the Central African Economic and Monetary Community Commission, 2011–16

August 2017: FAD TA on CEMAC PFM directives implementation.

January 2016: FAD support to CEMAC public financial management (PFM) directives implementation.

November 2015: FAD public financial management advisor.

November 2015: FAD customs administration CEMAC regional workshop.

November 2014: FAD customs administration CEMAC regional workshop.

June 2014: FAD support to CEMAC directives implementation.

January 2014: FAD CEMAC customs administration workshop.

March–June 2013: FAD TA missions on CEMAC's PFM directives implementation.

May, June, and November 2012: TA missions on CEMAC's PFM directives implementation.

May 2012: CEMAC customs administration workshop.

April 2012: FAD and STA participation in the CEMAC workshop on the design of an implementation strategy for new PFM directives and implementation of the *GFSM 2001* directive.

March 2012: FAD TA on the development of technical guides.

March 2012: STA TA on the preparation of guidelines for the *Tableau des opérations financières de l'État* (TOFE) directive.

July 2011: FAD TA on assessment of CEMAC's technical assistance needs.

February and April 2011: FAD and STA participation in workshops on the design of new PFM directives and the draft TOFE.

February 2011: STA participation in the CEMAC workshop on the analysis of macroeconomic aggregates.

Statement by Mr. Sembene, Executive Director for the Central African Economic and Monetary Community (CEMAC)
December 15, 2017

1. The CEMAC authorities would like to thank Management and Staff for the valuable support they continue to provide them in the face of a challenging domestic and external environment.

REGIONAL STRATEGY AND POLICY MONITORING

2. The actions of CEMAC authorities are guided by their regional strategy adopted by the Heads of States at the Extraordinary Summit held in Cameroon in December 2017. Faced with an unprecedented crisis reflected notably in weakening external position, increasing fiscal deficits, and rising public debt, the CEMAC authorities decided on that occasion to undertake coordinated macroeconomic policies and structural reforms. These are aimed at tacking the imbalances, rebuilding reserves to a level conducive to the stability of the currency union and exchange rate, enhancing financial sector stability, and strengthening the economies' resilience to future shocks, including through diversification and greater integration. The authorities called on Fund and other partners to assist countries in their adjustment efforts.

3. In support of this strategy, the regional central bank (BEAC) and banking supervisor (COBAC), in a Letter of Support issued in June 2017 and a Follow Up Letter earlier this month, committed to pursue specific policies under their respective mandates and to facilitate the coordination of member states' policies. This agenda is centered around increasing reserve coverage, improving the monetary policy transmission mechanism and simplifying policy instruments, enforcing foreign exchange regulations and rules, strengthening financial stability and the resilience of the banking sector, and developing financial markets. The two regional institutions are committed to implementing this agenda in consultation with IMF staff. In particular, they will maintain a continuous dialogue on policy options, implementation challenges, and possible policy recalibration that could be necessary as the situation evolves.

RECENT DEVELOPMENTS AND POLICIES

4. The economic situation of the region has remained challenging throughout the year. Growth for 2017 should be flat on the back of decreased investment spending and further declining oil production, while inflation remains subdued. It is against this backdrop that the CEMAC authorities are steadfastly implementing their policy agenda. Progress achieved to date is encouraging but much more remains to be done.

5. At the national level, all member states are undertaking bold *fiscal adjustment measures* consistent with the regional strategy, including with a focus on large cuts in non-priority spending. These efforts should lead to a reduction of non-oil primary deficit equivalent to about 5 percentage points of non-oil GDP in 2017 relative to last year. As a result of lower public investments, the current account deficit for the region has improved, reaching 5 percent of GDP this year from about 10 percent in 2016.

6. Regarding *monetary policy*, BEAC's action has focused on enhancing external stability. After increasing its policy rate by 50 bps in March 2017, and noting the slight improvement of the macroeconomic framework, the Monetary Policy Committee (MPC) decided early last month to maintain unchanged the interest rates applicable to banks and national treasuries as well as the required reserves rate, with the view to keeping a strict control on bank refinancing. On the other hand, the MPC has modified the method of constituting required reserves to align it with the new monetary policy operational framework, thereby providing banks more flexibility in liquidity management and promoting interbank operations. The monetary authorities have also put a halt to statutory advances.

7. These national and regional actions, coupled with Fund financial support to programs for four member countries, have contributed to stabilizing *foreign exchange reserves* which have hit a turning point and started to increase anew in the second half of 2017. Foreign reserves are now projected to reach a level equivalent to 2.7 months of imports by year-end against 2.2 months at end-2016.

8. The banking sector remains profitable while banks' capital adequacy ratios have improved. Nevertheless, significant risks and vulnerabilities weigh on this sector and are related to the macroeconomic situation given the sovereign-banks nexus.in CEMAC. Vulnerabilities include notably large non-performing loans (NPLs) and declining deposits. While the ongoing fiscal adjustment and efforts to contain refinancing will help alleviate the risks, the Secretariat General of COBAC has laid out an action plan to address NPLs, strengthen the implementation of prudential rules, and resolve banks in difficulty (see below). Already, COBAC has taken important decisions towards bank resolutions, including putting two public banks under liquidation, placing another bank under conservatorship, extending the conservatorship of a fourth bank, requiring two additional banks to provide restructuring plans, and obtaining from another one a commitment to recapitalization.

9. The CEMAC authorities have recently taken a long-awaited decision to merge the two stock exchanges in the region and have a single regional regulator. This should help not only develop a *regional capital market*, but also facilitate efforts to strengthen the regulatory framework. CEMAC authorities are also adopting measures to advance *regional integration*, most notably by opening inside borders to free movement of people.

IMPLEMENTATION OF THE REGIONAL STRATEGY GOING FORWARD

10. While the short-term situation remains difficult, continued and full implementation of policy and reform commitments at all levels will help gradually improve the region's medium-term outlook. Most specifically, these efforts will encompass the following areas.

Pursuing Fiscal Consolidation

11. Going forward, continued rationalization of public spending, notably under Fund-supported programs, will be accompanied with measures to raise domestic revenues starting in 2018. The additional fiscal space is expected to contribute to clearing government payment arrears and improve public debt trends. The CEMAC authorities share the view that timely delivery of external financing by partners will be critical to alleviating pressures on national treasuries' cashflows and smoothing fiscal adjustment.

Rebuilding and Safeguarding Reserves

12. The BEAC will pursue efforts to rebuild foreign exchange reserves, notably by maintaining a tight monetary policy stance as appropriate, and completing the elimination of statutory advances. Bank liquidity will be kept under check, and the required reserve ratio and open market operations will be used as needed to preserve domestic and external financial stability. Regarding statutory advances, four member countries have already signed conventions to consolidate the central bank's advances to their states and to convert existing advances into long-term loans. The remaining two countries are expected to follow suit shortly.

13. BEAC has launched a multi-pronged strategy to modernize its monetary policy framework, comprising: (i) a reform of policy instruments in line with best practices, with the view to enhance monetary policy transmission; (ii) a sound liquidity management framework and an emergency liquidity assistance (ELA) available to eligible banks facing liquidity problems; and (iii) a revised collateral framework to accompany the new liquidity management tools. The implementation of the revised monetary policy framework is planned for early 2018.

14. The central bank will complete the implementation of the priority recommendations designed under the *2017 safeguards assessment*, which is progressing well. In this regard, BEAC is revising its By-Laws and codes of ethics and deontology following the completion of amendments to its Charter to strengthen the central bank governance. Steps are also being taken to transition to international financial reporting standards (IFRS) as early as 2018. BEAC will enhance its accounting and risk management capacities through training and professional certification. The authorities appreciate Fund technical assistance that supported their efforts to prepare the new reserve management framework.

Strengthening the Banking Sector and Developing Financial Markets

15. The Secretariat General of COBAC's action plan to *strengthen the banking sector* will aim to reinforce the application of provisioning rules to address NPLs; enhance inspection

documentation to better comprehend the reasons behind improper classification or provisioning of credit; and supervise the application of the new regulation on banks' internal control. The action plan also strives to improve compliance with prudential rules—notably on risk concentration and lending to connected parties—and enhance penalty-based incentives for compliance. Finally, the authorities will continue to address the situation of banks in difficulty. Several banks are expected to present recapitalization plans. Decisions on bank resolutions are ultimately taken by the 12-member banking commission. The Secretariat General of COBAC stands ready to further improve its action plan to address the sector's vulnerabilities, with Fund advice and technical assistance.

16. The CEMAC authorities appreciate the staff's analysis of the sovereign-bank nexus in the region, and the options proposed to further reduce those links and the risks of negative feedback loops (Selected Issues paper). They will closely monitor macro-financial risks and stand ready to adopt measures to reduce them.

17. Along with strengthening the banking sector, the BEAC authorities will pursue efforts to *promote financial markets* in the region. This includes merging the two stock exchanges and enhancing the quality of financial information, notably through a database on firms' financial information, a payment incident database, the modernization of the credit risk database, and the creation of a private credit bureau.

Enhancing the Regional Surveillance Framework

18. The CEMAC authorities fully share staff's proposals to strengthen the regional surveillance framework, with the view to preventing the build-up of imbalances and favor integration going forward. Reform options being contemplated by the authorities include: (i) the preparation of triennial convergence plans; (ii) the requirement to reflect the fiscal convergence criteria in national budget laws; (iii) dissemination of fiscal data; (iv) improving the monitoring and other capacities of the CEMAC Commission; and (v) the establishment of clear sanction incentives for the observance of convergence criteria.

CONCLUSION

19. The CEMAC authorities are determined to pursue common policies to address the challenges facing the economies in the region. While recent progress is encouraging, there remain important risks emanating from global economic developments, policy implementation, external financing, and security challenges. The authorities plan to maintain a collaborative approach under the CEMAC's Program of Economic and Financial Reforms (PREM-CEMAC). They are hopeful that the ongoing bilateral negotiations between the Fund and the remaining two countries will promptly conclude, thus increasing the likelihood of success of the regional strategy. Finally, the CEMAC authorities stress the importance for development partners to fulfill their pledges on a timely basis to provide necessary financing for adjustment policies, while continued Fund technical assistance will help implement their reform agenda in an effective manner.