INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/383

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

December 2019

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY—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 13, 2019, following discussions with regional institutions that ended on November 7, 2019. Based on information available at the time of these discussions, the staff report was completed on December 2, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director.**

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December 18, 2019

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USA

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

- Tighter macroeconomic and financial policies helped to avert a deeper crisis, and gross external reserves increased more rapidly in recent months, also helped by a stronger implementation of CEMAC foreign exchange regulations.

- Reforms to support a more diversified and inclusive growth, including by improving governance and the business climate, should gain momentum to make current efforts to buttress the external position of the region sustainable.

On December 13, 2019, the IMF Executive Board 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]

CEMAC's economic and financial situation has improved but remains fragile. Economic activity has remained well below pre-crisis levels. Non-oil growth slowed down to below 2 percent in 2018, reflecting the effect of fiscal consolidation, the legacy of domestic arrears and a volatile security situation in some regions. Overall regional growth was slightly higher at 2.5 percent, supported by an increase in the oil sector. In 2019, overall regional growth would remain at the same level, with a slight pick-up in non-oil growth offsetting a slowdown in oil production growth.

Tighter policies helped to reduce external imbalances and external reserves increased more rapidly during the first half of 2019. The external current account and the overall balance of payments deficits in 2019 would remain at their improved levels of 2018 (of 2.5 and 0.4 percent of GDP, respectively), reflecting stable oil exports, a moderate increase in imports, and overall stable capital flows. With the impact of stricter implementation of the foreign exchange regulations on private flows and repatriation of banks' foreign assets, in addition to continued external budget support and some debt relief, the increase in external reserves was stronger than projected in the

[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.

first half of 2019. As a result, the June 2019 objective for regional net foreign assets was exceeded by more than €800 million.

The medium-term outlook foresees further improvement in regional reserves, assuming CEMAC countries remain committed to their program objectives, and new programs with Equatorial Guinea and CAR start soon. Overall growth is projected to increase to 3.5 percent in 2020, mainly driven by the non-oil sector which would be supported by the implementation of the governments' strategies to clear arrears. Oil sector growth would remain stable in 2020 before declining in following years along past trends. Beyond 2020, non-oil growth is projected to increase gradually, as reforms to improve governance and the business climate are assumed to slowly take hold. Inflation is projected to stay at around 2.5 percent over the medium term, below the regional convergence criterion, as monetary policy would remain appropriately tight.

Further fiscal consolidation efforts, mainly based on expected enhancement in non-oil revenue collection, would reduce the regional non-oil budget deficit by an additional 1 percentage point of non-oil GDP in 2020, which would then continue to decline gradually thereafter. Overall, the public debt-to-GDP ratio is expected to decline further to 47 percent of GDP in 2020 and to less than 40 percent by 2023. The external current account deficit would slightly worsen to 2.8 percent of GDP in 2020, as oil exports receipts would slightly decline, and imports of goods and services would pick up along with non-oil GDP growth. Stronger enforcement of foreign exchange regulations and already granted debt relief should improve the capital account. As a result, regional NFAs are projected to increase steadily over the medium term and reserves would reach the equivalent of 5 months of imports of goods and services by 2022.

Executive Board Assessment[2]

Executive Directors considered that the CEMAC is at a crossroad to consolidate the progress achieved by the regional strategy and put adjustment efforts on a sustainable path.
They recognized that tighter macroeconomic and financial policies helped stabilize economic conditions and avert a deeper crisis and increase gross external reserves, which recently exceeded previous projections. However, Directors stressed that downside risks remain substantial and that stronger efforts are needed to support more diversified and inclusive growth, including structural reforms to enhance governance, improve the business climate, and spur social development.

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

Directors considered that BEAC's monetary policy stance has remained appropriately tight and stressed that BEAC should stand ready to tighten if external pressures emerge. Directors encouraged BEAC to aim at more rapid absorption of the currently large excess liquidity in the

[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

banking sector to enhance monetary policy transmission. They also welcomed steps to deal with banks that excessively rely on the BEAC for their liquidity needs. Directors stressed that BEAC should avoid any new financing agreement with BDEAC.

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

Directors encouraged the COBAC to implement a more risk-based supervision. They welcomed the adoption of the new sanction mechanism to improve regulatory compliance but noted that the process to resolve problem banks remains slow. Directors encouraged COBAC to support efforts to reduce currently very high non-performing loans, including following repayments of government arrears. Directors stressed the need to reinforce COBAC's capacity, especially staffing levels.

Directors underlined the importance of more ambitious and effective structural measures to support higher and more inclusive growth in non-oil sectors and greater diversification. These should address long-standing constraints stemming from weak governance, a poor business environment hampering investment, an under-developed financial sector, and pervasive non-tariff barriers to regional trade. Enhanced transparency and accountability in the management of public resources, together with better AML/CFT supervision, will be critical. More effective measures are also needed to promote faster convergence, including strengthening CEMAC's multilateral surveillance framework.

Directors noted that BEAC has implemented the policy commitments in the June 2019 Follow-up Letter of Policy Support, especially the assurance on NFA accumulation, which exceeded the targeted level. They further noted the policy commitments and endorsed the updated policy assurance outlined in the December 2019 follow up Letter from the BEAC Governor on achieving the projected end-December 2019 and end-June 2020 NFA accumulation based on BEAC's commitment to implement an adequately tight monetary policy together with commitments by member states to implement adjustment policies in the context of IMF-supported programs. Directors emphasized that implementation of this policy assurance continues to be critical for the success of IMF-supported programs with CEMAC member countries.

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.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

December 2, 2019

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

KEY ISSUES

Context and risks. Tighter macroeconomic and financial policies helped to avert a deeper crisis, and gross external reserves increased more rapidly in recent months, largely exceeding the mid-2019 target. However, reserves are still below the level appropriate for commodity-exporting economies (5 months of imports) to absorb terms of trade shocks. Fiscal consolidation has been tilted towards cuts in public investment. This, together with a lack of significant progress in structural reforms, has weighed on growth which remains too low. The outlook for 2019 and beyond foresees further improvement in regional reserves assuming CEMAC countries remain committed to their program objectives and new programs with CAR and Equatorial Guinea could start around end-2019. This outlook is subject to potentially significant risks, including: a significant slowdown in global growth and associated decline in oil prices; a deterioration in the security situation in some countries; and weaker implementation of IMF-supported programs.

Policy recommendations

- BEAC should continue to implement an appropriately tight monetary policy and initiate gradual absorption of excess liquidity starting in early 2020.

- BEAC should continue the full implementation of the foreign exchange regulation to all economic agents. For the extractive sectors, discussions should continue to address potential specific business needs, when deemed necessary.

- COBAC should, as soon as possible, define a more assertive strategy to support NPLs reduction by banks, streamline the bank resolution process for banks in difficulties, and fully implement the risk-based approach to both prudential and AML/CFT supervision.

- CEMAC's regional institutions should define an action plan to bring about tangible improvements in governance and business climate to enable the growth potential of the private sector for higher and more inclusive growth.

Approved By
Zeine Zeidane (AFR) and Rupa Duttagupta (SPR)

Discussions were held from October 24–November 7, 2019 in Libreville (Gabon) and Yaoundé (Cameroon). The staff team comprised Mr. Toujas-Bernaté (head), Mr. Lanci, Mr. Lautier, and Mr. Rosa (all AFR); Ms. El Gemayel and Mr. Portier (MCM). It was assisted by Messrs. Nsengiyumva and Poplawski (Resident Representatives in Cameroon and Gabon), and Mr. Ambassa (local economist in Cameroon). The mission held discussions with Mr. Abbas Mahamat Tolli, Governor of the Central Bank of Central African States (BEAC and Chairman of COBAC); Prof. Clément Belingaba, Commissioner for Economic, Monetary, and Financial Affairs (CEMAC Commission); and other senior officials of these institutions. This report was prepared with the assistance of Ms. Adjahouinou.

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. Throughout the report, the term "authorities" refers to regional institutions responsible for common policies in the currency union.

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BACKGROUND AND RECENT DEVELOPMENTS

A. Background

1. **The CEMAC is at a crossroad to consolidate progress and put its adjustment efforts on a sustainable path**. Tighter macroeconomic and financial policies helped to avert a deeper crisis, and gross external reserves increased more rapidly in recent months. However, reserves are still below the level considered appropriate for commodity-exporting economies. The composition of the significant fiscal consolidation, tilted towards cuts in public investment with little progress in non-oil revenue mobilization, has weighed on growth and social spending has been below its objectives. Higher domestic revenue mobilization is also needed to reduce reliance on volatile natural resource-based revenue. Moreover, the lack of progress in structural reforms to improve the business climate and governance limits the potential for non-oil growth. Without stronger momentum in reforms to support a more diversified and inclusive growth, current efforts to buttress the external position of the region may not be sustainable**.**

2. **At the second CEMAC Tripartite Meeting on October 2nd, regional and national authorities reiterated their commitment to the regional strategy** (see Annex IV). The authorities confirmed their firm resolve to: stick to the fiscal objectives set under IMF-supported programs (including non-oil primary balances), agreeing to save a large part of the windfall that may occur if oil prices are higher than the budgeted level; accelerate audits of the stock of government arrears and define a strategy to clear them; maintain efforts to ensure prompt and regular repatriation of commodity export earnings and foreign assets from state-owned enterprises; and support the BEAC in the implementation of the forex regulations by sharing oil and mining contracts. These commitments were strongly reiterated by the CEMAC heads of state at their extraordinary summit of November 22nd, where, among others, they emphasized the need to pursue fiscal consolidation, resolve government arrears, support ongoing reforms of regional institutions, and continue their close cooperation with development partners, including the IMF.

3. **Fiscal deficit targets for country Fund-supported programs through mid-2019 were generally met.** Preliminary data indicate that June 2019 program targets for non-oil fiscal balances were generally achieved. Overall, government deposits with BEAC at end-June 2019 exceeded previous projections.

- The performance of the programs in Cameroon and Chad through June 2019 remains overall satisfactory, although certain structural benchmarks were missed, particularly with regard to the reduction of government arrears.
- The implementation of the Gabon program has been more difficult, with only three out of six performance criteria achieved by the end of June. Importantly, the non-oil fiscal deficit was less than half the targeted level and significant progress was made in implementing structural reforms. The authorities reaffirmed their willingness to take all necessary measures to achieve the program's objectives in 2019.

- A three-year Extended Credit Facility arrangement was approved with the Republic of Congo in July. A staff-level agreement for a three-year Extended Arrangement under the EFF with the Equatorial Guinea authorities was reached and will be discussed by the IMF Executive Board by end-December 2020. A new program in the Central African Republic has also been negotiated.

4. Progress in implementing the recommendations of the 2018 regional surveillance consultation by the regional institutions has been positive overall (Annex I). The BEAC has kept an adequately tight monetary policy stance and implemented more forcefully CEMAC's foreign exchange regulations, supported by stronger supervision by COBAC in this area, which contributed to a stronger recovery in gross foreign assets. The BEAC has implemented a complete overhaul of its monetary policy framework. Liquidity management is now based on autonomous factors forecasts and implemented through competitive auctions. However, moving towards neutral liquidity allocation remains very slow. COBAC's new (2019-2021) strategic plan guides future reforms and work programs to strengthen risk-based supervision, but progress in resolving small insolvent banks is limited. The CEMAC Commission initiated work to strengthen the regional surveillance framework, including for an early warning system and a draft sanction scheme for countries non-compliant with the regional convergence framework. However, so far, compliance with regional convergence criteria by member countries remains weak.

B. Recent Developments and 2019 Outlook

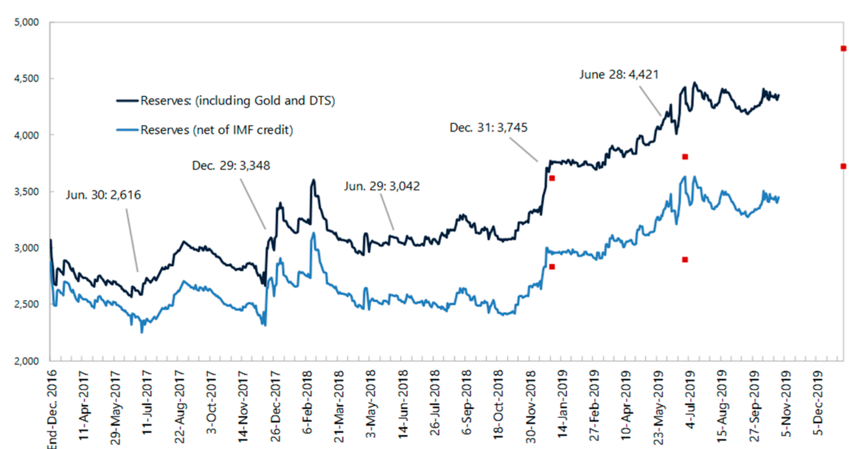
5. Economic activity has remained well below pre-crisis levels. Non-oil growth slowed down to below 2 percent in 2018, reflecting the effect of fiscal consolidation, the legacy of domestic arrears and a volatile security situation in some regions. Overall regional growth was slightly higher at 2.5 percent, supported by an increase in the oil sector. In 2019, overall regional growth would remain at the same level, with a slight pick-up in non-oil growth offsetting a slowdown in oil production growth. Across countries, there are signs of improvements in non-oil activity in Congo and Gabon, including in the agricultural and transport sectors. On the other hand, growth in Cameroon is slowing down, hampered by unrest in anglophone regions. After increasing towards the end of 2018 to around 3 percent due to adjustments in administered prices in several countries to reduce subsidies and increases in food prices due to supply shocks in some regions, inflation (y-o-y) decelerated in the first half of 2019 to below 2 percent by June.

6. Fiscal consolidation continues in 2019. The implementation of the budget programs in the first half of 2019 has been broadly in line with the objectives of the latest reviews for the program countries. Fiscal deficit targets at end-June for Cameroon and Chad were met. In Gabon, stronger revenue mobilization and expenditure control limited the deficit to about half of the program level at end-June. Congo's deficit has improved thanks to a reduction in current expenditure. For the region as a whole, the non-oil deficit is expected to decline by 1.2 percent of non-oil GDP, although it would be slightly larger than expected at the time of the last regional review of common policies, notably in Cameroon and Equatorial Guinea. Supported by higher than expected oil revenues, the overall balance is also expected to improve by close to 1 percent of GDP, in line with previous projections. This improvement would contribute to a further decline on the public debt ratio by 2 percentage points of GDP. Nevertheless, the composition of the fiscal adjustment was still mainly based on a reduction in spending, particularly on public investment with little progress in increasing non-oil fiscal revenues. In addition, social spending was again below targets.

7. **Tighter policies helped to reduce external imbalances and external reserves increased more rapidly during the first half of 2019.** With stable oil exports, a moderate increase in imports, and overall stable capital flows, the external current account and the overall balance of payments deficits in 2019 would remain at their improved levels of 2018 (of 2.5 and 0.4 percent of GDP, respectively). With the impact of stricter implementation of the forex regulations on private flows and repatriation of banks' foreign assets, in addition to continued external budget support and some debt relief, the increase in external reserves was stronger than projected in the first half of 2019. As a result, the June 2019 objective for regional net foreign assets was exceeded by more than €800 million. With a new shortfall in external budget support for the year as a whole (by €250 million), and oil revenue broadly in line with previous projections, regional net foreign assets at end-2019 would still exceed previous objectives (regional policy assurance) by about €250 million, provided there is no further delay in the expected external financing by the end of the year. Nevertheless, the reserves import coverage, now above 3 months of imports, remains lower than the level considered appropriate for a resource-rich currency union of 5 months of imports needed to cushion terms of trade shocks.

CEMAC: Regional daily reserves, 2017–19 1/ 2/

(Billions of CFA francs)



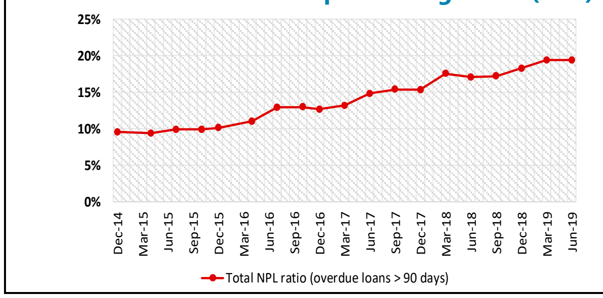
1/ Excludes the reserve position with the IMF (about CFAF 37 billion), which is not explicitly reported in the situation comptable.
2/ The red squares represent levels consistent with previously endorsed (December 2018 and June 2019) and proposed (December 2019) regional policy assurances.
Sources: BEAC and IMF Staff calculations.

8. **The banking sector remains over-liquid but also very cautious in extending new credit**. The increase in repatriation and surrendering of forex largely fueled an increase in bank deposits. As a result, broad money growth accelerated to 11 percent (y-o-y) in September 2019. Meanwhile, credit growth remained very low, close to zero (y-o-y) in September 2019 (after excluding the impact on the loan portfolio of the securitization of government arrears in Equatorial Guinea), as

banks' balance sheets are weakened by high NPLs and the economic activity remains sluggish. Overall, the excess liquidity of the banking sector (after monetary operations) remains elevated (equivalent to 2.2 percent of regional GDP). Still, persistent segmentation and lack of confidence continue to hinder the development of the interbank market, leaving a few systemic banks dependent on BEAC liquidity provision.

9. Meanwhile, the deterioration in banks' portfolio quality has stabilized, but financial soundness indicators have weakened. The ratio of overdue loans amounted to 22 percent at end-September 2019, at a stable level since March (21 percent at end-2018). Loans in default with direct or indirect sovereign guarantees have remained broadly stable at 6 percent of total gross loans since the beginning of the year, in line with the stop in government arrears accumulation. However, financial soundness indicators weakened, with the solvency and liquidity ratios declining to 18 percent and 145 percent at end-September 2019 from 19 percent and 164 percent at end 2018, respectively.

CEMAC: Evolution of Non-performing Loans (NPL)

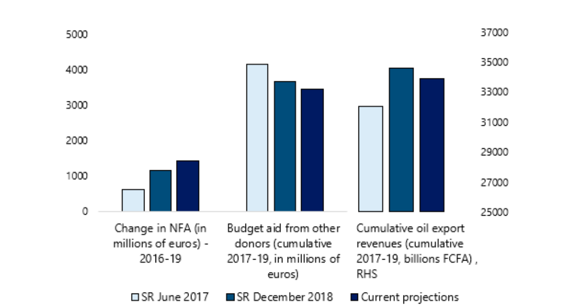


MEDIUM-TERM OUTLOOK AND RISKS

10. The medium-term outlook foresees further improvement in regional reserves assuming CEMAC countries remain committed to their program objectives, and new programs with Equatorial Guinea and CAR start soon:

- The outlook assumes full implementation of country programs through end-2019 and the pursuit of policy commitments to further reduce non-oil primary balance deficits relative to 2018. It also assumes that domestic arrears will be gradually repaid once credible strategies for reducing arrears have been validated by end-2019. Under the current baseline scenario, a new IMF-supported programs with Equatorial Guinea and CAR are assumed to be approved by the IMF Executive Board by end-2019.

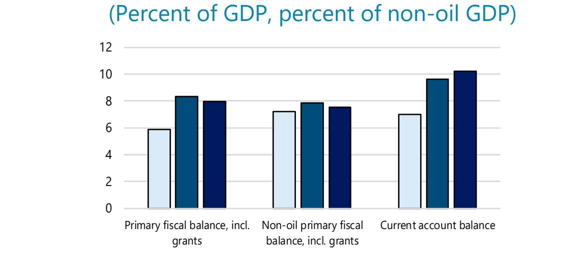
CEMAC: Change in NFA, Budget Aid, and Oil Export Revenues



Sources: BEAC and Angola authorities.

CEMAC: Primary Fiscal Balance, Non-oil Primary Fiscal Balance, and Current Account, Change 2016–19

(Percent of GDP, percent of non-oil GDP)



- Overall growth is projected to increase to 3.5 percent in 2020, mainly driven by the non-oil sector which would be supported by the implementation of the governments' strategies to clear arrears. Oil sector growth would remain stable in 2020 before declining in following years along past trends. Beyond 2020, non-oil growth is projected to increase gradually, as reforms to improve governance and the business climate are assumed to slowly take hold. Inflation is projected to stay at around 2.5 percent over the medium term, below the regional convergence criterion, as monetary policy would remain appropriately tight.

- Further fiscal consolidation efforts, mainly based on expected enhancement in non-oil revenue collection, would reduce the regional non-oil budget deficit by an additional 1 percentage point of non-oil GDP in 2020, which would then continue to decline gradually thereafter. Overall, the public debt-to-GDP ratio is expected to decline further to 47 percent of GDP in 2020 and to less than 40 percent by 2023.

- The external current account deficit would slightly worsen to 2.8 percent of GDP in 2020, as oil exports receipts would slightly decline, and imports of goods and services would pick up along with non-oil GDP growth. The external current account deficit would remain at that same level thereafter, leaving the external position weaker than implied by fundamentals and desired policies (see Annex III). Supported by a stronger capital account reflecting better enforced repatriation rules and already granted debt relief, regional NFAs are projected to increase steadily over the medium term and reserves would reach the equivalent of 5 months of imports of goods and services by 2022.

CEMAC Program Countries: External Financing Sources 1/

(Billions of CFA francs)

	2017	2018	2019			2020			Total
			H1	H2	Year	H1	H2	Year	
1. Financing gap	**1,230**	**1,154**	**253**	**989**	**1,242**	**381**	**742**	**1,123**	**4,748**
2. IMF financing	**332**	**290**	**28**	**284**	**313**	**176**	**135**	**311**	**1,245**
3. Budget support from other donors	**798**	**531**	**264**	**670**	**935**	**121**	**409**	**531**	**2,794**
World Bank	261	50	173	197	370	119	175	293	975
African Development Bank	338	270	66	267	328	3	149	152	1,088
European Union	45	57	1	59	57	0	49	49	208
France	155	154	25	146	171	0	46	46	526
Other	0	0	0	0	0	0	0	0	0
4. Other external (non-project) financing[2]	**0**	**158**	**-40**	**-40**	**-79**	**0**	**0**	**0**	**79**
5. Other exceptional financing	**100**	**175**	**0**	**75**	**75**	**83**	**197**	**281**	**631**
6. Residual financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

1/ Reflects Fund-supported programs for all six CEMAC countries
2/ Reflects one external short-term bridge loan in 2018, owing to a delayed external disbourement.

11. This outlook is subject to potentially significant risks, which are on balance tilted to the downside (see Annex II).

- A significant slowdown in global growth could reduce external demand and lead to a large and sustained decline in oil prices, which would put new pressure on the fiscal and external balances. On the upside, events in the Gulf may push oil prices up, and the windfall would help strengthen the fiscal and external positions. The design of IMF-supported programs with CEMAC countries, which target non-oil fiscal balances, would ensure that windfalls from higher oil revenue would result in reduced net debt, either in the form of larger government deposits, accelerated payments of arrears or lower gross borrowing.

- Sharp tightening of global financial conditions could cause the risk of a sharp rise in risk premia thereby raising debt service and refinancing risks.

- A deterioration of the security situation would negatively affect economic activity and might lead to increased military spending and capital outflow pressures. Tensions persist in CAR and in Cameroon's anglophone regions.

- Delays in implementing reforms under IMF-supported programs could negatively impact external financing and reserves accumulation, as well as confidence of private investors and households. Weaker fiscal consolidation efforts would negatively affect the public debt dynamics. Financial sector vulnerabilities left unaddressed could also weigh on growth prospects.

- Lack of commitment on reforms to enhance governance and improve the business environment could stall the needed progress towards higher non-oil growth and increased collection of non-oil revenues needed to put the financing of priority spending on a sound basis, as oil production and revenues are set to decline overtime.

IMPLEMENTATION OF THE REGIONAL STRATEGY TO ADDRESS THE CRISIS

A. Fiscal Consolidation Efforts

12. The regional institutions agree that ensuring budget implementation at the CEMAC country level in line with the fiscal consolidation strategy is key to secure internal and external stability. Reducing the non-oil primary deficit from 8 percent of non-oil GDP in 2018 to less than 6 percent in 2020 and 4 percent by 2022 will be key to prepare for the projected decline in oil production over the medium term and build domestic and external buffers to help withstand possible sudden declines in oil prices. It will be critical to expand the fiscal revenue base to finance priority social spending and other growth-enhancing investments while achieving the consolidation objectives. To that end, efforts to increase non-oil revenue, by streamlining exemptions and improving the efficiency of tax and customs administrations, and reforms to enhance governance and improve the business environment, to support a more dynamic non-oil sector with greater private sector participation, will be mutually reinforcing. These combined efforts, which would need to be more effective and forceful than until now, would put the macro-financial position of the region on a stronger and more sustainable footing and reassure investors about the growth potential. Absent progress on non-oil revenues, contingency measures would again be needed, notably cuts to growth-enhancing public investment, undermining the projected rebound in non-oil growth.

13. The implementation of well managed government arrears repayment plans will be central to enhancing non-oil growth and revenues in all CEMAC countries concerned. The total stock of arrears is estimated at about 6 percent of CEMAC's GDP as of mid-2019. These longstanding arrears have profoundly weakened the private sector, due to the uncertain prospects of payment by the public sector. As a result, businesses had to increase borrowing to finance their working capital or pass the arrears to their banks by stopping credit repayment or payment to suppliers and workers. Banks saw a related rapid increase in nonperforming loans, affecting in turn banks' capacity to extend credit. Following audits aimed at validating claims, national authorities should make it a priority to pay down this debt in a predictable manner.

14. The regional authorities concurred with this analysis and see the arrears clearance strategy as critical to revive growth and instill confidence to economic agents and the financial sector. They agreed that the arrears clearance strategies need to be well communicated and their result reported regularly to increase confidence in the process. Moreover, the specific approach chosen to clear arrears (cash vs securities, timing, etc.) within the available fiscal space need to be chosen with a clear understanding of their impact on financial sector stability and on economic activity. Staff emphasized that regional institutions can play a central role in advising the authorities on these dimensions, to help more informed decisions on the specific arrears' clearance path. Staff also sees this process as an important opportunity to signal commitment to enhance governance and to re-establish governments' credibility as reliable payors by being fully transparent and implementing repayment plans in a reliable manner.

B. Monetary Policy Stance and Operations

15. The BEAC maintains a tight monetary policy stance aimed at supporting external reserves accumulation. Against a background of a continuous gradual increase in foreign reserves, moderate and easing inflation, weak credit growth, low economic activity and lower expectations of international interest rate increases, the Monetary Policy Committee (MPC) maintained the policy rate unchanged at 3.5 percent in November 2019**.** Staff agreed with this stance but recommended that BEAC continues to closely monitor economic and financial developments, both domestic and external, to stand ready to tighten in case of pressures on inflation or external reserves.

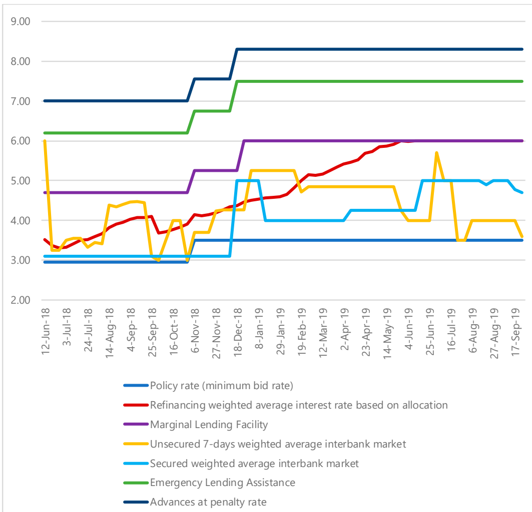
16. Against a still large excess liquidity in the banking sector, staff remained concerned about BEAC's slow pace of moving towards active absorption operations. The autonomous factors of banks' liquidity continued to increase over the past year, exceeding FCFA 2,000 billion in

September 2019 from around FCFA 1,700 billion at end-2018. This was mainly driven by developments in net foreign assets. The BEAC partly offset this increase by broadening the base for reserve requirements and reducing its active injections at the pace of 20 billion FCFA per month. As a result, the outstanding excess liquidity (after BEAC's liquidity injections) amounted to FCFA 1,200 billion in September 2019, about the same level as a year earlier. In staff's view, such a large excess liquidity weakens the transmission of monetary policy and may represent a risk of pressures on inflation or external reserves in the future. In this context, staff advised a swifter move towards active absorption operations and to set a not-too-distant horizon for reaching a neutral liquidity allocation, as planned at the time of the reform of the monetary operations framework in June 2018. Ideally, such a move should be clearly communicated to banks in advance to enhance the signaling of monetary policy. Staff also advised to improve the collection of high frequency banking interest rates to enhance measurement of monetary policy transmission.

17. Seeing currently very low, if any, risks on inflation and external reserves, and conscious of potential sterilization costs, the BEAC continues to favor a very gradual approach towards liquidity absorption operations. BEAC remains committed to the objective of a neutral liquidity allocation in the future and prepares for initially small absorption operations in January 2020. To that end, an amendment of the monetary operations framework was adopted by the Monetary Policy Committee in November 2019 to allow for symmetrical interventions for both the main weekly and long-term operations. The BEAC also continues to expect that the implementation of the single treasury account reforms in some member countries will reduce the excess liquidity in banks by up to FCFA 500–600 billion by mid-2020, although indications received by staff from national authorities pointed to much smaller amounts. After assessing the initial feedback of absorption operations and getting more clarity about the impact of the single treasury accounts, the BEAC will decide on future calibration of the absorption instruments. At the moment, the options of an increase in reserve requirements and issuance of certificates of deposit by auction are being considered. Separately, the BEAC will need to weigh options for covering future sterilization costs (which could reach CFAF 30-40 billion per year over the medium term), as it wants to maintain a positive balance on its profit and losses account to avoid a need for recapitalization in view of the weak financial positions of the member states, its shareholders. Staff noted that this will likely require generating exceptional profits, as long as other costs (including amortization of recent buildings) remain high, but this should not prevent aiming at a neutral liquidity allocation.

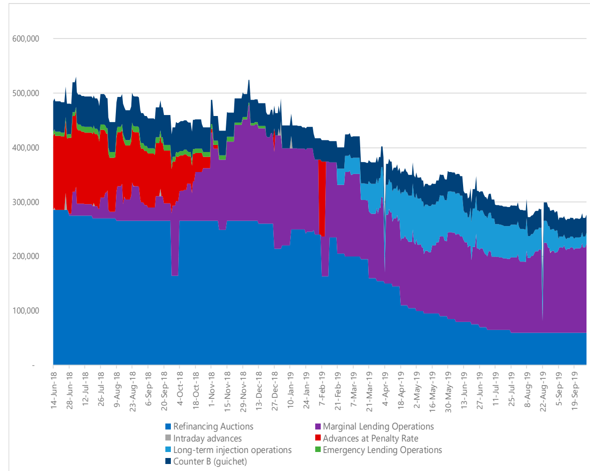
Policy Rate Corridor and Key Interest Rates, 2018–19

(As of September 24, 2019)



BEAC's Monetary Operations, 2018–19

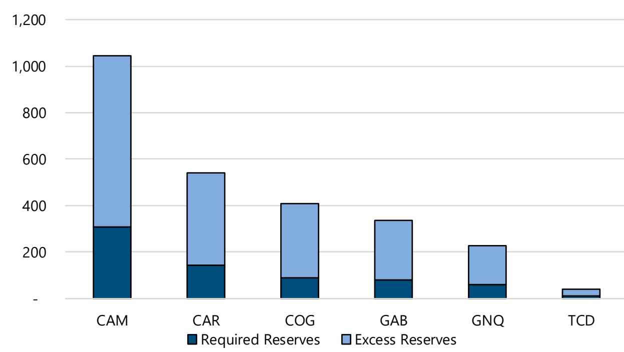
(Millions of CFA francs)



Required and Excess Reserves by Country

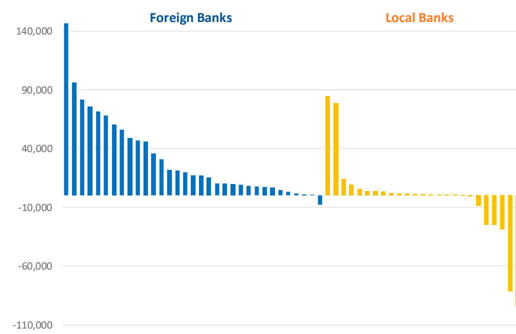
(as of September 30, 2019)

(Billions of CFA francs)



Distribution of Average Excess Liquidity before Refinancing Operations per Bank, 2019 Q3

(Millions of CFA francs)



Sources: BEAC and IMF staff calculations.

18. **The BEAC is starting to apply a new regulation adopted in July 2019 to contain excess dependency of banks on BEAC's refinancing.** The regulation defines banks as excessively dependent on BEAC's refinancing when the share of total central bank refinancing to total assets exceeds 10 percent. Such banks will be required to submit credible treasury recovery plans to reduce their dependency to below the threshold within two years. The BEAC was planning to formally notify the few banks falling under this regulation by end-November 2019. Once adopted by their boards and submitted to BEAC and COBAC, the plans will be subject to quarterly reviews by BEAC and COBAC within their respective mandates and responsibilities. Staff offered its assistance, if needed, for assessing the credibility of the plans that will be submitted. BEAC emphasized the critical importance, for the success of some plans expected to be submitted, of national authorities to fully abide by their commitment to reduce their debt to liquidity stressed banks as set in IMF country programs.

19. The BEAC has continued to complement the modernization of the monetary policy operational framework. In July 2019, the CPM adopted a new framework for private claims accepted as collateral in refinancing operations, based on the determination of default probabilities associated with the financial position of the corporate and taking into account the level of financial risk. At its November 2019 meeting, the CPM adopted a regulation establishing a sanction framework for BEAC's counterparties. The BEAC also planned to issue by end-2019 additional instructions to revise eligibility criteria for accessing money market operations, define BEAC's intervention procedures on the money market and other operational guidelines. In addition to these welcome steps, staff advised to align the operational timetables (reserves requirement maintenance period, weekly main monetary operations and regular operations of long maturity) to facilitate liquidity management for banks.

C. Enforcement of the Foreign Exchange Regulation

20. The BEAC has pursued its outreach efforts and reviewed some of its operational rules to facilitate a smoother implementation of the foreign exchange regulation. Since the implementation of the revised regulation in March 2019, BEAC has held a large number of consultations with various stakeholders to clarify procedures and requirements under the regulation. The BEAC changed some of its operational rules in July 2019 and strengthened its administrative capacity to speed up the process for treating foreign exchange requests for external transactions. Following these changes, the provision of foreign exchange was facilitated, as noted by some economic agents and banks. Still, staff noted that more progress could be achieved by streamlining some procedures and broader usage of computerized systems. BEAC reported that difficulties encountered by banks and fund transfer companies in accessing cash foreign exchange were largely solved. Staff also recommended that BEAC share with various stakeholders, including banks and businesses associations and national authorities, monthly reports on the state of execution of foreign exchange operations in order to improve monitoring and communication in this area.

21. Staff recommended BEAC to explore simplified rules for ensuring adequate repatriation and surrendering of foreign exchange receipts.[1] Currently, the BEAC allows banks to keep foreign exchange only for justifiable needs and not above 30 percent of repatriated funds of their clients. Checking these requirements ex-post may prove cumbersome. Instead, staff suggested to replace these rules with simpler limits on banks' net open positions, which would be more easily monitorable. To avoid evasion of the repatriation requirement, staff suggested to establish a cross-checking system between customs data on exports and banking data on repatriated exports earnings. BEAC indicated that it has yet to receive customs data, as several customs administration do not have the computerized system needed for easy and automatic sharing of data.

22. Staff encouraged BEAC to continue the dialogue with oil and mining companies in order to bring these companies in compliance with the regulation. With a moratorium on rules

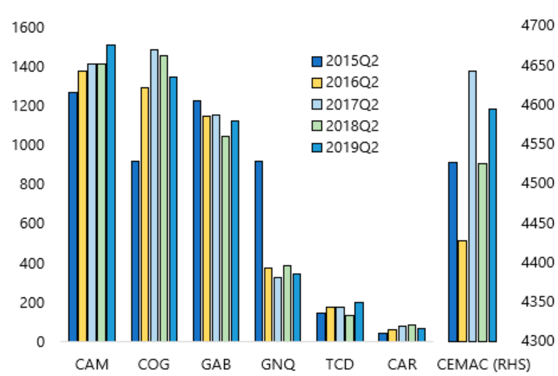
[1] The repatriation and surrender requirements (capital flow management measures) and their stricter enforcement implemented along with other necessary macroeconomic policy adjustments, continue to be appropriate to address the low level of reserves.

regarding forex accounts holding currently running until December 2019, these companies effectively do not abide by the forex repatriation and surrendering requirements (only a small share of exports earnings is currently repatriated to cover local expenses). BEAC initiated direct consultations with these companies and asked them to share their contracts in order to better assess their operational requirements. Companies expressed general concerns against the regulations, arguing it would significantly affect their operations and capacity to finance investments, but have yet to come up with specific proposals for possible limited exemptions that could be justified on a business case basis and have been reluctant to share their contracts with BEAC. The mission encouraged BEAC to establish a finite and credible timetable for the completion of the technical consultations process to ensure that the new regulations can be implemented in the way intended to all sectors evenhandedly to strengthen external viability.

23. The BEAC reiterated its intent to pursue a thorough process of technical consultations with oil and mining companies over the coming year. Given the specificities of the sectors, BEAC plans to hire experts around end-2019 to assist them in these discussions, with World Bank assistance and financing. It also plans to allow enough time for thorough technical consultations with companies and will set a finite timetable for these consultations. To that end, the BEAC issued a decision in November 2019 to extend the deadline for oil and mining companies to fully comply with the forex regulations until end-2020 and asked these companies to provide all the required documentation for compliance. Staff welcomed these plans and indicated that it will stand ready to assist the BEAC in addressing any exception that would be fully justified and deemed necessary for extractive industries in a clear and transparent manner. Staff also agreed with BEAC about the critical importance for national authorities to fully support the implementation of the forex regulation, including by ensuring that all public entities fully comply with the regulation and by sharing with the BEAC oil contracts as soon as possible, as committed under the IMF-supported programs, while no additional contracts were reportedly shared in recent months.

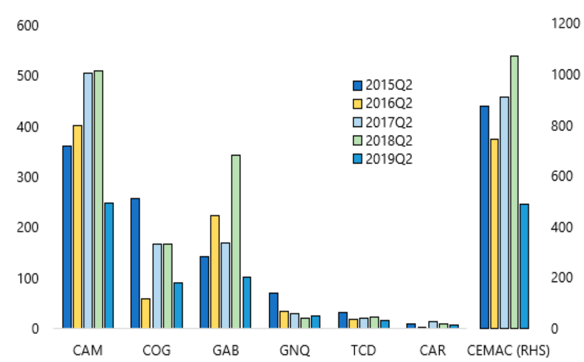
Assets Held Abroad by CEMAC Residents, Non-Banks

(Outstanding, millions of U.S. dollars)



Assets Held Abroad by CEMAC Residents, Banks

(Outstanding, millions of U.S. dollars)



Source: BIS.

Note: Data shows the BIS data series for loans and deposits liabilities with a counterparty in CEMAC countries. As loans liabilities are generally very small, in particular for non-bank sector, staff has considered this data series to show mostly deposits

D. Developing the Financial Markets and Strengthening the Banking Sector

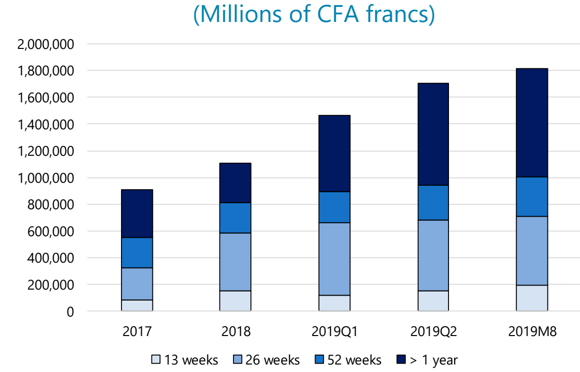
24. Various steps have contributed to some development of the interbank money market, which remains nevertheless relatively limited and segmented. With 90 repo agreements signed to date between banks and a trading platform in use, interbank transactions have quadrupled in 2019 from the same period last year, albeit from a very low level. Repo transactions represented about three quarters of total transactions this year. As the 7-days operations remain limited and intra-group transactions represent a large portion of other transactions, the measure of the unsecured market rate is somewhat distorted and not very reliable. To partially overcome these shortcomings, BEAC is monitoring both the average secured and unsecured market rates. Staff reiterated its view that the issuance by BEAC of liquidity absorbing instruments (such as certificates of deposits) could boost the secure interbank market.

25. The BEAC has launched various initiatives to enhance financial transparency which could support further development of credit and money markets. Following the adoption of the regulation on credit bureaus in 2019, a first credit bureau is expected to be selected and start operating in early 2020. At BEAC, the existing credit register is being modernized and a financial statements repository of CEMAC companies is being established, both accessible to banks and microfinance institutions. In addition, staff advised the COBAC to explore the possibility of establishing a minimum standard of financial disclosure by banks to foster market discipline and facilitate the development of the interbank market in advance of Basel III's pillar III on financial disclosure, which is expected to be implemented by 2022.

26. The primary public securities market continues to develop and prospects for a secondary market for public and private securities by 2020 are encouraging. The amount of treasury securities increased by 70 percent in the past year and is now equivalent to 3.5 percent of regional GDP. New regulations for Treasuries market operators adopted in November 2019, requiring them to sell at least 30 percent of treasuries bought on the primary market, should boost the secondary market, which has so far remained sluggish. The centralization of the quotations on the RTDM platform, available to all banks, should also enhance the transparency of the secondary market and contribute to establishing a secondary market yield curve. Finally, the institutional and physical merger of the two stock exchanges is now effective. In order to encourage initial public offerings, a draft CEMAC Regulation envisages the sale on the stock market of states participations in at least two companies per country by end-2020.

CEMAC: Outstanding stock of government securities, 2017–19

(Millions of CFA francs)



27. COBAC is making progress along its 2019–21 strategic plan geared towards the implementation of a risk-based supervision. It adopted a regulation on payment services and on financial penalties in September 2019 and is launching several initiatives to strengthen the regulatory framework including on consolidated supervision, AML/CFT and consumer protection. Other initiatives being launched aim at strengthening supervisory tools and defining the approach to conduct microprudential stress tests. In September 2019, the COBAC adopted a Basel II/III roadmap over 2020–23 and, in line with staff recommendation, plans to revise the short-term liquidity prudential ratio in early 2020, with IMF technical assistance.

28. Staff welcomed the SG COBAC's intent to facilitate the reduction of nonperforming loans but suggested the need for additional work. The SG COBAC will complete the analysis of NPL reduction strategies received earlier this year from banks and draw supervisory actions to monitor them. Staff suggested for COBAC to gather detailed data from banks on NPLs related to public contracts on the one hand, and detailed data by creditor on government arrears from the ongoing audits on the other hand, in order to cross-check banks claims on companies and companies claims on governments. On this basis, COBAC would form a better view of how government arrears repayments could contribute to reducing NPLs. COBAC would also then be in a position to request banks to write off claims that would not be confirmed by the audits. For other NPLs, staff recommended again conducting a review of write-off and forbearance practices in banks and explore the opportunity of taking one-off actions to clean-up fully provisioned loans on banks' balance sheets. COBAC, however, cautioned against the risk of moral hazard which such actions could raise.

29. Staff welcomed the adoption of the new sanction mechanism to improve regulatory compliance but noted that the process to resolve problem banks remains slow. Against a still significant number of banks being in breach of prudential ratios, particularly the credit concentration ratio, COBAC hopes that the regulation on financial penalties will lead banks to improve their compliance. Staff noted that a significant number of banks remain undercapitalized and that in several cases national authorities did not follow through on COBAC decisions to resolve small banks. Against this background, staff encouraged COBAC to (i) strictly implement the resolution framework at COBAC's level without accommodating unwarranted delays; (ii) explore setting time limits to the resolution processes of small banks; and (iii) define strict criteria and minimum conditions to approve applications for bridge banks. Also, in view of the risks raised by Cameroon's oil refinery for the banking sector, staff advised to make a quantitative impact analysis on the banking sector's solvency and liquidity and share it with Cameroon's authorities as well as to review the specific treatment of so-called strategic companies.

30. Significant understaffing at COBAC is severely limiting this institution's capacity for launching new initiatives and analysis. A large number of managers and professionals who left COBAC in the last couple of years were not replaced yet, leaving COBAC understaffed by about one third at the professional or higher levels. In this context, while generally agreeing with staff's suggestions for new analysis and accelerated procedures, the COBAC noted that it will likely not be in a position to follow through at this stage. Staff emphasized the urgency to address this situation with BEAC, which controls COBAC's budget, but BEAC is also facing budget constraints on its own. Striking a better balance in the coming period between the needed budget discipline and covering priority needs, possibly with new resources, will be critical.

31. The regional development bank BDEAC has reportedly implemented some reforms to prepare for financial independence. BDEAC reported completion of some governance reforms, including making the audit committee operational. Staff welcomed these developments but advised for an external validation of these reforms to assess BDEAC's capacity to access market financing and eliminate its dependence on BEAC's financing. At this stage, national authorities, some of which are counting on BDEAC for financing a few public investment projects, are urging BEAC and BDEAC to find ways to complete BEAC's disbursements under the financing agreement of 2016. Staff reiterated its view that BEAC should refuse, as a matter of principle, any new financing agreement with BDEAC in the future.

E. Enhancing the Regional Surveillance Framework

32. Staff welcomed the progress made by the CEMAC Commission in its preparatory work to strengthen the regional surveillance framework. In its latest regional surveillance report, the CEMAC Commission assessed that none of the CEMAC countries was in full compliance with the regional convergence criteria in 2018. In this context, staff agreed that it will be important to find new ways to enhance compliance, and welcomed the following work initiated by the Commission:

- *Early warning tool (EWT) of macroeconomic imbalances in CEMAC zone*. A first draft of the EWT was prepared with the assistance of the World Bank. The Commission will now reflect IMF staff comments and plans to have it adopted at the next ministerial committee meeting by end-2019. This could allow using this tool in next year's regional surveillance report, although the Commission noted that a smooth implementation will require further capacity building.
- *Sanction mechanism*. Work started to define an appropriate sanctions mechanism for violations of the rules of Multilateral Surveillance, including with a workshop organized in August 2019. At this stage, various options are still being explored, including by looking at other monetary union experiences. A system of pecuniary sanctions, once seen as a likely option, may prove ineffective in CEMAC where member countries have still weak public finances and are prone to arrears accumulation. The Commission plans to have a draft ready in early 2020.
- *Convergence reports*. Member authorities committed to submit to the CEMAC Commission triennial convergence plans by end-2019. They set up dedicated units to that end. To date, only Cameroon and Congo have transmitted their convergence plans, while other countries requested support from the CEMAC Commission for the finalization of their plans.

Staff believes that the degree of transparency and regular sharing of data and reporting included in the EWT, the sanctions mechanism and, most importantly, the triennial convergence plans will be critical to the success of the CEMAC Commission work in this area. Staff also urged that the sanctions system include strong implementation mechanisms to ensure its credibility and emphasized the need for continued efforts to improve the production and dissemination of reliable and comparable macroeconomic statistics.

33. **Work to enhance the implementation of CEMAC key directives to harmonize and enhance public financial management continues**. The CEMAC Commission steers the work to implement the revision of the Tax Directives and to monitor the transposition and implementation of the Public Finance Directives. Progress was made with the approval of the revised Customs Code and the Uniformized Excise Tax Regulation (March 2019). Also, a regional workshop was held in March 2019 to validate the draft text revising the VAT Directive, with TA assistance from the Fund. In addition, a regional workshop was held in September 2019 in Malabo to discuss the revision of the Corporate Income Tax Directive.

34. **Technical work to amend the BEAC's Charter Article on mechanisms to protect regional reserves is close to completion.** This amendment will define new automatic mechanisms to tighten monetary conditions, consistent with the new monetary policy operations framework, when regional reserves or national imputed reserves would go below certain thresholds. The BEAC committed to consult with staff before submitting a draft amendment for adoption by its Executive Board.

PROMOTING SUSTAINED AND MORE INCLUSIVE GROWTH

35. **Staff welcomed the opportunity to discuss with the authorities the obstacles to stronger and more inclusive growth in CEMAC.** The discussions highlighted the role that regional institutions can play in enabling inclusive growth in CEMAC. Staff's analysis, heavily drawing from various studies of the World Bank and other development partners, suggests that the main constraints for more diversified growth in CEMAC are related to poor governance and a difficult business climate:

- Poor governance leads to mismanagement of public funds and a general lack of accountability of public actors, which in itself raises corruption risks. In the case of CEMAC, governance indicators are among the lowest in Africa. Some of these weaknesses are related to the lack of transparency in the management of petroleum resources, including the sharing of operating conditions governing oil concessions (an obligation under the CEMAC guidelines on public financial management). This makes the management of revenue related to commodity exports opaque and unpredictable. Good revenue management is, however, crucial for financing priority social and investment spending.

- The poor business climate in CEMAC is another important obstacle to inclusive growth. Business establishment and development procedures are cumbersome and costly in terms of time and financial resources, compared with other countries/regions in sub-Saharan Africa.

- The CEMAC financial sector remains shallow and fairly weak, which hinders the contribution of the financial sector to private sector development and financial inclusion. To address this problem, it is necessary to improve the judicial and legal system, the mobile payment infrastructure and capital markets, in addition to the general improvement of the business and governance climate.

- Finally, better regional integration is hampered by lack of implementation of community taxation (both for external and within CEMAC trade) and pervasive behind-the-border barriers, which undermine trade opportunities for local production and hinder plans for investment and growth to seize economies of scale. Removing these internal barriers would require few resources but could release significant growth potential for trade within CEMAC and the exploitation of the agricultural sector.

36. In staff's view, regional institutions can play an important role in addressing these constraints and supporting efforts by CEMAC national authorities. The CEMAC Commission should continue to ensure the full implementation of CEMAC's public financial management framework, including key provisions on budget transparency. To facilitate progress in this area, the CEMAC Commission could prepare an annual report informing the general public on the state of effective implementation of the PFM regulations at the national level and its impact on governance. It could also define a strategy to reduce the constraints on internal trade, with the help of customs and national authorities. The authorities broadly concurred with staff analysis, while noting that many of these conclusions were not new. The challenge going forward will be to find effective levers for change. In their view, it will be essential to improve governance and strengthen public institutions, with the support of a strong political will at all levels.

MONITORING OF REGIONAL DEVELOPMENTS AND POLICIES

37. BEAC and COBAC have pursued the implementation of the policy commitments provided in the June 2019 Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries. BEAC's monetary policy stance remained appropriately tight, with the main objective to support an increase in CEMAC's external reserve assets. Together with the fiscal consolidation efforts by CEMAC member states, this has contributed to an overperformance of the end-June 2019 projection for net foreign assets by about € 800 million (a regional policy assurance). In addition, the BEAC has gradually reduced its liquidity injections and adopted a regulation to deal with banks excessively depending on BEAC's refinancing. The implementation of the new foreign exchange regulation has become smoother: banks have generally repatriated unjustified foreign assets and the BEAC strengthened its capacity to provide forex for legitimate transfers more rapidly. The BEAC has also engaged in a broad communication effort to clarify procedures and requirements under the regulation and started consultations with oil and mining companies to find ways for an effective and evenhanded implementation of the regulation to all sectors.

38. The attached follow-up letter describes revised NFA projections through June 2020 which are proposed as modified regional policy assurances and other policy intents by the regional institutions in support of national program objectives. The BEAC is committed to maintain an appropriately tight monetary policy. It will focus its efforts in the period ahead to better implement the liquidity management framework by starting liquidity absorption operations in January 2020. The BEAC will continue to work towards effective implementation of the foreign exchange regulation, including through consultations with oil and mining companies. It stands ready to engage in thorough technical discussions with these companies over the coming year, with external experts' assistance, to find the best ways for bringing these companies to comply with these regulations by end-2020. Consistent with staff projections, the end-2019 NFA projection covered by a policy assurance was revised slightly upwards to € 4.70 billion, despite new shortfalls in external budget support, reflecting the overperformance relative to the end-June 2019 projection. In the event of a deviation from the stated NFA accumulation projections which would not be assessed by staff as minor or of a temporary nature, the follow-up letter also reiterates the commitment to identify and adopt, including during the semi-annual Tri-partite Meeting, any additional corrective measures that would be deemed necessary at the national and/or regional policy levels to allow the continuation of (or approval of new) financial support as part of the IMF supported programs with CEMAC members.

Regional Policy Assurances on NFAs, 2019–20

(Billions of euros)

	Jun. 2019	Dec. 2019	Jun. 2020
Assurance endorsed			
In June 2019	3.50	4.50	...
Outcome	4.31	...	...
Proposed new assurances	...	4.70	5.20

39. The BEAC continues to implement the remaining recommendations of the 2017 safeguards assessment. BEAC's full transition to IFRS for FY 2019 is progressing broadly as planned, and efforts are being stepped up to accelerate the revisions to the secondary legal instruments for alignment with the BEAC Charter. The adoption of the revised secondary legislations was extended beyond the initial timeline (June 2018) to allow for further consultation with stakeholders, including IMF staff.

STAFF APPRAISAL

40. The regional strategy has helped to avert a deeper financial crisis but going forward the response needs to give more momentum to pro-growth policies. The coordinated regional response to the collapse in oil prices in 2015, together with external financing, achieved significant reductions in the fiscal end external imbalances. Gross external reserves increased more rapidly in recent months, overperforming end-June projection by about €800 million. The approval of an IMF-supported program with Congo in July 2019 and the possible approval of a program with Equatorial Guinea and a new program with the Central African Republic by end-2019 should further support these positive trends. Nevertheless, the region still needs to do more to buttress its external position and, importantly, achieve higher, more diversified and inclusive growth. This will require more pro-growth fiscal policies and bold measures to enhance governance and improve the business environment.

41. CEMAC member countries will need to strictly adhere to their respective IMF-supported program objectives. Achieving the respective fiscal consolidation targets will be key to secure internal and external financial stability. At the same time, the composition of fiscal consolidation will need to be rebalanced, by expanding the fiscal revenue base to finance priority social and investment spending. To that end, efforts to increase non-oil revenue will be critical, by streamlining exemptions and improving tax and customs administration. The implementation of well managed government arrears repayment plans will also be central to enhancing the financial position of the private sector and improving banks' balance sheet.

42. BEAC continues to support effectively the regional strategy, including with an appropriately tight monetary policy stance. The current stance, which has been maintained against moderate and easing inflation, flat credit growth and subdued economic activity, as well as lower expectations of international interest rate increases, has contributed to bringing external reserves above the equivalent of 3 months of imports. BEAC should continue to be ready to tighten its stance if external pressures were to emerge and NFAs were to diverge significantly from their projected path. Moreover, BEAC should avoid any new financing agreement with BDEAC in the future, which would be similar to government monetary financing.

43. The BEAC should tighten its liquidity management with a view to enhance monetary policy transmission. Against a still large excess liquidity in the banking sector, the BEAC should start effectively absorbing liquidity in early 2020. While staff notes BEAC's intent for cautious gradualism, the BEAC should stand ready to absorb larger amounts of excess liquidity in case external or inflationary pressures were to emerge and require a more rapid tightening in monetary conditions. At the same time, the implementation of a new regulation to monitor and support liquidity-stressed banks is welcome. The BEAC will need to weigh options to cover gradually higher sterilization costs, which may require in the short term generating exceptional profits to avoid recapitalization needs.

44. Staff welcomes BEAC's efforts to ensure a smoother yet effective implementation of the foreign exchange regulations. The stricter implementation of the regulation by BEAC and COBAC has contributed to the more rapid increase in external reserves earlier this year. The extensive consultations conducted by BEAC and the new of operational rules implemented since mid-2019 have reportedly addressed most of the concerns by economic operators. Yet, further progress can be achieved to speed-up execution of forex transactions. Regarding the oil and mining companies, which will benefit from a moratorium to comply with the regulation by end-2020, staff welcomes BEAC's plan to continue thorough technical consultations with these companies in order to find a way to effectively enforce the foreign exchange regulations while taking into account specificities of these sectors if deemed necessary.

45. COBAC is progressing on its 2019–21 strategic plan geared towards the implementation of a risk-based supervision. The new regulation on financial penalties aimed at strengthening regulatory compliance and the initiatives to strengthen the regulatory framework including on consolidated supervision, AML/CFT and consumer protection are good steps in this direction. The COBAC should pursue these initiatives as a matter of priority and in close cooperation with international donors and experts. In view of the significant impact of still outstanding governments' domestic arrears on high levels of nonperforming loans, the COBAC will need, within the limit of its mandate, to (i) provide advice on arrears clearance plans to help national authorities maximize the relief impact on the banking sector, and (ii) oversee the process of NPLs clearance in banks. The COBAC should also ensure strict implementation of the banks' resolution framework without accommodating unwarranted delays. BEAC and COBAC should find a way to address current COBAC's under-staffing, which currently limits its capacity to launch new initiatives and analysis.

46. The regional strategy will require a shift in its focus to encompass more ambitious and effective measures to support growth. Growth in non-oil sectors in CEMAC appears to have been constrained for decades by weak governance, including in the management of public funds, a poor business climate hampering investment, an under-developed financial sector, and pervasive non-tariff barriers to regional trade. With very little progress achieved in these areas over past years, real income per capita has grown much less rapidly in CEMAC than in the rest of the continent. CEMAC regional institutions can play an important role in finding effective levers for change to address these constraints. Enhanced transparency and accountability in the management of public resources will be a critical goal in this context.

47. Overall, staff: (i) considers that BEAC has implemented the policy assurance on NFA provided in the June 2019 follow-up letter; and (ii) supports the updated policy assurance on NFA accumulation (to bring NFA to €4.70 billion and €5.20 billion at end-December 2019 and end-June 2020, respectively). Other policy commitments provided in the June 2019 follow-up letter were also implemented. Achieving the projected NFA accumulation based on BEAC's commitment to implement an adequately tight monetary policy together with the commitment by the member states to implement adjustment policies in the context of IMF-supported programs will be critical for the continuation of (or approval of new) IMF financial support as part of the IMF-supported programs with CEMAC members.

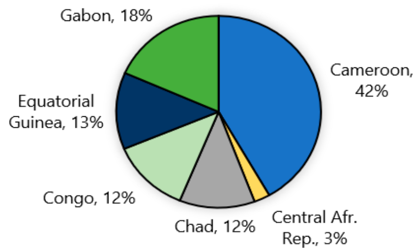
48. The surveillance discussions with the CEMAC authorities will remain on a 12-month cycle in accordance with Decision No. 13654-(06/1), adopted on January 6, 2006.

Figure 1. CEMAC: Selected Economic Indicators, 2000–19

Growth in 2019 will be broadly unchanged, as large arrear repayments weigh on the private sector and banks.

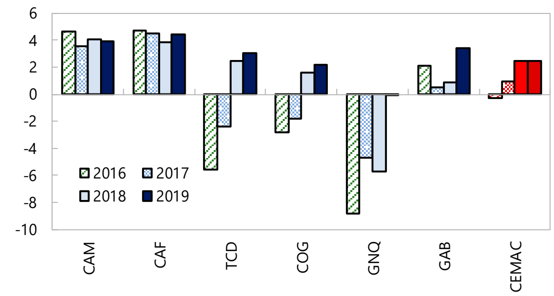
CEMAC: Nominal GDP, 2019

(National shares)



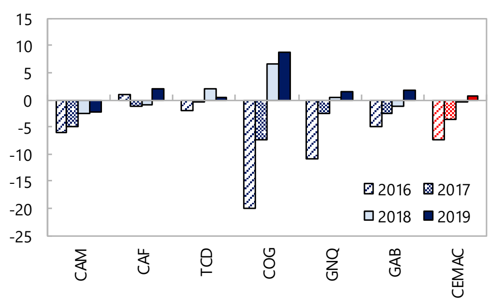
CEMAC: Real GDP Growth, 2016–19

(Percent)



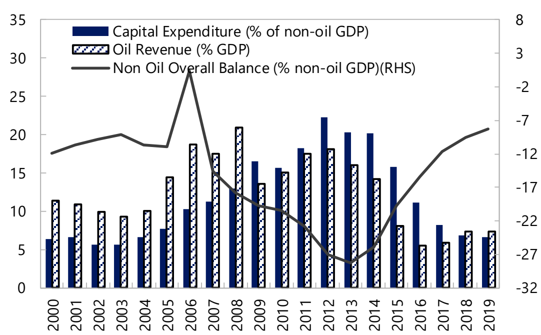
Overall fiscal balance has improved relative to 2018, largely due to higher oil revenue, while adjustment in terms of non-oil primary balance is mainly driven by spending cut in public investments.

CEMAC: Overall Fiscal Balance, Including Grants, 2016–19



(Percent of GDP)

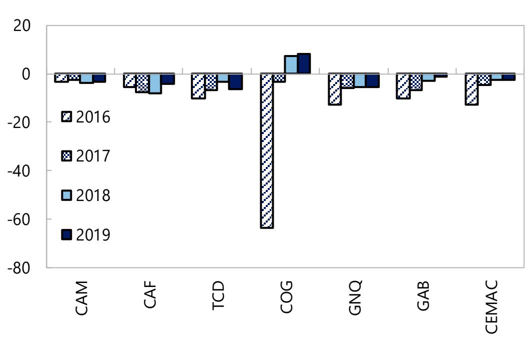
CEMAC: Selected Fiscal Indicators, 2000–19



The large fiscal consolidation undertaken by CEMAC countries has been key to address CEMAC's twin deficit and contribute to reserve accumulation.

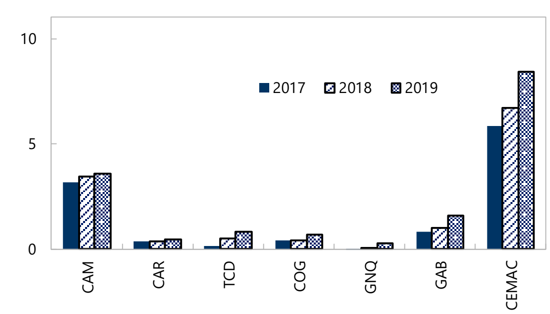
CEMAC: Current Account, 2016–19

(Percent of GDP



CEMAC: International Reserves, 2017–19

(Billions of U.S. dollars)

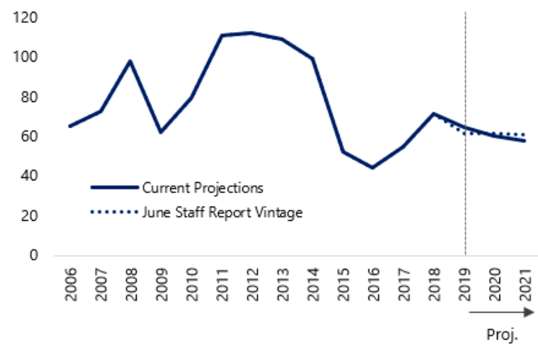


Sources: CEMAC authorities; and IMF staff estimates.

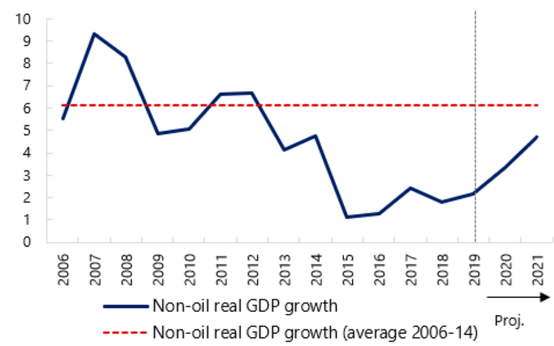
Figure 2. CEMAC: Selected Economic Indicators, 2006–21

Oil prices are projected to stabilize below past peaks over the medium term. Over the medium term, overall growth will be supported by a more vibrant non-oil sector if the business climate is enhanced

Oil Price, 2006–21
(Brent, U.S. dollar per barrel)

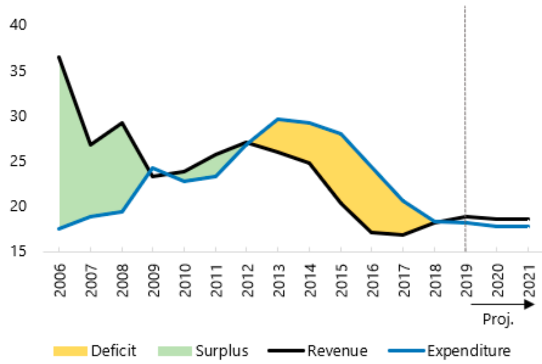


Non-Oil Real GDP Growth, 2006–19
(Percent)

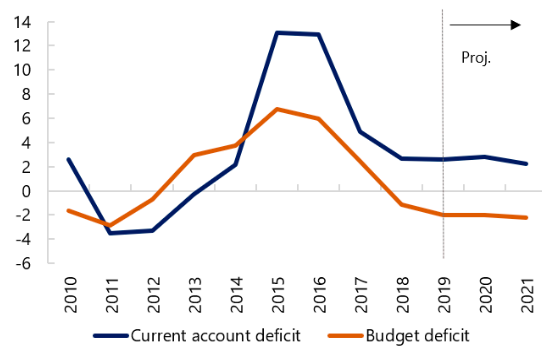


Fiscal consolidation effort will remain the main engine for restoring external stability, supported by expenditure rationalization and non-oil revenue-enhancing measures over the medium term.

Revenue and Expenditure, 2016–19
(Percent of GDP)

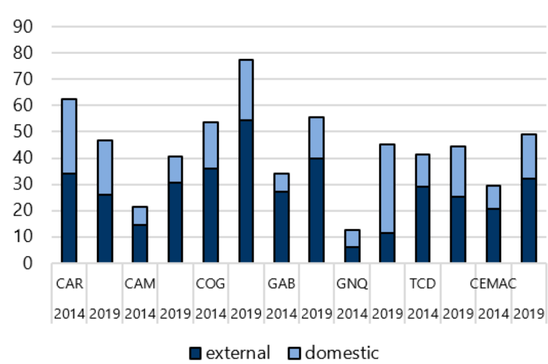


Current Account and Budget Deficit, 2010–21
(Percent of GDP)

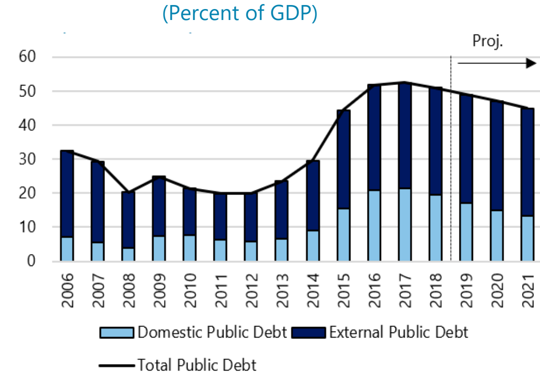


After a large increase in 2014–16, public debt is expected to gradually decline over the medium term

CEMAC: Public Debt, 2014 and 2019
(Percent of GDP)



Public Debt, 2006–21
(Percent of GDP)



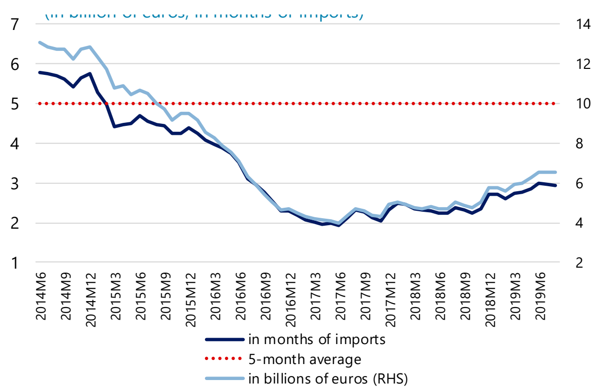
Sources: GAS Live, CEMAC authorities; and IMF staff estimates.

Figure 3. CEMAC: Reserves; Central Bank Balance Sheet and Liquidity Indicators

NFA accumulation increased during 2019 and are projected to reach the 5-months threshold by 2022. While statutory advances are now frozen…

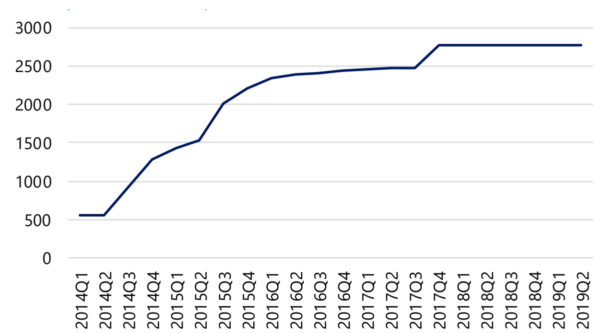
Official Reserves' Coverage, 2014–19

(Billions of euros, months of imports)



BEAC's Credit to Governments: Advances and Consolidated Debt, 2014–19

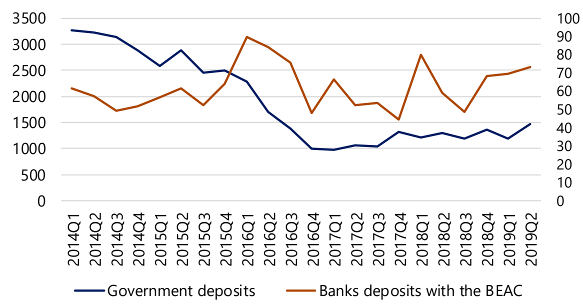
(Billions of CFA francs)



… governments deposits with BEAC increased less than projected during 2019Q1–Q2. Total deposits have increased over that period…

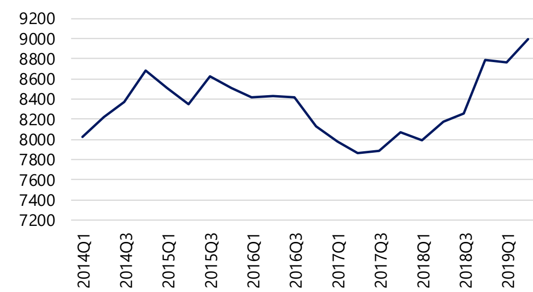
Government and Banks Deposits at the BEAC, 2014–19

(Billions of CFA francs)



Total Deposits with the Banking Sector, 2014–19

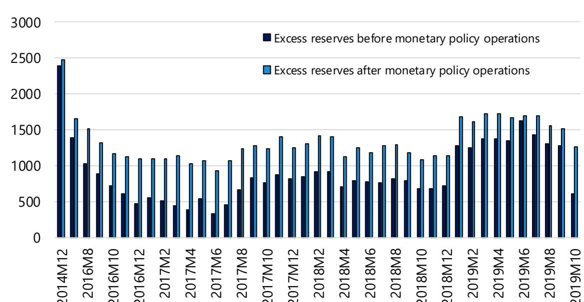
(Billions of CFA francs)



… and the banking sector's excess reserves remained broadly stable, while credit to the private sector is declining, reflecting anemic economic activity and the impact of a large stock of payment arrears from the government.

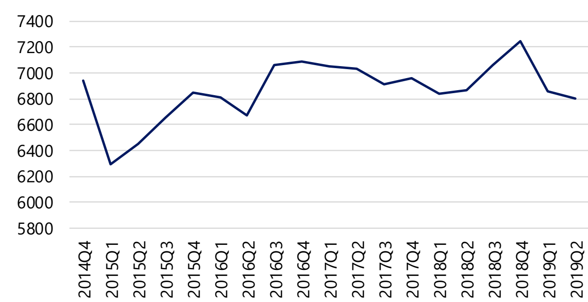
Banks' Excess Reserves, 2014–19

(end-of-period, Billions of CFA francs)



Credit to the Private Sector, 2014–19

(Billions of CFA francs)



Sources: CEMAC; and IMF staff calculations.

Table 1. CEMAC: Selected Economic and Financial Indicators, 2016–23

	2016	2017	2018	2019	2019	2020	2021	2022	2023
	Est.	Est.	Est.	CR 19/215[4]	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual change, in percent)								
National income and prices									
GDP at constant prices[1]	-0.3	1.0	2.5	3.4	2.5	3.5	3.5	2.5	3.1
Oil GDP[1]	-6.1	-4.7	5.3	6.2	3.8	4.1	-1.4	-3.7	-2.7
Non-oil GDP[1]	1.3	2.4	1.8	2.7	2.2	3.3	4.7	3.9	4.4
Consumer prices (period average)[2]	1.2	0.8	2.1	2.4	2.1	2.4	2.4	2.3	2.3
Consumer prices (end of period)[2]	0.4	1.2	3.0	3.3	2.3	2.3	2.4	2.3	2.4
	(Annual change, in percent of beginning-of-period broad money)								
Money and credit									
Net foreign assets	-31.4	-0.9	1.8	4.4	5.6	8.3	...	...	...
Net domestic assets	26.7	0.5	6.3	3.6	2.2	-1.3	...	...	...
Broad money	-4.6	-0.4	8.1	8.1	7.9	7.1	...	...	...
	(In percent of GDP, unless otherwise indicated)								
Gross national savings	15.8	20.8	22.0	23.2	23.6	24.1	23.8	24.0	24.4
Gross domestic investment	28.7	25.4	24.5	25.7	26.0	26.9	26.8	26.9	27.2
Of which: public investment	8.3	6.6	5.0	5.2	5.0	5.3	5.4	5.4	5.5
Government financial operations									
Total revenue, excluding grants	16.4	16.0	17.4	17.9	18.0	17.7	17.9	17.8	17.8
Government expenditure	24.4	20.6	18.3	18.1	18.2	17.8	17.8	17.6	17.6
Primary fiscal basic balance[3]	-4.1	-0.5	2.7	3.8	3.6	3.9	4.2	4.2	4.3
Overall fiscal balance, excluding grants	-8.0	-4.5	-0.9	-0.2	-0.2	-0.1	0.1	0.2	0.3
Primary fiscal balance, including grants	-5.9	-2.4	1.2	2.0	1.9	2.1	2.2	2.3	2.2
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-16.3	-12.8	-10.7	-9.0	-9.5	-8.5	-7.5	-6.6	-6.0
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-13.8	-10.2	-8.0	-6.2	-6.8	-5.8	-4.8	-4.0	-3.7
Total Public Debt	51.7	52.5	51.0	48.1	49.3	47.2	45.1	42.6	40.0
External sector									
Exports of goods and nonfactor services	29.6	32.3	35.9	34.8	35.2	33.9	32.4	31.0	29.9
Imports of goods and nonfactor services	37.6	32.0	32.6	31.8	32.3	32.0	30.9	30.0	29.0
Balance on goods and nonfactor services	-8.1	0.3	3.3	3.0	2.8	1.9	1.5	1.1	1.0
Current account, including grants	-12.9	-4.6	-2.6	-2.6	-2.5	-2.8	-2.9	-2.9	-2.7
External public debt	29.4	32.6	30.3	32.3	31.9	32.3	31.8	30.8	29.4
Gross official reserves (end of period)									
Millions of U.S. dollars	4,972	5,807	6,555	8,265	8,169	10,460	12,385	13,760	15,025
Months of imports of goods and services (less intra regional imports)	2.3	2.3	2.7	3.3	3.3	4.1	4.8	5.2	5.5
Percent of broad money	29.3	30.6	33.2	38.4	39.2	46.4	50.2	51.8	52.5
Memorandum items:									
Nominal GDP (billions of CFA francs)	46,061	48,396	52,363	53,704	53,945	56,303	58,759	61,251	64,260
CFA francs per U.S. dollar, average	593	581	555	...	...	...	...	...	...
CFA francs per U.S. dollar, end-of-year	622	554	576	...	...	...	...	...	...
Oil production (thousands of barrels per day)	873.8	827.5	872.1	935.7	918.9	949.7	940.6	907.7	882.9
Oil prices (U.S. dollars per barrel, brent)	44.0	54.4	71.1	61.8	64.4	60.5	58.0	57.3	57.4

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

[1] Estimated after rebasing the national real GDP series to 2005.

[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 Country Report No 19/215

Table 2. CEMAC: National Accounts, 2016–23

	2016	2017	2018	2019	2019	2020	2021	2022	2023
				CR					
	Est.	Est.	Est.	19/215[1]	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual change, in percent)								
Real GDP									
Cameroon	4.6	3.5	4.1	4.2	3.9	3.8	4.1	4.2	4.5
Central African Republic	4.7	4.5	3.8	4.5	4.5	5.0	5.0	5.0	5.0
Chad	-5.6	-2.4	2.4	2.4	3.0	3.9	5.8	5.4	4.0
Congo, Republic of	-2.8	-1.8	1.6	5.4	2.2	4.6	1.9	0.0	1.3
Equatorial Guinea	-8.8	-4.7	-5.7	-4.0	-5.9	-1.9	1.0	-4.7	-1.2
Gabon	2.1	0.5	0.8	2.9	3.4	3.8	3.8	4.5	4.5
CEMAC	-0.3	1.0	2.5	3.4	2.5	3.5	3.5	2.5	3.1
Nominal GDP									
Cameroon	5.8	5.1	5.7	5.4	5.7	5.8	5.6	5.9	6.1
Central African Republic	7.9	11.3	5.2	7.2	7.4	7.6	7.6	7.7	7.7
Chad	-6.6	-3.2	4.8	5.1	5.0	6.8	9.0	8.4	5.8
Congo, Republic of	-8.7	12.4	24.8	0.8	1.0	3.4	-1.5	-3.0	0.2
Equatorial Guinea	-14.5	7.4	6.6	-6.5	-8.8	-1.5	0.5	-2.2	1.2
Gabon	-2.3	4.3	8.1	3.6	6.1	4.0	4.3	5.6	5.9
CEMAC	-2.2	5.1	8.2	2.8	3.0	4.4	4.4	4.2	4.9
Real non-oil GDP									
Cameroon	5.3	5.0	4.4	4.3	3.8	4.0	4.6	4.7	5.0
Central African Republic	4.7	4.5	3.8	4.5	4.5	5.0	5.0	5.0	5.0
Chad	-6.0	-0.5	0.5	2.0	2.0	3.0	4.0	4.0	3.9
Congo, Republic of	-3.2	-6.2	-5.5	1.0	0.8	2.5	3.6	4.0	4.1
Equatorial Guinea	-4.7	1.5	-3.8	-3.1	-5.0	-0.3	7.6	-1.9	0.9
Gabon	3.3	1.7	1.9	2.5	2.5	4.0	4.3	5.1	5.1
CEMAC	1.3	2.4	1.8	2.7	2.2	3.3	4.7	3.9	4.4
Consumer price inflation (period average)									
Cameroon	0.9	0.6	1.1	2.1	2.4	2.4	2.0	2.0	2.0
Central African Republic	4.6	4.5	1.6	3.0	3.2	2.5	2.5	2.5	2.5
Chad	-1.6	-0.9	4.0	2.9	1.0	3.0	3.0	3.0	3.0
Congo, Republic of	3.2	0.4	1.2	1.5	1.8	1.8	2.6	2.8	3.0
Equatorial Guinea	1.4	0.7	1.3	2.6	0.9	1.7	1.7	1.8	1.9
Gabon	2.1	2.7	4.8	3.0	3.0	3.0	3.0	2.5	2.5
CEMAC	1.2	0.8	2.1	2.4	2.1	2.4	2.4	2.3	2.3
End of period inflation									
Cameroon	0.3	0.8	2.0	2.1	2.8	2.0	2.0	2.0	2.0
Central African Republic	1.6	7.2	4.6	3.0	-0.3	2.5	2.5	2.5	2.5
Chad	-5.0	3.1	4.4	9.1	1.5	3.0	3.0	2.9	3.0
Congo, Republic of	0.0	1.8	0.9	2.0	1.8	2.5	2.7	3.0	3.0
Equatorial Guinea	2.0	-0.2	2.6	2.6	1.6	1.7	1.7	1.8	1.9
Gabon	4.1	1.1	6.3	3.0	3.0	3.0	3.0	2.5	2.5
CEMAC	0.4	1.2	3.0	3.3	2.3	2.3	2.4	2.3	2.4
Gross national savings									
Cameroon	25.2	25.5	26.2	25.2	25.8	25.7	25.7	25.7	25.8
Central African Republic	8.2	5.7	8.5	12.6	10.5	10.6	11.2	11.1	11.3
Chad	6.4	14.1	18.8	22.6	22.8	24.0	23.7	23.0	23.5
Congo, Republic of	-7.0	26.2	24.3	26.4	27.8	27.4	25.3	24.7	26.2
Equatorial Guinea	3.7	6.8	6.6	7.0	6.5	7.3	7.9	8.1	8.6
Gabon	24.1	24.9	27.3	30.3	30.0	31.4	30.6	31.7	32.0
CEMAC	15.8	20.8	22.0	23.2	23.6	24.1	23.8	24.0	24.4
Gross domestic investment									
Cameroon	28.4	28.1	29.8	28.6	29.4	29.3	29.1	29.0	29.1
Central African Republic	13.6	13.5	16.4	16.3	16.2	16.9	16.5	16.4	16.9
Chad	16.5	20.7	22.2	29.1	29.0	30.2	30.3	30.1	29.8
Congo, Republic of	56.5	29.8	17.1	20.9	19.9	21.6	24.1	26.7	28.7
Equatorial Guinea	16.7	12.6	12.0	11.8	12.2	13.1	11.7	12.2	12.3
Gabon	34.5	31.8	30.4	31.3	31.1	33.4	31.6	30.1	30.0
CEMAC	28.7	25.4	24.5	25.7	26.0	26.9	26.8	26.9	27.2

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

[1] Refers to the projections published in the IMF Country Report No 19/215

Table 3a. CEMAC: Balance of Payments, 2016–23

(Billions of CFA francs)

	2016	2017	2018	2019	2019	2020	2021	2022	2023
	Est.	Est.	Est.	CR 19/215[3]	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-5,944	-2,238	-1,364	-1,394	-1,373	-1,595	-1,732	-1,802	-1,763
Balance on goods and services	-3,711	151	1,714	1,606	1,522	1,084	908	656	624
Total exports	13,612	15,638	18,810	18,680	18,963	19,104	19,059	19,003	19,245
Exports of goods	11,728	13,566	16,674	16,439	16,763	16,826	16,678	16,507	16,623
Oil exports	7,839	9,345	12,394	11,836	12,169	11,870	11,328	10,742	10,452
Non-oil exports	3,889	4,221	4,279	4,603	4,594	4,956	5,350	5,765	6,170
Exports of services	1,884	2,072	2,137	2,241	2,200	2,278	2,381	2,497	2,622
Total imports	17,323	15,487	17,096	17,074	17,441	18,020	18,151	18,347	18,621
Imports of goods	11,042	9,337	10,019	9,979	10,288	10,760	10,828	11,062	11,223.0
Imports of services	6,281	6,150	7,076	7,095	7,153	7,259	7,323	7,286	7,398
Income, net	-2,280	-2,595	-3,283	-3,241	-3,135	-3,065	-3,025	-2,876	-2,790
Income credits	202	209	224	238	238	249	262	272	282
Income debits	2,482	2,805	3,507	3,479	3,374	3,314	3,287	3,147	3,072
Investment income, debit	-1,923	-2,186	-2,831	-2,785	-2,658	-2,629	-2,604	-2,502	-2,455
Of which: Interest paid on public debt	-354	-279	-314	-308	-295	-294	-313	-326	-310
Of which: Interest paid on nonpublic debt	-98	-171	-21	-10	-11	0	2	3	3
Current transfers, net	43	189	205	241	240	386	385	418	404
Private current transfers, net	38	180	194	157	146	197	207	235	259
Official current transfers, net	5	9	11	84	94	188	178	183	145
Balance on capital and financial accounts	2,392	1,296	1,139	707	1,076	1,944	2,345	2,190	2,447
Balance on capital account (incl. capital transfers)	172	357	205	228	223	245	263	269	292
Balance on financial account (incl. reserves)	2,221	940	934	479	854	1,699	2,082	1,921	2,155
Direct investment, net[1]	3,034	1,948	1,895	2,350	2,244	2,572	2,549	2,498	2,541.9
Portfolio investment, net	-8	14	-18	11	11	158	12	-130	-130
Other investment, net	-805	-1,022	-944	-1,882	-1,401	-1,031	-480	-446	-257
Of which: long-term other investment, net	920	519	111	…	-624	-161	167	34	169
Errors and omissions, net	86	-123	0	0	0	0	0	0	0
Overall Balance	-3,466	-1,065	-224	-687	-297	349	613	388	684
Financing	3,466	1,020	224	687	297	-349	-613	-388	-684
Reserve assets (accumulation -)[2]	3,313	-231	-575	-946	-1,029	-1,295	-1,060	-746	-670
Exceptional financing	153	1,250	800	1,633	1,326	947	447	358	-14
Memorandum items:									
Nominal GDP	46,061	48,396	52,363	53,704	53,945	56,303	58,759	61,251	64,260
Gross foreign assets (end of period)									
Billions CFAF	3,093	3,218	3,777	4,714	4,801	6,095	7,154	7,899	8,569
Months of imports of goods and services	2.3	2.3	2.7	3.3	3.3	4.1	4.8	5.2	5.5

Sources: BEAC; and IMF staff estimates and projections.

1 FDI data have been revised, including to better reflect the flows linked to the construction of the Moho-Nord platform in Congo.

2 Does not reflect reserve accumulation by BEAC's central services.

3 Refers to the projections published in the IMF Country Report No 19/215

Table 3b. CEMAC: Balance of Payments, 2016–23

(Percent of GDP)

	2016 Est.	2017 Est.	2018 Est.	2019 CR 19/215[3]	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
Balance on current account	-12.9	-4.6	-2.6	-2.6	-2.5	-2.8	-2.9	-2.9	-2.7
Balance on goods and services	-8.1	0.3	3.3	3.0	2.8	1.9	1.5	1.1	1.0
Total exports	29.6	32.3	35.9	34.8	35.2	33.9	32.4	31.0	29.9
Exports of goods	25.5	28.0	31.8	30.6	31.1	29.9	28.4	26.9	25.9
Oil exports	17.0	19.3	23.7	22.0	22.6	21.1	19.3	17.5	16.3
Non-oil exports	8.4	8.7	8.2	8.6	8.5	8.8	9.1	9.4	9.6
Exports of services	4.1	4.3	4.1	4.2	4.1	4.0	4.1	4.1	4.1
Total imports	37.6	32.0	32.6	31.8	32.3	32.0	30.9	30.0	29.0
Imports of goods	24.0	19.3	19.1	18.6	19.1	19.1	18.4	18.1	17.5
Imports of services	13.6	12.7	13.5	13.2	13.3	12.9	12.5	11.9	11.5
Income, net	-4.9	-5.4	-6.3	-6.0	-5.8	-5.4	-5.1	-4.7	-4.3
Income credits	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Income debits	5.4	5.8	6.7	6.5	6.3	5.9	5.6	5.1	4.8
Of which:									
Investment income, debit	-4.2	-4.5	-5.4	-5.2	-4.9	-4.7	-4.4	-4.1	-3.8
Of which: Interest paid on public debt	-0.8	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Of which: Interest paid on nonpublic debt	-0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfers, net	0.1	0.4	0.4	0.4	0.4	0.7	0.7	0.7	0.6
Private current transfers, net	0.1	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4
Official current transfers, net	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.2
Balance on capital and financial accounts	5.2	2.7	2.2	1.3	2.0	3.5	4.0	3.6	3.8
Balance on capital account (incl. capital transfers)	0.4	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Balance on financial account	4.8	1.9	1.8	0.9	1.6	3.0	3.5	3.1	3.4
Direct investment, net[1]	6.6	4.0	3.6	4.4	4.2	4.6	4.3	4.1	4.0
Portfolio investment, net	0.0	0.0	0.0	0.0	0.0	0.3	0.0	-0.2	-0.2
Other investment, net	-1.7	-2.1	-1.8	-3.5	-2.6	-1.8	-0.8	-0.7	-0.4
Of which: long-term other investment, net	2.0	1.1	0.2	...	-1.2	-0.3	0.3	0.1	0.3
Errors and omissions, net	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-7.5	-2.2	-0.4	-1.3	-0.6	0.6	1.0	0.6	1.1
Financing	7.5	2.1	0.4	1.3	0.6	-0.6	-1.0	-0.6	-1.1
Reserve assets (accumulation -)[2]	7.2	-0.5	-1.1	-1.8	-1.9	-2.3	-1.8	-1.2	-1.0
Exceptional financing	0.3	2.6	1.5	3.0	2.5	1.7	0.8	0.6	0.0
Memorandum items:									
Nominal GDP (billions of CFAF)	46,061	48,396	52,363	53,704	53,945	56,303	58,759	61,251	64,260

Sources: BEAC; and IMF staff estimates and projections.

[1] FDI data have been revised, including to better reflect the flows linked to the construction of the Moho-Nord platform in Congo.

[2] Does not reflect reserve accumulation by BEAC's central services.

[3] Refers to the projections published in the IMF Country Report No 19/215

Table 4a. CEMAC: Fiscal Balances, 2016–23

(Percent of GDP)

	2016	2017	2018	2019	2019	2020	2021	2022	2023
	Est.	Est.	Est.	CR 19/215[2]	Proj.	Proj.	Proj.	Proj.	Proj.
Overall fiscal balance (excluding grants)									
Cameroon	-6.4	-5.2	-2.9	-2.5	-2.7	-2.6	-2.1	-1.9	-1.7
Central African Republic	-4.7	-6.1	-8.7	-8.3	-8.7	-9.1	-8.3	-7.9	-7.8
Chad	-4.8	-4.3	-1.3	-2.6	-2.5	-0.3	-0.4	0.1	1.1
Congo, Republic of	-21.0	-8.0	6.5	7.1	8.3	8.0	7.6	7.7	7.1
Equatorial Guinea	-10.9	-2.6	0.5	2.0	1.3	1.1	1.6	2.3	2.1
Gabon	-5.0	-2.6	-1.3	1.3	1.8	1.2	1.1	1.1	1.2
CEMAC	-8.0	-4.5	-0.9	-0.2	-0.2	-0.1	0.1	0.2	0.3
Overall fiscal balance (including grants)									
Cameroon	-6.1	-4.9	-2.5	-2.0	-2.3	-2.1	-1.7	-1.5	-1.5
Central African Republic	1.1	-1.1	-1.0	2.7	2.0	-0.3	0.1	-0.5	-1.2
Chad	-1.9	-0.2	1.9	0.4	0.4	2.8	2.3	2.6	3.7
Congo, Republic of	-20.1	-7.4	6.6	7.5	8.8	8.4	8.0	8.2	7.6
Equatorial Guinea	-10.9	-2.6	0.5	2.0	1.3	1.1	1.6	2.3	2.1
Gabon	-5.0	-2.6	-1.3	1.3	1.8	1.4	1.1	1.1	1.2
CEMAC	-7.3	-3.7	-0.2	0.7	0.7	0.8	0.9	1.0	1.0
Reference fiscal balance [1]									
Cameroon	-5.2	-4.3	-2.9	-2.6	-2.9	-2.2	-1.7	-1.5	-1.6
Central African Republic	1.1	-1.1	-1.0	2.7	2.0	-0.3	0.1	-0.5	-1.2
Chad	1.8	0.5	-0.8	-2.0	-2.1	-1.1	-0.3	0.9	2.0
Congo, Republic of	-11.8	-3.3	-2.1	1.1	1.1	4.2	5.8	6.1	5.4
Equatorial Guinea	-6.2	-1.4	-1.9	-0.5	-1.8	-0.1	1.6	2.4	1.9
Gabon	0.1	-2.1	-2.5	-0.6	-0.7	0.1	0.4	0.7	0.8
CEMAC	-2.6	-2.1	-2.4	-1.3	-1.6	-0.4	0.4	0.0	0.0
Primary fiscal balance (including grants)									
Cameroon	-5.3	-4.0	-1.6	-1.1	-1.4	-1.2	-0.7	-0.5	-0.6
Central African Republic	1.6	-0.7	-0.6	3.0	2.3	0.1	0.4	-0.3	-1.0
Chad	0.1	1.3	3.0	1.5	1.4	3.7	3.1	3.4	4.4
Congo, Republic of	-17.4	-5.2	8.9	9.3	10.6	9.9	9.4	9.4	8.6
Equatorial Guinea	-10.5	-2.1	1.1	3.4	2.0	2.2	3.3	3.9	3.7
Gabon	-2.7	-0.1	1.1	3.5	4.1	3.7	3.9	3.7	3.6
CEMAC	-5.9	-2.4	1.2	2.0	1.9	2.1	2.2	2.3	2.2
Government revenue (excluding grants)									
Cameroon	14.5	14.6	15.7	15.7	15.9	14.8	15.0	14.9	15.0
Central African Republic	7.4	7.8	8.9	9.9	8.7	9.7	10.2	10.6	10.8
Chad	9.5	10.6	12.0	12.7	12.7	15.2	15.2	15.0	15.8
Congo, Republic of	33.2	27.3	29.1	30.9	31.5	31.3	32.3	33.7	34.2
Equatorial Guinea	16.9	17.3	19.0	18.0	17.8	17.5	17.5	17.3	17.3
Gabon	17.1	16.4	16.9	18.5	18.8	18.7	19.0	18.9	19.1
CEMAC	16.4	16.0	17.4	17.9	18.0	17.7	17.9	17.8	17.9
Government expenditure (including net lending minus repayments)									
Cameroon	20.9	19.8	18.5	18.2	18.6	17.3	17.1	16.9	16.7
Central African Republic	12.1	13.9	17.6	18.2	17.4	18.8	18.5	18.5	18.6
Chad	14.4	14.9	13.3	15.3	15.2	15.5	15.6	14.9	14.7
Congo, Republic of	54.1	35.2	22.6	23.8	23.1	23.4	24.7	26.0	27.1
Equatorial Guinea	27.8	19.9	18.5	16.0	16.5	16.4	15.8	15.0	15.2
Gabon	22.1	19.0	18.2	17.2	17.0	17.5	17.8	17.9	17.9
CEMAC	24.4	20.6	18.3	18.1	18.2	17.8	17.8	17.6	17.6
Total public debt									
Cameroon	33.3	37.7	39.5	39.5	40.8	40.8	40.3	39.7	38.9
Central African Republic	53.9	50.3	50.0	42.7	47.1	42.6	40.3	37.5	35.5
Chad	51.5	49.8	48.3	43.8	44.4	39.7	35.1	30.9	27.6
Congo, Republic of	118.6	117.5	87.1	81.7	78.5	70.5	67.0	62.6	56.9
Equatorial Guinea	43.4	38.0	43.0	37.7	46.2	46.6	45.3	44.4	41.4
Gabon	64.2	62.6	60.7	56.7	55.4	53.0	50.4	46.2	41.9
CEMAC	51.7	52.5	51.0	48.1	49.3	47.2	45.1	42.6	40.0

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

[1] The reference fiscal balance is defined as 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.

[2] Refers to the projections published in the IMF Country Report No 19/215

Table 4b. CEMAC: Fiscal Balances, 2016–23

(Percent of Non-oil GDP)

	2016	2017	2018	2019	2019	2020	2021	2022	2023
	Est.	Est.	Est.	CR 19/215[2]	Proj.	Proj.	Proj.	Proj.	Proj.
Non-oil fiscal balance (excluding grants)									
Cameroon	-8.8	-7.3	-5.5	-4.9	-5.3	-4.6	-3.9	-3.6	-3.3
Central African Republic	-4.7	-6.1	-8.7	-8.3	-8.7	-9.1	-8.3	-7.9	-7.8
Chad	-9.6	-9.3	-8.4	-10.1	-10.1	-10.1	-10.2	-9.4	-8.5
Congo, Republic of	-57.3	-40.5	-34.1	-30.5	-30.5	-26.0	-23.7	-20.1	-18.4
Equatorial Guinea	-31.9	-23.3	-21.8	-16.3	-18.5	-16.1	-12.5	-9.8	-8.7
Gabon	-14.3	-13.3	-11.1	-7.7	-8.1	-7.8	-7.0	-6.4	-5.6
CEMAC	-16.3	-12.8	-10.7	-9.0	-9.5	-8.5	-7.5	-6.6	-6.0
Non-oil fiscal balance (including grants)									
Cameroon	-8.5	-7.0	-5.1	-4.4	-4.8	-4.1	-3.5	-3.2	-3.4
Central African Republic	1.1	-1.1	-1.0	2.7	2.0	-0.3	0.1	-0.5	-1.2
Chad	-6.0	-4.5	-4.4	-6.4	-6.5	-6.2	-6.8	-6.1	-5.2
Congo, Republic of	-56.5	-39.4	-33.8	-29.4	-29.4	-25.0	-22.8	-19.0	-17.3
Equatorial Guinea	-31.9	-23.3	-21.8	-16.3	-18.5	-16.1	-12.5	-9.8	-8.7
Gabon	-13.8	-12.0	-9.5	-7.3	-7.5	-7.6	-7.0	-6.4	-5.6
CEMAC	-15.4	-11.6	-9.5	-7.8	-8.3	-7.4	-6.5	-5.6	-5.3
Basic balance[1]									
Cameroon	-4.0	-1.4	0.6	1.0	0.7	0.8	1.2	1.3	1.3
Central African Republic	-2.0	-2.4	-2.1	-2.7	-3.1	-2.9	-2.8	-2.7	-2.7
Chad	-3.4	-1.5	1.2	0.8	0.8	3.7	3.7	4.3	5.7
Congo, Republic of	-23.0	-6.1	18.5	25.2	26.4	24.6	22.4	20.4	18.0
Equatorial Guinea	-14.7	-3.7	0.7	2.8	1.9	1.5	2.1	2.8	2.5
Gabon	-2.6	-1.4	2.3	5.1	5.9	5.8	5.4	5.1	5.1
CEMAC	-6.5	-2.1	2.0	3.2	3.1	3.3	3.4	3.5	3.5
Non-oil primary fiscal balance (including grants)									
Cameroon	-7.7	-6.1	-4.1	-3.5	-3.9	-3.2	-2.5	-2.2	-2.1
Central African Republic	1.6	-0.7	-0.6	3.0	2.3	0.1	0.4	-0.3	-1.0
Chad	-3.5	-2.5	-3.0	-5.0	-5.2	-5.1	-5.7	-5.1	-4.3
Congo, Republic of	-51.7	-35.3	-28.1	-24.8	-24.8	-21.3	-19.6	-16.5	-15.4
Equatorial Guinea	-31.3	-22.7	-20.9	-14.3	-17.6	-14.5	-10.4	-7.7	-6.8
Gabon	-11.0	-9.7	-7.6	-4.6	-4.6	-4.2	-3.1	-2.8	-2.3
CEMAC	-13.8	-10.2	-8.0	-6.2	-6.8	-5.8	-4.8	-4.0	-3.7
Government revenue (excluding grants)									
Cameroon	15.0	15.2	16.4	16.2	16.6	15.3	15.5	15.4	15.4
Central African Republic	7.4	7.8	8.9	9.9	8.7	9.7	10.2	10.6	10.8
Chad	11.9	12.9	14.8	15.7	15.8	19.1	19.5	19.6	20.3
Congo, Republic of	52.7	52.5	74.0	77.6	79.0	78.0	74.5	70.5	66.8
Equatorial Guinea	22.7	24.7	27.6	25.1	25.4	24.0	22.4	21.4	20.9
Gabon	24.2	23.6	25.0	26.8	27.8	26.9	26.6	26.1	25.9
CEMAC	19.7	19.7	22.3	22.4	22.9	22.2	21.9	21.5	21.3
Government expenditure (including net lending minus repayments)									
Cameroon	21.6	20.6	19.5	18.8	19.5	18.0	17.6	17.4	17.1
Central African Republic	12.1	13.9	17.6	18.2	17.4	18.8	18.5	18.5	18.6
Chad	18.0	18.0	16.5	18.9	18.9	19.5	20.0	19.4	18.9
Congo, Republic of	85.9	67.8	57.4	59.8	58.1	58.2	57.0	54.5	53.0
Equatorial Guinea	37.4	28.3	26.9	22.3	23.5	22.5	20.3	18.6	18.3
Gabon	31.3	27.4	26.9	24.8	25.2	25.1	25.0	24.7	24.3
CEMAC	29.3	25.3	23.5	22.6	23.1	22.3	21.8	21.2	20.9
Non-oil revenues (excluding grants)									
Cameroon	12.7	13.2	14.0	13.9	14.2	13.4	13.7	13.8	13.9
Central African Republic	7.4	7.8	8.9	9.9	8.7	9.7	10.2	10.6	10.8
Chad	8.4	8.7	8.1	8.8	8.8	9.4	9.8	10.0	10.4
Congo, Republic of	28.6	27.3	23.4	29.3	27.6	32.2	33.3	34.3	34.5
Equatorial Guinea	5.6	5.0	5.1	6.0	5.0	6.5	7.8	8.8	9.6
Gabon	17.0	14.1	15.8	17.1	17.1	17.3	18.1	18.3	18.7
CEMAC	12.9	12.5	12.8	13.7	13.6	13.8	14.3	14.7	14.9

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

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

[2] Refers to the projections published in the IMF Country Report No 19/215

Table 5. CEMAC: Compliance with Convergence Criteria, 2016–23

	2016	2017	2018	2019	2019	2020	2021	2022	2023
	Est.	Est.	Est.	CR 19/215[4]	Proj.	Proj.	Proj.	Proj.	Proj.
Reference fiscal balance (fiscal balance before 2016)[1]				(in percent of GDP)					
Cameroon	-3.8	-4.3	-2.9	-2.6	-2.9	-2.2	-1.7	-1.5	-1.6
Central African Republic	-2.0	-1.1	-1.0	2.7	2.0	-0.3	0.1	-0.5	-1.2
Chad	-2.7	0.5	-0.8	-2.0	-2.1	-1.1	-0.3	0.9	2.0
Congo, Republic of	-14.5	-3.3	-2.1	1.1	1.1	4.2	5.8	6.1	5.4
Equatorial Guinea	-10.9	-1.4	-1.9	-0.5	-1.8	-0.1	1.6	2.4	1.9
Gabon	-1.8	-2.1	-2.5	-0.6	-0.7	0.1	0.4	0.7	0.8
Number of countries violating	6	3	4	2	3	1	1	0	1
Consumer price inflation (≤ 3%)				(in percent)					
Cameroon	0.9	0.6	1.1	2.1	2.4	2.4	2.0	2.0	2.0
Central African Republic	4.6	4.5	1.6	3.0	3.2	2.5	2.5	2.5	2.5
Chad	-1.6	-0.9	4.0	2.9	1.0	3.0	3.0	3.0	3.0
Congo, Republic of	3.2	0.4	1.2	1.5	1.8	1.8	2.6	2.8	3.0
Equatorial Guinea	1.4	0.7	1.3	2.6	0.9	1.7	1.7	1.8	1.9
Gabon	2.1	2.7	4.8	3.0	3.0	3.0	3.0	2.5	2.5
Number of countries violating	2	1	2	1	1	0	0	0	0
Level of public debt (≤ 70% GDP)				(in percent of GDP)					
Cameroon	33.3	37.7	39.5	39.5	40.8	40.8	40.3	39.7	38.9
Central African Republic	53.9	50.3	50.0	42.7	47.1	42.6	40.3	37.5	35.5
Chad	51.5	49.8	48.3	43.8	44.4	39.7	35.1	30.9	27.6
Congo, Republic of	118.6	117.5	87.1	81.7	78.5	70.5	67.0	62.6	56.9
Equatorial Guinea	43.4	38.0	43.0	37.7	46.2	46.6	45.3	44.4	41.4
Gabon	64.2	62.6	60.7	56.7	55.4	53.0	50.4	46.2	41.9
Number of countries violating	1	1	1	1	1	1	0	0	0
Non-accumulation of government arrears[2] (≤ 0)				(in percent of GDP)					
Cameroon	…	1.4	-2.0	-1.2	-1.2	-0.4	-0.3	-0.1	0.0
Central African Republic	-5.3	-8.0	-2.3	-3.7	-3.8	-2.5	-0.8	-0.7	0.0
Chad	0.7	0.5	-1.1	-1.6	-1.6	-0.8	-0.6	-0.2	-1.1
Congo, Republic of	2.3	14.2	-5.2	-1.7	-3.4	-4.2	-3.4	…	…
Equatorial Guinea	5.7	-3.8	-1.8	-0.3	0.1	-1.2	-0.8	-0.4	0.0
Gabon	…	-5.1	-1.5	-2.1	-2.6	-0.2	-0.3	0.0	0.0
Number of countries violating [3]	…	6	6	…	…	…	…	…	…

Sources: Authorities' data; and IMF staff estimates.

Note: For the first criteria, the number of countries violating them reflects the estimates from the CEMAC Commission until 2017, and IMF staff estimated going forward.

[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] Change in the stock of arrears-to-GDP ratio. Includes external and domestic payments arrears, and based on data reported by country authorities (which may differ from CEMAC teams' findings).

[3] Assessment by the CEMAC Comission based on: (i) the non-accumulation of new arrears during the current year; and (ii) the gradual repayment of existing arrears in line with a published schedule.

[4] Refers to the projections published in the IMF Country Report No 19/215.

Table 6. CEMAC: Monetary Survey, 2016–23

(Billions of CFA francs, unless otherwise indicated)

	2016	2017	2018	2019 June CR 19/215[2]	2019 June	2019 Sept.	2019 Dec. CR 19/215[2]	2019 Dec.	2020	2021	2022	2023
	Est.	Est.	Est.		Est.	Prel.		Proj.	Proj.	Proj.	Proj.	Proj.
(In CFAF billions)												
Net foreign assets	2,416	2,322	2,509	2,471	2,790	2,640	3,013	3,151	4,174	5,107	5,804	6,614
Of which: BEAC	2,254	2,131	2,379	2,420	2,830	2,565	2,963	3,132	4,117	5,063	5,751	6,557
Foreign assets	3,093	3,218	3,777	3,887	4,279	4,081	4,714	4,801	6,095	7,154	7,899	8,569
Of which:												
Of which: Operations account	1,156	2,552	3,360	2,915	3,827	3,637	3,300	3,361	3,657	3,577	3,950	4,284
Foreign liabilities	-839	-1,088	-1,398	-1,467	-1,450	-1,516	-1,751	-1,669	-1,978	-2,091	-2,149	-2,012
Commercial banks	162	191	130	51	-40	75	50	19	57	44	53	58
Foreign assets	754	802	735	690	596	738	648	732	728	732	738	745
Foreign liabilities[1]	-592	-611	-605	-639	-636	-662	-598	-713	-670	-688	-685	-688
Net domestic assets	8,140	8,190	8,854	8,627	8,713	9,153	9,261	9,108	8,952	9,152	9,491	9,774
Net credit to government	2,689	2,937	3,464	3,527	3,939	4,202	3,487	4,017	3,382	3,667	3,231	2,771
BEAC, net	1,645	1,946	2,209	2,236	2,100	2,297	1,983	2,121	1,306	1,364	909	375
Of which:												
Advances and consolidated debt	2,446	2,770	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,891	2,711	2,477
IMF lending	201	491	798	856	794	914	1,037	1,045	932	1,268	1,232	1,109
Government deposits	-1,002	-1,316	-1,363	-1,393	-1,467	-1,391	-1,827	-1,697	-2,398	-2,796	-3,034	-3,211
Commercial banks, net	1,044	991	1,256	1,290	1,839	1,906	1,504	1,896	2,076	2,303	2,323	2,396
Of which: Government deposits	867	873	781	822	822	844	-	-	-	-	-	-
Net credit to public agencies	-418	-371	-280	-310	-252	-257	-276	-279	-279	-279	-279	-280
Credit to private sector	7,082	6,955	7,243	6,961	6,802	6,904	7,572	7,251	7,705	7,638	8,431	9,192
Other items, net	-1,213	-1,331	-1,573	-1,551	-1,776	-1,696	-1,521	-1,881	-1,856	-1,874	-1,892	-1,909
Broad money	10,556	10,512	11,363	11,098	11,503	11,793	12,274	12,259	13,127	14,259	15,295	16,388
Currency outside banks	2,432	2,436	2,577	2,348	2,514	2,550	2,851	2,835	3,019	3,233	3,470	3,764
Bank deposits	8,123	8,076	8,787	8,750	8,989	9,243	9,424	9,424	10,108	11,026	11,825	12,625
(Annual change in percent of beginning-of-period broad money)												
Net foreign assets	-31.4	-0.9	1.8	2.7	5.8	5.3	4.4	5.6	8.3	7.1	4.9	5.3
Net domestic assets	26.7	0.5	6.3	3.6	4.4	5.7	3.6	2.2	-1.3	1.5	2.4	1.9
Net credit to government	24.3	2.4	5.0	4.9	8.8	8.9	0.0	4.9	-5.2	2.2	-3.1	-3.0
Net credit to the private sector	2.1	-1.2	2.7	0.9	-0.6	-1.4	2.9	0.1	3.7	-0.5	5.6	5.0
Other items, net	-0.6	-1.1	-2.3	-2.2	-4.4	-2.2	0.7	-2.7	0.2	-0.1	-0.1	-0.1
Broad money	-4.6	-0.4	8.1	6.3	10.2	11.0	8.1	7.9	7.1	8.6	7.3	7.2
Velocity (GDP/broad money)	4.4	4.6	4.6	4.8	4.7	4.6	4.4	4.4	4.3	4.1	4.0	3.9
(Percent of GDP)												
Broad money	22.9	21.7	21.7	20.7	21.3	21.9	22.9	22.7	23.3	24.3	25.0	25.5
Private bank deposits	12.7	12.0	12.1	11.7	12.0	12.3	12.6	12.6	12.9	13.5	13.9	14.1
Net credit to the private sector	15.4	14.4	13.8	13.0	12.6	12.8	14.1	13.4	13.7	13.0	13.8	14.3

Sources: BEAC; and IMF staff estimates.

[1] Data on the commercial banks' foreign liabilities have been revised to include the medium- and long-term liabilities (hitherto reported in the other items, net).

[2] Refers to the projections published in the IMF Country Report No 19/215

Table 7. CEMAC: Summary Accounts of the Central Bank, 2016–23

(Billions of CFA francs, unless otherwise indicated)

	2016 Est.	2017 Est.	2018 Est.	2019 June CR 19/215[2]	2019 June Est.	2019 Sept. Prel.	2019 Dec. CR 19/215[2]	2019 Dec. Proj.	2020 June Proj.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
Net foreign assets	2,254	2,131	2,379	2,420	2,830	2,565	2,963	3,132	3,489	4,117	5,063	5,751	6,557
Assets[1]	3,093	3,218	3,777	3,887	4,279	4,081	4,714	4,801	5,225	6,095	7,154	7,899	8,569
Unallocated	744	638	453	450	409	501	413	413	413	413	413	413	413
Cameroon	1,406	1,770	2,004	1,960	2,254	2,016	2,055	2,198	2,418	2,315	2,399	2,510	2,575
CAR	157	206	215	220	223	209	266	255	272	288	326	360	390
Congo	452	216	250	240	389	457	417	461	600	713	1,014	1,137	1,233
Gabon	500	537	766	845	803	699	1,107	1,113	1,080	1,621	1,930	2,205	2,512
EG	15	-31	-5	25	100	73	196	101	137	359	577	739	803
Chad	-181	-117	93	146	101	125	260	260	306	384	495	536	643
Of which:													
Operations account	1,156	2,552	3,360	2,915	3,827	3,637	3,300	3,361	3,658	3,657	3,577	3,950	4,284
Liabilities	-839	-1,088	-1,398	-1,467	-1,450	-1,516	-1,751	-1,669	-1,736	-1,978	-2,091	-2,149	-2,012
Unallocated	-18	-17	-16	-16	-16	-16	-16	-16	-16	-16	-16	-16	-16
Cameroon	-301	-448	-529	-566	-553	-569	-602	-604	-649	-649	-649	-649	-616
CAR	-119	-132	-163	-161	-161	-181	-174	-190	-197	-204	-219	-229	-215
Congo	-126	-96	-89	-93	-85	-111	-140	-114	-148	-218	-295	-347	-344
Gabon	-129	-230	-348	-351	-354	-358	-462	-420	-355	-497	-477	-439	-383
EG	-26	-24	-26	-26	-26	-26	-80	-49	-73	-97	-144	-191	-184
Tchad	-121	-140	-227	-254	-254	-254	-276	-277	-298	-298	-291	-278	-254
Net domestic assets	1,858	2,066	2,316	2,196	2,112	2,205	1,763	1,861	1,646	1,163	892	576	98
Net credit to government	1,645	1,946	2,209	2,236	2,100	2,297	1,983	2,121	1,724	1,306	1,364	909	375
Claims	2,647	3,261	3,571	3,629	3,567	3,687	3,809	3,818	3,600	3,705	4,159	3,943	3,586
Advances and consolidated debt	2,446	2,770	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,891	2,711	2,477
IMF credit	201	491	798	856	794	914	1,037	1,045	827	932	1,268	1,232	1,109
o.w. Cameroon	50	191	268	309	262	306	341	342	387	387	387	387	354
Central African Republic	70	87	117	114	115	134	128	144	-151	-158	173	183	169
Chad	75	97	183	204	184	212	227	256	277	277	271	257	233
Congo, Republic of	6	4	2	2	2	28	53	27	62	131	209	261	258
Equatorial Guinea	0	0	0	0	0	0	-55	-24	-48	-71	-119	-165	-158
Gabon	0	111	228	228	229	235	342	300	300	367	348	310	254
Government deposits	-1,002	-1,316	-1,362.6	-1,393.1	-1,467.0	-1,390.9	-1,827	-1,697	-1,876	-2,398	-2,796	-3,034	-3,211
o.w. Unallocated	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Cameroon	-299	-656	-556	-543	-653	-604	-596	-611	-665	-643	-629	-702	-661
Central African Republic	-35	-45	-39	-43	-59	-51	-43	-60	-64	-42	-50	-46	-38
Chad	-77	-93	-227	-184	-137	-114	-180	-178	-203	-180	-212	-221	-292
Congo, Republic of	-206	-93	-64	-79	-95	-119	-213	-213	-203	-430	-683	-749	-832
Equatorial Guinea	-177	-114	-156	-244	-323	-278	-322	-196	-247	-370	-421	-454	-438
Gabon	-208	-315	-315	-299	-199	-225	-472	-438	-493	-733	-799	-861	-949
Net claims on financial institutions	628	440	432	259	281	243	80	75	256	92	-237	-98	-43
Other items, net	-415	-319	-325	-300	-269	-335	-300	-335	-335	-235	-235	-235	-235
Base money	4,112	4,197	4,695	4,615	4,942	4,770	4,726	4,993	5,135	5,281	5,955	6,327	6,654
Currency in circulation	2,432	2,436	2,577	2,348	2,514	2,550	2,851	2,835	2,916	3,019	3,233	3,470	3,764
Banks' reserves	1,631	1,717	2,050	2,161	2,355	2,158	2,089	2,055	1,839	2,105	2,255	2,392	2,529
o.w. Required reserves	448	442	569	585	665	694	630	707	723	759	828	888	948
Excess reserves	857	977	1,125	1,257	1,392	1,146	1,132	1,026	786	1,001	1,051	1,101	1,151
Cash in vaults	326	297	356	319	299	318	327	321	330	344	376	403	430
Others	48	44	68	106	73	61	-214	103	380	157	468	465	361
Memorandum items:													
Reserve coverage of broad money (in percent)	29.3	30.6	33.2	n.a.	37.2	n.a.	38.4	39.2	41.7	46.4	50.2	51.6	52.3
Base money/deposits (in percent)	50.6	52.0	53.4	n.a.	55.0	n.a.	50.1	53.0	53.4	52.2	54.0	53.5	52.7

Sources: BEAC.

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

[2] Refers to the projections published in the IMF Country Report No 19/215

Table 8. CEMAC: Net Foreign Assets of the Central Bank, 2016–23

(Billions of CFA francs)

	2016	2017	2018	2019	2019	2019	2019	2019	2020	2020	2021	2022	2023
				June	June	Sept.	Dec.	Dec.	June				
				CR			CR						
	Est.	Est.	Est.	19/215[1]	Est.	Prel.	19/215[1]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
BEAC's net foreign assets													
Stock	2,254	2,131	2,379	2,420	2,830	2,565	2,963	3,132	3,489	4,117	5,063	5,751	6,557
Change since end of previous year	-3,294	-123	248	41	448	182	584	753	357	985	946	688	806
o.w. Cameroon	-824	216	152	-81	227	-27	-22	117	175	73	84	110	98
Central African Republic	12	35	-22	7	10	-24	40	13	9	19	23	24	45
Congo	-912	-207	42	-14	139	182	116	189	105	149	224	71	98
Gabon	-630	-64	111	75	30	-78	226	274	31	432	328	313	362
Equatorial Guinea	-712	-43	25	29	104	78	146	82	11	210	170	115	71
Chad	-448	45	123	26	-19	4	117	117	25	103	117	55	131
Unallocated	220	-105	-184	-3	-44	48	-40	-40	0	0	0	0	0

Sources: BEAC; and IMF staff projections.

[1] Refers to the projections published in the IMF Country Report No 19/215

Table 9. CEMAC: Bank Ratings, December 2018

	1	2	3	4	5
Country (number of banks)					
Cameroon (14)	0	4	6	3	1
Central African Republic (4)	0	2	2	0	0
Chad (8)	0	2	1	5	1
Republic of Congo (11)	0	3	5	3	0
Equatorial Guinea (5)	0	2	2	0	1
Gabon (8)	1	2	4	0	1
CEMAC (52)	1	15	20	11	4

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 10. CEMAC: Financial Soundness Indicators, 2010–19

(Percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1	2019 April
Capital											
Regulatory capital to risk-weighted assets[1, 2]	14.8	11.2	12.4	13.0	13.7	14.0	13.4	16.1	16.5	16.7	17.4
Asset quality											
Non-performing loans (gross) to total loans (gross)	6.9	6.8	6.4	8.3	9.1	9.6	11.9	14.6	17.4	19.2	18.6
Non-performing loans less provisions to regulatory capital	7.5	0.2	1.0	25.9	22.4	22.9	35.4	40.9	52.1	55.7	51.9
Earnings and profitability											
Return on equity	18.2	23.9	23.2	27.2	20.3	16.4	23.5	16.4	...	...	...
Return on assets[3]	2.0	2.2	2.1	2.5	2.0	1.7	2.5	1.9	...	...	...
Liquidity											
Ratio of liquid assets to short-term liabilities	188.6	165.2	182.5	150.8	156.3	151.9	141.3	158.2	163.5	178.9	175.8
Total deposits to total (noninterbank) loans	125.7	138.0	145.7	130.4	127.4	111.6	102.3	101.5	104.2	110.6	112.4
Credit											
Gross loan (banks' book) - bn FCFA	4837	5273	5948	7111	7699	8486	8991	8814	9071	8578	8576
Gross loan - annualized growth rate		9.0	12.8	19.5	8.3	10.2	5.9	-2.0	2.9	0.2	-0.02

Source: Banking Commission of Central Africa (COBAC).

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

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

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

Annex I. Response to Past IMF Advice

2018 Regional Consultation Recommendations		CEMAC authorities' Response
Policy mix	• Sizeable fiscal adjustment in each member country.	• Members states have pursued their fiscal consolidation efforts, contributing to a sizeable decline in fiscal deficits in 2018. Some slippages were observed in Cameroon and Gabon in early 2019, but national authorities agreed on strong measures to avoid their repetition, in some case as prior action.
	• Structural reforms to diversify the economy and restore sustained growth.	• The PREF's overall implementation is lagging, with gaps in strengthening governance of tax authorities and improving the business environment.
Monetary policy and safeguards reform	• Consider a tightening of the monetary stance would reserve accumulation fall short of objectives.	• Inflation eased, and reserves accumulation was above objectives; there was thus no need for further tightening.
	• Modernize BEAC's liquidity management and monetary policy instruments.	• The BEAC implemented a complete overhaul of its monetary policy framework. Liquidity management is now based on autonomous factors forecasts; liquidity is being provided through competitive auctions; government securities used as collateral being now subject to differentiated haircuts reflecting the issuing countries' sovereign risks; and the emergency liquidity assistance system fully operational. The BEAC has also gradually tightened its liquidity management and is planning to move to net absorption starting in early 2020.
Macrofinancial linkages and the financial sector	• Put banking supervision on a full risk-basis.	• COBAC's new (2019–21) strategic plan guides future reforms and work programs on the objective to strengthen risk-based supervision.
	• Enhance enforcement of the foreign exchange law prudential rules.	• The BEAC and COBAC have strengthened the enforcement of foreign exchange regulations. COBAC's disciplinary sessions during last 12 months focused heavily on non-compliant banks with the new foreign exchange regulation. Several sanctions (including pecuniary) have been implemented.
	• Deliver resolution of insolvent banks.	• Progress remains limited in this area. While resolution decisions are being adopted, procedures remain long, especially for state-owned banks.
Regional integration and convergence framework	• Strengthen enforcement of the regional surveillance framework.	• Some progress was made. A draft early warning system was prepared and work on sanction scheme for countries non-compliant with the regional convergence framework was initiated. Two countries submitted triennial convergence plans.

Annex II. Risk Assessment Matrix[1]

Source/Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Delays in the implementation of regional reforms	High	
● Weaker implementation of IMF-supported programs or delays in concluding discussions on possible new programs could negatively impact external financing and reserves accumulation, as well as confidence of private investors and households. **Likelihood: medium in the short term**.	● The lack of progress in rebuilding regional reserves amidst uncertainty about program implementation and the possibility of new programs could lead to capital outflows and strain the CFA franc's peg to the Euro. ● The absence of significant progress in public finance and financial sector reforms could further constrain private investment and undermine efforts to diversify the regional economy.	● Communicate strong commitment to program objectives to provide continuity of policy stance even as programs are ending and new programs are still to be discussed.
Weaker-than-expected global growth	Medium to high	
Idiosyncratic factors in the U.S., Europe, China, and stressed emerging markets feed off each other to result in a synchronized and prolonged growth slowdown ● **Europe:** Weak foreign demand, Brexit, or concerns about some high-debt countries makes some euro area businesses delay investment, while faltering confidence reduces private consumption. Inflation expectations drift lower, and the region enters a prolonged period of anemic growth and low inflation. **Likelihood: high in the short to medium term** • **China**: In the near term, further escalation in trade tensions not only reduce external demand, disrupt supply chains, and depresses confidence	● Lower global growth could result in lower demand and commodity prices, resulting in a potentially large terms of trade shock.	● Fast track policies to diversify the growth bases and deepen the regional market. ● Save the windfall in case of higher than budgeted oil prices to create buffers.

[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
and investment, but potentially also trigger tighter financial conditions, a sharp downturn in the property market, renewed PPI deflation, and a drop in commodity prices. In the medium term, weaker external demand, the potential reversal of globalization, and the increasing role of the state could weigh on growth prospects. Moreover, excessive policy easing—reversing progress in deleveraging and rebalancing—increases risks over time of a disruptive adjustment or a marked growth slowdown. **Likelihood: high in the short to medium term**		
Deterioration of the security in the region	**Medium**	
● A deterioration in the security situation or social unrest could affect economic activity and undermine reform efforts (Cameroon, Chad, CAR). **Likelihood: medium to high in the short term**.	● This could undermine the already fragile economic recovery, affect negatively expectations of the private sector, weaken the business environment, and bring capital outflow pressures despite efforts to secure better repatriation of export proceeds.	● Keep effective social dialogue, ensure that priority spending in social sector is protected.
Large swings in energy prices	**Medium**	
Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks translates to elevated price volatility, adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings. While, on aggregate, higher oil prices would harm global growth, they would benefit oil exporters **Likelihood: medium in the short to medium term**	● Oil price uncertainties could delay investment plans and affect growth. If risks related to low growth materialize oil prices could experience a sharp decline, reducing overall growth, reserve accumulation, and oil revenues.	● Fast track policies to diversify growth and deepen the regional market.
Sharp rise in risk premia	**High**	
An abrupt deterioration in market sentiment could trigger risk-off events such as recognition of underpriced risk. Higher risk premia cause higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; disruptive	● This could jeopardize the impact of adjustment policies and external financing on NFA accumulation, given the ensuing build-up of capital outflow pressures.	● Keep focus on regional and national policies to preserve external stability, enhance the implementation of the

Source/Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
corrections to stretched asset valuations; and capital account pressures—all depressing growth **Likelihood: high in the short term**.		foreign exchange law, deepen effort to preserve the stability of the banking sector.
Lack of confidence in implementation of the new foreign exchange regulation	**High**	
A prolonged perception of scarcity of foreign exchange amidst uncertainties regarding the political will and capacity to implement the new foreign exchange law. **Likelihood: medium in the short term**	Uncertainties in this area could trigger a loss of confidence in the monetary arrangement and capital outflow pressures.	Step up outreach effort with the commodity export and banking sectors to clarify all questions on the practical implementation of the new regulation. Also, define and implement a solid communication plans with the public.
Lack of commitment on reforms to enhance governance and improve the business environment	**High**	
Lack of commitment on reforms to enhance governance of public funds and improve the business environment could stall the needed progress towards higher non-oil growth and increased collection of non-oil revenues needed to put the financing of priority spending on a sound basis, as oil production and revenues are set to decline overtime **Likelihood: medium in the short term**	Lack of progress in diversifying the economy and ensuring pro-growth investment would depress job opportunities for a growing and young population, ultimately undermining the foundation for social cohesion.	Ensure inclusive processes and participation of civil society in the definition of key governance reforms and mechanisms to report on progress

Annex III. External Sector Assessment

CEMAC' external position is assessed to be weaker than implied by fundamentals and desirable policy settings at end-2019. The current account deficit improved significantly from 2016 and stabilized between 2018 and 2019 at around 2.5%. In the medium term, the current account deficit is projected to stabilize below 3 percent of GDP, supported by ongoing fiscal consolidation, despite lower oil prices. Reserves have increased more rapidly in 2019 but remain below levels that are deemed appropriate for oil exporting economies according to reserve adequacy metrics. Authorities should keep an adequately tight monetary stance while continuing the full implementation of the foreign exchange regulation to bring reserves to the recommended benchmark of 5 months of imports considered appropriate for a resource-rich currency union.

A. Recent Developments in External Accounts

1. The regional external current account balance has stabilized over 2018 and the first half of 2019 but is expected to remain negative over the medium term (Figure 1). The current account deficit has declined from 4.9 percent of GDP in 2017 to 2.7 percent of GDP in 2018 and projected at 2.5 percent of GDP at the end 2019. Improvements in the current account balance are mainly due to a recovery in oil exports volume and prices further supported by the dollar appreciation against the FCFA. Imports of goods have declined by more than 5 percent GDP between 2016–19 as large fiscal consolidation and an appropriately tight monetary policy reduced domestic demand. Since 2016, the overall current account balance has markedly improved in all countries but is set to remain in the positive territory only for Gabon. In the medium term, the current account deficit is projected to stabilize below 3 percent of GDP, despite lower oil prices, with the continuous impact of fiscal consolidation. As a result, reserves are projected to increase to above 5 months of imports by 2022, from 2.7 months of imports at end-2018.

2. Significant progress on the repatriation of export proceeds with the implementation of the new foreign exchange regulations and disbursements of external budget export have contributed to the acceleration of reserve accumulation. The June 2019 target for net foreign assets was exceeded by more than €800 million. While these progresses are welcome, authorities should not solely rely on the new foreign exchange regulations to shore up external reserves. Rather, the authorities should engage in structural reforms to increase the region attractiveness for foreign direct investment. As the level of FDI have declined significantly over the past three years, restoring confidence will depend on the timely implementation of the macroeconomic policies envisaged in the IMF-supported programs as well as reforms to enhance business climate.

B. Reserves Adequacy

3. CEMAC's reserves coverage has recovered but remains below the level considered appropriate for a natural resource-rich monetary union and necessary to mitigate terms-of-trade shocks. The reserve coverage is expected to increase above 3 months of prospective extra-regional imports by end-2019 (Figure 2). This remains below the benchmark of 5 months of imports considered appropriate for a resource-rich currency union, thus leaving the region somewhat vulnerable to adverse external shocks. In the same vein, the cost-benefit analysis for credit constrained economies with a fixed exchange rate regime indicates that the optimal level of reserves should be even higher, at about 9 months of imports[1], well above current reserve coverage levels. Yet, by end-2019 reserves are projected to be above 60 percent of the IMF reserve adequacy metric, an increase compared to 2016 when they were below 60% of the metric. This is, nevertheless, well below the range of 100–150 percent deemed broadly adequate for precautionary purposes. The reserve adequacy assessment appears to be adequate when considering the broad money and short-term liability ratios (respectively 38 and 158 percent, compared to minimum thresholds of 20 and 100 percent). There are two important caveats. First, as indicated in earlier analysis, this assessment does not consider the guarantee by the French Treasury to cover negative reserves position, which could reduce the need for higher reserves buffer. Second, it does not reflect the impact of a stronger implementation of the new foreign exchange regulation, which could be large even just considering possible foreign holdings of state-owned enterprises participating to the commodity export sector in various forms of partnership with foreign operators. If properly managed, in a transparent and business-friendly way, the new regulation could result in a level shift in the level of CEMAC reserves.

4. Rebuilding reserves buffers in the medium term requires an appropriate policy mix. The reserve coverage is projected to recover gradually in the medium term, on the ground of initial fiscal consolidation and adequately tight monetary policy as structural reforms set the basis for higher and more diversified growth. Data up to August 2019 suggest that BEAC reserves and have been steadily increasing since mid-2018, supported by disbursements of external budget support, boosted by the initial impact of the foreign exchange regulation. According to the BEAC, repatriation volume has increased fourfold since the implementation of the new FX regulation. Reserve are expected to continue to increase during the last part of 2019 to reach a reserve coverage of 3.3 months of prospective extra-regional imports by end-year, and then up to 5.2 months of imports by end-2022 (Figure 3).

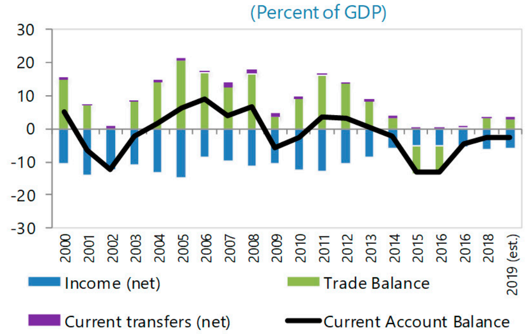
[1] Dabble-Norris, E. J, I. Kim, and K. Shoran, "Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefits Analysis", IMF Working Paper 11/249, 2011

Figure 1. CEMAC: External Sector Developments, 2000–19

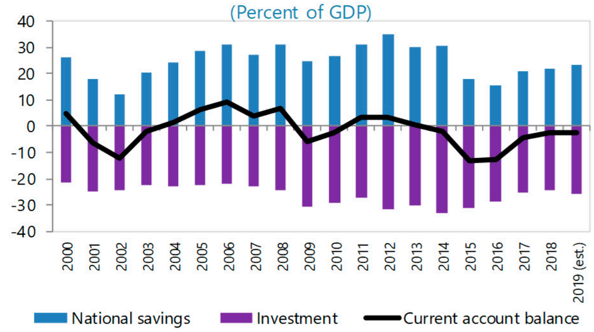
The regional current account balance continue to improve - reflecting the evolution of trade balance, improved terms of trade and ...

... the effect of fiscal consolidation ...

CEMAC: Current Account Balance, 2000–19
(Percent of GDP)



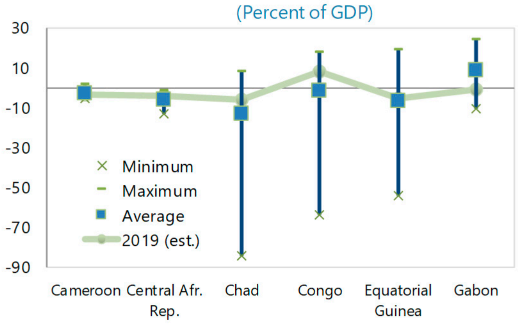
CEMAC: Current Account Balance, 2000–19
(Percent of GDP)



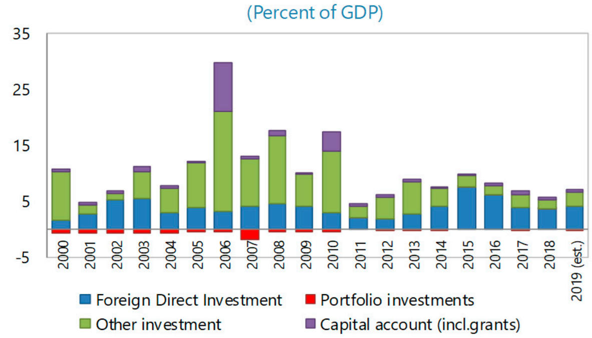
... in several CEMAC countries, including those not yet under IMF-supported programs.

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

CEMAC: Current Account Balances, 2000–19
(Percent of GDP)



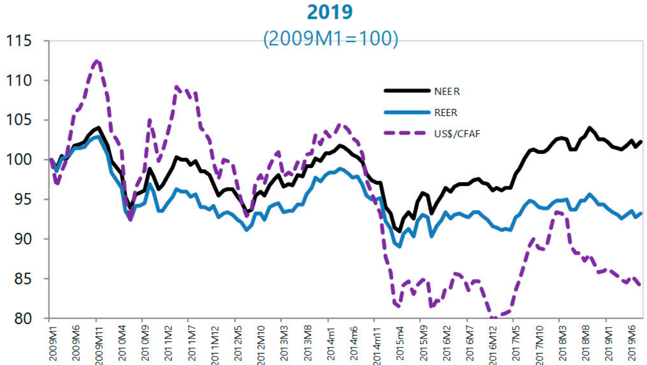
CEMAC: Current Account Financing, 2000–19
(Percent of GDP)



The regional real effective exchange rate has depreciated sligthly reflecting appreciation of the dollar against the euro..

...while inflationary pressures remain subdued in most CEMAC countries.

CEMAC: Real and Nominal Effective Exchange Rates, 2009-August 2019
(2009M1=100)



CEMAC: Real Effective Exchange Rate of CEMAC Countries, 2007–September 2019
(2010=100)

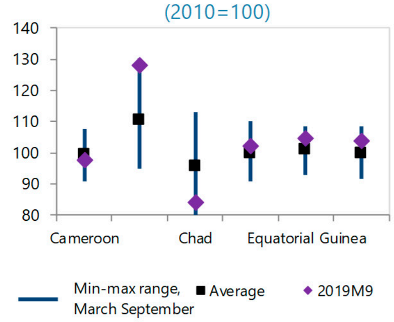
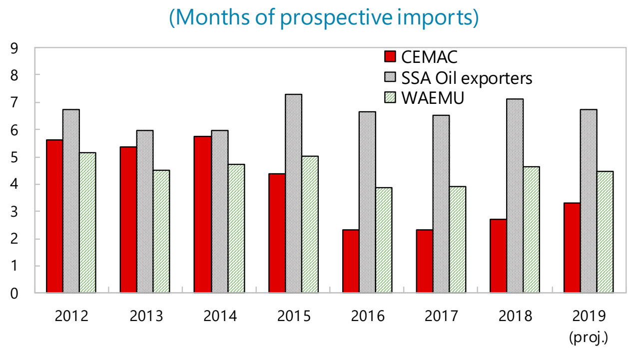
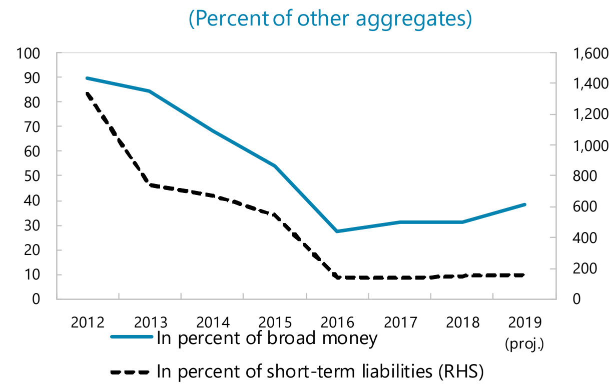


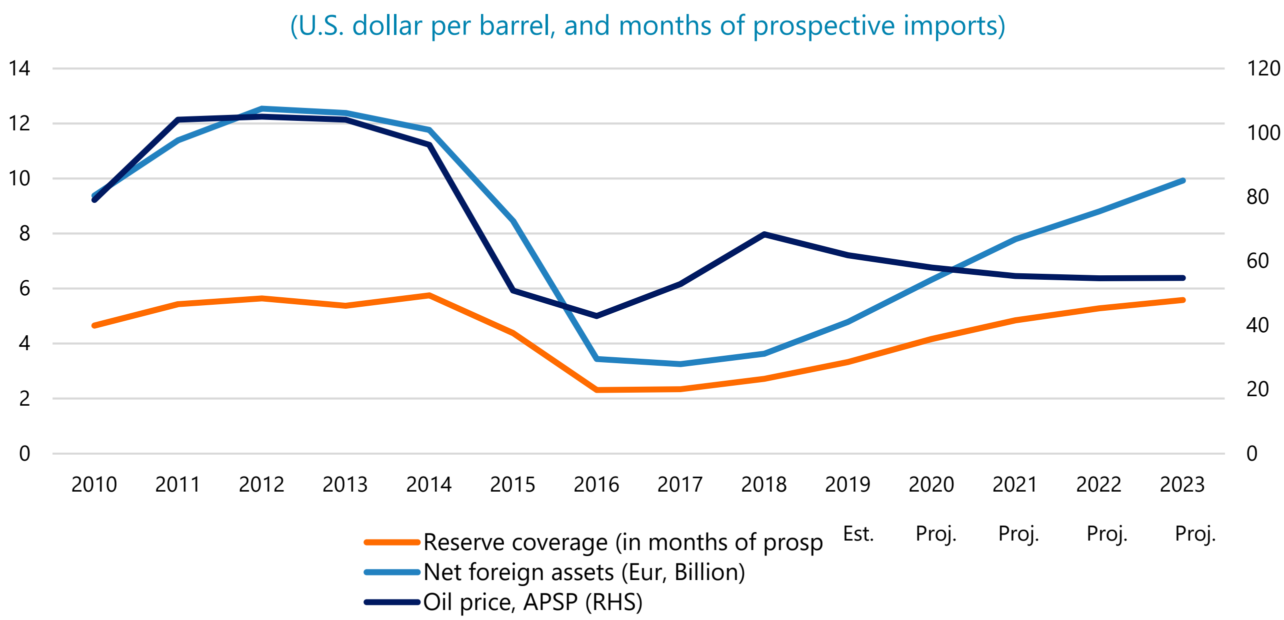
Figure 2. BEAC: International Reserves Coverage, 2012–19





Sources: AFR REO-database and IMF staff calculations.

Figure 3. Oil Price and Reserve Coverage



C. External Sector Assessment

5. The assessments of the 2019 current account and real effective exchange rate (REER) suggest an overvaluation and a weaker external position than implied by fundamentals and desirable policies. The REER has depreciated throughout 2019 (by about 6 percent), reflecting mainly a weakening of the euro vs the US dollar (Figure 1). The approach used to assess the external position was based on 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 an overvaluation of 11.4 percent with the 2019 current account deficit estimated at 2.5 percent of GDP against a norm of 0.3 percent GDP surplus (assuming an elasticity of the current account to REER of -0.25)[2]. The external position at end-2019 is assessed to be weaker than implied by fundamentals and desirable policies[3] despite a positive contribution from the adjustment in the fiscal balance, health expenditures and change in reserves.

EBA lite CA approach

	2019
Current Account Actual	-2.5%
Current Account Fitted	2.8%
Policy Gap	2.6%
of which: fiscal balance	1.0%
of which: health expenditure	1.7%
of which: change in reserves	0.0%
of which: private credit/GDP	0.0%
of which: private credit growth	0.0%
of which: capital control	-0.1%
Residual	-5.4%
Current Account Norm (Fitted-Policy Gap)	0.3%
CA Gap (Actual-Norm)	-2.8%
REER Gap	11.4%

D. Structural Competitiveness

6. 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. Specifically:

- **Progress in doing business ranking is heterogenous** (Figure 4). Between 2015 and 2019, some progress has been achieved in Cameroon, Central African Republic and to a lesser extent Equatorial Guinea, while other countries showed little progress or even a deterioration in the quality of business environment, for example in Chad with a large deterioration in 2019.

[2] The CA norm was estimated by aggregating inputs by country, with weights based on GDP (nominal) for economic indicators and population for demographics. The norm estimated with data up to 2019 shows that given fundamentals, in particular the change in reserves, the current account should be slightly on surplus.

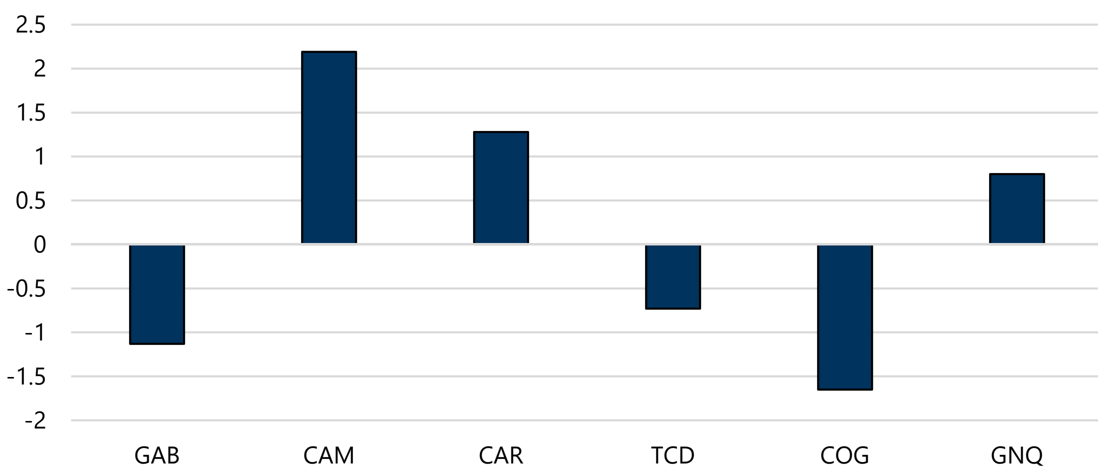
[3] Desirables policies are based on end-programs projections in 2022 and defined as follows: (i) accumulation of reserves is considered not to be below what is needed to achieve the medium-term objective of 5 months of extra-regional imports by 2022; (ii) a fiscal surplus equal to 0.2 percent of GDP, while health expenditure of 2.5% of GDP, and (iii) a private credit to GDP ratio equal to 16 percent and a credit growth of 3.5%.

- **CEMAC countries lag behind their peers in the West African Economic and Monetary Union (WAEMU), although they are comparable to SSA oil exporters** (Figure 5)[4]. The weak performance of CEMAC countries spans across the different sub-components of the overall doing business indicators, with the more pronounced impediments to business in the areas of starting a business, getting electricity, dealing with construction permits, 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.

- **Governance indicators also suggest disappointing performance of CEMAC countries**. CEMAC countries are behind their WAEMU peers and emerging economies according to the World Bank's "Governance Indicators". Moreover, governance is weaker in CEMAC even after accounting for income per capita levels (Figure 5).

Figure 4. CEMAC: Change in Doing Business Distance to the Frontier (2015–19)

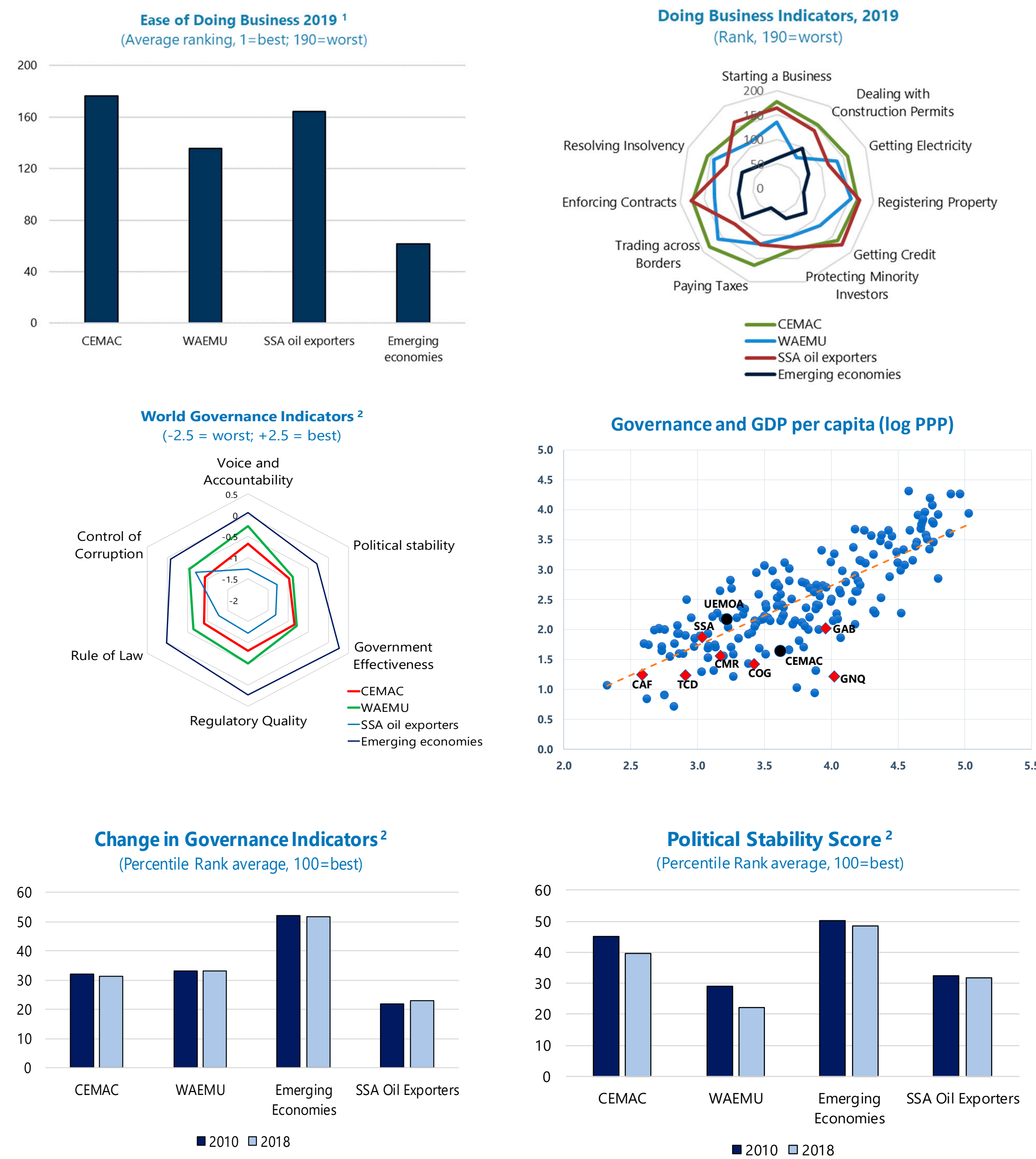
(A positive number indicates an improvement)



Source: World Bank Doing Business Report 2020.

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

Figure 5. CEMAC: Governance and Business Indicators



Sources: World Bank Doing Business Report 2020; World Governance Indicators 2018; 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.

Annex IV. Policy Commitments of the Second Tripartite Meeting

TRIPARTITE METING BETWEEN MEMBER STATES, CEMAC INSTITUTIONS AND THE IMF STAFF

(Yaoundé, October 2nd, 2019)

RECOMMENDATIONS

The second tripartite meeting between the Ministers of Finance and Economy of member countries, CEMAC institutions and staff of the International Monetary Fund (IMF) was held on October 2nd, 2019 in Yaoundé (Republic of Cameroon).

During the meeting, participants assessed performance of the crisis exit strategy, including through the implementation of IMF-supported programs aimed at economic and financial recovery of the community.

Noting to this effect that the sub-regional exit strategy shows encouraging signs of stabilization of the macroeconomic framework, particularly regarding the replenishment of foreign exchange reserves;

Welcoming the entry of Congo into a Fund-supported program, as well as the overall satisfactory implementation of the recommendations of the first tripartite meeting held in Douala and the revitalization of relations between Equatorial Guinea and the IMF;

Stressing, however that the process of restoring macroeconomic balances remains vulnerable to vulnerabilities especially those related to weak economic growth, large domestic government arrears, and the reluctance to implement exchange rate regulation;

Noting further that (i) economic growth in the subregion, initially projected at 3.0% by the BEAC, has been revised down to 2.7% and remains modest, (ii) fiscal adjustments have been mainly driven by reduced spending (iii) the dynamics of non-oil revenues remain below expectations, and (iv) the replenishment of foreign exchange reserves (in months of imports) still requires further improvements;

Noting that, despite the favorable short-term outlook, risk factors could undermine the internal and external balances of the subregion, in particular (i) the improvement in the overall fiscal balance and the balance of payments, (ii) the recovery of external assets and (iii) the resilience of the banking system;

Reaffirming their commitment to accelerate the implementation of the crisis-resolution strategy, in a spirit of community and solidarity, recommend continuing the implementation of the guidelines of the first tripartite meeting, in particular the participants asked:

To Member States:

- Ensure the successful implementation of IMF supported programs, through continued structural reforms and fiscal adjustment efforts to meet agreed targets;
- Equatorial Guinea should make every effort to meet the conditions required for the implementation of an IMF-supported program;
- Commit, at the expiration of their respective programs, to engage in discussions with the IMF to start a new cycle of IMF-supported programs
- To share with the CEMAC Commission, by December 2019 at the latest, their respective national convergence plans aimed at ensuring compliance with the convergence criteria by the 2021 deadline;
- Accelerate efforts to audits the stock of government expenditure arrears and define a credible arrear clearance strategy in line with international standards to reduce the stock of non-performing bank loans;
- Maintain efforts to meet structural benchmarks for the repatriation of export earnings and foreign assets held abroad by state-owned enterprises as agreed under ongoing Fund supported programs;
- To continue support BEAC's efforts in the implementation of foreign exchange regulations, and share the agreements signed with operators in the oil and mining sector by end October 2019;
- To work with the BEAC and COBAC in the implementation of a strategy to reduce outstanding receivables;

To support the Member States in their efforts to end the crisis, Community institutions commit to

At the BEAC Level:

- Pursue outreach to all stakeholders on the appropriate implementation of the new exchange regulations;
- Continue gradual absorption of excess bank liquidity;
- Maintain a tight monetary policy to continue recovery of regional external reserves.

- Establish a coordination platform between the member states and BEAC to strengthen the coordination of debt management.

At the COBAC Level:

- Continue implementation of the new sanction mechanism to member states in breaches of regional surveillance rules.
- Implementation of the new strategic plan
- Accelerate the process of resolution mechanisms for distressed banks in the sub-region.

At the Level of the CEMAC Commission:

- Accelerate common sectoral policy reforms and reinforce regional integration
- Accelerate the implementation of an early warning system for macroeconomic imbalances in the CEMAC region with the support of the World Bank;
- Adopt with member states a system of penalties for the new sanction mechanism for breaches of regional surveillance rules.

In addition, to accelerate crisis resolution and strengthen the resilience of the economies of the subregion, development partners are urged to:

At the IMF level:

- Accelerate the adoption of a Fund supported program with Equatorial Guinea, taking into account efforts made by the country in submitting its application for EITI membership; and, support Member States to improve transparency and management of oil and mining revenues and build capacity to improve monitoring of export; and,
- Initiate a preliminary results assessment of the first round of Fund supported program and start negotiations on new program with a stronger focus on structural reforms and growth objectives;

At the World Bank and the African Development Bank level:

- Disburse financial support on time when conditions are met by Member States;
- Increase the level of budget support to help Member states clear government expenditure arrears.
- Support Member States in strengthening sectoral policies and improve member states doing business rankings and other performance indicators.

To all International Financial Institutions and other Donors:

- Strengthen harmonization of conditionalities for budget support;

At the end of this tripartite consultation, the participants agreed to hold the next tripartite meeting during the first half of 2020. Ministers and Heads of Sub-Regional Institutions reiterated their thanks to the IMF and other development partners for the quality of relations and support provided to Member States.

Cesar Augusto MBA ABOGO

President of the Ministerial Committee of the Central African Monetary Union

Appendix I. Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries

BANK OF CENTRAL AFRICAN STATES

Office of the Governor

Yaounde, November 28, 2019

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
United States of America

Subject: Follow-up to the letter of support for recovery and reform programs undertaken by CEMAC member countries

Dear Madame Georgieva:

This letter is an update of the assurances provided in June 2019 by the community institutions in support of the economic recovery and reform programs undertaken by the member states of the Central African Economic and Monetary Community (CEMAC). It reflects the discussions that took place during regional consultations by IMF staff with the CEMAC institutions from October 24 through November 6, 2019.

I would like to take this opportunity to express to you once again my warm and heartfelt congratulations on your appointment to the prestigious position of Managing Director of the International Monetary Fund. I am also pleased to report to you on the status of measures undertaken by the Bank of Central African States (BEAC) and the Central African Banking Commission (COBAC), as well as those which they are planning to implement in the coming months.

Given an international environment that is increasingly unfavorable, and the significant security challenges still present in the sub-region, the economic situation of the CEMAC countries remains fragile. The overall growth expected for the region in 2019 is 2.5 percent, with a slight improvement in non-oil growth of 2.2 percent compensating for a slowdown in oil growth. The external current account deficit, driven by oil exports and moderate growth in imports, would be kept at around 2.5 percent of GDP in 2019. Average inflation slowed in recent months and is expected to be kept below 2.5 percent this year.

In this context, the fiscal consolidation efforts of member countries, combined with the support measures of the BEAC and COBAC, in particular the tightening of monetary policy and the enforcement of foreign exchange regulations, as well as external financing mobilized under programs with the IMF, have had a positive impact on the development of net foreign assets in the CEMAC. The Congo and Equatorial Guinea have also contributed to the consolidation of macroeconomic stability in the CEMAC through their preparatory work of fiscal adjustment under the prospects of IMF-supported programs, of which that of Congo was approved in July 2019.

Against this backdrop, the June 2019 projection for regional net external assets, endorsed by the IMF Executive Board as a regional policy assurance contained in my letter of June 2019, was exceeded by more than 800 million euros, bringing the coverage of external reserves to the equivalent of 3.3 months of imports.

I am also pleased to inform you of the progress that has been made in the implementation of the monetary and financial policies of the BEAC and COBAC in support of the programs of CEMAC countries.

As for the foreign exchange regulation, following the adoption on December 21, 2018, and entry into force on March 1st, 2019, of the new related Regulation, nine circular letters and a series of 14 application instructions were issued in June 2019 with a view to completing the basic legal framework. Likewise, a number of communication actions to explain the foreign exchange regulation and to inform all the economic agents of the implications related to its effective implementation, in particular their obligations, were carried out, including with support by the World Bank under the project to strengthen the capacity of CEMAC financial institutions (BEAC, COBAC, and the Task Force on Money Laundering in Central Africa, or GABAC). Continuing efforts on the part of BEAC staff have also allowed for an improvement in the speed of processing requests for foreign currency transactions. This is why we will continue to work towards the optimization of our procedures and information systems in order to guarantee a processing time of 48 hours at the most to facilitate the flow of external transactions.

Consultation sessions have also been held with operators in the mining and oil sectors in the six member states in an attempt to resolve sticking points in the application of the regulations for these sectors. We intend to continue the technical dialogue with oil and mining companies in order to ensure effective compliance with the foreign exchange regulations while supporting the development of their activities. To this end, with assistance from the World Bank, we will be hiring a consulting firm to facilitate discussions with the oil and mining companies. We also issued a decision to extend the deadline for these companies to fully comply with the regulations until end-2020 to allow for an additional period of one year to find ways for an even-handed and transparent implementation of the regulations to all this economic sector. We are also counting on the commitments made by the CEMAC member countries within the context of their programs with the

IMF to make available to the BEAC and the CEMAC Commission all of the contracts concluded with operators in the extractive industries in order to ensure their compliance with the foreign exchange regulations and to undertake revisions of their national regulations if they are inconsistent with the former.

As for monetary policy, it will continue to be focused on the goal of ensuring the currency's internal and external stability. To this end, the monetary policy stance will remain tight and we will pursue actions aimed at optimizing the management of bank liquidity based on the new operational framework that took effect in June 2018.

The excess liquidity of the banking system has increased over recent months primarily as a result of autonomous liquidity factors, driven by changes in net foreign assets. We believe, however, that this excess liquidity, held by banks that have relatively prudent lending policies, does not pose a significant risk of inflationary pressure or a risk to the CEMAC's external position at this time. The reforms to implement treasury single accounts should also contribute to a reduction in excess liquidity over the medium term.

In this context, the BEAC remains committed to the gradual implementation of neutral liquidity allocation to achieve the objective of the currency's external stability. Up until the end of the year we will continue the gradual process of reducing injections of liquidity, the pace of which accelerated over recent months, and as of January 2020 we will initiate operations to absorb liquidity. At the same time, we will conduct a review of the available instruments, including required reserves, to refine and operationalize the surplus liquidity absorption strategy. This approach should lead us to an improvement in the monetary policy transmission channels, thereby allowing for better fulfill our statutory functions.

With the aim of reducing dependence on refinancing from the Central Bank, a new instruction applicable to counterparties that are dependent upon Central Bank refinancing was also adopted in June 2019. We will notify the three banks identified of the need to submit credible cash-flow recovery plans within one month in order to reduce their dependence within a period of two years. This framework will be implemented by the BEAC, with the support of COBAC, in accordance with the Monetary Policy Committee's decision.

As for banking supervision, the priority actions of the General Secretary of COBAC in the coming months concern in particular the reform of processes and tools in order to put into place modern risk-based supervision, strengthen of controls related to the implementation by the supervised entities of the regulations on combating money laundering and the financing of terrorism of CEMAC, and update certain prudential rules. We will also measure the risks to financial stability posed by the accumulation of domestic government arrears. The General Secretary COBAC will undertake, as soon as triennial convergence plans are received, work to support and facilitate a reduction in nonperforming loans, in particular to ensure that repayment plans for domestic arrears have a positive impact on banks' balance sheets.

All of these measures, combined with fiscal consolidation programs of the member states, aiming to ensure the successful implementation of their programs with the IMF, the pursuit of efforts aimed at foreign exchange regulation, and budgetary support from development partners, with the conclusion of agreements for programs in Equatorial Guinea and the Central African Republic, should promote the strengthening of net foreign assets and allow for the initial target of 4.50 billion euros at end-2019 to be exceeded and reach 4.70 billion euros. The continuation of the policies that have been undertaken should also allow to strengthen our net external assets in 2020, which could reach 5.20 billion euros at end-June 2020.

I would like to point out that the achievement of these targets depends not only on the actions of the BEAC, but also on the satisfactory implementation of the fiscal consolidation programs and structural reforms of the CEMAC countries. The timely disbursements of budget support by our external partners, including other (non-project) external financing, projected at 0.98 billion euros in the second half of 2019 and 0.18 billion euros in the first half of 2020, will also be essential for the achievement of these targets.

I am also pleased to inform you of the success of the second semi-annual tripartite meeting in which the CEMAC countries' national authorities participated, along with the major regional institutions and IMF staff. During this meeting, which was held on October 2, 2019, the national and regional authorities committed to adhere to the non-oil budget targets set under the programs supported by the IMF; to speed up the audits of the stock of public arrears and to define strategies for a reduction in these arrears; to continue efforts to ensure the rapid and regular repatriation of earnings from commodity exports and assets held abroad by state-owned enterprises; and finally, to support the BEAC in the implementation of the foreign exchange regulations, in particular through the transmission of mining and oil production contracts. The third tripartite meeting will be held in the first half of 2020.

The BEAC and COBAC will maintain their efforts to ensure close monitoring of the development of programs in CEMAC countries and will continue to work in close cooperation with IMF staff to support the regional strategy.

I remain available to work alongside the IMF and the CEMAC member states with the aim of achieving the restoration of macroeconomic balances in the sub-region. Please accept, Madame Managing Director, the assurances of my highest consideration.

/s/

Abbas Mahamat Tolli

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

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

November 27, 2019

Prepared By

The African Department
(In Consultation with other Departments)

CONTENTS

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 the obligations of Article VIII, Sections 2, 3 and 4 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. On July 17, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fourth review of the arrangement under ECF for Cameroon. The completion of the review enabled the disbursement of SDR 55.2 million (about US$76.2 million), bringing total disbursements under the arrangement to SDR 372.6 million (about US$514.5 million). The last Article IV Executive Board Consultation was on July 6, 2018. Cameroon is on a 24-month consultation cycle.

Central African Republic. The three-year under the Extended Credit Facility (ECF) arrangement for the Central African Republic was approved by the Executive Board on July 20, 2016 for in the amount SDR 83.55 million (about US$116.5 million, 75 percent of Central African Republic's quota at the IMF). The ECF arrangement was subsequently augmented twice by the Executive Board to a total amount of SDR 133.68 million (about $123.7 million, or 120 percent of CAR's quota in the Fund). The arrangement expired on July 20, 2019. The last Article IV Executive Board Consultation was on December 19, 2018. Central African Republic is on a 12-month consultation cycle

Chad. On June 30, 2017, the Executive Board 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 July 3, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fourth review of Chad's economic and financial program supported by an ECF arrangement. Completion of the review enables the disbursement of SDR 28.04 million (about US$38.9 million), bringing total disbursements under the arrangement to SDR 168.24 million (about US$233.1 million). The last Article IV Executive Board Consultation was on July 3, 2019. Chad is on a 24-month consultation cycle.

Republic of Congo. On July 11, 2019, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under its Extended Credit Facility (ECF) with the Republic of Congo for SDR324 million (about US$448.6 million, or 200 percent of the Republic of Congo's quota in the Fund) to support the country's economic and financial reform program 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. On May 10, 2018, the Managing Director of the International Monetary Fund (IMF), approved a SMP for Equatorial Guinea, covering the period January–July 2018. The last Article IV consultation was on August 29, 2016.

Gabon. On June 19, 2017, the Executive Board approved a three-year extended arrangement under the Extended Arrangement under the Extended Fund Facility 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. On December 19, 2018, the Executive Board of the International Monetary Fund (IMF) completed the third review of Gabon's economic program supported by an extended arrangement under the Extended Fund Facility (EFF). Completion of the review enabled the immediate disbursement of SDR 71.43 million (about US$99 million). This brought total disbursements under the arrangement so far to SDR 285.72 million (about US$395.9 million). 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 assessment (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. The focus subsequently shifted 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. The implementation of most of the recommendations has progressed broadly as planned, and staff maintains close engagement with the BEAC as it continues to implement 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. All members of the CEMAC have accepted the obligations of Article VIII, Section 2, 3 and 4.

Article IV Consultation discussions

Following Executive Board decisions in January 2006, discussions with monetary unions have been formalized and are part of the Article IV consultation process with member countries. The consultation discussions reported in the companion staff report are thus in relation with

Article IV consultations with each of the six CEMAC member countries. The Executive Board concluded the last Article IV consultation discussion on common policies of CEMAC members on December 17, 2018. Such Article IV consultation 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.

Technical Assistance to the Bank of the Central African States, 2011–19

September 2019: AFW/AFC/MCM Regional Seminar on Cybersecurity in the banking sector

September 2019: AFC Roadmap for Basel framework Implementation

September 2019: AFC Methodological guidance for on-site control of credit risk

June 2019: MCM Extension of Resident Advisor at BEAC on Monetary Operations

June 2019: AFC/SPR/WB Joint Regional Seminar on Public Debt Management

April 2019: AFC Methodological guidance on on-site control of liquidity risk

February 2019: AFC Upgrading the supervisory process of fragile microfinance institutions

January 2019: AFC Banking Regulation and Supervision Seminar on the Supervision of Governance in Credit Institutions

September 2018: MCM TA on Central Bank Communications

July 2018: AFC Public Debt Management Regional Seminar

July 2018 : AFC Banking Regulation and Supervision Seminar

June 2018: MCM Resident Advisor at BEAC on Monetary Operations

May 2018: MCM and LEG TA on the Review of Foreign Exchange Regulations

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.

Technical Assistance to the Bank of the Central African States, 2011–19 (concluded)

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, 2011–19

September 2019: Revise the corporate income tax directive workshop

July 2019: FAD scoping mission on harmonization of tax procedures, functioning of the customs union, and role of the Commission in monitoring implementation of tax and customs rules by Member States.

Mars 2019: Assessment and advice on regional coordination of VAT (follow-up) workshop

Permanent: FAD desk review of Member States' draft law and regulations transposing CEMAC PFM directives

December 2018: Assessment and advice on regional coordination of VAT workshop

August 2018: VAT in CEMAC countries [WFH]

March 2018: Coordination of Excise Taxes

August 2017: FAD TA on CEMAC PFM directives implementation.

July 2017: Coordination of Excise Taxes

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

October 2016: Scoping for advice on domestic tax coordination

June 2016: FAD mission to modernize the CEMAC Customs Code.

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 operations financiers 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. Mohamed-Lemine Raghani, Executive Director for the Central African Economic and Monetary Community (CEMAC) and Mr. N'Sonde, Senior Advisor to the Executive Director

December 13, 2019

On behalf of the CEMAC authorities, we express our appreciation to staff, Management and the Executive Board for the continued support to CEMAC countries and institutions notably in fending off the crisis triggered by the 2014-15 downfall of global oil prices and exacerbated by security challenges.

Under the implementation of Fund-supported programs and pre-program adjustment efforts, significant progress has been achieved by member countries in fiscal consolidation and jump-starting growth, although significant work remains to be done on the structural front to strengthen resilience. These efforts, sustained by regional institutions policies, notably the regional central bank (BEAC), banking supervisory body (COBAC) and CEMAC Commission, have started to yield appreciable results as evidenced in the gradual restoration of macroeconomic stability and rebuilding of external reserves. In addition, the solidary nature of the regional strategy to exit the crisis has advanced, with entry into IMF-supported program of Congo last July and positive prospects for a program for Equatorial Guinea by year-end.

Going forward, the CEMAC authorities intend to pursue their adjustment and reform agenda at both national and regional levels. They are cognizant that recent performance remains fragile considering the global uncertainties and elevated downside risks. Against this backdrop, the Second Tripartite discussions held in Yaoundé on October 2nd, 2019, issued recommendations to stay the course with the regional strategy and take corrective measures as needed.

Encouraged by the progress made thus far and aware that the sub-region is at a cross-roads, CEMAC Heads of State and government, in their Extraordinary Summit of November 22, 2019 held in Yaoundé, have reiterated their firm commitment to maintain the reform momentum in a collective and solidary manner, with a view to reinforce macroeconomic stability, boost growth and strengthen the external viability of the monetary and economic union.

Recent Developments and Prospects

While economic activity has remained below pre-crisis levels, overall regional growth has increased to reach 2.5 percent in 2018, with non-oil growth standing at 1.8 percent. The somewhat subdued activity is attributable to fiscal consolidation—which has been geared in large part towards investment reduction—the impact of domestic arrears on private sector activity, and security problems in some countries. Growth is expected to remain at this level in 2019 with however a pick-up in non-oil growth. Inflation which rose to 3 percent on the back of food supply shocks in some countries and price adjustments to reduce subsidies, decelerated to below 2 percent (y-o-y) at end June and should remain subdued at year-end.

CEMAC countries have pursued strong fiscal adjustment efforts throughout 2019. Indeed, in the first half of 2019, fiscal deficit targets have been met thanks to some progress made in revenue mobilization—albeit below expectations—and strong expenditure reduction. Non-oil fiscal deficit as a percentage of non-oil GDP continues to decline, albeit difficulties in some countries which have been promptly corrected. The overall fiscal deficit is also anticipated to improve by around 1 percent of GDP, in line with projections, to reach a position close to balance. These fiscal policy efforts have helped bring the regional public debt-to-GDP ratio down to slightly below 50 percent.

BEAC has continued a tight monetary policy stance since its decision in October 2018 to increase its policy rate by 55 basis point, with a view to sustain the accumulation of external reserves The Monetary Policy Committee maintained the rate at 3.5 percent at its November 2019 meeting. The central bank adopted a gradual approach to reducing liquidity injections even though excessive liquidity in the banking sector could not be significantly lowered owing to autonomous factors and very prudent lending practices on the part of banks. This gradual approach has nevertheless pushed the weighted average auction rate up and improved banks' use of the marginal lending facility.

External current account deficits have continued to improve to 2.6 percent of GDP in 2018 against 4.6 percent in 2017 and should further decrease in 2019. Gross reserves have accumulated to a level covering 3.3 months of imports of goods and services, on the back of the restrictive macroeconomic policy mix, enhanced enforcement of foreign exchange regulations, and relatively stable oil prices.

BEAC and COBAC have met all their policy assurances provided in June 2019 in support of CEMAC country programs, notably: (i) the implementation of the enhanced foreign exchange regulations; (ii) the implementation of tight monetary policy; (iii) continued modernization of the monetary policy operational framework, with a new framework for private claims accepted as collateral in refinancing operations and the recently-adopted regulation setting a sanction framework for BEAC's counterparties; and (iv) the achievement of the June 2019 regional target on net foreign assets (NFAs), which has been largely exceeded.

Pursuing the Regional Strategy

Looking forward, the medium-term outlook in CEMAC remains favorable, with notably: (i) growth expected to reach 3.5 percent in 2020 and 2021, pulled by non-oil activity; (ii) inflation projected to remain below the 3-percent convergence threshold over the medium term; (iii) a gradual decline in public debt-to-GDP ratios to reach an anticipated regional average below 40 percent by 2023; (iv) a narrowing of external imbalances slightly deteriorating on the grounds of reduced oil export receipts and increased imports in line with non-oil GDP growth; and (v) steady increase in regional NFAs and reserves, which would attain 5 months of import coverage by 2022.

Our CEMAC authorities are mindful of the fact that these positive prospects are predicated on member countries' staying the course with their program objectives, especially the pursuit of reductions in the non-oil primary fiscal deficits notably through non-oil revenue mobilization; the progressive repayment of domestic arrears and improvements in governance and the business climate to foster confidence and support non-oil activity; and strict enforcement of foreign exchange regulations. Support to balance-of-payments needs under Fund-supported programs and budgetary assistance by other development partners will also carry weight.

At the country level, our authorities commit to: (i) adhere to non-oil budget targets under their respective Fund-supported programs; (ii) accelerate the audits of the stock of public arrears and set up strategies to reduce these arrears; (iii) maintain efforts to achieve a prompt and regular repatriation of commodity export earnings and assets held abroad by state-owned enterprises; and (iv) support BEAC's implementation of the new foreign exchange regulation, notably through the transmission of mining and oil production contracts to the central bank.

At the regional level, BEAC is committed to preserve a tight monetary policy stance to support reserves accumulation and contain inflation to ensure the currency's internal and external stability. It will also issue by the end of the year additional guidelines to revise eligibility criteria for accessing money market operation and define its own intervention procedures. Regarding liquidity management, the central bank will continue to favor a gradual reduction of liquidity injections and will conduct initially small absorption operations in January 2020. It stands ready to recalibrate absorption instruments after evaluating the initial feedback of absorption operations and the effect of the single treasury account reform in some member countries which are expected to reduce excess liquidity in banks.

As stated in the BEAC's Follow Up to the Letter of Support to the Recovery and Reform Program Undertaken by the CEMAC Member Countries (Appendix I to the staff report), the central bank has issued specific measures to operationalize the enhanced foreign exchange regulations and will continue its outreach efforts to promote its smooth implementation. In particular, consultation meetings are being held with operators in the extractive sectors in the six countries to explain the regulation and will continue dialogue as needed. In addition to transmission of mining and oil contracts, BEAC is also requiring member countries to revise their national regulations as necessary to align them with the regional regulations.

In spite of a stabilization in the quality of banks' portfolio, non-performing loans (NPLs) remain a source of concern in CEMAC. In addition, the solvency and liquidity ratios of banks have deteriorated somewhat since end 2018. Against this backdrop, the regional banking commission COBAC views risk-based supervision as essential to ensuring financial stability. The Secretariat General of COBAC (SG-COBAC) has defined its priority actions for the coming months, which are embedded in its 2019-2021 strategic plan and centered around overhauling processes and tools to implement such a modern supervision, modernizing prudential norms and stepping up efforts against money laundering and terrorism financing. The SG-COBAC is addressing head-on NPLs and promoting the repair of banks' balance sheets by notably requiring troubled banks to submit an NPL reduction plan and continuing to prepare the transition to Basel II/III and IFRS standards.

The regional development bank (BDEAC) underscored efforts in its improving governance and advancing internal control reforms, including the operationalization of the audit committee. This progress should contribute to strengthening its financial health and reinforce its financial independence vis-à-vis central bank.

The CEMAC Commission puts value in strengthening its regional surveillance framework notably to ameliorate member states' compliance with convergence criteria, and, in this connection, it is requiring member countries to submit a triennial convergence program and credible domestic arrears clearance plans by end-2019. It is also elaborating a binding sanction scheme applicable in cases of breach of norms, which first draft could be ready in early 2020, In addition, an early warning tool to detect macroeconomic imbalances in a promptly manner is in preparation, with the assistance of World Bank and IMF.

The regional authorities consider bolstering economic diversification and regional integration as critical to enhance resilience and sustain growth. The regional reform program (PREF-CEMAC) envisions a strict compliance of extractive industries with the regional directives on transparency and measures to improve the business environment. The CEMAC Commission appreciate the reform priorities discussed with staff, notably pertaining to governance, the business climate, the contribution of the financial sector to private sector development and financial inclusion, regional taxation and internal barriers to trade.

Conclusion

Our CEMAC authorities remain committed to the regional strategy to exit the crisis. This strategy, which is fully supported by the Fund and other partners has started to bear fruit. The authorities have provided new policy assurances to support member states' actions to strengthen macroeconomic stability and the stability of the currency union. They appreciate Fund's continued support to all member countries of CEMAC and continue to stress the importance of timely disbursements of budget assistance committed by other external partners.