IMF Country Report No. 19/1

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

January 2019

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 17, 2018, following discussions with regional institutions that ended on November 2, 2018. Based on information available at the time of these discussions, the staff report was completed on December 5, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director.**

The document listed below will be separately released.

Selected Issues

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International Monetary Fund
Washington, D.C.

Press Release No. 18/478
FOR IMMEDIATE RELEASE
December 18, 2018

International Monetary Fund
Washington, D.C. 20431
USA

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

- Continued efforts by CEMAC member states and regional institutions have helped avert an immediate crisis but the regional economic situation remains challenging.
- Member states and regional institutions will need to fully implement their policy and reform commitments to restore the region's external stability and achieve higher and inclusive growth.

On December 17, 2018, 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.

CEMAC's economic situation remains challenging. Economic growth in the region, which declined substantially after the oil price slump of 2014, remains sluggish and has not yet picked up as expected. Non-oil growth is projected to decline in 2018 to 1.0 percent (from 2.6 percent in 2017). A larger-than-expected rebound in oil GDP (+7.3 percent) would nevertheless contribute to an increase in overall growth, from 1.0 percent in 2017 to 2.2 percent in 2018. While increasing, inflation would remain low, at about 2 percent at end-year. The situation of the banking sector remains difficult, owing to large government arrears. Non-performing loans continued to rise to 17 percent at the end of September 2018, while several banks continue to fail to meet certain prudential ratios.

The Bank of Central African States' (BEAC) net foreign assets were lower than expected at end-September and are expected to remain so until the end of the year, despite rising oil prices and the efforts of BEAC and the Central African Banking Commission (COBAC) to strengthen the enforcement of foreign exchange regulations. This largely owes to delays in the adoption of IMF-supported programs and of the disbursement of the related external budget support with Congo and Equatorial Guinea. At the same time, the budgetary efforts of countries with IMF-supported programs are broadly in line with expectations. For the region as a whole, the non-oil deficit at the end of 2018 should be in line with expectations, while the overall balance would exceed expectations on account of higher oil revenues.

The medium-term outlook continues to see a gradual improvement in the economic and financial situation. Reforms to improve the business environment and governance and strengthen the financial sector, along with a lower drag from fiscal adjustment and the repayment of government arrears would contribute to the gradual recovery of non-oil growth, to 4½ percent by 2021. The overall fiscal balance (excluding grants) would be close to balance from 2019 onward, reflecting a further reduction in the non-oil primary fiscal deficit. Public debt would decline significantly, from almost 50 percent of GDP at end-2018 to less than 44 percent of GDP by end-2020. A further decline in the current account deficit to around 1½ percent of GDP in 2018-20 (compared to 4 percent of GDP in 2017) would contribute to a gradual accumulation of reserves, with reserve coverage reaching almost 4 months of imports by 2020. This outlook is predicated on the full implementation of policy commitments by CEMAC member states and regional institutions and is subject to substantial downside risks, including: further delays in the approval of financial arrangements with the Republic of Congo and Equatorial Guinea; lower oil prices; and tighter global financial conditions.

Executive Board Assessment:

"Executive Directors noted that progress under the regional strategy helped avert an immediate crisis but that the strategy has yet to fully deliver on its objectives, with underperforming regional reserves and still sluggish non-oil growth. Directors stressed that improvement in the regional economic and financial situation over the medium term depends critically on full implementation of policy commitments by CEMAC member states and regional institutions and adoption of Fund supported programs by the Republic of Congo and Equatorial Guinea. Directors urged the authorities of these member countries to redouble their efforts to meet the preconditions for a Fund arrangement.

Directors urged CEMAC national authorities to continue to implement strictly their fiscal consolidation plans and promptly address any fiscal slippages. This is critical to rebuilding adequate fiscal and reserve buffers and putting public debt firmly on a declining path. Directors stressed the need to improve the quality of consolidation by enhancing non-oil revenue mobilization. They also emphasized the importance of finalizing and implementing arrears repayment plans. Member states must also support BEAC and COBAC's enforcement of the foreign exchange regulations, including by enhancing transparency in extractive industries, and ensuring the domiciliation of export proceeds and the repatriation and surrender of foreign assets by all public entities.

Directors welcomed the corrective actions implemented to address NFA underperformance, especially the increase in BEAC's policy rate and the enforcement by COBAC and BEAC of banks' foreign exchange position limits. Directors also welcomed the substantial progress toward completing the modernization of the monetary policy operational framework and the drafting of new foreign exchange regulations, which, as they become fully effective, will help strengthen monetary policy transmission and contribute to bringing NFA accumulation back on track.

Directors considered that, following the recent tightening, the monetary policy stance appears adequate, but stressed that BEAC should stand ready to tighten it further if required to support the regional strategy. They also encouraged BEAC to pursue its efforts to develop the interbank market, including by further reducing excess liquidity.

Directors encouraged the Secretariat General of COBAC (SG COBAC) to make risk-based supervision the focal point of its 2019–21 strategic plan, which should also aim at strengthening the supervisory framework and tools, ensuring prompter resolution of distressed banks, and prompting banks to prepare and implement NPL reduction plans. Reinforcing SG COBAC's human resources would be key to meeting these objectives.

Directors noted that a poor business environment and high perception of corruption continue to hinder growth. They encouraged the national and regional authorities to intensify efforts to restore sustained inclusive growth and foster diversification, including by improving governance, public financial management, and AML/CFT supervision; promoting regional integration; and supporting the development of financial markets.

Directors noted the substantial progress made by BEAC and COBAC against policy assurances provided in the June 2018 follow up Letter of Policy Support on: (i) completing the modernization of the monetary policy operations framework, and (ii) submitting for adoption to the UMAC ministerial committee revised foreign exchange regulations, both of which are expected by end 2018. They considered that BEAC and COBAC have taken satisfactory corrective measures to address the end June 2018 NFA underperformance. They further endorsed the updated policy assurances outlined in the December 2018 follow up Letter from the BEAC Governor on achieving the projected 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 Fund supported programs. Directors emphasized that implementation of these policy assurances continues to be critical for the success of Fund 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. It is expected that the next discussion of CEMAC common policies will be held on the standard 12-month cycle."

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

December 5, 2018

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

KEY ISSUES

Context and risks. The regional strategy has helped to avert an immediate crisis but continues to face headwinds: two countries have yet to enter financing arrangements with the Fund: regional reserves have underperformed despite higher-than-projected oil prices; the projected recovery of non-oil growth has still to materialize; and the security, social, and political context remains challenging.

Consistent with the policy assurances it had provided, the BEAC has taken corrective actions, including an increase in its policy rate, to address the NFA underperformance and has made substantial progress toward finalizing by end-year the modernization of the monetary policy operational framework and the drafting of new foreign exchange regulations. A follow-up letter of support provides updated policy assurances on the NFA path.

The medium-term outlook continues to see a gradual improvement in the economic and financial situation but is subject to substantial downside risks, including further delays in the approval of financial arrangements with Congo and Equatorial Guinea, lower oil prices, and tighter global financial conditions. The region continues to face daunting challenges to diversify its economy, with a poor business environment and high perception of corruption.

Policy recommendations

- Member states must continue to implement strictly their fiscal consolidation plans while supporting the BEAC and COBAC's efforts to enforce more strictly the foreign exchange regulations, as both are critical to bringing NFA back to the initially envisaged path.
- With the new monetary policy framework essentially in place, the BEAC needs to focus on reducing excess liquidity and developing the interbank market.
- COBAC's strategic plan for 2019–21 should aim at strengthening risk-based supervision. COBAC should also focus on NPLs reduction, prompter resolution of banks in distress, and stricter enforcement of prudential regulations.
- The national and regional authorities should intensify their efforts to restore sustained inclusive growth, including through: giving more prominence to non-oil revenue-enhancing measures in their fiscal consolidation efforts; supporting the development of financial markets; improving governance; and promoting regional integration.

Approved By
Zeine Zeidane (AFR) and Nathan Porter (SPR)

Discussions were held from October 23–November 2, 2018 in Libreville (Gabon) and Yaoundé (Cameroon). The staff team comprised Mr. Toujas-Bernaté (head), Ms. Perinet, Mr. Martin, Mr. Rosa, (all AFR), Ms. El Gemayel and Mr. Portier (both MCM), and Ms. Balta (SPR). The mission held discussions with Mr. Abbas Mahamat Tolli, Governor of the Central Bank of Central African States (BEAC and Chairman of COBAC); Mr. Fortunato Ofa Mbo Nchama, President (BDEAC); Prof. Clément Belingaba, Commissioner for Economic, Monetary, and Financial Affairs (CEMAC Commission); and other senior officials of these institutions and of the banking sector. 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.

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BACKGROUND AND RECENT DEVELOPMENTS

Background

1. **Two years after its adoption by CEMAC's heads of states, the regional strategy has helped avert an immediate crisis but is not yet fully delivering on its objectives.**[1] Regional reserves have underperformed recently despite higher-than-projected oil prices. Two countries have yet to enter financing arrangements with the Fund, resulting in a good part of the budget support expected by end-2018 being delayed and lower reserves accumulation. Finally, the security, social, and political context is challenging at this juncture, entailing risks of policy slippages. The region's heads of states recognized these difficulties at their October 25 extraordinary summit in N'Djamena, where they reiterated their commitment to the regional strategy and called for its stronger enforcement.

2. **Beyond the present difficulties, the region is facing daunting development challenges over the longer term.** Non-oil growth has not recovered as quickly as expected and remains well below what is needed to provide jobs and income to a rapidly growing population. The diversification of the economy remains an elusive goal, even as oil production is projected to gradually decline over the medium term. These worrying trends stem to a large extent from: a poor business environment; weak governance and high perception of corruption; poor infrastructure and public services; shallow financial markets and low financial inclusion; and limited regional integration.

3. **Existing programs advance broadly satisfactorily but new IMF-supported programs with Congo and Equatorial Guinea are unlikely to be adopted before early next year:**

- Program performances in Central African Republic (CAR), Chad, Cameroon, and Gabon are broadly on track. Reviews under their respective arrangements are scheduled to be discussed by the Executive Board in December. Disbursements of World Bank's budget assistance to a few countries will nevertheless be delayed to early next year.

- The first review under Equatorial Guinea's staff-monitored program was satisfactorily concluded in August. The conclusion of the second review and discussions of a possible financing arrangement under the EFF have been postponed to next year, owing to delays in the completion of two important governance reforms.

- The approval of a new IMF-supported program with Congo has been delayed, pending the provision of explicit financing assurances from external official creditors, including debt relief, which is needed to restore debt sustainability. While progress has been achieved in the implementation of the authorities' structural reform agenda, additional remaining steps needed to bring Congo's request for a three-year arrangement under the Extended Credit Facility to the consideration of the Executive Board include some adjustments to the 2019 draft budget law and implementation of reforms to improve governance and transparency.

[1] The term "authorities" refers to regional institutions responsible for common policies in the currency union and not to the respective member states' authorities, unless specifically identified by the country's name.

4. Progress in implementing the recommendations of the 2017 regional surveillance consultation has been mixed (Annex I). The BEAC has tightened its monetary policy stance and made good strides in modernizing its monetary operational framework, including through the elimination of statutory advances, the establishment of an emergency liquidity assistance system, and providing refinancing through competitive auctions. The COBAC has also started implementing risk-based supervision while strengthening prudential enforcement and taking actions to resolve banks in distress. On the other hand, progress has been limited with regard to the enforcement of the regional surveillance framework and the strengthening of regional integration.

Recent Developments and 2018 Outlook

5. The regional economic situation remains challenging. Economic growth in the region, which declined substantially after the oil price slump of 2014, remains sluggish and has not yet picked up as expected. Non-oil growth is now projected to decline in 2018 (from 2.6 percent in 2017 to 1.0 percent). A larger-than-expected rebound in oil GDP (+7.3 percent) would nevertheless contribute to an increase in overall growth (from 1.0 percent in 2017 to 2.2 percent in 2018). While increasing, inflation would remain low, at about 2 percent at end-year.

6. Reflecting higher oil exports, the external current account and overall balance of payments deficits would decline faster. Reflecting higher oil prices and production, oil exports receipts are projected to increase by 4 percentage points of GDP in 2018. Although imports would also increase, the current account deficit would decline to 1.9 percent of GDP in 2018 (from 4.1 percent in 2017). Despite this adjustment, CEMAC's external position is moderately weaker than implied by fundamentals and desirable policy settings (Annex III). While the overall balance is projected to improve compared with previous projections, the accumulation in net reserves will be lower due to large shortfalls in exceptional external financing stemming primarily from delays in adopting new programs with Congo and Equatorial Guinea.

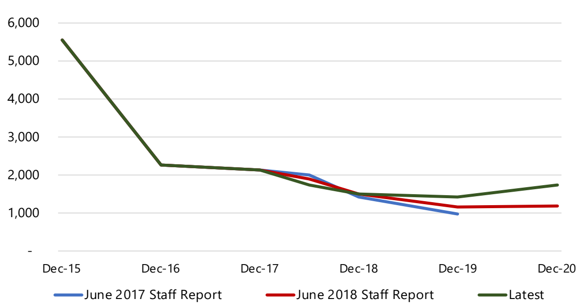
7. Fiscal consolidation efforts are broadly on track in program countries. Cameroon, CAR, and Chad met their end-June and end-September fiscal deficit targets, while Equatorial Guinea met its end-July one. While Gabon missed its end-June deficit target, it did so by a lower margin than estimated at the time of its program's second review, and its end-September indicative target was met. Congo's non-oil deficit was, however, larger than expected owing to lower non-oil revenue and higher current spending. The region's non-oil fiscal balance is expected to broadly meet expectations in 2018, with possible larger deficit in Congo being offset by lower deficit in Gabon while other countries would achieve their program targets. The regional overall balance would, however, exceed expectations on account of higher oil revenue. Moreover, net arrears repayments (actual and projected) remain broadly in line with previous projections in all CEMAC countries.

8. In response to the lower-than-targeted reserves accumulation, which was a policy assurance, the BEAC has taken corrective action by tightening its monetary policy stance and the enforcement of foreign exchange (forex) regulations. End-June NFAs were about € 290 million lower than staff projections, owing to delays in external financing to Cameroon and in Congo's repatriation of it deposits abroad and the slower surrendering to BEAC of net foreign assets accumulated by commercial banks. To address the latter, the COBAC and BEAC strengthened the enforcement of banks forex position limits and sanctioned in September 11 banks in breach of these limits. Reportedly in response, banks reduced their foreign assets position by about CFAF 120 billion (essentially reversing the second-quarter increase) during the third quarter and surrendered these to the BEAC, bringing the banks' NFA back to about CFAF 140 billion, around their historical average. However, the repatriation of foreign exchange receipts by exporters does not appear to have improved. Despite the banks' stronger surrendering, the gap in NFA accumulation compared with staff projections widened by end-September, to about €480 million, as government deposits with BEAC declined (against a projected increase) largely reflecting shortfalls in exceptional external financing of € 375 million. Against this background, on October 31, the BEAC increased its policy rate by 55 bps, to 3.50 percent.

9. **BEAC's NFA are now projected to miss the previous end-2018 target but would get back on track in 2019.** The projected €430-million end-2018 shortfall is fully associated with the postponement of the IMF-supported programs with Congo and Equatorial Guinea and of the related external budget support (previous projections assumed that these two countries would receive € 440 million of external budget support in 2018). When excluding external budget support, the NFA position would be at end-2018 around the level projected when the strategy was adopted, and slightly above previous projections in 2019 and 2020 (text chart). It also turned out that a good part of additional government oil revenues has been used to pay down oil-related debt more quickly, according to contracts, and settle unexpected investment disputes. Nevertheless, BEAC's NFA are projected to increase substantially during the fourth quarter of 2018 (by € 509 million) which is predicated on a large part of the external budget financing expected to be disbursed by end-year to countries under programs (€ 770 million) being saved. In 2019, assuming that new IMF-supported programs with Congo and Equatorial Guinea, to address their balance of payments needs, are approved and unlock the related external budget support, NFAs would increase by €1.1 billion and get back to their projected path.

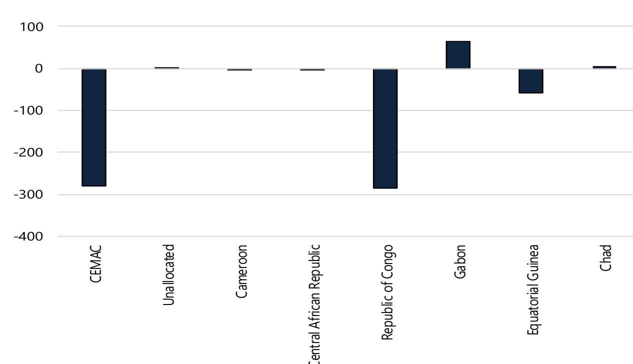
CEMAC: Net Foreign Assets excluding External Budget Support

(Billions of CFA francs)



CEMAC: NFA accumulation: Shortfall relative to end-2018 objectives [1]

(Billions of CFA francs)



[1] Objective as defined in CR/18/210.

Sources: BEAC and IMF Staff estimates.

10. The situation in the banking sector remains difficult, owing to delays in the repayment of government arrears. Non-performing loans (NPLs) continue to rise (to 17 percent in September from 15 percent at end-2017) and put pressure on the weaker banks' liquidity (Table 8). Credit to the private sector started to pick-up (+2.1 percent y-o-y in September), while deposits continued to increase (+4.6 percent y-o-y). Several banks remain in breach of key prudential indicators (Table 12), despite some improvements since end-2017. Except for a few institutions currently under close supervision, all banks are adequately capitalized. While all national banking sectors were profitable in 2017 (except for Chad), bank profitability will increasingly depend on the repayment of government arrears, a major driver of NPLs. At its September meeting, the COBAC withdrew the license of one undercapitalized systemic institution and requested the national authorities to withdraw the license of another undercapitalized institution.

MEDIUM-TERM OUTLOOK AND RISKS

11. Benefiting from higher oil prices, the medium-term outlook continues to see a gradual improvement in the economic and financial situation. It assumes the full implementation of policy commitments by CEMAC member states and regional institutions, including: continued fiscal consolidation and structural reform efforts by the member states; tight monetary policy and enforcement of foreign exchange regulations by BEAC; and further efforts to strengthen the financial sector by COBAC. The outlook also assumes that new IMF arrangements with Congo and Equatorial Guinea will be adopted during the first half of 2019 and reflects the upward revision of oil price projections. Under these assumptions:

- The overall fiscal balance (excluding grants) would be around equilibrium from 2019 onward, reflecting a further decline in the non-oil primary fiscal deficit (excluding grants) and higher (but still declining over the medium term) oil revenue. Public debt would decline more rapidly than previously envisaged to below 44 percent of GDP by end-2020, owing to stronger overall fiscal balances and higher nominal oil GDP.

- Reforms to improve the business environment and governance and strengthen the financial sector, along with a lower drag from fiscal adjustment and the repayment of government arrears would contribute to the gradual recovery of non-oil growth, to 4½ percent by 2021. While increasing slightly, inflation would remain under the regional convergence criterion of 3 percent.

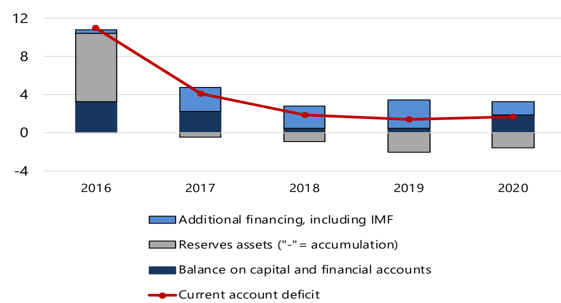
- Reflecting higher oil exports, the current account deficit would be about 1 percent of GDP lower than previously envisaged, averaging 1¾ percent of GDP over 2019–21. This lower deficit, while partly offset by slightly lower FDIs and larger capital outflows (reflecting still low oil revenue repatriation by foreign oil companies), would lead to a gradual reserve accumulation, with the reserves coverage reaching close to 4 months of imports by 2020.

Text Table 1. CEMAC: Selected Macroeconomic Indicators, 2016–21

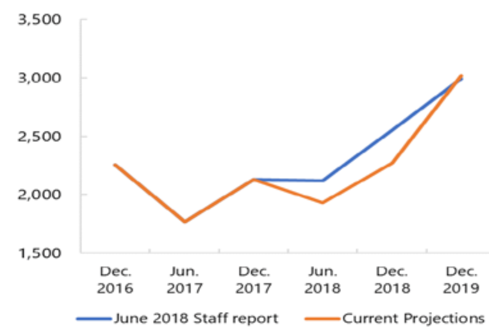
	Country Report No.18/210						Current Projections					
	2016	2017	2018	2019	2020	2021	2016	2017	2018	2019	2020	2021
National income and prices	(annual percent change)						(annual percent change)					
GDP at constant prices	-0.7	0.9	2.7	3.4	3.2	2.7	-0.4	1.0	2.2	3.4	3.0	2.6
Oil GDP	-6.8	-3.5	5.9	2.3	-1.1	-5.2	-6.7	-5.2	7.3	2.6	-2.0	-5.6
Non-oil GDP	1	2	1.9	3.6	4.2	4.6	1.3	2.6	1.0	3.6	4.2	4.5
Consumer prices (period average)	1.3	0.8	1.6	1.8	2.2	2.4	1.3	0.8	1.7	1.9	2.3	2.4
External sector	(percent of GDP, unless otherwise indicated)						(percent of GDP, unless otherwise indicated)					
Current account, including grants	-13.7	-4.5	-2.6	-2.3	-2.4	-4.1	-11.0	-4.1	-1.8	-1.4	-1.7	-2.4
Government financial operations												
Primary fiscal balance	-6.1	-2.6	1	1	1.5	1.1	-5.9	-2.4	1.5	2.4	2.5	1.9
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-14.1	-10.5	-7.4	-6.3	-4.8	-4.2	-13.8	-10.2	-7.4	-5.9	-4.6	-4.0
Total public debt	53.2	54.5	52.3	51.6	49.8	47.6	52.6	53.5	49.5	46.2	43.7	41.8
Gross official reserves (end of period)												
Months of imports of goods and services	2.3	2.4	3.1	3.7	3.9	4.5	2.3	2.3	2.6	3.3	3.9	4.2
Net foreign assets (annual change in billion CFAF)	-3,294	-123	421	443	363	625	-3,294	-123	142	748	676	732
Net Foreign assets (in billion CFAF)	2,254	2,131	2,552	2,994	3,358	5,982	2,254	2,131	2,273	3,021	3,697	4,430

Sources: IMF Staff Estimates.

Current Account Deficit and Sources of Financing, 2016–20 (Percent of GDP)



Net Foreign Assets of the Central Bank, 2016–19
(Billions of CFA francs)



Sources: BEAC and IMF Staff estimates.

12. **The outlook remains subject to significant downside risks, including:**

- Further delays in the approval of financial arrangements with Congo and Equatorial Guinea could compromise again the attainment of the regional NFA accumulation objectives and bring into question the eventual success of the regional strategy (Box 1). The projected accumulation of government deposits is key to the achievement of the 2019 NFA targets.

- With the region still heavily dependent on oil receipts/revenue, a decline in oil prices would put additional pressure on fiscal and external balances and on the financial sector.[2] This would notably be the case if the recent decline in oil prices were to persist.

[2] While estimates are particularly tricky owing to the complexity of production sharing agreements and the uncertainty surrounding oil-related capital outflows, back-of-the envelop estimates indicate that a $10-per-barrel decline in the oil price would reduce the region's net oil exports receipts by around 2 percent of GDP (about € 1½ billion) and government revenues by about 1 percent of GDP. While part of this impact would be compensated by lower debt repayments (as part of oil price-contingent restructuring agreements) and lower services imports by oil industries, the remainder would need to be addressed through additional macroeconomic and structural corrective measures.

- A deterioration of the security situation would negatively affect economic activity and might lead to increased military spending and capital outflow pressures. If the situation has improved around the Pool region in Congo, tensions persist in CAR and in Cameroon's anglophone regions.

- Tighter global financial conditions, which could be triggered by a sharper-than-expected increase in U.S. interest rates or the materialization of other risks, could raise debt service and refinancing risks, putting pressures on the capital account and weakening NFA accumulation.

Would these risks materialize, member states and regional institutions should promptly consult on the necessary corrective actions, which could possible include an acceleration of fiscal adjustment and structural reform efforts and a further tightening of the monetary stance.

Box 1. CEMAC: Downside scenario

To illustrate the critical importance of the approval of Fund-supported programs with Congo and Equatorial Guinea to the regional strategy, staff prepared a downside scenario assuming that no agreement would be found on such programs in the near future. Under this scenario, financing constraints would force the two countries to pursue fiscal policies broadly similar to the baseline. However, to replace the external budget financing that they would have received under the programs, they would resort to the accumulation of domestic and external arrears and deposits withdrawal (or lower accumulation of deposits). Under these assumptions:

- Regional growth would be slightly lower, reflecting lower domestic and foreign investment;
- Gross public debt would be lower, as the two countries would rely on deposit withdrawals instead of borrowing to finance their deficits;
- The current account deficit would be slightly lower, reflecting lower growth and investment; and
- NFA accumulation would be substantially lower, with the reserve coverage ratio increasing to only 3.6 months of imports by 2021, compared with 4.2 months under the baseline.

It is worth noting that this scenario does not assume more deteriorated fiscal positions, which would likely further increase arrears and public debt and negatively affect banking sectors through higher NPLs. It does not assume either any contagion to the other CEMAC countries: consequences would be direr, notably in terms of growth and NFA accumulation, if developments in Congo and Equatorial Guinea were to undermine confidence in the regional strategy and trigger capital flight.

If this downside scenario were to materialize and programs with Congo and Equatorial Guinea were expected to be substantially delayed beyond what is currently envisaged in the regional framework, the regional strategy would need to be revisited.

Main Macroeconomic Indicators in the Baseline and Alternative Scenarios, 2016–21

	Current Projections						Alternative Scenario					
	2016	2017	2018	2019	2020	2021	2016	2017	2018	2019	2020	2021
National income and prices	(annual percent change)						(annual percent change)					
GDP at constant prices	-0.4	1.0	2.2	3.4	3.0	2.6	-0.4	1.0	2.2	3.1	2.6	2.2
Oil GDP	-6.7	-5.2	7.3	2.6	-2.0	-5.6	-6.7	-5.2	7.3	2.6	-2.0	-5.6
Non-oil GDP	1.3	2.6	1.0	3.6	4.2	4.5	1.3	2.6	1.0	3.2	3.8	4.1
Consumer prices (period average)	1.3	0.8	1.7	1.9	2.3	2.4	1.3	0.8	1.7	1.9	2.3	2.4
External sector	(percent of GDP, unless otherwise indicated)						(percent of GDP, unless otherwise indicated)					
Current account, including grants	-11.0	-4.1	-1.8	-1.4	-1.7	-2.4	-11.0	-4.1	-1.8	-0.9	-0.9	-1.2
Government financial operations												
Primary fiscal balance	-5.9	-2.4	1.5	2.4	2.5	1.9	-5.9	-2.4	1.5	2.4	2.4	1.9
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-13.8	-10.2	-7.4	-5.9	-4.6	-4.0	-13.8	-10.2	-7.4	-6.0	-4.8	-4.1
Total public debt	52.6	53.5	49.5	46.2	43.7	41.8	52.6	53.5	49.5	45.2	41.9	39.3
Gross official reserves (end of period)												
Months of imports of goods and services	2.3	2.3	2.6	3.3	3.9	4.2	2.4	2.3	2.6	3.0	3.4	3.6
Net foreign assets (annual change in billion CFAF)	-3,294	-123	142	748	676	732	-3,294	-123	142	336	358	603
Net Foreign assets (in billion CFAF)	2,254	2,131	2,273	3,021	3,697	4,430	2,254	2,131	2,273	2,609	2,966	3,570

Sources: IMF Staff Estimates.

IMPLEMENTATION OF THE REGIONAL STRATEGY TO ADDRESS THE CRISIS

The regional authorities shared staff's concerns about the underperformance of NFA accumulation, as they viewed the rebuilding of an adequate reserve buffer as one of the regional strategy's overarching objective, which, if not met, would raise doubts on the authorities' ability to support the peg and thereby on the external viability of each CEMAC members. Discussions on the regional strategy therefore focused on measures to ensure that its objectives and the regional policy assurances are sustainably met. There was an agreement that current fiscal consolidation plans should be implemented thoroughly and that, following the recent increase of its policy rate, the BEAC should continue to gradually reduce liquidity injections and enforce strictly forex regulations while submitting by year-end enhanced regulations to the UMAC ministerial committee. The COBAC will finalize its strategic plan for 2019–21, with a major focus on risk-based supervision. In its updated letter of support (Appendix I), the BEAC provides updated policy assurances on the NFA path for 2019.

A. Fiscal Consolidation Efforts

13. Regional institutions agreed on the importance of member states continuing to implement strictly their fiscal consolidation plans. Delivering the projected reduction in the non-oil primary deficit (from 7½ percent of non-oil GDP in 2018 to 4 percent of non-oil GDP in 2021) is critical to rebuild international reserves, put public debt firmly on a declining path, and reduce vulnerability to oil prices while raising savings for future generations. The quality of the adjustment should also improve, with stronger efforts needed to enhance non-oil revenue mobilization, which has remained disappointing (see below). Moreover, fuel subsidies should be limited and any oil revenue windfall should be saved to rebuild fiscal buffers.

14. Efforts to reimburse government arrears should be better coordinated. Given the size of these arrears, their reimbursement will have a significant impact on the financial situation of the private sector, and in turn on NFA accumulation and on the solvency and liquidity of commercial banks. Governments should urgently finalize and implement their arrears repayment plans. The COBAC and BEAC agreed to monitor more closely these plans, analyze their potential financial, monetary, and macroeconomic impact, and share their findings with national authorities.

15. The amendment of a BEAC's Charter Article should contribute to ensure stronger discipline by member states in support of the monetary arrangement. The BEAC, in close cooperation with France, is working on a draft amendment to its Charter to provide better response mechanisms in case of deteriorating external positions. The envisaged amendment will notably provide for increased haircuts on government securities used as collateral for monetary operations or for a reduction of BEAC's refinancing when reserves fall under specific national and regional thresholds. BEAC plans to submit the draft amendment, after consultation with Fund staff, to its Executive Board for adoption in coming months.

Text Table 2. CEMAC: Financing Sources[1]

(Billions of CFA francs)

	2017	2018				2019				2020	2017-20
		H1	H2	Year		H1	H2	Year			
				CR 18/210	Proj.			CR 18/210	Proj.	Proj.	Tot.
1. Financing gap	**1,227**	**228**	**1,029**	**1,855**	**1,258**	**762**	**649**	**1,611**	**1,412**	**811**	**4,708**
2. IMF financing	**328**	**45**	**270**	**304**	**315**	**184**	**166**	**326**	**350**	**216**	**1,209**
3. Budget support from other donors	**798**	**183**	**415**	**985**	**598**	**470**	**536**	**693**	**1,006**	**359**	**2,761**
World Bank	261	14	36	306	50	381	109	267	491	133	934
African Development Bank	338	159	174	431	334	31	257	202	288	129	1,089
European Union	45	10	51	65	60	0	56	61	56	0	161
France	155	0	154	184	154	57	114	164	171	29	509
Other	0	0	0	0	0	0	0	0	0	0	0
4. Other external (non-project) financing 2/	**0**	**0**	**170**	**0**	**170**	**-57**	**-113**	**0**	**-170**	**0**	**0**
5. Other exceptional financing	**100**	**0**	**175**	**458**	**175**	**165**	**61**	**464**	**226**	**208**	**710**
6. Residual financing gap	**0**	**0**	**0**	**108**	**0**	**0**	**0**	**128**	**0**	**28**	**28**

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, to be fully repaied in 2019.

B. Monetary Policy and Foreign Exchange Regulations

Monetary Policy Stance and Modernization of the Operational Framework

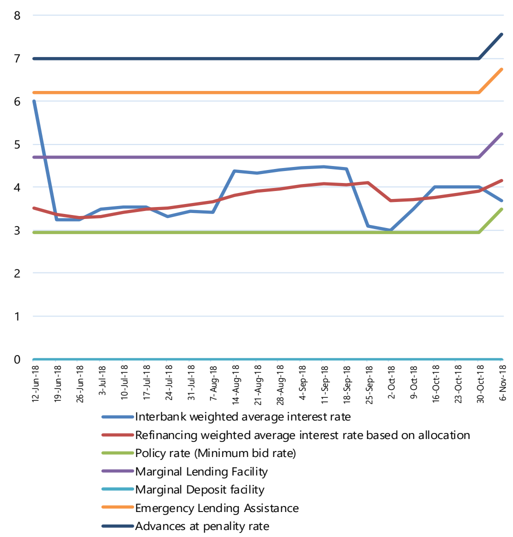
16. **Staff welcomed BEAC's tightening of monetary policy.** The recent policy rate increase confirmed BEAC's commitment to gear monetary policy toward the rebuilding of an adequate international reserve buffer in support of the peg. The current policy stance appears now adequate as: this increase brought the policy rate closer to the level required by some measures of the region's risk premium and reduced the interest rate differential at a time when monetary policy normalization is gathering pace; and growth remains well below potential, inflation moderate, credit to the private sector sluggish, and the banking sector fragile. Although the direct impact on net foreign assets may be relatively limited given the still weak monetary policy transmission, this increase provides a strong signal of support for the regional strategy. The BEAC reiterated its commitment to stand ready to tighten further its monetary policy stance if needed, including as global financial conditions tighten and as required to support the regional strategy.

17. **The BEAC has made substantial progress in modernizing its monetary policy operational framework:**

- A new liquidity management system based on autonomous factors projections and competitive multi-rate liquidity auctions has been implemented since June 2018.
- The new collateral framework for government securities—with progressive haircuts for market, credit and specific risks to better reflect differences in CEMAC countries' sovereign risks—is now used for the monetary operations;

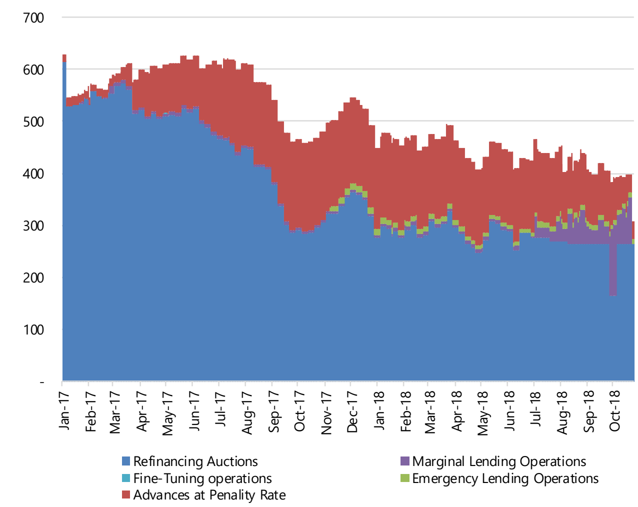
Policy Rate Corridor and Key Interest Rates

(as of October 31, 2018)



BEAC's Monetary Operations

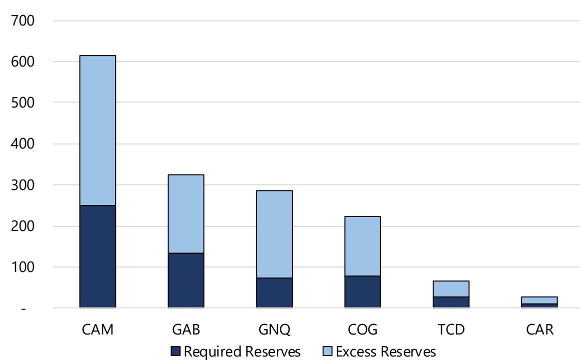
(Billions of CFA francs)



Required and Excess Reserves by Country

(as of September 30, 2018)

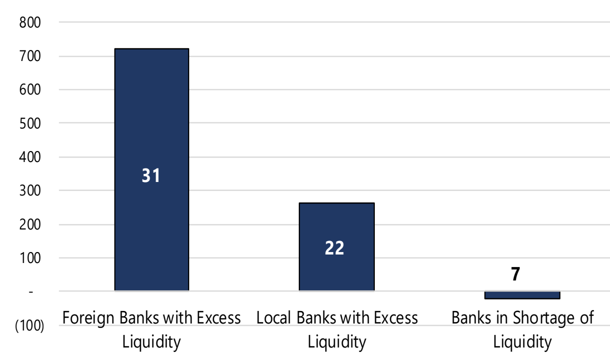
(Billions of CFA francs)



Segmentation of the Interbank Market

(as of September 10, 2018)

(Billions of CFA francs)



Sources: BEAC and IMF Staff calculations.

- An asymmetric interest rate corridor system bounded by a marginal deposit facility and marginal lending facility has been set-up;
- An increasing number of banks have signed bilateral arrangements to conduct secured interbank transactions based on the new master repurchase agreement; and
- Good progress has been made toward setting up (by end-2018) a new accounting scheme for recording monetary operations.

Looking ahead, staff encouraged the BEAC to strengthen further its operations through: the implementation of a new sanctions framework for monetary operations and non-constitution of reserve requirements; and the review of the framework for private securities used as collateral in monetary transactions including eligibility criteria, valuation and applied haircuts.

18. The BEAC must pursue its efforts to develop the interbank market, including through the further reduction of excess liquidity. While interbank transactions have increased since the new monetary policy operational framework was implemented, the interbank market remains largely segmented, with highly liquid foreign-owned banks unwilling to lend to the banks short of liquidity, which in turn must rely on BEAC's monetary operations. To incentivize banks to participate to this market, the BEAC should:

- **further reduce excess reserves**. From June to early September, the liquidity auction's cut-off rate gradually increased to about 4 percent owing to oversized demands from a systemic and undercapitalized bank, limiting the room for reducing the offered volumes. At the same time, other forms of BEAC liquidity provision (liquidity at penalty rate and ELA) declined, offsetting the recent increase in overall banks liquidity. As the liquidity auctions' cut-off rate has since stabilized to just over the policy rate, the BEAC agreed that the calibration of BEAC's monetary operations should now aim primarily at bringing excess liquidity close to its incompressible level. In view of the still strong segmentation of the interbank market, BEAC decided to adopt a gradual approach in reducing banks' refinancing.
- **pursue its technical efforts to stimulate the market**, including through developing the trading platform and encouraging banks to use repurchase agreements; and
- **consider widening its interest rate corridor.**

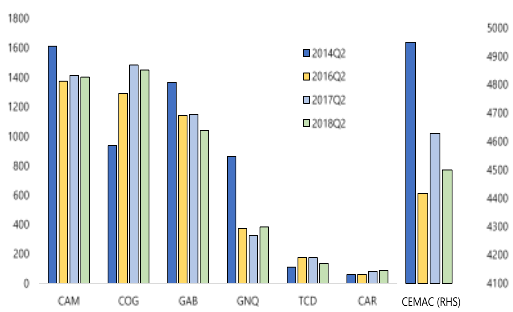
19. The BEAC will strengthen its coordination with COBAC in enforcing the eligibility criteria for access to its refinancing facilities. BEAC's refinancing of a recently found undercapitalized bank using a non-performing loan as collateral highlights the need for a better coordination with the COBAC, which should inform the BEAC more rapidly of breaches of prudential requirements by banks or of the deterioration of the quality of their assets. BEAC acknowledged that cooperation procedures between the two institutions should be strengthened, to allow BEAC to better comprehend the financial situation of the banks and their groups and the quality of the collateral before granting liquidity support. BEAC is therefore developing a stronger cooperation framework and revised formal guidelines for its liquidity support operations.

Revision and Enforcement of Foreign Exchange Regulations

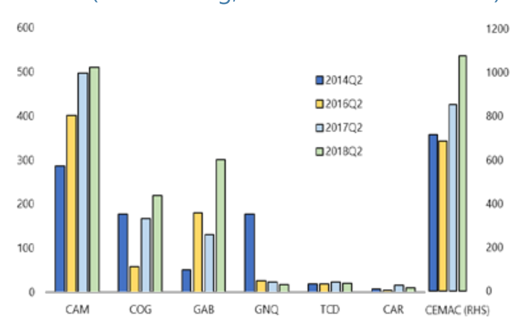
20. The BEAC aims at submitting for adoption revised foreign exchange regulations to the UMAC Ministerial Council by end-year. These regulations will aim at clarifying certain requirements by economic agents and banks, strengthening reporting requirements, broadening the scope of BEAC and SG-COBAC's controls, and adopting more realistic and better enforceable sanctions. BEAC agreed to take into account Fund's TA detailed recommendations on how to better define responsibilities among the different regional and national institutions in implementing the regulations and on how to strengthen the sanctions provisions, including through secondary legal instruments. Meanwhile, the COBAC and BEAC will continue to closely monitor banks' implementation of the regulations. The repatriation and surrender requirements represent capital flow management measures (CFMs) under the Fund's Institutional View and their stricter enforcement, implemented along with other necessary macroeconomic policy adjustments, is assessed to be appropriate to address the low level of reserves. Going forward, CFMs should be consistently and transparently enforced and clearly communicated to enhance market participants' confidence and compliance with the regulatory framework.

21. National authorities must support the BEAC and COBAC's efforts to enforce more strictly the foreign exchange regulations. In view of the still large amounts of deposits held abroad by CEMAC residents, possibly in breach of forex regulations, the BEAC and COBAC agreed that a stronger involvement at the national level was necessary, absent of which forex regulations would not be effective. National authorities should notably: (i) provide by end-2018 copies of all the contracts/agreements they have signed with companies in extractive industries; (ii) strictly control the domiciliation of all exports transactions with a resident commercial bank; (iii) provide the BEAC with copies of all exports licenses; (iv) ensure that all public entities (including SOEs in extractive industries) repatriate and surrender all their forex receipts to resident banks and do not hold deposit accounts abroad not authorized by BEAC; (v) replace by mid-2019 any escrow accounts held abroad as part of project financing agreements with external creditors by BEAC accounts with these creditors; (vi) review their hydrocarbon and mining codes to align them by end-2019 with the forex regulations; and (vii) if not an EITI member already, commit to apply for membership. New commitments along these lines were made by national authorities under the IMF-supported programs. The BEAC will also compile a list of exempted companies to better monitor forex repatriation.

Deposits Held Abroad by CEMAC Residents, Non-Banks (outstanding, Millions of U.S. Dollars)



Deposits 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

C. Strengthening the Banking Sector

22. The Secretariat General of COBAC (SG-COBAC) will make risk-based supervision (RBS) the focal point of its 2019–21 strategic plan. This plan will be finalized by end-2018, building on a thorough assessment of the 2016–18 plan implementation. Consistent with staff's recommendations, the plan will also aim at strengthening the supervisory framework and tools, ensuring prompter resolution of distressed banks, and prompting banks to prepare and implement NPL reduction plans. The SG-COBAC should also incorporate other recommendations including: consolidated supervision; strengthening the framework on concentration risk, governance and internal control, and sovereign exposure; supporting the enforcement of the new forex and microfinance regulations; and preparing for the transition to Basel 2/3 and IFRS.

23. Staff welcomed SG-COBAC's continued strengthening of the supervisory approach and its more proactive stance to address non-compliance with prudential requirements. SG-COBAC further developed RBS, with targeted inspections focusing on loan portfolio reviews, AML/CFT, liquidity and foreign exchange repatriation. It is providing training on banking and credit dispute resolution for judges and supporting the development of legal frameworks on credit protection. To strengthen compliance with prudential rules, the SG-COBAC introduced and already applied a more constraining financial penalties system and plans to adopt by mid-June 2019 a new framework of immediately applicable fines in case of breach or repeated breach. It will also assess the need to strengthen the prudential treatment of concentration excesses, including those resulting from loans to related parties.

24. Staff encouraged the SG-COBAC to guide more proactively NPL resolution processes. The SG-COBAC already asked banks to submit strategies to reduce NPLs and will be reviewing those by end-year. As a further increase in NPLs would have negative consequences on financial stability and banks' ability to provide credit, staff advised SG-COBAC to: (i) request member state's government arrears repayment plans, (ii) request and assess banks' individual NPL resolution plans, (iii) oversee the implementation of these plans, and (iv) develop a proposal for a prudential treatment of sovereign arrears depending on the arrears' duration and the economic cost of carry for a bank.

25. While the COBAC has taken important steps toward resolving insolvent banks, future resolution costs could be reduced by shortening delays in resolution decisions. To this end, staff suggested evaluating whether the COBAC could make earlier use of its power to nominate provisional administrators and conduct early evaluations of resolution scenario when a bank faces stress. The COBAC should also remain vigilant to allow only fit and proper investors with a credible plan as bank owner.

26. The SG-COBAC is strengthening further banking regulations and governance. Staff welcomed SG-COBAC's plan to adopt by end-year new regulations on payment systems and, by mid-2019, regulations implementing the deposit guarantee fund (FOGADAC), revising the AML/CFT COBAC regulations for banks to implement the 2016 COBAC regulation, as well as the regulations on consumer protection, leverage ratio and consolidated supervision. Staff further advised to explore preparing a dashboard to monitor banks' compliance with regulations on internal control and governance, and to revisit FSAP recommendations on ways to ensure the highest degree of expertise and independence of COBAC members.

27. A reinforcement of SG-COBAC's human resources by early 2019 will be key to meeting these objectives. Recent staff moves left the SG-COBAC understaffed in some areas. While BEAC and SG-COBAC budget constraints will limit possible new hiring, staff emphasized that the SG-COBAC should enhance its human capacity to fulfill its existing and future responsibilities as envisaged in the strategic plan and new regulations. The SG-COBAC should also review options for simplifying, automating, or delegating procedures to improve its effectiveness.

PROMOTING SUSTAINED INCLUSIVE GROWTH

Progress has been limited toward restoring sustained inclusive growth. The national and regional authorities should intensify their efforts toward this objective, including through: giving more prominence to non-oil revenue-enhancing measures in their fiscal consolidation efforts to create fiscal space for priority development spending; supporting the development of financial markets; improving governance; and promoting regional integration.

A. Enhancing Non-Oil Revenue Mobilization

28. The quality of CEMAC countries' fiscal consolidation efforts has been weaker than expected, relying heavily on capital expenditure cuts. While the regional strategy called for an increase in non-oil revenue as a main pillar for fiscal consolidation, this increase has not materialized, and non-oil revenue are now projected to be slightly lower in 2018 than in 2016. As a result, the targeted fiscal adjustment came from larger than initially envisaged cuts in investment spending, while the rationalization of primary current spending has also been less ambitious. CEMAC's performance in non-oil revenue mobilization remains well below the average in sub-Saharan Africa and its tax revenue potential.

29. Regional authorities agreed that non-oil revenue-enhancing measures should play a more prominent role in the remaining fiscal consolidation efforts.[3] Such measures, including the streamlining of tax exemptions and the strengthening of tax and customs administration, would be more supportive to growth as their fiscal multiplier is generally lower than that associated to cuts in spending, particularly in investment spending. They will also provide CEMAC countries with a more stable revenue base to finance their considerable infrastructure and spending needs. To enhance their efficiency and minimize tax competition, these efforts should be harmonized and better coordinated at the regional level, starting with the adoption of: the revised customs code; a classification of tax exemptions; and the new directive on excise taxes.

B. Development of Financial Markets

30. The authorities have taken important steps toward merging the existing stock markets, market regulators and depositories. The physical merger of the two stock markets is expected by

[3] See Selected Issues Paper "Fiscal consolidation efforts; moving the focus to non-oil revenue-enhancing measures".

year-end, and the alignment of the merged institution's procedures with best international standard by mid-2019. The increased efforts of regional institutions to establish new specifications for Treasury Securities Specialists are significant and should lead to an improvement in the functioning of the public securities markets and the revitalization of the secondary market.

31. The BEAC is committed to boost financial transparency and timely implement its financial information strategy, including: (i) a regional credit registry, a regional balance sheet databases and credit bureaus accessible to financial institutions to facilitate and better manage credit, and (ii) the strict enforcement of the financial institutions' obligation to publish their financial statements, which should contribute to the development of the interbank market.

32. The BEAC will refrain from providing additional financing to the regional development bank (BDEAC) as long as the reforms called for by its board and by the heads of states have not been fully implemented. Governance and financial management reforms such as those identified in SG-COBAC's audit earlier this year are crucial for the sound and gradual expansion of BDEAC's activities and to allay safeguards concerns about BEAC's large exposure (CFAF 220 billion) to this institution. The President of BDEAC, while disagreeing with some important recommendations by SG-COBAC, argued that important reforms are being prepared which should put BDEAC on a much stronger institutional and financial footing. Staff noted that it is not a central bank's role to finance a development bank and advised BDEAC to seek alternative sources of financing as soon as feasible, to reduce BEAC's exposure to BDEAC.

C. Improving Governance

33. The regional institutions welcomed the opportunity to discuss reforms to improve governance in the region.[4] They agreed that improving governance was key to the efforts to promote sustained and inclusive growth. In addition to the need to strengthen governance in the oil sector, discussions focused on:

- **AML/CFT**. The CEMAC regulation adopted in 2016 brings the regional framework in closer line with the 2012 international AML/CFT standards. Staff emphasized that the challenge will now be for COBAC to revise its AML/CFT regulation to implement the 2016 CEMAC regulation and adapt practices and work plans to establish effective risk-based AML/CFT supervision for banks, in particular to enforcement of preventive measures on politically-exposed persons.

- **Public financial management**. Staff reviewed with the CEMAC Commission key aspects in which country practices and procedures did not fully meet the regional standards of transparency, including full disclosure of contracts signed by the member states with extractive industries. Shortcomings are also evident regarding regular budget execution and reporting, as well as audits. Staff was encouraged by the Commission's recent decision to

[4] See Selected Issues Paper on Governance issues.

establish a unit to monitor and report annually on progress and gaps in the implementation of CEMAC directives.

D. Promoting Regional Integration and Enhancing the Business Climate

CEMAC's Economic and Financial Reform Program (PREF)

34. The CEMAC Commission and national authorities need to intensify and better coordinate their efforts to implement the PREF. The policy and reforms included in the PREF action plan are critical to address the root causes of the crisis—an excessive dependence on oil and highly undiversified economies. Progress so far has been lagging, particularly in enhancing the tax system, raising non-oil revenues, and deepening the regional market. To address this PREF implementation gap, the Commission has refocused its approach to actual implementation and impact assessment, rather than on the process. Staff viewed this as a welcome change but encouraged the Commission to step up its efforts in some important areas. In particular, it urged the Commission to finalize by end-March 2019 its draft regulation proposing a simplified list of possible exemptions and the elimination of the others. Staff also encouraged the Commission to intensify efforts to obtain copies of the contracts signed by member-states with extractive industries, so as to assess their consistency with regional directives.

35. The CEMAC Commission should also step-up efforts to enhance the business environment, a central pillar of the PREF. Progress in this area is probably the weakest of all reform areas covered by the PREF. The number of procedures, the time required, and the resources involved in registering a new company remain very high. Moreover, the judicial system is unable to ensure a clear protection of the rights of investors and creditors. Staff encouraged the Commission to double efforts in this area, as reform to enhance the business environment are often budget-neutral and can have a sizeable and lasting effect in supporting the private sector.

Regional Surveillance Framework

36. The member states need to support the CEMAC Commission's efforts to strengthen the regional convergence framework. As requested by the heads of states, they should provide convergence plans, articulating their macroeconomic policies and reform plans for 2019–21, to the Commission by the end-of-the year. While compliance with the convergence criteria has slightly improved (Table 5), the Commission should not hesitate to impose sanctions on the non-compliers.

MONITORING OF REGIONAL DEVELOPMENTS AND POLICIES

37. In addition to taking corrective actions to address the NFA underperformance, the BEAC has made great strides toward honoring the assurances provided in its June 2018 letter

of support. Consistent with these assurances, by end-year the BEAC will submit for adoption new foreign exchange regulations to the UMAC ministerial committee and start using a new accounting scheme for recording monetary operations, thereby making the new monetary policy framework fully operational.

38. The attached follow-up letter of support provides updated policy assurances on NFA accumulation over the coming 12 months (Appendix I). Consistent with staff projections, the end-2018 NFA projection covered by a policy assurance was revised down with the shortfall being fully reversed by end-2019. In the event of a deviation from the stated NFA accumulation projections, the follow-up letter also reiterates the commitment to identify and adopt 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) IMF financial support as part of the IMF-supported programs with CEMAC members.

39. Semi-annual tripartite consultations—bringing together national authorities, the regional institutions and the IMF—will help strengthen the monitoring and implementation of the regional strategy. These consultations were agreed in principle by the BEAC and the UMAC ministerial committee and should start in the first half of 2019. They will be an opportunity to assess progress, at the regional and national levels, in implementing the strategy, and, when necessary, to identify additional measures to ensure that its objectives are met. They will also help enhance coordination on regional issues, such as foreign exchange repatriation or fiscal harmonization.

40. The BEAC continues to implement the remaining recommendations of the 2017 safeguards assessment. BEAC's full transition to IFRS is progressing broadly as planned, and steps are being taken to accelerate the adoption of revisions to the secondary legal instruments to align these with the BEAC Charter, in consultation with IMF staff.

STAFF APPRAISAL

41. The regional strategy helped avert an immediate crisis but is not yet fully delivering on its objectives. While the reduction of the fiscal and current account deficits is broadly as expected, NFA accumulation has stalled over the last few months, falling short of the strategy's objectives, and CEMAC's external position is moderately weaker than implied by fundamentals and desired policy settings. The projected recovery of non-oil growth has still to materialize. These setbacks owe essentially to the fact that, two years after the regional strategy was launched, two countries have still to adopt IMF-supported programs.

42. The regional institutions' commitments and efforts to support the regional strategy are welcome. BEAC's increase of its policy rate confirmed its commitment to use all the monetary policy tools within its mandate to help reach the strategy's objectives. The modernization of the monetary policy operational framework and measures to develop the interbank market will help strengthen monetary policy transmission. The strengthening and better enforcement of foreign exchange regulations will also contribute to bringing NFA accumulation back on the targeted path.

43. To be effective, these efforts must be supported more strongly by member states. Member states must pursue their fiscal consolidation efforts and address promptly any fiscal slippages through corrective measures. To help strengthen the enforcement of foreign exchange regulations, they also need to ensure the domiciliation of exports proceeds and the repatriation and surrendering of foreign assets by public companies and to provide regional institutions with copies of their contracts with companies in extractive industries.

44. Ensuring prompt approval of Fund-supported programs with Congo and Equatorial Guinea is also critical to the success of the regional strategy. Absent such programs, NFA accumulation will be insufficient to allow for the rebuilding of an adequate regional reserve buffer, exposing the region to severe consequences should the numerous downside risks materialize. Weak policy implementation by one of these countries would also undermine support for, and undermine investors' confidence in, the strategy, increasing substantially the region's vulnerability.

45. Member states must also step up their efforts to establish the conditions for sustained and inclusive growth. They should: (i) rely more heavily on non-oil revenue-enhancing measures, including the streamlining of VAT exemptions and increases in excise taxes, to meet their remaining fiscal consolidation efforts and create fiscal space for priority development spending; (ii) tackle more forcefully governance issues, including by strengthening COBAC's AML/CFT supervision and public financial management; and (iii) promote regional integration, including through preparation of convergence plans for 2019–21.

46. With the new monetary policy framework essentially in place, the BEAC now needs to focus on the development of the interbank market, including through reducing the excess bank liquidity. To strengthen the transmission of its policy rate to the interbank market rate, it should move promptly to bring excess bank liquidity close to its incompressible level. Further communication also appears necessary to dispatch any banks' concerns about using repurchase agreements, while a further widening of the interest rate corridor could help incentivize them to engage in interbank transactions.

47. The SG-COBAC must step up further its efforts to address the banking sector's weaknesses. Its strategy for 2019–21 should aim at strengthening risk-based supervision. The SG-COBAC should also better prompt banks to implement NPL reduction plans, implement bank resolution decisions more quickly, and more strictly enforce prudential regulations. SG-COBAC's more proactive stance on NPLs and non-compliance with prudential requirements is welcome and should be pursued further. The COBAC and the BEAC should notably work closer with member states to assess the potential impact of their government arrears repayment plans on NPLs, liquidity and the macroeconomic framework.

48. Overall, staff considers that: (i) BEAC and SG-COBAC have taken satisfactory corrective measures to address the end-June NFA underperformance and made substantial progress toward honoring the other policy assurances provided in the June follow-up letter; and (ii) the updated policy assurances provided in the attached follow-up letter in support of CEMAC countries' IMF-supported programs are adequate. Implementation of the policy assurances on

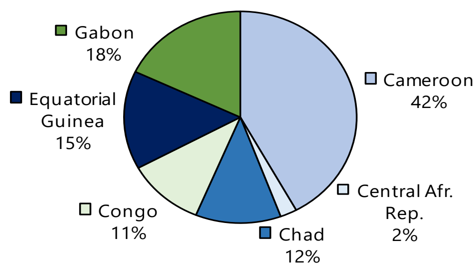
(i) completing by end-2018 the modernization of BEAC's monetary policy operations framework, (ii) submitting to the UMAC ministerial committee for adoption revised foreign exchange regulations by end-2018, and (iii) achieving the projected NFA accumulation based on BEAC's commitment to implement an adequately 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.

49. 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.

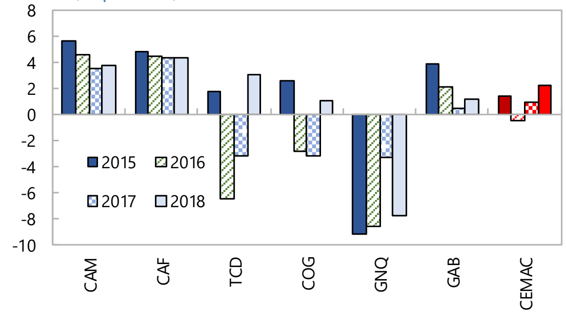
Figure 1. CEMAC: Selected Economic Indicators, 2000–18

After a limited recovery in 2017, economic activity is expected to accelerate in 2018 on account of a rebound in oil production, while non-oil growth would decline.

CEMAC: Nominal GDP, 2017
(National shares)

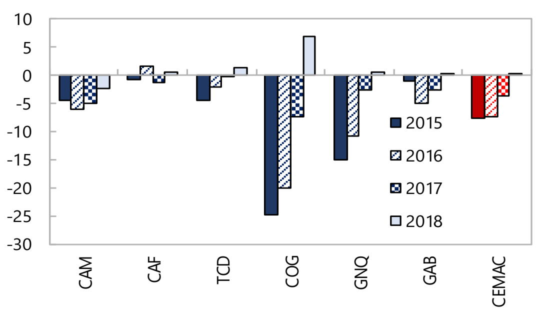


CEMAC: Real GDP Growth, 2015-18
(in percent)

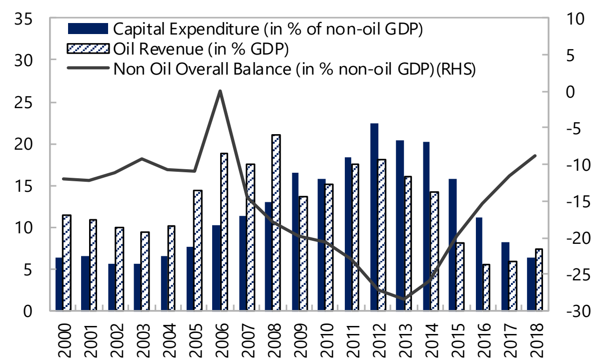


The non-oil fiscal deficit is projected to decline further in 2018, reflecting the continued rationalization of non-priority spending by member states, and some progress in increasing non-oil revenue.

CEMAC: Overall Fiscal Balance incl. grants, 2015-18
(in percent of GDP)

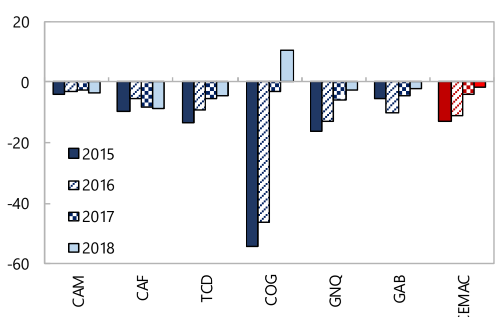


CEMAC: Selected Fiscal Indicators, 2000-18

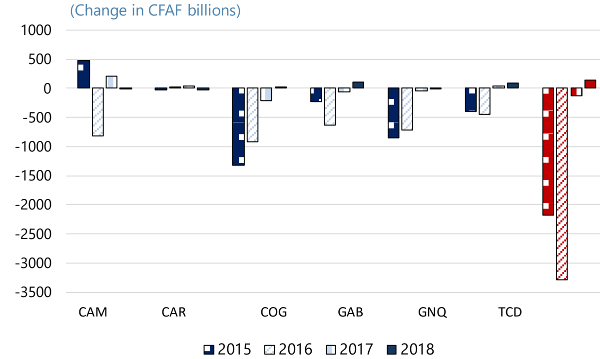


These fiscal consolidation efforts, along with higher oil prices, will contribute to a sizeable reduction in the current account deficit. Owing to delays in the approval of Fund-supported program in two countries, NFA accumulation would, however, be lower than previously envisaged.

CEMAC: Current Account, 2015-18
(in percent of GDP)



CEMAC: Change in Net Foreign Assets, 2015-18
(Change in CFAF billions)

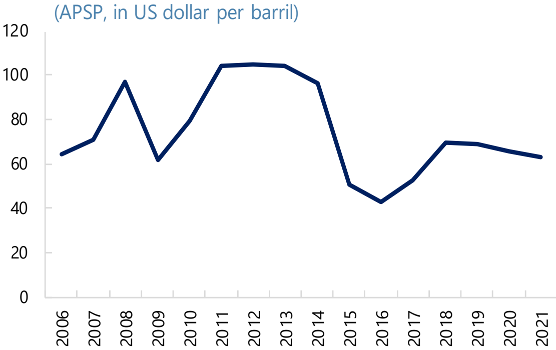


Sources: CEMAC authorities; and IMF staff estimates.

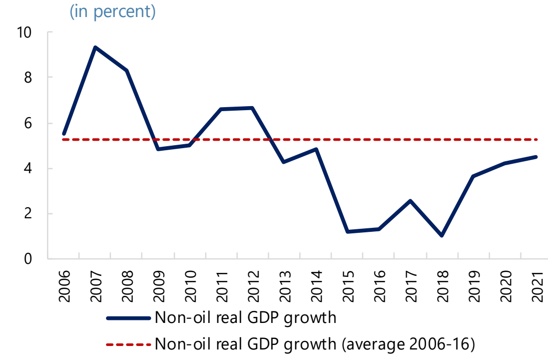
Figure 2. CEMAC: Selected Economic Indicators, 2006–21

After recovering somewhat in 2017–18, oil prices are projected to stabilize below past peaks over the medium term, while oil production in CEMAC would follow a slow but secular downtrend. Over the medium term, overall growth will be supported by a more vibrant non-oil sector.

Oil Price, 2006-21
(APSP, in US dollar per barril)

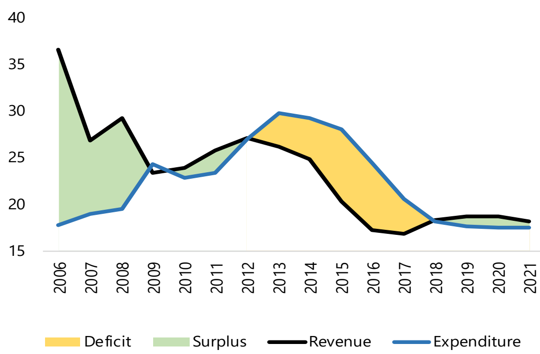


Non-Oil Real GDP Growth, 2006-21
(in percent)

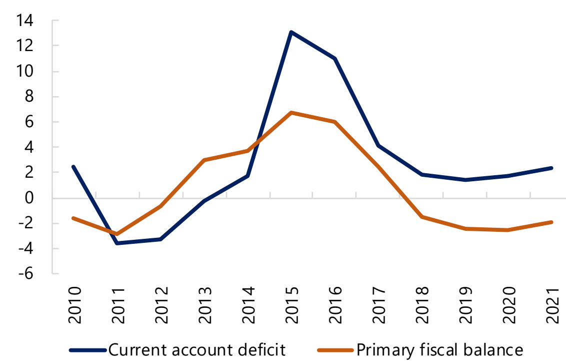


Fiscal consolidation effort will remain the main engine for restoring external stability, supported by expenditure rationalization and non-oil revenue-enhancing measures over the medium term.

Revenue and Expenditure, 2006-21
(in percent of GDP)

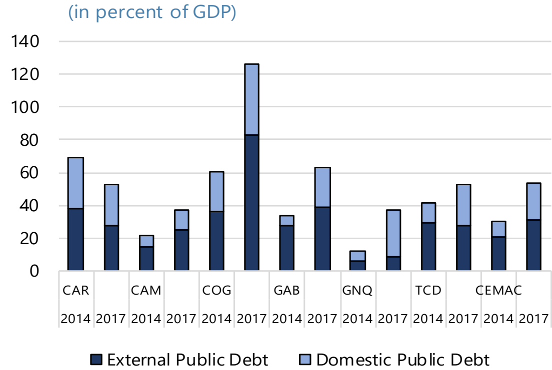


Current Account and Budget Deficit, 2010-21
(in percent of GDP)

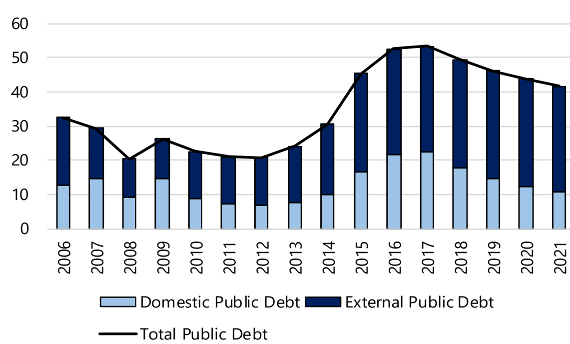


After a large increase in 2014–16, public debt started stabilizing in 2017 and is expected to gradually decline from 2018 onward.

Public debt, 2014 and 2017
(in percent of GDP)



Public Debt, 2006-21
(in percent of GDP)

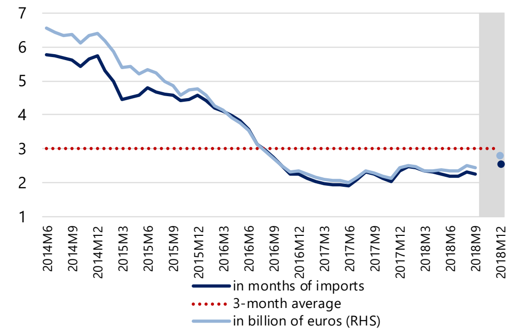


Sources: GAS Live, CEMAC authorities; and IMF staff estimates.

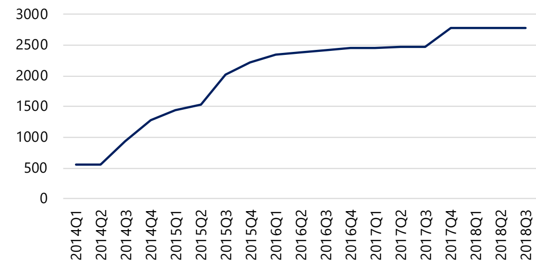
Figure 3. CEMAC: Monetary Indicators

While expected to pick up in the fourth quarter on account of sizeable budget support, NFA accumulation should remain short of its targeted level at end-year. While statutory advances are now frozen…

Official Reserves' coverage

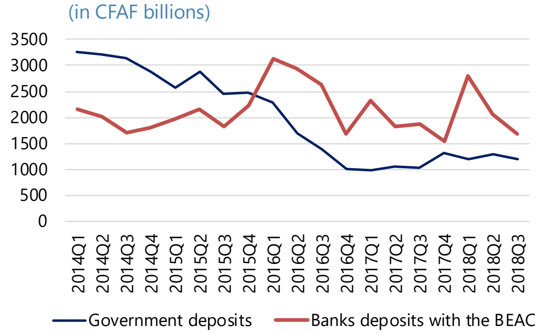


BEAC's credit to governments: Advances and consolidated debt
(in CFAF billions)

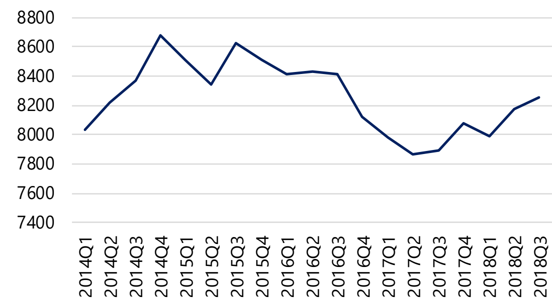


… governments deposits with BEAC increased less than projected during 2018Q2–Q3. Total deposits have increased over that period…

Government and banks deposits at the BEAC
(in CFAF billions)

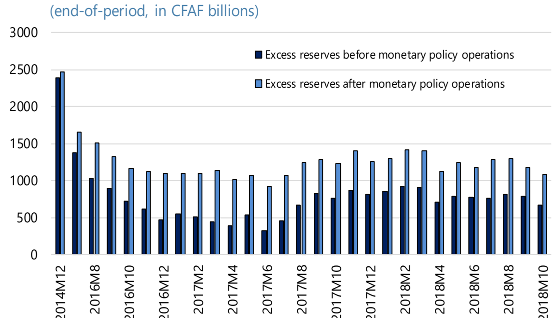


Total deposits with the banking sector
(in CFAF billions)

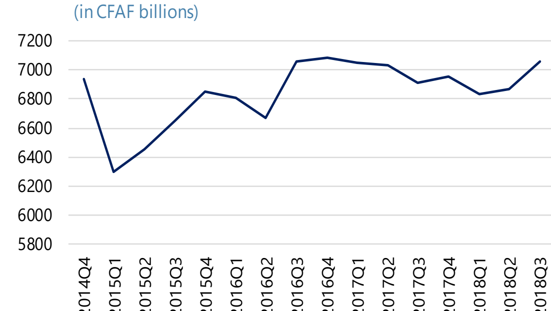


… but the banking sector's excess reserves remained broadly stable, as credit to the private sector started recovering.

Banks' excess reserves, December 2014 - October 2018
(end-of-period, in CFAF billions)



Credit to the private sector
(in CFAF billions)



Sources: CEMAC; and IMF staff calculations.

Table 1. CEMAC: Selected Economic and Financial Indicators, 2016–22

	2016	2017	2018	2018	2019	2020	2021	2022
	Est.	Est.	CR 18/210[4]	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual change, in percent)							
National income and prices								
GDP at constant prices[1]	-0.4	1.0	2.7	2.2	3.4	3.0	2.6	3.4
Oil GDP[1]	-6.7	-5.2	5.9	7.3	2.6	-2.0	-5.6	-2.7
Non-oil GDP[1]	1.3	2.6	1.9	1.0	3.6	4.2	4.5	4.7
Consumer prices (period average)[2]	1.3	0.8	1.6	1.7	1.9	2.3	2.4	2.4
Consumer prices (end of period)[2]	0.5	1.5	1.1	2.0	1.3	2.6	2.4	2.9
	(Annual change, in percent of beginning-of-period broad money)							
Money and credit								
Net foreign assets	-31.4	-0.9	4.0	1.2	6.7	5.7	...	...
Net domestic assets	26.7	0.5	2.4	3.9	2.5	2.2	...	...
Broad money	-4.6	-0.4	6.4	5.0	9.2	7.8	...	...
	(In percent of GDP, unless otherwise indicated)							
Gross national savings	24.1	21.6	20.8	23.3	24.8	25.0	24.9	24.9
Gross domestic investment	35.0	25.6	23.3	25.1	26.1	26.7	27.3	28.9
Of which: public investment	8.7	6.8	4.6	4.8	4.9	4.9	5.1	5.0
Government financial operations								
Total revenue, excluding grants	16.4	16.1	17.8	17.5	17.9	17.9	17.4	17.4
Government expenditure	24.4	20.6	19.1	18.1	17.6	17.4	17.5	17.3
Primary fiscal basic balance[3]	-4.1	-0.5	2.4	3.1	3.9	4.3	3.8	3.8
Overall fiscal balance, excluding grants	-8.0	-4.6	-1.3	-0.6	0.3	0.4	-0.1	0.1
Primary fiscal balance, including grants	-5.9	-2.4	1.0	1.5	2.4	2.5	1.9	2.1
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-16.3	-12.8	-10.2	-10.0	-8.6	-7.2	-6.3	-5.4
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-13.8	-10.2	-7.4	-7.4	-5.9	-4.6	-4.0	-3.2
Total Public Debt	52.6	53.5	52.3	49.5	46.2	43.7	41.8	39.2
External sector								
Exports of goods and nonfactor services	29.9	33.6	34.2	36.8	36.1	34.1	31.7	30.1
Imports of goods and nonfactor services	35.9	32.8	32.0	32.8	32.0	31.1	30.0	30.5
Balance on goods and nonfactor services	-6.1	0.9	2.2	4.0	4.1	3.0	1.7	-0.4
Current account, including grants	-11.0	-4.1	-2.6	-1.8	-1.4	-1.7	-2.4	-4.0
External public debt	29.5	32.7	31.8	30.9	31.8	31.5	31.1	29.9
Gross official reserves (end of period)								
Millions of U.S. dollars	4,972	5,807	7,513	6,468	8,495	10,171	11,786	13,299
Months of imports of goods and services (less intra regional imports)	2.3	2.3	3.1	2.6	3.3	3.9	4.2	4.9
Percent of broad money	29.3	30.6	35.3	33.1	39.2	43.2	45.8	47.5
Memorandum items:								
Nominal GDP (billions of CFA francs)	45,970	48,365	49,162	51,722	54,396	56,475	58,729	61,709
CFA francs per U.S. dollar, average	593	581	...	...	...	...	...	...
CFA francs per U.S. dollar, end-of-year	622	554	...	...	...	...	...	...
Oil production (thousands of barrels per day)	881.3	827.2	874.6	860.8	882.4	871.3	823.0	802.5
Oil prices (US dollars per barrel, brent)	44.0	71.9	...	71.9	72.3	69.4	66.8	65.0

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 18/210

Table 2. CEMAC: National Accounts, 2016–22

	2016	2017	2018	2018	2019	2020	2021	2022
	Est.	Est.	CR 18/210[1]	Proj.	Proj.	Proj.	Proj.	Proj.
			(Annual change, in percent)					
Real GDP								
Cameroon	4.6	3.5	4.0	3.8	4.4	4.7	4.9	5.2
Central African Republic	4.5	4.3	4.3	4.3	5.0	5.0	5.0	5.0
Chad	-6.4	-3.1	3.5	3.1	4.6	6.1	4.9	5.4
Congo, Republic of	-2.8	-3.1	2.0	1.0	3.2	-0.1	-1.9	0.7
Equatorial Guinea	-8.6	-3.2	-7.9	-7.7	-2.6	-2.3	-1.4	-1.7
Gabon	2.1	0.5	2.0	1.2	3.1	3.9	4.1	4.5
CEMAC	-0.4	1.0	2.7	2.2	3.4	3.0	2.6	3.4
Nominal GDP								
Cameroon	5.8	5.1	4.6	5.4	5.9	6.3	6.6	6.8
Central African Republic	11.2	8.1	8.4	7.4	8.2	7.6	7.6	7.6
Chad	-7.6	-4.0	5.7	5.5	7.4	9.1	8.0	8.4
Congo, Republic of	-8.7	13.2	13.7	20.0	6.4	-5.0	-8.0	-2.6
Equatorial Guinea	-14.4	8.9	-1.4	0.2	-1.2	-1.9	0.6	1.5
Gabon	-2.3	4.3	5.2	9.3	5.7	4.3	4.4	4.7
CEMAC	-2.3	5.2	5.1	6.9	5.2	3.8	4.0	5.1
Real non-oil GDP								
Cameroon	5.3	5.0	4.2	4.5	4.9	5.2	5.4	5.6
Central African Republic	4.5	4.3	4.3	4.3	5.0	5.0	5.0	5.0
Chad	-6.0	-0.5	1.5	1.0	3.0	3.8	4.0	4.0
Congo, Republic of	-3.2	-7.9	-5.4	-6.7	1.0	2.5	3.6	4.0
Equatorial Guinea	-4.2	3.7	-4.4	-10.7	-0.1	0.4	0.9	0.7
Gabon	3.3	1.7	2.3	1.9	3.5	4.6	4.7	5.2
CEMAC	1.3	2.6	1.9	1.0	3.6	4.2	4.5	4.7
Consumer price inflation (period average)								
Cameroon	0.9	0.6	1.1	0.9	1.2	2.0	2.0	2.0
Central African Republic	4.6	4.1	4.0	3.0	3.0	2.5	2.5	2.5
Chad	-1.1	-0.9	2.1	2.5	2.9	3.0	3.0	3.0
Congo, Republic of	3.2	0.5	1.6	1.2	1.9	2.5	2.8	2.8
Equatorial Guinea	1.4	0.7	0.6	0.9	1.4	1.9	2.5	3.0
Gabon	2.1	2.7	2.8	4.0	3.0	2.5	2.5	2.5
CEMAC	1.3	0.8	1.6	1.7	1.9	2.3	2.4	2.4
End of period inflation								
Cameroon	0.3	0.8	1.1	1.1	1.2	2.0	2.0	2.0
Central African Republic	4.7	4.2	3.6	2.5	2.3	2.7	2.4	2.6
Chad	-4.9	5.4	-2.3	3.5	-1.2	5.0	3.1	5.6
Congo, Republic of	0.0	1.8	1.7	1.3	1.8	2.7	2.9	3.0
Equatorial Guinea	2.0	-0.2	1.3	1.3	1.5	2.2	2.7	3.3
Gabon	4.1	1.1	2.8	4.0	3.0	2.5	2.5	2.5
CEMAC	0.5	1.5	1.1	2.0	1.3	2.6	2.4	2.9
				(Percent of GDP)				
Gross national savings								
Cameroon	25.2	25.5	23.8	26.4	27.1	28.1	28.9	29.8
Central African Republic	8.2	5.5	6.9	7.3	9.0	9.9	10.6	11.3
Chad	7.5	15.5	18.1	19.2	20.9	19.8	20.5	18.7
Congo, Republic of	73.6	30.7	23.2	29.9	34.2	29.9	24.9	22.0
Equatorial Guinea	3.6	6.1	4.3	7.9	7.8	7.3	7.4	6.4
Gabon	24.3	26.0	27.4	28.4	30.1	32.5	32.0	32.8
CEMAC	24.1	21.6	20.8	23.3	24.8	25.0	24.9	24.9
Gross domestic investment								
Cameroon	28.4	28.1	26.8	30.0	30.3	31.2	31.9	32.9
Central African Republic	13.7	13.8	15.3	15.9	16.6	16.8	16.2	16.2
Chad	16.7	21.1	22.8	23.9	26.1	24.2	25.9	24.3
Congo, Republic of	119.8	34.0	19.0	19.4	22.2	22.2	23.8	25.0
Equatorial Guinea	16.6	12.0	6.7	10.8	11.3	11.9	11.7	24.5
Gabon	34.2	30.7	30.8	30.5	31.1	32.1	31.1	29.3
CEMAC	35.0	25.6	23.3	25.1	26.1	26.7	27.3	28.9

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

[1] Refers to the projections published in the IMF Country Report No 18/210

Table 3a. CEMAC: Balance of Payments, 2016–22
(Billions of CFA francs)

	2016	2017	2018	2018	2019	2020	2021	2022
			CR					
	Est.	Est.	18/210	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-5,038	-1,989	-1,261	-956	-740	-954	-1,407	-2,472
Balance on goods and services	-2,797	413	1,092	2,057	2,226	1,692	990	-244
Total exports	13,724	16,257	16,834	19,045	19,621	19,252	18,595	18,548
Exports of goods	11,836	13,829	14,682	16,545	17,025	16,592	15,812	15,629
Oil exports	7,898	9,631	10,727	12,429	12,522	11,631	10,533	9,939
Non-oil exports	3,939	4,198	3,955	4,117	4,503	4,961	5,279	5,689
Exports of services	1,888	2,428	2,152	2,500	2,596	2,660	2,783	2,919
Total imports	16,521	15,844	15,742	16,988	17,395	17,561	17,605	18,792
Imports of goods	10,242	9,265	8,912	9,827	10,048	10,153	10,297	11,386
Imports of services	6,279	6,578	6,830	7,162	7,347	7,407	7,308	7,406
Income, net	-2,285	-2,598	-2,838	-3,244	-3,223	-2,998	-2,748	-2,633
Income credits	202	209	245	245	270	286	302	312
Income debits	2,488	2,807	3,083	3,489	3,493	3,284	3,050	2,945
Investment income, debit	-1,902	-2,187	-2,442	-2,818	-2,835	-2,672	-2,460	-2,369
Of which: Interest paid on public debt	-328	-279	-275	-292	-282	-268	-254	-253
Of which: Interest paid on nonpublic debt	-98	-171	-20	-21	-10	0	2	3
Current transfers, net	44	195	485	231	256	352	351	405
Private current transfers, net	39	186	434	198	161	207	200	238
Official current transfers, net	5	9	51	32	96	145	151	167
Balance on capital and financial accounts	1,485	1,182	221	73	273	1,059	1,725	2,885
Balance on capital account (incl. capital transfers)	172	358	201	194	232	251	267	269
Balance on financial account (incl. reserves)	1,314	824	20	-121	41	808	1,458	2,617
Direct investment, net[1]	1,662	1,936	3,070	1,894	2,299	2,239	1,993	3,438
Portfolio investment, net	-8	128	-6	104	75	103	95	108
Other investment, net	-340	-1,239	-3,044	-2,119	-2,333	-1,534	-630	-929
Errors and omissions, net	86	-213	0	0	0	0	0	0
Overall Balance	-3,467	-1,020	-1,040	-883	-468	105	318	414
Financing	3,467	1,020	1,040	883	468	-105	-318	-414
Reserve assets (accumulation -)[2]	3,314	-231	-785	-481	-1,118	-906	-840	-783
Exceptional financing	153	1,250	1,825	1,364	1,585	801	522	369
Memorandum items:								
Nominal GDP	45,970	48,365	49,162	51,722	54,396	56,475	58,729	61,709
Gross foreign assets (end of period)								
Billions CFAF	3,093	3,218	3,953	3,651	4,727	5,613	6,453	7,235
Months of imports of goods and services	2.3	2.3	3.1	2.6	3.3	3.9	4.2	4.9
Net foreign assets (end of period)								
Billions CFAF	2,254	2,131	2,552	2,273	3,021	3,697	4,430	5,203
Months of imports of goods and services	1.6	1.5	2.0	1.6	2.1	2.6	2.9	3.6

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.

Table 3b. CEMAC: Balance of Payments, 2016–22

(Percent of GDP)

	2016	2017	2018	2018	2019	2020	2021	2022
	Est.	Est.	CR 18/210	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-11.0	-4.1	-2.6	-1.8	-1.4	-1.7	-2.4	-4.0
Balance on goods and services	-6.1	0.9	2.2	4.0	4.1	3.0	1.7	-0.4
Total exports	29.9	33.6	34.2	36.8	36.1	34.1	31.7	30.1
Exports of goods	25.7	28.6	29.9	32.0	31.3	29.4	26.9	25.3
Oil exports	17.2	19.9	21.8	24.0	23.0	20.6	17.9	16.1
Non-oil exports	8.6	8.7	8.0	8.0	8.3	8.8	9.0	9.2
Exports of services	4.1	5.0	4.4	4.8	4.8	4.7	4.7	4.7
Total imports	35.9	32.8	32.0	32.8	32.0	31.1	30.0	30.4
Imports of goods	22.3	19.2	18.1	19.0	18.5	18.0	17.5	18.4
Imports of services	13.7	13.6	13.9	13.8	13.5	13.1	12.4	12.0
Income, net	-5.0	-5.4	-5.8	-6.3	-5.9	-5.3	-4.7	-4.3
Income credits	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Income debits	5.4	5.8	6.3	6.7	6.4	5.8	5.2	4.8
Of which:								
Investment income, debit	-4.1	-4.5	-5.0	-5.4	-5.2	-4.7	-4.2	-3.8
Of which: Interest paid on public debt	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4
Of which: Interest paid on nonpublic debt	-0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Current transfers, net	0.1	0.4	1.0	0.4	0.5	0.6	0.6	0.7
Private current transfers, net	0.1	0.4	0.9	0.4	0.3	0.4	0.3	0.4
Official current transfers, net	0.0	0.0	0.1	0.1	0.2	0.3	0.3	0.3
Balance on capital and financial accounts	3.2	2.4	0.4	0.1	0.5	1.9	2.9	4.7
Balance on capital account (incl. capital transfers)	0.4	0.7	0.4	0.4	0.4	0.4	0.5	0.4
Balance on financial account	2.9	1.7	0.0	-0.2	0.1	1.4	2.5	4.2
Direct investment, net[1]	3.6	4.0	6.2	3.7	4.2	4.0	3.4	5.6
Portfolio investment, net	0.0	0.3	0.0	0.2	0.1	0.2	0.2	0.2
Other investment, net	-0.7	-2.6	-6.2	-4.1	-4.3	-2.7	-1.1	-1.5
Errors and omissions, net	0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-7.5	-2.1	-2.1	-1.7	-0.9	0.2	0.5	0.7
Financing	7.5	2.1	2.1	1.7	0.9	-0.2	-0.5	-0.7
Reserve assets (accumulation -)[2]	7.2	-0.5	-1.6	-0.9	-2.1	-1.6	-1.4	-1.3
Exceptional financing	0.3	2.6	3.7	2.6	2.9	1.4	0.9	0.6
Memorandum items:								
Nominal GDP (billions of CFAF)	45,970	48,365	49,162	51,722	54,404	56,484	58,738	61,719

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.

Table 4a. CEMAC: Fiscal Indicators, 2015–22

(Percent of GDP)

	2015	2016	2017	2018	2018	2019	2020	2021	2022
	Est.	Est.	Est.	CR 18/210	Proj.	Proj.	Proj.	Proj.	Proj.
Overall fiscal balance (excluding grants)									
Cameroon	-4.5	-6.4	-5.2	-2.9	-2.7	-2.3	-1.8	-1.8	-1.8
Central African Republic	-7.8	-4.4	-6.5	-6.6	-7.6	-7.4	-7.4	-6.5	-6.2
Chad	-7.8	-4.9	-4.4	-3.4	-2.5	-2.5	-1.4	-0.9	-0.3
Congo, Republic of	-25.6	-21.0	-7.9	6.6	6.8	9.9	9.7	4.8	5.0
Equatorial Guinea	-15.1	-10.8	-2.5	-0.9	0.6	2.2	2.5	2.0	1.3
Gabon	-1.0	-5.0	-2.6	-0.7	0.5	1.3	0.8	1.6	2.9
CEMAC	-8.4	-8.0	-4.6	-1.3	-0.6	0.3	0.4	-0.1	0.1
Overall fiscal balance (including grants)									
Cameroon	-4.4	-6.1	-4.9	-2.6	-2.4	-2.0	-1.4	-1.5	-1.5
Central African Republic	-0.6	1.6	-1.1	0.9	0.7	0.7	-0.1	0.1	0.3
Chad	-4.4	-2.0	-0.3	0.9	1.4	0.6	1.7	1.6	2.1
Congo, Republic of	-24.8	-20.1	-7.3	7.1	7.0	10.4	10.1	5.3	5.6
Equatorial Guinea	-15.1	-10.8	-2.5	-0.9	0.6	2.2	2.5	2.0	1.3
Gabon	-1.0	-5.0	-2.6	-0.7	0.5	1.3	0.8	1.6	2.9
CEMAC	-7.7	-7.3	-3.7	-0.4	0.2	1.1	1.2	0.6	0.8
Reference fiscal balance [1]									
Cameroon	-4.0	-5.3	-4.3	-2.8	-2.7	-2.3	-1.5	-1.4	-1.5
Central African Republic	-0.6	1.6	-1.1	0.9	0.7	0.7	-0.1	0.1	0.3
Chad	1.5	1.7	0.4	-1.0	-1.2	-1.8	-0.4	0.4	1.2
Congo, Republic of	-8.4	-11.8	-3.2	-2.5	-3.4	1.6	4.6	5.8	5.3
Equatorial Guinea	-19.1	-6.1	-1.1	-0.2	0.3	0.2	2.1	2.3	1.8
Gabon	5.4	0.1	-2.1	-2.7	-1.7	-0.6	0.1	1.4	2.8
CEMAC	-2.9	-2.6	-2.1	-2.0	-1.9	-1.1	0.3	1.0	0.0
Primary fiscal balance (including grants)									
Cameroon	-4.0	-5.3	-4.0	-1.8	-1.6	-1.1	-0.5	-0.6	-0.6
Central African Republic	-0.1	2.1	-0.8	1.2	1.0	1.0	0.2	0.4	0.5
Chad	-2.7	0.1	1.4	2.2	2.9	1.7	2.9	2.7	3.0
Congo, Republic of	-23.8	-17.4	-5.2	9.5	9.1	11.9	11.6	6.7	7.0
Equatorial Guinea	-14.7	-10.4	-2.1	-0.2	1.2	3.4	3.8	3.4	2.6
Gabon	1.1	-2.7	-0.1	2.1	2.9	3.9	3.2	3.9	5.1
CEMAC	-6.7	-5.9	-2.4	1.0	1.5	2.4	2.5	1.9	2.1
Government revenue (excluding grants)									
Cameroon	16.4	14.5	14.6	15.5	15.2	15.2	15.2	15.2	15.3
Central African Republic	7.1	8.2	8.3	9.2	9.3	10.7	10.9	11.2	11.5
Chad	10.5	9.6	10.8	11.5	12.1	12.7	13.2	13.2	13.2
Congo, Republic of	31.8	33.2	27.1	34.4	31.5	34.0	34.4	32.8	34.2
Equatorial Guinea	26.6	16.9	17.0	18.3	17.2	17.3	16.5	15.9	15.3
Gabon	21.1	17.1	16.4	17.7	18.2	18.4	19.0	19.4	19.3
CEMAC	19.6	16.4	16.1	17.8	17.5	17.9	17.9	17.4	17.4
Government expenditure (including net lending minus repayments)									
Cameroon	20.9	20.9	19.8	18.4	17.9	17.5	17.0	16.9	17.1
Central African Republic	14.9	12.6	14.8	15.8	16.8	18.1	18.4	17.7	17.7
Chad	18.3	14.5	15.2	14.9	14.6	15.2	14.6	14.1	13.5
Congo, Republic of	57.4	54.1	35.0	27.8	24.6	24.1	24.7	28.0	29.2
Equatorial Guinea	41.6	27.8	19.6	19.3	16.7	15.1	14.0	13.9	14.0
Gabon	22.1	22.1	19.0	18.4	17.7	17.1	18.2	17.8	16.3
CEMAC	28.0	24.4	20.6	19.1	18.1	17.6	17.4	17.5	17.3
Total public debt									
Cameroon	32.0	32.5	36.9	37.7	36.3	35.3	33.9	32.6	31.5
Central African Republic	64.0	56.0	52.8	47.0	48.5	42.2	39.2	36.4	33.8
Chad	43.3	51.8	52.4	48.1	49.8	45.5	41.2	37.5	33.9
Congo, Republic of	112.1	129.4	126.0	110.3	96.6	84.1	81.7	85.7	82.5
Equatorial Guinea	33.6	43.3	37.4	43.5	37.1	37.2	37.4	37.3	35.9
Gabon	44.7	64.2	62.7	58.3	57.3	53.1	50.2	46.5	43.1
CEMAC	45.4	52.6	53.5	52.3	49.5	46.2	43.7	41.8	39.2

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.

Table 4b. CEMAC: Fiscal Indicators, 2015–22

(Percent of Non-oil GDP)

	2015	2016	2017	2018	2018	2019	2020	2021	2022
	Est.	Est.	Est.	CR 18/210	Proj.	Proj.	Proj.	Proj.	Proj.
Non-oil fiscal balance (excluding grants)									
Cameroon	-7.9	-8.9	-7.4	-5.2	-5.1	-4.4	-3.5	-3.3	-3.2
Central African Republic	-7.8	-4.4	-6.5	-6.6	-7.6	-7.4	-7.4	-6.5	-6.2
Chad	-14.6	-9.6	-9.3	-9.8	-9.5	-9.9	-9.2	-8.4	-7.5
Congo, Republic of	-64.9	-57.3	-41.0	-32.4	-37.2	-31.6	-25.8	-24.0	-20.8
Equatorial Guinea	-53.9	-31.5	-22.9	-19.3	-17.4	-13.9	-10.8	-9.3	-8.4
Gabon	-12.1	-14.3	-13.3	-11.3	-10.1	-8.3	-7.7	-5.7	-3.0
CEMAC	-20.6	-16.3	-12.8	-10.2	-10.0	-8.6	-7.2	-6.3	-5.4
Non-oil fiscal balance (including grants)									
Cameroon	-7.8	-8.6	-7.0	-4.9	-4.8	-4.1	-3.2	-3.0	-2.9
Central African Republic	-0.6	1.6	-1.1	0.9	0.7	0.7	-0.1	0.1	0.3
Chad	-10.4	-6.0	-4.5	-4.5	-4.7	-6.1	-5.4	-5.1	-4.3
Congo, Republic of	-63.5	-56.5	-39.9	-31.2	-36.8	-30.5	-24.8	-23.0	-19.6
Equatorial Guinea	-53.9	-31.5	-22.9	-19.3	-17.4	-13.9	-10.8	-9.3	-8.4
Gabon	-12.3	-13.8	-12.0	-10.6	-8.6	-7.9	-7.7	-5.7	-3.0
CEMAC	-19.8	-15.4	-11.6	-9.0	-8.8	-7.5	-6.2	-5.5	-4.6
Basic balance[1]									
Cameroon	-1.7	-4.0	-1.4	0.0	0.8	0.4	1.0	1.0	1.0
Central African Republic	-3.5	-1.6	-2.5	-1.8	-1.8	-1.6	-1.5	-1.2	-0.9
Chad	-6.9	-3.4	-1.6	-0.3	0.8	0.8	2.2	2.9	3.6
Congo, Republic of	-36.7	-23.0	-6.1	20.2	19.9	32.1	28.2	14.8	13.7
Equatorial Guinea	-21.8	-14.5	-3.6	-1.2	0.8	2.9	3.2	2.5	1.5
Gabon	1.5	-2.6	-1.4	2.2	5.0	5.1	5.7	6.4	7.0
CEMAC	-7.7	-6.4	-2.1	1.4	2.5	3.3	3.6	3.0	3.0
Non-oil primary fiscal balance (including grants)									
Cameroon	-7.4	-7.8	-6.1	-4.0	-4.0	-3.2	-2.2	-2.1	-2.0
Central African Republic	-0.1	2.1	-0.8	1.2	1.0	1.0	0.2	0.4	0.5
Chad	-8.3	-3.5	-2.5	-3.0	-2.9	-4.6	-3.8	-3.8	-3.2
Congo, Republic of	-62.0	-51.7	-35.7	-26.0	-31.5	-26.4	-21.3	-20.0	-17.1
Equatorial Guinea	-53.3	-31.0	-22.3	-18.4	-16.6	-12.2	-9.1	-7.6	-6.8
Gabon	-9.0	-11.0	-9.7	-7.2	-6.4	-4.5	-4.4	-2.5	0.0
CEMAC	-18.6	-13.8	-10.2	-7.4	-7.4	-5.9	-4.6	-4.0	-3.2
Government revenue (excluding grants)									
Cameroon	17.2	15.0	15.2	16.1	15.7	15.6	15.6	15.5	15.6
Central African Republic	7.1	8.2	8.3	9.2	9.3	10.7	10.9	11.2	11.5
Chad	13.2	11.9	12.9	13.9	14.7	15.6	16.7	16.8	17.0
Congo, Republic of	52.4	52.7	53.1	77.9	79.3	88.8	81.3	66.9	63.6
Equatorial Guinea	38.4	22.7	24.2	24.3	23.8	23.1	21.2	19.8	18.6
Gabon	31.7	24.2	23.6	25.7	27.2	27.2	27.2	27.2	26.4
CEMAC	24.4	19.7	19.7	22.0	22.1	22.5	21.9	20.9	20.5
Government expenditure (including net lending minus repayments)									
Cameroon	21.8	21.6	20.6	19.1	18.5	18.0	17.4	17.3	17.4
Central African Republic	14.9	12.6	14.8	15.8	16.8	18.1	18.4	17.7	17.7
Chad	22.9	18.0	18.0	18.1	17.8	18.7	18.4	18.0	17.4
Congo, Republic of	94.5	85.9	68.6	62.9	62.1	62.9	58.4	57.2	54.4
Equatorial Guinea	60.2	37.2	27.8	25.5	23.0	20.2	18.1	17.3	17.1
Gabon	33.1	31.3	27.4	26.8	26.5	25.3	26.1	24.9	22.4
CEMAC	34.9	29.3	25.3	23.6	22.8	22.1	21.4	20.9	20.3
Non-oil revenues (excluding grants)									
Cameroon	14.0	12.7	13.2	13.8	13.4	13.6	13.9	14.0	14.2
Central African Republic	7.1	8.2	8.3	9.2	9.3	10.7	10.9	11.2	11.5
Chad	8.3	8.4	8.7	8.3	8.3	8.8	9.2	9.6	9.9
Congo, Republic of	29.6	28.6	27.6	30.5	24.9	31.3	32.6	33.2	33.6
Equatorial Guinea	6.3	5.7	4.9	6.2	5.6	6.3	7.3	8.0	8.6
Gabon	21.0	17.0	14.1	15.5	16.4	17.0	18.3	19.2	19.3
CEMAC	14.3	13.0	12.5	13.4	12.8	13.6	14.2	14.6	14.9

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

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

Table 5. CEMAC: Compliance with Convergence Criteria, 2015–22

	2015	2016	2017	2018	2019	2020	2021	2022
		Est.	Prel. Est.	Proj.	Proj.	Proj.	Proj.	Proj.
				(In percent of GDP)				
Fiscal balance[1]								
Cameroon	-1.6	-3.8	-4.3	-2.7	-2.3	-1.5	-1.4	-1.5
Central African Republic	-3.5	-1.6	-1.1	0.7	0.7	-0.1	0.1	0.3
Chad	-5.5	-2.7	0.4	-1.2	-1.8	-0.4	0.4	1.2
Congo, Republic of	-22.3	-14.5	-3.2	-3.4	1.6	4.6	5.8	5.3
Equatorial Guinea	-15.1	-10.8	-1.1	0.3	0.2	2.1	2.3	1.8
Gabon	1.0	-1.8	-2.1	-1.7	-0.6	0.1	1.4	2.8
Number of countries violating	5	6	3	3	2	0	0	0
Consumer price inflation (≤ 3%)				(in percent)				
Cameroon	2.7	0.9	0.6	0.9	1.2	2.0	2.0	2.0
Central African Republic	4.5	4.6	4.1	3.0	3.0	2.5	2.5	2.5
Chad	6.8	-1.1	-0.9	2.5	2.9	3.0	3.0	3.0
Congo, Republic of	3.2	3.2	0.5	1.2	1.9	2.5	2.8	2.8
Equatorial Guinea	1.7	1.4	0.7	0.9	1.4	1.9	2.5	3.0
Gabon	-0.1	2.1	2.7	4.0	3.0	2.5	2.5	2.5
Number of countries violating	*3*	*2*	*1*	*2*	*0*	*0*	*0*	*0*
Level of public debt (≤ 70% GDP)				(in percent of GDP)				
Cameroon	32.0	32.5	36.9	36.3	35.3	33.9	32.6	31.5
Central African Republic	64.0	56.0	52.8	48.5	42.2	39.2	36.4	33.8
Chad	43.3	51.8	52.4	49.8	45.5	41.2	37.5	33.9
Congo, Republic of	112.1	129.4	126.0	96.6	84.1	81.7	85.7	82.5
Equatorial Guinea	33.6	43.3	37.4	37.1	37.2	37.4	37.3	35.9
Gabon	44.7	64.2	62.7	57.3	53.1	50.2	46.5	43.1
Number of countries violating	*1*	*1*	*1*	*1*	*1*	*1*	*1*	*1*
Non-accumulation of government arrears[2] (≤ 0)				(in percent of GDP)				
Cameroon	…	…	-1.7	-0.5	0.0	0.1	-0.5	0.0
Central African Republic	-3.6	-6.5	-7.8	-4.0	-4.6	-0.8	-0.8	-0.7
Chad	2.3	0.6	0.6	-2.1	-0.9	-0.6	-0.5	-0.2
Congo, Republic of	2.0	2.3	-0.3	0.6	-1.3	0.1	0.5	…
Equatorial Guinea	13.3	5.7	-4.0	-0.7	-1.2	-1.1	-0.8	-0.9
Gabon	…	…	-5.1	-2.6	-0.1	-0.7	-1.2	0.0
Number of countries violating [3]	*0*	*6*	*6*	…	…	…	…	…

Sources: Authorities' data; and IMF staff estimates.

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

[2] 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.

Table 6. CEMAC: Monetary Survey, 2016–20

(Billions of CFA francs, unless otherwise indicated)

	2016	2017	2018	2018	2018	2018	2018	2019	2019	2019	2019	2020
			Mar.	June	Sept.	Dec.	Dec.	Mar.	June	Sept.	Dec.	
	Est.	Est.	Est.	Est.	Est.	CR 18/210	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In CFAF billions)											
Net foreign assets	2,416	2,322	2,147	2,188	2,073	2,747	2,446	2,367	2,500	2,621	3,190	3,872
Of which: BEAC	2,254	2,131	2,024	1,931	1,938	2,552	2,273	2,248	2,294	2,452	3,021	3,697
Foreign assets	3,093	3,218	3,103	3,072	3,187	3,953	3,651	3,644	3,844	4,018	4,727	5,613
Of which: Operations account	1,156	2,552	2,617	2,631	2,733	2,767	2,921	2,824	2,883	2,913	3,309	3,368
Foreign liabilities	-839	-1,088	-1,078	-1,141	-1,250	-1,401	-1,379	-1,396	-1,550	-1,566	-1,706	-1,915
Commercial banks	162	191	122	257	136	195	173	119	206	169	169	174
Foreign assets	754	802	695	810	727	817	711	658	746	698	710	706
Foreign liabilities[1]	-592	-611	-573	-553	-591	-621	-538	-539	-540	-529	-542	-531
Net domestic assets	8,140	8,190	8,115	8,252	8,549	8,443	8,596	8,517	8,677	8,851	8,868	9,128
Net credit to government	2,689	2,937	3,017	3,014	3,258	2,965	3,136	3,148	3,200	3,111	3,045	2,708
BEAC, net	1,645	1,946	2,061	1,982	2,224	1,878	1,927	1,969	2,071	1,978	1,909	1,494
Of which:												
Advances and consolidated debt	2,446	2,770	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,772
IMF lending	201	491	477	513	648	803	783	799	915	931	1,110	1,319
Government deposits	-1,002	-1,316	-1,190	-1,304	-1,197	-1,698	-1,628	-1,602	-1,617	-1,726	-1,974	-2,598
Commercial banks, net	1,044	991	957	1,032	1,034	1,087	1,208	1,179	1,129	1,134	1,136	1,215
Net credit to public agencies	-418	-371	-294	-310	-298	-382	-279	-273	-274	-269	-275	-275
Credit to private sector	7,082	6,955	6,833	6,869	7,056	7,069	7,096	7,027	7,119	7,358	7,412	8,007
Other items, net	-1,213	-1,331	-1,442	-1,321	-1,467	-1,210	-1,356	-1,385	-1,367	-1,350	-1,314	-1,313
Broad money	10,556	10,512	10,261	10,440	10,622	11,190	11,042	10,884	11,177	11,472	12,057	12,999
Currency outside banks	2,432	2,436	2,273	2,263	2,368	2,468	2,320	2,336	2,428	2,476	2,703	2,898
Bank deposits	8,123	8,076	7,989	8,177	8,253	8,722	8,722	8,548	8,750	8,996	9,354	10,101
	(Annual change in percent of beginning-of-period broad money)											
Net foreign assets	-31.4	-0.9	0.3	2.0	0.2	4.0	1.2	2.1	3.0	5.2	6.7	5.7
Net domestic assets	26.7	0.5	-0.2	1.2	5.1	2.4	3.9	3.9	4.1	2.8	2.5	2.2
Net credit to government	24.3	2.4	6.9	3.4	5.5	0.3	1.9	1.3	1.8	-1.4	-0.8	-2.8
Net credit to the private sector	2.1	-1.2	-2.1	-1.6	1.4	1.1	1.3	1.9	2.4	2.8	2.9	4.9
Other items, net	-0.6	-1.1	-6.7	-2.3	-2.5	1.2	-0.2	0.6	-0.4	1.1	0.4	0.0
Broad money	-4.6	-0.4	0.1	3.2	5.3	6.4	5.0	6.1	7.1	8.0	9.2	7.8
Velocity (GDP/broad money)	4.4	4.6	5.0	5.0	4.9	4.4	4.7	5.0	4.9	4.7	4.5	4.3
	(Percent of GDP)											
Broad money	23.0	21.7	19.8	20.2	20.5	22.8	21.3	20.0	20.5	21.1	22.2	23.0
Private bank deposits	12.7	12.0	11.1	11.4	11.5	12.8	12.1	11.3	11.6	11.9	12.4	12.9
Net credit to the private sector	15.4	14.4	13.2	13.3	13.6	14.4	13.7	12.9	13.1	13.5	13.6	14.2

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).

Table 7. CEMAC: Summary Accounts of the Central Bank, 2016–20

(Billions of CFA francs, unless otherwise indicated)

	2016 Dec. Est.	2017 Dec. Est.	2018 Mar. Est.	2018 June CR 18/210	2018 June Est.	2018 Sept. Est.	2018 Dec. CR 18/210	2018 Dec. Proj.	2019 Mar. Proj.	2019 June Proj.	2019 Sept. Proj.	2019 Dec. Proj.	2020 Dec. Proj.
Net foreign assets	2,254	2,131	2,024	2,120	1,931	1,938	2,552	2,273	2,248	2,294	2,452	3,021	3,697
Assets[1]	3,093	3,218	3,103	3,297	3,072	3,187	3,953	3,651	3,644	3,844	4,018	4,727	5,613
Of which:													
Operations account	1,156	2,552	2,617	2,637	2,631	2,733	2,767	2,921	2,824	2,883	2,913	3,309	3,368
Liabilities	-839	-1,088	-1,078	-1,177	-1,141	-1,250	-1,401	-1,379	-1,396	-1,550	-1,566	-1,706	-1,915
Net domestic assets	1,858	2,066	2,191	2,092	2,133	2,277	1,927	1,971	2,003	2,064	1,964	1,656	1,233
Net credit to government	1,645	1,946	2,061	1,958	1,982	2,224	1,878	1,927	1,969	2,071	1,978	1,909	1,494
Claims	2,647	3,261	3,250	3,345	3,286	3,421	3,576	3,556	3,572	3,687	3,704	3,883	4,091
Advances and consolidated debt	2,446	2,770	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,773	2,772
o.w. Cameroon	231	577	577	577	577	577	577	577	577	577	577	577	577
Central African Republic	78	79	81	81	81	81	81	81	81	81	81	81	81
Chad	494	480	480	480	480	480	480	480	480	480	480	480	480
Congo, Republic of	572	572	572	572	572	572	572	572	572	572	572	572	572
Equatorial Guinea	618	609	609	609	609	609	609	609	609	609	609	609	609
Gabon	453	453	453	453	453	453	453	453	453	453	453	453	453
IMF credit	201	491	477	572	513	648	803	783	799	915	931	1,110	1,319
o.w. Cameroon	50	191	182	182	187	222	258	261	254	297	289	332	375
Central African Republic	70	87	84	99	84	100	116	114	114	129	127	125	120
Chad	75	97	97	151	127	154	178	182	180	201	201	226	246
Congo, Republic of	6	4	3	28	3	3	52	2	28	28	53	53	128
Equatorial Guinea	0	0	0	0	0	0	32	0	0	-19	-19	38	86
Gabon	0	111	111	111	113	169	166	223	223	280	280	336	364
Government deposits	-1,002	-1,316	-1,190	-1,387	-1,304	-1,197	-1,698	-1,628	-1,602	-1,617	-1,726	-1,974	-2,598
o.w. Unallocated	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Cameroon	-299	-656	-662	-610	-596	-549	-592	-722	-604	-542	-592	-583	-711
Central African Republic	-35	-45	-23	-34	-25	-35	-27	-40	-33	-27	-20	-14	-13
Chad	-77	-93	-134	-124	-208	-141	-144	-167	-163	-158	-153	-150	-195
Congo, Republic of	-206	-93	-114	-246	-84	-119	-380	-117	-181	-205	-309	-372	-603
Equatorial Guinea	-177	-114	-144	-227	-277	-215	-239	-187	-225	-289	-255	-337	-468
Gabon	-208	-315	-111	-146	-115	-138	-315	-396	-396	-396	-396	-517	-607
Net claims on financial institutions	628	440	462	466	425	385	381	375	365	324	318	78	70
Other items, net	-415	-319	-332	-332	-274	-331	-332	-331	-331	-331	-331	-331	-331
Base money	4,112	4,197	4,215	4,212	4,064	4,215	4,479	4,243	4,251	4,358	4,417	4,677	4,930
Currency in circulation	2,432	2,436	2,273	2,248	2,263	2,368	2,468	2,320	2,336	2,428	2,476	2,703	2,898
Banks' reserves	1,631	1,717	1,863	1,877	1,742	1,798	1,914	1,869	1,857	1,870	1,887	1,911	1,965
o.w. Required reserves	448	442	450	578	538	571	598	608	596	610	627	652	704
Excess reserves	857	977	1,115	995	902	915	995	940	935	930	925	920	895
Cash in vaults	326	297	299	305	303	312	321	321	325	330	334	339	366
Others	48	44	80	86	59	48	98	54	58	60	54	63	67
Memorandum items:													
Reserve coverage of broad money (in percent)	29.3	30.6	30.2	n.a.	29.4	n.a.	35.3	33.1	n.a.	n.a.	n.a.	39.2	43.2
Base money/deposits (in percent)	50.6	52.0	52.8	n.a.	49.7	n.a.	51.4	48.6	n.a.	n.a.	n.a.	50.0	48.8

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.

Table 8. CEMAC: Net Foreign Assets of the Central Bank, 2016–21

(Billions of CFA francs)

	2016	2017	2017	2018	2018	2018	2018	2018	2018	2019	2019	2019	2020	2021
	Dec.	Jun.	Dec.	Mar.	Jun.	Jun.	Sep.	Dec.	Dec.	June	Dec.	Dec.	Dec.	Dec.
	Est.	Est	Est.	Est.	CR 18/210	Proj.	Proj.	CR 18/210	Proj.	Proj.	CR 18/210	Proj.	Proj.	Proj.
BEAC's net foreign assets														
Stock	2,254	1,768	2,131	2,024	2,120	1,931	1,938	2,552	2,273	2,294	2,994	3,021	3,697	4,430
Change since end of previous year	-3,294	-486	-123	-106	-11	-200	-193	421	142	22	443	748	676	732
o.w. Cameroon	-824	-106	216	92	44	-67	-93	2	-2	-208	19	22	-30	71
Central African Republic	12	20	35	-21	-21	-19	-14	-21	-21	-12	0	-2	20	24
Congo	-912	-220	-207	-72	-11	-79	-10	300	15	74	162	280	216	67
Gabon	-630	-145	-64	-75	-14	-91	-84	52	115	19	141	177	249	315
Equatorial Guinea	-712	30	-43	-74	-41	26	-21	55	-3	137	93	220	141	145
Chad	-448	0	45	25	37	54	37	83	87	30	58	91	100	110
Unallocated	220	-65	-105	19	-5	-23	-7	-50	-49	-20	-30	-40	-20	0

Sources: BEAC; and IMF staff projections.

Table 9. CEMAC: Bank Ratings, June 2018 [1] [2]

	1	2	3	4	5
Country (number of banks)					
Cameroon (14)	0	4	6	2	2
Central African Republic (4)	0	2	2	0	0
Chad (8)	0	2	2	5	1
Republic of Congo (11)	0	3	6	1	1
Equatorial Guinea (5)	0	2	3	0	0
Gabon (8)	1	2	4	0	1
CEMAC (52)	1	15	23	8	5

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, 2010–18

(Percent)

	2010	2011	2012	2013	2014	2015	2016	Dec-17	Aug-18
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	17.5
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	16.2
Non-performing loans less provisions to regulatory capital	7.5	0.2	1.0	25.9	22.4	22.9	35.4	40.9	43.2
Earnings and profitability									
Return on equity	18.2	23.9	23.2	27.2	20.3	16.4	23.5	27.6	-
Return on assets[3]	2.0	2.2	2.1	2.5	2.0	1.7	2.5	3.1	-
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	165.8
Total deposits to total (noninterbank) loans	125.7	138.0	145.7	130.4	127.4	111.6	102.3	101.5	104.1
Credit									
Gross loan (banks' book) - bn FCFA	4837	5273	5948	7111	7699	8486	8991	8814.5	8833.0
Gross loan - annualized growth rate	-	9.0	12.8	19.5	8.3	10.2	5.9	-2.0	-0.5

Source: Banking Commission of Central Africa (COBAC).

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

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

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

Table 11. CEMAC: Violations of Prudential Ratios, 2014–18

	Capital Adequacy					Liquidity[1]					Fixed Assets[2]					Maturity[3] Transformation					Minimum[4] Capital					Limit on Single[5] large exposure				
	2014	2015	2016	2017	Jun-18	2014	2015	2016	2017	Jun-18	2014	2015	2016	2017	Jun-18	2014	2015	2016	2017	Jun-18	2014	2015	2016	2017	Jun-18	2014	2015	2016	2017	Jun-18
	8%					Min 100%					Min 100%					Min 50%					Min CFAF 10 billions					Max 45%				
Country (number of banks)																														
Cameroon (14)	4	3	3	4	3	3	3	3	3	2	4	4	5	5	3	4	3	3	3	5	3	4	5	5	4	5	5	6	10	7
Central African Republic (4)	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	3	2	2	1	2	1	2	2	2
Chad (9)	1	1	1	1	1	0	1	1	3	3	2	2	1	1	2	1	3	3	3	3	2	2	2	1	2	3	1	2	2	3
Republic of Congo (11)	0	1	1	1	1	0	4	4	6	3	1	5	3	3	3	1	2	2	2	2	1	4	3	4	2	2	2	1	3	4
Equatorial Guinea (5)	1	0	0	0	0	0	0	4	0	0	1	0	4	0	1	1	0	3	0	0	0	0	0	1	1	1	1	2	2	1
Gabon (8)	3	3	3	3	1	3	2	1	4	1	4	4	0	4	1	3	4	0	3	1	1	5	4	4	1	4	5	3	7	2
CEMAC (51)	9	8	8	9	6	6	10	0	16	9	12	15	14	14	10	10	12	11	11	11	7	18	16	17	11	17	14	15	25	19
(In percent of deposits) [6]																														
Cameroon (14)	24	29	n.a	n.a	n.a	21	6	n.a	n.a	n.a	24	23	n.a	n.a	n.a	24	6	n.a	n.a	n.a	9	n.a	n.a	n.a	n.a	29	29	n.a	n.a	n.a
Central African Republic (4)	0	0	n.a	n.a	n.a	0	0	n.a	n.a	n.a	0	0	n.a	n.a	n.a	0	0	n.a	n.a	n.a	0	46.5	n.a	n.a	n.a	24	24	n.a	n.a	n.a
Chad (9)	13	1	n.a	n.a	n.a	0	12	n.a	n.a	n.a	18	16	n.a	n.a	n.a	13	28	n.a	n.a	n.a	6	15.8	n.a	n.a	n.a	38	15	n.a	n.a	n.a
Republic of Congo (11)	0	n.a	n.a	n.a	n.a	0	56	n.a	n.a	n.a	2	19	n.a	n.a	n.a	2	1	n.a	n.a	n.a	0	10.5	n.a	n.a	n.a	4	n.a	n.a	n.a	n.a
Equatorial Guinea (5)	32	0	n.a	n.a	n.a	0	0	n.a	n.a	n.a	32	0	n.a	n.a	n.a	32	0	n.a	n.a	n.a	0	0	n.a	n.a	n.a	32	23	n.a	n.a	n.a
Gabon (8)	5	4	n.a	n.a	n.a	19	2	n.a	n.a	n.a	19	21	n.a	n.a	n.a	5	10	n.a	n.a	n.a	2	11.6	n.a	n.a	n.a	19	21	n.a	n.a	n.a

Source: Banking Commission of Central Africa (COBAC).

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

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

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

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

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

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

Annex I. Response to Past IMF Advice

2017 Regional Consultation Recommendations		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 2017. If some slippages were observed in Cameroon and Gabon in early 2018, they have since been addressed.
	• Structural reforms to diversify the economy and restore sustained growth.	• While some progress has been made with regard to PFM and tax policy reforms, the PREF's overall implementation is lagging behind, 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.	• In response to the end-June NFA under-performance, the BEAC has tightened its monetary stance and, along with COBAC, strengthened the enforcement of foreign exchange regulations.
	• Modernize BEAC's liquidity management and monetary policy instruments.	• Much progress has been made on this front, including: the elimination of the statutory advances; liquidity management being now based on autonomous factors forecasts; liquidity 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.
Macrofinancial linkages and the financial sector	• Put banking supervision on a full risk-basis.	• With the assistance of the World Bank and IMF, the COBAC has started formalizing risk-based supervision processes, while its 2018 inspection missions were largely targeted on risk management. Risk-based supervision be the key theme of COBAC's 2019-21 strategy plan.
	• Enhance enforcement of prudential rules.	• As the intensity of the Banking Commission's disciplinary sessions has increased, non-compliance has started to decline. Also, the COBAC is strengthening its sanctioning framework to include monetary fines, with implementation expected in 2019.
	• Deliver resolution of insolvent banks.	• Progress remains limited in this area. While resolution decisions are expected soon, procedures remain long, especially for state-owned banks.
Regional integration and convergence framework	• Strengthen enforcement of the regional surveillance framework.	• Little progress in this area, with member states having still to provide the Commission with three-year fiscal convergence plans.
	• Reinforce efforts to deepen regional integration.	• Progress was limited in this area, consisting mainly of the facilitation of intra-regional mobility through reduced visa requirements and the adoption of the external common tariff in Cameroon and Gabon.

Annex II. Risk Assessment Matrix[1]

Source/Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Sharper-than-expected global growth slowdown	Medium	
• **Weaker-than-expected growth in China**. Disorderly deleveraging adversely affects near-term growth (low likelihood). In the medium term, insufficient progress in deleveraging and rebalancing reduces growth, with additional credit stimulus postponing the slowdown, but making it sharper (medium likelihood). **Likelihood: low in the short term, medium thereafter.**	• Lower growth in China could depress commodity prices, including oil, and negatively impact regional exports. Lower commodity revenues will further undermine fiscal sustainability in most CEMAC countries and hinder efforts to re-build an adequate foreign reserves buffer.	• Ensure solid implementation of fiscal and monetary adjustment policies across the region to collectively reduce the twin deficits, and ensure external sustainability. • Develop the regional debt market to help covering CEMAC members' financing needs.
Persistently lower energy prices	High	
• **Sizeable deviations from baseline energy prices.** Risks to oil prices are broadly balanced. Prices could rise sharply due to steeper-than-anticipated export declines in some producers, possibly prompted by political disruptions, amid supply bottlenecks. Prices could drop significantly if downside global growth risks materialize or supply exceeds expectations, possibly due to faster-than-expected U.S. shale production growth, or, over the medium term, higher OPEC/Russia production. **Likelihood: medium over the short and medium term.**	A "permanent" downward price shock on oil and other commodity prices will lower regional exports. Lower hydrocarbon revenues will erode fiscal sustainability further in most CEMAC countries and hinder efforts to re-build an adequate foreign reserve buffer.	• Launch reforms with regional coordination to widen the non-oil tax base, notably excises, and reduce VAT-related and other exemptions; ensure prompt repatriation of oil export proceed; spur competition in the non-oil import sector. • Improve external competitiveness through structural reforms to improve the regional business climate and deepen the regional market.

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

Source/Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Delays in the implementation of regional reforms	High	
• Weak implementation capacity and bureaucratic delays at the regional and national levels hamper the pace of reforms. In a low oil price environment and eroded buffers, CEMAC countries may find it even more challenging to find resources and support for regional integration. **Likelihood: medium in the short term**.	• Delays in reforms to address BEAC/CEMAC governance and operational weaknesses could adversely affect policy responsiveness. • Lackluster momentum for financial sector reform could prevent regional authorities from taking decisive actions to deal with weak financial institutions and cause fiscal liabilities. • The absence of significant progress in public finance and financial sector reforms could constrain private investment and undermine efforts to diversify the regional economy. • The lack of progress in rebuilding regional reserves could lead to capital outflows and strain the CFA franc's peg to the Euro.	• Establish credible and time-bound plans to implement much delayed reforms in key regional institutions. For the BEAC, the priority is to finalization it enhanced monetary policy and liquidity management The CEMAC Commission should enhance processes and fill legislative gaps to implement the new regional surveillance framework, including full transposition of CEMAC's public finance directives by member states. • Coordinate national and regional efforts to jump-start measures to enhance the business environment.
Deterioration of the security in the region	Medium	
• Possible deterioration of the security situation in the region, already fragile and exacerbated by the challenging economic situation and the impact of fiscal consolidation on the poorest. **Likelihood: medium in the short term**.	• This could undermine the already fragile economic recovery, affect negatively expectations of the private sector, 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.
Sharp tightening of global financial conditions	**High**	
• Sharp tightening of global financial conditions causes higher debt service and refinancing risks for vulnerable sovereigns; it could bring capital account pressures; and a broad-based downturn. Tighter financial conditions could be triggered by a sharper-than-expected increase in U.S. interest rates (prompted by higher-than-expected inflation) or the materialization of other risks.	• 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 foreign exchange law, deepen effort to preserve the stability of the banking sector.
Lack of commitment on adjustment efforts by some member	High	

Source/Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
• Possibility of free-rider behavior, if even just one CEMAC country delays the participation of a Fund-supported program (including due to lengthy negotiation with bilateral creditors) or does not fully pursue appropriate adjustment policies needed to restore regional external stability; this would negatively impact the success of individual Fund-supported programs and call for stronger/more proactive regional surveillance to identify remedial measures, if needed. **Likelihood: medium in the short term**.	• Free rider behavior could undermine regional cooperation and the other countries' willingness to pursue adjustment efforts, thereby jeopardizing external sustainability.	• Intensify regional peer pressure on the authorities of any free-rider country to pursue adequately strong policies. Provide strong support to countries engaged in discussion with bilateral creditor on needed debt restructuring (e.g., Congo). Enhance mechanisms to address countries which derail from the agreed adjustment path both at the BEAC and CEMAC Commission level through closer and more regular regional consultation.

Annex III. External Sector Assessment

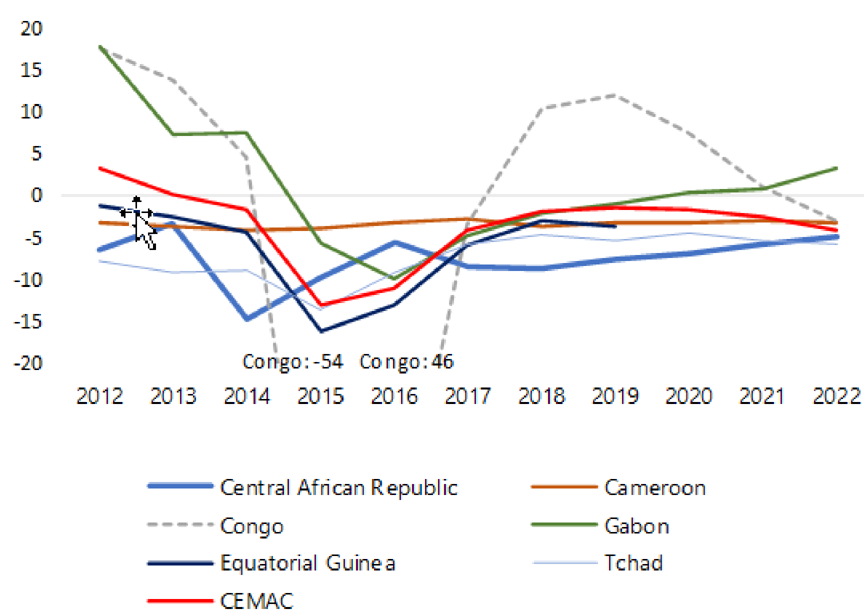
CEMAC' external position is assessed to be moderately weaker than implied by fundamentals and desirable policy settings at end-2018. The current account deficit is expected to significantly decline in 2018 and remain at about the same level in 2019 on the back of a rebound in net exports and fiscal adjustment. Reserves have stabilized in 2018 and are projected to increase in 2019 but remain below levels that are appropriate according to reserve adequacy metrics. Non-price competitiveness indicators remain behind peers with no significant improvement in 2018.

A. Recent Developments in External Accounts

1. **The regional external current account balance has improved but is expected to remain negative over the medium term** (Figure 1). The current account deficit is projected to decline from 11.0 percent of GDP in 2016 to 1.9 percent of GDP in 2018 on the back of higher oil exports and a reduction in imports stemming from the tighter fiscal stance and weak domestic demand. While improving in most member countries, the overall current account balance would remain negative, ranging from [10.5] percent of GDP in Congo[1] to [-8.6] percent of GDP in the Central African Republic.

Figure 1. CEMAC: Current Account, 2012–22

(Percent of GDP)



[1] Congo's current account was very volatile over 2014–18 due to the impact of the oil price shock, the declining oil production up to 2016, and the increase of oil-sector related imports. The expected improvement over 2018–19 is driven by the compression in oil-sector related imports and the significant increase in oil production (exploitation of a new field).

2. **In the medium term, the current account deficit is projected to stabilize at around 2 percent of GDP.** Supported by tighter monetary policy as well as the recent recovery in international oil prices, the current account deficit is projected to narrow to 1.4 percent of GDP in 2019 and stabilize in the medium term at 2 percent of GDP.[2] As a result, reserves are projected to improve to about 5 months of imports by 2022, from 2.6 months of imports at end-2018.

3. **Although foreign direct investment (FDI) has traditionally dominated external financing flows, the non-full repatriation of export proceeds has recently put pressure on the financial account**. FDI peeked in 2015 at almost 9 percent of GDP but decreased sharply to an average of four percent over the last three years, back to pre-crisis levels. In the medium term, FDI is projected to remain stable as commodity prices recover and structural reforms take hold. On the other hand, the BOP records large net capital outflows (a residual item difficult to interpret), which may reflect various factors, including the non-repatriation of export proceeds and possibly capital outflows because of concerns about the regional economic and financial situation.[3] Restoring confidence will depend on the timely implementation of the macroeconomic policies envisaged in the IMF-supported programs and enforcement of the foreign exchange regulations to support the recovery in foreign reserves.

B. Reserves Adequacy

4. **CEMAC's reserve coverage remains significantly below appropriate levels.** The reserve coverage is expected to recover to just 2.6 months of prospective extra-regional imports by end-2018 (Figure 3). This is below the benchmark of 5 months of imports considered appropriate for a resource-rich currency union. 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 would be about 9 months of imports, well above current reserve coverage levels.[4] Further, at end-2018 reserves would amount to no more than 50 percent of the IMF reserve adequacy metric, well below the range of 100–150 percent deemed broadly adequate for precautionary purposes. Even if the reserve adequacy assessment looks somewhat more favorable when considering the broad money and short-term liability ratios (respectively 32 and 186 percent, compared to minimum thresholds of 20 and 100 percent), the ratio to short-term liabilities would deteriorate at end-2018 compared to end-2017 (Figure 3).

[2] In 2022, the current account is projected to temporarily decline to -4 percent of GDP towing to large imports related to the construction of a gas liquefication platform in Equatorial Guinea.

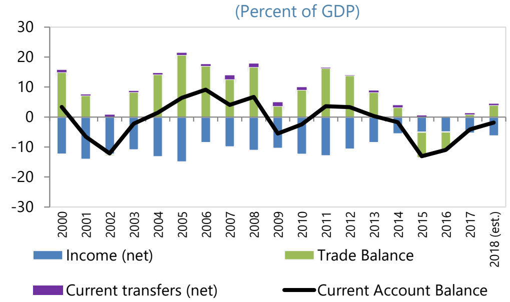
[3] Given the quality of available balance of payments data, current financial account projections do not allow assessing intra-regional capital flows. Staff will try to complete coverage of balance of payments data with regional cross-border holdings of equity, securities and loans by private sector. Similarly, a comprehensive discussion on the IIP position is currently not possible.

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

Figure 2. CEMAC: External Sector Developments, 2000–18

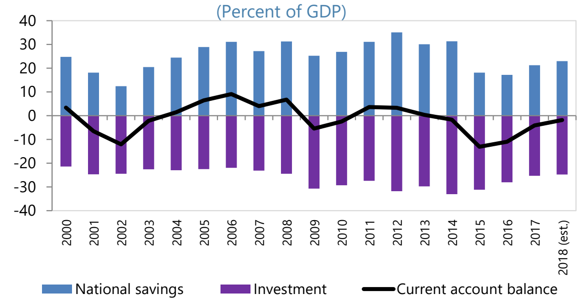
The regional current account balance has improved - reflecting the evolution of trade balance and …

CEMAC: Current Account Balance, 2000–18
(Percent of GDP)



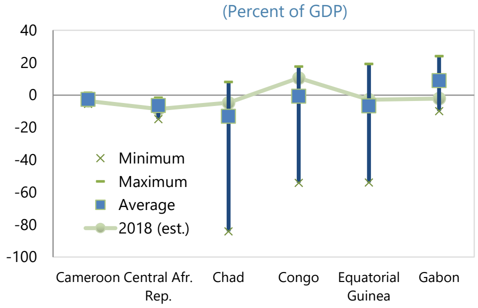
… a slowdown of investment…

CEMAC: Current Account Balance, 2000–18
(Percent of GDP)



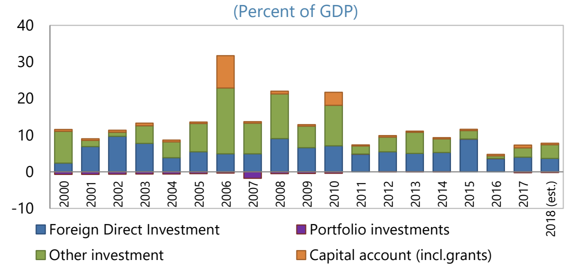
… in several CEMAC countries.

CEMAC: Current Account Balances, 2000–18
(Percent of GDP)



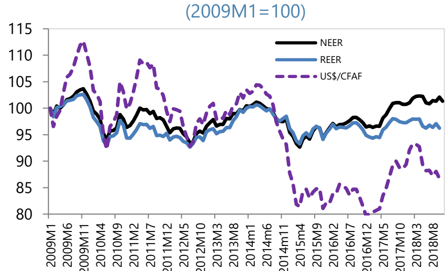
Foreign direct investment constitutes a stable source of external financing, although loans have been decreasing.

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



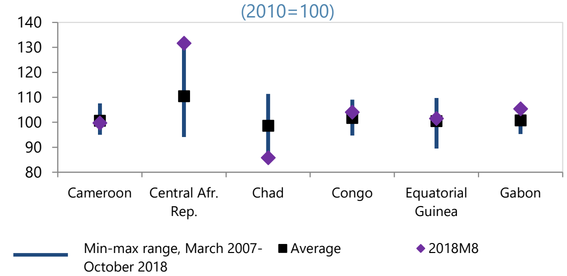
The regional real effective exchange rate has appreciated reflecting the appreciation of the euro…

CEMAC: Real and Nominal Effective Exchange Rates, 2009-October 2018
(2009M1=100)



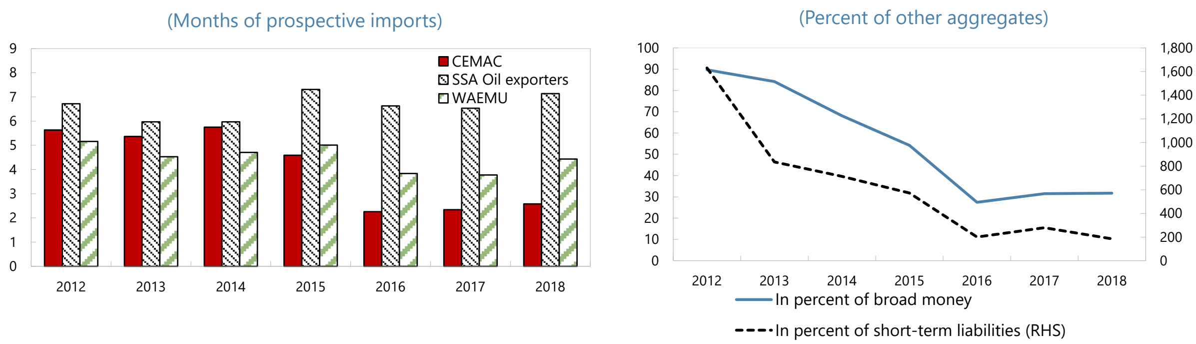
…while inflationary pressures remain subdued in most CEMAC countries.

CEMAC: Real Effective Exchange Rate of CEMAC Countries, 2007–October 2018
(2010=100)



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

Figure 3. BEAC: International Reserves Coverage, 2012–18

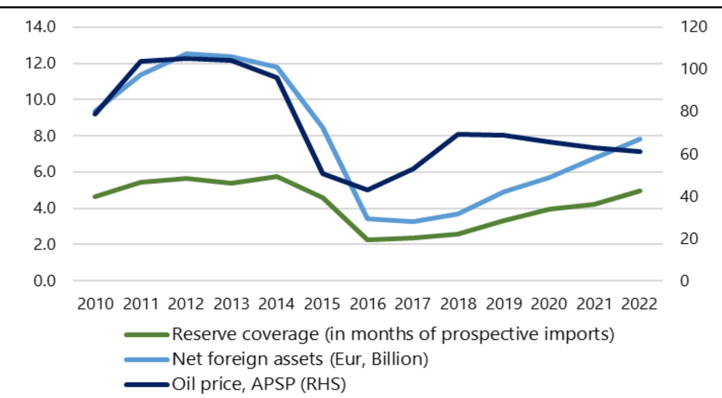


Sources : AFR REO-database and IMF staff calculations.

5. **Rebuilding reserves buffers in the medium term requires an appropriate policy mix**. The reserve coverage is expected to recover gradually in the medium term as fiscal consolidation takes hold and monetary policy is maintained tight, while being mindful of growth and financial stability. Data up to September 2018 suggest that BEAC reserves reached an inflection point mid-2017 and have been increasing up to end-2017. Nevertheless, no further increases have been observed during the first three quarters of 2018 despite favorable oil price developments. Supported by disbursements of external budget support, BEAC reserves are expected to increase substantially during the fourth quarter, to reach a reserve coverage of 2.6 months of prospective extra-regional imports by end-year. Nonetheless, even if current projections materialize, the medium-term reserve coverage would remain lower than what is deemed as adequate for a resource-rich currency union (Figure 4), thus leaving the region somewhat vulnerable to adverse external shocks. However, this assessment does not take into account the guarantee by the French Treasury to cover negative reserves position, which could reduce the need for higher reserves buffer.

Figure 4. Oil Price and Reserve Coverage

(U.S. Dollar per barrel, and months of prospective imports)



Sources: BEAC, Country authorities, WEO and IMF staff calculations.

C. Exchange Rate Assessment

6. **The assessments of the 2018 current account and real effective exchange rate (REER) suggest a moderate overvaluation and a moderately weaker external position than fundamentals and desirable policies.** After some moderate depreciation at end-2016, the REER started to appreciate during 2017 by 3.8 percent on a year-on-year basis in February 2018, reflecting mainly a strengthening of the euro vs the US dollar (Figure 2). The appreciation has been partly reversed in the second part of the year, as the REER slightly depreciated by 1.8 percent from February 2018 to October 2018. Two standard approaches have been used to assess the external position of the CEMAC region. The first approach is the EBA-Lite's Index Real Effective Exchange Rate (IREER), for which the comparison of the fitted IREER and the norm indicates an undervaluation of 8.5 percent in 2018.[5] The second approach is the "EBA-Lite's Current Account (CA) model, which compares the underlying current account balance with the model-estimated current account norm. This model suggests an overvaluation of about 7 percent with the 2018 current account deficit estimated at 1.9 percent of GDP against a norm of 0.1 percent GDP surplus (assuming an elasticity of the current account to REER of -0.26).[6] The external position at end-2018 is assessed to be moderately weaker than implied by fundamentals and desirable policies.[7] The previously estimated policy gap at end-2017 has almost closed in 2018, however, some policy objectives remain a concern. The change in reserves is considered to be below what is needed to achieve the medium-term target of 5 months of extra-regional imports by 2022.[8] Similarly, despite a positive contribution from the adjustment in the fiscal balance, health expenditure contributes negatively to the policy gap.

D. Structural Competitiveness

7. **According to the World Bank "Doing Business Indicators", CEMAC countries continue to underperform relative to comparable countries,** indicating ample room for strengthening the business environment. Specifically:

- **Progress in doing business ranking is heterogenous** (Figure 5). Between 2015 and 2018, some progress has been achieved in Cameroon, Central African Republic and Chad, while

[5] However, the model does not fit the evolution of the REER very well. Measures of REER for the CEMAC region are not very accurate, as data availability on intra-regional trade is scarce.

[6] 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 2018 shows that given fundamentals, in particular the change in reserves, the current account should be slightly on surplus. The unexplained residual is 1.7 percentage point lower than in previous CA gap estimates.

[7] 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 deficit equal to 0 percent of GDP, while health expenditure of 2.5% of GDP, and (iii) a private credit to GDP ratio equal to 21.7 percent and a credit growth of 2%.

[8] Given the long-standing policy arrangement on capital flow management measures agreed with the French Treasury, inherent to the peg arrangement, the medium-term capital controls policy objective is set at current level.

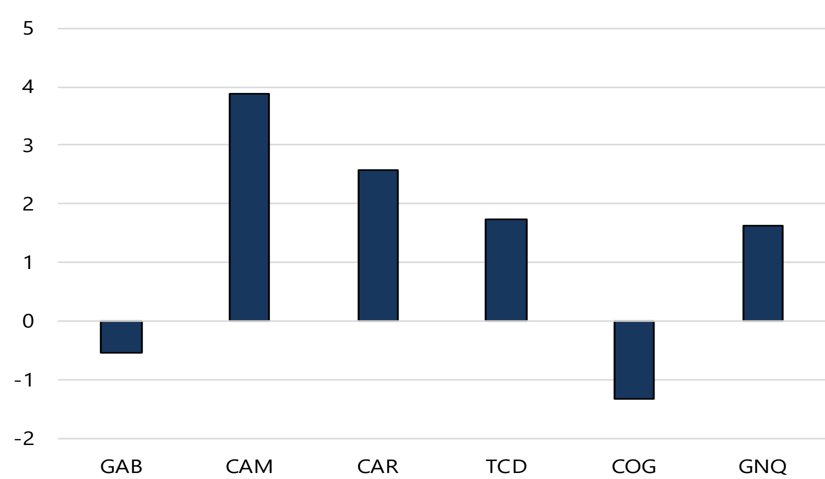
other countries showed little progress or even a deterioration in the quality of business environment, for example in Gabon.

- **CEMAC countries lag behind their peers in the West African Economic and Monetary Union (WAEMU), although they are comparable to SSA oil exporters** (Figure 6)[9].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 6). 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 6).

Figure 5. CEMAC: Change in Doing Business Distance to the Frontier (2015–18)

(A positive number indicates an improvement)



Source: World Bank Doing Business Report 2018.

[9] 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 6. CEMAC: Governance and Business Indicators

Sources: World Bank Doing Business Report 2018; World Governance Indicators 2016; and, IMF staff calculations.

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

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

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

December 5, 2018

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

Object: Follow-up to the letter of support to the recovery and reform programs undertaken by the CEMAC Member Countries

Ms. Managing Director,

Following the regional consultations held from October 23–November 3 by International Monetary Fund (IMF) staff with the institutions of the Economic and Monetary Community of Central Africa (CEMAC), and as part of the support of the latter to the recovery and economic reform programs undertaken by the member states, I am pleased to inform you of the implementation status of the measures to which the Bank of Central African States (BEAC) and the Banking Commission of Central Africa (COBAC) had committed, as well as the measures that these two institutions consider taking during the coming months.

Overall, despite the efforts undertaken, the Community's situation remains difficult. Despite the rebound in oil production, growth remains weak and the activity level is insufficient to create jobs and generate income for a growing population.

Moreover, BEAC's accumulation of net foreign assets during the last few months has been below expectations, as they amounted to euro 2.94 billion at end-June 2018, below projections of euro 3.10 billion. This shortfall can be explained by: (i) the delays in the disbursements of external budget support (euro 50 million); the non-repatriation of deposits held abroad, estimated at euro 70 million; (iii) the insufficient repatriation and surrendering of foreign currency by some commercial banks; and (iv) the postponement of the programs with Congo and Equatorial Guinea and of the related budget support. This underperformance is all the more worrying as it occurred at a time when a rise in oil prices was observed and the fiscal adjustment measures of CEMAC’s member states were broadly in line with the targets under their programs with the IMF.

In this context, the BEAC and COBAC have striven to support the rebuilding of an adequate level of net foreign assets. In this regard, they have taken corrective measures, which demonstrate their unwavering commitment to contribute within their mandate and with their available instruments, to the recovery of foreign exchange reserves. These measures include:

- **The strengthened enforcement of the foreign exchange regulation.** This action notably translated into the disciplinary sanctions imposed by COBAC on 11 banks that had not complied with the rules on the surrendering of their foreign assets and on their external position. It will continue unabated to ensure an enhanced surrendering by banks. The BEAC has established a mechanism to monitor transfers to respond as quickly as possible to banks' justified requests for foreign exchange.

- **The tightening of monetary policy.** BEAC's Monetary Policy Committee has indeed raised, during its October 31, 2018 meeting, its policy rate by 55 basis points to 3.50 percent. Moreover, over the coming months, BEAC will aim at gradually reducing the amount of its liquidity auctions, which should contribute to the development of the interbank market and enhance the effectiveness of monetary policy.

I would also like to emphasize anew the substantial progress that has been accomplished in reforming the operational framework and the implementation of monetary policy. BEAC's new collateral mechanism for bank refinancing operations, which includes a discount system on government securities to better reflect the risks associated with each state, is now fully operational. The same is true of the calibration of monetary policy operations on the basis of forecasts of autonomous liquidity factors. Since June 2018, the supply of bank liquidity by BEAC is thus conducted through a system of auctions/multi-rate tenders. The interest rate corridor, comprising the marginal deposit and borrowing facilities to which the banks can freely access, has been formally established. We therefore only have to adopt of the new accounting system for recording monetary transactions. Work is well advanced in this area and will be finalized, as we had committed, by end-2018.

Otherwise, the reform of the foreign exchange regulation is well advanced. So as to support the rebuilding of foreign exchange reserves and limit as much as possible non-legitimate transactions, the BEAC has revised the existing regulation to strengthen the provisions relating to the repatriation of export earnings and to the powers of BEAC and COBAC in terms of monitoring and enforcement of the sanction framework. The draft revised regulation has been submitted to stakeholders and to our other financial and technical partners, including the IMF. Their comments will be taken into account prior to the submission of the revised text to the Bank’s decision-taking bodies for its adoption, which, consistently with our commitments, should occur by end-year. To be fully effective, these actions must be supported by the member states, both in terms of making available the conventions signed with the oil and mining and with respect to the repatriation of their foreign assets by public companies and the strict enforcement of rules on the domiciliation of exports and the centralization of foreign exchange reserves with BEAC.

These measures, combined with member states' fiscal consolidation programs and the development partners' budget support, should allow BEAC's net foreign assets to reach a level of euro 3.45 billion by end-2018. This lower-than-expected accumulation is entirely due to the postponement of new programs that could be supported by the IMF, as well as the associated budget support, in Congo and Equatorial Guinea. For 2019, BEAC's net foreign assets should recover and then reach back the levels we had forecast last June. Hence, they would reach euro 3.50 billion euros at end-June 2019 and euro 4.60 billion at end-December 2019.

As I had in my previous letter, I wish to emphasize that the achievement of these objectives is not only dependent on the actions of the BEAC but also depends on the satisfactory implementation of the fiscal consolidation and structural reform programs by CEMAC countries, as well as on the budget support from our external partners, including other external (non-project) financing, as expected at euro 0.89 billion in the second half of 2018, euro 0.63 billion in the first half of 2019, and euro 1.28 billion over the whole of 2019. In addition, other exceptional financing from commercial and bilateral sources is expected to cover a substantial part of debt service due by Congo in 2019 and following years. In this regard, it seems to me necessary to emphasize anew the crucial nature of the rapid approval of IMF-supported programs in all member states, as well as the preparation and implementation of domestic arrears repayment strategies to preserve the banking and financial sector stability, and remain in line with the objective of rebuilding foreign exchange reserves.

I am also pleased to inform you that the principle of semi-annual consultations involving the national authorities of CEMAC countries, the main regional institutions, and IMF staff has been approved. The first consultations should be held during the first half of 2019. They will be an opportunity to assess progress in implementing the regional crisis exit strategy and—in the event of significant deviations from the net foreign assets accumulation projections provided above—to identify and adopt additional corrective measures that would be necessary, at both the national and regional policy levels, to enable the pursuit of (or the approval of new) IMF financial support under the IMF-supported programs with CEMAC members.

In addition, we are resolutely aiming at implementing, in collaboration with IMF staff, the remaining recommendations of the 2017 safeguard assessment, including with regard to ensuring the consistency of BEAC's secondary legal instruments with its revised Charter and with the transition to IFRS. With regard to the BDEAC, our Board of Directors will assess the effective implementation of the governance reforms it had recommended as well as of those edicted by the extraordinary session of the Heads of State Conference held on October 25, 2018 in Djaména, before authorizing any additional financing to the BDEAC. This represents a safeguards issue for the Central bank given the relatively important financing it has provided to this institution.

For its part, COBAC has pursued, and will continue to pursue, its efforts to strengthen the situation of the banking sector, notably by strengthening the application of foreign exchange regulations and prudential rules, important decisions regarding the resolution of banks in difficulty, and the strengthening of the banking supervision framework. The General Secretariat of COBAC will finalize by end-2018 its Strategic Plan for 2019-21, which notably as objectives the continued implementation of risk-based supervision, the acceleration of the fight against money laundering and the financing of terrorism, and the modernization of some prudential rules.

BEAC and COBAC will pursue their efforts to ensure the close monitoring of developments with the ongoing programs to restore CEMAC countries' macroeconomic balances and will continue to work closely with IMF staff to support the regional crisis exit strategy.

Finally, I authorize the IMF to make a legal and pertinent use of this letter, and notably to publish it.

Remaining fully available to work alongside the IMF and CEMAC's member states for the restoration of the region's macroeconomic balances, I ask you to accept, Ms. Managing Director, the expression of my perfect consideration,

/s/

Abbas Mahamat Tolli

BEAC Governor

INTERNATIONAL MONETARY FUND

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

December 5, 2018

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 6, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the 2018 Article IV consultation and completed the second review under the Extended Credit Facility (ECF) arrangement for the Republic of Cameroon. Cameroon is on a 24-month consultation cycle.

Central African Republic. The three-year 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). On July 2, 2018, the Executive Board of the International Monetary Fund (IMF) completed the fourth review under the Extended Credit Facility (ECF) arrangement for the Central African Republic. The last Article IV consultation was concluded on July 20, 2016. CAR is on a 24-month consultation cycle and the 2018 Article IV Consultation is expected to be held during December 2018.

Chad. On June 30, 2017, the Executive Board approved a three-year arrangement under the 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 27, 2018 the Executive Board of the International Monetary Fund (IMF) completed the second review of Chad's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement. On April 29, 2015, the Executive Boards of both IDA and IMF decided that Chad had reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative and supported debt relief of US$1.1 billion. The last Article IV consultation was concluded on July 22, 2016. Chad is on a 24-month consultation cycle.

Republic of Congo. The last Article IV consultation was concluded on July 17, 2015. Congo has been on a 12-month consultation cycle, but conclusion of the 2016 Article IV consultation has been delayed by ongoing discussions of a possible program supported by a new three-year arrangement.

Equatorial Guinea. The last Article IV consultation was on August 29, 2016. On May 10, 2018, the Managing Director of the International Monetary Fund (IMF), approved a SMP for Equatorial Guinea (EG), covering the period January–July 2018.

Gabon. On August 1, 2018, the Executive Board completed the second review of Gabon's economic program supported by an EFF. On June 19, 2017, the Executive Board approved a three-year extended arrangement under the Extended Fund Facility (EFF) with Gabon for SDR 464.4 million (about US$642 program. The last Article IV consultation was concluded on February 19, 2016. Gabon is on a 24-month consultation cycle.

Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of CEMAC. A full safeguards assessments (SA) under the periodic four-year cycle for regional central banks was completed in August 2017. The assessment noted the positive steps taken by the BEAC to complete amendments to its Charter to strengthen governance provisions and plans to enhance financial reporting transparency through full transition to the international financial reporting standards (IFRS) beginning with the 2018 financial statements. [10] The BEAC is implementing the remaining recommendations of the 2017 safeguards assessment, including the alignment of its secondary legal instruments (including by-laws and codes of ethics and deontology) with the governance-focused amendments of its Charter adopted in 2017 and the full transitioning to IFRS, beginning with the 2018 financial statements. Staff will maintain close engagement with the BEAC as it embarks on the operational implementation of the governance reforms and transition to IFRS.

Exchange System

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

Article IV Consultation discussions

Following an Executive Board decision in January 2006, discussions with monetary unions have been formalized and are part of the Article IV consultation process with member countries. The consultation discussions reported in the companion staff report are thus in relation with Article IV consultations with the six CEMAC member countries. The Executive Board concluded the last Article IV consultation discussion on common policies of CEMAC members on December 15, 2017. 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.

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

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

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

October 2017: MCM TA on Reserve Management.

June 2017: MCM TA on Reserve Management.

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

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

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

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

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

November 2015: LEG TA on BEAC Charter reform.

June 2015: MCM TA on Liquidity forecasting and management.

June 2015: MCM TA on central bank accounting.

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

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

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

October 2014: MCM TA risk-based supervision.

May 2014: MCM TA liability management.

April 2014: MCM TA debt management.

March 2014: MCM TA financial soundness indicators.

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

July 2013: MCM TA on prudential framework update.

May 2013: MCM TA on central bank governance.

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

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

October 2011: MCM resident advisor assigned at the COBAC.

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

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

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

August 2017: FAD TA on CEMAC PFM directives implementation.

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

November 2015: FAD public financial management advisor.

November 2015: FAD customs administration CEMAC regional workshop.

November 2014: FAD customs administration CEMAC regional workshop.

June 2014: FAD support to CEMAC directives implementation.

January 2014: FAD CEMAC customs administration workshop.

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

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

May 2012: CEMAC customs administration workshop.

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

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

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

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

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

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

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

Executive Board Meeting

December 17, 2018

1. On behalf of our CEMAC authorities, we wish to thank the Executive Board, Management and Staff for the continued support to CEMAC since the adoption in December 2016 of the regional strategy to exit the crisis. Our authorities are grateful for the constructive dialogue with Management and Staff, and for the renewed commitment to support their efforts in addressing the daunting macroeconomic challenges facing the region in a context of security tensions, notably continuous terrorist threats in three of the six countries.

2. Since the inception of the regional strategy—and even more so after the last Board meeting on CEMAC common policies last June—significant progress has been made by member countries and regional institutions on fiscal, monetary and financial sector policies needed to achieve the objectives of the regional strategy. Their efforts, supported by development partners, have been successful in adverting a full-blown crisis with tremendous consequences. However, while four countries are implementing Fund-supported programs as part of the regional strategy, two countries have yet to formally benefit from such support, namely Equatorial Guinea and Republic of Congo which account for 15% and 11% of CEMAC’s GDP respectively. Moreover, the regional authorities recognize that more remains to be done to diffuse uncertainties about the effectiveness of the regional efforts notably regarding the quality and sustainability of fiscal consolidation, closing the gap in external buffers, and restoring confidence.

3. It is in this context of uncertainties that the Extraordinary Summit of CEMAC Conference of Heads of State took place in N’Djamena in last October. Fully aware of the challenges facing the region, the Heads of State have, in a public Resolution, renewed their firm commitment to an orderly, concerted and solidary exit from crisis. In this vein, they have reiterated their commitment to enhance the monetary cooperation between the six countries and to the strict respect of its regulations. They have formulated clear and specific guidance to national authorities and regional institutions and called on the international financial community and development partners to step up their support to further invigorate the regional strategy.

4. Guided by this resolution, CEMAC institutions intend to build on the good progress made thus far by the regional central bank (BEAC), the regional banking supervisory body (COBAC), and the CEMAC Commission in supporting the strategy. The two former institutions have provided policy assurances consistent with their respective mandates through a Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries. Regional authorities share staff’s assessment of the situation, outlook, and significant risks facing

the region, as well as their recommendations to sustain the external viability and economic resilience of CEMAC members. They call on the Fund and development partners to strengthen their support at this critical juncture.

Recent Developments and Outlook

5. Oil GDP has rebounded more than expected in the region in 2018. However, overall growth, while improving, remains insufficient to rebuild significant policy space and buffers as it is projected at 2.2 percent this year. Inflation is under control, below 2 percent at end-year. Higher oil exports have helped improve the external current account and overall balance of payments which recorded significantly lower deficits. Nevertheless, large shortfalls in external financing notably due to delays in the adoption of Fund-supported programs for Congo and Equatorial Guinea have left net foreign reserves at levels below expectations.

6. On the fiscal front, the four countries implementing Fund-supported programs and the one under staff-monitored program (SMP) have continued to register satisfactory performance, with next program reviews for Cameroon, Gabon, Central African Republic and Chad expected to be completed in December 2018 and Equatorial Guinea's fiscal performance assessed positively under the second review of its SMP. The region as a whole is expected to meet targets on non-oil fiscal balances albeit some difficulties encountered by few countries in boosting non-oil revenue. Encouraging progress has also been made by all CEMAC countries in net arrears repayments.

7. Regarding monetary policy, the BEAC, consistent with policy assurances provided in June 2018, has tightened its policy stance by raising the policy rate last October and, along with COBAC, strengthened the enforcement of foreign exchange regulations—including through sanctions imposed to non-complying banks—in face of shortfalls in reserves accumulation. As a result, banks have reduced their foreign assets position and surrendered them to the BEAC. Nonetheless, the central bank stresses that more need to be done to enforce the repatriation of foreign exchange export proceeds. It has made important strides towards enhancing those foreign exchange regulations and plans to submit a draft on stronger regulations to the adoption of the Central African Monetary Union's Ministerial Committee by year-end.

8. Despite progress made in net arrears repayments by governments, non-performing loans (NPLs) have risen and hampered banks' liquidity positions. However, banks in the region are well capitalized except for a few that are under close supervision, two of which COBAC has withdrawn, or requested the withdrawal of licenses. In addition, banks in the region are generally profitable.

9. Looking ahead, the region's medium-term prospects remain broadly favorable as rightly pointed out in the staff report, with expected gradually recovery of non-oil growth, rapid decline in public debt-to-GDP ratios, and narrowing of current account deficits, which would contribute to gradual reserve accumulation up to 4 months of import coverage by 2020.

10. Conversely, recent oil price developments, if they persist, further delays in the approval of Fund-supported programs for Congo and Equatorial Guinea, or protracted security challenges could jeopardize the success of the regional strategy and deteriorate the economic outlook. Country and regional authorities agree with the need to promptly coordinate necessary corrective actions if any of these risks were to materialize. They commit to remain steadfast in implementing the commonly-agreed and coordinated strategy. However, the materialization of risks would have considerable depressing effects on the already tepid growth, external buffers, and social conditions, and the room for maneuver to cope with large shocks may be limited. In this context, the authorities stress the importance of expanding the policy space, which entails the timely conclusion of financial arrangements for Congo and Equatorial Guinea as well as flexibility in program design to accommodate for adverse oil price movements and heightened security tensions.

Ensuring the Success of the Regional Strategy

11. The regional authorities welcomed the focus of recent discussions with Staff and Management on ensuring that the objectives of the CEMAC strategy and the related regional policy assurances are met. As properly stated in the staff report, there is full agreement between the authorities and staff on the need for: (i) country members to implement thoroughly their fiscal consolidation plans; (ii) BEAC to continue monitoring liquidity conditions and mop up excess liquidity as needed while strictly enforcing enhanced foreign exchange regulations with the overarching objective of rebuilding reserves buffers ; (iii) COBAC to finalize and implement its 2019-21 strategic plan focused on risk-based supervision while also revising AML/CFT regulation; and (iv) the CEMAC Commission, along with national authorities, to deepen and improve coordination of efforts to implement the CEMAC Economic and Financial Reform Program (PREF).

12. Regarding fiscal consolidation, regional authorities also agree on the need to improve the quality of adjustment, with greater emphasis on strengthening non-oil revenue mobilization—including through curbing tax exemptions and strengthening tax and customs administrations—and rationalizing fuel subsidies. They also share the view on saving oil revenue windfalls to rebuild buffers or reduce domestic arrears to reinvigorate activity and reduce NPLs in the banking sector. BEAC and COBAC are eager to monitor countries' arrears repayment plans once they are finalized and provide countries with their assessment of those plans' macroeconomic impact. Moreover, the ongoing amendment to BEAC's Charter to tailor government securities used as collateral for monetary operations or reduce central bank refinancing as required by the level of reserves, should help strengthen fiscal discipline and thereby enhance the currency union.

13. On monetary policy, BEAC stands ready to tighten further its policy stance if needed. It will build on the progress achieved in modernizing its monetary policy operational framework and adopt a new accounting system for recording monetary transactions. Work in this area should be finalized by end-year. BEAC welcomes staff's advice to implement a new bank sanctions framework for monetary operations and for non-compliance with reserve

requirements. They also share staff's view on the need to deepen the interbank market notably by further reducing excess liquidity, developing the trading platform, encouraging the use of repurchase agreements by banks, and widening its interest rate corridor.

14. Regarding the financial sector, the Secretariat General of COBAC (SG-COBAC)'s strategic plan should help strengthen the banking supervision framework, promote timely resolution of troubled banks, encourage banks to implement NPL reduction plans, support the enforcement of the enhanced foreign exchange regulations and that of new microfinance prudential rules, and prepare the transition to Basel II/III and IFRS standards. The banking commission welcomes Fund advice on guiding NPL resolution processes in a proactive manner; minimizing the costs of protracted resolution decisions; ensuring high expertise and independence of COBAC members; and enhancing the SG-COBAC's effectiveness, including through enhanced human capacity.

15. The region has most incurred the impact of the oil price shock in 2014 because of undiversified economies and the excessive dependence of their commodity exports on extra-CEMAC trade. Therefore, the regional institutions stress the criticality of promoting economic diversification and fostering regional integration. The two complementary actions should contribute to overcoming CEMAC's macroeconomic challenges. In this vein, besides creating fiscal space for highly needed infrastructure and social spending, the regional authorities are cognizant of the importance of developing domestic markets. The merger of the two stock markets of the region is proceeding well, with the physical unification planned for end-2018 and the alignment of procedures for the new market with best international practices expected for mid-2019. The regional authorities will also continue improving the functioning of public securities markets and the secondary market.

16. On governance, regional authorities welcome staff's analysis laid out in the Selected Issues paper on the tremendous potential that strengthening governance will have for boosting growth in a sustainable and inclusive manner. They very much appreciate the lines of actions proposed to give priority to more transparency, full disclosures, internal and external audits of the public sector, and full implementation of the system of check and balances contained in the CEMAC legislation. In particular, the CEMAC Commission puts high value on member states improving public resource management and, in this vein, it has decided to create a unit in charge of monitoring and reporting on progress and remaining weaknesses in the implementation of CEMAC directives on PFM.

17. Other structural reforms are envisaged under the PREF, and include measures to ensure the strict compliance of contracts in extractive industries with regional directives on transparency in this sector; improve the business environment; and strengthen regional convergence criteria.

18. Regional institutions see merits in reinforcing the monitoring of the regional strategy implementation. They have agreed on the principle to hold semi-annual tripartite consultations involving national authorities, regional institutions and the IMF to assess progress, at both regional and national levels, in advancing the strategy and to design additional measures to

ensure that the strategy's objectives are met. Regional institutions continue to put emphasis on the need for the Fund to help members harmonize their tax frameworks and strengthen the regional surveillance framework through an increased technical support.

Conclusion

19. The CEMAC region is at a crossroads. While progress has been made in advancing the regional strategy to exit the crisis, further efforts are needed to finalize the negotiations for Fund-supported programs for two remaining countries. CEMAC authorities acknowledge that tackling the impact of the crisis depends on the national and regional authorities' steadfast implementation of the exit strategy. They however also stress the importance of timely and adequate support from external partners, notably the Fund and other multilateral and bilateral creditors, in achieving success. Therefore, they call on the international financial community to provide needed financing assurances for CEMAC countries and step up their financial and technical assistance. We would greatly appreciate Board's support to the CEMAC authorities' requests.