INTERNATIONAL MONETARY FUND

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CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

January 2022

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY—COMMON POLICIES IN SUPPORT OF MEMBER COUNTRIES REFORM PROGRAMS—PRESS RELEASE, STAFF REPORT, AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY

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 10, 2021, following discussions with regional institutions that ended on November 5, 2021. Based on information available at the time of these discussions, the staff report was completed on December 1, 2021.
- A **Statement by the Executive Director.**

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR21/380

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

FOR IMMEDIATE RELEASE

- IMF Executive Board Concludes Annual Discussions on CEMAC Common Policies, and Common Policies in Support of Member Countries Reform Programs.
- The almost two-years pandemic-related crisis has left CEMAC with a fragile external position.
- A tighter policy stance, high oil prices, and Heads of States renewed commitments to accelerate structural, transparency and governance reforms are expected to support a stronger external position from 2022, as the region recovers from the crisis.

Washington, DC – December 16, 2021: On December 10, 2021, the IMF Executive Board concluded the annual discussions with the Central African Economic and Monetary Community (CEMAC) on Common Policies of Member Countries and Common Policies in Support of Member Countries Reform Programs[1].

CEMAC experienced a smaller-than-anticipated economic contraction in 2020, as non-oil activity recovered in late 2020, supported by the relaxation of containment measures and stronger fiscal stimulus. A progressive recovery is expected to have started in 2021 with growth reaching 1.9 percent of GDP in 2021. The overall fiscal deficit (excluding grants) is projected to narrow by 0.5 percentage points to 2.7 percent of GDP in 2021 compared to 2020, while public debt would decline by 3.8 percentage points, to 56.2 percent of GDP in 2021.

Despite a more favorable external environment, marked by the rebound in global growth, fast-increasing oil prices, and unprecedented Fund financial support, including the SDR allocation, CEMAC is ending 2021 in a fragile external position with external reserves just slightly above

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

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three months of prospective imports. After a sharp deterioration in 2020, the external current account deficit is expected to improve significantly, primarily driven by the rebound in global oil prices, and reach 2.1 percent of GDP in 2021.

The regional and national authorities started to tighten the policy mix in 2021. BEAC strengthened its liquidity management framework, resuming liquidity absorption operations; the central bank also unwound the relaxation of the collateral framework for government securities adopted at the onset of the crisis, bringing haircuts back to their pre-pandemic levels; and phased out the government securities purchase program, as planned, at end-August. In November 2021, BEAC tightened monetary policy, increasing the policy rate by 25 basis points, and raised the rate of its liquidity absorption window in December. Prudential regulation, which was temporarily relaxed to cushion the impact of the crisis on the financial sector, is also being progressively normalized, with the capital requirement being increased by 50 basis points in August 2021. At the national level, the resumption of Fund-supported programs with Cameroon and Gabon and prospects for new programs with Chad and Congo helped secure commitments to fiscal consolidation and broader reforms.

Higher oil prices, strong global growth, and significant fiscal adjustment should contribute to stronger overall external balances and foreign reserves accumulation in 2022. Growth is expected to rebound to 2.8 percent in 2022 and continue to pick up gradually to around 4.1 percent in the medium term, mostly due to stronger growth in the non-oil sector, as reforms to improve governance, transparency, and the business climate are assumed to slowly take hold. The recovery in oil prices coupled with stronger revenue mobilization efforts should help narrow fiscal deficits and curb debt levels significantly by 2024. Inflation is projected to stay below the regional convergence criterion of 3 percent as monetary policy would remain appropriately tight to support the external position. Reserves are projected to reach the equivalent of five months of imports by 2026. This outlook assumes the continuation of IMF-supported programs with Cameroon, Gabon, the Central African Republic and Equatorial Guinea, and approval of two IMF-supported programs with Chad (2021) and Congo (2022).

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that despite a more favorable external environment and unprecedented Fund financial support, CEMAC's external position remains fragile. Against this backdrop, they welcomed the resumption of Fund-supported programs in the region. Directors underscored that a tight macroeconomic policy mix and strong structural reforms that enhance competitiveness are critical to bolster the external position and enable diversified, inclusive, and sustainable growth.

Directors stressed that a carefully calibrated fiscal consolidation is needed to bolster fiscal and external sustainability while safeguarding growth. They recommended mobilizing non-oil revenues and increasing expenditure efficiency to help finance targeted social spending and growth-friendly investments. Directors called for a prudent use of SDR allocations and the fiscal space provided by restructured statutory advances.

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

Directors welcomed the recent monetary policy tightening, which should help stem the decline in reserves and contain inflationary expectations. They generally agreed that further tightening would be needed if international reserves continued falling. Directors recommended returning to the pre-crisis liquidity management framework and restricting normal liquidity operations to solvent banks. They welcomed the central bank's commitment to not extend direct monetary financing to its member states. Directors noted that the implementation of the foreign exchange regulation would support foreign reserve accumulation.

Directors supported the planned withdrawal of the temporary relaxation of prudential regulations. They underscored the need to move towards risk-based supervision, contain risks stemming from banks' sovereign exposure, address high non-performing loans, strengthen regulatory compliance, and accelerate bank resolution.

Directors welcomed the reform momentum generated by the Summit of the Heads of States of CEMAC. They called on the authorities to accelerate the implementation of structural, transparency, and governance reforms. In particular, Directors called for ensuring full transparency in public finances and the hydrocarbon sector. They also recommended strengthening the regional surveillance framework.

Directors noted that the Central Bank of Central African States (BEAC) was unable to fully implement the policy assurance on accumulation of net foreign assets (NFA) at end-June 2021, which had been provided in the June 2021 Follow-Up Letter of Policy Support, due to a shortfall in external financing. They considered that BEAC has taken the necessary corrective actions to address the underperformance. Directors endorsed the updated policy assurance on NFA accumulation for end-December 2021 and end-June 2022 outlined in the November 2021 Follow-Up Letter from the BEAC Governor. This assurance is based on BEAC's commitment to implement an adequately tight monetary policy together with commitments by member states to implement adjustment policies in the context of Fund-supported programs. Directors emphasized that implementation of this assurance is critical for the success of Fund-supported programs with CEMAC member countries.

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

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

December 1, 2021

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

KEY ISSUES

Context and risks. Despite a more favorable external environment, marked by the rebound in global growth, fast-increasing oil prices, and unprecedented Fund financial support, CEMAC is ending 2021 in a fragile external position. Net external reserves fell throughout 2021 to reach their lowest level in decades, and gross reserves are just above three months of imports of goods and services. The launch of a second phase of the regional strategy at the August 2021 CEMAC Heads of States summit saw renewed commitments to accelerate structural, transparency, and governance reforms. The resumption of program engagements with the Fund, combined with high oil prices and significant fiscal adjustments in 2022, should allow for a turnaround, and the build-up in external reserves is expected to resume in 2022. Risks include possible adverse pandemic developments, oil price volatility, possible fiscal slippages, shortfall in external financing, and security issues.

Policy Recommendations.

- A tighter policy mix, combined with structural reforms to enhance the competitiveness of the region, is critically needed to bolster CEMAC's external position.
- The region's external sustainability hinges on sustained fiscal consolidation, in line with existing and prospective IMF-supported programs. Fiscal policies should notably limit the impact of the use of the SDR allocations and the restructuring of statutory advances on reserves.
- Monetary policy should also be tightened to stem the decline in reserves and contain excess liquidity. Banks with structural liquidity needs and/or difficulties meeting prudential requirements should reduce their reliance on liquidity injections, and/or be restructured.
- In addition to the ongoing normalization of the prudential framework, COBAC (Central Africa Banking Commission) should improve regulatory compliance and accelerate bank resolution.
- CEMAC must decisively accelerate structural, transparency, and governance reforms to lay the basis for a diversified, inclusive, and sustainable growth.

Approved By
Vitaliy Kramarenko (AFR) and Gavin Gray (SPR)

Discussions were held virtually from October 20 until November 5, 2021. The Staff team comprised Ms. Lahreche (head), Mr. Lautier, and Ms. Martin (all AFR); Mr. Portier (MCM); and Mrs. Balta (SPR). It was assisted by Messrs. Gomez and Staines (Resident Representatives in Gabon and Cameroon), and Mr. Ambassa (local economist in Cameroon). Mr. Andrianarivelo, Mr. Nguema Affane and Mr. N'Sonde (all OED) also attended the discussions. The mission held discussions with Mr. Abbas Mahamat Tolli, Governor of the Central Bank of Central African States (BEAC and Chairman of COBAC); Prof. Clément Belibanga, Commissioner for Economic, Monetary, and Financial Affairs (CEMAC Commission); Prof. Djiena Wembou (Secretary General of the Economic and financial Reforms Program (PREF) CEMAC); Mr. Halilou Yerima Boubakari (Secretary General of COBAC); and other senior officials of these institutions, as well as with representatives of financial institutions. This report was prepared with the assistance of Ms. Adjahouinou.

This is a report on the common policies in support of CEMAC member countries' IMF-supported programs. Throughout the report, the term "authorities" refers to regional institutions responsible for common policies in the currency union.

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BACKGROUND AND RECENT DEVELOPMENTS

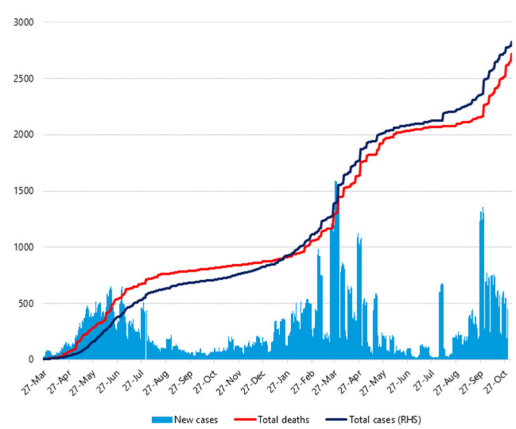
A. Background

1. In August 2021, a CEMAC Heads of States summit launched a second phase of the regional strategy, resuming program engagement with the Fund after a pandemic-related interruption of almost two years. National and regional authorities notably committed to accelerate structural, transparency and governance reforms to strengthen the region's growth potential and lay the basis for an inclusive and diversified growth. The strategy is supported by ongoing Fund-supported programs (Cameroon and Gabon, approved in July 2021), expected new Fund-supported programs (Chad and Congo) and intensive staff engagement to resume programs with Equatorial Guinea and the Central African Republic.

2. After almost two years of pandemic-related crisis, the recovery remains uncertain. The third wave of COVID-19 that hit CEMAC in 2021Q3 was as deadly as the second wave of early 2021, but new cases now seem to have abated. Vaccination rates are generally low and uneven in the region due to difficulties in procuring and delivering vaccines, and vaccine hesitancy. CEMAC's fragile external situation limits fiscal and monetary policy space, and legacy structural, governance, and transparency issues hinder the potential of the private sector to carry the recovery. The positive impact of higher oil prices on the region has yet to materialize. Poverty levels remain high and the most vulnerable continue to bear the brunt of the crisis. Security issues that largely predate the pandemic continue to affect Chad, parts of Cameroon, and the Central African Republic.

Text Figure 1a. CEMAC: COVID-19 Cumulative Cases and Deaths

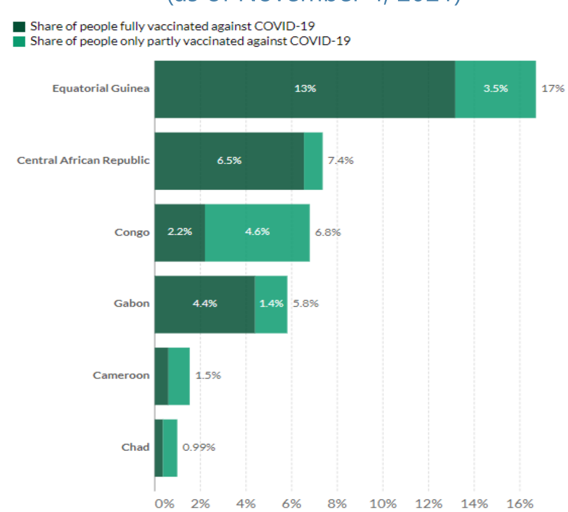
(as of November 4, 2021)



Source: Our World in Data COVID-19 datset. IMF Staff estimations.

Text Figure 1b. CEMAC: Share of People Vaccinated against COVID-19

(as of November 4, 2021)



Source: Ourworldindata

3. Despite a more favorable external environment, and the availability of emergency financing, CEMAC is ending 2021 in a fragile external position. Fund financial support (including the SDR allocation) to the region in 2021 was unprecedented, totaling more than EUR 1.5 billion (CFAF 1,000 billion[1]) at end-November 2021. This helped the region absorb the immediate costs of the pandemic, notably the loss in hydrocarbon revenues triggered by historically low oil prices in 2020. However, the recovery in oil prices, which should ultimately support external sustainability, has been slow to translate into stronger reserves. As a result, net foreign assets fell by around [22 percent, (EUR 888 million)] throughout 2021 to reach their lowest level in decades, and the net foreign assets (NFA) target set for end-June 2021 as a regional policy assurance was not implemented. Gross reserves are just above 3 months of imports of goods and services, lower than the 5 months considered adequate for CEMAC. Higher oil prices, rapid global growth, and significant fiscal adjustments in 2022 should allow for a turnaround, and the build-up in external reserves is expected to resume in 2022. However, uncertainties surrounding the projections are significant, owing to possible adverse pandemic developments, oil price volatility, possible fiscal slippages, shortfall in external financing, and security issues.

4. There was progress, albeit uneven, in implementing the recommendations of the 2020 regional surveillance consultation. The Heads of States Summit in August 2021 launched the second phase of the regional strategy with commitments to accelerate structural, transparency, and governance reforms to unlock the region's growth potential, diversify sources of growth, and increase its attractiveness to investors. Program engagement with the Fund has resumed and will contribute to enhancing coordination between national and regional policies. Progress in implementing the CEMAC's foreign exchange regulations was substantial, notably with the finalization of the adaptations to the extractive sector. The implementation of domestic arrears clearance strategies has made some progress and should help alleviate some of the pressure created by the COVID-19 crisis on domestic firms and banks. However, progress in resolving failing banks has been limited, mainly reflecting insufficient support from national authorities. The bank sovereign nexus has increased further, and efforts to diversify the investor base for public securities will take time. The CEMAC Commission's work to strengthen the regional surveillance framework, including implementation of an early warning system and a sanction scheme for countries breaching the regional convergence framework, has progressed but is not yet effective. Progress on domestic revenue mobilization have been affected by the pandemic and remained limited over 2021.

B. Recent Developments and Outlook

5. Economic activity is picking up, driven by the non-oil sector. The region experienced a smaller-than-anticipated economic contraction in 2020, as non-oil activity recovered in the later part of the year, supported by the relaxation of containment measures and fiscal stimulus. Cameroon's

[1] The Fund disbursed CFAF 18.5 billion to CAR in January upon completion of the first and second reviews of the ECF-supported program. It also disbursed CFAF 162 billion upon program approval to Cameroon and Gabon (CFAF 97.9 billion and CFAF 63.8 billion, respectively) in early August. Equatorial Guinea received about CFAF 38.1 billion of emergency support under the Rapid Financing Instrument in September, in the aftermath of the Bata explosions. The SDR allocations in late August unlocked CFAF 797 billion for the region.

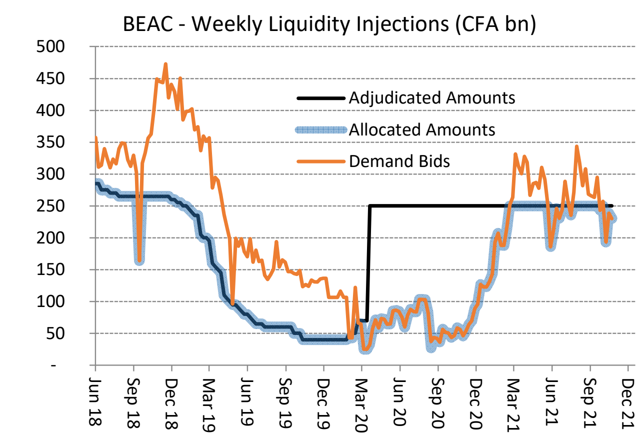
better-than-forecasted growth partially offset Chad's and Congo's worsening recessions in 2020, bringing total real GDP contraction to 1.9 percent in 2020. Both oil (-3 percent) and non-oil real GDP (-1.6 percent) growth were negative, with contraction in the non-oil sector mainly reflecting the impact of containment measures and the slowdown in oil services-related activity.

6. **CEMAC's budget deterioration (2.2 percent of GDP) was contained in 2020 in light of the multiple shocks faced by the region (health, commodity prices and recession).** The deterioration was primarily due to lower revenues, following the sharp drop in oil revenue in 2020. The slowdown in economic activity also negatively impacted non-oil revenue collection. Expenditure was relatively contained, but with large variations among CEMAC members. As a result, overall public debt increased by 7.7 percentage points to 60 percent of GDP at end-2020, mostly due to the recession in 2020 and the accompanying worsening in fiscal balances.

7. **In September 2021, the UMAC Ministerial Committee accepted BEAC's offer to reschedule the repayment of statutory advances, which was to start in 2022.** The statutory advances were reinstituted in August 2015[2] before being eliminated in August 2017 by the BEAC board, which was a significant milestone in restoring fiscal discipline and in modernizing the BEAC monetary policy framework. The stock of statutory advances was consolidated at CFAF 2,779 billion and was to be repaid to BEAC over a period of 14 years, with a grace period of 4 years. The new schedule adopted in September 2021, which will not affect the BEAC's capital position, provides for repayment of statutory advances over 20, 30 or 40 years, at countries' discretions, with a grace period of 3 years, and interest rates of 2.77, 2.88 or 2.94 percent respectively.

8. **BEAC tightened monetary policy and strengthened its liquidity management framework in a context of still high but declining liquidity.** Broad money increased by 11.1 percent in June 2021, as growth in credit to the government more than offset the deterioration in net external assets. Liquidity tapered somewhat in the third quarter of 2021, driven by the decline in NFA. Demand for BEAC's weekly liquidity injections, which was fixed at CFAF 250 billion from March 2020, has outpaced supply since March 2021

Text Figure 2. BEAC: Weekly Liquidity Injections



Sources: BEAC and IMF staff and calculations

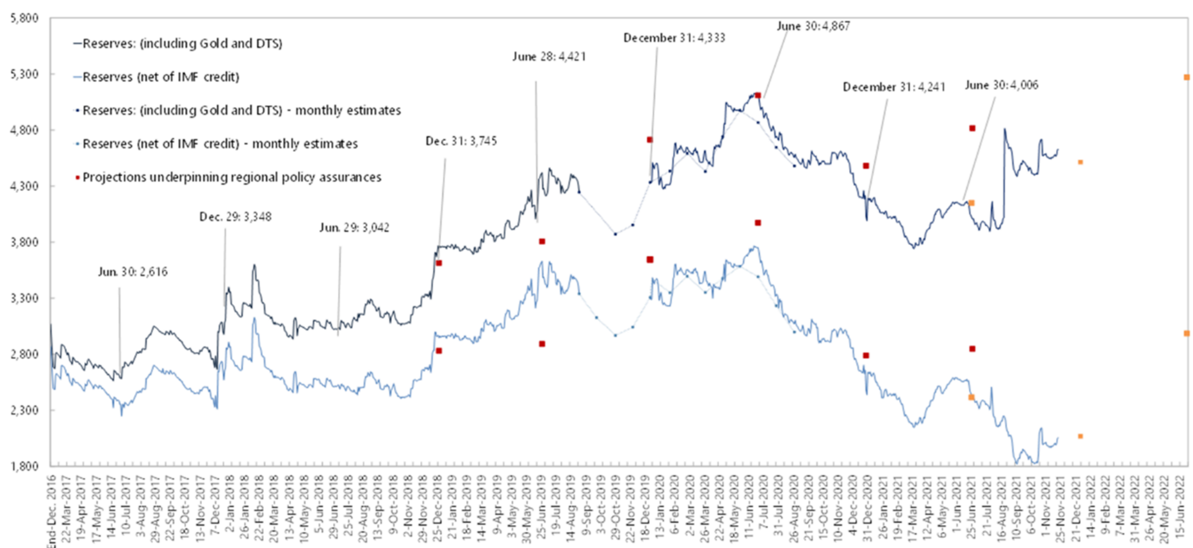
[2] BEAC used to provide monetary financing (i.e., statutory advances) to CEMAC members states up to a ceiling of 20 percent of previous year's fiscal revenues. In 2010, BEAC decided to phase out these advances by freezing the ceilings at 2008 fiscal revenues and reducing their amount by 10 percent each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

(Text Figure 2). About 80 percent of this liquidity is provided to a small number of banks with large structural liquidity needs and limited access to the interbank market. From end-August, BEAC strengthened its liquidity management framework, resuming liquidity absorptions operations, albeit with limited success, while at the same time conducting limited longer-term (12 weeks) liquidity injections. In September 2021, it unwound the relaxation of the collateral framework for government securities adopted at the onset of the crisis, bringing haircuts back to their pre-pandemic levels. BEAC also ended its government securities purchase program as planned.[3]

9. The SDR allocations (CFAF 797 billion) initially boosted gross reserves by 0.5 months of imports of goods and services. CEMAC authorities agreed on a framework for SDR on-lending similar to that of 2009 (Annex IV). Chad drew the full SDR allocation upon receipt for budget financing; Congo drew its balance of the 2009 SDR allocation and the entire 2021 allocation with the intent to use them to partially finance the 2022 budget. Gabon and Cameroon have also indicated their desire to draw on the SDR allocation to offset undisbursed budget support, substitute for domestic financing, and finance public investment in the health sector within broadly unchanged fiscal deficits. Equatorial Guinea plans to use a significant portion of the SDR allocation to clear its internal debt arrears. CAR has not indicated its intentions yet.

Text Figure 3. CEMAC: Regional Daily Reserves, 2017–21 1/ 2/ 3/

(Billions of CFA francs)



Sources: BEAC and IMF Staff calculation

1/ Excludes the reserve position with the IMF (about CFAF 36 billion), which is not explicitly reported in the daily balance sheet.

2/ The red squares represent levels consistent with the previously endorsed (December 2019, June 2020, December 2020, June 2021) NFA regional policy assurances

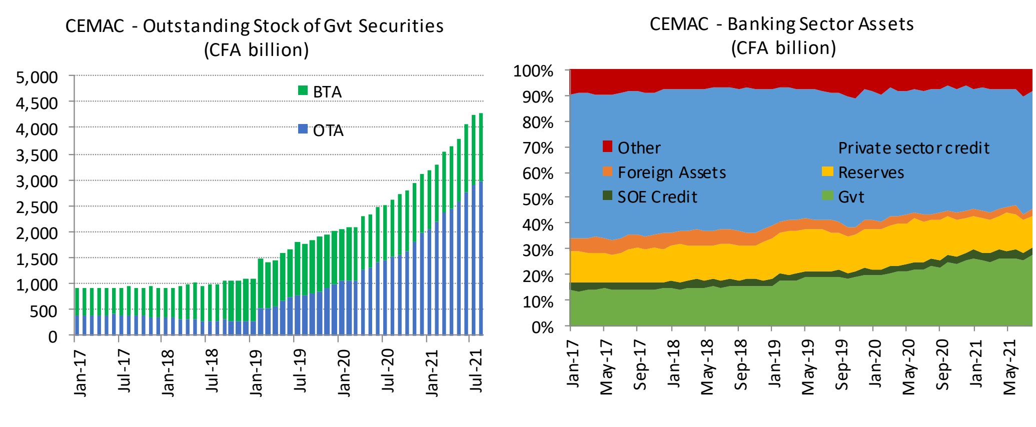
3/ The orange square represent revised NFA policy regional assurances discussed with authorities.

[3] In total, BEAC bought CFAF 430 billion of public securities from 5 CEMAC countries. CAR did not apply for the program.

10. The regional policy assurances for end-June were not implemented, and the end-December 2021 target is out of reach. After rebounding between March and early June 2021, BEAC's NFAs have been declining since June 2021. The NFA target at end-June 2021 was missed by 120 million euros (FCFA 79 billion), corresponding to lower than expected and delayed external financing in H1. A larger-than-expected increase in broad money (FCFA 202 billion) also likely played a role[4], facilitating higher imports when economies reopened. In addition, higher oil prices have not translated into higher oil revenue yet, and FX inflows in the region—including from international partners—remain weak. Regional policy assurances for the end-December NFA target are out of reach given the continued decline in reserves during the third quarter of the year. Gross reserves were just below three months of imports of goods and services at end-June, before rebounding following the SDR allocation (Text Figure 3).

11. Banks balance sheets continued to reflect the temporary prudential measures, while banks' exposure to the sovereign increased further. With the temporary relaxation of prudential requirements implemented since mid-2020, and extended to end-June 2022, the reported NPL ratio declined slightly to 19 percent in 2020 Q4, but COVID-19 crisis-related impaired loans, which are mostly classified separately, are estimated at approximately 4 percent of total loans by SG COBAC, based on reports from banks. Banks's exposure to the sovereign increased sharply in 2020 and again in 2021, accounting for 27 percent of total banking sector assets at end-June 2021, up from 16 percent at end-2018. The outstanding stock of government securities more than doubled between end-2019 and September 2021 (Text Figure 4). At end-September 2021, banks, BEAC, and non-bank investors own 86, 10 and 4 percent of these securities respectively.

Text Figure 4. Banking Sector Exposure to CEMAC Government Securities[1/]



[1/] *Securities (OT) issued on the Stock Exchange market (BVMAC) are not included*

[4] Budget support doesn't fully translate into reserves as it usually leaks partly through imports.

MEDIUM-TERM OUTLOOK AND RISKS

12. A progressive recovery is expected from 2021, but risks remain, and the external sustainability of the region remains highly dependent on oil prices and donor support. The outlook reflects ongoing Fund-supported programs in Cameroon and Gabon, staff-level agreements on two possible new Fund-supported programs (Chad and Congo), discussions on resuming the Fund-supported program with Equatorial Guinea, and improved economic performance in the Central African Republic.

- Overall economic activity is expected to rebound by 1.9 percent in 2021 (0.7 percentage points less than previously envisaged). The rebound will be driven by a 3 percent growth in the non-oil sector, while the oil sector contraction (3.4 percent) will continue, due to lower production.

- Inflation is expected at 2 percent, below the 3 percent regional convergence criterion.

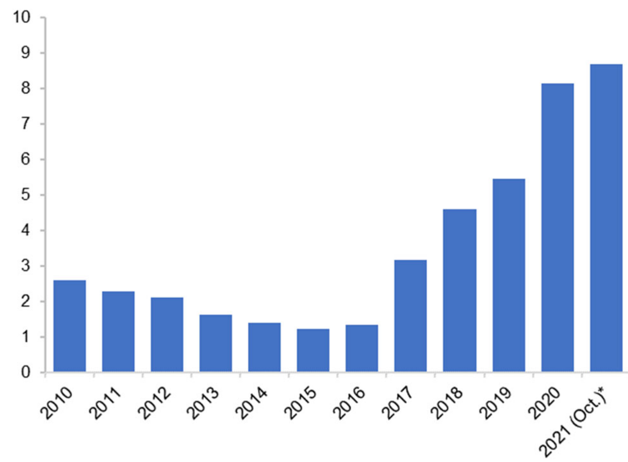
- The overall fiscal deficit (excluding grants) is projected to narrow by 0.5 percentage points to 2.7 percent of GDP in 2021 compared to 2020, mostly due to lower expenditure. Revenue mobilization is broadly unchanged for the region, as higher oil revenue in Congo offset the lower revenues in Chad and Gabon. Non-oil revenue is expected to pick up from 2022. This, combined with a slight decrease in expenditures, would lead to an improvement in the fiscal deficit of 1.4 percent of GDP in 2022, and a fiscal balance in equilibrium by 2025.

- Public debt is projected to decline by 3.8 percentage points compared to 2020, to 56.2 percent of GDP in 2021, further declining to 45.7 percent of GDP in 2025. These figures include the gradual repayment of arrears by national governments, in line with agreed strategies.

- After a sharp deterioration in 2020, the external current account deficit is expected to improve significantly, primarily driven by the rebound in global oil prices, and reach 2.1 percent of GDP in 2021. In the medium term, the trade balance would deteriorate as oil production declines and imports increase, raising the current account deficit to 4.6 percent of GDP in 2025. The impact of the application of the foreign exchange regulation to the extractive sector industry (from 2022) is not included in the outlook (see ¶24).

- Beyond 2021, the overall balance of payment deficit would improve substantially compared to previous estimates, driven by higher oil prices. External gross reserves are projected to recover to 3.3 months of prospective imports at end-2021, reflecting the recent SDR allocations. External reserves would reach 3.9 month of prospective imports in 2022 and five months of imports, the level deemed adequate for CEMAC, by 2026. These projections assume that still large external financing needs (of about EUR 3.1 billion over 2022–24) could be covered in part through successor Fund-supported programs and disbursements by international financial institutions and bilateral donors, of which roughly EUR 200 million is financing that remains to be identified. Fund support has exceeded budget support from donors in both 2020 and 2021 bringing total IMF credit and loans outstanding to around 8.7 percent of total external debt or around 2.8 percent of CEMAC total GDP (Text Figure 5). To avoid debt sustainability in the region deteriorating, it will be crucial that external financing be concessional or in the form of grants for low-income members.

Text Figure 5. IMF Credit and Loans Outstanding
(% of total external debt)



**2021 observation is October Fund credit in percent of year-end projected external debt)*

Text Table 1. CEMAC: External Financing Sources
(Billions of CFAF)

	2017-19	2020		2021				2022		
		CR 21/148 3/	Act.	H1	H2	CR 21/148 3/	Proj.	H1	H2	Proj.
1. Financing need	**3,143**	**1,578**	**1,435**	**132**	**1,029**	**1,921**	**1,154**	**468**	**752**	**1,219**
2. IMF financing [1]	**874**	**576**	**576**	**17**	**48**	**431**	**277**	**210**	**237**	**448**
3. Budget support from other donors	**1,994**	**452**	**452**	**9**	**165**	**454**	**174**	**140**	**466**	**605**
World Bank	602	123	123	0	80	82	80	80	182	262
African Development Bank	791	220	220	0	40	205	40	0	145	145
European Union	118	68	68	9	24	19	32	19	38	58
France	483	11	11	0	7	67	7	33	85	118
Other	0	29	29	0	15	0	15	8	15	23
4. Other external financing [2]	**399**	**439**	**405**	**106**	**456**	**183**	**562**	**1**	**0**	**1**
5. Residual financing gap	**0**	**110**	**1**	**1**	**359**	**853**	**142**	**116**	**49**	**165**

1/ Reflects existing IMF programs and emergency assistance. Staff level agreements on new IMF assistance are reflected in the residual financing gap.
2/ Includes other short-term and exceptional financing.
3/ Refers to the projections of the IMF CR 21/148.

13. The outlook is subject to considerable uncertainty and significant downside risks[5].

- A protracted health crisis affecting the recovery, due to the slow vaccine rollout, a new wave of infections, or uncertainties over variants resistance to vaccines, could jeopardize the rebound in growth.
- Lower than expected oil price would have significant negative implications for the outlook.
- Possible fiscal slippages and setbacks in increasing non-oil fiscal revenue could jeopardize debt sustainability and continue to weigh on imports and external reserves
- Larger-than-expected drawdowns on the SDR allocations, or the use of the fiscal space created by the restructuring of BEAC consolidated advances for additional fiscal deficits, would result in a net injection of liquidity into the region, which would weigh on the reserves buildup.
- A lower-than-expected ability to raise adequate external support due to the limited availability of concessional financing (or difficulties meeting the conditionality attached to such financing), or narrowing market borrowing capacity, could compromise growth, revenue mobilization, and reserve accumulation efforts.
- A larger-than-expected impact of the pandemic on banks could generate unexpected systemic risks and limit their ability to provide credit.
- A possible deterioration in the security situation (Central African Republic, Chad), as well as social discontent and political instability in the region, could also weigh on growth.
- Delays or slippages in restoring or preserving debt sustainability could impact the ability of Fund programs to proceed.
- Upside risks would include, in addition to higher oil prices, accelerated reform implementation and faster than expected progress on FX repatriation by oil and mining companies resulting in larger reserve accumulation.

[5] If they materialized, these risks could have a material impact on the region's capacity to repay the Fund in a context where exposures are sizable.

IMPLEMENTATION OF THE REGIONAL STRATEGY TO ADDRESS THE CRISIS

14. The improvement in CEMAC's economic prospects and external sustainability is predicated on the implementation of strong economic and structural measures. Rebuilding NFAs will require fiscal policies to be supportive of external stability while ensuring an adequate health response, assistance for the most vulnerable, and support for ambitious development objectives. A tighter monetary policy and fine-tuned liquidity operations should also support reserves accumulation. Growth and diversification will require a decisive implementation of the structural, transparency, and governance reforms committed to at the recent CEMAC Heads of States Meetings. As CEMAC exits the crisis, financial sector weaknesses need to be addressed to preserve financial stability and support private-sector growth.

A. Fiscal Consolidation Efforts

15. Fiscal policy should balance external and debt sustainability with the need to minimize the pandemic's long-term effect on households and firms and support broader development objectives. Fiscal consolidation will be critical to rebuild international reserves, put public debt firmly on a declining path, and reduce vulnerabilities to oil prices swings. At the same time, the pandemic has demonstrated the need for well-targeted priority social spending and other growth-enhancing investments. In the past, consolidation has been tilted towards cuts in public investment, which has weighed on growth given the prominent role of public spending on economic activity. To achieve a growth-friendly normalization, a determined effort to implement non-oil revenue-enhancing measures despite challenges should play a prominent role in meeting fiscal consolidation needs going forward. Current expenditure should also be rationalized to create space for the necessary social and growth-enhancing spending; this includes accelerating the implementation of arrears clearance plans to strengthen the private and banking sectors.

16. Staff reiterated that meeting sizeable development needs with tighter budget envelopes will require significant structural, governance, and transparency efforts. To achieve "more with less", staff recommended to decisively focus on significantly improving the efficiency of spending and creating the conditions for a healthy development of the private sector, areas in which there is ample room for progress. To this end, the authorities should accelerate the implementation of Heads of States commitments, with the support of the CEMAC commission and the PREF CEMAC. It will be particularly important to enhance transparency in public finances and in the oil and gas sector, address vulnerabilities to corruption, and advance business climate reforms. In this regard, staff welcomed the readmission of Gabon to the Extractive Industries Transparency Initiative (EITI) in September 2021. Staff also argued that to increase budget revenues and improve governance, the cost of tax exemptions should be published, and unjustified exemptions lifted. Staff also encouraged the implementation of the regional directives on PFM, tax policy, customs and tax administration, budget control, and fiscal risks and projections.

17. Staff urged the authorities to contain the impact of the newly rescheduled statutory advances. The new fiscal space opened by this measure, if used to finance additional deficits, could lead to a further deterioration in net foreign assets, forcing the BEAC to mop up the excess liquidity to preserve external sustainability. Staff argued for the decision to be rescinded, to limit the risk of fiscal slippages. Staff also recommended that countries with sufficient fiscal space, especially under IMF programs, repay their stock of statutory advances according to the original schedule to reaffirm their commitment to end monetary financing in CEMAC. Should the authorities choose not to rescind, the new fiscal space should be used to change the composition of financing. Such an approach, if it results in a lower domestic bank financing of the deficit, could help reduce the bank-sovereign nexus and the crowding out of the private sector. This should be reflected in the on-going program discussions with national authorities.

18. Staff recommended using the SDR allocations prudently given the low level of external reserves. Some countries under severe liquidity stress (Chad and Congo) have already withdrawn their allocations in CFAF (see Annex IV). Additional drawings on the SDR allocations to finance new spending would inject additional liquidity, leading to higher imports, and draining foreign exchange reserves further. Staff recommended that countries with stronger fiscal positions and better market access save about half of their allocations to strengthen CEMAC's external position. In addition, the allocations should ideally be used to substitute for domestic financing within unchanged fiscal envelopes, to limit the risk of further pressure on reserves. These principles guide staff program discussions with the national authorities.

B. Monetary Policy Stance and Operations

19. Staff and the authorities agreed that monetary policy should be tightened to stem the decline in reserves. On November 25, the Monetary Policy Committee (MPC) followed the BEAC's recommendation to increase the policy rate by 25 basis points, in line with BEAC's monetary policy framework. BEAC also continued to tighten liquidity, increasing the rate on liquidity absorptions operations by 30 basis points, to increase the attractiveness of its liquidity absorption window, and reducing its weekly liquidity injections from CFAF 250 billion to CFAF 230 billion. Staff sees these measures are an important signal of BEAC's commitment to (i) external sustainability and the viability of the exchange rate arrangement; and (ii) anchoring expectations, in a context marked with accelerating global inflation. Staff also recommended reducing the maturity of the liquidity absorption window, to allow for a better fine-tuning of liquidity conditions. Staff and the authorities agreed that monetary policy might need to be tightened further if the external position fails to strengthen or if inflation were to durably exceed the regional convergence criteria.

20. Staff recommended normalizing liquidity management and reverting to the pre-crisis framework, based on the autonomous factors of banking liquidity (AFBL), while addressing banks with structural liquidity needs. In March 2020, BEAC set its weekly liquidity injections to CFAF 250 billion, to contain risks stemming from possible liquidity tensions in the system. BEAC reduced the injections to CFAF 230 billion in November 2021. Staff noted that while demand for liquidity had outpaced supply since March 2021, most of the liquidity (80 percent) was provided to a few banks with seemingly structural dependence on BEAC's injections, the majority of which are also in breach of some of their prudential obligations. The indiscriminate access of banks to a fixed and still large amount of liquidity complicates the return to the pre-crisis framework. In addition, access to the normal liquidity window should be reserved to liquid and solvent banks. Staff advised a gradual normalization of liquidity management that accounts for the differentiated positions of banks:

- Only banks compliant with their prudential obligations should be allowed to access the standard weekly liquidity window (guichet A).
- Banks structurally dependent on BEAC's liquidity injections should gradually reduce their exposure, for example through financing plans, to contain the risks that could stem from a durable increase of BEAC's balance sheet. During their adjustment, these banks should access the marginal liquidity window.
- Banks in breach of their prudential obligations and with credible restructuring plans should only be eligible to emergency liquidity assistance, and should comply with conservatory measures (for example, limiting assets growth) and other support measures (governance improvements, performance goals).

BEAC emphasized that the success of such a strategy would hinge on countries' support, notably in the context of on-going and future Fund-supported programs.

21. BEAC expects the new IT platform for managing Treasury Single Accounts (TSAs) for CEMAC countries to be fully operational by December 2021. This will allow countries who are ready (initially Cameroon and Gabon) to move ahead with TSAs, and staff encouraged BEAC to coordinate with the relevant national Treasuries to identify all accounts to be moved to the TSAs, for these to become fully operational as soon as possible. Functioning TSAs would help absorb some of the liquidity in the banking system and greatly facilitate monetary operations.

22. Safeguards Assessments. The BEAC has implemented most recommendations from the 2017 safeguards assessment and an update assessment has been initiated under the four-year cycle for safeguards assessments of regional central banks.

C. Enforcement of the Foreign Exchange Regulation

23. BEAC continues to firmly enforce the foreign exchange (FX) regulation[6]. Since March, it has reminded banks and companies about the documentation required for FX demands and of the need to clear past transfer transactions, which should normally be done within three months. A significant number of sanctions were applied to noncompliant economic agents. Moreover, monitoring the obligation to repatriate deposits held abroad remains difficult. Staff advised BEAC to

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

continue to seek countries' cooperation for identifying government agencies and public enterprises that might still have accounts abroad.

24. BEAC is on track to apply the FX regulation to the extractive sector from 2022. Extractive sector companies will be required to repatriate a significant portion of their export earnings. To facilitate transactions, they will be allowed to hold foreign currency accounts in CEMAC banks. These accounts will be protected against abusive seizure and will incur low operation costs. The agreement entails an ongoing dialogue between stakeholders to ensure effective implementation and attention to the constraints of the sector. From 2022, the funds set aside by companies to cover oil fields rehabilitation costs will be transferred into long-term foreign currency deposits in CEMAC over three years. BEAC believes that these amounts could be substantial and contribute to a significant increase in the BEAC's foreign exchange reserves. Staff recommended quickly communicating the changes, new provisions and obligations to all actors, including BEAC's own staff, in order to minimize implementation delays and difficulties.

D. Financial Sector Policies and Reforms

25. Staff welcomed the SG COBAC's plan for exiting the temporary measures and normalizing the prudential framework as the region emerges from the crisis. In August 2021, the SG COBAC increased the capital requirement by ½ percentage point to 10 percent, thereby starting to bring the capital requirements back to their pre-crisis level of 10.5 percent. COBAC is to decide on an exit strategy by end-2021, for implementation starting in July 2022. In the meantime, the SG COBAC plans to conduct inspections to fine-tune its understanding of the overall impact of the pandemic on banks' loan books and solvency. Staff agreed that this cautious approach will allow COBAC to form a clear view of the situation of the banking system and of systemic risks and encouraged COBAC to set up a structured and comprehensive supervisory strategy for unwinding COVID-19-related special regulatory measures. Staff also highlighted that the priority should be to restore financial transparency and avoid further accumulation of latent NPL losses. In particular, staff recommended:

- Setting an end-date, preferably at end-December 2021, for the eligibility of new loans to the temporary measures. This would allow to freeze the stock of pandemic-impacted loans at end-2021 and would in turn help in assessing the impact of lifting the temporary measures.

- Avoiding any postponement of the exit beyond July 2022 to allow for a rapid return to balance sheet transparency while maintaining financial stability.

- Setting an end-date, preferably by end-2022, at which the temporary measures would be entirely lifted, and appropriate reclassification and provisioning done. COBAC's impact studies indicate that, as of April 2021, the total estimated provisioning needs could lie slightly above one year of the sector's net income.

- Encouraging banks, on a voluntary basis, to exit temporary measures early, and only allowing dividend distribution for banks that would remain fully compliant with solvency requirements after all losses from NPLs are accounted for. Banks should be requested to update their NPL resolution strategies once temporary measures are lifted.

- Requiring undercapitalized banks to submit credible medium-term recapitalization plans and avoiding delaying the resolution of banks that were insolvent prior to the pandemic.
- Working with countries on domestic arrears clearance plans and assessing their potential impact on banks.

The SG COBAC emphasized that exiting the temporary measures is a difficult policy challenge, which requires careful consideration of options and timing, especially given the ongoing impact of the health crisis.

26. Staff reiterated the importance of strengthening regulatory compliance and implementing the bank resolution framework in a timely manner, to both enhance financial stability and contain the fiscal cost of delayed decisions. Regulatory compliance deteriorated slightly in the wake of the pandemic, and bank resolution remains slow. Banks' compliance with minimum solvency, individual exposure limit, and short-term liquidity requirements deteriorated marginally from end-2020. At end April-2021, only 14 banks out of 50, representing less than half of total banking assets, complied with all prudential ratios based on regulatory capital (compared to 17 at end-2020). Staff reiterated its recommendation to make use of the full array of regulatory measures as needed, including financial penalties. It noted the recent progress in setting closure dates for two liquidations and recommended that the post-liquidation recovery procedures should be in place by the closure date.

27. COBAC took strong disciplinary decisions to enforce compliance with foreign exchange and AML/CFT regulations. It also intensified the inspections aimed at ensuring compliance with the regulations related to sovereign risk. Staff reiterated its suggestion for a dashboard to track progress on governance and risk management compliance and recommended starting to apply financial sanctions. Staff noted the resumption of on-site inspections in a difficult context, marked by staffing constraints at COBAC and underscored the need to address urgently persistent capacity issues.

28. COBAC has made progress in implementing risk-based supervision and should continue modernizing the regulatory framework. COBAC is finalizing regulations aimed at strengthening the regional AML/CFT framework, introducing Islamic banking, and enhancing the operations of the deposit guarantee fund FOGADAC, to be adopted by end-2021. Revision of the short-term liquidity ratio and implementation of the leverage ratio are planned for 2022. Progress on the Basel roadmap and the new stress-testing methodology, however, has been more limited. Staff encouraged the SG-COBAC to update its Basel roadmap and timeline to implement risk-based supervision, and to restart the timely reporting of financial sector indicators for CEMAC countries to the IMF Statistics department. Staff also encouraged COBAC to continue its efforts to limit risks related to the sovereign-banks nexus, as banks' exposure to the sovereign continued to increase in 2021 to more than a quarter of banking assets and to devise a strategy to broaden the investor base for government securities towards nonbanks and accelerating reforms to develop a deeper secondary market.

29. BEAC has advanced on the regional financial transparency and inclusion strategies. After launching a pre-qualification for the Credit Information Bureau (CIB) in June 2021, BEAC has selected two candidates for a tender to be launched at the end of 2021. The CIB's selection is planned in the first half of 2022. The new credit risk registry is going through a pilot phase in Gabon before being extended to other countries in the first half of 2022 while the corporate financial statement registry is suffering delays. The external consultant has presented to all stakeholders a diagnosis of the financial inclusion situation in each country in the first half of 2021 and the first draft of the strategy, which will include the definition of basic financial services, is expected by end-2021.

E. Enhancing the Regional Surveillance Framework

30. Staff discussed with the CEMAC Commission ways to further enhance the regional surveillance framework. Staff reiterated that adhering to the regional convergence criteria within a reasonable timeframe is essential for the credibility of the regional surveillance framework. Only three countries (Cameroon, Congo, and Chad) have shared their national triennial convergence plans with the Commission and other CEMAC members should quickly complete their plans. Staff recommended the rapid adoption, by the Heads of States Conference,[7] of the new sanction mechanism for breaches of regional surveillance rules, as strong implementation mechanisms are essential to guarantee the credibility of the system. Finally, staff reiterated its support for the macroeconomic imbalances early warning tools, which will become effective in 2023 (based on 2022 data).

REFORMS FOR A HIGHER AND MORE INCLUSIVE GROWTH

31. Staff and the authorities concurred on the need to build on the momentum generated by the CEMAC Heads of States Summit to accelerate structural reforms for a more broad-based and inclusive growth (Annex V). Given the limited policy space, the decisive acceleration of cost-neutral structural, transparency, and governance reforms is critical to the external viability of the region. Staff also underlined the need to bolster regional institutions, which are essential to implement this agenda. In particular, the CEMAC Commission should continue to play a central role in monitoring and encouraging the rapid implementation of key reforms under the PREF CEMAC. Priorities include:

- Implementing the reform commitments made by the Heads of States, which the PREF-CEMAC has translated the into specific actions in a revised matrix, including performance indicators and a detailed timeline. A dedicated unit at the national level will be set up in each

[7] The mechanism was adopted by the council of ministers in January 2021.

CEMAC country to oversee fiscal issues, IMF-supported reforms, and the national structural reform agendas.

- Improving transparency in public finances and in the oil and gas sector and strengthening revenue mobilization. The COPIL of the PREF CEMAC also encouraged governments, at its September 24 meeting, to increase non-oil revenues and implement clear strategies to reduce domestic arrears.

- Improving public investment management and transparency in the region. Staff welcomed the Commission's ongoing work on the topic. Staff suggested that the PREF CEMAC and the CEMAC Commission both take part in the monitoring of the implementation of the newly adopted harmonized PFM directives, including by requiring quarterly implementation reports. Finally, the Commission will need to follow up on the implementation of the budget transparency directive.

- Enhancing regional monitoring on tax policy and supporting the regional framework for customs procedures.

- Focusing on business-friendly reforms. The Business Climate Observatory is set to monitor the evolution of selected indicators through a network of domestic agents.

MONITORING OF REGIONAL DEVELOPMENTS AND POLICIES

32. BEAC and COBAC have pursued the implementation of the policy commitments provided in the June 2021 follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries, but progress was negatively affected by the pandemic and related uncertainties. BEAC left monetary policy unchanged following its moderate easing in 2020, but with lower external reserves and higher demand for BEAC's liquidity, monetary conditions tightened somewhat with the interbank rate increasing by about 200 bp since end-2020 (see para. 8). The NFA target at end-June 2021, a policy assurance which had been set in a context of high uncertainty, was missed. The shortfall appeared largely due to lower external financing, but abundant liquidity likely also played a role. In other areas of policy commitments, consultations with the extractive sector on the implementation of the foreign exchange regulations progressed well and full implementation is expected by end-December 2021. The platform for operationalizing TSAs is expected be ready by end-2021. Implementation of other reforms still faced headwinds due to the pandemic: SG-COBAC is finalizing a new risk rating system to prepare for the implementation of modern-risk based prudential supervision, albeit with delays that are partly due to capacity constraints. The validation of the cash-flow recovery plans of two banks to reduce their dependence on BEAC refinancing within a period of two years has been slow.

Text Table 2. Regional Policy Assurance on NFAs, 2021–22

(Billions of euros)

	Dec. 2020	Jun.2021	Dec. 2021	Jun.2022
Assurance endorsed in March 2021 *	€ 3.30	€ 2.80	€ 3.20	…
Outcome	€ 3.02	€ 2.68	….	…
Proposed new assurances to be discussed with regional authorities	…	…	€ 2.20	€ 2.78

* Dec 2020 target were endorsed in December 2020

33. The attached follow-up letter describes revised NFA targets for end-December 2021 and end-June 2022 which are proposed as modified regional policy assurances and other policy intentions by the regional institutions in support of national program objectives. Going forward, BEAC is committed to maintaining an appropriate monetary policy stance to support external reserves build-up. As part of corrective actions to support the reserve position: (i) a 25 basis points increase in the policy rate (TIAO) was approved at an extraordinary MPC meeting on November 25; following a recommendation from BEAC; (ii) BEAC increased the interest rate of liquidity absorptions by 30 basis points to reduce the excess liquidity, stimulate the interbank market, and improve monetary policy transmission; and (iii) BEAC reduced its weekly liquidity injections from CFAF 250 billion to CFAF 230 billion. BEAC will also continue to work towards the effective application of the foreign exchange regulation, including by implementing the recently agreed adaptations for the extractive sector from 2022. Consistent with staff projections, the end-December 2021 and end-June 2022 proposed NFA targets covered by the updated policy assurance were set to euro 2.2 billion and euro 2.78 billion, respectively. This is consistent with national governments fiscal policy intentions and in line with staff advice.

STAFF APPRAISAL

34. CEMAC's fragile external position is expected to improve in 2022 but projections remain highly uncertain. Despite a favorable external environment and the availability, during 2020 and 2021, of emergency financing, CEMAC's external position deteriorated further than expected in 2021. High oil prices, strong global growth, and significant fiscal adjustment should contribute to foreign reserves accumulation in 2022 but these projections remain uncertain.

35. In this context, the contemplated tighter policy mix is appropriate to bolster CEMAC's external position. The ESA assessment of the 2021 current account suggest an overvaluation and a significantly weaker external position than warranted by fundamentals and desirable policies. The region's external sustainability will hinge on sustained fiscal consolidation, in line with Fund-supported programs with Cameroon, Gabon, and Equatorial Guinea, as well as possible Fund-supported programs in Chad and Congo. Saving oil price windfalls, which is an explicit objective of some programs, would help insulate CEMAC from downside risks including external financing shortfalls. Fiscal policies should notably limit the impact of the use of the SDR allocations and the restructuring of statutory advances on liquidity and domestic demand. Furthermore, enhanced collaboration of national authorities with other donors would help catalyze more external financing on appropriate terms. The recent monetary policy tightening should help stem the decline in reserves and contain inflation expectations. The liquidity management framework should revert to its pre-crisis focus on the autonomous factors of banking liquidity, and normal liquidity operations should be restricted to liquid and solvent banks. In the event of a deviation from the revised NFA accumulation targets that is not minor or temporary, BEAC and the CEMAC member states should stand ready to identify and adopt necessary additional corrective actions, including a further tightening of monetary policy by BEAC if needed. BEAC and COBAC should also address banks with structural liquidity needs and/or difficulties meeting prudential requirements within a separate framework, geared towards strengthening or restructuring these banks. The full operationalization of TSAs would also facilitate the liquidity management strategy, and national treasuries should work with BEAC to implement them.

36. The full implementation of the foreign exchange regulation by end-2021 should help support NFA accumulation in the medium term. BEAC has reached an agreement with extractive sector companies on the implementation of the foreign exchange regulation from 2022. Oil and mining companies will repatriate a significant portion of their export earnings and be allowed to hold foreign currency accounts in CEMAC. From 2022, funds saved by oil and gas companies to cover oil fields rehabilitation costs will progressively be transferred into long-term foreign currency deposits in CEMAC. Processing times for FX transfers outside of the monetary zone have been reduced. FX surrendering levels are satisfactory, but repatriation compliance of deposits held by public entities abroad remains difficult to assess, and governments should support BEAC in identifying government agencies and public enterprises that might still have accounts abroad.

37. To limit risks to financial stability as the region exits the crisis, and in addition to the ongoing normalization of the prudential framework, COBAC should improve regulatory compliance, and accelerate bank resolution. COBAC's plan to withdraw the temporary easing of prudential regulation taken at the start of the pandemic by July 2022 is welcome and essential. COBAC should end the eligibility of new loans to the temporary easing by end-December 2021, decide on a transparent process for an exit strategy by the same date, and aim to lift entirely the temporary measures by end-2022. Further, it should ensure that banks comply fully with regulations on asset classification and provisioning as they exit the temporary measures. Banks' compliance with prudential standards remains weak and the resolution of problem banks should be accelerated. Tackling the high level of NPLs and achieving progress on arrears clearance plans remain also key for financial stability. Progress towards risk-based prudential supervision, the Basel roadmap, the new stress testing methodology, improving data quality and establishing a framework for risk-based AML/CFT supervision should be accelerated. COBAC should also continue to improve data quality. To carry out this heavy workload, longstanding under-staffing issues need to be addressed.

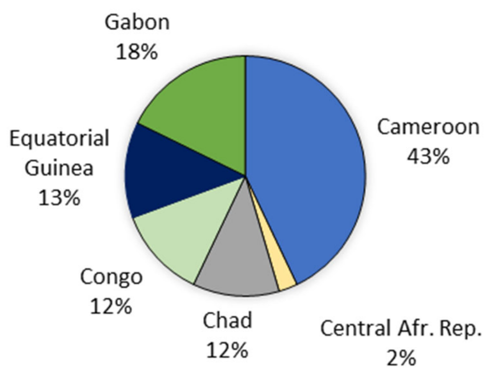
38. Building on the momentum generated by the CEMAC's Heads of States summit, CEMAC must decisively accelerate structural, transparency, and governance reforms to lay the basis for a diversified, inclusive, and sustainable growth. In light of declining oil production, these reforms are instrumental to make the best use of limited fiscal resources and promote the development of a thriving private sector to diversify sources of growth. Cost-neutral governance and transparency reforms, including fully and consistently implementing existing laws and empowering existing governance structures, should be prioritized. Increasing non-oil revenue will be key to cushion the impact from oil price swings and to make room for priority development and social spending. The modernization of tax administrations along with efforts to broaden the tax base would help support external and debt sustainability. Decisive progress in advancing these reforms falls mainly on the national authorities. Disseminating macroeconomic and financial data in a timelier way would also increase transparency and help monitor progress. The CEMAC Commission and the PREF CEMAC also have a decisive role to play in advancing the reform agenda and implementing the reform commitments made by the Heads of States. They should also continue to promote budget transparency through the effective implementation of all CEMAC PFM directives and strengthen the regional surveillance framework, including with an early warning system, and a sanction scheme for non-compliant countries.

39. Overall, staff: (i) notes that BEAC did not implement the policy assurance on the NFA provided in the June 2021 follow-up letter, largely due to lower external financing in the first half of 2021; (ii) considers that BEAC has taken sufficient corrective actions to address the end-June NFA underperformance by starting to reverse the easing of monetary conditions while the recovery has still to materialize; and (iii) supports the updated proposed policy assurance on NFA accumulation (to bring NFA to euro 2.2 and euro 2.78 billion at end- 2021 and end-June 2022, respectively). Other policy commitments provided in the June 2021 follow-up letter were implemented, albeit with delays due to the COVID-19 pandemic. BEAC's commitment to maintain an appropriately tight monetary policy was reflected in (i) the 25 basis point increase in the policy rate (TIAO) and the marginal lending facility rate, which was approved by the November 25 extraordinary MPC meeting on the recommendation of BEAC; (ii) its 30 basis point increase in the interest rate of the liquidity absorption window to reduce the excess liquidity, stimulate the interbank market, and improve monetary policy transmission; and (iii) the reduction in the weekly liquidity injections from CFAF 250 billion to CFAF 230 billion. These corrective actions underpin the NFA accumulation. Member states also intend to maintain macroeconomic stability, including through appropriate fiscal policy measures, and to implement quickly and decisively ambitious structural, transparency, and governance measures to unlock the growth potential of the region, in the context of program or pre-program engagement with the Fund. Nevertheless, the build-up in external reserves will remain contingent on external support to CEMAC countries being in line with expectations. Meeting the proposed policy assurance on NFAs is critical to allow the continuation of (or approval of new) financial support as part of the Fund-supported programs with CEMAC members.

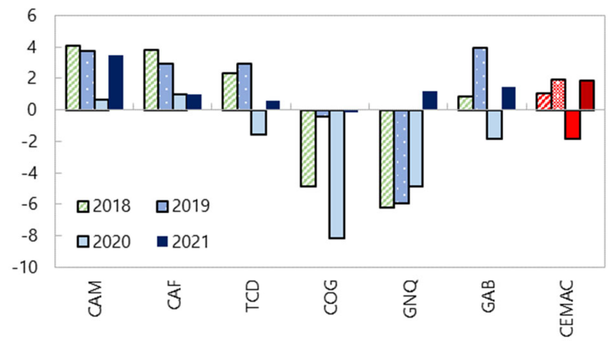
Figure 1. CEMAC: Selected Economic Indicators, 2000–21

Real GDP contracted 1.9 percent in 2020 and is forecasted to reach 1.9 percent growth in 2021, mostly due the recovery in the non-oil sector.

CEMAC: Nominal GDP, 2021
(National Shares)

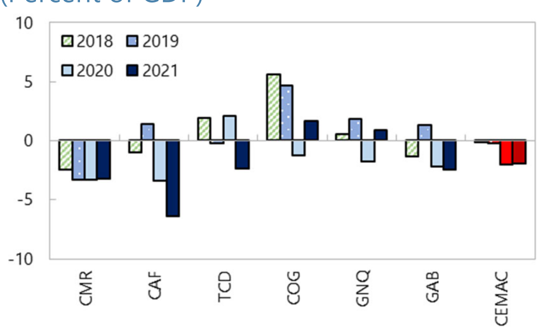


CEMAC: Real GDP Growth, 2018–21
(Percent)

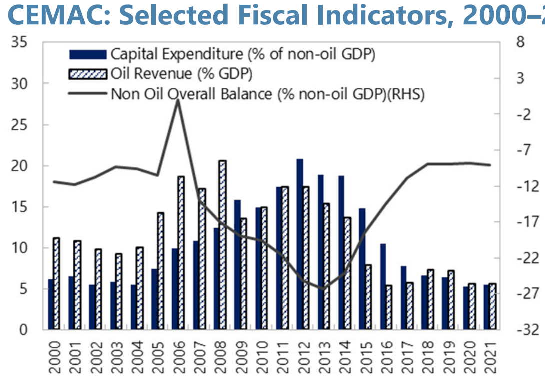


In 2021, the overall fiscal deficit is projected to improve slightly to -2.7 percent of GDP. The non-oil fiscal deficit will remain stable at -9.9 percent of GDP.

CEMAC: Overall Fiscal Balance, 2018–21 (including grants)
(Percent of GDP)

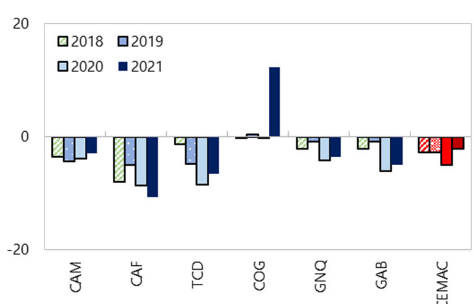


CEMAC: Selected Fiscal Indicators, 2000–21

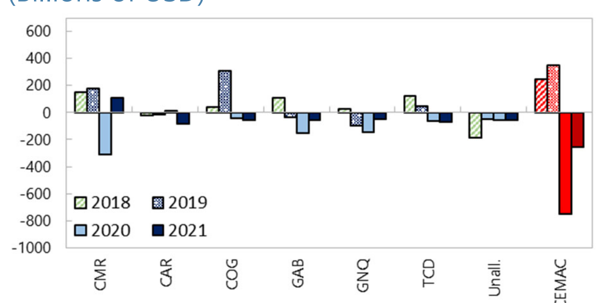


More favorable terms of trade will bring the current account deficit to 2.1 percent of GDP in 2021, but the net foreign reserves position is forecasted to continue deteriorating

CEMAC: Current Account, 2018–21
(Percent of GDP)



CEMAC: Yearly Change in NFA, 2018–21
(Billions of USD)

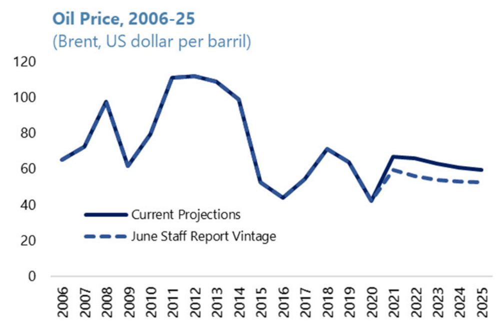


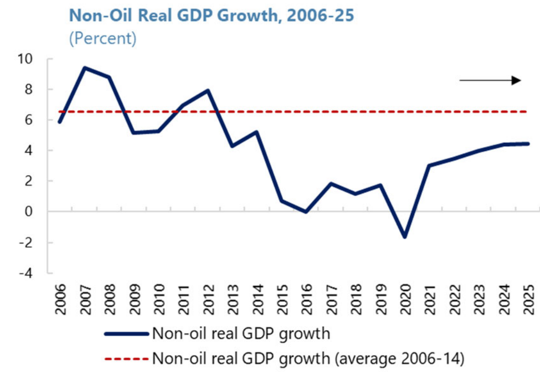
Note: Changes at the CEMAC level include unallocated reserves at the BEAC.

Sources: CEMAC authorities; and IMF staff estimates.

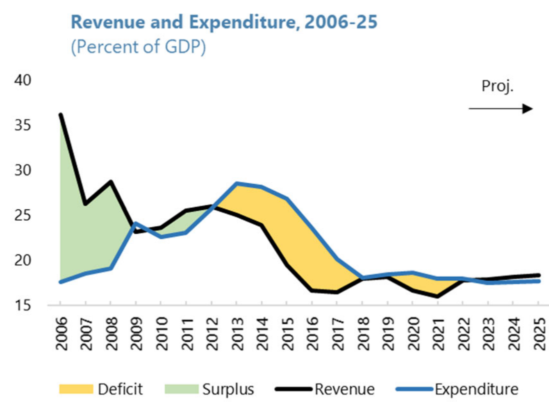
Figure 2. CEMAC: Selected Economic Indicators, 2006–25

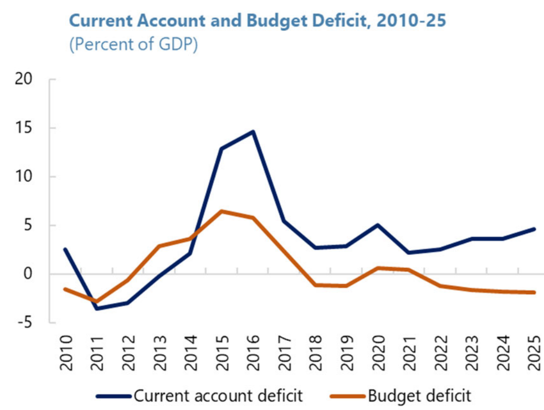
The oil prices forecast was revised upwards at $66.9 for 2021. Non-oil GDP growth will recover in 2021 and beyond with the reopening of economies and stronger activity in the service sector.



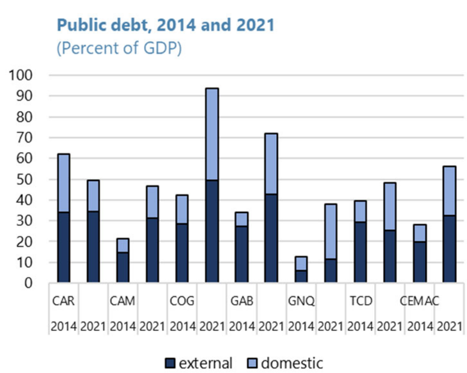


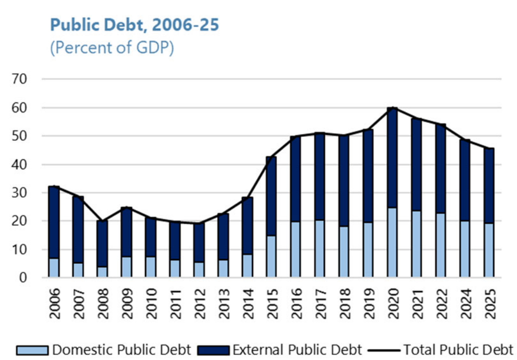
Large twin current account and fiscal deficits in 2020 and 2021 contributed to lower net external reserves. The recovery in oil prices, rapid global growth, and significant fiscal adjustments in 2022 should allow for the build-up in net external reserves to resume.





With widening deficit, public debt increased to 60 percent of regional GDP in 2020 and should progressively decline below 50 percent in 2024.



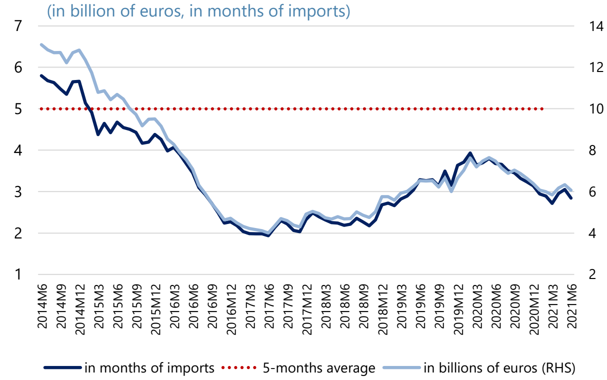


Sources: GAS Live, CEMAC authorities; and IMF staff estimates.

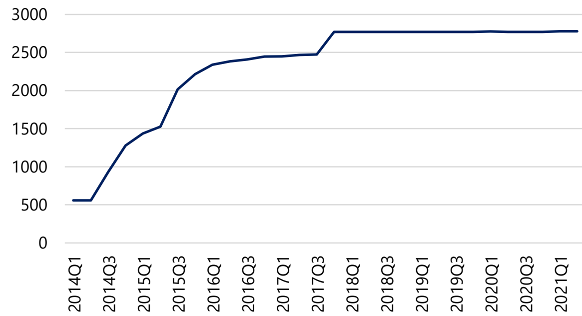
Figure 3. CEMAC: Monetary Indicators

The NFA declined sharply since mid-2020, bringing the reserves coverage below 3 months of imports in 2021.

Official Reserves' Coverage, 2014-21
(in billion of euros, in months of imports)

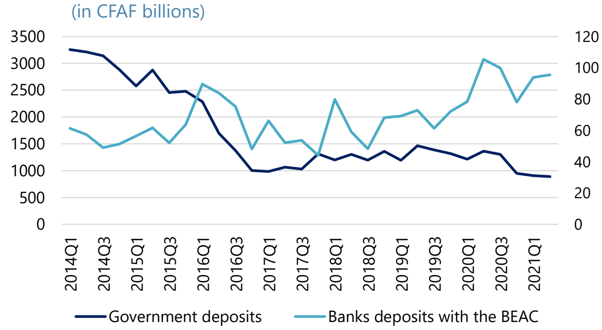


BEAC's Credit to Governments: Advances and Consolidated Debt, 2014-21
(in CFAF billions)

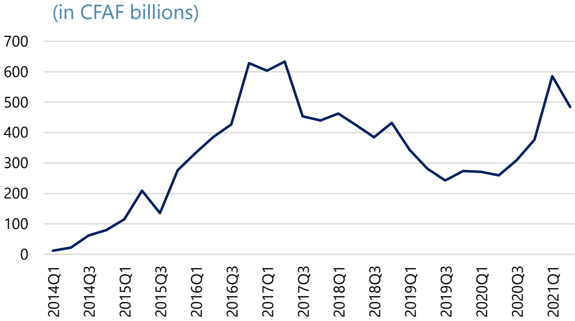


Governments deposits at BEAC decreased in 2021, banks deposits increased, whereas banks' use of the BEAC's refinancing line started to taper.

Government and Banks Deposits at the BEAC, 2014-21
(in CFAF billions)

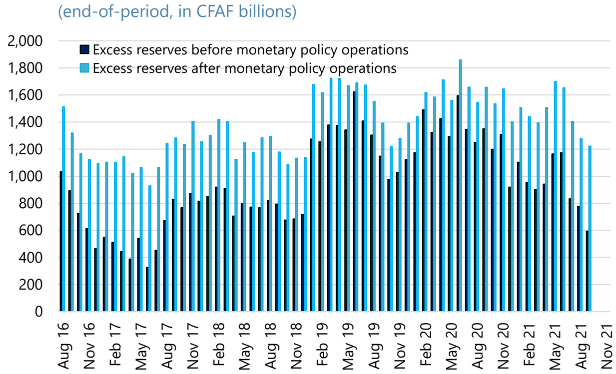


BEAC Refinancing of Banks, 2014-21
(in CFAF billions)

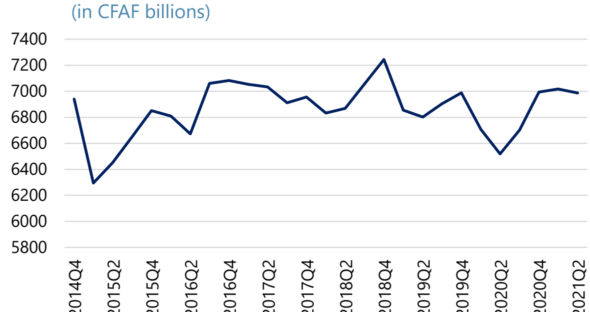


The banking sector's excess reserves after monetary operations is increasing in 2021 on the back of refinancing operations at the BEAC and a segmented interbank market. Credit to the private sector growth slowed down in 2021-H1

Banks' Excess Reserves, August 2016 - September 2021
(end-of-period, in CFAF billions)



Credit to the Private Sector, 2014-21
(in CFAF billions)



Sources: CEMAC; and IMF staff calculations.

Table 1. CEMAC: Selected Economic and Financial Indicators, 2016–26

	2015	2016	2017	2018	2019	2020	2020	2021	2021	2022	2023	2024	2025	2026
	Est.	Est.	Est.	Est.	Est.	CR 21/148 4/	Est.	CR 21/148 4/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual change, in percent)													
National income and prices														
GDP at constant prices[1]	0.9	-1.6	0.5	1.1	1.9	-2.6	-1.9	2.6	1.9	2.8	3.3	4.1	3.5	3.6
Oil GDP[1]	1.9	-7.7	-5.2	0.5	3.0	-2.1	-3.0	-0.8	-3.4	-0.5	-0.4	2.8	-1.7	-3.2
Non-oil GDP[1]	0.7	0.0	1.8	1.2	1.7	-2.8	-1.6	3.3	3.0	3.5	4.0	4.4	4.4	4.7
Consumer prices (period average)[2]	2.4	1.1	0.8	2.1	1.8	2.7	2.7	2.1	1.8	2.3	2.3	2.3	2.3	2.3
Consumer prices (end of period)[2]	1.7	0.3	1.2	3.0	1.9	1.7	1.7	2.6	2.0	2.7	2.3	2.3	2.3	2.3
	(Annual change, in percent of beginning-of-period broad money)													
Money and credit														
Net foreign assets	-17.7	-31.4	-0.9	1.8	1.4	-6.6	-6.6	1.0	-0.9	…	…	…	…	…
Net domestic assets	11.7	26.7	0.5	6.3	4.5	17.7	17.7	7.6	14.3	…	…	…	…	…
Broad money	-6.0	-4.6	-0.4	8.1	5.9	11.1	11.1	8.6	13.4	…	…	…	…	…
	(In percent of GDP, unless otherwise indicated)													
Gross national savings	22.7	17.4	21.2	22.6	22.9	19.4	19.3	22.2	22.1	23.5	23.4	23.7	24.8	25.3
Gross domestic investment	35.5	31.9	26.7	25.1	25.6	24.2	23.8	25.2	24.2	25.9	26.9	27.3	29.5	30.2
Of which: public investment	10.1	8.9	7.2	6.0	5.5	4.6	4.6	5.0	4.6	4.8	5.0	5.2	5.3	5.7
Government financial operations														
Total revenue, excluding grants	18.8	15.9	15.7	17.2	17.4	15.5	15.5	16.3	15.3	16.7	17.1	17.4	17.6	17.9
Government expenditure	26.8	23.7	20.1	18.1	18.4	18.7	18.6	18.7	17.9	18.0	17.5	17.6	17.6	18.0
Primary fiscal basic balance[3]	-5.0	-3.9	-0.5	2.6	3.0	0.2	0.3	1.5	1.3	2.7	3.5	3.8	4.0	3.8
Overall fiscal balance, excluding grants	-8.0	-7.8	-4.4	-0.9	-1.0	-3.3	-3.2	-2.4	-2.7	-1.3	-0.4	-0.2	0.0	-0.1
Primary fiscal balance, including grants	-6.5	-5.8	-2.4	1.1	1.3	-0.7	-0.6	-0.1	-0.4	1.3	1.7	1.8	1.9	1.7
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-19.3	-15.3	-12.0	-10.1	-10.1	-10.2	-10.0	-10.2	-9.9	-8.8	-7.2	-6.5	-5.6	-5.1
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-17.4	-13.0	-9.5	-7.6	-7.3	-7.2	-7.1	-7.5	-7.2	-5.8	-4.8	-4.2	-3.5	-3.0
Total Public Debt	42.7	49.9	51.0	50.3	52.3	58.1	60.0	55.4	56.2	54.1	51.6	48.6	45.7	43.1
External sector														
Exports of goods and nonfactor services	32.6	28.4	32.1	36.1	35.2	26.6	27.1	31.3	33.4	32.9	30.8	29.8	28.5	27.3
Imports of goods and nonfactor services	41.0	37.5	33.3	33.8	33.2	28.5	28.7	30.1	30.3	31.4	30.4	29.9	30.0	29.3
Balance on goods and nonfactor services	-8.4	-9.1	-1.1	2.3	2.1	-1.9	-1.6	1.3	3.0	1.5	0.4	0.0	-1.5	-2.1
Current account, including grants	-12.8	-14.6	-5.5	-2.7	-2.8	-5.2	-5.0	-3.1	-2.1	-2.6	-3.7	-3.7	-4.6	-4.9
External public debt	27.3	28.6	32.0	30.9	32.6	37.5	37.4	34.2	32.3	31.5	30.5	28.7	26.5	25.1
Gross official reserves (end of period)														
Millions of U.S. dollars	10,344	4,972	5,807	6,555	7,390	7,779	7,779	8,925	8,971	11,074	12,531	13,707	15,110	16,869
Months of imports of goods and services (less intra regional imports)	4.3	2.2	2.2	2.6	3.6	3.1	3.1	3.4	3.3	3.9	4.2	4.3	4.6	5.1
Percent of broad money	56.4	29.3	30.6	33.2	36.3	31.4	31.4	32.9	32.6	37.2	38.7	39.6	41.0	42.4
Memorandum items:														
Nominal GDP (billions of CFA francs)	49,091	47,467	49,593	53,107	54,666	50,992	50,839	55,400	56,659	58,979	61,317	64,628	68,132	72,132
CFA francs per U.S. dollar, average	591	593	581	555	586	575	575	538	549	…	…	…	…	…
CFA francs per U.S. dollar, end-of-year	603	622	554	576	590	539	539	534	551	…	…	…	…	…
Oil production (thousands of barrels per day)	943.1	873.8	827.5	872.1	901.9	877.5	870.1	873.9	838.2	843.1	840.5	870.3	854.7	823.5
Oil prices (U.S. dollars per barrel, brent)	50.8	44.0	54.4	71.1	64.0	42.3	42.3	59.7	66.9	65.9	63.0	61.0	59.4	58.4

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

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

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

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

[4] Refers to the projection published in the IMF Country Report No 21/148

Table 2. CEMAC: National Accounts, 2016–26

	2016	2017	2018	2019	2020	2020	2021	2021	2022	2023	2024	2025	2026
	Est.	Est.	Est.	Est.	CR 21/148 1/	Est.	CR 21/148 1/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual change, in percent)												
Real GDP													
Cameroon	4.6	3.5	4.1	3.7	-1.5	0.7	3.6	3.5	4.5	4.6	5.0	5.2	5.4
Central African Republic	4.7	4.5	3.8	3.0	1.0	1.0	-1.0	1.0	4.0	5.0	5.0	5.0	4.9
Chad	-5.6	-2.4	2.3	3.0	-0.9	-1.6	1.4	0.6	2.2	3.1	3.6	3.8	3.7
Congo, Republic of	-10.7	-4.4	-4.8	-0.4	-7.8	-8.2	0.2	-0.2	2.4	2.9	6.5	2.2	1.2
Equatorial Guinea	-8.8	-5.7	-6.2	-6.0	-4.9	-4.9	4.1	1.2	-3.7	-1.2	-1.1	-3.1	-2.2
Gabon	2.1	0.5	0.8	3.9	-1.8	-1.8	1.5	1.5	3.0	2.8	3.4	3.6	3.8
CEMAC	-1.6	0.5	1.1	1.9	-2.6	-1.9	2.6	1.9	2.8	3.3	4.1	3.5	3.6
Nominal GDP													
Cameroon	5.8	5.1	5.7	6.3	0.4	-0.3	5.7	6.8	6.5	6.1	6.6	7.3	7.4
Central African Republic	7.9	11.3	5.2	5.5	2.8	2.8	1.5	4.0	6.7	7.6	7.6	7.6	7.6
Chad	-6.6	-3.2	4.7	4.6	-2.9	-3.7	9.4	6.9	3.5	4.9	5.8	6.3	6.3
Congo, Republic of	-14.3	7.2	17.4	-1.1	-20.3	-20.8	13.1	17.3	3.3	2.8	6.9	3.1	2.7
Equatorial Guinea	-14.5	6.4	2.7	-8.0	-13.8	-13.8	16.9	26.7	-3.5	-1.9	0.8	-0.5	1.6
Gabon	-2.3	4.3	8.1	5.5	-10.8	-10.8	8.5	14.0	4.3	2.4	3.7	5.0	6.0
CEMAC	-3.3	4.5	7.1	2.9	-6.5	-7.0	8.6	11.4	4.1	4.0	5.4	5.4	5.9
Real non-oil GDP													
Cameroon	5.3	5.0	4.4	3.5	-1.8	0.5	3.8	3.7	4.7	4.9	5.3	5.5	5.6
Central African Republic	4.7	4.5	3.8	3.0	1.0	1.0	-1.0	1.0	4.0	5.0	5.0	5.0	4.9
Chad	-6.0	-0.5	0.3	2.0	-1.6	-1.6	0.7	0.2	2.1	3.3	3.9	3.9	4.1
Congo, Republic of	-11.3	-8.6	-9.4	-1.7	-8.0	-8.0	-1.5	0.9	3.3	3.7	4.0	4.4	4.8
Equatorial Guinea	-4.7	0.8	-2.7	-6.0	-7.0	-7.0	10.2	6.4	0.3	0.8	0.7	-0.6	0.1
Gabon	3.3	2.5	1.5	3.3	-1.7	-1.7	2.6	2.7	2.5	3.4	4.0	4.3	4.5
CEMAC	0.0	1.8	1.2	1.7	-2.8	-1.6	3.3	3.0	3.5	4.0	4.4	4.4	4.7
Consumer price inflation (period average)													
Cameroon	0.9	0.6	1.1	2.5	2.4	2.4	2.3	2.3	2.1	2.0	2.0	2.0	2.0
Central African Republic	4.9	4.2	1.6	2.8	2.3	2.2	3.7	4.3	2.6	2.5	2.5	2.5	2.5
Chad	-1.6	-0.9	4.0	-1.0	4.5	4.5	2.6	1.1	2.8	2.8	2.9	3.0	3.0
Congo, Republic of	3.2	0.4	1.2	2.2	1.8	1.8	2.6	2.0	2.8	3.0	3.0	3.0	3.0
Equatorial Guinea	1.4	0.7	1.3	1.2	4.8	4.8	0.5	-0.1	3.1	3.1	3.1	3.1	3.0
Gabon	2.1	2.7	4.8	2.0	1.3	1.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CEMAC	1.1	0.8	2.1	1.8	2.7	2.7	2.1	1.8	2.3	2.3	2.3	2.3	2.3
End of period inflation													
Cameroon	0.3	0.8	2.0	2.4	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Central African Republic	-4.5	7.2	4.6	-2.0	4.8	3.9	3.3	3.5	3.1	2.5	2.5	2.5	2.5
Chad	-5.0	3.1	4.4	-1.7	3.0	3.0	4.2	-0.3	5.9	2.7	2.9	3.0	3.0
Congo, Republic of	0.0	1.8	0.9	3.8	0.5	0.5	2.7	2.7	3.0	3.0	3.0	3.0	3.0
Equatorial Guinea	2.0	-0.2	2.6	4.1	-0.5	-0.5	3.2	3.2	3.0	3.0	3.0	3.0	3.0
Gabon	4.1	1.1	6.3	1.0	1.6	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CEMAC	0.3	1.2	3.0	1.9	1.7	1.7	2.6	2.0	2.7	2.3	2.3	2.3	2.3
Gross national savings													
Cameroon	25.2	25.5	26.2	26.1	22.9	22.4	24.9	25.1	27.3	28.1	29.3	30.8	32.3
Central African Republic	8.2	5.7	8.4	9.7	10.3	10.3	9.5	5.7	13.5	10.7	11.5	12.6	12.9
Chad	6.1	13.6	17.5	18.6	15.5	15.0	16.2	16.2	17.5	16.9	16.7	18.5	17.8
Congo, Republic of	25.3	31.2	24.9	22.6	22.6	22.5	32.0	33.8	29.4	25.3	23.4	21.4	18.7
Equatorial Guinea	-9.3	6.2	10.4	6.8	-1.0	1.1	6.9	5.6	5.5	7.0	7.0	8.1	7.9
Gabon	24.4	23.1	27.0	31.1	25.5	25.6	25.6	25.3	27.6	27.1	26.5	27.4	27.6
CEMAC	17.4	21.2	22.6	22.9	19.4	19.3	22.2	22.1	23.5	23.4	23.7	24.8	25.3
Gross domestic investment													
Cameroon	28.4	28.1	29.8	30.4	26.6	26.2	28.9	28.0	29.8	31.4	32.5	33.6	34.8
Central African Republic	13.6	13.5	16.4	14.7	18.9	18.9	16.2	16.2	17.5	16.6	17.4	18.0	18.3
Chad	16.5	20.7	18.9	23.3	25.3	23.5	22.0	22.6	23.3	24.3	24.6	24.8	23.7
Congo, Republic of	74.0	37.2	25.0	22.2	22.6	22.6	22.5	21.5	23.7	24.9	24.8	25.4	25.9
Equatorial Guinea	16.7	14.0	12.5	7.7	5.3	5.3	11.1	9.1	10.9	10.9	11.3	24.4	25.8
Gabon	35.5	31.8	29.1	32.0	31.7	31.6	31.1	30.3	30.9	30.3	29.1	29.4	29.4
CEMAC	31.9	26.7	25.1	25.6	24.2	23.8	25.2	24.2	25.9	26.9	27.3	29.5	30.2

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

[1] Refers to the projection published in the IMF Country Report No 21/148

Table 3a. CEMAC: Balance of Payments, 2016–26

(Billions of CFA francs)

	2016	2017	2018	2019	2020'	2020	2021'	2021	2022	2023	2024	2025	2026
	Est.	Est.	Est.	Est.	CR 21/148 3/	Est.	CR 21/148 3/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-6,950	-2,704	-1,445	-1,546	-2,649	-2,545	-1,715	-1,201	-1,512	-2,274	-2,401	-3,155	-3,520
Balance on goods and services	-4,317	-555	1,205	1,147	-987	-819	694	1,711	898	254	-12	-1,041	-1,488
Total exports	13,484	15,938	19,162	19,269	13,608	13,770	19,135	18,905	19,408	18,903	19,283	19,412	19,657
Exports of goods	11,576	13,723	16,875	16,853	11,824	11,764	17,114	16,685	16,729	16,173	16,392	16,351	16,385
Oil exports	7,841	9,351	12,496	12,351	7,569	7,535	12,114	11,603	11,210	10,383	10,218	9,660	9,172
Non-oil exports	3,736	4,372	4,379	4,502	4,179	4,229	4,674	5,082	5,520	5,790	6,174	6,691	7,213
Exports of services	1,908	2,215	2,287	2,416	1,786	2,006	2,063	2,220	2,679	2,730	2,891	3,060	3,273
Total imports	17,801	16,493	17,957	18,122	14,496	14,589	17,264	17,194	18,509	18,649	19,295	20,453	21,146
Imports of goods	11,618	9,874	10,674	10,706	8,829	8,849	10,525	10,579	11,369	11,491.4	11,924.8	12,899.3	13,375.1
Imports of services	6,184	6,619	7,283	7,416	5,682	5,740	6,534	6,616	7,140	7,157	7,371	7,554	7,771
Income, net	-2,648	-2,234	-2,691	-2,846	-2,421	-2,160	-3,118	-3,513	-3,206	-3,108	-3,040	-2,913	-2,845
Income credits	206	243	303	330	286	317	240	274	296	309	322	333	347
Income debits	2,854	2,477	2,995	3,176	2,707	2,478	3,358	3,787	3,502	3,417	3,363	3,246	3,192
Investment income, debit	-2,180	-1,779	-2,381	-2,484	-2,138	-1,836	-2,640	-2,895	-2,716	-2,628	-2,587	-2,447	-2,353
Of which: Interest paid on public debt	-354	-279	-312	-441	-210	-219	-301	-294	-270	-230	-213	-196	-170
Of which: Interest paid on nonpublic debt	-98	-171	-21	-12	-282	-282	-135	-124	-220	-205	-227	-216	-216
Current transfers, net	11	47	3	78	759	520	732	619	799	700	665	718	779
Private current transfers, net	-101	-62	-82	-35	543	273	515	371	516	490	440	476	544
Official current transfers, net	112	109	85	113	216	247	218	248	282	209	225	241	235
Balance on capital and financial accounts	3,377	2,294	1,519	1,811	1,119	858	1,043	1,450	1,342	2,150	2,704	3,981	4,556
Balance on capital account (incl. capital transfers)	172	357	205	190	297	253	253	255	261	282	330	354	372
Balance on financial account (incl. reserves)	3,206	1,937	1,313	1,621	822	605	789	1,195	1,081	1,868	2,374	3,627	4,184
Direct investment, net 1/	3,849	1,864	1,506	2,054	1,917	1,700	1,970	1,916	1,977	2,179.8	2,250.6	3,176.8	3,320.5
Portfolio investment, net	25	30	160	258	176	334	103	97	11	-7	-8	-8	-9
Other investment, net	-669	43	-353	-691	-1,271	-1,429	-1,284	-818	-907	-304	132	458	872
of which: Long-term other investment, net	789	1,237	238	321	-497	-118	-156	507	-246	133	120	-35	349
of which: SDR								-797					
Errors and omissions, net	86	-123	0	0	-201	-201	4	4	0	0	0	0	0
Overall Balance	-3,487	-533	74	265	-1,731	-1,888	-669	253	-169	-124	304	825	1,036
Financing	3,191	758	-74	-265	1,731	1,888	669	-253	169	124	-304	-825	-1,036
Reserve assets (accumulation -) 2/	3,105	-231	-470	-463	173	228	-563	-918	-795	-698	-541	-666	-850
of which: SDRs								-797					
Exceptional financing	87	989	397	198	1,559	1,661	1,231	665	964	822	238	-159	-186
IMF financing	21	322	282	251	576	576	106	276	…	…	…	…	…
Budget support (excl. IMF)	0	798	684	665	452	452	282	174	…	…	…	…	…
Other external financing	66	35	86	-136	439	405	240	562	…	…	…	…	…
Commercial	0	0	0	-79	105	106	0	495	…	…	…	…	…
Other exceptional financing	66	35	86	-57	334	300	240	67	…	…	…	…	…
Residual gap	0	-167	-655	-583	91	227	604	-347	964	822	238	-159	-186
of which: IMF financing under proposed new arrangements	…	…	…	…		…	331	89	…	…	…	…	…
Memorandum items:													
Nominal GDP	47,467	49,593	53,107	54,666	50,992	50,839	55,400	56,659	58,979	61,317	64,628	68,132	72,132
Gross foreign assets (end of period)													
Billions CFAF	3,093	3,218	3,777	4,362	4,193	4,193	4,770	4,941	5,974	6,671	7,212	7,877	8,727
Months of imports of goods and services	2.2	2.2	2.6	3.6	3.1	3.1	3.4	3.3	3.9	4.2	4.3	4.6	5.1
Oil prices (U.S. dollars per barrel, brent)	44.0	54.4	71.1	64.0	42.3	42.3	59.7	66.9	65.9	63.0	61.0	59.4	58.4

Sources: BEAC; and IMF staff estimates and projections.

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

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

3/ Refers to the projection published in the IMF Country Report No 21/148

Table 3b. CEMAC: Balance of Payments, 2016–26

(Percent of GDP)

	2016	2017	2018	2019	2020	2020	2021	2021	2022	2023	2024	2025	2026
	Est.	Est.	Est.	Est.	CR 21/148 3/	Est.	CR 21/148 3/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-14.6	-5.5	-2.7	-2.8	-5.2	-5.0	-3.1	-2.1	-2.6	-3.7	-3.7	-4.6	-4.9
Balance on goods and services	-9.1	-1.1	2.3	2.1	-1.9	-1.6	1.3	3.0	1.5	0.4	0.0	-1.5	-2.1
Total exports	28.4	32.1	36.1	35.2	26.6	27.1	31.3	33.4	32.9	30.8	29.8	28.5	27.3
Exports of goods	24.4	27.7	31.8	30.8	23.1	23.1	27.6	29.4	28.4	26.4	25.4	24.0	22.7
Oil exports	16.5	18.9	23.5	22.6	14.9	14.8	19.2	20.5	19.0	16.9	15.8	14.2	12.7
Non-oil exports	7.9	8.8	8.2	8.2	8.2	8.3	8.4	9.0	9.4	9.4	9.6	9.8	10.0
Exports of services	4.0	4.5	4.3	4.4	3.5	3.9	3.7	3.9	4.5	4.5	4.5	4.5	4.5
Total imports	37.5	33.3	33.8	33.2	28.5	28.7	30.1	30.3	31.4	30.4	29.9	30.0	29.3
Imports of goods	24.5	19.9	20.1	19.6	17.4	17.4	18.3	18.7	19.3	18.7	18.5	18.9	18.5
Imports of services	13.0	13.3	13.7	13.6	11.1	11.3	11.8	11.7	12.1	11.7	11.4	11.1	10.8
Income, net	-5.6	-4.5	-5.1	-5.2	-4.7	-4.2	-5.6	-6.2	-5.4	-5.1	-4.7	-4.3	-3.9
Income credits	0.4	0.5	0.6	0.6	0.6	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Income debits	6.0	5.0	5.6	5.8	5.3	4.9	6.1	6.7	5.9	5.6	5.2	4.8	4.4
Of which:													
Investment income, debit	-4.6	-3.6	-4.5	-4.5	-4.2	-3.6	-4.8	-5.1	-4.6	-4.3	-4.0	-3.6	-3.3
Of which: Interest paid on public debt	-0.7	-0.6	-0.6	-0.8	-0.4	-0.4	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.2
Of which: Interest paid on nonpublic debt	-0.2	-0.3	0.0	0.0	-0.6	-0.6	-0.2	-0.2	-0.4	-0.3	-0.4	-0.3	-0.3
Current transfers, net	0.0	0.1	0.0	0.1	1.5	1.0	1.3	1.1	1.4	1.1	1.0	1.1	1.1
Private current transfers, net	-0.2	-0.1	-0.2	-0.1	1.1	0.5	0.9	0.7	0.9	0.8	0.7	0.7	0.8
Official current transfers, net	0.2	0.2	0.2	0.2	0.4	0.5	0.4	0.4	0.5	0.3	0.3	0.4	0.3
Balance on capital and financial accounts	7.1	4.6	2.9	3.3	2.2	1.7	1.9	2.6	2.3	3.5	4.2	5.8	6.3
Balance on capital account (incl. capital transfers)	0.4	0.7	0.4	0.3	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5
Balance on financial account	6.8	3.9	2.5	3.0	1.6	1.2	1.4	2.1	1.8	3.0	3.7	5.3	5.8
Direct investment, net [1]	8.1	3.8	2.8	3.8	3.8	3.3	3.6	3.4	3.4	3.6	3.5	4.7	4.6
Portfolio investment, net	0.1	0.1	0.3	0.5	0.3	0.7	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Other investment, net	-1.4	0.1	-0.7	-1.3	-2.5	-2.8	-2.3	-1.4	-1.5	-0.5	0.2	0.7	1.2
Of which: long-term other investment, net	1.7	2.5	0.4	0.6	-1.0	-0.2	-0.3	0.9	-0.4	0.2	0.2	-0.1	0.5
Errors and omissions, net	0.2	-0.2	0.0	0.0	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-7.3	-1.1	0.1	0.5	-3.4	-3.7	-1.2	0.4	-0.3	-0.2	0.5	1.2	1.4
Financing	6.7	1.5	-0.1	-0.5	3.4	3.7	1.2	-0.4	0.3	0.2	-0.5	-1.2	-1.4
Reserve assets (accumulation -) [2]	6.5	-0.5	-0.9	-0.8	0.3	0.4	-1.0	-1.6	-1.3	-1.1	-0.8	-1.0	-1.2
Exceptional financing	0.2	2.0	0.7	0.4	3.1	3.3	2.2	1.2	1.6	1.3	0.4	-0.2	-0.3
IMF financing	0.0	0.6	0.5	0.5	1.1	1.1	0.2	0.5	…	…	…	…	…
Budget support (excl. IMF)	0.0	1.6	1.3	1.2	0.9	0.9	0.5	0.3	…	…	…	…	…
Other external financing	0.1	0.1	0.2	-0.2	0.9	0.8	0.4	1.0	…	…	…	…	…
Residual gap	0.0	-0.3	-1.2	-1.1	0.2	0.4	1.1	-0.6	1.6	1.3	0.4	-0.2	-0.3
Memorandum items:													
Nominal GDP (billions of CFAF)	47,467	49,593	53,107	54,666	50,992	50,839	55,400	56,659	58,979	61,317	64,628	68,132	72,132

Sources: BEAC; and IMF staff estimates and projections.

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

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

3/ Refers to the projection published in the IMF Country Report No 21/148.

Table 4a. CEMAC: Fiscal Indicators, 2016–26

(Percent of GDP)

	2016	2017	2018	2019	2020'	2020	2021'	2021	2022	2023	2024	2025	2026
	Est.	Est.	Est.	Est.	CR 21/148 2/	Est.	CR 21/148 2/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Overall fiscal balance (excluding grants)													
Cameroon	-6.4	-5.2	-2.9	-3.9	-3.4	-3.4	-3.2	-3.5	-2.3	-0.8	-0.6	0.0	-0.2
Central African Republic	-4.7	-6.1	-8.7	-8.2	-16.0	-16.0	-11.6	-11.3	-11.3	-8.6	-8.0	-7.8	-7.3
Chad	-4.8	-4.3	-1.3	-1.8	-3.2	-2.2	-3.4	-5.1	-1.9	-2.5	-2.6	-1.9	-1.6
Congo, Republic of	-16.1	-6.4	5.6	3.9	-2.9	-2.9	4.1	1.2	2.0	0.8	1.3	-0.5	-1.8
Equatorial Guinea	-10.9	-2.6	0.5	1.8	-1.7	-1.7	-0.9	0.8	1.1	0.9	0.7	1.0	1.1
Gabon	-5.0	-2.6	-1.3	1.4	-2.2	-2.2	-3.9	-3.0	-0.7	1.5	2.1	2.5	2.8
CEMAC	-7.8	-4.4	-0.9	-1.0	-3.3	-3.2	-2.4	-2.7	-1.3	-0.4	-0.2	0.0	-0.1
Overall fiscal balance (including grants)													
Cameroon	-6.1	-4.9	-2.5	-3.3	-3.3	-3.3	-2.9	-3.2	-1.7	-0.5	-0.3	0.1	0.0
Central African Republic	1.1	-1.1	-1.0	1.4	-3.4	-3.4	-2.8	-6.4	-0.4	-1.3	-1.2	-1.5	-1.3
Chad	-1.9	-0.2	1.9	-0.2	1.7	2.1	-0.7	-2.4	1.0	0.5	0.3	1.0	1.2
Congo, Republic of	-15.4	-5.9	5.7	4.7	-1.2	-1.2	4.7	1.7	2.6	1.3	1.8	0.1	-1.1
Equatorial Guinea	-10.9	-2.6	0.5	1.8	-1.7	-1.7	-0.8	0.9	1.1	0.9	0.7	1.0	1.1
Gabon	-5.0	-2.6	-1.3	1.4	-2.1	-2.1	-3.4	-2.5	-0.2	1.5	2.1	2.5	2.8
CEMAC	-7.1	-3.6	-0.2	-0.2	-2.1	-2.0	-1.6	-1.9	-0.2	0.4	0.5	0.7	0.6
Reference fiscal balance 1/													
Cameroon	-5.2	-4.3	-2.9	-4.2	-3.3	-3.4	-3.3	-3.4	-2.2	-1.1	-0.7	0.1	-0.1
Central African Republic	1.1	-1.1	-1.0	1.4	-3.4	-3.4	-2.8	-6.4	-0.4	-1.3	-1.2	-1.5	-2.3
Chad	1.8	0.5	-0.8	-2.1	-3.6	-3.3	-2.0	-2.8	-1.2	-0.1	0.0	0.7	0.9
Congo, Republic of	-8.9	-3.3	-2.8	-2.4	-0.2	-0.2	-0.3	-0.5	-1.0	-1.9	-0.5	-1.0	-1.4
Equatorial Guinea	-6.2	-1.5	-2.6	-1.5	-0.4	-0.4	-2.1	1.1	-0.7	-0.6	0.2	1.0	1.2
Gabon	0.1	-2.1	-2.5	-1.4	-3.5	-3.5	-2.9	-2.4	-1.6	-0.3	0.3	1.1	1.9
CEMAC	-2.6	-2.2	-2.4	-2.6	-2.2	-2.2	-2.4	-2.2	0.0	0.0	0.0	0.0	0.0
Primary fiscal balance (including grants)													
Cameroon	-5.3	-4.0	-1.6	-2.3	-2.4	-2.4	-2.1	-2.0	-0.8	0.2	0.4	0.8	0.5
Central African Republic	1.6	-0.7	-0.6	1.8	-3.0	-3.1	-2.5	-6.1	0.1	-0.9	-0.8	-1.1	-0.8
Chad	0.1	1.3	3.0	0.8	2.5	3.0	0.1	-1.5	1.7	1.1	1.0	1.6	1.8
Congo, Republic of	-13.4	-4.2	7.6	7.9	0.1	0.1	6.3	3.6	5.0	3.7	4.2	2.5	1.3
Equatorial Guinea	-10.5	-2.2	1.2	2.7	-0.4	-0.4	0.9	2.0	2.7	2.4	2.2	2.3	2.3
Gabon	-2.7	-0.1	1.1	3.6	1.2	1.2	-0.2	0.4	2.8	4.3	4.8	5.1	5.4
CEMAC	-5.8	-2.4	1.1	1.3	-0.7	-0.6	-0.1	-0.4	1.3	1.7	1.8	1.9	1.7
Government revenue (excluding grants)													
Cameroon	14.5	14.6	15.7	15.1	13.6	13.7	14.3	14.0	14.9	15.6	16.0	16.4	17.0
Central African Republic	7.4	7.8	8.9	8.7	9.2	9.2	8.6	8.6	9.2	10.0	10.6	11.0	11.2
Chad	9.5	10.6	12.0	12.6	16.3	16.9	13.8	13.2	15.5	15.1	14.7	15.0	15.0
Congo, Republic of	25.4	21.9	24.8	26.0	20.8	20.6	27.0	23.1	25.2	24.6	24.7	24.1	23.6
Equatorial Guinea	16.9	17.5	19.9	18.5	14.2	14.2	16.3	13.9	15.5	15.3	15.1	15.1	15.1
Gabon	17.1	16.4	16.9	19.5	18.1	17.6	16.8	16.5	18.2	19.4	20.2	20.9	21.1
CEMAC	15.9	15.7	17.2	17.4	15.5	15.5	16.3	15.3	16.7	17.1	17.4	17.6	17.9
Government expenditure (including net lending minus repayments)													
Cameroon	20.9	19.8	18.5	19.0	17.0	17.1	17.5	17.4	17.2	16.4	16.6	16.4	17.1
Central African Republic	12.1	13.9	17.6	16.9	25.1	25.1	20.2	19.9	20.5	18.5	18.5	18.7	18.4
Chad	14.4	14.9	13.3	14.4	19.5	19.1	17.2	18.3	17.4	17.5	17.3	17.0	16.6
Congo, Republic of	41.5	28.3	19.3	22.0	23.8	23.5	22.9	21.9	23.1	23.9	23.4	24.7	25.3
Equatorial Guinea	27.8	20.1	19.4	16.7	16.0	16.0	17.2	13.0	14.4	14.4	14.4	14.1	14.0
Gabon	22.1	19.0	18.2	18.2	20.2	19.8	20.7	19.5	18.9	17.9	18.1	18.4	18.3
CEMAC	23.7	20.1	18.1	18.4	18.7	18.6	18.7	17.9	18.0	17.5	17.6	17.6	18.0
Total public debt													
Cameroon	33.3	37.7	39.6	42.3	45.6	46.3	45.6	46.8	45.1	42.8	40.4	37.4	34.8
Central African Republic	53.9	50.3	50.0	47.1	44.1	44.1	46.4	49.2	45.5	43.6	41.9	40.5	39.0
Chad	51.3	50.3	49.1	53.0	50.7	51.7	45.5	48.4	49.9	48.2	47.0	45.6	43.0
Congo, Republic of	91.0	94.2	77.1	81.7	99.7	110.1	85.3	93.6	90.3	80.9	73.3	71.1	71.6
Equatorial Guinea	41.1	36.2	41.2	43.0	48.9	48.8	42.7	38.0	36.9	38.3	35.9	33.4	30.6
Gabon	64.2	62.9	60.9	59.8	76.6	77.4	76.8	72.1	67.2	65.7	62.7	58.3	54.2
CEMAC	49.9	51.0	50.3	52.3	58.1	60.0	55.4	56.2	54.1	51.6	48.6	45.7	43.1

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

1/ 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)

2/ Refers to the projection published in the IMF Country Report No 21/148

Table 4b. CEMAC: Fiscal Indicators, 2016–26

(Percent of Non-oil GDP)

	2016	2017	2018	2019	2020'	2020	2021'	2021	2022	2023	2024	2025	2026
	Est.	Est.	Est.	Est.	CR 21/148 2/	Est.	CR 21/148 2/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Non-oil fiscal balance (excluding grants)													
Cameroon	-8.8	-7.3	-5.5	-6.7	-5.4	-5.5	-5.6	-5.7	-4.6	-3.2	-2.8	-1.9	-1.9
Central African Republic	-4.7	-6.1	-8.7	-8.2	-16.0	-16.0	-11.6	-11.3	-11.3	-8.6	-8.0	-7.8	-7.3
Chad	-9.6	-9.3	-8.4	-8.7	-14.5	-13.2	-12.4	-13.3	-11.4	-10.8	-9.8	-8.8	-7.8
Congo, Republic of	-31.8	-21.8	-19.2	-22.5	-19.5	-19.4	-20.6	-20.9	-20.0	-19.6	-18.7	-18.7	-17.5
Equatorial Guinea	-31.9	-21.9	-21.1	-16.9	-15.2	-15.2	-16.5	-12.6	-12.6	-11.1	-9.9	-8.3	-7.0
Gabon	-14.3	-13.3	-11.1	-9.2	-11.9	-11.9	-12.3	-11.7	-10.2	-7.1	-6.2	-5.5	-4.5
CEMAC	-15.3	-12.0	-10.1	-10.1	-10.2	-10.0	-10.2	-9.9	-8.8	-7.2	-6.5	-5.6	-5.1
Non-oil fiscal balance (including grants)													
Cameroon	-8.5	-7.0	-5.1	-6.1	-5.3	-5.3	-5.3	-5.4	-4.0	-2.8	-2.4	-1.7	-1.7
Central African Republic	1.1	-1.1	-1.0	1.4	-3.4	-3.4	-2.8	-6.4	-0.4	-1.3	-1.2	-1.5	-1.3
Chad	-6.0	-4.5	-4.4	-6.6	-8.7	-8.2	-9.0	-9.9	-7.9	-7.2	-6.3	-5.3	-4.4
Congo, Republic of	-31.3	-21.2	-19.1	-21.3	-17.2	-17.1	-19.7	-20.2	-19.2	-18.8	-17.9	-17.7	-16.5
Equatorial Guinea	-31.9	-21.9	-21.1	-16.9	-15.2	-15.2	-16.3	-12.5	-12.6	-11.1	-9.9	-8.3	-7.0
Gabon	-13.8	-12.0	-9.5	-8.1	-11.9	-11.9	-11.5	-11.0	-9.5	-7.1	-6.2	-5.5	-4.5
CEMAC	-14.5	-10.9	-9.0	-9.0	-8.8	-8.7	-9.2	-9.0	-7.6	-6.3	-5.6	-4.9	-4.4
Basic balance 1/													
Cameroon	-4.0	-1.4	0.6	0.2	-1.2	-1.2	-0.2	-0.5	0.8	2.4	2.6	3.2	3.1
Central African Republic	-2.0	-2.4	-2.1	-3.9	-6.9	-6.9	-6.0	-5.8	-6.1	-3.5	-2.9	-2.8	-2.6
Chad	-3.4	-1.5	1.2	0.3	1.0	1.4	0.3	-1.7	2.4	1.9	1.8	2.6	2.9
Congo, Republic of	-12.8	-3.3	10.5	10.5	-1.8	-1.8	9.6	4.6	6.8	5.1	5.8	3.2	1.0
Equatorial Guinea	-14.7	-3.4	0.7	2.4	-2.1	-2.1	-1.1	1.0	1.4	1.1	0.9	1.1	1.2
Gabon	-2.6	-1.4	2.3	4.8	-1.6	-1.6	-2.6	-1.8	0.8	4.0	5.0	5.5	5.7
CEMAC	-6.1	-1.9	1.9	2.0	-1.3	-1.3	0.1	-0.3	1.4	2.5	2.8	3.1	2.9
Non-oil primary fiscal balance (including grants)													
Cameroon	-7.7	-6.1	-4.1	-5.0	-4.4	-4.4	-4.4	-4.1	-3.1	-2.1	-1.7	-1.1	-1.2
Central African Republic	1.6	-0.7	-0.6	1.8	-3.0	-3.1	-2.5	-6.1	0.1	-0.9	-0.8	-1.1	-0.8
Chad	-3.5	-2.5	-3.0	-5.3	-7.7	-7.1	-8.1	-8.9	-7.1	-6.5	-5.5	-4.6	-3.7
Congo, Republic of	-28.7	-19.0	-15.8	-15.9	-15.3	-15.2	-17.2	-17.2	-15.5	-15.3	-14.4	-14.4	-13.3
Equatorial Guinea	-31.3	-21.3	-20.2	-15.8	-13.5	-13.5	-14.2	-11.1	-10.6	-9.4	-8.3	-6.7	-5.6
Gabon	-11.0	-9.7	-7.6	-5.8	-7.4	-7.4	-7.2	-6.9	-5.3	-3.4	-2.6	-2.1	-1.2
CEMAC	-13.0	-9.5	-7.6	-7.3	-7.2	-7.1	-7.5	-7.2	-5.8	-4.8	-4.2	-3.5	-3.0
Government revenue (excluding grants)													
Cameroon	15.0	15.2	16.4	15.7	14.0	14.0	14.9	14.5	15.4	16.1	16.4	16.7	17.3
Central African Republic	7.4	7.8	8.9	8.7	9.2	9.2	8.6	8.6	9.2	10.0	10.6	11.0	11.2
Chad	11.9	12.9	14.9	15.7	19.2	19.8	17.3	16.3	18.9	18.1	17.5	17.8	17.6
Congo, Republic of	29.2	28.3	41.7	42.9	29.0	28.8	42.1	36.8	39.0	36.7	36.8	34.5	32.0
Equatorial Guinea	22.7	23.1	26.8	24.3	17.5	17.5	20.3	17.5	18.9	18.2	17.6	17.1	16.8
Gabon	24.2	23.6	25.0	29.0	24.0	23.4	22.9	22.9	25.3	26.3	26.8	27.1	26.9
CEMAC	18.5	18.5	21.2	21.2	17.7	17.7	19.3	18.2	19.7	19.8	19.9	19.9	19.9
Government expenditure (including net lending minus repayments)													
Cameroon	21.6	20.6	19.5	19.8	17.5	17.5	18.2	18.1	17.8	16.9	17.1	16.8	17.4
Central African Republic	12.1	13.9	17.6	16.9	25.1	25.1	20.2	19.9	20.5	18.5	18.5	18.7	18.4
Chad	18.0	18.0	16.5	18.0	23.0	22.3	21.5	22.6	21.2	21.1	20.6	20.1	19.5
Congo, Republic of	47.7	36.5	32.4	36.4	33.1	32.8	35.6	34.9	35.8	35.6	34.8	35.2	34.4
Equatorial Guinea	37.4	26.6	26.1	21.9	19.6	19.6	21.5	16.4	17.5	17.1	16.7	16.0	15.6
Gabon	31.3	27.4	26.9	27.0	26.9	26.3	28.2	27.1	26.3	24.3	24.0	23.9	23.4
CEMAC	27.6	23.7	22.3	22.5	21.5	21.3	22.1	21.4	21.2	20.3	20.2	19.9	20.0
Non-oil revenues (excluding grants)													
Cameroon	12.7	13.2	14.0	13.1	12.0	12.1	12.6	12.5	13.2	13.7	14.3	14.9	15.6
Central African Republic	7.4	7.8	8.9	8.7	9.2	9.2	8.6	8.6	9.2	10.0	10.6	11.0	11.2
Chad	8.4	8.7	8.1	9.4	8.6	9.1	9.1	9.3	9.8	10.3	10.8	11.3	11.7
Congo, Republic of	15.9	14.7	13.2	13.9	13.5	13.4	15.0	13.9	15.8	16.0	16.1	16.6	16.9
Equatorial Guinea	5.6	4.7	5.0	5.0	4.4	4.4	5.0	3.8	4.9	5.9	6.8	7.8	8.7
Gabon	17.0	14.1	15.8	17.8	15.0	14.4	16.0	15.4	16.1	17.1	17.8	18.3	18.9
CEMAC	12.2	11.7	12.2	12.4	11.3	11.3	11.9	11.5	12.4	13.1	13.7	14.3	14.9

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

1/ Overall fiscal balance excluding grants and foreign-financed investment.

2/ Refers to the projection published in the IMF Country Report No 21/148

Table 5. CEMAC: Compliance with Convergence Criteria, 2016–26

	2016	2017	2018	2019	2020	2020	2021	2021	2022	2023	2024	2025	2026
	Est.	Est.	Est.	Est.	CR 21/148 4/	Est.	CR 21/148 4/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Reference fiscal balance (fiscal balance before 2016)[1]					(in percent of GDP)								
Cameroon	-3.8	-4.3	-2.9	-4.2	-3.3	-3.4	-3.3	-3.4	-2.2	-1.1	-0.7	0.1	-0.1
Central African Republic	-2.0	-1.1	-1.0	1.4	-3.4	-3.4	-2.8	-6.4	-0.4	-1.3	-1.2	-1.5	-2.3
Chad	-2.7	0.5	-0.8	-2.1	-3.6	-3.3	-2.0	-2.8	-1.2	-0.1	0.0	0.7	0.9
Congo, Republic of	-11.1	-3.3	-2.8	-2.4	-0.2	-0.2	-0.3	-0.5	-1.0	-1.9	-0.5	-1.0	-1.4
Equatorial Guinea	-10.9	-1.5	-2.6	-1.5	-0.4	-0.4	-2.1	1.1	-0.7	-0.6	0.2	1.0	1.2
Gabon	-1.8	-2.1	-2.5	-1.4	-3.5	-3.5	-2.9	-2.4	-1.6	-0.3	0.3	1.1	1.9
Number of countries violating	6	4	4	3	4	4	5	4	2	1	0	0	1
Consumer price inflation (≤ 3%)					(in percent)								
Cameroon	0.9	0.6	1.1	2.5	2.4	2.4	2.3	2.3	2.1	2.0	2.0	2.0	2.0
Central African Republic	4.9	4.2	1.6	2.8	2.3	2.2	3.7	4.3	2.6	2.5	2.5	2.5	2.5
Chad	-1.6	-0.9	4.0	-1.0	4.5	4.5	2.6	1.1	2.8	2.8	2.9	3.0	3.0
Congo, Republic of	3.2	0.4	1.2	2.2	1.8	1.8	2.6	2.0	2.8	3.0	3.0	3.0	3.0
Equatorial Guinea	1.4	0.7	1.3	1.2	4.8	4.8	0.5	-0.1	3.1	3.1	3.1	3.1	3.0
Gabon	2.1	2.7	4.8	2.0	1.3	1.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Number of countries violating	2	1	2	0	2	2	1	1	1	2	1	1	0
Level of public debt (≤ 70% GDP)					(in percent of GDP)								
Cameroon	33.3	37.7	39.6	42.3	45.6	46.3	45.6	46.8	45.1	42.8	40.4	37.4	34.8
Central African Republic	53.9	50.3	50.0	47.1	44.1	44.1	46.4	49.2	45.5	43.6	41.9	40.5	39.0
Chad	51.3	50.3	49.1	53.0	50.7	51.7	45.5	48.4	49.9	48.2	47.0	45.6	43.0
Congo, Republic of	91.0	94.2	77.1	81.7	99.7	110.1	85.3	93.6	90.3	80.9	73.3	71.1	71.6
Equatorial Guinea	41.1	36.2	41.2	43.0	48.9	48.8	42.7	38.0	36.9	38.3	35.9	33.4	30.6
Gabon	64.2	62.9	60.9	59.8	76.6	77.4	76.8	72.1	67.2	65.7	62.7	58.3	54.2
Number of countries violating	1	1	1	1	2	2	2	2	1	1	1	1	1
Non-accumulation of government arrears[2] (≤ 0)					(in percent of GDP)								
Cameroon	…	1.4	-2.0	0.3	-0.4	-0.3	-0.5	-0.6	-0.5	0.0	0.0	0.0	0.0
Central African Republic	-5.3	-8.0	-2.3	-3.5	-2.0	-2.0	-0.3	-0.5	-0.7	0.0	0.0	0.0	0.0
Chad	0.7	0.5	-1.1	7.0	-1.4	-2.0	-1.3	-2.2	-0.9	-1.1	-1.1	-1.1	-1.1
Congo, Republic of	2.3	11.9	6.5	-5.1	3.1	6.7	-6.8	-8.5	…	…	…	…	…
Equatorial Guinea	5.4	-3.5	-1.1	-0.2	0.6	0.6	-3.0	-3.9	-0.3	0.0	0.0	0.0	0.0
Gabon	…	-5.1	-1.5	-2.1	0.9	0.9	-1.4	-1.4	-0.1	0.0	0.0	0.0	0.0
Number of countries violating[3]	3	3	1	1	…	3	…	0	…	…	…	…	…

Sources: Authorities' data; and IMF staff estimates.

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

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

4/ Refers to the projections published in the IMF Country Report No 21/148

Table 6. CEMAC: Monetary Survey, 2016–26

(Billions of CFA francs, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2021	2021	2021	2022	2022	2023	2024	2025	2026
						Jun.	Jun.			Jun					
	Est.	Est.	Est.	Est.	Est.	CR 21/148 2/	Proj.	CR 21/148 2/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In CFAF billions)															
Net foreign assets	2,416	2,322	2,509	2,667	1,871	1,863	1,630	2,007	1,757	1,901	2,261	2,722	3,380	4,347	5,543
Of which: BEAC	2,254	2,131	2,379	2,730	1,980	1,958	1,755	2,111	1,831	1,916	2,302	2,773	3,315	4,262	5,432
Foreign assets	3,093	3,218	3,777	4,362	4,193	4,309	3,981	4,770	4,941	5,401	5,974	6,671	7,212	7,877	8,727
Of which: SDR									797						
Of which: Operations account	1,156	2,552	3,360	3,740	3,633	2,155	1,990	2,385	2,470	2,701	2,987	3,335	3,606	3,939	4,364
Foreign liabilities	-839	-1,088	-1,398	-1,632	-2,213	-2,351	-2,225	-2,659	-3,109	-3,485	-3,671	-3,898	-3,896	-3,615	-3,295
Of which: SDR									-797						
Commercial banks	162	191	130	-63	-109	-95	-125	-104	-74	-16	-41	-51	64	84	111
Foreign assets	754	802	735	526	423	317	566	410	439	480	455	467	486	511	539
Foreign liabilities 1/	-592	-611	-605	-589	-532	-412	-691	-515	-513	-496	-496	-519	-422	-426	-428
Net domestic assets	8,140	8,190	8,854	9,364	11,490	12,000	12,435	12,506	13,394	13,456	13,909	14,595	14,933	14,935	14,809
Net credit to government	2,689	2,937	3,464	4,266	6,385	6,863	7,095	7,645	8,371	8,996	9,101	9,541	9,543	9,457	9,543
BEAC, net	1,645	1,946	2,209	2,469	3,348	3,518	3,715	3,313	3,685	4,006	4,084	3,640	3,221	2,560	1,802
Of which:															
Advances and consolidated debt	2,446	2,770	2,773	2,772	2,770	2,772	2,779	2,751	2,792	2,792	2,704	2,536	2,368	2,129	1,889
IMF lending	201	491	798	1,020	1,528	1,734	1,562	1,995	1,909	2,049	2,352	2,580	2,579	2,299	1,979
Other	0	0	0	0	0		263	0	263	263	263	263	263	263	263
Government deposits	-1,002	-1,316	-1,363	-1,323	-951	-988	-890	-1,432	-1,280	-1,100	-1,235	-1,738	-1,989	-2,131	-2,330
Commercial banks, net	1,044	991	1,256	1,798	3,037	3,345	3,380	4,331	4,687	4,990	5,017	5,900	6,322	6,897	7,741
Of which: Government deposits	867	873	781	794	925	-	962	-	-	-	-	-	-	-	-
Net credit to public agencies	-418	-371	-280	-281	-229	-222	-83	-222	-311	-308	-308	-293	-268	-222	-158
Credit to private sector	7,082	6,955	7,243	6,988	6,994	7,020	6,987	6,805	7,012	7,021	7,321	7,870	8,206	8,117	7,919
Other items, net	-1,213	-1,331	-1,573	-1,609	-1,660	-1,661	-1,564	-1,721	-1,677	-2,253	-2,205	-2,522	-2,548	-2,417	-2,495
Broad money	10,556	10,512	11,363	12,031	13,361	13,863	14,065	14,513	15,152	15,357	16,170	17,317	18,313	19,282	20,352
Currency outside banks	2,432	2,436	2,577	2,752	3,116	3,299	3,160	3,384	3,317	3,599	3,649	4,008	4,377	4,823	5,312
Bank deposits	8,123	8,076	8,787	9,279	10,245	10,564	10,905	11,129	11,835	11,758	12,521	13,309	13,936	14,459	15,041
(Annual change in percent of beginning-of-period broad money)															
Net foreign assets	-31.4	-0.9	1.8	1.4	-6.6	-8.3	-10.2	1.0	-0.9	1.9	3.3	2.9	3.8	5.3	6.2
Net domestic assets	26.7	0.5	6.3	4.5	17.7	18.9	22.4	7.6	14.3	7.3	3.4	4.2	2.0	0.0	-0.7
Net credit to government	24.3	2.4	5.0	7.1	17.6	16.4	18.3	9.4	14.9	13.5	4.8	2.7	0.0	-0.5	0.4
Net credit to the private sector	2.1	-1.2	2.7	-2.2	0.1	4.0	3.7	-1.4	0.1	0.2	2.0	3.4	1.9	-0.5	-1.0
Other items, net	-0.6	-1.1	-2.3	-0.3	-0.4	-1.8	-1.0	-0.5	-0.1	-4.9	-3.5	-2.0	-0.1	0.7	-0.4
Broad money	-4.6	-0.4	8.1	5.9	11.1	10.6	12.2	8.6	13.4	9.2	6.7	7.1	5.7	5.3	5.6
Velocity (GDP/broad money)	4.5	4.7	4.7	4.5	3.8	4.0	4.0	3.8	3.7	3.8	3.6	3.5	3.5	3.5	3.5
(Percent of GDP)															
Broad money	22.2	21.2	21.4	22.0	26.3	25.0	24.8	26.2	26.7	26.6	27.4	28.2	28.3	28.3	28.2
Private bank deposits	12.3	11.7	11.9	12.2	14.5	13.7	13.9	14.5	15.0	14.6	15.3	15.6	15.5	15.3	15.0
Net credit to the private sector	14.9	14.0	13.6	12.8	13.8	12.7	12.3	12.3	12.4	12.1	12.4	12.8	12.7	11.9	11.0

Sources: BEAC; and IMF staff estimates.

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

2/ Refers to the projections published in the IMF Country Report No 21/148

Table 7. CEMAC: Summary Accounts of the Central Bank, 2017–26

(Billions of CFA francs, unless otherwise indicated)

	2017	2018	2019	2020	2021	2021	2021	2021	2022	2022	2023	2024	2025	2026
					Jun.	Jun.			Jun					
	Est.	Est.	Est.	Est.	CR 21/148 2/	Proj.	CR 21/148 2/	Proj.	Proj	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	2,131	2,379	2,730	1,980	1,958	1,755	2,111	1,831	1,916	2,302	2,773	3,315	4,262	5,432
Assets 1/	3,218	3,777	4,362	4,193	4,309	3,981	4,770	4,941	5,401	5,974	6,671	7,212	7,877	8,727
Unallocated	638	452	308	101	101	191	101	101	101	101	101	101	101	101
Cameroon	1,770	2,004	2,199	2,153	2,239	2,272	2,505	2,446	2,776	3,186	3,384	3,617	3,955	4,489
CAR	206	215	214	242	241	214	241	258	295	293	298	312	333	344
Congo	216	251	617	643	631	471	602	757	788	905	1,097	1,226	1,388	1,570
Gabon	537	766	813	808	824	715	840	929	1,001	1,050	1,218	1,363	1,481	1,588
EG	-31	-5	21	30	30	8	212	139	122	99	216	226	235	241
Chad	-117	93	191	216	242	110	268	310	317	339	357	367	384	395
Of which:														
Operations account	2,552	3,360	3,740	3,633	2,155	1,990	2,385	2,470	2,701	2,987	3,335	3,606	3,939	4,364
Liabilities	-1,088	-1,398	-1,632	-2,213	-2,351	-2,225	-2,659	-3,109	-3,485	-3,671	-3,898	-3,896	-3,615	-3,295
Unallocated	-17	-16	80	233	233	218	233	233	233	233	233	233	233	233
Cameroon	-448	-529	-546	-809	-809	-845	-970	-995	-1,222	-1,266	-1,320	-1,313	-1,238	-1,109
CAR	-132	-163	-177	-193	-210	-213	-207	-288	-294	-299	-304	-284	-258	-229
Congo	-96	-89	-138	-203	-203	-147	-203	-375	-407	-477	-528	-578	-575	-563
Gabon	-230	-348	-428	-577	-606	-586	-636	-700	-730	-736	-721	-655	-549	-477
EG	-24	-26	-146	-297	-347	-285	-425	-453	-490	-522	-590	-581	-558	-538
Chad	-140	-227	-276	-366	-409	-368	-452	-530	-574	-604	-668	-718	-669	-611
Net domestic assets	2,066	2,316	2,316	3,459	3,636	3,866	3,622	3,970	4,322	4,526	4,485	4,429	4,005	3,416
Net credit to government	1,946	2,209	2,469	3,348	3,518	3,715	3,313	3,685	4,006	4,084	3,640	3,221	2,560	1,802
Claims	3,261	3,571	3,792	4,299	4,506	4,605	4,746	4,965	5,105	5,319	5,379	5,210	4,691	4,131
Advances and consolidated debt	2,770	2,773	2,772	2,770	2,772	2,779	2,751	2,792	2,792	2,704	2,536	2,368	2,129	1,889
o.w. Cameroon	577	577	577	577	577	598	577	598	598	540	483	425	367	309
Central African Republic	79	81	81	81	81	81	81	81	81	81	81	81	81	81
Chad	480	480	480	480	480	480	480	480	480	432	384	336	288	240
Congo, Republic of	572	572	572	572	572	572	572	572	572	572	572	572	551	530
Equatorial Guinea	609	609	609	609	609	609	588	609	609	626	563	501	439	376
Gabon	453	453	453	453	453	453	453	453	453	453	453	453	403	353
IMF credit	491	798	1,020	1,528	1,734	1,562	1,995	1,909	2,049	2,352	2,580	2,579	2,299	1,979
o.w. Cameroon	191	268	302	547	547	558	708	644	752	796	850	843	768	639
Central African Republic	87	117	131	150	167	169	164	164	170	175	180	160	134	105
Chad	97	183	232	324	377	325	410	383	325	457	522	572	523	465
Congo, Republic of	4	2	28	26	26	26	25	76	108	178	228	279	276	264
Equatorial Guinea	0	0	24	23	159	23	171	60	95	129	197	188	165	145
Gabon	111	228	304	459	459	465	517	582	600	618	604	539	433	361
Other claims	0	0	0	0		263	0	263	263	263	263	263	263	263
Government deposits	-1,316	-1,362.6	-1,323.1	-951	-988	-890	-1,432	-1,280	-1,100	-1,235	-1,738	-1,989	-2,131	-2,330
o.w. Unallocated	-1	-2	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Cameroon	-656	-558	-496	-371	-442	-376	-522	-307	-297	-287	-353	-456	-552	-574
Central African Republic	-45	-39	-37	-15	-15	-20	-27	-25	-30	-15	-18	-20	-21	-23
Chad	-93	-227	-113	-129	-145	-88	-161	-161	-116	-195	-226	-265	-289	-317
Congo, Republic of	-93	-64	-214	-101	-116	-88	-342	-243	-101	-87	-200	-277	-326	-460
Equatorial Guinea	-114	-157	-225	-121	-47	-99	-136	-243	-215	-187	-343	-261	-149	-77
Gabon	-315	-316	-237	-212	-223	-218	-243	-299	-339	-462	-596	-709	-793	-878
Net claims on financial institutions	440	432	274	377	384	484	574	618	649	775	1,177	1,541	1,778	1,947
Other items, net	-319	-324	-426	-266	-266	-333	-266	-333	-333	-333	-333	-333	-333	-333
Base money	4,197	4,695	5,046	5,439	5,594	5,621	5,733	5,802	6,238	6,828	7,258	7,744	8,268	8,848
Currency in circulation	2,436	2,577	2,752	3,116	3,299	3,160	3,384	3,317	3,599	3,649	4,008	4,377	4,823	5,312
Banks' reserves	1,717	2,050	2,222	2,245	2,197	2,366	2,258	2,460	2,476	2,483	2,538	2,605	2,651	2,699
o.w. Required reserves	442	569	700	743	766	791	807	859	884	908	966	1,011	1,049	1,091
Excess reserves	977	1,125	1,160	1,145	1,074	1,209	1,064	1,189	1,169	1,139	1,109	1,109	1,099	1,084
Cash in vaults	297	356	363	357	357	365	387	412	424	436	463	485	503	524
Others	44	68	72	78	98	96	90	26	163	696	712	762	794	838
Memorandum items:														
Reserve coverage of broad money (in percent)	31	33	36	31	31	28	33	33	35	37	39	39	40.9	42.9
Base money/deposits (in percent)	52.0	53.4	54.4	53.1	53.0	51.5	51.5	49.0	53.1	54.5	54.5	55.6	57.2	58.8

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.

2/ Refers to the projections published in the IMF Country Report No 21/148

Table 8. CEMAC: Net Foreign Assets of the Central Bank, 2016–26

(Billions of CFA francs)

	2016	2017	2018	2019	2020	2021	2021	2021	2021	2022	2022	2023	2024	2025	2026
						Jun.	Jun.			Jun					
	Est.	Est.	Est.	Est.	Est.	CR 21/148 1/	Proj.	CR 21/148 1/	Proj.	Proj	Proj.	Proj.	Proj.	Proj.	Proj.
BEAC's net foreign assets															
Stock	2,254	2,131	2,379	2,730	1,980	1,958	1,755	2,111	1,831	1,916	2,302	2,773	3,315	4,262	5,432
Change since end of previous year	-3,294	-123	248	348	-750	-22	-225	131	-149	85	471	471	542	947	1,170
o.w. Cameroon	-824	216	152	178.7	-309	86	83	192	109	103	472	143	240	413	663
Central African Republic	12	35	-22	-15	12	-17	-47	-15	-80	32	25	-1	35	47	40
Congo	-912	-207	43	313	-41	-15	-119	-40	-58	-1	46	141	79	165	194
Gabon	-630	-64	111	-34	-154	-13	-102	-26	50	41	84	183	211	225	179
Equatorial Guinea	-712	-43	25	-95	-143	-50	-9	55	-47	-54	-111	50	18	32	26
Chad	-448	45	123	48	-65	-17	-109	-33	-70	-37	-46	-46	-40	66	69
Unallocated	220	-105	-185	-49	-53	0	75	0	-53	0	0	0	0	0	0

Sources: BEAC; and IMF staff projections.

1/ Refers to the projections published in the IMF Country Report No 21/148.

Table 9. CEMAC: Financial Soundness Indicators, 2015–21
(Percent)

	2015	2016	2017	2018	2019	2020 [4]	2021 [4] Q1	2021 [4] Q2
Capital								
Regulatory capital to risk-weighted assets [1, 2]	14.0	13.1	14.5	15.0	13.0	12.7	13.1	14.1
Asset quality								
Non-performing loans (gross) to total loans (gross)	9.6	12.5	14.3	17.0	19.1	19.3	18.2	18.6
Earnings and profitability								
Return on equity	16.4	19.7	18.2	18.5	14.4	11.1	…	15.1
Return on assets [3]	1.7	2.0	1.9	2.0	1.7	0.7	…	1.8
Liquidity								
Ratio of liquid assets to short-term liabilities	151.9	145.2	155.4	162.1	153.5	167.3	164.1	171.8
Total deposits to total (noninterbank) loans	111.6	100.4	102.9	104.3	114.1	128.8	113.6	119.1
Credit								
Gross loan (banks' book) - bn FCFA	8486	10501	10559	10969	10761	8930	9715	9686
Gross loan - annualized growth rate	10.2	23.7	0.6	3.9	-1.90	-17.01	1.5	1.6

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

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

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

4/ Provisional data.

Table 10. CEMAC: Financing Needs and Sources, 2021–23
(Billions of CFA francs)

	2021 /1 Proj.	2022 /1 Proj.	2023 /1 Proj.	Total 2021-23 Proj. *(Euro billion)*
Financing needs	665	964	822	3.7
Overall balance of payments	253	-168	-124	-0.1
Reserves assets (-accumulation)	-918	-795	-698	-3.7
of which SDR allocation	-797			
Financing sources				
IMF support[2]	277	294	...	0.9
Budget support from other donors	174	605	...	1.2

1/ Provisonal data.

2/ Reflects existing IMF programs and emergency assistance.

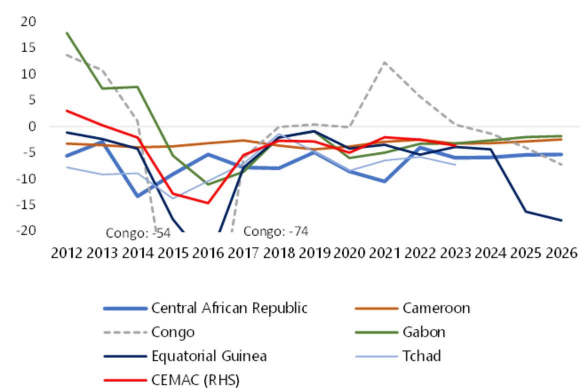
Annex I. External Sustainability Assessment

The external position of the CEMAC region is assessed to be significantly weaker than implied by fundamentals and desirable policy settings at end-2021. The current account deficit is expected to improve significantly in 2021 after a sharp deterioration in 2020 caused by the impact of the COVID-19 pandemic. However, the improvement is temporary. Over the medium term, the current account deficit is expected to continue to widen to about 4.8 percent of GDP by 2026 on the back of a deterioration in net exports. Net foreign assets are at historical lows in 2021, reflecting the fragility of the region and the sharp decrease in external financing over the last two years, notably in FDI, but also a shortfall of budget support relative to expectations. With the gradual expected return in external financing, fiscal adjustment, and reforms, external gross reserves are projected to recover from 3.4 months of imports at end-2021 and to 5 months of imports by 2026, the level considered adequate for CEMAC currency union. Prudent fiscal and monetary policies combined with more forceful implementation of structural reforms to improve competitiveness are needed to strengthen the external position.

A. Current Account Developments and Reserves Adequacy

Figure 1. CEMAC: Current Account, 2012–26

(Percent of GDP)



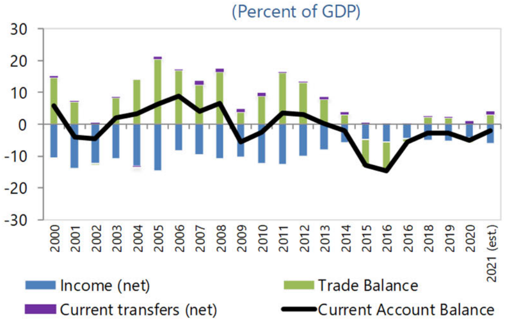
1. The regional external current account balance improved in 2021, but is expected to deteriorate over the medium term (Figure 1). In 2021, the current account deficit declined from 5.2 percent of GDP in 2020 to about 2.1 percent of GDP on the back of higher oil exports and a more gradual rebound in imports. An improvement in the current account occurred in all CEMAC countries, except Central African Republic for which the improvement is expected to occur in 2022. The largest adjustment was observed in Congo, where the current account reached a 12 percent of GDP surplus in 2021 starting from a 0.1 percent of GDP deficit in 2020.

2. In the medium term, the current account balance is projected to deteriorate and reach a deficit of 4.8 percent of GDP. Despite a tighter fiscal stance over the medium term, the current account deficit is projected to widen to 2.5 percent of GDP in 2022 and deteriorate further, reaching 4.8 percent of GDP by 2026 on the back of significantly lower oil exports (both in volume and value terms). External financing, notably direct investments, is expected to improve significantly, while a prudent fiscal policy maintains import levels at broadly constant levels in percent of GDP. As a result, the reserve levels are projected to improve to about 5.2 months of imports by 2026, from 3.4 months of imports at end-2021.

Figure 2. CEMAC: External Sector Developments, 2000–21

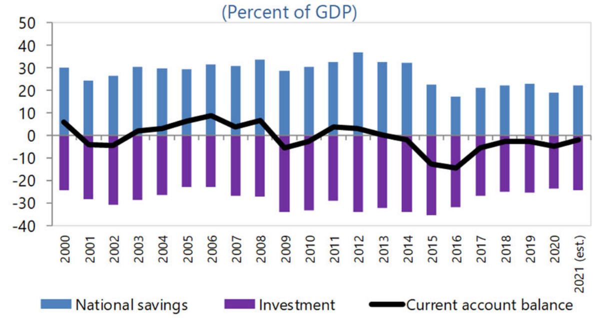
The regional current account deficit narrowed - reflecting the evolution of trade balance and …

CEMAC: Current Account Balance, 2000–21
(Percent of GDP)



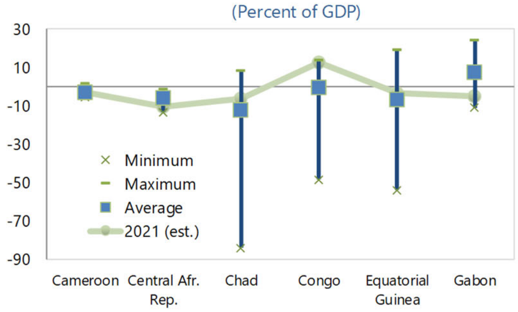
… a moderete increase in savings …

CEMAC: Current Account Balance, 2000–21
(Percent of GDP)



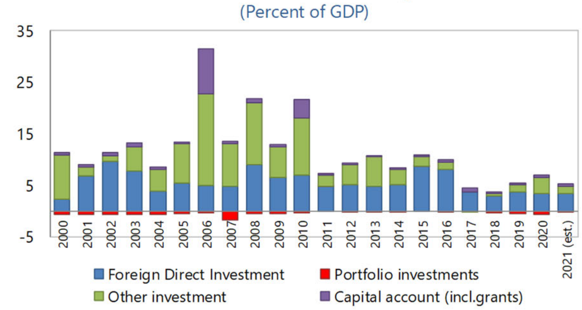
… in most CEMAC countries, with a performance similar to the average of the past two decades, or even below in the case of Gabon.

CEMAC: Current Account Balances, 2000–21
(Percent of GDP)



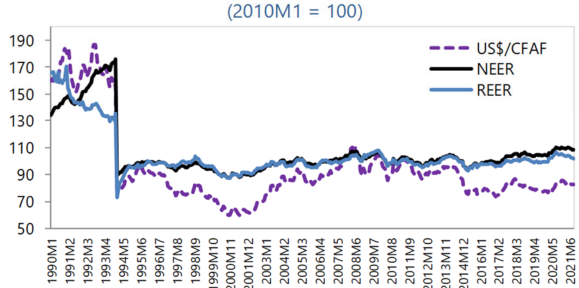
As the region was hit by the pandemic, foreign direct investments that constituted a stable source of external financing started decreasing, and has not yet recovered.

CEMAC: Current Account Financing, 2000–21
(Percent of GDP)



In the past months, the regional real effective exchange rate appreciated reflecting the appreciation of the euro combined to a weaker US dollar…

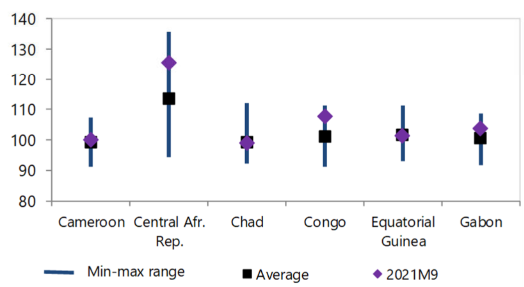
CEMAC: Real and Nominal Effective Exchange Rates, 1990-2021
(2010M1 = 100)



Note: REER and NEER are first computed across CEMAC member countries and weighted using nominal gross domestic product in purchasing-power-parity dollars.

… the appreciation effect is unified across CEMAC countries, while inflationary pressures remain subdued in the sub-region.

CEMAC: Real Effective Exchange Rate of CEMAC Countries, 2007–2021
(2010=100)



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

3. Capital inflows are expected to recover gradually but are subject to downside risks. In 2021, net capital inflows increased slightly from 2020. Most of the increase was due to higher long-term other investment inflows, which reflect the SDR allocation. FDI net inflows were still lower than the levels seen in 2019 (Figure 2). In the medium term, net portfolio inflows are expected to be close to zero, while FDI inflows are projected to increase gradually over 2022–26, reaching about 4.5 percent of GDP by 2026. There are risks that net capital inflows remain durably lower, and outflows surpass inflows in the wake of the COVID-19 crisis. Normalization of monetary policy in the rest of the world could put additional pressure on net portfolio inflows. Concerns about debt sustainability and the fragility of the economic recovery may complicate chances of a significant return in direct investments. In addition, official creditors may not provide as much financing in the coming years as they did during the COVID-19 crisis.

4. CEMAC's reserve coverage has improved in 2021 but remains significantly short of appropriate levels. BEAC reserves coverage reached 3.1 months of prospective extra regional imports at end-2020 and is expected to gradually improve to 3.4 months at end-2021, supported by the new SDR allocations. This is below the benchmark of 5 months of prospective extra-regional imports, which is deemed adequate for a resource-rich currency union, ensuring the resilience of the region to adverse external shocks.[1] Furthermore, at end-2021 reserves amounted to no more than 60 percent of the IMF reserve adequacy metric, well below the range of 100–115 percent deemed broadly adequate for precautionary purposes. The reserve adequacy assessment looks somewhat more favorable when considering the broad money and short-term liabilities ratios (respectively 35 and 178 percent, compared to minimum thresholds of 20 and 100 percent), the ratio to short-term liabilities stabilized at relatively high levels (Figure 3).

5. Rebuilding reserves buffers in the medium term requires an appropriate calibration of the policy mix. The reserve coverage is expected to recover gradually in the medium term, reaching 5.2 months of prospective extra-regional imports by the end 2026, as fiscal consolidation takes hold, reforms progress, and monetary policy tightens, while being mindful of growth and financial stability.[2] The return to a monetary policy where the management of liquidity is based on autonomous factors and the progressive normalization of the prudential stance on the COVID-19 affected credit portfolios of banks will ensure a prudent policy stance, which will facilitate the building of reserves to adequate levels. Moreover, the implementation of the foreign exchange regulation will be extended to the oil sector from 2022, which will help to ensure a greater repatriation of foreign exchange earnings.

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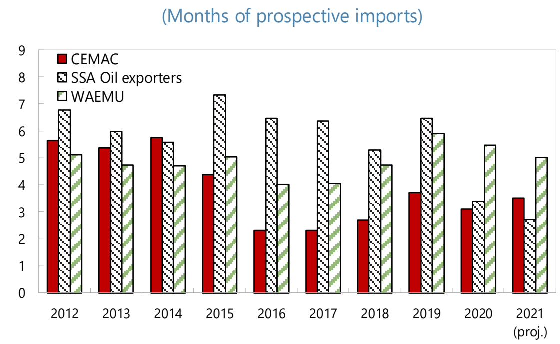
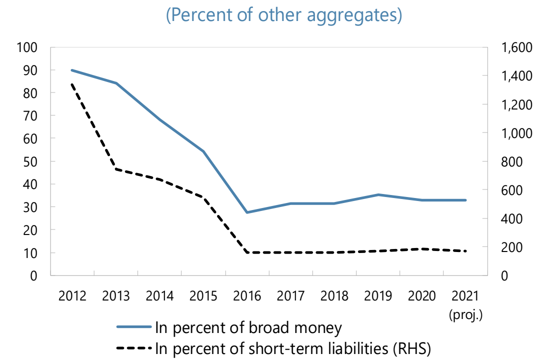
[1] Staff assesses a benchmark of 5 months of prospective imports as appropriate in the case of CEMAC in view of its specific features and circumstances.

[2] The projections assume Cameroon and Gabon would meet their end-2021 fiscal targets, an approval of financial arrangements for Congo and Chad, and SMP approval for CAR by the end of the year.

Figure 3. BEAC: International Reserves Coverage





Sources: AFR REO-database and IMF staff calculations.

B. Current Account and Exchange Rate Assessment

6. The assessments of the 2021 current account suggest an overvaluation and a significantly weaker external position than warranted by fundamentals and desirable policies. The "EBA-Lite" Current Account (CA) model, which compares the underlying current account balance with the model-estimated current account norm, suggests an overvaluation of about 21 percent with the 2021 cyclically adjusted current account deficit estimated at 4.8 percent against a balanced current account norm (assuming an elasticity of the current account to REER of -0.22).[3] This implies a CA gap of -4.8 percent of GDP under current policies. This suggests that the end-2021 external position is significantly weaker than warranted by fundamentals and desirable policy settings (see Text Table on EBA-Lite CA and REER Approach). The model is calibrated to reflect the latest desirable policies with: (i) a projected cyclically adjusted fiscal balance reflecting recommended medium-term fiscal objectives; (ii) the level of public health expenditures at 2.0 percent of regional GDP; (iii) a revised desired change in reserves that positions the CEMAC on the path to reach 5 months of import coverage at end-2026; (iv) the private sector credit level at about 14 of GDP reflecting member countries' fundamentals; and (v) the assumption of less restrictive regional capital controls.[4] The REER has been broadly stable since the late 1990s, after the 1994 devaluation, with some year-to-year fluctuations not exceeding 10 percent. Overall, the price competitiveness gains achieved with the 1994 devaluation appear to have been preserved over the last decades. However, in 2020, the REER has appreciated by about 6.5 percent relative to the previous year, and remained broadly unchanged over 2021, reflecting the nominal appreciation of the Euro vis-à-vis USD. The results obtained with the EBA-lite REER approach 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.

[3] 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 2021 shows that given fundamentals, in particular the change in reserves, the current account should be on balance (small surplus).

[4] The calibration relies on gross foreign assets statistics from the BEAC's monetary survey and the most recent CEMAC macro framework projections. The estimation includes a measure of the potential impact of natural disasters and conflicts on the current account deficit, and an adjustor for the COVID-19 impact on tourism balance and remittances.

CEMAC: Model Estimates for 2021
(Percent of GDP)

	CA model	REER model
CA-Actual	**-2.1**	
Cyclical contributions (from model) (-)	2.0	
COVID-19 adjustor (+) 1/	-0.1	
Natural disasters and conflicts (-)	0.7	
Adjusted CA	**-4.8**	
CA Norm (from model) 2/	**0.0**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**0.0**	
CA Gap	**-4.8**	**0.9**
o/w Relative policy gap	1.8	
Elasticity	-0.22	
REER Gap (in percent)	**21.4**	**-3.9**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on
tourism and remittances (-0.06 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

7. **Policies to implement fiscal adjustment and improve structural competitiveness and governance are needed to strengthen the external position in the medium term.** Policy should focus on implementing long-overdue structural reforms and improving the business climate as well as advancing revenue mobilization (to improve the debt service capacity). Competitiveness in the CEMAC region remains seriously hampered by significant structural constraints. While the Global Competitiveness Index Ranking (World Economic Forum) suggests that the CEMAC countries included do not perform very differently from some regional peers (WAEMU), a few of the CEMAC countries (e.g. Chad) are among the worst performers in the world.

Annex II. Risk Assessment Matrix[1]

Risks	Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Conjunctural Shocks and Scenario			
Uncontrolled Covid-19 local outbreaks and subpar/volatile growth in affected countries. Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults.	**High**	**High** A prolonged outbreak could have large adverse human effects, given weak health systems. Should the outbreak lead to disruptions in the oil and non-oil sectors, the economic impact could be large.	Reprioritize fiscal spending to make room for vaccine acquisition and distribution costs and seek additional external support for vaccine acquisition. Prepare and implement detailed vaccination strategy. Increase public health measures, including testing capacity, and follow WHO guidelines
Global resurgence of the Covid-19 pandemic. Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	**Medium**	**High** A global resurgence of the Covid-19 followed a slowdown in global growth would likely lead to lower oil prices, weaking growth, worsening fiscal and current account positions in oil-dependent CEMAC, and ultimately weighing on the reserves position.	Strengthen external sustainability by: • Successfully completing and communicating the full implementation of the new foreign exchange law, including with extractive industries. • Strengthening efforts to repatriate foreign accounts held abroad, including by SOEs. • Designing fiscal contingency plans to address a possible deterioration of the current account balance. • Implementing structural measures to diversify the economy, enhance competitiveness and deepen regional integration.

[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. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Conjunctural Shocks and Scenario			
Widespread social discontent and political instability. Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).	Medium	Medium Political uncertainty could affect market confidence, private investment, and financing flows, delay economic and policy reforms, and weaken institutions. It could lead to delays in fiscal adjustments, with negative consequences for external stability.	Maintain an effective social dialogue. Ensure that priority spending in social sector is protected.
Rising commodity prices amid bouts of volatility. Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	Medium	High Given CEMAC's dependency on oil revenue and export proceeds, higher than expected commodity prices are an upside risk that would support fiscal consolidation and accelerate the build-up in reserves. It may however slow down the pace of diversification, as the "resource curse" could become further entrenched	Take the opportunity of higher oil prices to rebuild external and fiscal buffers; implement structural measures to diversify the economy, enhance competitiveness, and deepen regional integration.
Structural Risks			
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	Medium	Medium Lower domestic production in the agricultural sector, and negative implications for food security and incomes.	Strengthen food security and rural development programs Promote investment in climate resilient infrastructure and address infrastructure gaps and income disparities among regions, while establishing appropriate social safety nets.

Annex III. Response to Past IMF Advice

	2020 Regional Consultation Recommendations	CEMAC Authorities' Response
Policy mix	• Achieving the respective fiscal consolidation targets and bring the primary non-oil fiscal deficit to 4 percent of non-oil GDP by 2023 • Accelerate operationalization of the treasury single accounts (TSAs) • Implement the government arrears clearance strategy • Structural reforms to diversify the economy and restore sustained growth.	• The fiscal policy response to mitigate the economic slowdown triggered by the COVID-19 pandemic was broadly appropriate but widened deficits. The consolidation expected from 2022 onwards should deliver positive overall fiscal balances, while the nonoil balances will improve. • The new TSA IT platform is expected to be in place at BEAC by December 2021, allowing for TSAs to be operationalized. • The execution of the arrears' repayment strategy faced difficulties because of the financing needs triggered by the COVID-19 pandemic. • The PREF's overall implementation has been partly delayed by the pandemic, with gaps in strengthening the governance of tax authorities and in improving the business environment. • A CEMAC Heads of States meeting with Fund, World Bank and other partners was convened in August 2021. Heads of States committed to a coordinated regional strategy, including deep structural, governance and transparency reforms to support a diversified, inclusive and sustainable growth.
Monetary policy and safeguards reform	• Consider a tightening of the monetary stance should reserve accumulation fall short of objectives • Monitor the impact of BEAC's liquidity injection. • Explore simplified rules for ensuring adequate repatriation and surrendering of foreign exchange receipts and continue the dialogue with oil and mining companies in order to bring these companies in compliance with the regulation	• To mitigate the economic slowdown triggered by the pandemic, BEAC loosened the monetary policy stance slightly in 2020. • In line with staff recommendations, BEAC started long term (three months) liquidity injections in August to better serve banks with structural liquidity needs. At end August, it resumed liquidity absorption operations and let its program of public securities purchases expire as scheduled.[1] It also normalized its haircut framework, returning it to its pre-pandemic stance. • BEAC and COBAC have strengthened the enforcement of foreign exchange regulations. While progress on the enforcement of the repatriation requirement is difficult to assess, FX surrendering by domestic banks is largely applied. BEAC continued consultations with oil and mining companies and an agreement on adjustments to the regulation to fit the specificities of the sector was found in October 2021.

[1] BEAC purchases of public securities reached CFAF 411 billion, out of a maximum program size of CFAF 600 billion. Chad (146 billion), Congo (107 billion), Gabon (100 billion), and Equatorial Guinea (47 billion) were the main beneficiaries. CAR did not use the program.

2020 Regional Consultation Recommendations		CEMAC Authorities' Response
Macrofinancial linkages and the financial sector	• Move towards full implementation of a risk-based supervision • Conduct analysis to guide exit from temporary prudential easing COVID 19 support measures • Limit risks associated with the sovereign-banks nexus • Ensure banks report monthly on impaired and restructured loans due to the pandemic, and report weekly on their liquidity position based on a new template • Request inventories and audit reports of domestic arrears and their clearance plans from national authorities to support the NPL reduction strategies • Strictly implement the resolution framework at COBAC's level without accommodating unwarranted delays; (ii) explore setting time limits to the resolution processes of small banks; and (iii) define strict criteria and minimum conditions to approve applications for bridge banks.	• The SG COBAC nearly finalized a new rating system to prepare for risk-based prudential supervision. Progress on the Basel roadmap and the new stress testing methodology has been more limited. • The SG COBAC is progressively bringing capital requirements back to their pre-pandemic level, starting with a 50 basis points increase announced in October 2021. It plans to exit the temporary measures starting in July 2022. • Banks' exposure to the sovereign has continued to increase in 2021. Efforts are ongoing to broaden the investor base and gradually enforce the existing requirement for primary dealers to sell at least 30 percent of their holdings within 6 months • Partly due to the pandemic, progress in regulatory compliance and bank resolution has been slow in 2021.
Regional integration and convergence framework	• Strengthen enforcement of the regional surveillance framework.	• A sanction scheme for countries non-compliant with the regional convergence framework was adopted but implementation of the early warning tools of macroeconomic imbalances has been postponed to 2023, given the complicated current context.

Annex IV. Treatment and Use of the SDR Allocations

A. Background

1. BEAC is the fiscal agent for the CEMAC's allocations of SDR 1,019 million (CFAF 797 billion, about 96 percent of quota). Existing SDR holdings stand at SDR 892.4 billions with outstanding purchases and loans at CFAF 1,236 billion as of end-October 2021. CEMAC's quota is SDR 1,063.1 million. The last SDR allocations (SDR 469.2 million, in 2009) were partly drawn by Cameroon, Chad, and CAR, and recently by Congo (SDR 43 million in August 2021). The 2021 SDR allocations were drawn by Chad and Congo in the amounts of (respectively SDR 134 million in August 2021 and SDR 155 million in September 2021, respectively).

CEMAC—SDR Allocation

(SDR Million)

Cameroon	265
Chad	134
CAR	107
Congo	155
Eq. Guinea	151
Gabon	207
CEMAC	1019

B. Framework for the Use of the SDR Allocations by CEMAC Member States

2. The framework for the use of the SDR allocations by national authorities was established in May 2021. Individual member countries are entitled to request all or part of their SDR allocations, and their request is granted upon signing an on-lending ("retrocession' in French) convention with BEAC. The convention establishes that the on-lending takes the form of a perpetuity loan in CFAF. Countries assume the responsibility of servicing the loan, which bears the CFAF-equivalent of the SDR rate[1]. Should the SDR allocations be recalled, responsibility for returning the SDR allocations lies with the governments. The SDR service is guaranteed with a provision equivalent of 5 years of interest and charges held in an escrow account at BEAC.

3. Under the latest accounting guidelines, Gross International Reserves (GIR) are expected to increase, as a result of the SDR allocations. The allocations have no impact on net foreign assets as they entails an increase in both foreign assets and liabilities. The SDR position is shown on BEAC's balance sheet. On-lent SDRs will show as domestic debt on governments' balance sheets. Likewise, the SDR on-lending will be accounted for in CEMAC members' DSAs according to the guidance that has been issued.

[1] The SDR interest rate is a weighted average of interest rates on 3-month debt in the money markets of the five SDR basket currencies (the U.S. dollar, yen, Euro, pound sterling, and the Chinese RMB) and is adjusted weekly. The current SDR rate is very low by historical standards as the SDR interest rate has averaged 5.5 percent over the last 30 years.

C. Use of the Allocations

4. Two countries have drawn all or part of their SDR allocations. Chad withdrew the entirety of its SDR allocation upon receipt. Congo withdrew the balance of its 2009 SDR allocation and the entirety of the 2021 allocation in the Fall of 2021. The use of Cameroon, Equatorial Guinea, and Gabon's SDR allocations will be discussed during upcoming program reviews and should be done in a manner consistent with preserving debt sustainability.

5. The use of the still large remaining part of the SDR allocations should be consistent with regional policy objectives while allowing for supporting countries as they exit the crisis.

- A significant portion (about half) of the allocations should be saved in countries that haven't fully used their allocations, to bolster CEMAC's still weak reserve position. While the SDR allocations are neutral on NFA, any on-lending to member states that results in net liquidity injections is highly likely to lead to a loss in NFA, through the impact on reserves of the resulting additional imports.

- The SDR allocations could be used to ease financing constraints and support the recovery. Details, including the pace at which the allocations could be used, will be discussed with individual countries in the context of program discussion or surveillance consultations. The use of the SDR allocations should be aligned with countries' absorptive capacity (suggesting a multi-year use may be more appropriate than a one-off spending). The use should also consider the (variable) cost carried by the SDR allocations: the SDR allocations would be best used to finance investment or replace high-cost debt, while financing recurrent spending would not be recommended.

- The allocations should not be used to delay corrective action on fiscal policy and or structural reforms.

- The use of the large share of the SDR allocations appears warranted in countries with extremely tight liquidity constraints and elevated social needs. Countries with market access or Fund-supported programs should contribute to the external sustainability of the region and avoid drawing extensively on their allocations.

- Any use of the allocations should consider the expectation that spending supported by the allocations would need to be monitored and reported on.

6. The authorities should follow best international practices in terms of governance and transparency on the use and accounting of the SDR allocations. These include: (i) consistency with a credible and sustainable medium-term framework; (ii) resources should be used to finance high-quality spending following the best governance principles; and (iii) any spending and its financing should be transparently recorded in the budget in accordance with the IMF's Fiscal Transparency Code.

Annex V. Heads of States Summit on Macroeconomic Situation in CEMAC and Recovery Measures

(August 18, 2021)

MAIN RECOMMENDATIONS[1]

Following rich and fruitful discussions, the Head of States:

1. Congratulated the PREF-CEMAC Chair for the progress made up to 2019 in implementing the Programme, which has yielded positive outcomes for the overall recovery of CEMAC economies;
2. Noted with satisfaction the progressive consolidation of the level of community foreign currency reserves at above 3 months of import, thereby strengthening external stability and avoiding currency adjustment;
3. Noted that, owing to the pandemic and its impacts, CEMAC countries experienced a recession in 2020 and a deterioration of their macroeconomic and financial balances. Although macroeconomic outlook in 2021 is positive on the whole, there are many lingering challenges and uncertainties;
4. Commended the exceptional response measures taken by States and community institutions, including the CEMAC Commission, BEAC, COBAC, BDEAC and OCEAC, to contain the adverse effects of the rapid spread of COVID-19 and the high volatility of oil prices on CEMAC economies;
5. Affirmed their determination to step up vaccination campaigns to protect the populations, save lives and encourage measured reopening of the economies of the sub-region by taking advantage of bilateral and multilateral initiatives, and enlisted the support and solidarity of the international community for wide and equitable access to vaccine and for the promotion of a true pharmaceutical industry in the sub-region;
6. Urged States and community institutions, including BEAC and COBAC, to envisage careful and gradual lifting of exceptional economic support measures in order to take into account the lingering health crisis in CEMAC and its effects on economies;
7. Welcomed all international support initiatives, including emergency financing, the Debt Service Suspension Initiative, debt restructuring and relief, and the establishment of the G20 Common Framework to sustainably ensure public finance viability and debt sustainability;
8. Commended the new general allocation of Special Drawing Rights (SDRs) decided by the IMF to the tune of US$ 650 billion, and advocated for the on-lending of the SDRs of developed

[1] The full communique is available here: https://www.prc.cm/fr/multimedia/documents/9011-communique-final-du-sommet-extraordinaire-virtuel-des-chefs-d-etat-de-la-cemac

countries to developing countries as well as for an ambitious replenishment of IDA-20 resources by at least US$ 100 billion;

9. Urged member States and sub-regional institutions to adopt the CEMAC Community Post-COVID Economic Recovery Plan as a common cause, and called on technical and financial partners to massively support them in the implementation thereof;

10. Reaffirmed their attachment to community solidarity in addressing health, security and economic shocks through the implementation of a coherent and coordinated strategy to preserve public finance viability and strengthen CEMAC's external position;

11. Called on Member States to implement appropriate fiscal policies based on increased mobilization of non-oil revenue, stepping up public expenditure quality and effectiveness, and rigorous public debt management;

12. Urged States to continue to streamline the financial system by formulating credible and comprehensive arrears payment strategies that take into account the impacts of the health crisis and are consistent with the commitments contained in the programs;

13. Reaffirmed their commitment to strengthening external currency stability, in particular through the implementation of a prudent and effective monetary policy and the judicious application of exchange rate regulations to all sectors of activity. In this regard, they encouraged BEAC to pursue all actions undertaken or envisaged in this area;

14. Reiterated their guidelines to the CEMAC Commission and BEAC regarding ongoing brainstorming on the framework and conditions for a new monetary cooperation with France;

15. Congratulated the PREF-CEMAC Steering Committee and BEAC on the successful completion of the first phase of the merger of CEMAC financial markets, encouraged BEAC to complete the restructuring and optimal operationalization of the structures of the unified financial market, and urged States to further revitalize the market towards a broad-based mobilization of community savings and the financing of the economies of the sub-region;

16. Decided to resolutely implement priority policies and reforms as part of the second phase of PREF-CEMAC to bring about a real structural transformation leading to the industrialization of CEMAC economies and create the best conditions for sustained and equitable private sector-driven growth;

17. Urged Member States to improve the functioning of public institutions, governance and transparency in the public and extractive sectors, public finance management, particularly investment quality, as well as the monitoring of fiscal and debt risks inherent in public enterprises management;

18. Encouraged States to step up efforts to develop human capital by providing adequate financing for the education, vocational training and health sectors, as well as strengthen social protection systems to cope with the effects of the current pandemic and prevent possible crises and vulnerabilities;

19. Recommended the mobilization of hybrid external financing in the new programs with partners, in order to combine the characteristics of financial support from various donors, and

substantially increase financing by prioritizing concessional resources and public-private partnerships (PPPs);

20. Resolved to continue formulating and implementing environmental policies aimed, inter alia, at combating climate change and ecosystem degradation, and mobilizing related financing;

21. Reaffirmed their strong determination to promote and deepen regional integration by consolidating the free movement of persons and goods, promoting the digital economy, constructing regional infrastructure, ensuring sustainable access to energy and implementing the eleven priority integration projects, whose financing was successfully mobilized at the Paris Round Table in November 2020, to strengthen intra-community trade and make greater use of the potential of the African Continental Free Trade Area (AfCFTA);

22. Agreed to accelerate the improvement of the business climate by facilitating and simplifying, inter alia, the procedures for starting businesses and streamlining the legal environment to enhance the attractiveness of the community space, attract foreign direct investments to fill the financing gap for major structuring projects, which should effectively contribute to the industrialization of CEMAC countries;

23. Decided to give a new and strong impetus to the regional economic and financial recovery strategy, through the second-generation economic and financial programs to be concluded with the International Monetary Fund (IMF), backed by the World Bank, the African Development and France, among others;

24. In this regard, increased coordination of multilateral and regional partner operations will ensure greater mobilization of financing and more economic, financial and social impact;

25. Urged the relevant Member States to finalize and conclude programs with the IMF, with a view to giving the regional recovery strategy its community and supportive character, and to ensure utmost success of the strategy with the support of the IMF, World Bank, AfDB, France and other technical and financial partners.

Concerned by the lingering adverse effects of security, health and economic crises on the peoples' living conditions, the Heads of State and Government support and encourage all internal and external initiatives aimed at restoring peace, stability, security and health conducive to the emergence of CEMAC.

Consequently, at this deciding moment of implementing the community's crisis exit strategy, the CEMAC Heads of State express their firm and resolute desire to pursue the efforts made since 2016 as part of a second cycle of economic and financial programs backed by the IMF and all the other technical and financial partners, geared towards achieving the objectives of strong, green, resilient and inclusive growth by creating more wealth and jobs.

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

Yaoundé, November 15th , 2021

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

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

Dear Madame Georgieva,

This letter reiterates the assurances provided in June 2021 by the community institutions in support of the economic recovery and reform programs undertaken by the member states of the Central African Economic and Monetary Community (CEMAC). It reflects the commitments made in the discussions held during the virtrual regional consultations that took place from October 21 to November 5, 2021 between International Monetary Fund (IMF) staff and the CEMAC institutions.

Although the region is still grappling with the COVID-19 pandemic, the easing of health restrictions, fiscal stimulus measures by the member states and rising oil prices have continued to support the regional economic recovery in 2021. GDP growth should reach 1.9 percent, driven primarily by the non-oil sector. Fiscal positions should improve by approximately 0.5 percentage point, largely owing to rising oil revenues. Fiscal deficits are expected to stand at 2.7 percent on average, and the public debt should decline to 56.2 percent of GDP, 3.8 percentage points below the 2020 level. The external current account deficit has also narrowed significantly, from 5 percent of GDP in 2020 to 2.1 percent of GDP in 2021. Inflation remains under control at 2 percent, well below the regional convergence criterion.

The national and regional authorities responded quickly to limit the health and economic impact of the COVID-19 pandemic. The prudential and monetary easing measures mentioned in our last letter of support have moderated the impact of the crisis, while limiting the risks. Although the liquidity needs of some banks in the region increased in 2021, the BEAC did not alter its ceiling on the refinancing of banks and continued to closely monitor the changes in the foreign exchange reserves to be prepared to make any necessary adjustments. In a context in which most of the central banks adopted a highly accommodative monetary policy stance, the BEAC—in accordance with its charter—refrained from providing direct monetary financing to the member states.

The region received substantial external financial support for its response to the crisis, including the allocation of Special Drawing Rights (SDR) that took effect in August 2021. Unfortunately, the foreign exchange reserves deteriorated significantly from end-June 2021, and the region's target for net foreign assets (NFA) was not met, primarily owing to a shortfall in disbursements of external budgetary support in the amount of CFAF 87.9 billion in the first half of 2021. Were it not for this shortfall, the net reserves at end-June 2021 would certainly have reached the level projected during the last review of regional policies.

As global demand recovers, the outlook for real GDP growth in the region should improve significantly in 2022, to 2.8 percent on average, thanks to rising oil prices and greater nonoil growth. The overall fiscal deficit should decline approximately by 1.4 percentage point of GDP and the public debt should also fall to 54.1 percent of GDP, down 2.1 percentage points from its 2021 level. The external current account deficit is projected to deteriorate slightly to 2.6 percent of GDP owing to a slight decline in oil exports in 2022.

This outlook is, however, subject to significant near-term risks, related in particular to the future course of the pandemic in the region and vaccination rates, which could slow the economic recovery. With external financing needs remaining significant, this moderate recovery will also be dependent on the approval of new programs with the IMF for the countries that have requested such programs, and reviews of the programs already under way, along with anticipated financial assistance from the other development partners. Greater than expected drawings of SDR allocations or use of the fiscal space created by the recent structuring of the consolidated advances to governments for supplementary expenditures could have a negative impact on the external reserves.

We are maintaining the objective of full implementation of the foreign exchange regulations by the end of 2021. An ongoing dialogue with the mining and oil companies has enabled us to reach an agreement on the application of the foreign exchange regulations in the extractive industries sector starting in January 2022. The agreement calls for a gradual process along with a continuing dialogue to ensure an effective implementation that is adapted to the sector's constraints. It includes the repatriation of a significant portion of export receipts and the possibility for the extractive industries to hold foreign currency accounts in CEMAC banks. These accounts could be used more flexibly at lower costs and would be sheltered from bank account seizures and/or garnishments. Funds set aside for the rehabilitation of oil sites should also be repatriated to long-term foreign currency accounts in the CEMAC within three years. Although we do not have precise estimates, we believe that the volume of funds that could be repatriated in this way would be substantial and would thus contribute to a significant increase in the BEAC foreign exchange reserves.

The BEAC has also continued its work to support more effective public finance management. Although the establishment of an IT platform to facilitate management of the Single Treasury

Accounts at the BEAC was delayed slightly, it should be in place in December 2021 for the countries that are ready.

At the same time, the BEAC has continued to implement its financial transparency strategy. A prequalification phase for the credit information bureaus (BIC) was held in June 2021 and two candidates were selected for a call for bids that should be launched by the end of the year, with a view to selection of the BIC in the first half of 2022. The new credit risk registry is being piloted in Gabon before being expanded to the other countries.

Going forward, our policies will remain focused on our main objective of protecting the internal and external stability of the currency. The CEMAC external position became even more fragile in 2021, as reflected primarily in the low level of net foreign assets at end-October 2021. The situation is also complex with regards to the BEAC's monetary policy framework: the rate of coverage of the foreign exchange reserves temporarily fell below the threshold of 60 percent (considered the minimum threshold by the BEAC) in June and July and rose only with the help of the SDR allocation. If the decline in the gross reserves continues, they could soon drop below the 60 percent threshold once again. The gross reserves stand slightly above three months of imports owing to the SDR allocation, but are barely maintaining the level achieved at the end of August. Finally, while rising food and commodity prices have not yet affected the region, they could lead to inflationary pressures over time.

In this difficult context, in which the region is unfortunately still deeply affected by the health crisis, we have begun to tighten monetary policy to support the accumulation of reserves. The government securities purchase program expired in September 2021. We have also adjusted our liquidity policy and at the end of August 2021 resumed the liquidity absorption operations that were temporarily suspended at the beginning of the pandemic. Owing to the limited interest on the part of the banks, we subsequently raised the rate on these operations in mid-October to make them more attractive. The haircuts applied to government securities for monetary operations were also raised in September 2021, after the BEAC had reduced them at the beginning of the pandemic in 2020. Some measures taken by COBAC, particularly during its August 2021 meeting, specifically the increase in the capital conservation buffer from 1.5 percent to 2 percent, should also help to tighten bank liquidity and support the accumulation of reserves.

However, these measures, together with the fiscal adjustments in the CEMAC, have not been sufficient as the external reserves (excluding SDR allocations) continued to shrink through end-October 2021. We are committed to further adjust monetary policy to support the accumulation of reserves, particularly by convening a special Monetary Policy Committee (CPM) meeting in late November 2021 during which we will recommend an increase in the policy rate. Moreover, we will propose an additional increase in the rate on liquidity absorption operations to the Money Market Committee (CMM) to increase the attractiveness of these operations while limiting any potential crowding out effects on the bank credit market, interbank market and government securities market.

In the area of bank supervision, on-site inspections were resumed in 2021. The reform of processes and tools for the implementation of risk-based supervision and the alignment certain prudential rules with the Basel standards is ongoing.

COBAC has also conducted an impact analysis of the COVID crisis and has noted a substantial increase in COVID-impacted assets. It is monitoring the changes in the quality of assets on a monthly basis and bank liquidity on a weekly basis. This work should allow for better calibration and coordination of the strategy for exiting the temporary relaxation of prudential measures as soon as possible. This strategy should be discussed during the next meeting of commissioners, in December 2021.

When the temporary measures are lifted, COBAC will ensure that the banks comply with the asset classification and provisioning rules and submit recapitalization plans if necessary. It will closely monitor changes in nonperforming loans and will ensure that banks have plans in place to reduce NPLs, based in particular on the implementation of strategies to clear government arrears. As well, to ensure the stability of the financial sector, COBAC will closely monitor recapitalization procedures, accelerate bank resolution procedures, step up the application of the related prudential regulations, and closely monitor the evolution of the sovereign-bank nexus.

These measures, together with the fiscal consolidation efforts of the member governments in the context of programs under way with the IMF, the implementation of structural reforms and enhancement of transparency and governance by the member states, and budgetary support from the development partners should help to consolidate net foreign assets to 2.20 billion euros at end-December 2021 and allow for projection of a significantly higher reserves target of 2.78 billion euros for end-June 2022. These projections are based specifically on external financing hypotheses (including exceptional financing but excluding IMF financing) in the amount of 229 million euros in the second half of 2021 and 213 million euros in the first half of 2022.

The BEAC and COBAC will maintain their efforts to ensure close monitoring of the status of the programs of the CEMAC countries and will continue to work in close cooperation with IMF staff to support the regional strategy to exit the crisis. They stand ready to notify and consult IMF staff in a timely manner on economic developments that are likely to affect the CEMAC's external stability through end-June 2022.

I remain available to work alongside the IMF and CEMAC member states to restore macroeconomic balances in the region.

Sincerely yours,

/s/

ABBAS MAHAMAT TOLLI

Statement by Mr. Aivo Andrianarivelo, Executive Director for the Central African Economic and Monetary Community; Mr. Regis N'Sonde, Alternate Executive Director; and Mr. Thierry Paul Nguema-Affane, Senior Advisor to the Executive Director

December 10, 2021

On behalf of our CEMAC authorities, we would like to thank Executive Directors, Management and Staff for their continued technical and financial support to the CEMAC regional institutions and member countries during this difficult pandemic time. The recent SDR allocation has provided much needed policy space which the national authorities are using to address urgent and priority health, social and investment spending, and reinforce debt sustainability. The regional authorities have appreciated the constructive discussions held with staff in October/November 2021 regarding common policies of member countries, and common policies in support of member countries' reform programs.

Implementation of the regional strategy set forth in December 2016 has advanced albeit a few setbacks recently which the regional authorities are addressing. Progress has been made in reforms to support the region's external viability but the end-June 2021 target for NFAs was not met due to the direct and indirect effects of the global shock caused by the pandemic, mainly lower-than-expected external financing. Corrective actions, together with partial withdrawal of some policy easing measures and strong implementation of the foreign exchange regulation, have been taken to further support reserve accumulation.

A Summit of Heads of State of CEMAC countries took place in August 2021--with the appreciated participation of the IMF Managing Director-- to consolidate the progress made while launching a second phase of the regional strategy focused on raising growth and making it more inclusive. This summit took stock of the macroeconomic situation in CEMAC in the context of the COVID-19 pandemic, and identified appropriate measures to strengthen the economic resilience of the region and to accelerate its structural transformation, with a view to achieving sustainable and job-creating growth. The regional and national authorities agreed to give a new impulse to the regional strategy to strengthen the internal and external stability of CEMAC through a second generation of reform programs with the support of the Fund and other development partners. Consistent with the resolution of the summit, the regional institutions have renewed their policy assurances in support of members countries' efforts in their November 2021 Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries.

Recent Economic Developments and Outlook

The epidemiological situation of the COVID-19 pandemic is still a source of concern in CEMAC although the rollout of vaccines is advancing. A second and third waves of contaminations have hit the CEMAC region in 2021, which has led to the reinstatement of movement restrictions in Congo, Gabon, and Equatorial Guinea. At the same time, vaccination has progressed in the CEMAC with a rate that has more than doubled in the past three months. However, this rate remains well below those achieved elsewhere on the African continent, due to difficult access to vaccines and high hesitancy. The rapid global spread of the new Omicron variant could lead to more stringent containment measures, stall the nascent economic recovery, and limit progress in the implementation of the regional strategy. It should be recalled that the health risk in CEMAC is concomitant with the high security-related risk in several countries of the region.

The macroeconomic situation in CEMAC is improving, supported by a favorable external environment but downside risks to the outlook warrant vigilance to preserve both stability and the recovery. Economic activity has been slowly recovering from the contraction last year with growth expected to reach 1.9 percent in 2021 and increase to 2.8 percent in 2022. A favorable external environment and the implementation of fiscal consolidation policies are expected to improve fiscal and debt sustainability. Public debt is projected to decline by 3.8 percentage points of GDP in 2021. The current account deficit should improve in 2021 and slightly increase with lower oil exports in 2022. Inflation has remained subdued in 2021 despite higher global inflation and freight charges, and should stay low in 2022, well below the regional 3-percent convergence criterion. That said, uncertainty about the path of the pandemic, slower than expected progress in vaccination and insufficient external support represent significant downside risks to the outlook. National authorities are doing their utmost efforts to scale up the vaccination rollout. Fund engagement in the form of UCT-quality programs is necessary to catalyze the important resources needed to complement the domestic policies—notably on the fiscal front—and regional efforts towards macro stability and growth.

The external position has weakened in 2021 and external financing needs indeed remain substantial over the medium term. The end-June 2021 target for net foreign assets (NFAs) could not be met due to a lower-than-expected external financing from development partners. The decline of NFAs since June 2021 led this indicator to historically low levels in the second half of the year. As a result, the initial end-December 2021 target for NFAs is expected to be missed as well. The SDR allocation has helped maintain gross foreign assets above 3 months of imports, which nonetheless remain well below the 5 months considered adequate for the monetary union.

Monetary and Financial Sector Policies

Unconventional monetary and prudential policy measures were adopted during the pandemic to ensure sufficient liquidity in the banking system and support businesses affected by the pandemic. Those measures have proven useful in attenuating the impact of the crisis while limiting risks to financial stability. In so doing, the regional authorities refrained from monetary financing of the deficit despite large liquidity needs since the inception of the crisis.

Given fragile fiscal positions in CEMAC countries, the Central African Monetary Union (UMAC) Ministerial Committee decided in September 2021 a rescheduling of repayments of statutory advances set to start in 2022. This measure was deemed necessary to address the high risk of advance repayment default and its potential negative impact on the central bank’s balance sheet.

The authorities recommended that member states use this space to reduce bank financing but agreed that this measure could also hinder reserve accumulation should member states decide to increase spending instead, absent other sources of financing. The UMAC Ministerial Committee could reconsider this decision if it deems it necessary.

In light of the persistent downward trend of net international reserves in the third quarter of 2021, the central bank followed through on its commitment to start a gradual normalization of monetary and prudential policies to support reserve accumulation. With the macroeconomic situation improving and liquidity tensions abating, the central bank stopped its asset purchase program in September 2021 as announced in June 2021. Noting that liquidity remains high, and refinancing is concentrated in a few banks, the monetary authorities started liquidity absorption operations in the third quarter of 2001, and the related interest rate has been regularly reviewed upwards to increase the attractiveness of those operations. Last month, the Monetary Policy Committee (CPM) increased the policy rate and the marginal lending rate by 25 basis points each, while keeping the refinancing rate unchanged. Also, the Money Market Committee (CMM) further increased the liquidity absorption rate by 30 basis points and also lowered liquidity injections by CFAF 20 billion. The authorities see merit in staff recommendation to adapt a differentiated access to BEAC refinancing based on financial indicators and will examine its feasibility.

As regard banking supervision, the regional banking commission (COBAC) is developing a strategy to phase out temporary prudential easing measures by June 2022. COBAC has carried out impact studies of the COVID crisis, and notes a significant increase in affected loans. Close monitoring of asset quality and bank liquidity will help finetune an exit strategy from easing measures.

Structural Reforms

The CEMAC authorities are advancing a wide range of structural, governance and transparency reforms to support the regional strategy. In particular, the foreign exchange regulation is set to be fully implemented starting in 2022, which should contribute to a significant increase in the BEAC's foreign exchange reserves.

The central bank has reached an agreement with the oil and mining companies for the application of foreign exchange regulations to the extractive sector from January 2022. The agreement notably includes the repatriation of a significant portion of export earnings and the possibility for extractive sector companies to hold foreign currency accounts in CEMAC banks. Funds dedicated to the rehabilitation of extractive fields will also have to be repatriated to long-term foreign currency accounts in CEMAC within three years. The dialogue with oil and mining companies will continue to ensure that the implementation of the regulation remains appropriate to the operational constraints of the sector’s companies.

Other reforms at the regional level are also advancing, notably to improve public financial management, enhance risk management, and reinforce financial supervision. BEAC has pursued the modernization of its IT system to support the operationalization of countries’ Treasury Single Account. Likewise, the central bank has continued the implementation of its financial transparency policy by shortlisting two candidates for the establishment of a credit bureau and launching a pilot of its new risk credit registry in Gabon. COBAC resumed on-site inspection missions in 2021 after switching to virtual missions during the heights of the health crisis. The reform of processes and tools for risk-based supervision and for bringing several prudential rules into conformity with Basel standards is continuing.

Reforms are underway to ameliorate regional surveillance. The CEMAC Commission has continued its work to strengthen the regional surveillance framework. In addition to the adoption of an early warning system and the sanction scheme for countries breaching the regional convergence framework, regional directives were harmonized and adopted. The Commission will encourage further compliance with regional directives and support the implementation of reforms under the region's economic and financial reforms program (PREF CEMAC). An action matrix with performance indicators and a detailed timeline has been developed, reflecting reform commitments from the Heads of State Summit, and taking into account the recommendations from the World Bank and the Fund. As staff indicated, a dedicated unit at the national level will be set up in each CEMAC country to oversee fiscal issues, IMF-supported reforms, and the national structural reform agendas.

Policy Assurances

Going forward, while recognizing that the health situation remains challenging, regional policies will remain focused on the main objective of ensuring the internal and external stability of the currency. The regional institutions will maintain close monitoring of global and regional economic and health developments and adapt policies accordingly. They stand ready to step up net international reserve accumulation in case the declining trend persists. In particular, the regional authorities commit to further adjust monetary policy as needed and support fiscal consolidation policies pursued in Fund-supported programs. To support monetary policy, monthly liquidity absorption operations will continue by gradually raising the related interest rate if needed, until the excess liquidity is mopped up.

As temporary prudential measures are lifted, COBAC will ensure that banks comply with the asset classification and provisioning rules and submit recapitalization plans, if necessary. It will closely monitor the development of non-performing loans (NPLs) and ensure that banks have put in place mechanisms to reduce their level, in particular by relying on the implementation of government arrears clearance strategies. Also, to guarantee the stability of the financial sector, COBAC will ensure close monitoring of recapitalization procedures, speed up bank resolution procedure, strengthen the application of the related prudential regulations, and watch closely the evolution of banks' exposure to sovereign risk.

The regional authorities expect that these measures will contribute to the consolidation of net foreign assets. Those measures together with the pursuit of fiscal consolidation, the implementation of structural reforms, the strengthening of transparency and governance in CEMAC countries, and budgetary support from development partners should make it possible to reach 2.20 billion euros at the end of December 2021, and to consider a significantly higher reserve target, around 2.78 billion euros at the end of June 2022.

The effective implementation of Fund-supported reform programs is critical to the success of the regional strategy. Fund engagement with CEMAC countries is uneven so far, with only two countries having active arrangements with the Fund and a third one expecting to have an arrangement approved in a few days. The authorities agree that lower-than-projected Fund support and limited catalytic effect on additional external financing from development partners will certainly trigger higher use of the SDR allocation for budgetary purposes, and hence, further weaken the international reserve position in 2022. BEAC and COBAC will continue to work closely with IMF staff to support the regional crisis exit strategy. The CEMAC Commission will spare no effort to encourage countries with Fund-supported programs to submit their convergence plans based on agreed macroeconomic frameworks with the Fund.

Conclusion

Despite the pandemic and security shocks, progress has been achieved in the implementation of the regional strategy to improve the internal and external stability and further policy commitments made to support countries' reform programs. To meet stability objectives, monetary and prudential policies were tightened recently, and some support measures withdrawn to reverse the downward trend of NFAs observed since June 2021. In November 2021, the BEAC authorities have reiterated their policy commitments with revised targets for NFAs in the Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries. They stand ready to notify and consult IMF staff in due course on economic developments likely to affect the external stability of CEMAC.

Statement by Mr. Aivo Andrianarivelo, Executive Director for the Central African Economic and Monetary Community; Mr. Regis N'Sonde, Alternate Executive Director; and Mr. Thierry Paul Nguema-Affane, Senior Advisor to the Executive Director

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A Summit of Heads of State of CEMAC countries took place in August 2021--with the appreciated participation of the IMF Managing Director-- to consolidate the progress made while launching a second phase of the regional strategy focused on raising growth and making it more inclusive. This summit took stock of the macroeconomic situation in CEMAC in the context of the COVID-19 pandemic, and identified appropriate measures to strengthen the economic resilience of the region and to accelerate its structural transformation, with a view to achieving sustainable and job-creating growth. The regional and national authorities agreed to give a new impulse to the regional strategy to strengthen the internal and external stability of CEMAC through a second generation of reform programs with the support of the Fund and other development partners. Consistent with the resolution of the summit, the regional institutions have renewed their policy assurances in support of members countries' efforts in their November 2021 Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries.

Recent Economic Developments and Outlook

The epidemiological situation of the COVID-19 pandemic is still a source of concern in CEMAC although the rollout of vaccines is advancing. A second and third waves of contaminations have hit the CEMAC region in 2021, which has led to the reinstatement of movement restrictions in Congo, Gabon, and Equatorial Guinea. At the same time, vaccination has progressed in the CEMAC with a rate that has more than doubled in the past three months. However, this rate remains well below those achieved elsewhere on the African continent, due to difficult access to vaccines and high hesitancy. The rapid global spread of the new Omicron variant could lead to more stringent containment measures, stall the nascent economic recovery, and limit progress in the implementation of the regional strategy. It should be recalled that the health risk in CEMAC is concomitant with the high security-related risk in several countries of the region.

The macroeconomic situation in CEMAC is improving, supported by a favorable external environment but downside risks to the outlook warrant vigilance to preserve both stability and the recovery. Economic activity has been slowly recovering from the contraction last year with growth expected to reach 1.9 percent in 2021 and increase to 2.8 percent in 2022. A favorable external environment and the implementation of fiscal consolidation policies are expected to improve fiscal and debt sustainability. Public debt is projected to decline by 3.8 percentage points of GDP in 2021. The current account deficit should improve in 2021 and slightly increase with lower oil exports in 2022. Inflation has remained subdued in 2021 despite higher global inflation and freight charges, and should stay low in 2022, well below the regional 3-percent convergence criterion. That said, uncertainty about the path of the pandemic, slower than expected progress in vaccination and insufficient external support represent significant downside risks to the outlook. National authorities are doing their utmost efforts to scale up the vaccination rollout. Fund engagement in the form of UCT-quality programs is necessary to catalyze the important resources needed to complement the domestic policies—notably on the fiscal front—and regional efforts towards macro stability and growth.

The external position has weakened in 2021 and external financing needs indeed remain substantial over the medium term. The end-June 2021 target for net foreign assets (NFAs) could not be met due to a lower-than-expected external financing from development partners. The decline of NFAs since June 2021 led this indicator to historically low levels in the second half of the year. As a result, the initial end-December 2021 target for NFAs is expected to be missed as well. The SDR allocation has helped maintain gross foreign assets above 3 months of imports, which nonetheless remain well below the 5 months considered adequate for the monetary union.

Monetary and Financial Sector Policies

Unconventional monetary and prudential policy measures were adopted during the pandemic to ensure sufficient liquidity in the banking system and support businesses affected by the pandemic. Those measures have proven useful in attenuating the impact of the crisis while limiting risks to financial stability. In so doing, the regional authorities refrained from monetary financing of the deficit despite large liquidity needs since the inception of the crisis.

Given fragile fiscal positions in CEMAC countries, the Central African Monetary Union (UMAC) Ministerial Committee decided in September 2021 a rescheduling of repayments of statutory advances set to start in 2022. This measure was deemed necessary to address the high risk of advance repayment default and its potential negative impact on the central bank's balance sheet.

The authorities recommended that member states use this space to reduce bank financing but agreed that this measure could also hinder reserve accumulation should member states decide to increase spending instead, absent other sources of financing. The UMAC Ministerial Committee could reconsider this decision if it deems it necessary.

In light of the persistent downward trend of net international reserves in the third quarter of 2021, the central bank followed through on its commitment to start a gradual normalization of monetary and prudential policies to support reserve accumulation. With the macroeconomic situation improving and liquidity tensions abating, the central bank stopped its asset purchase program in September 2021 as announced in June 2021. Noting that liquidity remains high, and refinancing is concentrated in a few banks, the monetary authorities started liquidity absorption operations in the third quarter of 2001, and the related interest rate has been regularly reviewed upwards to increase the attractiveness of those operations. Last month, the Monetary Policy Committee (CPM) increased the policy rate and the marginal lending rate by 25 basis points each, while keeping the refinancing rate unchanged. Also, the Money Market Committee (CMM) further increased the liquidity absorption rate by 30 basis points and also lowered liquidity injections by CFAF 20 billion. The authorities see merit in staff recommendation to adapt a differentiated access to BEAC refinancing based on financial indicators and will examine its feasibility.

As regard banking supervision, the regional banking commission (COBAC) is developing a strategy to phase out temporary prudential easing measures by June 2022. COBAC has carried out impact studies of the COVID crisis, and notes a significant increase in affected loans. Close monitoring of asset quality and bank liquidity will help finetune an exit strategy from easing measures.

Structural Reforms

The CEMAC authorities are advancing a wide range of structural, governance and transparency reforms to support the regional strategy. In particular, the foreign exchange regulation is set to be fully implemented starting in 2022, which should contribute to a significant increase in the BEAC's foreign exchange reserves.

The central bank has reached an agreement with the oil and mining companies for the application of foreign exchange regulations to the extractive sector from January 2022. The agreement notably includes the repatriation of a significant portion of export earnings and the possibility for extractive sector companies to hold foreign currency accounts in CEMAC banks. Funds dedicated to the rehabilitation of extractive fields will also have to be repatriated to long-term foreign currency accounts in CEMAC within three years. The dialogue with oil and mining companies will continue to ensure that the implementation of the regulation remains appropriate to the operational constraints of the sector’s companies.

Other reforms at the regional level are also advancing, notably to improve public financial management, enhance risk management, and reinforce financial supervision. BEAC has pursued the modernization of its IT system to support the operationalization of countries’ Treasury Single Account. Likewise, the central bank has continued the implementation of its financial transparency policy by shortlisting two candidates for the establishment of a credit bureau and launching a pilot of its new risk credit registry in Gabon. COBAC resumed on-site inspection missions in 2021 after switching to virtual missions during the heights of the health crisis. The reform of processes and tools for risk-based supervision and for bringing several prudential rules into conformity with Basel standards is continuing.

Reforms are underway to ameliorate regional surveillance. The CEMAC Commission has continued its work to strengthen the regional surveillance framework. In addition to the adoption of an early warning system and the sanction scheme for countries breaching the regional convergence framework, regional directives were harmonized and adopted. The Commission will encourage further compliance with regional directives and support the implementation of reforms under the region's economic and financial reforms program (PREF CEMAC). An action matrix with performance indicators and a detailed timeline has been developed, reflecting reform commitments from the Heads of State Summit, and taking into account the recommendations from the World Bank and the Fund. As staff indicated, a dedicated unit at the national level will be set up in each CEMAC country to oversee fiscal issues, IMF-supported reforms, and the national structural reform agendas.

Policy Assurances

Going forward, while recognizing that the health situation remains challenging, regional policies will remain focused on the main objective of ensuring the internal and external stability of the currency. The regional institutions will maintain close monitoring of global and regional economic and health developments and adapt policies accordingly. They stand ready to step up net international reserve accumulation in case the declining trend persists. In particular, the regional authorities commit to further adjust monetary policy as needed and support fiscal consolidation policies pursued in Fund-supported programs. To support monetary policy, monthly liquidity absorption operations will continue by gradually raising the related interest rate if needed, until the excess liquidity is mopped up.

As temporary prudential measures are lifted, COBAC will ensure that banks comply with the asset classification and provisioning rules and submit recapitalization plans, if necessary. It will closely monitor the development of non-performing loans (NPLs) and ensure that banks have put in place mechanisms to reduce their level, in particular by relying on the implementation of government arrears clearance strategies. Also, to guarantee the stability of the financial sector, COBAC will ensure close monitoring of recapitalization procedures, speed up bank resolution procedure, strengthen the application of the related prudential regulations, and watch closely the evolution of banks' exposure to sovereign risk.

The regional authorities expect that these measures will contribute to the consolidation of net foreign assets. Those measures together with the pursuit of fiscal consolidation, the implementation of structural reforms, the strengthening of transparency and governance in CEMAC countries, and budgetary support from development partners should make it possible to reach 2.20 billion euros at the end of December 2021, and to consider a significantly higher reserve target, around 2.78 billion euros at the end of June 2022.

The effective implementation of Fund-supported reform programs is critical to the success of the regional strategy. Fund engagement with CEMAC countries is uneven so far, with only two countries having active arrangements with the Fund and a third one expecting to have an arrangement approved in a few days. The authorities agree that lower-than-projected Fund support and limited catalytic effect on additional external financing from development partners will certainly trigger higher use of the SDR allocation for budgetary purposes, and hence, further weaken the international reserve position in 2022. BEAC and COBAC will continue to work closely with IMF staff to support the regional crisis exit strategy. The CEMAC Commission will spare no effort to encourage countries with Fund-supported programs to submit their convergence plans based on agreed macroeconomic frameworks with the Fund.

Conclusion

Despite the pandemic and security shocks, progress has been achieved in the implementation of the regional strategy to improve the internal and external stability and further policy commitments made to support countries' reform programs. To meet stability objectives, monetary and prudential policies were tightened recently, and some support measures withdrawn to reverse the downward trend of NFAs observed since June 2021. In November 2021, the BEAC authorities have reiterated their policy commitments with revised targets for NFAs in the Follow-up to the Letter of Support to the Recovery and Reform Programs Undertaken by the CEMAC Member Countries. They stand ready to notify and consult IMF staff in due course on economic developments likely to affect the external stability of CEMAC.