

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



CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

August 2016

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

This staff report on discussions with regional institutions of the Central African Economic and Monetary Community (CEMAC) was prepared by a staff team of the International Monetary Fund in the context of the periodic regional surveillance of the CEMAC. The regional perspective of such discussions is intended to strengthen the bilateral discussions that the IMF holds with the members in the region under Article IV of the IMF's Articles of Agreement. The following documents have been released and are included in the package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 13, 2016 discussion of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 13, 2016, following discussions with regional institutions that ended on May 9, 2016. Based on information available at the time of these discussions, the staff report was completed on June 28, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director**.

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IMF Executive Board Concludes Annual Discussions on CEMAC Countries' Common Policies

On July 13, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the annual discussions on Common Policies and Challenges of Member Countries with the Central African Economic and Monetary Community (CEMAC).¹

CEMAC growth was subdued in 2015. It slowed to 1.6 percent, from 4.9 percent in 2014, because of reduced public investment and lower oil production. Growth is projected to be 1.9 percent in 2016, as oil production and investment remain sluggish. From 2017 onward, growth is expected to reach 3½ percent a year, as oil prices gradually recover, some one percentage point below the average growth level of the past decade of high oil prices. Growth of money and credit to the economy turned negative in 2015 for the first time in a decade, contributing to keeping inflation low. The regional fiscal and current account deficits grew to 6 and 9 percent of GDP in 2015, respectively, as oil export proceeds fell by 32 percent. Continued low oil prices and high public expenditure will contribute to maintaining both deficits at about 6 and 8 percent of GDP in 2016, respectively. The gradual recovery in oil prices and the expected moderate fiscal consolidation should narrow the regional fiscal and current account deficits to 3 percent by 2021. Reserves have declined. Banks appear to have weathered the economic downturn thus far.

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, collect economic and financial information, and discuss 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.

Policies to counter the oil-price shock need to focus on fiscal consolidation and real-economy reforms. In the wake of the oil-price shock, monetary financing has been the primary response tool. Although the non-oil primary deficit dropped by 8 percentage points of GDP in 2015, this response has been insufficient to check the overall fiscal deficit. Fiscal policy coordination among members should be strengthened and fiscal discipline enforcement is needed. Real-economy reforms, focusing on improving the business climate and boosting private investment, are also needed to preserve macroeconomic stability.

CEMAC medium-term prospects are challenging. A weaker-than-expected oil price recovery or a relapse in security conditions in the Lake Chad region could undermine macroeconomic stability and private investment. Lower growth in China could dampen commodity prices—especially oil—, lower demand, and reduce financing. In these challenging times, stronger regional institutions are necessary for promoting regional integration and supporting regional economic growth.

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. They expressed concern about the region's deteriorating economic prospects stemming from multiple shocks, in particular the oil price decline, the challenging security environment, and the insufficient policy response. With the medium-term outlook facing considerable risks, Directors strongly encouraged the authorities to take timely and decisive actions to pursue fiscal adjustment and ensure debt and external sustainability, rebuild foreign reserves buffers, and implement region-wide structural reforms to diversify the economy and improve investment prospects. Stronger regional institutions are also essential to improving regional integration and policy coherence and compliance. Directors also called for enhanced support from the Fund and other international partners to help the authorities address the current economic difficulties.

Directors stressed the critical importance of continued fiscal consolidation to address the widening fiscal and current account deficits and to maintain macroeconomic stability. While welcoming the recent progress, they encouraged further efforts to expand the non-oil tax base and rationalize and improve the quality of spending to maximize economic returns and social protection. Directors welcomed the authorities' intention to pursue prudent borrowing and debt management policies, and encouraged borrowing on concessional terms to the extent possible. Directors also welcomed the new regional convergence framework, although a lower debt ceiling and stronger monitoring mechanisms should be considered.

While acknowledging the supportive role played by the accommodative monetary stance in weathering shocks, Directors noted the limited scope for further monetary policy easing and called for greater prudence in this regard. They urged the authorities to freeze the statutory advances to national governments, avoid indirect monetary financing, and accelerate reforms to the monetary policy framework to improve its effectiveness, including greater central bank

²At 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 regional authorities. An explanation of any qualifiers used in summing ups can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

independence. Directors underscored that rebuilding the low level of reserves is an urgent priority, and that better pooling of reserves across the members remains important. They encouraged the implementation of the remaining safeguards assessment recommendations.

Directors noted the resilience of the financial sector, and encouraged the development of a sound macroprudential framework to safeguard financial stability in the region. Directors also welcomed the progress made following the 2015 FSAP recommendations, and urged the implementation of the remaining recommendations, as well as measures to broaden financial inclusion and strengthen the AML/CFT framework.

Directors stressed the need for ambitious structural reforms to boost competitiveness and diversification, create private-sector investment opportunities, and improve the business environment. They encouraged the strengthening of regional institutions to enhance collaboration and macroeconomic management.

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

CEMAC: Selected Economic and Financial Indicators, 2012–17

	2012	2013	2014	2015 Estim.	2016 Proj.	2017 Proj.
(Annual percent change)						
National income and prices						
GDP at constant prices	5.4	2.1	4.9	1.6	1.9	3.3
Oil GDP	-0.3	-8.0	3.0	-0.4	-1.5	0.2
Non-oil GDP	5.9	4.6	5.0	2.6	2.7	4.1
Consumer prices (period average) ¹	3.9	2.1	2.7	2.3	2.0	2.7
Consumer prices (end of period) ¹	3.2	2.4	2.6	1.6	2.7	2.4
(Annual changes in percent of beginning-of-period broad money)						
Money and credit						
Net foreign assets	9.5	-0.4	-7.6	-17.7	-8.5	-3.9
Net domestic assets	6.7	9.0	14.9	15.6	12.1	11.2
Broad money	16.6	6.7	9.4	-2.2	3.6	7.4
(Percent of GDP, unless otherwise indicated)						
Gross national savings	30.8	26.5	27.1	20.2	21.1	20.0
Gross domestic investment	30.1	31.4	32.7	29.7	28.8	25.1
Of which: public investment	14.0	14.5	14.3	10.7	9.8	7.9
Government financial operations						
Total revenue, excluding grants	27.6	26.8	25.0	20.2	19.0	18.8
Government expenditure	29.2	30.3	29.6	26.6	25.9	23.8
Primary fiscal basic balance ²	-0.6	-1.6	-2.5	-4.4	-2.9	-1.2
Basic fiscal balance ³	-1.3	-2.2	-3.1	-5.2	-4.1	-2.4
Overall fiscal balance, excluding grants	-1.6	-3.5	-4.6	-6.4	-6.8	-5.0
Primary fiscal balance, including grants	-0.3	-2.3	-3.3	-5.0	-4.7	-3.0
Non-oil overall fiscal balance, excluding grants ⁴	-31.0	-29.1	-25.9	-18.0	-15.9	-13.6
Non-oil primary fiscal balance, including grants ⁴	-28.9	-27.3	-24.0	-16.3	-13.4	-11.2
External sector						
Exports of goods and nonfactor services	57.0	53.7	50.8	41.5	36.3	37.0
Imports of goods and nonfactor services	42.4	41.0	43.0	42.3	36.9	34.8
Balance on goods and nonfactor services	14.6	12.7	7.9	-0.8	-0.6	2.2
Current account, including grants	2.9	-0.8	-3.3	-9.4	-7.7	-5.2
External public debt	13.1	15.5	18.5	23.4	25.6	25.8
Gross official reserves (end of period)						
Millions of U.S. dollars	17,531	18,222	15,309	10,139	7,866	7,634
Months of imports of goods and services (less intra-regional imports)	5.7	5.6	6.1	4.6	3.4	3.3
Percent of broad money	88.7	83.7	64.3	52.0	38.5	34.5
Memorandum items:						
Nominal GDP (billions of CFA francs)	45,877	45,572	46,702	43,369	43,423	47,019
CFA francs per U.S. dollar, average	511	494	494	591	...	...
Oil prices (US dollars per barrel)	105	104	96	51	44	51

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

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

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

³ Excluding grants and foreign-financed investment.

⁴ In percent of non-oil GDP.



CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

STAFF REPORT ON THE COMMON POLICIES OF MEMBER COUNTRIES

June 28, 2016

KEY ISSUES

Context and risks. CEMAC is buffeted by the oil-price shock. The outlook has deteriorated, as members continue to suffer from the shock. Regional and national authorities have yet to take appropriate measures to address the economic downturn, whilst continuing to face substantial capacity constraints. Although the banking sector has weathered the downturn so far, government payment delays could undermine its soundness. Risks are significant: a weaker-than-expected oil price recovery or deteriorating security conditions could jeopardize macroeconomic stability.

Policy recommendations

- **Policy mix.** The policy response to the oil revenue loss and increased security spending has been insufficient. It has led to a contraction in reserves—now below recommended levels. Fiscal adjustment and real-economy reforms, focusing on improving the business climate and boosting private investment, are needed to preserve macroeconomic stability. An incomplete policy response could jeopardize external sustainability.
- **Monetary policy and safeguards reform.** The BEAC's accommodative monetary policy has contributed to the decline in reserves and delayed fiscal consolidation. Meanwhile, the authorities still need to strengthen weak monetary transmission channels. The BEAC's Board of Directors has mandated to proceed with two important safeguards recommendations.
- **Macrofinancial linkages and the financial sector.** Important links between the public and the banking sectors require (i) the non-accumulation of arrears to ensure the stability of the banking system; and (ii) a strong microprudential framework to sustain macrofinancial stability. Progress has been made in implementing some of the 2015 FSAP recommendations.
- **Regional integration and convergence framework.** CEMAC institutions continue to face internal constraints, which undermine their capacity to support regional integration and growth. The newly approved convergence framework can help to manage revenue volatility. Plans for a medium-term savings rule would help CEMAC to build fiscal buffers to deal with future commodity shocks.

Approved By
**Anne-Marie Gulde-
 Wolf and Bob Traa**

Discussions were held during April 25–May 9, 2016 in Libreville, Gabon, and Yaoundé, Cameroon, with the regional central bank (Banque Centrale des États de l'Afrique Centrale, BEAC); the banking commission (Commission Bancaire, COBAC); the CEMAC Commission; and the Development Bank of Central African States (Banque de Développement des États de l'Afrique Centrale, BDEAC). The staff team comprised Messrs. de Zamaróczy (head), Fleuriet (MCM), Gijon, Nassar, van Houtte (African Department), Mr. Kalonji (resident representative), and Mr. Tchakoté (local economist). Administrative and research support was provided by Ms. Koulefianou and Mr. Mengistu, respectively. The team also met with representatives of academia, the financial sector, and the donor community.

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A COMMUNITY BLIGHTED BY LOW OIL PRICES

1. The security situation in the Central African Economic and Monetary

Community (CEMAC) improved in 2015, but the economic situation deteriorated markedly. On the one hand, security threats from Boko Haram in the Lake Chad region were reduced through regional military cooperation, but they continue to place a heavy fiscal burden on Cameroon and Chad. Following presidential elections in February 2016, the civil strife in the Central African Republic (CAR) is abating. On the other hand, the oil-price shock took a toll on CEMAC's five oil exporting members. Oil prices have declined by more than 55 percent since June 2014, and with oil representing more than three-quarters of regional exports and half of fiscal revenues (in 2014), most countries are facing budgetary pressures (Figure 1; Tables 1–3). Despite its resource wealth, CEMAC has been lagging behind peers in economic performance (Figure 2). CEMAC's economic challenges are compounded by a timid regional cooperation.

2. Regional growth more than halved in 2015 and medium-term prospects are uncertain.

Growth slowed to 1.6 percent, from 4.9 percent in 2014, because of reduced public investment and lower oil production. Growth is projected to be 1.9 percent in 2016, as oil production and investment remain sluggish. From 2017 onward, growth is expected to reach on average 3½ percent a year, as oil prices gradually recover. Growth of money and credit to the economy turned negative in 2015 for the first time in a decade, contributing to keeping inflation low.

3. The region's "twin" deficits widened in 2015 and are projected to grow in 2016. The regional fiscal and current account deficits grew to 6 and 9 percent of GDP in 2015, respectively, as oil export proceeds fell by 33 percent (Tables 4a–5b). Continued low oil prices and high public expenditure will contribute to maintaining both deficits at about 6 percent and 8 percent of GDP in 2016, respectively. The gradual recovery in oil prices and the expected moderate fiscal consolidation should narrow the regional fiscal deficit to 2½ percent by 2021. Similarly, the current account is projected to improve with recovering exports and lower public imports.

4. Fiscal dominance has come to the fore. In the wake of the oil-price shock, monetary financing has been the primary response tool. Although the non-oil primary deficit dropped by 8 percentage points of GDP in 2015, this response has been insufficient to check the overall fiscal deficit. A major weakness in CEMAC is the lack of fiscal policy coordination among members and the absence of fiscal discipline enforcement. In spite of a decade of high oil prices and robust growth, most CEMAC countries have failed to diversify their economies and build sufficient buffers.

5. Banks' exposure to the public sector is the main transmission channel of macrofinancial risks. With dwindling oil revenues, public sector bank deposits have shrunk. The increase in government payment delays and the scaling down of public investment programs could increase banks' non-performing loans (NPLs), especially to the construction sector. In turn, higher NPLs could limit credit to the private sector and undermine non-oil GDP growth.

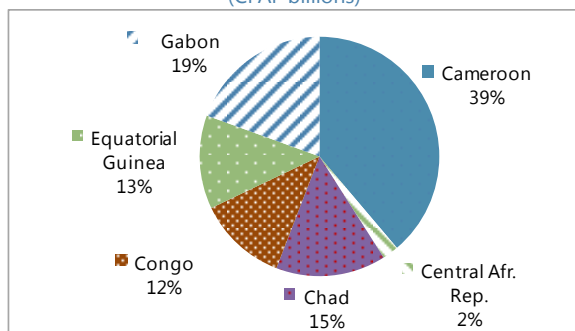
Figure 1. CEMAC: Selected Economic Indicators, 2000–15

With the fall in oil prices, the share of Cameroon's economy in CEMAC increased by five percentage points in 2015.

Regional growth in 2015 halved, inter alia, because of lower public investment.

CEMAC: Nominal GDP, 2015

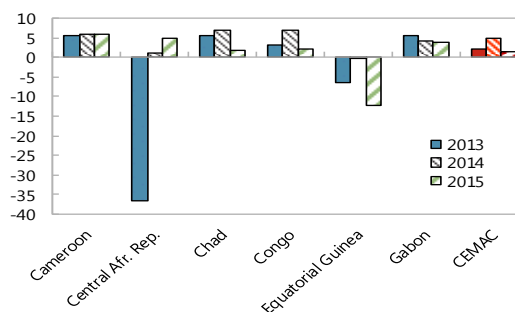
(CFAF billions)



Lower oil revenues were only partly compensated by a modest contraction in expenditure; this resulted in a widening of the regional overall budget deficit in 2015.

CEMAC: Real GDP Growth, 2013–15

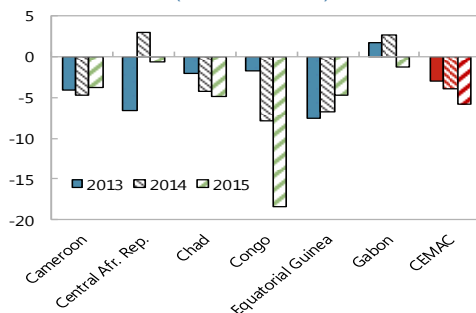
(Percent)



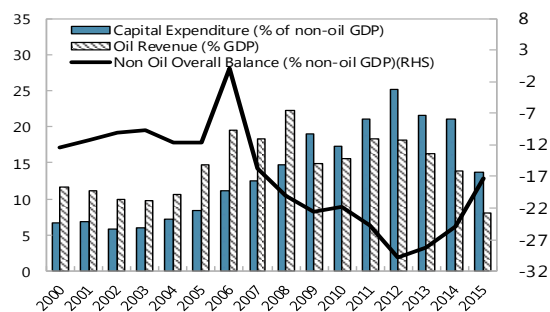
Capital expenditure fell because of the decline in oil revenues, and helped improve the non-oil budget deficit in 2015.

CEMAC: Overall Fiscal Balance, 2013–15

(Percent of GDP)



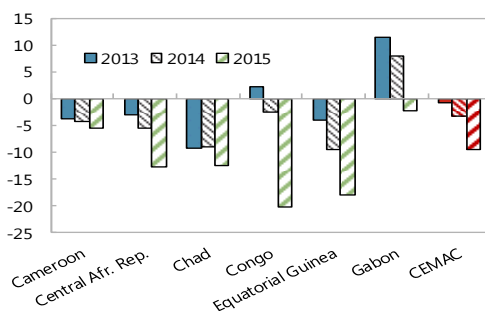
Oil represented 63 percent of CEMAC exports in 2015, down from 80 percent in 2014. The decline in oil exports widened the current account deficit by one third in 2015.

CEMAC: Selected Fiscal Indicators, 2000–15

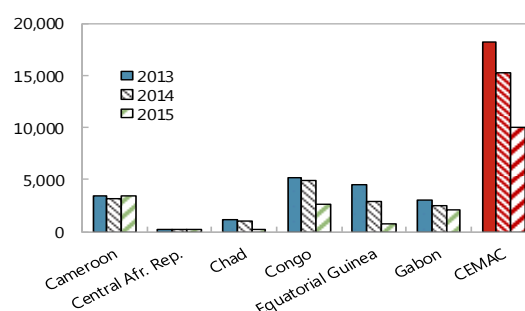
International reserves declined between end-2013 and end-2015 because of the fall in oil exports and the relative stability of imports.

CEMAC: Current Account, 2013–15

(Percent of GDP)

**CEMAC: International Reserves, 2013–15**

(Millions US dollars)



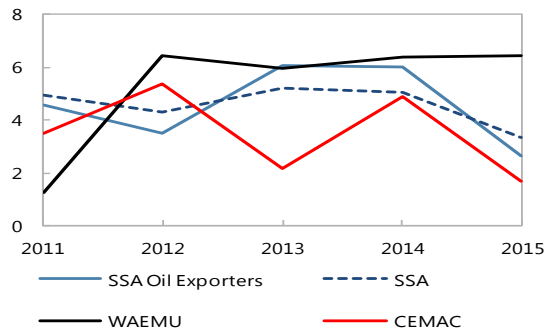
Sources: CEMAC authorities; WEO database; and IMF staff estimates.

Figure 2. CEMAC: Regional and International Comparisons, 2011–16

Economic growth halved in 2015 and it lagged behind that of African comparator groups.

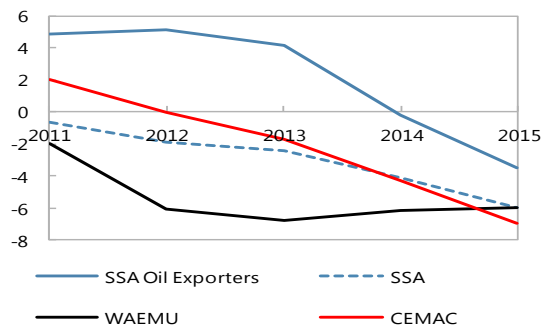
In 2015, CEMAC recorded the worst fiscal position within sub-Saharan African comparator groups because of the fall in oil revenues.

CEMAC: Real GDP, 2011–2015
(Percent)



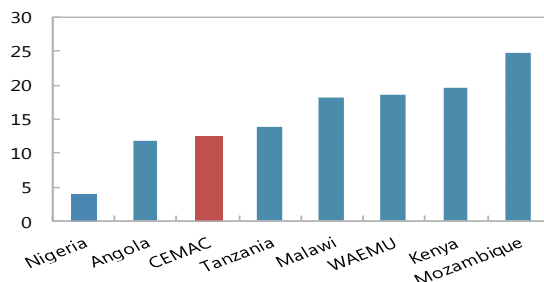
The current account deficit was also the widest among comparator groups in 2015.

CEMAC: Current Account Balance, 2011–15
(Percent)



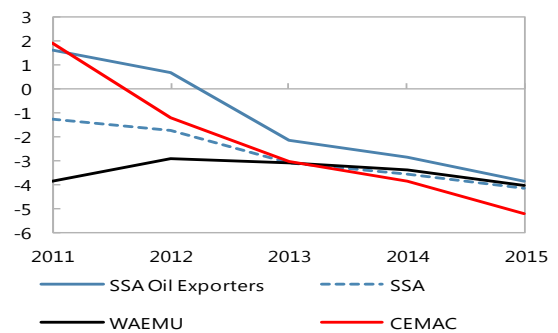
CEMAC non-oil revenues were below those of most comparable sub-Saharan African countries in 2015.

Non-Oil Revenue, 2015
(Percent of GDP)



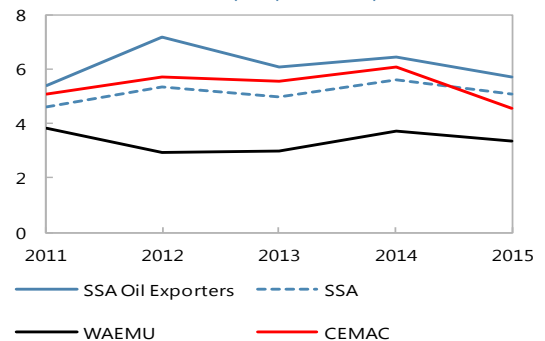
Note: For WAEMU, Kenya, Tanzania, Malawi, and Mozambique, non-oil revenue is the same as total revenue.

CEMAC: Overall Fiscal Balance, 2011–15
(Percent)



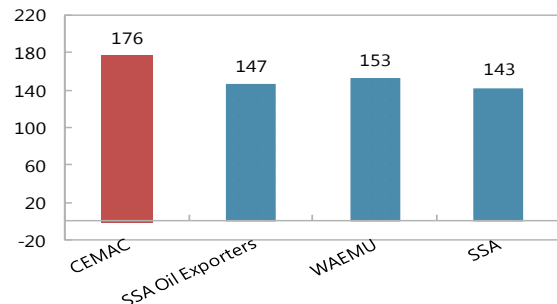
The reserve coverage at end-2015 was below recommended levels for a currency union.

CEMAC: International Reserves, 2011–15
(Months of prospective imports)



A challenging business environment constrains private investment and hampers economic diversification.

Ease of Doing Business, 2016
(Ranking 1= best, 189=worst)



Sources: CEMAC authorities; WEO database; World Bank; and IMF staff estimates.

6. The medium-term outlook is fraught with risks (Annex I). A weaker-than-expected oil price recovery or a relapse in security conditions could undermine macroeconomic stability and private investment. Lower growth in China could dampen commodity prices—especially oil—, lower demand, and reduce financing. Previous IMF staff advice has generated limited traction (Annex II).

POLICY DISCUSSIONS—MANAGING THE ECONOMIC DOWNTURN

Against the backdrop of declining international reserves, dwindling fiscal buffers, and mounting macro-imbalances, discussions focused on policies to mitigate the structural oil-price shock, supported by regional and national structural measures, regional integration, and economic diversification.

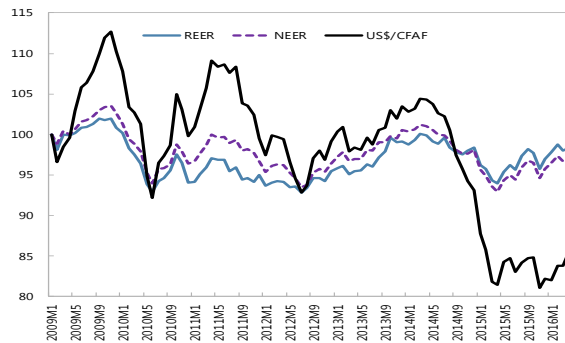
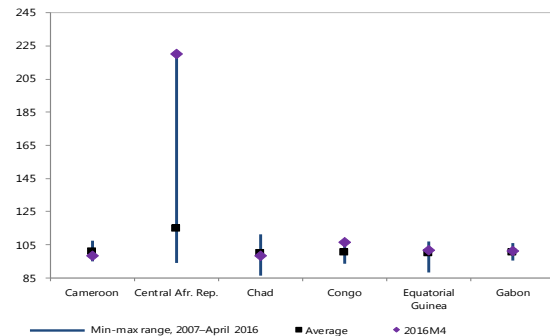
A. An External Position at Risk

7. CEMAC's non-oil competitiveness is poor and the external position could weaken further in the near term. At end-2015, reserve coverage was 4.6 months of future imports and represented 52 percent of broad money. Despite the depreciation of the euro in 2014–15, both the nominal and real effective exchange rates (REERs) appreciated during the 12 months to April 2016, because of the inflation differential and CFA franc appreciation vis-à-vis the currencies of trade partners. According to model-based assessments, the REER appears to be moderately overvalued (by about 6 percent) with respect to the current account norms (Figure 3; Table 6; Annex III). In addition, large structural competitiveness challenges persist.

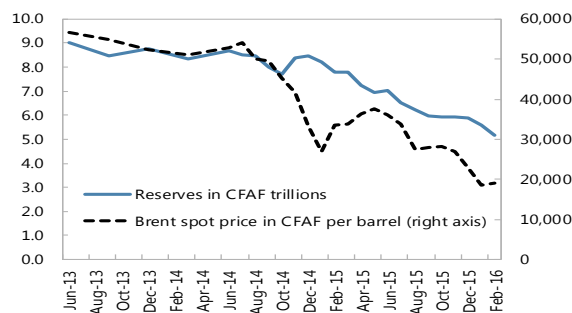
8. Staff expressed concerns about the significant fall in reserves. Between December 2014 and March 2016, international reserves contracted by 41 percent in CFA francs. By end-March 2016, reserve coverage dropped to 3.9 months of prospective imports, below what is considered adequate (5 months) for a resource-rich monetary union with a fixed exchange rate.¹ Staff projects that, without policy adjustment, reserve coverage could shrink in 2016 to a decade low. Staff urged a stronger CEMAC-wide policy mix (e.g., fiscal retrenchment; end to monetary accommodation; and structural measures) to forestall this.

9. Staff reiterated its call for the repatriation of foreign assets and improved reserve management. In a context of falling foreign assets, within and outside CEMAC, member states and their agencies (e.g., national oil companies) should repatriate them to support the Community's external viability. The BEAC has made efforts to improve the management and performance of its reserves to encourage member states to comply with regional repatriation regulations. However, the current outlook requires additional measures, such as those recommended by the 2015 Financial Sector Assessment Program (FSAP). These include: (i) the definition of the optimal level of reserves; (ii) a better reserve portfolio structure to meet new liquidity requirements; and (iii) a new method to manage member states' deposits and ensure that foreign reserves are backed by long-term resources (Selected Issues Paper—SIP—1). Higher remuneration of reserves should increase incentives for foreign asset repatriation.

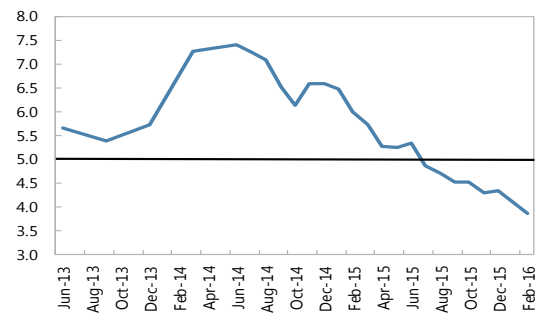
¹ "Assessing Reserves Adequacy", IMF Policy Paper, February 2011; and "Assessing Reserves Adequacy—Specific Proposals", IMF Policy Paper, April 2015.

Figure 3. CEMAC: Selected External Indicators, 2007–16**CEMAC: Real and Nominal Effective Exchange Rates, 2009–April 2016**
(2009M1=100)**CEMAC: Real Effective Exchange Rates, 2007–April 2016**
(2010=100)**BEAC: Evolution of Reserves, June 2013–March 2016**
(Units as indicated)

The level of reserves has declined with the fall in oil prices.

**BEAC: Reserve Coverage, June 2013–March 2016**
(Months of prospective imports)

The reserve coverage ratio is below five months of imports.



Sources: CEMAC authorities; and IMF staff estimates.

10. The BEAC needs to strengthen its balance sheet. To maintain the required proportion of liquid reserves, the BEAC sold 37 percent of its investment portfolio (at market value) in 2015. This resulted in a significant realized profit for the BEAC, about one third of which was distributed to member states as dividends. Given the continuing decline in reserves, the BEAC may be required to pursue similar operations in 2016. Staff recommended retaining the full amount of future sales to boost the BEAC's balance sheet.

Authorities' views

11. The authorities shared staff's concerns about falling reserves. They had implemented reforms to enhance reserve management, promote reserve repatriation, and make reserves management more transparent, which also bolstered the BEAC's balance sheet. The authorities are working on a solution to pool reserves without requiring member states to repatriate all their foreign currency holdings by creating BEAC correspondent accounts in major international public and private financial institutions. They concurred that governments and private companies, especially oil companies, should fully comply with reserve pooling requirements. They considered that, in the

event of a dramatic fall in reserves, the French Treasury's guarantee will protect the peg.² To ensure compliance with their obligations vis-à-vis the French Treasury, they conducted regular asset sales to match their liquidity needs in foreign currencies.

B. Urgency of Fiscal Consolidation

12. In the presence of a fixed exchange rate regime and weak monetary policy transmission, policies to counter the oil-price shock need to focus on fiscal consolidation and real-economy reforms.³ Staff analysis suggests that adjustment through fiscal consolidation is most appropriate in the case of commodity exporters with a fixed exchange rate regime. National fiscal policies ranged from fairly conservative (Gabon's overall fiscal deficit in 2015 was 1 percent of GDP) to loose (Congo had a deficit of 18 percent of GDP). Staff considered that regional macroeconomic stability required CEMAC-wide fiscal retrenchment. Given the expected duration of the oil-price shock and low public savings, staff recommended that regional authorities urge their national counterparts to take measures to increase non-oil revenue and rein in spending. Staff urged an expansion of tax bases to move toward the CEMAC objective of non-oil revenue of 17 percent of GDP. Fiscal consolidation should focus on the quality of expenditure, preserve priority social spending (e.g., education, health) and finishing infrastructure projects, which are well advanced and demonstrably support development.

13. The capacity of commercial banks to finance budget deficits may have reached its limits. Although some banks have ample liquidity—including because of the recent halving of the reserve requirement—prudential regulations constrain government financing beyond the short term. Recent stress tests by staff highlight that without an additional increase in banks' capital, it would be risky for them to increase sovereign lending.

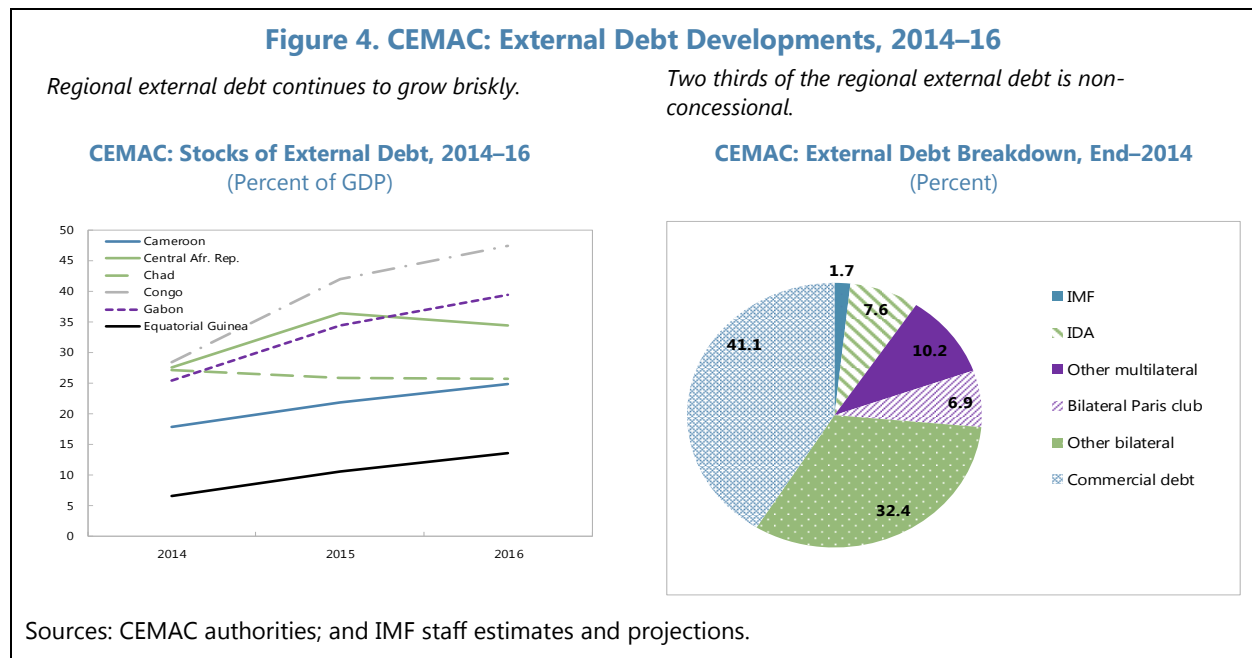
14. Staff emphasized the need to contain debt (Figure 4). Regional authorities should urge member countries to adopt cautious debt policies and borrow on concessional terms to the extent possible. Indeed, member countries have limited access to international financial markets, except at prohibitive rates. Rapid accumulation of debt would only delay fiscal adjustment and would lower regional reserves when new external debt service kicks in (SIP 2). The BEAC should consider creating a regional debt issuance agency, similar to West Africa's *UMEOA Titres*, to improve the efficiency of regional debt markets.

15. Staff presented a "moderate adjustment" scenario and a "no adjustment" scenario (Text Table 1). In the moderate adjustment scenario, staff assumed—in line with declarations by several CEMAC governments—that countries would adopt limited adjustment policies to support macroeconomic stability. Some structural reforms would be implemented to spur non-oil growth focusing on enhancing the business climate and private investment growth, including

² Articles 5 and 6 of the Convention between the BEAC and France (signed in 1973 and last revised in 2014), authorize financing overdrafts in BEAC's operations account at the French Treasury.

³ On the assessment of monetary policy transmission channels, see SIP 2, "Macrofinancial Linkages and the Effectiveness of Monetary Policy" in the 2015 CEMAC Regional Consultation Report (15/308).

streamlining regulation, promoting tax harmonization, and improving intra-Community trade facilitation. Conversely, the no adjustment scenario envisaged a continuation of current policies, which lead to a deterioration in the regional economic outlook, with reserves falling to low levels.^{4,5}



Authorities' views

16. The authorities concurred with staff on the challenging economic outlook. They agreed on the need to encourage fiscal consolidation at the country level, but noted that regional authorities could not impose fiscal discipline on member states. They opined that staff's oil-price projections were too pessimistic and thus could overestimate the size of the required fiscal adjustment. They reiterated that countries were aware of the need for adjustment, but if needed, they could raise additional financing given that regional financial markets still had the capacity to absorb additional public debt. The BEAC's plans to revitalize regional debt markets would also support this. They saw the creation of a regional public debt issuing institution as useful in the long term, but they felt there were more appropriate measures in the near term (e.g., better coordination among national Treasuries to plan debt issuances; harmonization of procedures in regional depositories; stronger competition among market participants).

⁴ Under this scenario, reserves stabilize in the medium term because of the recovery in oil prices and a surge in oil production in Congo. However, in the absence of reforms, Dutch disease effects would perpetuate repressed growth, high un(der)employment, and poverty.

⁵ Non-oil growth is pulled by large infrastructure programs in the region. A number of major infrastructure projects will come on stream starting in 2017, which will contribute to non-oil growth. However, this development model is based on sizable, non-concessional borrowing, and thus it will be difficult to sustain beyond the medium term. In the alternative scenario, CEMAC countries may be forced to make a more abrupt adjustment, which could entail suspensions or delays in public investment projects, which will have a negative impact on non-oil growth.

Text Table 1. CEMAC: Economic Outlook Scenarios, 2016–21
(Units as indicated)

	2016	2017	2018	2019	2020	2021
GDP growth (In percent)						
Moderate adjustment scenario	1.9	3.3	3.8	4.1	3.4	3.7
No adjustment scenario	2.5	3.4	2.9	3.5	2.9	3.2
Of which: non-oil growth (In percent)						
Moderate adjustment scenario	2.7	4.1	4.3	4.5	4.5	4.5
No adjustment scenario	3.1	4.1	3.4	3.9	4.0	4.0
Overall budget deficit (In percent of regional GDP)						
Moderate adjustment scenario	-6.8	-5.0	-4.1	-2.9	-2.7	-2.3
No adjustment scenario	-8.6	-6.9	-5.8	-3.7	-3.4	-3.1
External current account deficit (In percent of regional GDP)						
Moderate adjustment scenario	-7.7	-5.2	-4.7	-4.0	-3.6	-3.1
No adjustment scenario	-8.3	-6.3	-5.7	-4.1	-3.7	-3.1
Reserve coverage ratio (In months of prospective imports)						
Moderate adjustment scenario	3.4	3.3	3.2	3.3	3.5	3.9
No adjustment scenario	3.3	2.7	2.5	2.4	2.4	2.4
Source: IMF staff projections.						

C. A New Convergence Framework for Regional Stability

17. The economic downturn underscores the need to overhaul the regional convergence framework (Table 8). In late 2015, the CEMAC Commission presented a revised framework, to enter into force on January 1, 2017. The new framework includes a number of innovative features, including (i) a new fiscal rule based on a three-year average overall budget deficit; (ii) a public deficit ceiling, reinforced with a debt break; (iii) a revised inflation criterion; and (iv) additional secondary criteria (Box 1). The Commission is exploring options to include a budgetary savings mechanism to help build buffers for future commodity shocks.

18. Staff welcomed the adoption of the new framework as an important step for strengthening macroeconomic surveillance. Although the framework does not fully reflect staff's earlier advice, it nonetheless constitutes progress in restraining the pace of debt accumulation.⁶ Staff considered that because of the difficulties in monitoring certain criteria (e.g., non-accumulation of arrears), the new framework should be complemented by a strengthened monitoring mechanism for

⁶ Staff had advocated lowering the 70 percent ceiling of total debt to GDP.

primary and secondary criteria, including a mandate for the Commission to validate the data submitted. This would require strong political support and adequate resources. Staff supported creating a fiscal savings mechanism.

Box 1. CEMAC: New Convergence Framework

Budget rule

A new fiscal rule, based on the overall balance with an oil revenues savings rule.

$$\text{Rule} = (\text{Overall Balance})/\text{GDP} - \alpha (\text{oil revenues})/\text{GDP}$$

Parameter α will be the agreed share of oil revenues to be saved for each country. The new rule will be based on three-year averages to smooth short-term fluctuations.

Debt ceiling

A debt criterion, based on total public debt over GDP, with a ceiling of 70 percent. A new mechanism will assess the difference between the three-year average debt levels with respect to a long-term norm and should limit rapid debt accumulation.

Inflation

New criterion using the three-year average instead of the yearly index.

Accumulation of arrears

No change (i.e., no arrears are allowed).

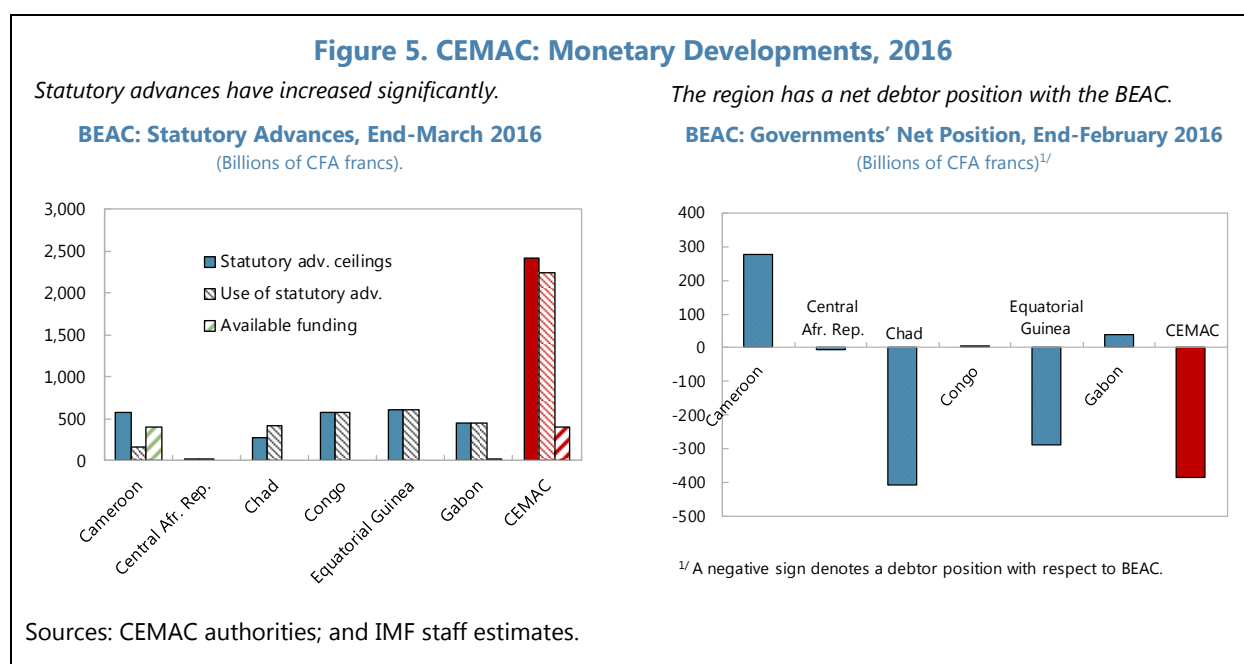
19. Staff encouraged the authorities to enhance regional policy coordination and harmonization. One element would be the implementation of a structural budget-balance rule which requires, inter alia, comprehensive data, technical forecasting capacity, and the ability to analyze sector linkages and business cycles (SIP 3). Because these take time to develop, the short-term priority should be meeting the new fiscal criterion. Implementing the six regional public finance management (PFM) directives would also enhance coordination (SIP 4). Similarly, CEMAC authorities should promote harmonized tax policies to reduce dependence on foreign trade in favor of broad-based domestic taxes. This is particularly important, as international trade negotiations will lower custom tariffs (see *infra*).

Authorities' views

20. The CEMAC Commission indicated that the new framework will be brought to CEMAC Heads of State for endorsement. Although the new framework had already been adopted by the ministers of finance, its approval by the presidents would reinforce its legitimacy. The approval would also help the implementation of new mechanisms, such as the budgetary savings instrument. To strengthen monitoring, the Commission would enhance cooperation with the BEAC to share macroeconomic data. The Commission was making a determined effort working with national authorities to have the CEMAC PFM directives incorporated into national legislation. They expected significant progress by end-2017.

D. A Monetary Policy Reaching its Limits

21. The BEAC has implemented an accommodative monetary policy. It has used direct and indirect monetary tools to support member states. First, it reversed its previous policy of gradual elimination of “statutory advances” (i.e., unconditional budget lending) in August 2015, and re-instituted them at their statutory level, which resulted in a 52 percent increase in such advances CEMAC-wide. Second, the BEAC approved exceptional additional advances to CAR and Chad (50 percent of their statutory ceiling). Currently only Cameroon is below its statutory ceiling (Figure 5).⁷ Third, the BEAC also lowered its refinancing rate repeatedly and raised government paper refinancing ceilings for commercial banks. Forth, in April 2016, it halved the reserve requirement ratio, releasing the equivalent of one-fifth of outstanding statutory advances in additional bank liquidity.



22. Staff considered that the accommodative monetary policy had reached its limits and had contributed to the loss of reserves. Staff considered that the extent of past monetary financing was not justified based on ex post regional output gap estimations. Indeed, four countries, representing some 85 percent of regional GDP, had positive or virtually no output gaps (Figure 6). Monetary stimulation in this context was likely to stoke inflationary and exchange rate pressures. Moreover monetary financing not only delayed fiscal consolidation, but also hindered the development of regional financial markets (SIP 5); limited monetary transmission; and undermined the effectiveness of new monetary policy instruments developed by the BEAC.⁸ In addition, staff wondered whether the BEAC would be able to rescind this policy swiftly if needed. Staff

⁷ The ceiling for statutory advances is set at 20 percent of the previous year's fiscal revenue.

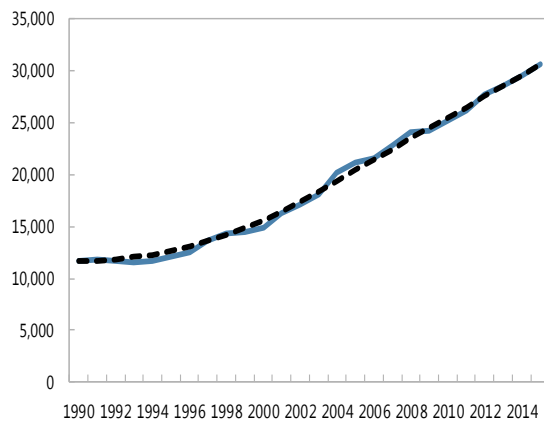
⁸ BEAC will manage liquidity based on money market needs.

recommended the freezing of statutory advances at their current level, pending a resumption of their gradual elimination when circumstances allow.⁹ Staff also recommended that the BEAC resist indirect monetary financing, such as raising refinancing ceilings of commercial banks or granting additional financing to the regional development bank (BDEAC). These two recommendations are consistent with lower broad money and credit to the economy in 2015 than the year before. Staff explained adoption of these recommendations would send a strong signal to member states on the need for fiscal adjustment to buttress the exchange rate.

Figure 6. CEMAC: Output Gap, 1990–2015

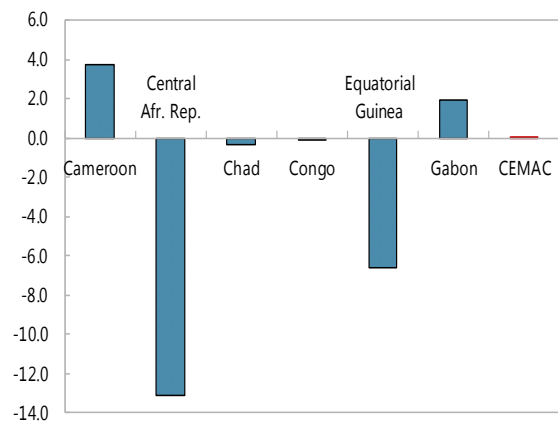
CEMAC's output gap did not seem to support the implementation of accommodative monetary policy.

CEMAC: Output Gap, 1990–2015^{1/}
(Billions of CFA francs)



Only two countries representing some 15 percent of regional GDP had negative output gaps in 2015.

CEMAC: Output Gap, 2015
(Percent)



^{1/} Output gap estimated using a Hodrick–Prescott decomposition.

Sources: CEMAC authorities; and IMF staff estimates.

23. Staff urged the BEAC to pursue the development of its monetary policy instruments. It noted the progress in bolstering interbank transactions and establishing a liquidity forecasting framework. Given that the monetary transmission channel remains weak, the BEAC should accelerate reforms (e.g., reserve management), with the help of IMF technical assistance, and strengthen its capacity to conduct monetary policy operations. Staff supported the BEAC's decision—to be implemented soon—to standardize the rates of reserve requirements across banks. It argued, however, against the introduction of computational changes, which could, in practice, exacerbate excess liquidity (by excluding assets below certain thresholds from reserve requirements). Staff also supported the decision to stop injecting and withdrawing liquidities simultaneously, as this improves the transparency of monetary policy and of the interbank money market.

⁹ Staff understands that if this recommendation was implemented, Cameroon could be considered to be penalized vis-à-vis its peers because of its restraint in making use of statutory advances.

Authorities' views

24. The authorities emphasized they could not remain passive while member governments were confronting a severe exogenous shock. They considered supporting members' budget positions in the current exceptional circumstances as part of their mandate. They argued that members' ongoing infrastructure projects needed to continue to sustain development plans. They saw their accommodative monetary policy as similar to those implemented by other central banks, confronted with similar trying circumstances.

25. The authorities emphasized progress in reforming monetary policy instruments. They considered their recent decisions on monetary instruments as increasing the effectiveness of monetary policy. In particular, a new repo contract, to be put in place in the second half of 2016, should reduce credit risk in interbank operations and support the development thereof. They were cognizant, however, of the limitations imposed by the challenging business climate on the development of the interbank and debt markets.

E. A Regional Financial Sector Showing Vulnerabilities

26. So far, the financial sector has been able to cope with the challenging economic environment, but troubled banks remain an issue.

- *Banks appear generally profitable, even though the situation varies by country and type of institution. Most banks have a business model, which relies on service fees, and which has partially shielded them thus far from the downturn. However, because of increasing NPLs, some banks have already suffered a significant reduction in their interest revenues.*
- *Bank liquidity has declined because of the drop in government deposits, but remains broadly adequate. Excess liquidity of banks at the BEAC represented 12 percent of their balance sheet in January 2016 against 15 percent in September 2014. Liquid assets and interbank deposits, excluding statutory reserves, remained stable at 26 percent of total assets during the same period. With the recent decline in reserve requirement, bank liquidity should rise to close to 30 percent, ensuring that banks remain liquid.*
- *Bank solvency ratios have remained high and relatively unchanged. At end-2015, capital to risk-weighted assets represented about 13 percent, in line with the findings of the last FSAP. The increase in NPLs from 11.9 percent of total loans in September 2014 to 12.6 percent in January 2016 has not undermined overall bank soundness so far, as shown by broadly unchanged solvency ratios. During the same period, banks' adjusted net capital remained also unchanged, because of the increase in equity in the banking sector by nearly 8 percent. The majority of NPLs derives from "connected" lending and does not come from the downturn. Similarly, the NPLs in microfinance institutions (MFIs) increased modestly, from 13.3 percent of total loans in December 2014 to 14.0 percent in September 2015. However, the regional banking supervisor (COBAC) reports that NPLs could exceed 20 percent in some MFIs.*
- *Eight of fifty-two banks have negative equity and do not comply with the solvency norm. Total assets of these banks is less than 5 percent of total bank assets, but the inability of the national*

and regional authorities to close them remains an issue and sends the wrong signal to the financial sector.

27. Staff noted that banks appeared to have weathered the economic downturn thus far, but vulnerabilities were increasing. These stem partly from delayed government payments to the private sector, and specifically the construction sector, which is heavily indebted to domestic banks. For instance, in Equatorial Guinea, credit to the construction sector represented 57 percent of gross bank loans at end January 2016. Recent stress tests showed that macroeconomic risks had increased in three countries, compared to the findings of the last FSAP. Tests show that if the oil price shock further spreads in the real economies, bank solvency will deteriorate. To assess this risk, the COBAC should run additional stress tests for all member countries.

28. Staff emphasized the importance of the effectiveness of the microprudential framework to prevent the spreading of macrofinancial risks (Annex V). Given the importance of direct and indirect links between the public and financial sectors, ongoing reforms of the microprudential framework are critical to ensure financial stability. Progress has been made following the 2015 FSAP recommendations, especially in the treatment of connected loans; cross-border supervision; and treatment of NPLs. Additional efforts are necessary to implement the remaining FSAP recommendations (Annex IV). Staff encouraged the COBAC to increase the solvency ratio for systematically important banks, and develop bank supervision on a consolidated basis. Staff supported the COBAC's efforts to enhance its supervisory framework through an effective risk-based supervision, focusing on liquidity and foreign exchange risks.

29. Staff encouraged the BEAC to develop its macroprudential framework. The analytical tools and institutional capacities needed upgrading to deal with the current economic challenges. The BEAC had created a Financial Stability Committee (FSC) in 2012, but the Committee's first working meeting took place only in April 2015. The Committee's analytical agenda is ambitious, but constrained by the lack of macrofinancial data. The current approach of "expert judgment" does not provide a detailed risk mapping, but is a critical step in the design of vulnerability indicators.

30. Staff noted the improvement in bank supervision, following the hiring of new staff. However, following FSAP recommendations, a number of additional measures should be implemented to align COBAC's supervisory framework better with the specificities of CEMAC. Given the banks' varying risk profiles, it would be advisable to implement the Basel Pillar II approach, to allow the COBAC to adjust capital requirements to banks' risk profiles. To reflect the weakness of some guarantees or collaterals for loans, the COBAC should increase risk weights applied to these assets for the calculation of the solvency ratio, to reflect more accurately the associated risk. Finally, the BEAC and national authorities should agree on resolving troubled banks in a timely manner.

31. Staff welcomed progress in the supervision of MFIs. The COBAC launched *e-Sesame*, a data collection system to improve financial information. In addition, increased staffing at the COBAC's microfinance department should allow closer monitoring and more frequent inspections. The COBAC plans to update prudential regulation to raise the minimum capital requirement for MFIs and restrict lending to non-members. Staff noted, however, that strengthening governance within MFIs requires a more effective judicial system and more resolute prosecution of fraud.

32. Staff advised promoting financial inclusion. The BEAC, working in tandem with national authorities, should facilitate small and medium-size enterprises' (SMEs) and households' access to credit. With the increase in credit risk of public and construction companies, banks are looking for new customers, particularly SMEs. However, the lack of financial transparency, accounting reliability, and governance problems of SMEs hinder credit growth. Staff noted that mobile banking had been growing rapidly because of recent changes to the legal framework for issuing electronic money. This development should be supported by appropriate regulation and enhanced supervision.

Authorities' views

33. The authorities agreed with staff's assessment of the financial sector. They concurred that banks were only moderately affected by the economic downturn, because of their business model. They noted that some banks had strengthened their equity position. Nonetheless, they remained vigilant and were following closely the situation of the banking sector and stood ready, if needed, to implement contingency plans, such as appointing interim administrators for problem banks. They emphasized that the recent increase in COBAC's staffing (34 new executives) would enable closer supervision and more on-site visits to banks and MFIs.

34. The authorities concurred with staff's assessment of macrofinancial linkages. They agreed that enhanced microprudential supervision should be a priority and that a proper macroprudential framework should be in place to support financial sector development. They were committed to strengthening regulations with transnational supervision on a consolidated basis; implementation of Basel II Pillar II; and enhanced cooperation among regional financial institutions through the FSC.

F. Strengthening Regional Institutions

35. Uncertain economic prospects should encourage regional and national authorities to strengthen CEMAC institutions and work together more closely. Several institutions lack appropriate human and financial resources and countries do not coordinate policies with significant regional impact (e.g., public investment programs, taxation). Efficient regional institutions could support efforts to diversify growth, improve budget management, and promote financial sector development. The CEMAC Commission should work with national governments to improve the business environment and to promote private investment and economic diversification. Similarly, the BDEAC should take the lead in coordinating regional infrastructure projects.

36. Staff noted progress in the implementation of the BEAC's safeguards reforms. In early May 2016, the BEAC's Board of Directors mandated the institution to initiate work on improving governance and transitioning to International Financial Reporting Standards (IFRS). This decision met two principal requirements the 2016 IMF Finance Department's (FIN) safeguards mission (see companion FIN report).

37. Staff welcomed the COBAC's strengthened operational capacity. The regional supervisor had more than doubled the number of its inspectors and deployed a new financial information system. However, more efforts are needed to strengthen the quality of financial reporting and

financial sector statistics. Similarly, the COBAC should accelerate the adoption of stricter regulations on connected loans and on the supervision of MFIs.

38. Staff observed that the CEMAC Commission still faced major challenges. The Commission has been displaced from its headquarters since 2013, which is hindering its operational capacity. Despite its constraints, it persevered in launching important reforms, including the adoption of a new regional surveillance framework; the harmonization of national policies to reduce non-tariff barriers to intra-regional trade; and integration of national customs policies into a common regional policy. With the coming into force of the Economic Partnership Agreement (EPA) between Cameroon and the European Union in August 2016, a region-wide EPA would be necessary to avoid the risk of tariff dismantling between Cameroon and the European Union undermining intra-regional trade. Staff encouraged the Commission to coordinate efforts with member states to improve the business climate and ensure free movement of goods and people.

39. Staff noted that BDEAC envisions becoming a key regional development institution. Following its 2014 capital increase, the BDEAC is implementing reforms, while expanding its investment activities. Besides the harmonization of its management and operating procedures with best international practices, the Bank must increase its support to the design, financing, and implementation of regional investment projects, including in the form of public-private partnerships (PPPs).

40. Staff called for a more robust regional legal framework against money laundering and terrorist financing (AML/CFT), aligned with the 2012 Financial Action Task Force (FATF) standard.¹⁰ Resources need to be mobilized to ensure an effective implementation of AML/CFT risk-based supervision by the COBAC and the enforcement of AML/CFT requirements. GABAC, the recently recognized FATF-style regional body for Central Africa, is now working with the FATF global network to combat money laundering and terrorist financing, assess the compliance of its members against the FATF standard, and provide technical assistance.

41. Sound statistical information is important for policy implementation. Although commendable efforts have been made in the preparation of financial soundness indicators, progress is hampered by the lack of resources at the BEAC and national statistics offices. This is compounded by challenges in the coordination between regional and national institutions. To enhance data provision, the BEAC could consider implementing a system for preparing and sharing statistics, similar to that in use at the West African regional bank.

Authorities' views

42. The authorities considered that the BEAC's modernization and reform plan was all but completed. They noted that efforts were still needed in the upgrading of information and budget management systems.

¹⁰ The FATF is an inter-governmental body whose objectives are to set standards and promote effective implementation of legal, regulatory, and operational measures for combating AML/CFT.

43. The Commission and the BDEAC noted that they were addressing challenges on many fronts. The Commission's operational capacity is constrained by the lack of permanent headquarters and the absence of a common position among member states on key issues, such as the EPA or the reform of the regional business climate. The Commission noted that any regional EPA agreement should recognize the level of economic development of each member state. The BDEAC authorities concurred with the need to streamline and improve PPP legislation. They are preparing a new regional investment strategy; seeking an independent financial rating; and raising funds for regional projects.

44. The authorities stressed that they made considerable efforts to improve regional statistics. The BEAC had almost completed a database of regional economic and financial data, which should be operational later in 2016. They noted, however, the difficulties in collating data at national level because of the paucity of data in some member countries.

STAFF APPRAISAL

45. CEMAC's economic situation has deteriorated markedly and the medium-term outlook entails significant risks. The oil-price shock has taken a toll on the oil-producing Community. Scaling down of public investment and the lack of economic diversification could have lasting developmental consequences and affect the most vulnerable parts of the population. Insufficient policy response to the oil-price and security shocks could undermine regional macroeconomic stability.

46. The policy response to the oil-price shock needs to be firmed up. Fiscal policy is the most appropriate tool to address structural shocks for commodity exporters with a fixed exchange rate. In the absence of sufficient buffers, the fiscal response to the oil revenue loss and increased security spending has been insufficient. The BEAC's accommodative monetary policy has reached its limits and has delayed fiscal adjustment. Foreign reserves have dropped and are expected to stay below recommended levels in the medium term. These levels may be insufficient to withstand a further decline in oil prices or another exogenous shock. The BEAC should make progress in ensuring full compliance with the reserves pooling requirement by member states and government agencies. Against this background, staff recommended a freezing of statutory advances at their current level, pending a resumption of their gradual elimination when circumstances allow, and to adopt a cautious debt policy.

47. The new convergence framework can help strengthen regional macroeconomic management. It constitutes progress. However, its criteria call for a reinforced monitoring mechanism, involving regional and national authorities. Staff supports the Commission's plan to create a fiscal savings mechanism to cope with future revenue shocks. CEMAC authorities should strengthen regional coordination and harmonization, including the implementation of the six CEMAC PFM directives.

48. The financial sector appears to have weathered the oil-price shock so far. Most vulnerabilities reflect internal governance challenges more than the economic downturn. However, emerging government payment delays could undermine the banking sector.

49. An effective microprudential framework is essential to prevent the spread of macrofinancial risks. Direct and indirect links between the public and the banking sectors can propagate risks and affect macrofinancial stability. Progress has been made following the 2015 FSAP recommendations, especially in the treatment of connected loans; cross-border supervision; and treatment of NPLs. Others still need implementation. Staff encouraged the COBAC raising the solvency ratio for systematically important banks; developing bank supervision on a consolidated basis; and implementing an effective risk-based supervision.

50. Liquidity in the banking sector remains ample, especially in the wake of the recent reduction of the reserve requirement ratio. The BEAC has developed new monetary policy framework instruments, which should be put in place in late 2016. However, excessive liquidity and the lack of sufficiently deep interbank and debt markets hamper monetary transmission. The impact of this liquidity on prices and foreign exchange markets needs to be monitored carefully. The BEAC should finalize its lender of last resort framework to address specific liquidity needs.

51. After delays, the BEAC made some progress in the implementation of outstanding safeguards recommendations. The BEAC's Board of Directors decision to initiate governance reform and the transition toward IFRS are important steps for the successful completion of safeguards reform.

52. Regional and national authorities should promote regional integration by strengthening CEMAC institutions. Efficient regional institutions could support efforts to diversify growth, enhance public policy coordination, and promote financial sector development. Several institutions lack human and financial resources to contribute effectively to the creation of an integrated common market.

53. Shortcomings in regional statistics remain a concern. Although regional authorities (the BEAC and the COBAC) have made efforts to improve the quality of key economic information, important gaps remain. In the current economic context, timely and quality statistical information is essential for policy implementation.

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

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

	2014	2015	2016	2017	2018	2019	2020	2021
		Estim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change)								
National income and prices								
GDP at constant prices	4.9	1.6	1.9	3.3	3.8	4.1	3.4	3.7
Oil GDP	3.0	-0.4	-1.5	0.2	1.6	2.3	-2.6	-0.9
Non-oil GDP	5.0	2.6	2.7	4.1	4.3	4.5	4.5	4.5
Consumer prices (period average) ¹	2.7	2.3	2.0	2.7	2.4	2.4	2.4	2.4
Consumer prices (end of period) ¹	2.6	1.6	2.7	2.4	2.4	2.4	2.5	2.3
(Annual changes in percent of beginning-of-period broad money)								
Money and credit								
Net foreign assets	-7.6	-17.7	-8.5	-3.9	...	...	...	...
Net domestic assets	14.9	15.6	12.1	11.2	...	...	...	...
Broad money	9.4	-2.2	3.6	7.4	...	...	...	...
(Percent of GDP, unless otherwise indicated)								
Gross national savings	27.1	20.2	21.1	20.0	19.9	19.6	19.5	19.2
Gross domestic investment	32.7	29.7	28.8	25.1	24.6	23.5	23.1	22.3
Of which: public investment	14.3	10.7	9.8	7.9	7.2	6.7	6.7	6.7
Government financial operations								
Total revenue, excluding grants	25.0	20.2	19.0	18.8	18.9	19.2	19.3	19.4
Government expenditure	29.6	26.6	25.9	23.8	23.0	22.1	22.1	21.7
Primary basic fiscal balance ²	-2.5	-4.4	-2.9	-1.2	-0.2	0.7	1.2	1.5
Basic fiscal balance ³	-3.1	-5.2	-4.1	-2.4	-1.5	-0.6	-0.1	0.2
Overall fiscal balance, excluding grants	-4.6	-6.4	-6.8	-5.0	-4.1	-2.9	-2.7	-2.3
Primary fiscal balance, including grants	-3.3	-5.0	-4.7	-3.0	-2.2	-1.0	-0.8	-0.5
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-25.9	-18.0	-15.9	-13.6	-12.4	-11.1	-10.4	-9.5
Non-oil primary fiscal balance, including grants (percent of non-oil GDP)	-24.0	-16.3	-13.4	-11.2	-10.0	-8.8	-8.1	-7.3
Total public debt	31.2	39.0	43.0	42.9	43.7	43.3	43.3	43.0
External sector								
Exports of goods and nonfactor services	50.8	41.5	36.3	37.0	36.6	36.3	34.9	34.2
Imports of goods and nonfactor services	43.0	42.3	36.9	34.8	33.6	32.7	31.4	30.4
Balance on goods and nonfactor services	7.9	-0.8	-0.6	2.2	3.0	3.7	3.6	3.8
Current account, including grants	-3.3	-9.4	-7.7	-5.2	-4.7	-4.0	-3.6	-3.1
External public debt	18.5	23.4	25.6	25.8	26.5	26.2	26.0	25.6
Gross official reserves (end of period)								
Millions of U.S. dollars	15,309	10,139	7,866	7,634	7,872	8,346	9,006	9,596
Months of imports of goods and services (less intra regional imports)	6.1	4.6	3.4	3.3	3.2	3.3	3.5	3.9
Percent of broad money	64.3	52.0	38.5	34.5	...	...	...	...
<i>Memorandum items:</i>								
Nominal GDP (billions of CFA francs)	46,702	43,369	43,423	47,019	49,982	53,512	56,745	60,266
CFA francs per U.S. dollar, average	494	591	...	...	...	...	...	...
Oil production (thousands of barrels per day)	914	951	930	920	932	952	923	914
Oil prices (US dollars per barrel)	96	51	44	51	53	55	57	59

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

¹ Using as weights the shares of member countries in CEMAC's GDP in purchasing power parity in US dollars.² Excluding grants, foreign-financed investment, and interest payments.³ Excluding grants and foreign-financed investment.

Table 2. CEMAC: Millennium Development Goals, 1990–2015

	1990		2015	
	CEMAC	SSA	CEMAC	SSA
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	64	63	67	65
Employment to population ratio, ages 15–24, total (%)	50	49	45	47
GDP per person employed (constant 2011 PPP \$)	16,447	6,810	25,517	9,344
Income share held by lowest 20%	...	...	5	...
Malnutrition prevalence, weight for age (% of children under 5)	18	...	14	...
Poverty gap at \$1.25 a day (PPP) (%)	...	...	34	...
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	...	...	15	...
Vulnerable employment, total (% of total employment)	...	...	60	...
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15–24)	...	58	69	66
Literacy rate, youth male (% of males ages 15–24)	...	73	77	76
Persistence to last grade of primary, total (% of cohort)	40	56	52	57
Primary completion rate, total (% of relevant age group)	41	54	56	69
Total enrollment, primary (% net)	65	...	79	77
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	12	...	17	24
Ratio of female to male primary enrollment (%)	72	83	90	93
Ratio of female to male secondary enrollment (%)	52	76	68	86
Ratio of female to male tertiary enrollment (%)	27	52	51	73
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	13	...	...	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12–23 months)	56	57	61	73
Mortality rate, infant (per 1,000 live births)	93	108	62	56
Mortality rate, under-5 (per 1,000)	155	180	91	83
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15–19)	163	136	111	103
Births attended by skilled health staff (% of total)	58	...	64	48
Contraceptive prevalence (% of women ages 15–49)	16	16	24	26
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,045	990	568	547
Pregnant women receiving prenatal care (%)	79	...	80	78
Unmet need for contraception (% of married women ages 15–49)	22	...	26	23
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	260	278	290	281
Prevalence of HIV, female (% ages 15–24)	2	2	2	2
Prevalence of HIV, male (% ages 15–24)	1	1	1	1
Prevalence of HIV, total (% of population ages 15–49)	2	2	4	5
Tuberculosis case detection rate (% of all forms)	39	29	64	48
Goal 7: Ensure environmental sustainability				
CO ₂ emissions (kg per PPP \$ of GDP)	0	1	0	0
CO ₂ emissions (metric tons per capita)	1	1	2	1
Forest area (% of land area)	53	31	48	28
Improved sanitation facilities (% of population with access)	21	24	35	30
Improved water source (% of population with access)	50	48	69	68
Marine protected areas (% of territorial waters)	1	3	9	6
Terrestrial protected areas (% of total land area)	8	11	21	15
Goal 8: Develop a global partnership for development				
Net ODA received per capita (current US\$)	94	35	47	48
Debt service (PPG and IMF only, in % of exports, excluding workers' remittances)	13	...	5	4
Internet users (per 100 people)	0	0	9	19
Mobile cellular subscriptions (per 100 people)	0	0	81	71
Telephone lines (per 100 people)	1	1	1	1
Fertility rate, total (births per woman)	6	6	5	5
Other				
GNI per capita, Atlas method (current US dollars)	849	600	4,217	1,646
GNI, Atlas method (current US dollars), billions	21	304	14	1,604
Gross capital formation (% of GDP)	18	18	30	22
Life expectancy at birth, total (years)	52	50	57	59
Literacy rate, adult total (% of people ages 15 and above)	34	53	67	60
Population, total (millions)	25	507	48	974
Trade (% of GDP)	55	50	95	61

Source: World Development Indicators.

Table 3. CEMAC: National Accounts, 2014–21^{1/}

	2014	2015	2016	2017	2018	2019	2020	2021
		Estim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change)								
Real GDP								
Cameroon	5.9	5.9	4.9	4.6	4.9	4.7	4.7	4.6
Central African Republic	1.0	4.8	5.2	5.5	5.8	5.8	5.8	5.8
Chad	6.9	1.8	-0.4	1.6	5.1	8.2	3.4	3.5
Congo, Republic of	6.8	2.3	1.7	5.0	3.1	2.0	1.7	2.9
Equatorial Guinea	-0.3	-12.4	-6.0	-3.4	-2.8	-2.3	-1.8	-0.7
Gabon	4.3	4.0	3.2	4.5	4.7	4.9	5.0	4.9
CEMAC	4.9	1.6	1.9	3.3	3.8	4.1	3.4	3.7
Nominal GDP								
Cameroon	6.9	7.9	7.0	6.6	6.9	6.7	6.7	6.7
Central African Republic	12.2	11.3	11.3	11.1	10.9	10.9	10.8	9.3
Chad	7.6	-6.4	-3.9	9.4	6.8	11.9	6.4	6.8
Congo, Republic of	0.5	-21.9	-0.6	14.6	3.5	4.6	3.7	5.0
Equatorial Guinea	-9.3	-28.6	-16.3	3.2	0.6	1.1	0.9	2.5
Gabon	3.4	-6.1	2.9	9.0	7.8	7.7	7.5	7.1
CEMAC	2.5	-7.1	0.1	8.3	6.3	7.1	6.0	6.2
Real non-oil GDP								
Cameroon	5.6	5.2	5.1	5.1	5.1	5.1	5.0	4.9
Central African Republic	1.0	4.8	5.2	5.5	5.8	5.8	5.8	5.8
Chad	7.1	-2.9	0.5	2.5	3.8	4.3	4.4	4.4
Congo, Republic of	7.9	4.8	0.2	3.2	3.4	3.5	3.6	3.6
Equatorial Guinea	-0.5	-3.7	-7.6	-3.7	-1.6	-1.0	-0.5	0.8
Gabon	5.0	4.0	5.4	6.6	5.6	5.8	5.8	5.7
CEMAC	5.0	2.6	2.7	4.1	4.3	4.5	4.5	4.5
Consumer price inflation (period average)								
Cameroon	1.9	2.8	2.2	2.2	2.2	2.2	2.2	2.2
Central African Republic	11.6	4.5	4.0	3.5	3.0	3.0	3.0	3.0
Chad	1.7	3.7	0.0	5.2	3.0	3.0	3.0	3.0
Congo, Republic of	0.9	2.0	3.3	2.8	2.6	2.6	2.6	2.4
Equatorial Guinea	4.3	2.2	1.4	1.4	1.5	1.6	1.7	1.8
Gabon	4.5	0.1	2.5	2.5	2.5	2.5	2.5	2.5
CEMAC	2.7	2.3	2.0	2.7	2.4	2.4	2.4	2.4
End-of-period inflation								
Cameroon	2.6	2.8	2.2	2.2	2.2	2.2	2.2	2.2
Central African Republic	9.7	4.8	4.0	3.5	3.0	3.0	3.0	3.0
Chad	3.7	-0.3	5.0	3.0	3.0	3.0	3.0	3.0
Congo, Republic of	0.5	2.2	3.1	2.7	2.6	2.6	2.5	2.5
Equatorial Guinea	4.3	1.5	1.4	1.5	1.5	1.6	1.8	1.9
Gabon	1.7	0.1	2.5	2.5	2.5	2.5	2.5	2.5
CEMAC	2.6	1.6	2.7	2.4	2.4	2.4	2.5	2.3
(Percent of GDP)								
Gross national savings								
Cameroon	17.3	16.2	15.6	15.0	14.4	13.1	12.6	12.2
Central African Republic	4.6	4.9	6.9	7.3	8.5	9.6	12.0	13.8
Chad	21.5	14.6	26.4	16.8	18.6	17.6	17.1	17.7
Congo, Republic of	39.6	13.3	23.1	25.9	23.3	22.5	22.4	22.4
Equatorial Guinea	25.0	27.6	20.3	20.5	20.4	21.5	22.1	22.7
Gabon	42.9	33.9	30.9	31.0	32.1	33.4	33.9	31.9
CEMAC	27.1	20.2	21.1	20.0	19.9	19.6	19.5	19.2
(Percent of GDP)								
Gross domestic investment								
Cameroon	21.7	21.8	21.3	20.3	19.4	17.9	17.2	16.4
Central African Republic	10.2	13.9	16.9	17.2	17.9	19.0	19.9	21.0
Chad	30.5	27.0	37.7	24.4	25.9	23.1	23.3	23.5
Congo, Republic of	42.2	33.4	30.0	26.4	25.4	24.5	24.7	24.8
Equatorial Guinea	48.7	45.7	35.2	28.2	25.8	24.6	22.4	21.0
Gabon	34.9	36.7	34.4	34.6	35.1	36.1	36.0	34.5
CEMAC	32.7	29.7	28.8	25.1	24.6	23.5	23.1	22.3

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

^{1/} CEMAC values are calculated using the purchase power parity (PPP) GDP weighted average of member countries' data.

Table 4. CEMAC: Relative Size of Economies and Importance of Oil Sector, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
		Estim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Percent of CEMAC's nominal GDP)								
Nominal GDP								
Cameroon	33.4	38.8	41.5	40.9	41.1	41.0	41.2	41.4
Central African Republic	1.8	2.2	2.5	2.6	2.7	2.8	2.8	2.8
Chad	14.7	14.9	14.3	14.4	14.5	15.1	15.2	15.3
Congo, Republic of	14.3	12.1	12.0	12.7	12.3	12.1	11.8	11.7
Equatorial Guinea	16.4	12.6	10.6	10.1	9.5	9.0	8.6	8.3
Gabon	19.2	19.5	19.3	19.5	19.9	20.1	20.4	20.6
CEMAC	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Percent of each country's nominal GDP)								
Nominal oil GDP								
Cameroon	6.3	4.7	3.8	3.9	3.8	3.5	3.1	2.8
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	25.2	20.0	16.3	17.3	19.4	22.8	22.1	21.5
Congo, Republic of	54.4	39.5	37.7	42.7	41.7	41.0	38.0	36.6
Equatorial Guinea	46.6	31.5	30.4	34.3	34.4	34.5	34.1	33.4
Gabon	37.9	31.8	24.3	23.5	23.0	22.3	21.4	20.5
CEMAC ^{1/}	28.5	19.7	16.3	17.5	17.4	17.4	16.4	15.7
(Percent of each country's total exports)								
Oil exports								
Cameroon	41.7	38.5	36.1	37.1	36.9	35.8	34.6	33.3
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	82.1	76.8	70.1	72.2	75.1	79.5	78.4	77.9
Congo, Republic of	84.6	73.7	71.0	73.4	72.5	71.8	69.2	67.9
Equatorial Guinea	89.6	85.6	82.2	82.2	81.4	80.3	79.3	78.7
Gabon	83.9	76.5	67.8	67.5	66.9	65.7	63.1	60.3
CEMAC ^{2/}	79.3	71.4	66.1	67.0	66.5	66.2	64.3	62.9
(Percent of each country's total fiscal revenues)								
Fiscal oil revenue								
Cameroon	23.7	19.8	12.5	13.6	13.8	13.7	13.3	12.9
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	49.3	17.0	19.6	20.0	22.8	31.8	33.1	34.6
Congo, Republic of	68.6	37.8	42.0	47.0	45.6	45.3	42.6	40.4
Equatorial Guinea	86.5	80.5	76.8	72.9	70.7	69.5	67.6	65.4
Gabon	44.0	33.6	21.6	21.9	21.7	21.1	20.0	18.7
CEMAC ^{3/}	54.2	38.9	32.6	32.0	31.3	31.3	29.9	28.6

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

^{1/} The sum of the countries' nominal oil GDP divided by CEMAC's nominal GDP.^{2/} The sum of the countries' oil exports divided by CEMAC's total exports.^{3/} The sum of the countries' fiscal oil revenues divided by CEMAC's fiscal revenues.

Table 5a. CEMAC: Fiscal Balances, 2014–21^{1/}

(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
		Estim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Overall fiscal balance (excluding grants)								
Cameroon	-5.1	-5.0	-8.1	-6.6	-6.3	-5.3	-5.8	-5.6
Central African Republic	-7.8	-7.8	-9.0	-7.2	-6.6	-6.3	-5.8	-5.1
Chad	-6.2	-8.4	-8.8	-4.9	-5.0	-3.5	-3.1	-3.0
Congo, Republic of	-8.4	-18.3	-7.2	-1.3	1.3	2.4	1.9	1.6
Equatorial Guinea	-6.7	-4.8	-6.5	-10.3	-8.1	-5.5	-2.5	0.5
Gabon	2.7	-1.2	-2.3	-2.6	-2.3	-2.0	-1.5	-0.8
CEMAC	-4.6	-6.4	-6.8	-5.0	-4.1	-2.9	-2.7	-2.3
Overall fiscal balance (including grants)								
Cameroon	-4.8	-5.0	-7.9	-6.4	-6.1	-5.1	-5.7	-5.5
Central African Republic	3.0	-0.6	-4.1	-2.8	-2.3	-2.1	-1.9	-1.2
Chad	-4.2	-4.9	-4.7	-1.0	-1.6	-0.4	0.0	-0.2
Congo, Republic of	-7.9	-18.3	-6.8	-1.0	1.6	2.7	2.1	1.9
Equatorial Guinea	-6.7	-4.8	-6.5	-10.3	-8.1	-5.5	-2.5	0.5
Gabon	2.7	-1.2	-2.3	-2.6	-2.3	-2.0	-1.5	-0.8
CEMAC	-3.9	-5.8	-5.9	-4.2	-3.4	-2.3	-2.1	-1.8
Basic balance^{2/}								
Cameroon	-7.4	-6.6	-9.2	-7.3	-6.7	-6.1	-5.6	-5.3
Central African Republic	-5.7	-2.9	-3.0	-2.2	-1.1	-1.5	0.0	0.2
Chad	-3.9	-4.4	-6.9	-2.1	-0.9	0.3	1.2	-1.1
Congo, Republic of	-2.9	-9.2	-6.0	1.1	3.5	3.9	2.6	2.3
Equatorial Guinea	-6.7	-3.1	-8.2	-10.6	-6.7	-3.7	-1.1	1.1
Gabon	5.5	0.0	1.0	1.7	2.5	3.0	3.2	3.5
CEMAC	-3.1	-5.2	-4.1	-2.4	-1.5	-0.6	-0.1	0.2
Primary fiscal balance (including grants)^{3/}								
Cameroon	-4.3	-4.5	-6.6	-5.2	-4.8	-3.7	-4.2	-4.0
Central African Republic	3.6	-0.1	-3.4	-2.3	-1.8	-1.6	-1.5	-1.0
Chad	-3.6	-4.6	-4.1	-0.4	-0.7	0.4	0.7	0.3
Congo, Republic of	-7.7	-18.0	-6.3	-0.5	2.1	3.2	2.5	2.3
Equatorial Guinea	-6.1	-4.2	-5.6	-9.2	-7.5	-4.9	-1.9	0.9
Gabon	3.8	1.0	-0.2	-0.3	0.0	0.3	0.9	1.5
CEMAC	-3.3	-5.0	-4.7	-3.0	-2.2	-1.0	-0.8	-0.5
Government revenue (excluding grants)								
Cameroon	18.1	16.6	14.5	14.6	14.7	14.8	14.8	14.8
Central African Republic	4.9	7.1	8.1	8.9	9.5	10.1	11.6	12.6
Chad	15.9	8.7	9.8	10.0	10.5	12.1	12.7	13.4
Congo, Republic of	41.9	27.8	31.3	32.7	33.7	34.3	34.8	34.9
Equatorial Guinea	33.7	37.8	35.9	29.8	29.9	29.8	29.6	29.3
Gabon	26.1	21.3	19.8	20.3	20.4	20.6	20.8	21.0
CEMAC	25.0	20.2	19.0	18.8	18.9	19.2	19.3	19.4
Government expenditure								
Cameroon	23.1	21.6	22.6	21.3	21.0	20.1	20.6	20.4
Central African Republic	12.7	14.9	17.1	16.0	16.0	16.4	17.5	17.7
Chad	22.1	17.1	18.7	14.9	15.5	15.6	15.9	16.4
Congo, Republic of	50.2	46.2	38.5	34.0	32.3	31.9	32.9	33.3
Equatorial Guinea	40.4	42.5	42.3	40.0	38.0	35.3	32.0	28.8
Gabon	23.5	22.5	22.1	22.8	22.7	22.6	22.3	21.8
CEMAC	29.6	26.6	25.9	23.8	23.0	22.1	22.1	21.7
Memo item:								
Non-oil revenue (CEMAC)	11.3	12.6	12.9	12.7	13.0	13.1	13.5	13.8

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

^{1/} All CEMAC values are calculated as purchase power parity (PPP) GDP weighted averages of member countries.^{2/} Overall budget balance excluding grants and foreign-financed investment.^{3/} Overall budget balance including grants and excluding interest payments.

Table 5b. CEMAC: Fiscal Non-Oil Balances, 2014–21^{1/}
(Percent of non-oil GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
		Estim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Non-oil fiscal balance (excluding grants)								
Cameroon	-10.1	-8.8	-10.4	-9.0	-8.7	-7.6	-8.0	-7.8
Central African Republic	-7.7	-7.8	-12.0	-6.8	-4.9	-4.6	-2.8	-2.7
Chad	-20.0	-13.1	-13.8	-9.3	-10.1	-10.9	-10.8	-11.0
Congo, Republic of	-82.0	-47.7	-32.9	-29.4	-24.3	-22.5	-21.1	-19.8
Equatorial Guinea	-67.1	-51.3	-48.9	-48.7	-44.6	-40.0	-34.0	-28.0
Gabon	-14.4	-12.1	-8.4	-7.4	-6.4	-5.2	-4.2	-3.1
CEMAC	-25.9	-18.0	-15.9	-13.6	-12.4	-11.1	-10.4	-9.5
Non-oil fiscal balance (including grants)								
Cameroon	-9.7	-8.6	-10.1	-8.8	-8.5	-7.5	-7.9	-7.7
Central African Republic	3.0	-3.1	-3.5	-2.7	-1.6	-2.5	-1.0	-0.8
Chad	-17.4	-8.8	-8.9	-4.6	-5.9	-6.7	-6.7	-7.5
Congo, Republic of	-81.0	-47.7	-32.2	-28.9	-23.8	-22.0	-20.7	-19.4
Equatorial Guinea	-67.1	-51.3	-48.9	-48.7	-44.6	-40.0	-34.0	-28.0
Gabon	-14.4	-12.1	-8.4	-7.4	-6.4	-5.2	-4.2	-3.1
CEMAC	-24.9	-17.3	-14.8	-12.7	-11.6	-10.3	-9.7	-8.9
Basic balance²								
Cameroon	-7.9	-6.9	-9.6	-7.6	-6.9	-6.3	-5.8	-5.5
Central African Republic	-5.7	-2.9	-3.0	-2.2	-1.1	-1.5	0.0	0.2
Chad	-5.3	-5.5	-8.3	-2.5	-1.2	0.3	1.5	-1.3
Congo, Republic of	-6.4	-15.2	-9.6	1.9	6.0	6.7	4.2	3.6
Equatorial Guinea	-12.6	-4.5	-11.8	-16.1	-10.2	-5.7	-1.6	1.6
Gabon	8.9	0.0	1.3	2.2	3.3	3.9	4.1	4.5
CEMAC	-4.3	-6.5	-4.9	-2.9	-1.8	-0.8	-0.2	0.3
Non-oil primary fiscal balance (including grants)^{3/}								
Cameroon	-9.2	-8.2	-8.8	-7.5	-7.2	-6.0	-6.4	-6.1
Central African Republic	3.6	-2.3	-2.8	-2.2	-1.0	-1.6	-0.2	-0.2
Chad	-16.6	-8.3	-8.1	-3.8	-4.7	-5.8	-5.9	-6.8
Congo, Republic of	-80.5	-47.2	-31.5	-27.9	-23.0	-21.1	-20.0	-18.8
Equatorial Guinea	-65.9	-50.5	-47.6	-47.1	-43.7	-39.1	-33.2	-27.3
Gabon	-12.4	-9.1	-5.6	-4.4	-3.3	-2.1	-1.1	-0.2
CEMAC	-24.0	-16.3	-13.4	-11.2	-10.0	-8.8	-8.1	-7.3
Government revenue (excluding grants)								
Cameroon	19.3	17.4	15.0	15.2	15.3	15.3	15.3	15.2
Central African Republic	4.9	7.1	8.1	8.9	9.5	10.1	11.6	12.6
Chad	21.2	10.9	11.8	12.1	13.0	15.6	16.3	17.1
Congo, Republic of	91.8	46.0	50.3	57.1	57.7	58.1	56.1	55.1
Equatorial Guinea	63.0	55.1	51.5	45.3	45.6	45.5	44.8	43.9
Gabon	42.1	31.2	27.1	27.4	27.2	27.1	27.0	27.0
CEMAC	35.0	25.1	22.7	22.8	22.9	23.2	23.1	23.0
Government expenditure								
Cameroon	24.6	22.7	23.5	22.1	21.8	20.8	21.2	21.0
Central African Republic	12.7	14.9	17.1	16.0	16.0	16.4	17.5	17.7
Chad	29.5	21.4	22.3	18.1	19.2	20.2	20.4	21.0
Congo, Republic of	110.2	76.4	61.8	59.4	55.4	54.0	53.1	52.5
Equatorial Guinea	75.6	62.1	60.8	60.9	58.0	53.9	48.6	43.2
Gabon	37.8	33.0	30.3	30.9	30.3	29.8	28.9	28.0
CEMAC	41.4	33.1	30.9	28.8	27.9	26.8	26.4	25.8
Memo item:								
Non-oil revenue (CEMAC)	15.8	15.8	15.4	15.4	15.7	15.9	16.1	16.3

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

^{1/} All CEMAC values are calculated as purchase power parity (PPP) GDP weighted averages of member countries.

² Overall budget balance excluding grants and foreign-financed investment.

^{3/} Non-oil fiscal balance including grants and excluding interest payments.

Table 6a. CEMAC: Balance of Payments, 2014–21

(CFAF billions, when otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021
		Estim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on current account	-1,551	-4,089	-3,356	-2,440	-2,353	-2,119	-2,036	-1,858
Balance on goods and services	3,686	-355	-272	1,022	1,515	1,956	2,017	2,277
Total exports	23,745	18,011	15,747	17,406	18,307	19,432	19,807	20,590
Exports of goods	21,584	15,918	13,662	15,171	15,950	16,948	17,193	17,808
Oil exports	17,113	11,364	9,030	10,163	10,601	11,227	11,059	11,193
Non-oil exports	4,471	4,554	4,632	5,008	5,349	5,721	6,133	6,615
Exports of services	2,161	2,092	2,085	2,235	2,357	2,484	2,614	2,782
Total imports	20,059	18,365	16,019	16,383	16,792	17,477	17,790	18,313
Imports of goods	12,795	11,704	10,073	10,568	10,748	11,054	11,202	11,463
Imports of services	7,265	6,662	5,946	5,816	6,044	6,422	6,588	6,850
Income, net	-5,854	-4,075	-3,511	-3,900	-4,050	-4,264	-4,264	-4,356
Income credits	184	234	235	219	218	223	228	232
Income debits	-6,043	-4,313	-3,746	-4,120	-4,269	-4,491	-4,497	-4,593
Of which:								
Investment income, debit	-1,929	-1,525	-1,058	-1,155	-1,368	-1,753	-1,883	-2,079
Of which: Interest paid on public debt	-92	-126	-256	-240	-281	-292	-298	-306
Current transfers, net	618	341	426	434	179	186	206	219
Private current transfers, net	141	189	271	276	2	5	11	10
Official current transfers, net	477	152	155	159	177	182	195	209
Balance on capital and financial accounts	3,735	3,763	3,356	2,440	2,353	2,119	2,036	1,857
Balance on capital account (incl. capital transfers)	159	163	245	231	235	231	241	232
Balance on financial account (incl. reserves)	3,576	3,600	3,111	2,209	2,119	1,887	1,795	1,626
Direct investment, net	3,812	1,765	2,059	1,951	2,002	1,994	1,989	2,058
Portfolio investment, net	12	12	12	13	13	13	14	14
Other investment, net	-1,687	-1,234	-289	111	241	152	169	-109
Reserve assets (accumulation -)	1,440	3,056	1,328	134	-138	-273	-377	-338
Errors and omissions, net	-2,184	326	0	0	0	0	0	0
<i>Memorandum items:</i>								
Nominal GDP	46,702	43,369	43,423	47,019	49,982	53,512	56,745	60,266
Gross official reserves (end of period)								
Millions U.S. dollars	15,309	10,139	7,866	7,634	7,872	8,346	9,006	9,596
Months of imports of goods and services	6.1	4.6	3.4	3.3	3.2	3.3	3.5	3.9

Sources: BEAC; and IMF staff estimates and projections.

Table 6b. CEMAC: Balance of Payments Indicators by Country, 2014–21^{1/}
(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
		Estm.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Balance on Current Account								
Cameroon	-4.4	-5.5	-5.7	-5.3	-4.9	-4.8	-4.6	-4.2
Central African Republic	-5.6	-12.8	-11.1	-10.6	-10.2	-8.9	-8.7	-8.2
Chad	-9.0	-12.4	-11.3	-7.7	-7.3	-5.5	-6.2	-5.7
Congo, Republic of	-2.6	-20.2	-6.6	0.0	-1.4	-1.1	-1.1	-0.9
Equatorial Guinea	-9.6	-18.1	-14.9	-7.6	-5.3	-3.2	-0.3	1.8
Gabon	8.0	-2.2	-4.3	-4.1	-3.8	-3.6	-2.9	-2.3
CEMAC	-3.3	-9.4	-7.7	-5.2	-4.7	-4.0	-3.6	-3.1
Balance on Non-Oil Current Account								
Cameroon	-3.9	-5.1	-5.7	-5.0	-4.6	-4.1	-3.5	-3.0
Chad	-13.5	-12.4	-5.6	-4.7	-6.6	-11.0	-11.5	-11.2
Congo, Republic of	-26.9	-35.3	-21.4	-16.9	-18.4	-16.9	-16.3	-15.4
Equatorial Guinea	-73.6	-72.3	-65.4	-63.1	-58.8	-53.6	-48.3	-43.6
Gabon	-14.7	-17.0	-12.6	-12.5	-11.8	-11.1	-10.0	-8.9
CEMAC	-22.2	-20.8	-15.4	-14.0	-12.9	-12.2	-11.1	-10.0
Oil Exports								
Cameroon	8.7	6.9	5.7	5.9	5.8	5.4	5.1	4.8
Central African Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	23.1	18.5	14.1	15.4	18.0	22.4	21.2	20.8
Congo, Republic of	57.0	41.8	40.0	45.1	44.0	43.7	39.9	38.4
Equatorial Guinea	85.1	77.7	74.4	74.3	72.8	69.8	67.6	65.8
Gabon	42.3	30.4	24.5	24.2	23.2	22.2	21.1	20.0
CEMAC	36.6	26.2	20.8	21.6	21.2	21.0	19.5	18.6
Imports of goods and non factor services								
Cameroon	30.6	27.6	25.1	25.0	24.6	23.8	23.0	22.2
Central African Republic	37.6	34.6	32.0	31.2	29.7	29.7	27.4	27.0
Chad	44.1	43.1	42.0	37.7	37.9	37.8	36.8	36.1
Congo, Republic of	63.5	77.3	63.7	59.7	57.0	56.9	55.5	55.0
Equatorial Guinea	54.2	62.1	60.1	52.6	50.3	47.3	43.9	41.4
Gabon	38.8	37.6	32.1	31.6	30.6	30.1	29.2	28.4
CEMAC	43.0	42.3	36.9	34.8	33.6	32.7	31.4	30.4
Balance on Capital Account								
Cameroon	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Central African Republic	2.1	4.6	8.7	4.3	3.5	2.2	1.9	1.9
Chad	1.5	1.7	2.2	2.4	2.3	2.2	2.3	2.0
Congo, Republic of	0.5	0.0	0.4	0.3	0.3	0.3	0.2	0.3
Equatorial Guinea	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gabon	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CEMAC	0.3	0.4	0.6	0.5	0.5	0.4	0.4	0.4
Foreign Direct Investment								
Cameroon	2.9	2.1	1.8	1.6	1.4	1.2	1.1	0.9
Central African Republic	0.1	0.3	1.6	1.8	1.8	1.7	1.7	1.7
Chad	5.2	5.1	8.6	4.4	4.9	3.8	3.7	3.5
Congo, Republic of	19.6	10.6	12.1	12.3	11.9	12.0	10.8	10.7
Equatorial Guinea	15.4	2.8	3.2	3.1	3.1	3.1	3.3	3.2
Gabon	5.6	4.4	5.1	5.0	4.8	4.5	4.6	4.7
CEMAC	8.2	4.1	4.7	4.1	4.0	3.7	3.5	3.4
Reserves								
			(Millions of USD)					
Cameroon	3,168	3,536	3,337	3,052	2,726	2,356	1,967	1,536
Central African Republic	260	214	174	131	86	42	-2	-40
Chad	1,076	369	399	549	649	769	899	578
Congo, Republic of	4,926	2,221	1,401	1,305	1,258	1,406	1,584	1,889
Equatorial Guinea	2,907	1,205	903	822	744	671	632	588
Gabon	2,478	1,863	1,628	1,586	1,719	1,953	2,248	2,552
CEMAC	15,309	10,139	7,866	7,634	7,872	8,346	9,006	9,596

Sources: BEAC; and IMF staff estimates and projections.

Table 7. CEMAC: Nominal and Real Effective Exchange Rates, 2006–15

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal effective exchange rate										
	(Index, 2010=100)									
Cameroon	98.1	101.1	103.7	104.6	100.0	101.2	98.1	101.7	103.3	99.5
Central African Republic	99.6	102.6	105.2	104.3	100.0	100.8	97.8	101.3	103.0	98.7
Chad	96.9	99.4	102.0	103.0	100.0	101.1	98.8	100.7	102.1	98.5
Congo, Republic of	99.6	102.3	106.1	105.2	100.0	101.1	98.2	102.0	103.4	97.1
Equatorial Guinea	95.8	100.2	106.0	104.7	100.0	102.0	96.9	99.4	99.2	90.2
Gabon	100.2	102.4	104.3	103.5	100.0	100.3	97.8	100.7	102.0	98.9
CEMAC ¹	98.0	101.1	104.3	104.3	100.0	101.1	98.0	101.0	102.2	97.5
	(Annual percent change)									
Cameroon	-0.5	3.1	2.5	0.9	-4.4	1.2	-3.1	3.6	1.6	-3.7
Central African Republic	-0.1	3.0	2.5	-0.8	-4.2	0.8	-3.0	3.5	1.7	-4.2
Chad	0.0	2.5	2.7	1.0	-2.9	1.1	-2.3	1.9	1.4	-3.5
Congo, Republic of	-0.1	2.7	3.7	-0.8	-5.0	1.1	-2.9	3.8	1.4	-6.1
Equatorial Guinea	-0.3	4.6	5.8	-1.3	-4.5	2.0	-4.9	2.6	-0.2	-9.1
Gabon	0.0	2.2	1.9	-0.7	-3.4	0.3	-2.5	3.0	1.3	-3.1
CEMAC ¹	-0.2	3.1	3.2	0.0	-4.1	1.1	-3.2	3.1	1.2	-4.6
Real effective exchange rate										
	(Index, 2010=100)									
Cameroon	100.3	101.3	104.4	106.7	100.0	100.2	96.7	99.5	100.8	98.3
Central African Republic	94.2	95.4	102.8	104.9	100.0	99.0	99.2	102.3	127.6	166.3
Chad	101.0	91.5	98.8	108.1	100.0	94.0	101.7	101.8	103.1	101.0
Congo, Republic of	93.6	95.4	99.9	103.1	100.0	99.3	96.8	103.9	103.5	100.6
Equatorial Guinea	84.2	88.3	95.8	99.0	100.0	101.3	95.2	97.2	100.3	104.4
Gabon	95.2	99.7	103.1	103.9	100.0	98.6	96.5	98.2	102.8	99.4
CEMAC ¹	95.3	96.2	101.2	104.5	100.0	99.0	97.2	100.0	102.1	100.8
	(Annual percent change)									
Cameroon	1.5	1.0	3.0	2.2	-6.3	0.2	-3.5	3.0	1.3	-2.5
Central African Republic	4.0	1.2	7.7	2.0	-4.6	-1.0	0.2	3.1	24.8	30.3
Chad	4.8	-9.4	7.9	9.5	-7.5	-6.0	8.2	0.1	1.3	-2.1
Congo, Republic of	1.7	1.9	4.8	3.2	-3.0	-0.7	-2.5	7.3	-0.5	-2.8
Equatorial Guinea	1.5	4.8	8.6	3.3	1.0	1.3	-6.1	2.2	3.2	4.1
Gabon	-3.6	4.7	3.5	0.8	-3.8	-1.4	-2.2	1.8	4.6	-3.2
CEMAC ¹	1.2	1.0	5.2	3.3	-4.3	-1.0	-1.8	2.8	2.2	-1.3

Source: IMF Information Notice System.

¹CEMAC data are weighted by country GDP in purchasing power parity in US dollars.

Table 8. CEMAC: Compliance with Convergence Criteria, 2013–16

	2013	2014	2015	2016	2017
			Estim.	Proj.	Proj.
	(Percent of GDP)				
Basic fiscal balance ¹ (≥ 0)					
Cameroon	-8.3	-7.4	-6.6	-9.2	-7.3
Central African Republic	-7.5	-5.7	-2.9	-3.0	-2.2
Chad	-2.0	-3.9	-4.4	-6.9	-2.1
Congo, Republic of	5.7	-2.9	-9.2	-6.0	1.1
Equatorial Guinea	-7.5	-6.7	-3.1	-8.2	-10.6
Gabon	4.9	5.5	0.0	1.0	1.7
<i>Number of countries violating</i>	4	5	5	5	4
Consumer price inflation ($\leq 3\%$)					
Cameroon	2.1	1.9	2.8	2.2	2.2
Central African Republic	6.6	11.6	4.5	4.0	3.5
Chad	0.2	1.7	3.7	0.0	5.2
Congo, Republic of	4.6	0.9	2.0	3.3	2.8
Equatorial Guinea	3.2	4.3	2.2	1.4	1.4
Gabon	0.5	4.5	0.1	2.5	2.5
<i>Number of countries violating</i>	3	3	2	2	2
Level of public debt ($\leq 70\%$ GDP)					
Cameroon	18.7	28.0	31.2	36.1	39.2
Central African Republic	38.5	51.1	48.5	47.2	41.2
Chad	29.7	38.5	40.0	41.7	37.9
Congo, Republic of	38.2	47.5	70.6	69.4	61.5
Equatorial Guinea	7.9	12.0	19.6	26.3	28.5
Gabon	29.2	32.2	44.0	47.7	46.7
<i>Number of countries violating</i>	0	0	1	0	0
Non-accumulation of government arrears ² (≤ 0)					
Cameroon	-0.1	-0.1	-0.1	0.0	0.0
Central African Republic	2.3	-1.4	-1.1	-0.5	-0.7
Chad	-3.6	-2.0	-2.1	-1.7	-1.6
Congo, Republic of	-2.7	-0.7	-0.3	-0.7	-0.6
Equatorial Guinea	0.0	0.3	0.0	0.0	0.0
Gabon	-1.5	-3.6	-3.1	-0.9	0.0
<i>Number of countries violating</i>	1	1	0	0	0

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

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

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

Table 9. CEMAC: Monetary Survey, 2013–17

	2013	2014	2015	2016 Proj.	2017 Proj.
(CFAF billions)					
Net foreign assets ^{1/}	8,788.1	7,974.7	5,888.5	4,914.9	4,453.3
BEAC	8,123.2	7,719.8	5,547.8	3,910.0	3,337.4
Foreign assets	8,777.5	8,417.0	6,238.3	4,596.1	4,418.6
Of which:					
Operations account	4,974.4	3,847.6	3,288.3	2,068.3	1,988.4
Foreign liabilities	-654.3	-697.1	-690.5	-686.2	-1,081.2
Commercial banks	664.9	254.8	340.7	1,004.9	1,115.9
Foreign assets	1,097.3	672.9	735.2	1,560.8	1,672.2
Foreign liabilities	-432.4	-418.1	-394.5	-555.8	-556.3
Net domestic assets	2,201.3	3,800.9	5,633.1	7,027.1	8,368.2
Net credit to government	-2,430.2	-1,712.3	-6.0	959.0	1,155.7
BEAC, net	-2,802.8	-1,449.7	-96.3	845.6	1,028.6
Of which:					
Advances	477.9	1,193.9	2,130.2	3,102.9	3,200.6
Government deposits	-3,502.0	-2,883.0	-2,484.2	-2,486.7	-2,400.1
Commercial banks, net	372.6	-262.6	90.3	113.4	127.1
Net credit to public agencies	-407.5	-263.3	-516.0	-414.0	284.5
Net credit to private sector	5,634.7	6,939.6	6,850.7	7,177.9	7,623.7
Other items, net	-595.8	-1,163.2	-695.7	-695.7	-695.7
Broad money	10,760.9	11,775.6	11,521.5	11,942.0	12,821.5
Currency outside banks	2,998.4	3,098.5	3,008.1	3,005.8	3,179.0
Bank deposits	7,762.5	8,677.1	8,513.4	8,936.3	9,642.6
(Annual change in percent of beginning-of-period broad money)					
Net foreign assets	-0.4	-7.6	-17.7	-8.5	-3.9
Net domestic assets	9.0	14.9	15.6	12.1	11.2
Net credit to government	-2.2	6.7	14.5	8.4	1.6
Net credit to the private sector	10.7	12.1	-0.8	2.8	3.7
Other items, net	2.5	-5.3	4.0	0.0	0.0
Broad money	6.7	9.4	-2.2	3.6	7.4
Velocity (GDP/broad money)	4.2	4.0	3.8	3.6	3.7
(Percent of GDP)					
Broad money	23.6	25.2	26.6	27.5	27.3
Private bank deposits	16.9	16.9	14.1	14.8	14.8
Net credit to the private sector	11.5	14.9	15.8	16.5	16.2

Sources: BEAC; and IMF staff estimates and projections.

^{1/} Net foreign assets (NFA) are not directly comparable to reserve flows in the balance of payments because of BEAC's own international reserves.

Table 10. CEMAC: Bank Ratings, December 2015^{1/}
(Units)

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

Source: Banking Commission of Central Africa (COBAC).

^{1/} Ratings: 1=strong; 2=good; 3=not fully satisfactory; 4=fragile; 5=critical.

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

Table 11. CEMAC: Financial Soundness Indicators, 2014–15

(Percent)

	Cameroon		Central African Republic		Chad		Congo		Equatorial Guinea		Gabon		CEMAC	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Capital adequacy														
Capital/Risk-weighted assets	11.2	10.1	42.2	37.4	13.4	14.6	16.1	17.6	25.5	23.8	13.4	7.8	13.4	13.5
Base capital/ Risk-weighted assets	9.8	9.3	40.3	36.7	12.0	13.2	13.7	15.8	26.2	24.4	12.0	8.0	12.6	12.8
Capital/Assets	3.3	8.7	18.1	23.2	8.9	12.3	4.5	13.8	4.1	12.9	9.1	11.7	10.6	11.4
Asset quality, profitability and liquidity														
Doubtful loans/Total loans	9.8	10.5	27.7	26.0	11.7	16.5	2.5	4.6	19.7	17.7	11.7	7.5	8.8	10.0
Non-performing loans less provisions/Equity	14.2	28.0	44.4	34.6	23.9	44.8	0.3	11.1	40.5	40.4	23.9	26.6	26.1	28.0
Results and profitability														
Return on Assets (ROA)	0.8	1.2	0.8	-0.3	1.8	1.6	1.0	1.5	0.7	1.1	1.8	0.9	1.2	1.2
Return on Equity (ROE)	21.8	13.8	3.8	-1.4	19.4	13.1	23.4	10.6	16.9	8.4	19.4	8.0	11.1	10.3
Liquidity														
Liquid assets/Total assets	9.0	23.0	22.7	39.9	25.7	26.0	17.1	20.5	15.6	35.8	25.7	24.3	29.4	25.4
Liquid assets/Short-term liabilities	139.5	147.5	203.1	276.1	152.9	142.1	182.9	112.3	194.0	200.7	152.9	148.3	156.3	151.1
Total deposits /Total loans (non interbank)	112.2	113.4	71.9	75.0	107.8	93.6	173.5	104.5	177.7	91.9	105.5	96.5	101.9	96.2
Source: Banking Commission of Central Africa (COBAC).														

Table 12. CEMAC: Violations of Prudential Ratios, 2013–15

	Capital Adequacy			Liquidity ¹			Fixed Assets ²			Maturity ³ Transformation			Minimum ⁴ Capital			Limit on Single Large Exposure ⁵		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
	8%			Min 100%			Min 100%			Min 50%			Min CFAF 10 billions			Max 45%		
Country (number of banks)	(Units)																	
Cameroon (14)	5	4	3	2	3	3	5	4	4	5	4	3	5	3	1	7	5	5
Central African Republic (4)	0	0	0	1	0	0	0	0	0	0	0	0	2	0	0	3	2	1
Chad (8)	0	1	1	1	0	1	0	2	2	1	1	3	3	2	1	1	3	1
Republic of Congo (11)	1	0	1	0	0	4	1	1	5	1	1	2	3	1	1	2	2	2
Equatorial Guinea (5)	0	1	0	0	0	0	0	1	0	1	1	0	0	0	0	1	1	1
Gabon (10)	1	3	3	1	3	2	2	4	4	1	3	4	3	1	0	3	4	5
CEMAC (52)	7	9	8	5	6	10	8	12	15	9	10	12	16	7	3	17	17	15
	(Percent of deposits ⁶)																	
Cameroon (14)	28	24	29	4	21	6	28	24	23	28	24	6	n.a.	9	2	41	29	29
Central African Republic (4)	0	0	0	17	0	0	0	0	0	0	0	0	n.a.	0	0	91	24	24
Chad (8)	0	13	1	15	0	12	0	18	16	14	13	28	n.a.	6	1	15	38	15
Republic of Congo (11)	3	0	n.a.	0	0	56	5	2	19	3	2	1	n.a.	n.a.	n.a.	52	4	n.a.
Equatorial Guinea (5)	0	32	0	0	0	0	0	32	0	15	32	0	n.a.	0	0	23	32	23
Gabon (10)	2	5	4	2	19	2	13	19	21	2	5	10	n.a.	2	0	15	19	21

Source: Banking Commission of Central Africa (COBAC).

¹ Short-term assets of up to one month (remaining maturity) over short-term liabilities of up to one month (remaining maturity).² Net capital and other premanent resources over fixed assets.³ Long-term assets of more than five years over long-term liabilities of more than five years.⁴ Minimum capital is CFAF 5 billion for all the countries.⁵ Single large exposure is limited to 45 percent of capital.⁶ Violating banks' deposits as a percentage of total deposits in each country.

Annex I. CEMAC: Risk Assessment Matrix¹

Source/Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
<p>Sharper-than-expected global growth slowdown</p>	<p>Medium</p>	
<ul style="list-style-type: none"> • Significant China slowdown, triggered by corporate distress that propagates through shadow banks, precipitating deleveraging, uncertainty and capital outflows. Weak domestic demand further depresses commodity prices, roils global financial markets, and reduces global growth. <p>Likelihood: low in the short term, medium thereafter.</p>	<ul style="list-style-type: none"> • Lower growth in China will continue to depress commodity prices, including oil, and will have a negative impact on CEMAC exports. Lower hydrocarbon revenues will undermine fiscal sustainability in most CEMAC countries. • Slower growth in China could hamper external financing for large infrastructure projects and cloud CEMAC's long-term growth prospects. • Lower foreign investment in CEMAC, in particular in the oil sector, especially from EMs. 	<ul style="list-style-type: none"> • Adopt more vigorous fiscal consolidation to reduce the "twin" deficits and ensure external sustainability. • Develop the regional debt market to help cover CEMAC members' financing needs. • Implement an ambitious structural reform agenda to promote economic diversification, including measures to attract more private capital. • Diversify export markets to other EMs to compensate for China's economic slowdown. • Improve external competitiveness through structural reforms to improve the regional business climate.
<ul style="list-style-type: none"> • Significant slowdown in other large emerging markets (EMs) / frontier economies. Turning of the credit cycle and fallout from excess household and corporate leverage (including in foreign exchange), as investors withdraw from EM corporate debt, generating disorderly deleveraging, with potential spillbacks to advanced economies (AEs). <p>Likelihood: medium in the short term.</p>		

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

Source/Likelihood	Expected Impact	Proposed Policies to Mitigate Risks
Lower Commodity prices	High	
<ul style="list-style-type: none"> • Persistently lower energy prices, triggered by supply factors reversing only gradually. <p>Likelihood: high in the medium term.</p>	<ul style="list-style-type: none"> • Lower oil and other commodity prices will lower CEMAC exports. This could threaten the adequacy of the reserve coverage. Lower hydrocarbon revenues will erode fiscal sustainability further in most CEMAC countries 	<ul style="list-style-type: none"> • Eliminate oil subsidy schemes following the example of Gabon; widen the non-oil tax base; where applicable, reform national oil companies to increase efficiency; and spur competition in the non-oil import sector.
Delays in the implementation of regional and national reforms	High	
<ul style="list-style-type: none"> • Weak implementation capacity and bureaucratic delays both at the regional and national levels hamper the pace of reforms. In a low oil-price environment, CEMAC may find it even more challenging to support regional integration. <p>Likelihood: high in the short term.</p>	<ul style="list-style-type: none"> • Delays in reforms to address institutional governance and operational weaknesses could adversely affect policy responsiveness. • The absence of significant progress in public finance and financial sector reforms could constrain private investment and undermine efforts to diversify the regional economy. • The lack of progress in improving CEMAC reserve pooling could undermine regional reserve coverage, and erode CEMAC's external sustainability. 	<ul style="list-style-type: none"> • Implement reforms in key regional institutions. For the BEAC, the priority should be the finalization of its modernization plan and the implementation of FIN's safeguards recommendations. The CEMAC Commission should push for the implementation of the new regional surveillance framework and the finalization of the transposition of CEMAC's public finance directives by member states. • Coordinate national and regional efforts to improve the business environment. • Improve the BEAC's reserve management system by adopting the 2015 FSAP recommendations.
Worsening of the Lake Chad security crisis	High	
<ul style="list-style-type: none"> • Security threats would resume and threaten larger settlements. <p>Likelihood: medium in the short-term</p>	<ul style="list-style-type: none"> • Displacement of populations and interference with economic activities could affect investment and trade in affected countries. Additional fiscal security costs (military spending, refugee management) could depress fiscal balances in affected countries. 	<ul style="list-style-type: none"> • Create sufficient fiscal buffers by prioritizing large infrastructure projects, widening the non-oil tax base, eliminating oil subsidy schemes, and where applicable, reforming national oil companies.

Annex II. CEMAC: Response to Past IMF Advice

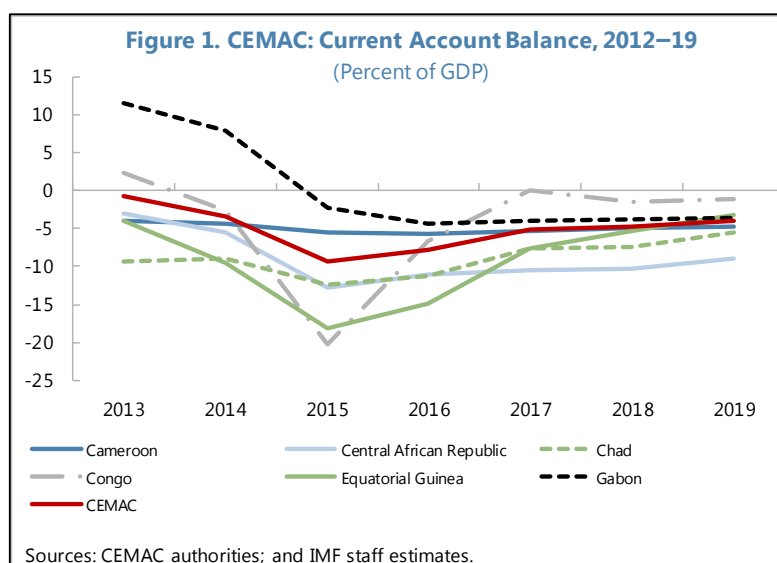
2015 Regional Consultation Recommendations		Authorities' Response
Policy mix	<ul style="list-style-type: none"> • Embark on fiscal consolidation to confront the fall in oil prices. • Resolve the issue of partial repatriation of reserves by some member states. 	<ul style="list-style-type: none"> • Authorities appear committed to macroeconomic policies, which are consistent with Fund advice. However, some countries have continued their expansionary fiscal stance, further reducing policy buffers. Most countries have plans to initiate some degree of fiscal consolidation in 2016, after their respective elections. • The BEAC continues to work on a new reserve management system to address the issue of partial repatriation of reserves.
Fiscal policy coordination	<ul style="list-style-type: none"> • Review the key fiscal convergence criterion on fiscal balance. • Revise downward the 70 percent of GDP debt ceiling in an environment of rapidly rising debt and declining reserves. • Strengthen compliance with, and monitoring of the regional convergence framework. 	<ul style="list-style-type: none"> • The CEMAC Commission has put forward a new framework, which is not fully consistent with past IMF advice, but could help mitigate oil revenue volatility. Country authorities did not support the reduction in the debt ceiling. • The implementation of CEMAC public financial management (PFM) directives has continued, but has not been completed; the degree of implementation varies among countries. • The new convergence framework does not include a new system to strengthen compliance.
Monetary operations / financial sector development	<ul style="list-style-type: none"> • Pursue the reform of the current monetary policy framework. • Finalize reforms to strengthen safeguards. • Strengthen the regulatory and supervisory framework to reinforce financial stability based on the 2015 FSAP recommendations. • Accelerate the resolution of problem banks. • Adopt measures to stimulate regional interbank and debt markets. 	<ul style="list-style-type: none"> • Monetary policy remains largely ineffective, because of weak transmission channels, which are hampered by excessive liquidity and insufficiently deep money and debt markets. Despite some progress, reform of monetary policy instruments has been slow. • Progress in the implementation of the safeguards measures has continued, but progress has been uneven. • Despite progress in the reform of the regulatory framework, the implementation of key reforms has been slow. • The revitalization of the regional interbank and debt markets has been progressing slowly.
Growth / regional integration	<ul style="list-style-type: none"> • Take measures to support the improvement of the regional business environment. • Strengthen key regional institutions (COBAC, CEMAC Commission) to implement regional growth-enhancing policies. • Enhance the quality of the economic and financial information. 	<ul style="list-style-type: none"> • The CEMAC Commission has created a regional business climate observatory to support improving the business environment. Some countries have started reforms to improve the business climate. • The COBAC has increased its headcount by more than 50 percent and its operational capacity has improved. The CEMAC Commission continues to face significant operational challenges. • The BEAC is working on a harmonized regional CPI index and improved monetary statistics.

Annex III. CEMAC: External Sustainability Assessment

Based on various methods, the real effective exchange rate appears to be moderately overvalued with respect to the current account norm and warrants close monitoring. Non-price competitiveness assessments continue to point to important structural competitiveness issues, which need to be addressed to ensure that public investment translates into growth and to make the region more attractive to private investment.

A. Balance of Payments

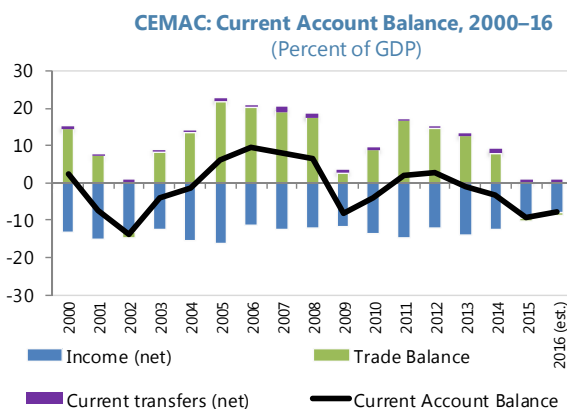
1. Following the oil-price shock, the regional external current account deficit is projected to widen in 2016, reflecting a significant deterioration in the trade balance of most of the Central African Economic and Monetary Community's (CEMAC) member countries. The current account deficit grew from 1.8 percent of GDP in 2013 to 9.4 percent in 2015 (Figure 1). It is expected to remain high in 2016, reaching 8.1 percent. This deterioration has been driven mainly by sizable investment programs in most member states—which have contributed to higher imports—and has been compounded by the fall in oil export proceeds. In 2016, the current account deficit in individual member countries is projected to range from 5.7 percent of GDP in Cameroon to 14.9 percent of GDP in Equatorial Guinea. In the medium term, a deceleration in public investments and a slow recovery in oil exports are expected to narrow the regional current account deficit to about 4–5 percent of GDP.



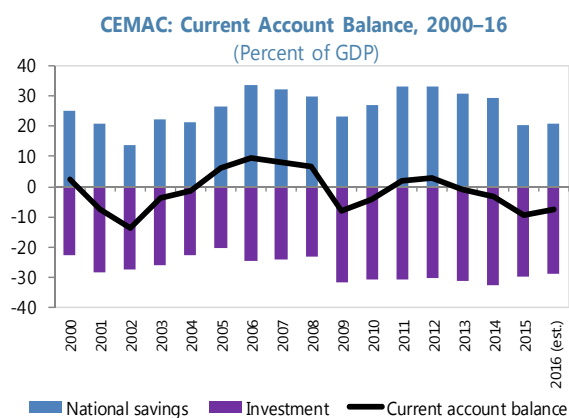
2. Foreign direct investments (FDI) constitute a stable source of external financing. They have been a steady source of external financing, averaging about 5 percent of GDP in the last decade (Figure 2). Official aid averaged about 0.8 percent of GDP over the same period, whereas portfolio investment contributed negatively, at an average of -0.3 percent. Debt-creating financial flows averaged about 1.2 percent of GDP in the last decade and are expected to remain between 2–3 percent in the medium term. However, net financial inflows did not entirely match the external financing needs—inducing a projected decline in the official reserves.

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

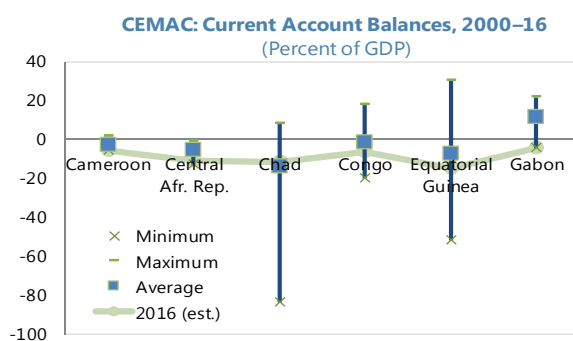
The regional current account balance has deteriorated - reflecting the evolution of trade balance and ...



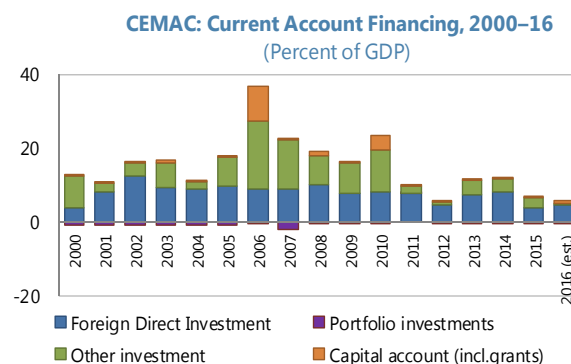
important investment efforts ...



... in most CEMAC countries.

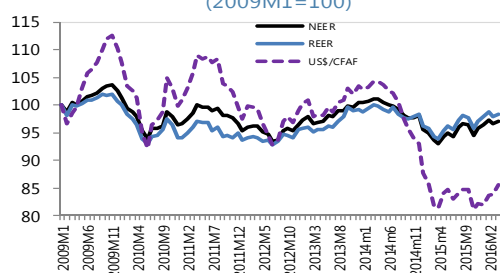


Foreign direct investment constitutes a stable source of external financing, although loans have been decreasing.



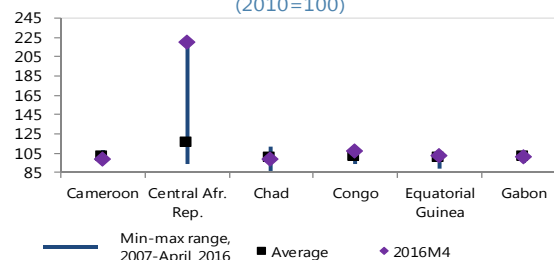
The regional real effective exchange rate has appreciated reflecting the appreciation of the euro and ...

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



...inflationary pressures in some CEMAC countries.

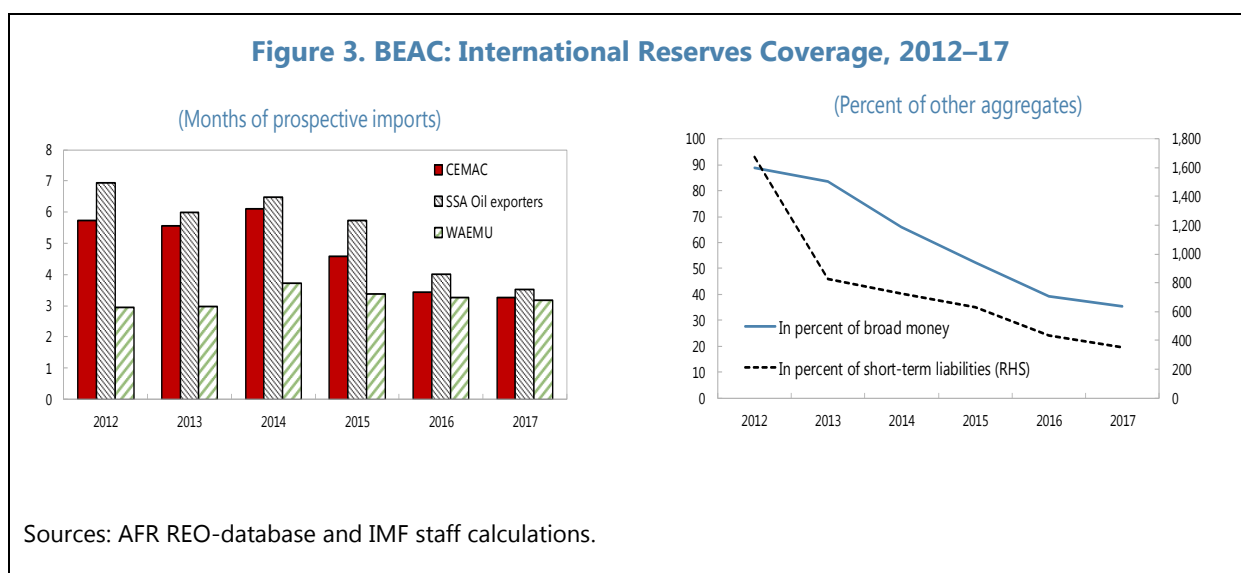
CEMAC: Real Effective Exchange Rate of CEMAC Countries, 2007–April 2016
(2010=100)



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

B. Reserves Adequacy

3. CEMAC's reserve coverage at end-2015 was below prudent levels and it is projected to decline in 2016. Regional official reserves are projected to decrease from US\$10.1 billion (CFAF 5,994 billion) at end-2015 to US\$7.9 billion (CFAF 4,596 billion) at end-2016, which corresponds to a decrease from 4.6 months of prospective extra-regional imports to 3.4 months (Figure 3). Reserve adequacy assessment methods give diverging results. Reserve coverage in 2016 appears adequate using a number of usual metrics—i.e., 39 percent of broad money; 432 percent of short-term liabilities; and 135 percent in terms of the reserve adequacy ratio, which is above the level of adequate buffers for crisis prevention. Conversely, in terms of the most widely used metric (i.e., reserves in terms of prospective imports), reserve coverage in 2016 will remain below what is considered appropriate for a resource-rich currency union (i.e., 5 months of imports).^{1,2} The cost-benefit analysis,³ also indicates that the level of reserves is below the optimal range, which varies between 4.8 months and 12.0 months of imports, depending on the interest rate differential with the rest of the world.



4. Going forward, reserve coverage appears insufficient. It is projected to decline to about 3.0–3.3 months of imports in the medium term, the lowest level in more than a decade. This medium-term level is deemed inadequate for a resource-rich currency union. The projected reserve trajectory could make the Community vulnerable to a further drop in oil prices or another external shock.

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

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

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

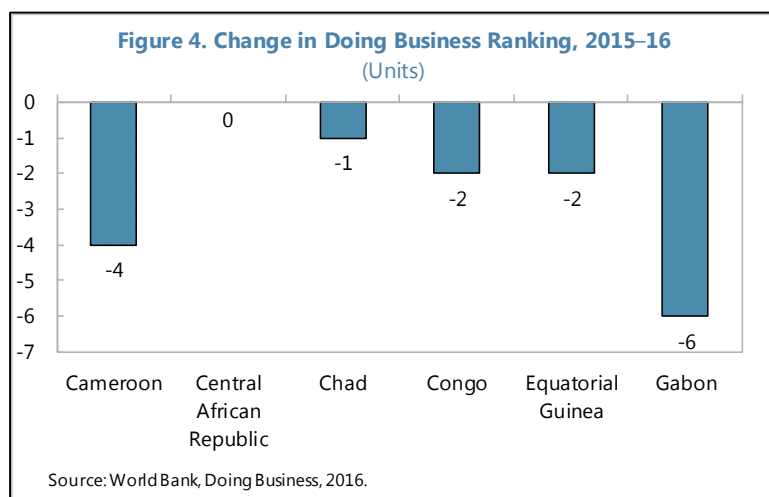
C. Price Competitiveness

5. The assessments of the current account and real effective exchange rate (REER) at the regional level do not indicate a significant misalignment or price-competitiveness issues. The REER appreciated by 3.2 percent during the 12 months leading to April 2016, reflecting essentially the evolution of the nominal effective exchange rate (NEER) and the inflation differential with trading partners. The NEER appreciated as a result of the CFA franc's appreciation vis-à-vis the US dollar and other trading partners' currencies. Some divergences could be noticed at the individual country level with about 2 percent REER depreciation in Chad, no change in Gabon, and a 44 percent appreciation in the Central African Republic. Model-based and other assessments indicate a moderate overvaluation—6.2 percent on average (Box 1).

D. Structural Competitiveness

6. Survey-based indicators point to important structural competitiveness issues. Various competitiveness indicators continue to rank CEMAC countries among the worst performers in the world.

- The World Bank's 2016 "Doing Business Indicators" show that CEMAC countries remain at the bottom of the countries surveyed, with most countries either stagnating or regressing in 2016 compared to 2015 (Figures 4 and 5, upper panels). CEMAC countries are behind their peers in sub-Saharan Africa and the West African Economic and Monetary Union in terms of business environment.⁴ The situation is particularly challenging with regards to starting a business, getting electricity, and enforcing contracts. Infrastructure remains inadequate and electricity supply, problematic. Procedures for paying taxes and registering properties continue to be cumbersome.
- The World Bank's "Governance Indicators" also rank CEMAC countries behind their peers and show a relative deterioration in the last five years (Figure 5, middle and lower panels). In particular, the CEMAC lags behind its peers in terms of government effectiveness, accountability, and quality of regulation.

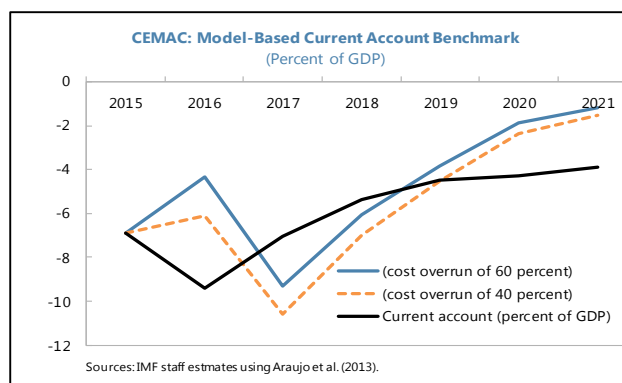


⁴ These indicators should be interpreted with caution because of the small number of respondents, a limited geographical coverage, and standardized assumptions about business constraints and information availability.

Box 1. CEMAC: Current Account and Real Effective Exchange Rate Assessments¹

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

- The first approach is “EBA-Lite’s” Current Account (CA) model, which compares the underlying current account balance with the model-estimated current account norm. This model shows a 13.3 percent overvaluation of the REER in 2015.
- The second approach is EBA-Lite’s Index Real Effective Exchange Rate (IREER). The IREER regression result for CEMAC indicates a 2.5 percent undervaluation in 2015.
- The third approach uses the Bems and Carvalho’s real annuity method to better account for natural resource windfall revenues in CEMAC countries.² It computes the current account norm consistent with a long-term trend in net foreign assets to account for the impact of oil revenues. This method points to a 16.2 percent positive deviation (i.e., overvaluation) in 2015. However, the model ignores other factors, such as temporary investment needs, financial frictions, and low investment productivity in CEMAC countries.³
- The fourth approach uses Araujo et al.’s model, which corrects these drawbacks.⁴ In particular, it estimates the current account norm consistent with natural resources revenue, investment needs, and real and financial frictions (absorptive capacities, investment productivity and efficiency, borrowing constraints). The model indicates a 1.7–2.3 percent REER overvaluation in 2015, depending on the cost overrun assumptions in the model (60 percent and 40 percent, respectively; see figure above).



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

CEMAC: External Stability Assessments

	EBA-Lite, 2015		Other Assessments, 2021		
	Current Account (CA)	Index Real Effective Exchange Rate (IREER)	Bems and Carvalho Constant Real Annuity	Araujo et al. Cost overrun of 40 percent	Araujo et al. Cost overrun of 60 percent
Current account norm (percent of GDP)	-5.8		7.1	-1.0	-1.4
Underlying current account (percent of GDP)	-9.4		-2.3	-2.3	-2.3
Log REER - norm (percent)		4.63			
Log REER - actual (percent)		4.61			
Overvaluation (+)/undervaluation (-) (percent) ¹			23.5	3.4	2.4
Overvaluation (+)/undervaluation (-) (percent) ²	13.3	-2.5	16.2	2.3	1.7

Source: IMF staff estimates.

¹ Based on 0.4 trade elasticity for the Bems and Carvalho, and Araujo et al. methodologies.

² Based on 0.6 trade elasticity is estimated assuming exports volume and imports volume elasticities equal to zero.

Hakura and Billmeier (2008): “Trade Elasticities in the Middle East and Central Asia: What is the Role of Oil?”, WP/08/216, IMF.

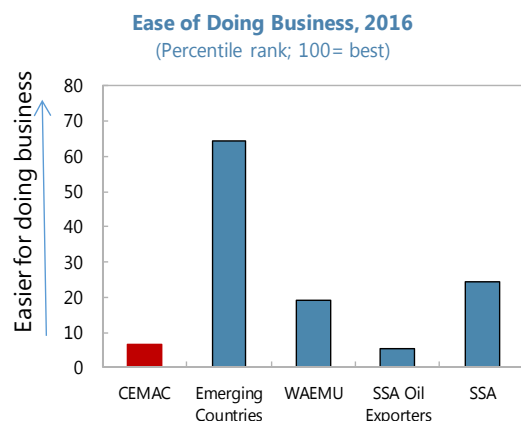
¹ The alternative Araujo et al. model-based approach was prepared in collaboration with Bin Li and Michele Andreolli. The EBA-Lite models do not provide a specific template for CEMAC. Hence, as a proxy, we use the EBA-Lite regression coefficients provided by the IMF’s Strategy and Policy Review Department and CEMAC data, based on purchasing power parity GDP-weighted averages from the six member countries.

² Bems, R., Carvalho I. (2009) “Exchange Rate Assessments: Methodologies for Oil Exporting Countries”, IMF Working Paper 09/281.

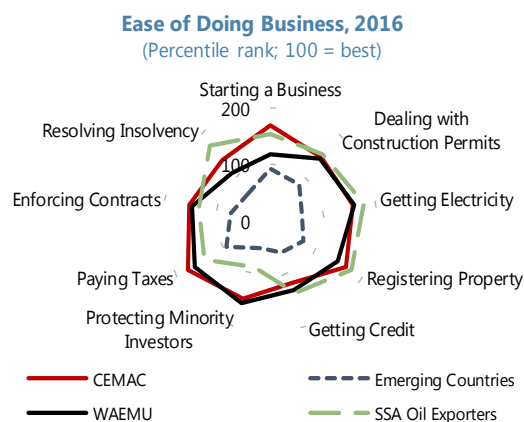
³ “Macroeconomic Policy Frameworks for Resource-Rich Developing Countries,” IMF Policy Paper, August 2012.

⁴ Araujo, J., Li B., Poplawski-Ribeiro M., Zanna L-F., (2013), “Current Account Norms in Natural Resource Rich and Capital Scarce Economies”, IMF Working Paper 13/80.

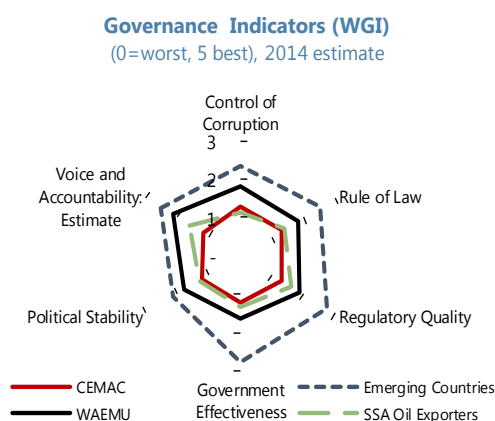
Figure 5. Business Environment and Governance, 2014–16



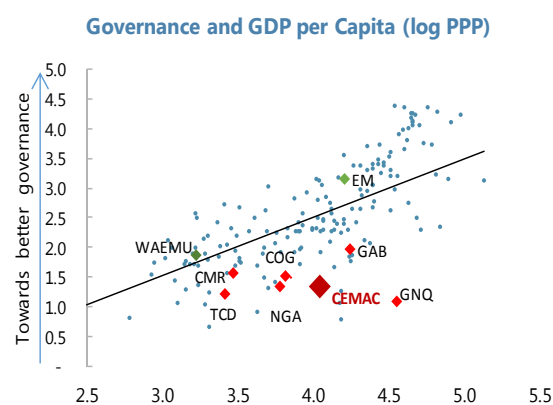
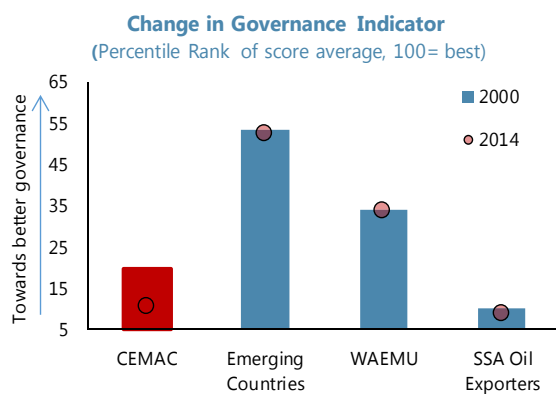
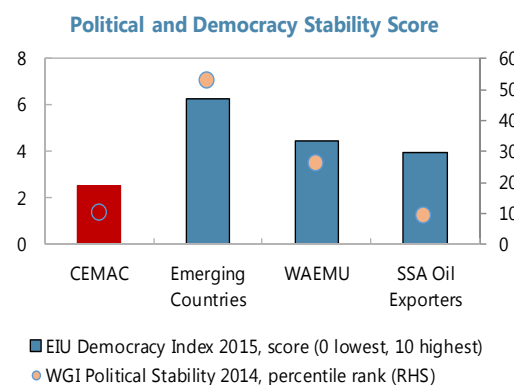
Source: Doing Business, 2015 and IMF Staff calculations.



Source: Doing Business, 2015 and IMF Staff calculations.



Source: Worldwide Governance Indicators (WGI), 2014.

Source: Worldwide Governance Indicators (WGI), 2014 ^{2/}Source: Worldwide Governance Indicators (WGI), 2014. ^{2/}Source: WGI, 2014 and Economist Intelligence Unit (EIU). ^{2/}

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

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

Annex IV. CEMAC: 2015 FSAP Recommendations¹

Key Recommendations (By responsible decision-making body)	Impact 1/ S D		Time- frame 2/
	S	D	
Conference of Heads of State and/or the Ministerial Committee (MC)			
1. MC to validate the methodology to assess the optimal level/structure of international reserves.			
2. Streamline the procedure for the approval of CEMAC regulations on the financial sector.			
3. Formalize cooperation procedures among all the authorities to be involved in a financial crisis.			
4. Identify actions to return chairmanship of the BEAC board to the governor.			
5. Complete the streamlining of the two competing stock markets.			
6. Strengthen the institutional autonomy and accountability of the BEAC and the COBAC.			
7. Review the rules and practices for appointing senior staff of the regional financial agencies.			
Regional Financial Agencies: BEAC and COBAC			
1. Increase the BEAC’s transparency by adopting an appropriate accounting framework.			
2. Adopt a regional approach to credit reporting systems, keeping duplications to a minimum.			
3. Accelerate implementation of the monetary policy reform.			
4. Initiate an asset quality review, at least of the systemic and the most vulnerable banks.			
5. Put in place an appropriate lender of last resort framework.			
6. Strengthen and formalize the role of the BEAC’s national branches in financial sector reforms.			
7. Strengthen the FOGADAC’s pay box function.			
8. Continuously strengthen the SG-COBAC’s staffing.			
9. Strengthen the prudential framework of lending to connected parties.			
10. Review the tools available to the supervisor for implementing risk-based supervision.			
11. Establish a mechanism for monitoring financial inclusion.			
12. Implement coordinated actions to promote the use of electronic money.			
National authorities			
1. Ensure that governance of the state-owned banks is consistent with best practices.			
2. Streamline mortgage foreclosure procedures within the framework of the OHADA.			
3. Secure land rights and strengthen the registration systems.			
4. Give preference to official support mechanisms open to all credit institutions.			
5. Adopt an AML/CFT prosecution policy (including for predicate offenses).			
6. Improve the training/specialization of magistrates and the governance of judicial bodies.			
7. Put the national FIUs in Congo and Equatorial Guinea into operation.			
1/ S: Stability - D: Development	High	Average	Neutral
2/ Timeframe for implementation	Less than a year	1–2 years	Over 2 years

¹ Prepared by the Financial Stability Assessment Program team.

Annex V. CEMAC: Macrofinancial Linkages

A. Context

1. The financial sector in CEMAC is small and highly concentrated. It is dominated by commercial banks and about 85 percent of total assets belong to foreign banks. Although the banking sector expanded significantly during the last decade, its size is smaller than in other major sub-Saharan African economies. In January 2016, CEMAC banking assets represented CFAF 13 trillion (about US\$22.5 billion; 29.9 percent of CEMAC's GDP), compared to 15.7 percent in 2004. Banks dominate the financial sector, but microfinance institutions (MFIs) are significant players in Cameroon and Congo, and in some cases, have become systemic (Congo). Mobile banking is growing, but it is still a nascent industry.

2. The financial sector does not support CEMAC's development needs adequately. Although there are large pockets of excess liquidity in CEMAC, banks are unwilling to extend credit to the private sector in many instances, because of well-known obstacles (e.g., lack of reliable financial reporting; weak justice systems). Financial institutions' resources rely on deposits and their business model rests about equally on fees and interest rate margins, unlike most banking business models in the world where interest income is the largest source of revenue. Financial information is limited and contributes to the lack of trust among institutions, hampering the development of interbank and debt markets. The regional capital market is small (only four companies are listed) and fragmented, with two stock exchanges in Douala, Cameroun, and Libreville, Gabon.

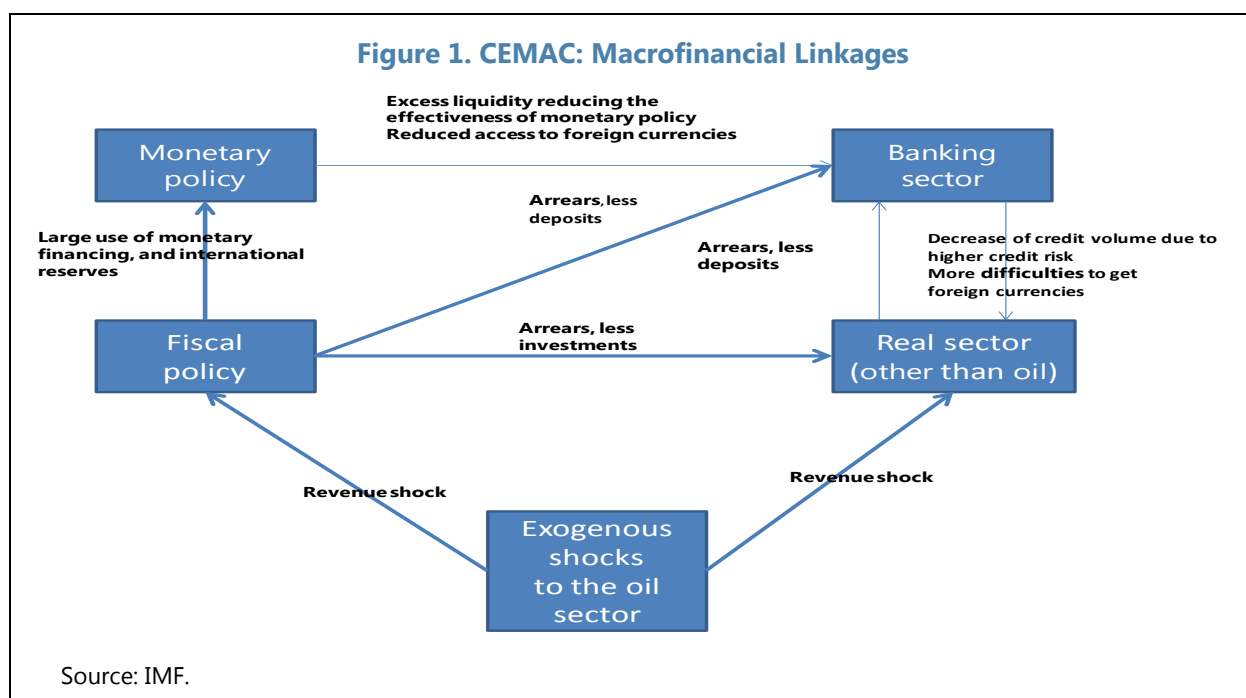
B. Macrofinancial Linkages and Risk Spreading

3. The banking sector's exposure to the public sector is the main transmission channel of macrofinancial risks (Figure 1). The oil sector is the main driver of economic activity in CEMAC and generated 59 percent of regional fiscal revenues in the last decade. With the contraction of oil revenues, public sector bank deposits decreased from 22 percent of total deposits in September 2014 to 19 percent in January 2016. In addition, the increase in government payment delays and the scaling down of public investment programs could increase bank's non-performing loans (NPLs) to the private sector, in particular the construction sector. Higher NPLs could limit the profitability of the financial sector and its ability to provide credit to the private sector, and thus undermine non-oil GDP growth.

4. The direct link between the banking and the oil sectors is weak. At end-January 2016, the share of loans to extractive industries was only 2.4 percent, and their NPLs represented only 1.4 percent. This link is weak because international oil companies keep their oil revenues abroad and are externally financed. Moreover, the assets of state-owned oil companies are already included in the public sector and are covered in the assessment of the link between the public and the banking sectors (see paragraph 3).

5. Linkages through interbank markets are limited and should hinder the transmission of shocks. The low level of development of interbank markets explains the weak linkages among financial institutions. The factors explaining the underdevelopment of these markets include

asymmetry of information on credit risk (e.g., the corporate accounts registry—*centrale des bilans*—is not fully operational); reluctance of commercial banks to provide liquidity to competitors, which could help the latter to provide new credits; excess systemic liquidity, which reduces the need for temporary borrowing; and direct government borrowing from banks, which crowds out the government bond market. Recent actions of the BEAC to improve its monetary policy framework may support the development of the interbank market, but it will take some time before these measures produce their full effects. For example, the BEAC has stopped injecting and borrowing liquidity at the same time, and started working on a lender of last resort framework, which should enable it to address specific problems with tailored answers, rather than injecting additional liquidity into the entire banking system.



6. Linkages between MFIs and banks are in some cases strong and require specific attention. Many banks in CEMAC have created MFIs to access specific client segments, such as households and small and medium size enterprises (SMEs). In return, the MFIs deposit their excess liquidity at these banks, as they cannot have an account at the BEAC—except for one MFI. Given that clients consider MFIs vulnerable, the latter may be subject to liquidity shocks, stemming from possible deposit runs, which in turn could affect banks with large MFI deposits. The ongoing liquidations of some MFIs, triggered by severe governance problems, has affected thousands of low-income savers and highlighted the credit risk that these institutions represent.

C. The Financial Sector's Health

7. Despite a difficult economic environment, the financial sector has so far weathered the oil-price shock. Although the situation varies by country and type of institution, banks appear generally profitable. The increase in NPLs from 11.9 percent of total loans in September 2014 to 12.6 percent in January 2016 did not significantly undermine the soundness of the banking sector.

The increase in NPLs, however, is significant in the largest CEMAC oil exporting countries where NPLs were above 19.0 percent at end-January 2016. Construction is the most vulnerable sector for banks. Similarly, NPLs in microfinance institutions have increased only from 13.3 percent of total loans in December 2014 to 14.0 percent in September 2015. According to the regional banking supervisor (COBAC), this level could exceed 20 percent in some important institutions.

8. The financial sector appears generally profitable, but the situation varies by country.

For example, Equatorial Guinea saw a decline of 16 percent in its yearly net banking income between 2014 and 2015, almost solely explained by a sharp decline in interest rate revenues. In the same period, Cameroon and Congo saw their yearly net banking income increase by 9 percent and 13 percent, respectively, because of an increase in lending in both countries.

9. Going forward, the current high level of NPLs in some countries could undermine the soundness of the financial sector and constrain its ability to provide new credits. The solvency ratios remain comfortable on average, reaching 13.0 percent, with eight of fifty-two banks in CEMAC not complying with the 8.0 percent norm at end-January 2016. The increase in NPLs may look small—because the initial level was already high—but remains significant nonetheless. In most countries this ratio is well below 10 percent.¹

10. Although the financial sector has coped so far with the economic downturn, it may not have enough capacity to withstand further increases in NPLs. Despite recent recapitalizations in some countries, banks have little spare resources. In January 2016, the banking sector's excess equity and long-term debt with respect to total long-term assets were only about CFAF 285 billion (about USD494 million). Many banks are beset with sizable NPLs, caused by loans granted to connected parties, in a context of longstanding governance issues. Because of this weakness, they have little margin to absorb additional risks. Excessive exposure to connected parties remains the critical issue in CEMAC's financial sector.

11. Large net oil-exporting countries are the most exposed to further spreading of the effects of the oil-price shock. Stress tests results show that the average solvency ratio for Equatorial Guinean banks would decline from 22 percent to 15 percent with the construction sector becoming the main transmission channel. Gabon would be the second most exposed country, with stress tests results showing a decline in the average solvency ratio from 15 percent to 8 percent. In this case, the public sector would be the direct channel because banks have high exposure to the government.

12. Banks' excess liquidity at the BEAC remains significant. They represented 12.3 percent of their total assets in January 2016. Banks could use this excess liquidity to invest in higher yielding assets, but they remain cautious because of the large uncertainties on credit and liquidity risks. Moreover, CEMAC banks need to have large liquidity buffers because they cannot rely on easy refinancing at the BEAC. Their eligible collateral is limited and the pool of outstanding government bonds is small. Consequently, the level of refinancing at the BEAC is low for most banks; it represented 1.7 percent of the aggregated sector-wide balance sheet at end-January 2016. At the

¹ See <http://data.worldbank.org/indicator/FB.AST.NPER.ZS/countries> for comparison purposes.

same time, banks had only CFAF 123 billion (about USD213 million; 0.9 percent of total assets) of unused eligible collateral.

13. Some banks have been using their excess liquidity to extend riskier loans. This strategy could be encouraged by the BEAC's accommodative monetary policy, which reduces banks' incentives to discriminate credit risk adequately. In the absence of proper risk assessment tools, such as a credit bureau, banks should remain careful, and refrain from misusing their excess liquidity. Foreign-owned banks are in most cases subject to more stringent prudential rules from their parent companies than locally owned banks, and thus tend to avoid riskier loan practices.

14. Troubled banks remain a critical issue in some CEMAC countries. Eight banks in CEMAC had negative equity, representing about 4.6 percent of the banking sector's total assets. The COBAC should address this issue quickly, as these banks contribute to the lack of confidence among financial institutions and hamper the development of interbank and money markets. MFIs face similar issues and the COBAC is working on reinforcing the legal framework of these intuitions by increasing the minimum capital and strengthening supervisory regulation.

D. Ability of CEMAC Institutions to Prevent Negative Financial Spillovers

15. Bank supervision remains the main protection against negative spillovers through macrofinancial linkages. The COBAC supervision framework addresses relatively well the credit risk, but more should be done in relation to loans to connected parties. Many of the 2015 FSAP recommendations have been implemented—or are planned to be—and should help strengthen supervision. In addition, the COBAC should also focus on the level of compliance of banks regarding the quality of the reporting of their financial statements. The supervision of the largest MFIs remains a major challenge and the ongoing strengthening of the regulatory framework, a top priority.

16. The regional macroprudential framework is at a nascent stage and is hampered by weak data. Despite the creation of a Financial Stability Committee in 2012, CEMAC institutions do not have enough capacity to assess risks or develop relevant strategies to absorb shocks. The Committee should urgently develop a robust set of early warning indicators, covering macroeconomic indicators, financial institutions, households, government budgets, and financial markets (e.g., foreign exchange, interest rate).

17. The BEAC has little room to mitigate the effects of the current shock because foreign reserves have significantly declined and monetary financing has reached its limits. The BEAC should put in place appropriate measures to preserve foreign reserves. In particular, it should reduce excess liquidity, and increase its stable resources (i.e., balance sheet liabilities) backing foreign reserves through its own funds or CEMAC governments' long-term deposit. On the liquidity side, it should also urgently finalize its lender of last resort framework to address specific liquidity needs.

18. CEMAC's weak legal framework undermines the actual value of financial collaterals and other guarantees. Given that this issue will not be solved in the near term because of the challenges in CEMAC's judicial system, banks should avoid overly relying on collateralized credit to hedge against credit risk. The COBAC should take this issue more into account in its rules when computing the solvency ratios of banks (for example by increasing the provision rate for NPLs).



CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES—INFORMATIONAL ANNEX

June 28, 2016

Prepared By

African Department
(In collaboration with other departments)

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RELATIONS OF CEMAC MEMBER COUNTRIES WITH THE FUND

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

Relations of the CEMAC Member Countries with the Fund

Cameroon. The last financial arrangement, a Poverty Reduction and Growth Facility (PRGF) arrangement in an amount equivalent to SDR 18.6 million (about US\$26.8 million), expired on January 31, 2009. The Executive Board approved a SDR 92.9 million (about US\$144.1 million) disbursement under the Rapid-Access Component of the Exogenous Shocks Facility on July 2, 2009. The last Article IV consultation was concluded on November 18, 2015. Cameroon is on a 12-month consultation cycle.

Central African Republic. The Executive Board approved financial assistance under the Rapid Credit Facility (RCF) in the amount of SDR 8.355 million on September 14, 2015 in support of the Transitional Authorities' emergency economic recovery program to restore macroeconomic stability, achieve fiscal consolidation, and strengthen administrative capacity. Total assistance under the RCF since May 2014 has reached SDR 22.28 million (20 percent of quota). Because of civil unrest, the last Article IV consultation was concluded on January 30, 2012. In principle, CAR is on a 12-month consultation cycle.

Chad. The Executive Board approved a three-year ECF arrangement in an amount equivalent to SDR 79.92 million (about US\$122.4 million) on August 1, 2014. It completed the first review of the ECF arrangement and approved the authorities' request for an augmentation of access by SDR 26.64 million (about US\$37 million) on April 27, 2015. On April 29, 2015, the Executive Boards of both IDA and IMF decided that Chad had reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative and supported a debt relief of US\$1.1 billion. The Executive Board completed the second review on December 14, 2015 which brought total disbursement to SDR 53.93 million (about US\$75.1 million). An IMF mission team visited Chad during March 7–20, 2016 to hold discussions on the third review of the ECF arrangement and conduct the 2016 Article IV consultation. Broad staff-level agreement has been reached on conditions for the completion of the third review. Executive Board consideration of the third review and Article IV consultation is expected to take place in July 2016. The last Article IV consultation was concluded on February 21, 2014. Chad is on a 24-month consultation cycle.

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

Equatorial Guinea. The last financial arrangement, an Enhanced Structural Adjustment Facility (ESAF) arrangement, in an amount equivalent to SDR 9.9 million, and a Structural Adjustment Facility (SAF) in an amount equivalent to SDR 3.0 million, both expired on February 2, 1996. The country is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on, July 20, 2015. Equatorial Guinea is on a 12-month consultation cycle.

Gabon. A three-year Stand-By Arrangement, in an amount equivalent to SDR 77.2 million (about US\$117 million) expired on May 7, 2010, with only the first three reviews completed. Gabon is not eligible for assistance under the HIPC initiative. The last Article IV consultation was concluded on February 19, 2016. Gabon is on a 12-month consultation cycle.

Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of CEMAC.

Regional central banks are normally subject to a safeguards assessment every four years. For the BEAC, governance challenges and control failures, which emerged in 2009, led to close engagement subsequently through annual IMF monitoring of safeguards “rolling measures.” A safeguards staff visit to the BEAC conducted in April 2016 found that although the BEAC’s own Reform and Modernization Plan was nearing completion, the IMF’s two priority recommendations on governance-focused law reform and the transition to an internationally recognized financial reporting framework (IFRS) were outstanding. However, following the April 2016 visit, the BEAC’s Board of Directors mandated that the institution take steps to initiate work on the priority recommendations. Staff has now revised the road map for implementation with an envisaged conclusion of the law reform in early 2017 and adoption of IFRS beginning with the financial statements for 2018. Staff will maintain close engagement with the BEAC to monitor the implementation of the remaining safeguards measures going forward, and progress on the latter will remain a condition for new program requests and reviews for CEMAC member countries.

Exchange System

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

Article IV Consultation

Following an Executive Board decision in January 2006, discussions with monetary unions have been formalized and are part of the Article IV consultation process with member countries. The discussions reported in the companion staff report are thus in relation with Article IV consultations with the six CEMAC member countries. The Executive Board concluded the last discussion on common policies of CEMAC members on July 25, 2014. Such discussions are held on a 12-month cycle.

FSAP Participation and ROSCs

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

Technical Assistance to the Bank of the Central African States, 2011–16

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

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

November 2015: LEG TA on BEAC Charter reform.

June 2015: MCM TA on Liquidity forecasting and management.

June 2015: MCM TA on central bank accounting.

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

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

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

October 2014: MCM TA risk-based supervision.

May 2014: MCM TA liability management.

April 2014: MCM TA debt management.

March 2014: MCM TA financial soundness indicators.

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

July 2013: MCM TA on prudential framework update.

May 2013: MCM TA on central bank governance.

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

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

October 2011: MCM resident advisor assigned at the COBAC.

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

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

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

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

November 2015: FAD public financial management advisor.

November 2015: FAD customs administration CEMAC regional workshop.

November 2014: FAD customs administration CEMAC regional workshop.

June 2014: FAD support to CEMAC directives implementation.

January 2014: FAD CEMAC customs administration workshop.

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

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

May 2012: CEMAC customs administration workshop.

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

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

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

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

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

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

**Statement by Mr. Yambaye, Executive Director for the Central African Economic
and Monetary Community (CEMAC),
and Mr. N'Sonde, Senior Advisor to the Executive Director
July 13, 2016**

On behalf of our authorities, we express our appreciation to Management for the continued dialogue with the Central African Economic and Monetary Community (CEMAC). The Managing Director's visit last January to the Community's institutions and member countries in Yaoundé, Cameroon was the most recent illustration of this excellent relationship. This visit had been greatly anticipated and met its expectations as a moment of candid and fruitful exchange of views on policy challenges facing the region. The authorities also welcomed Management's subsequent visit to a member country—Chad—confronted with heightened security issues.

Economic and financial performance of the region has been adversely affected by the sharp drop in oil prices and the security situation. Average GDP growth fell to 1.6 percent in 2015 and is expected to increase to 1.9 percent in 2016, with further improvements over the medium term. The inflation rate has remained under control and is estimated at 2.3 percent in 2015. It is projected to fall to 2 percent in 2016. The overall fiscal balance (excluding grants) is expected to increase slightly to 6.8 percent of GDP in 2016 from 6.4 percent in 2015, as a result of measures undertaken. However, there has been a significant increase in the current account balance of the region to 9.4 percent of GDP in 2015, mainly due to the fall in oil prices. This deficit is projected to be reduced to 5.2 percent in 2016, with the level of international reserves to be around 3 months of imports,

The CEMAC authorities continue to value highly the policy discussions with staff and their advice, especially at challenging times characterized by shocks of unprecedented multiplicity and magnitude. On a number of issues, they concur with staff's assessment and policy recommendations, notably as regards the economic outlook, concerns about falling reserves, the need for fiscal adjustment, and the unexploited potential of the financial sector in fostering private sector activity. Nevertheless, while the impact of exogenous shocks has brought to the fore vulnerabilities and risks, the authorities' views differ somewhat from staff's in certain areas. These include the calibrating of the policy mix, the efforts and commitment by some regional institutions to meet their mandate and effectively contribute to

regional integration; and the rationale for a supportive monetary policy stance to help sustain activity. They are somewhat concerned with the general tone of the main report, which does not highlight enough the authorities' efforts to weather the shocks and can send an alarming signal on the state of the region.

I. MULTIPLE SHOCKS AND ECONOMIC IMPLICATIONS

The CEMAC region seems to be a good example of what a region can endure with multiple shocks affecting its economies. The lower oil prices are having a significant toll on the region's oil exporters—five of the six member countries—through heavy fiscal burden and widening current account deficits. The security situation in the Lake Chad region adds to the economic and

financial strain in some countries, notably Cameroon and Chad. Central African Republic is slowly emerging from a long period of socio-political strife. Political tensions in a year of elections contributed to holding back activity.

Countries like Gabon and Cameroon also face the challenge of tightening financial market conditions stemming from monetary policy normalization in advanced economies. Already, capital market rates have increased, spreads further diverged and access to market could prove more challenging going forward.

The insecurity created by Boko Haram in the Lake Chad region has led Cameroon and Chad to expend significant budget resources to counter the danger and risks. While progress is being achieved in reducing this threat, it is important to note that combatting terrorist activities has taken a huge toll on countries' budgets and will continue to require important resources.

Weather-related challenges add to the shocks, notably in Chad where drought continues to advance, episodically causing displacements of populations and requiring budget resources to cope with humanitarian crises and support agriculture production.

As a result of these economic and non-economic shocks, regional growth has dropped significantly in 2015 and will remain subdued this year, while medium-term prospects have turned uncertain. The regional authorities are cognizant of the need to tackle fiscal dominance through fiscal rules, and start rebuilding depleted buffers.

These shocks, notably the oil price decline, have also dampened the public sector's bank deposits. It could harm banks' balance sheets through higher non-performing loans stemming from governments' difficulties in meeting their payment obligations and trimmed infrastructure programs. These would have adverse implications for credit and non-oil GDP growth.

II. POLICY AND REFORM PRIORITIES

Against the backdrop, the CEMAC authorities have endeavored to dampen the impact of the shocks and maintain somewhat the long-term development goals, by using the policy mix. In this regard, the BEAC has used instruments at its disposal for an accommodative monetary policy to supplement fiscal consolidation and preserve a minimum level of growth-enhancing capital spending. Our authorities are mindful that more effort is needed in a context of reduced fiscal buffers and international reserves, rising macroeconomic imbalances, but also long-lasting structural weaknesses. In particular, they are committed to further fiscal adjustment, particularly in the context of a fixed exchange rate regime; strengthen regional stability through an appropriate regional integration framework; improve the monetary policy transmission channels; and enhance financial sector soundness. Enhancing the capacities of regional institutions to carry out their respective mandate is a key concern of the CEMAC authorities.

1. Ensuring Fiscal Sustainability

CEMAC authorities fully agree with staff on the necessity to encourage fiscal adjustment at the country level. Nonetheless, they are of the view that the staff report does not stress enough the

consolidation efforts most of the region's authorities have undertaken in the face of falling oil receipts and severe security conditions. Over the past years, almost all the CEMAC countries have initiated sizable fiscal adjustments by making revisions to successive budgets with large spending cuts. Going forward, the authorities share the view that fiscal consolidation should be attentive of the need to avoid a recessionary stance, being mindful of the significant growth impulse from infrastructure investments. Prioritization is of paramount importance. Broadening the tax base will help expand revenues while improving the quality of expenditure and prioritizing infrastructure projects on the basis of their economic return and cross-sector spillovers should be pursued. Already, a number of projects are on hold in many member countries.

The regional authorities remain committed to encouraging prudent borrowing policies to ensure debt sustainability. Nevertheless, they share the view that, with the exception of one country, debt ratios remain manageable. Thus, where room exists, borrowing—preferably on concessional terms—should be pursued to meet critical development needs. In this regard, they agree on the need to revitalize regional debt markets, promote coordination among national Treasuries to plan debt issuances and favor stronger competition among market participants. They view the creation of a regional public debt issuance institution as a longer term objective.

2. *Tackling Monetary Policy Challenges*

Accommodative monetary policy has helped weather the impact of shocks on fiscal positions, and sustain growth and development plans somewhat amid an exceptional period of severe exogenous shock(s). In the face of collapsing oil revenue for most countries in the region, the direct and indirect monetary policy tools used by the BEAC were deemed the most appropriate and effective to safeguard critical public spending and credit to the private sector. The BEAC has already rescinded some of these tools including the statutory advances.

The authorities will pursue these efforts of calibrating monetary and fiscal tools to face shocks, preserve macroeconomic stability and long-term growth as well. In so doing, they will build on the progress achieved in reforming monetary policy tools, including the establishment of a liquidity forecasting framework, the decision to standardize the rates of reserve requirements across banks and the halt to simultaneous injections and withdrawals of liquidities. They will put in place this year a new repo contract which will reduce credit risk and promote the development of interbank operations. In parallel, efforts must be pursued at the country level to improve the business environment, which will contribute to developing the interbank and debt markets.

The regional authorities remain open to pursuing dialogue with Fund staff on how to further improve monetary policy instruments.

3. *Strengthening the Financial Sector*

Financial institutions in CEMAC are broadly profitable, liquid and solvent, although there exist a few troubled banks. The authorities welcome and agree with staff's assessment of the region's financial sector and macrofinancial linkages, including the increasing vulnerabilities shown through stress tests. They remain vigilant to developments in the banking sector, notably regarding troubled banks for which interim administrators will be envisaged every time needed.

The authorities emphasize the role played by microfinance institutions in promoting financial inclusion, and thus, should be promoted along with appropriate regulation and supervision.

The banking Commission, COBAC, is now endowed with strong human capacity to enable closer supervision, more frequent on-site inspections of banks and microfinance institutions.

4. *Addressing Structural Competitiveness*

The authorities agree with staff's analysis on the structural weaknesses that impede competitiveness. They are aware that strengthening the economies' resilience will require tackling these bottlenecks, notably through closing critical infrastructure gaps (energy, roads, telecommunications) and improve the business environment, notably in the areas of paying taxes, ease of doing business, and judicial systems.

Enhancing the Regional Convergence Framework and Regional Institutions

The authorities have put in place a new regional convergence framework. This new framework has been submitted to the Heads of States for approval, with the view to reinforcing its legitimacy and ownership.

All regional institutions are being strengthened and encouraged to cooperate closely. Thus, the CEMAC Commission and BEAC will be strengthened, notably in data sharing. In addition, the CEMAC PFM directives are being pushed for incorporation into national legislation, with expected major progress by end-2017. Other regional institutions, including the development bank (BDEAC) and the agency in charge of enforcing AML/CFT requirements (GABAC) are being endowed with adequate capacities to meet their respective mandates.

III. CONCLUSION

The regional authorities have reaffirmed their commitment to put in place the necessary policies to reduce fiscal and macrofinancial vulnerabilities, strengthen policy frameworks, ensure effective compliance with the new convergence framework, enhance regional institutions while pushing efforts to lift the structural impediments to competitiveness. They are reflecting on policies and reforms to weather the economies against wide oil cycles going forward. Enhanced support from the Fund at both regional and country levels—in the form of policy advice, technical assistance and, where required, financial support—will be critical to complement the authorities' envisaged policies and reforms, help weather existing shocks, enhance resilience, and put the economy of the region on a path to more sustainable growth and development.