Statement by Mr. Yambaye, Executive Director for the Central African Economic and Monetary Community (CEMAC), and Mr. N'Sonde, Senior Adivsor to the Executive Director
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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 Cameroun 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.