

CEMAC Heads of State Summit: Analyzing the Macroeconomic Implications

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“Today's meeting has allowed us to appreciate the magnitude of the challenges. we must tackle together if we want to avoid an economic and financial crisis whose effects would be detrimental to our states.”

**Closing Speech by President Paul Biya,
December 16, 2024**

This note follows the summit of the Heads of State of the CEMAC, which addressed the deep macroeconomic imbalance recorded in the sub-region and the risks of monetary adjustments it faces. As emphasized by the President of the Republic of Cameroon, His Excellency Paul Biya, the external assets of the sub-region are significantly declining, leading to profound imbalances. From the President's speech and the communiqué concluding the extraordinary session of the Heads of State of the CEMAC to remedy this situation, concerted actions within the sub-region and coherent economic policies must be implemented across several dimensions, including monetary policy, fiscal consolidation, exchange regulation, and the independence of CEMAC institutions. It is also essential to consider structural reforms that promote economic diversification, thereby reducing dependence on natural resources and fluctuations in global prices. Furthermore, cooperation among CEMAC member states must be strengthened to ensure a collective response to economic challenges. Improving transparency and governance in the management of resources and public finances is crucial to regain the trust of investors and international partners. Finally, initiatives aimed at promoting financial inclusion and supporting small and medium-sized enterprises (SMEs) can play a key role in stimulating economic growth and job creation, thereby contributing to the macroeconomic stability of the region.

These various measures allow for an analysis of the macroeconomic implications that arise. Two major concerns emerge: those related to economic policies and those related to governance.

I. Measures Related to Economic Policy

This involves addressing the issues related to monetary policy, fiscal consolidation, exchange regulation, and the financial system of the sub-region.

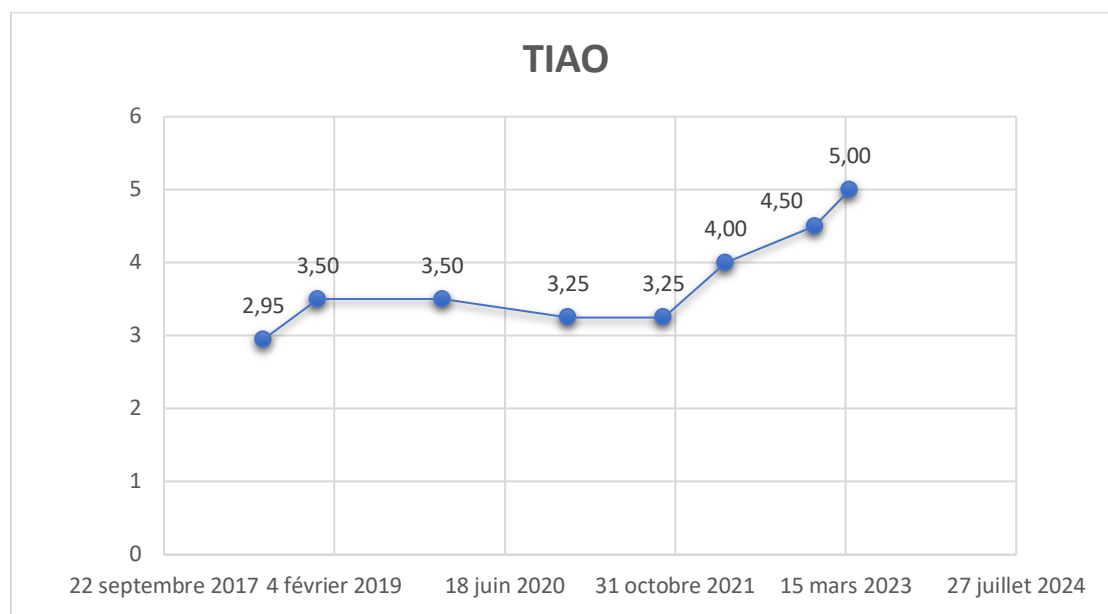
I.1 The Restrictive Orientation of Monetary Policy

Observation: In the current context, although the inflation rate is following a downward trend, it remains high. According to the Bank of Central African States (BEAC), inflation for 2024 is projected at 3.7%, compared to 6.7% and 4.6% respectively for 2022 and 2023. In any case, this rate remains above the community norm set at 3%.

Measures to Take: In the face of this persistent inflationary pressure, it is therefore recommended to adopt a restrictive monetary policy to stabilize prices and control inflation. It is also crucial to evaluate and implement the necessary measures to support economic growth while controlling inflation. This could include initiatives aimed at stimulating productivity and the supply of goods and services, as well as strengthening price control mechanisms in essential sectors. In parallel, clear and transparent communication from monetary authorities will be essential to maintain the confidence of consumers and investors in the economy.

However, if the restrictive orientation of monetary policy proves to be the optimal solution, it is important to emphasize that the BEAC has taken the lead. Indeed, the BEAC's key interest rates, also known as the Auction Interest Rate (TIAO), have continually increased in recent years, as illustrated by the graph below. This gradual increase reflects the central bank's commitment to controlling inflation and stabilizing the region's economy in the face of macroeconomic challenges.

Figure 1: Monetary Policy Rate Trends of the BEAC



Sources: BEAC's Monetary Policy Committee

The increase in the TIAO has significant implications for credit. Indeed, when the TIAO rises, the borrowing costs for commercial banks also increase, resulting in higher interest rates for loans granted to businesses and consumers. This can lead to a reduction in credit demand, as borrowers may be discouraged by higher borrowing costs. Consequently, this can slow down business investments and limit household consumption, which could negatively impact short-term economic growth.

However, it is equally crucial to reduce inflation to preserve consumers' purchasing power and promote a stable economic environment. Controlled inflation helps maintain investor confidence, which is essential for attracting foreign investments.

Challenge: One implication of the summit of the Heads of State would therefore be the maintenance of a restrictive monetary policy to ensure the reduction of inflation and the gradual rebuilding of external reserves. This strategic choice aims not only to stabilize prices but also to strengthen the confidence of investors and international partners in the economy of the sub-region.

I.2 Appropriate Fiscal Consolidation

Observation: Fiscal consolidation refers to a set of measures and economic policies aimed at improving a country's financial health by reducing its budget deficit and stabilizing its debt level. The need to focus on this in the CEMAC region is primarily justified by the high level of budget deficits and debt that is currently at a critical level. According to statistics from the International Monetary Fund (Regional Economic Outlook, October 2024), the debt level represents 53.2% of GDP, and the non-oil fiscal deficit in 2023 was nearly 11% (World Economic Outlook, October 2024).

Measures to Take: Reducing the Budget Deficit

i. Boosting Private Consumption and Investment

This objective aims to implement tax reforms that incentivize investment. It is recommended to adopt, in collaboration with the private sector, fiscal easing measures that are likely to generate more investments. While this may lead to a short-term loss in terms of tax revenue mobilization, such measures should increase revenue levels in the long term and, therefore, promote greater growth. The lever will not be increased pressure on corporate taxes, which could stifle the private sector, but rather a tax system whose long-term effects are assured.

Additionally, the rise in income within social networks, informal transactions in land, and the proliferation of cyclical activities represent potential sources of financing to explore. Accelerating non-tax revenue is a path to consider. This fiscal coverage will allow startups operating in the informal sector to benefit from better access to formal financial services.

It is also essential to emphasize that the implementation of these fiscal reforms must be accompanied by awareness-raising and support for businesses, particularly small and medium-sized enterprises (SMEs), to help them understand the benefits of the proposed measures. An information campaign could be established to educate entrepreneurs about investment opportunities and available tax incentives.

Furthermore, collaboration with financial institutions to develop products tailored to the needs of startups and informal businesses would be beneficial. This includes creating guarantee mechanisms to reduce the risks associated with financing startups, which would facilitate their access to credit. Finally, it is crucial that fiscal reforms are accompanied by regular monitoring and evaluation of their impact on the economy. This will allow for policy adjustments based on observed results and ensure that the objectives of incentivizing investment and mobilizing tax revenues are achieved in a balanced manner.

ii. Rationalization of Public Spending

This measure aims to drastically reduce the state's current expenditures. Concrete actions to consider include merging ministries and reducing government personnel, which will help decrease operational costs and manage resources more efficiently.

In addition, measures should be taken to improve the performance of state-owned enterprises that present a significant budgetary risk (e.g., replacing incompetent managers and appointing competent leaders through competitive bidding, ensuring that the job profile matches the occupant's profile, and that the monitoring and incentive systems work effectively). In my view, the privatization of historically underperforming enterprises is not feasible; it is essential to establish a mechanism for producing leaders (procedures for their appointment) that could guarantee their performance.

The implementation of digital solutions to improve the efficiency of public services will also help reduce costs and facilitate citizens' access to services. For example, the e-visa has reportedly generated approximately 29 billion for the Cameroonian government in one year, like the case of the passport, whose digitization has facilitated revenue collection, as well as the payment of fees through insurance or the digitization of other tax services. Furthermore, reducing subsidies to less prioritized sectors will allow funds to be redirected toward crucial areas such as education, health, and energy infrastructure, thereby promoting sustainable development. However, it is essential to analyze the impact of the recent fuel price increase to simulate a reduction in subsidies toward areas with a broad impact, such as health.

Challenge: Implementing policies aimed at increasing transparency and accountability in public financial management is critical to ensuring optimal resource use and enhancing citizens' trust in institutions. These measures, working synergistically, will contribute to stabilizing public finances and creating an environment conducive to sustainable economic growth.

Measures to Take: Rigorous Implementation of Foreign Exchange Regulations

Observation: In 2019, the BEAC implemented new foreign exchange regulations aimed at strengthening external reserves through the repatriation of foreign assets. This regulation replaced all national regulations adopted by the member states. Although the implementation of this new regulation quickly yielded encouraging results a few months after its introduction, it appears that the modalities of its application currently face difficulties, particularly due to the low level of repatriation.

Measures to Take: It is crucial for CEMAC countries to enforce a strict application of this regulation on all businesses. Additionally, mutual dialogue between companies subject to this regulation and the BEAC is essential for establishing a process that facilitates its implementation. This dialogue will not only help identify obstacles to the regulation's application but also promote a better understanding of the requirements and benefits associated with foreign exchange regulations. To enhance the effectiveness of this regulation, it would be pertinent to explore incentive measures for companies, such as temporary tax relief for those complying with repatriation requirements. Moreover, awareness campaigns on the importance of repatriating assets could encourage better compliance among businesses.

Challenge: It is recommended to establish regular monitoring and evaluation mechanisms to measure the impact of the regulation on external reserves and adjust policies based on the results obtained. This will ensure compliance and strengthen confidence in the CEMAC financial system, fostering a more stable and predictable economic environment.

I.3: Strengthening the Financial System

Observation: The President of the Republic of Cameroon emphasized in his closing speech, "Concerns regarding the solvency of banks and the stability of the financial system in CEMAC are becoming increasingly pressing, due to several interconnected factors that jeopardize the financial health of banking institutions. Here are the main points of concern:

- **High Levels of Non-Performing Loans:** The rate of non-performing loans in the banking sector of CEMAC has reached alarming levels, estimated between 12% and 15% of loans in 2023. This high level indicates that many borrowers are unable to repay their loans, leading to significant potential losses for banks. For example, Gabon has reported a particularly concerning non-performing loan rate, with financial institutions indicating that nearly 15% of their loan portfolios are in default. This situation exposes banks to liquidity and profitability risks, as provisions for non-performing loans increase, thereby reducing their capacity to extend new loans and support the economy. Additionally, a high rate of non-performing loans can affect investor and depositor confidence, compromising the overall stability of the financial system.
- **Risk of Solvency:** The solvency of banks is also undermined by the high levels of debt among member states. For example, Gabon's public debt ratio exceeded 70% of GDP at the end of 2023, representing an increase from 65% of GDP recorded in 2022. This concerning situation is exacerbated by persistent

budget deficits, projected at 5.8% of GDP for 2023. The situation in Congo is even more alarming. If governments fail to meet their financial obligations, this can have direct repercussions on the financial health of banks, increasing the risk of default. The dependency on unstable revenues, particularly those generated by the oil sector, further complicates the situation.

- **Volatility of Export Revenues:** This volatility can lead to sharp declines in government revenues, thereby affecting banks' ability to recover loans. When oil prices fall, state tax revenues plummet, limiting their capacity to finance projects and maintain public spending levels. Consequently, banks may face an increase in non-performing loans, as borrowers, whether businesses or individuals, may struggle to repay their loans due to decreasing incomes. Furthermore, reliance on oil exports heightens economic uncertainty in the region, potentially deterring foreign investment and hindering long-term economic growth. In 2023, an increase in oil prices was observed, but the sustainability of this recovery remains uncertain, continuing to pose risks to the financial stability of banks and the overall economic health of CEMAC countries.
- **Liquidity Pressure:** Access to domestic financing through the public securities market is tightening to levels that could jeopardize public spending execution and deteriorate debt sustainability. Indeed, limited access to external financing exacerbates the funding difficulties faced by states. The risks associated with increased reliance on payment arrears and financing secured by future revenues are high; if these risks materialize, they would reduce future maneuvering space while undermining economic growth and the banking system.

Measures to Take: To mitigate the effects of the above observations on the economy and the banking sector, it is crucial for CEMAC countries to diversify their economies and develop risk management strategies that account for fluctuations in commodity prices.

Challenge: As the President noted in his closing speech, there is a need to accelerate the pace of structural reforms regarding governance. This is an opportunity to focus on the governance of institutions in the sub-region and their capacity to discipline leaders and actors within the CEMAC region.

II. Governance

This section aims to examine the governance of CEMAC institutions and the governance mechanisms that need to be implemented.

II.1 Governance of CEMAC Institutions

There are at least six institutions in the sub-region: the CEMAC Commission, COSUMAF, BVMAC, BEAC, BDEAC, and COBAC. It is essential to examine the impact of governance on macroeconomic performance, given its influence on the economic stability and growth of a country.

Indeed, the quality of institutions is a determining factor in creating a conducive business environment, which can stimulate investment and economic development. Conversely, weak governance is often associated with high levels of corruption and poor resource management. The current crisis within CEMAC raises questions about the quality of the institutions in the sub-region. It is crucial to assess their effectiveness and capacity to meet economic challenges, as strong institutions are essential for establishing investor confidence and ensuring sustainable growth.

Table 1: Missions of the CEMAC Institutions

Missions	
<i>CEMAC Commission</i>	
Promote harmonious development among member states within the framework of establishing a genuine common market.	It works towards enhancing integration and socio-economic development among member states; it strengthens cooperation between member states and coordinates their activities in areas of common interest
<i>COSUMAF: Commission for the Surveillance of the Financial Market</i>	
Ensure the protection of savings invested in financial instruments and other investment products.	It serves as the regulatory, control, and oversight authority for the Central African Financial Market.
<i>Missions of the BEAC</i>	
Conduct the exchange rate policy for the CEMAC region; hold and manage the official foreign exchange reserves of member states; promote payment and settlement systems and ensure their proper functioning.	In terms of their monetary missions, the primary objective of central banks in most advanced economies is to maintain price stability. Other objectives may include full employment or financial stability.
<i>Mission of the Central African Development Bank (BDEAC)</i>	
It is the financial arm of CEMAC, aiming to transform the economies of its member states into a vast integrated	Promote sustainable development in CEMAC countries by assisting member states, sub-regional organizations,

zone in industrial, commercial, and social terms, where development disparities tend to diminish.	financial institutions, and economic operators in mobilizing financial resources
<i>Mission of the Central African Stock Exchange (BVMAC)</i>	
Serve as a public service responsible for organizing, promoting, and managing the financial market of Central Africa.	This includes the collection and centralization of public revenues, subject to specific statutory provisions; formulation of rules for the accounting of public revenues and expenditures; and monitoring compliance with accounting standards and procedures.
<i>Mission of the Banking Commission (COBAC)</i>	
Hold and manage the official foreign exchange reserves of member states; promote payment and settlement systems and ensure their proper functioning; and promote financial stability within the monetary union.	This includes controlling credit institutions and decentralizes financial systems, alongside implementing administrative measures and disciplinary sanctions against regulated entities or responsible leaders.

Sources: CEMAC's institution Website

Observation: The analysis of the missions of the various institutions of COBAC suggests that the current crisis in CEMAC is partly due to their failures and inability to regulate the sectors of activity assigned to them. This demonstrates that they struggle to enforce strict compliance from states and economic actors. This situation raises questions about the interdependence of these structures, the sharing of information, the processes in place, as well as the quality of the individuals who lead them.

Measures to Take: It is crucial to conduct an audit of these structures to correct the vulnerabilities that undermine their performance.

Challenge: The quality of the individuals appointed to lead these institutions is essential. Therefore, it is necessary to question the established rotation system to ensure that it allows for the appointment of leaders whose profiles are suited to the positions and specific challenges of the sub-region.

II.2 Governance Mechanisms to Activate

Governance is undoubtedly the main lever to be activated for the noble intentions of economic policy to materialize. Several measures can be mobilized, and we identify six urgent ones:

- 1. Compliance with Exchange Regulations:** Since this measure was implemented, there appears to have been local investments, as income holders can no longer place funds outside the CEMAC zone. A restrictive bureaucracy

does not attract investors. Similarly, a weak rule of law and a slow, partisan justice system do not favor investment and deteriorate the business climate.

2. **Risk of Political and Social Crisis:** The risk of political and social crises also contributes to constraining business activities.
3. **Regulatory Measures:** Regulatory policies need to be enacted to promote sectors that generate foreign currency, and these sectors should be structured to foster growth. The National Technical Committee for the Balance of Payments identifies four key sectors for foreign currency: agriculture, hydrocarbons, transport, and forestry. Proper regulation of these sectors can generate revenue, as evidenced by the decision to prohibit chicken imports, even though inputs for this sector are still imported from abroad.
4. **Financing Through Public-Private Partnerships:** It is essential to prioritize financing through public-private partnerships rather than through debt. In this context, it is the investors who bear the risk, not the state. The financing of projects at the Port of Douala serves as a good example in this area.
5. **More Aggressive Approach to Attracting Investors:** A more proactive approach to attracting investors is necessary. For instance, the President's trip to China resulted in investments of over 100 billion. The IMF may provide us with 179 billion in the next disbursement. This indicates that two or three trips by the President can yield much more than what the IMF promises.
6. **Infiltrating the Lobbying of Major Oil Companies:** It is important to infiltrate the lobbies of major oil companies that operate in the corridors of major economic powers. These oil lobbies can serve as valuable intermediaries for negotiations.

In conclusion, it can be asserted that the summit of Heads of State on December 16, 2024, has a particular resonance. It barely conceals impending austerity measures reminiscent of the structural adjustment programs of the 1980s to 2000s. While countries have not yet fully digested the social effects of these adjustment measures, additional pressures are mounting. Unlike in the past (at least in terms of appearances), countries maintain "the hand on the wheel." While they are obligated to ensure the required macroeconomic balances, they still retain some discretion in choosing priorities, if these converge towards the required macroeconomic equilibria.