Central Africa Economic Outlook 2021

Debt Dynamics: The Path to Post-COVID Recovery

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EXECUTIVE SUMMARY

The COVID–19 pandemic has been contained relatively successfully in Central Africa, which comprises the six member countries of the Central African Economic and Monetary Community (CEMAC)—Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon—and the Democratic Republic of Congo. Partly due to government lockdowns, mask requirements, and mobility restrictions and partly to the region's younger populations and distance from highly infected areas, COVID-related deaths in the seven countries totaled about 2,953 at the end of June 2021. Thus, the region's COVID deaths accounted for just 2.1 percent of all COVID deaths in Africa—the lowest level of all African regions. The highest tolls have been in Cameroon and the Democratic Republic of Congo, with 1,320 and 916 deaths respectively as of June 27, 2021.

Still, the pandemic has affected all Central African countries by damaging economic growth. The region's economies, which were struggling before COVID-19 due to security challenges and oil price volatility, have experienced significant shocks due to their heavy dependence on oil exports. The curtailment in economic activity, coupled with decreased international demand for oil amid plummeting prices, caused the region's average growth rate to fall to –2.6 percent in 2020, down from 2.8 percent in 2019. The worst-affected countries were the Republic of Congo (–6.8 percent), Equatorial Guinea (–6.1 percent), and Gabon (–2.7 percent). Country with positive growth rates in 2020 were the Central African Republic (0.4 percent).

The pandemic has led to widening fiscal and current account deficits in Central Africa. Overdependence on oil revenues led to an average fiscal contraction of –4.6 percent of GDP for oil exporters and a widening of the current account deficit to more than –9.0 percent for Chad, Equatorial Guinea and Gabon. Slow growth in nonoil revenues in the oil economies of CEMAC, along with low levels of revenue mobilization in the Central African Republic and the Democratic Republic of Congo, have led to inadequate fiscal buffers. Moreover, total debt in Central Africa rose from an average of 48 percent of GDP in 2019 to nearly 55 percent in 2020. The region has benefited from significant external emergency financing.

Inflation has also risen in several Central African countries. The largest increase has been in the Democratic Republic of Congo, where it reached 11.8 percent in 2020, partly due to macroeconomic policy and a falling currency. Chad and Equatorial Guinea also experienced higher inflation.

In facing the global crisis, reducing poverty and ensuring inclusive growth should be part of the regional policy dialogue, with implementation of social programs and reforms. COVID-19 is expected to have increased the number of poor people in the region by several million in 2020. Per capita income growth fell from –0.9 percent in 2019 to –5.6 percent in 2020. The coronavirus will have longer-term negative effects on human capital because of lockdowns, shutdowns of schools, and reductions in the provision of healthcare.

Central African governments introduced several socioeconomic measures after COVID-19 first surfaced. CEMAC countries and the Democratic Republic of Congo enacted stimulus measures equivalent to several percentage points of GDP, combining tax relief and liquidity injections with spending for public health measures and social sectors. These have varied by country depending on political economies. Only the Democratic Republic of Congo, which is on a flexible exchange rate system, has used its exchange rate to actively respond to the shock. In CEMAC countries monetary policy became more accommodative; in July 2020 the Bank of Central African States started repurchasing public debt securities totaling CFAF 600 billion ($1.04 billion).

Though there are potential risks, the regional outlook remains favorable for a post-COVID recovery. Countries are expected to rebound to average 3.3 percent GDP growth in 2021, mostly thanks to higher oil prices. Successful containment and the global recovery have helped revive activity in CEMAC countries. The main risks remain new variants of the coronavirus, slow vaccination rollouts, and security issues—especially in Cameroon, the Central African Republic, Chad, and the Democratic Republic of Congo.

To foster recovery, it will be crucial to strengthen fiscal buffers through aid or domestic revenue mobilization. In addition, better governance can help ensure that fiscal measures target vulnerable populations. Finally, CEMAC should examine exchange rate reform to find a system that promotes growth and adjustment to shocks.

CHAPTER 1

RECENT MACROECONOMIC TRENDS AND DEVELOPMENTS

1.1 COVID-19 IN A REGIONAL CONTEXT

Africa has not been immune to the COVID-19 pandemic but confirmed cases and deaths have been significantly lower than elsewhere. In Central Africa the first confirmed case was in Cameroon on March 6, 2020. Though COVID-19 was expected to spread exponentially across the region, its trajectory has been muted, with waves of infections taking a different shape than in China, Europe, India, and the United States. As of June 27, 2021, there had been 179,023 COVID cases and about 2,953 deaths in Central Africa (AfDB 2021b). But in terms of deaths per confirmed cases—the case fatality rate—Central Africa stood at 1.6 percent, compared with the African average of 2.6 percent. West Africa had the continent's lowest case fatality rate at 1.3 percent, followed by Central Africa at 1.6 percent, East Africa at 2.0 percent, Southern Africa at 2.8 percent, and North Africa at 3.0 percent. Two Central African countries recorded case fatality rates higher than the regional average, with Chad at 3.5 percent and the Democratic Republic of Congo at 2.3 percent.

Among the members of the Central African Economic and Monetary Community (CEMAC)—Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon—the case fatality rate averaged 1.5 percent, just below the Central African average. Gabon had the region's lowest case fatality rate, at 0.6 percent, followed by the Republic of Congo at 1.3 percent (including the Democratic Republic of Congo, which is not a member of CEMAC). Factors behind this relatively low death rate include the region's younger populations, geographic distance from contagious clusters, and rapid responses by governments, partly due to their experience managing pandemics such as Ebola. Ebola also provided some healthcare workers with expertise in tackling pandemics.

In March 2021 a second wave of COVID hit Africa harder than the first, so the situation is evolving. Daily new infections across the continent have been about 30 percent higher during the second wave, though there is consensus that death rates will remain low (Salyer and others 2021).

This chapter analyzes Central Africa's macroeconomic performance in 2020 and its prospects for 2021–22. It starts by describing government responses to COVID-19. Then it explores major macroeconomic indicators for the region's seven countries. The chapter concludes with discussions of COVID's effects on small and medium-size enterprises and on incomes and poverty.

Box 1.1: COVID-19 responses and rates in Central Africa

All the countries in the region experienced their first cases of COVID in March 2020 (box table 1.1). Though their responses have differed, all the governments in the region have taken the pandemic very seriously.

Cameroon. In mid-March 2020 the government closed the country's land, air, and sea borders. In April it took additional steps to stop the spread of the virus, including requiring mask wearing; boosting local production of drugs, screening tests, protective masks, and hydroalcoholic gels; establishing COVID-19 treatment centers in all regional capitals; and conducting a public awareness campaign. But restrictive measures were eased on April 30, 2020. According to the authorities, their goal was to avoid excessive economic and social distortions, the effects of which were already being felt in several sectors. Faced with a renewed health crisis, in March 2021 the government urged the population to comply with the health and safety measures that had been announced in March 2020. As of June 27, 2021, there had been 80,487 confirmed cases of COVID-19 and 1,320 deaths.

Central African Republic. The government announced policy measures to contain the pandemic on April 27, 2020. Cases peaked in the summer of 2020 and have since stabilized. One challenge has been that two-thirds of cases are due to domestic transmission, but almost 85 percent of imported cases have come from neighboring Cameroon. Another challenge has been the difficulty of implementing containment policies because of the large portion of territory under the rebels' control. As of June 27, 2021, there had been 7,139 cases and 98 deaths.

Chad. The government has implemented strong measures in the context of a state of health emergency. They have included an emphasis on social distancing; the closure of air and land borders; the closure of markets, bars, and restaurants for many months; the containment of the city of Ndjamena; and the introduction of a night curfew. These efforts have helped contain the pandemic. As of June 27, 2021, there had been 4,951 cases and 174 deaths.

Democratic Republic of Congo. After the pandemic started hitting the country, the authorities quickly implemented measures to restrict movement—especially in the capital, Kinshasa. That was a major challenge in a country of 89.5 million people, and the population followed the containment measures inconsistently. After that the government declared a state of emergency and imposed confinement in Kinshasa, including restrictions on travel between the city and the rest of the country. The government also banned gatherings of more than 10 people, barred spectators from sporting events, shut borders to non-cargo shipments, and closed schools, universities, and religious services. Most of those measures have since been lifted, such as the reopening of schools and religious events adhering to social distancing protocols. Passenger flights to and from abroad, suspended early on, have been reauthorized for passengers providing proof of a negative COVID-19 test. But in the wake of the second wave of the virus, in December 2020 an indefinite curfew (between 9 p.m. and 5 a.m.) was introduced. Combined, these measures have had catastrophic effects on employment. The country had more than 40,254 cases and 916 deaths as of June 27, 2021.

Republic of Congo. The authorities adopted measures to contain COVID's spread and economic effects in March 2020. Cases peaked in July 2020, then began falling until October 2020. However, the recovery rate remains above 80 percent, and less than 1.5 percent of the population has tested positive. As of June 27, 2021, the country had 12,485 confirmed cases and 165 deaths. The country has been under a state of health emergency since April 2020 and has put in place a strategic plan to vaccinate at least 20 percent of the population by 2021. As of March 24, 2021, the country had received only 100,000 doses of Sinopharm vaccine and 50,000 doses of Sputnik, which improved to 38,268 vaccinations of all doses after receiving more supplies. The percentage of the population vaccinated was estimated at 0.7 percent as of May 30, 2021.

Equatorial Guinea. The authorities have taken several containment measures in response to the pandemic, including the closure of borders and schools and the introduction of curfews. On June 15, 2020, they relaxed restriction and containment measures. The pandemic peaked in late July 2020 with about 2,500 active cases, after which cases gradually declined to 40 as of October 31, 2020. Since then that number has remained relatively stable. As of June 27, 2020, there had been 8,723 cases and 121 deaths.

Gabon. In March 2020 the government announced containment measures similar to those in Cameroon and made mass testing a priority. In July the measures were modified to allow the reopening of some facilities such as hotels, restaurants that can serve customers outdoors, and establishments specializing in takeout sales, and the pandemic has since stabilized. In February 2021 the government tightened prevention measures, introducing a curfew from 6 p.m. to 5 a.m., a ban on travel without special permission outside Libreville and its surroundings, limits on international flights to two per week per airline, and a shutdown for businesses that do not respect the health measures. The government recently started vaccinations using 100,000 doses of the Sinopharm vaccine. As of June 27, 2021, there had been 24,984 cases and 159 deaths.

Source: Staff analysis based on African Development Bank statistics.

Box table 1.1: COVID-19 tracking in Central Africa as of May 30, 2021				
	Total cases	Total deaths	Total recovered	Total active cases
Central Africa	179.023	2.953	119.427	56.643
Cameroon	80.487	1.320	35.261	43.906
Central African Rep.	7.139	98	6.859	182
Chad	4.951	174	4.769	8
Congo Rep.of	12.485	165	11.211	1.109
Congo Dem. Rep	40.254	916	28.219	11.119
Equatorial Guinea	8.723	121	8.510	92
Gabon	24.984	159	24.598	227

Source: African Development Bank statistics.

1.2 RESPONSES TO THE PANDEMIC

Mirroring international trends, the authorities in Central Africa introduced myriad policies in response to the pandemic (box 1.1). These measures were implemented in four phases.

Phase 1

At the onset of the crisis in March 2020, most Central African governments introduced containment measures, lockdowns, and public awareness campaigns.

Phase 2

Over the next few months (after April 2020), most Central African countries developed stimulus packages that included fiscal support, a monetary policy response, financial sector credit, and trade reform (table 1.1). Some governments also took steps to address their growing debt. The measures adopted were based on income level and fiscal space, and included:

- Fiscal support for vulnerable populations (Cameroon, Central African Republic, Chad).
- Loans, guarantees, and tax breaks for small, medium-size, and large enterprises and reimbursement of value-added tax (VAT) credits to businesses through an allowance of CFAF 25 billion ($43.5 million) to support their cashflows (Cameroon).
- Provision of food and changes to food policy. The combination of COVID-19 and the devasting lean season in 2020 led to a food crisis. The number of food-insecure people was expected to increase from nearly 4.0 million to 5.1 million. Reforms in supply chains have been applied to avoid artificial shortages and price increases (Chad).
- Monetary policy response and adjustment of exchange rates (Democratic Republic of Congo).
- Negotiation of new financing programs with donors (all countries; the Republic of Congo and Equatorial Guinea will have a harder time securing financing programs due to macroeconomic considerations and slippages in policy reforms).
- Ambitious trade and tariff policy reforms (all countries).

- Debt standstills and debt relief (Cameroon, Central African Republic, Democratic Republic of Congo, Republic of Congo).
- Reissuance of 10-year Eurobonds to increase financing (Cameroon).[1]

Phase 3

In the summer of 2020, many restrictions were lifted and there was a partial resumption of economic activity.

Phase 4

Countries began resuming normal economic activity at the end of the first quarter of 2021 despite a potential second wave of COVID-19.

Other efforts

Among CEMAC members the CFAF exchange rate is fixed, so the degree of monetary policy reform was constrained. But in March 2020 the Bank of Central African States introduced accommodative measures to ensure adequate liquidity in banking systems and took steps such as:

- Lowering the policy interest rate from 3.5 to 3.25 percent.
- Cutting the interest rate from 6 to 5 percent on the marginal lending facility.
- Reducing minimum reserve requirements from 13 to 10 percent and decreasing capital adequacy ratios.
- Providing longer-term liquidity injections for banks of CFAF 240–500 billion ($417.4– 869.6 million).
- Setting up a long-term lending instrument for banks and a six-month government securities purchase program from banks.
- Advising banks to grant moratoriums on loan obligations to borrowers in good standing as of the end of March 2020. There was also a moratorium on insurance payments and loan repayments during April–September 2020 for households and small and medium-size enterprises.

[1] Cameroon's Eurobond operation, planned for mid-2021, is meant to help refinance the first Eurobond issued by the country in 2015. The interest rate is 9.75 percent. The operation is meant to support the government budget and will prevent Cameroon from fully benefiting from the Debt Service Suspension Initiative (DSSI), under which debt relief.

Table 1.1: Plans and policies implemented in response to COVID-19 in Central Africa by country		
Country	**Plan description**	**Policy components**
Cameroon	Relatively comprehensive economic and strategic plan	• Creation of a national solidarity fund with initial capital of CFAF 1 billion ($1.7 million). The fund was later endowed with a budget of CFAF 180 billion ($313.0 million) mobilized from the state budget, development partners, enterprises, and individuals. • Fiscal relief for private firms, including loan guarantees and moratoriums on tax obligations. • Increased social spending equal to 1.2 percent of GDP for income compensation and emergency support. • Tax exemptions for hotels. • Acceleration of value-added tax (VAT) refunds for certified enterprises.
Central African Rep.	Plan responds to health issues with allocation of 2 percent of GDP, combined with fiscal measures	• Additional fiscal support linked to the pandemic amounts to about CFAF 15 billion ($26.1 million), with CFAF 12 billion ($20.9 million) for pandemic management, CFAF 2.6 billion ($4.5 million) for the private sector, and CFAF 0.5 billion ($0.7 million) for vulnerable households. • Tax relief for small and medium-size enterprises. • Draft budget law with about CFAF 44 billion ($76.5 million) of donor support.
Chad	Strong plan totaling CFAF 943 billion ($1.64 million), with CFAF 200 billion ($347.8 million) to be mobilized under the 2020 budget	• Minimum of CFAF 25 billion ($43.5 million) to reinforce food security stocks, with CFAF 5 billion ($8.7 million) available immediately for emergency relief. • Creation of a national solidarity fund of CFAF 100 billion ($174 million) to support vulnerable populations. • Provision of fiscal relief for households and for water and electricity charges from utility companies. • Fiscal support for small and medium-size enterprises, including halving of the business license fee, tax breaks, and delays in tax payments • Establishment of a Youth Entrepreneurship Fund equivalent to 0.6 percent of nonoil GDP. • Enactment of a supplementary budget for 2020. • Clearance of domestic arrears.
Congo, Dem. Rep.	A $ 2.6 billion multisectoral plan to address socioeconomic impacts of COVID-19	• Fiscal support for private sector firms affected by the pandemic. • Free water and electricity for targeted populations. • Revision of the 2020 budget law to reallocate funds to social and health expenditures. • Plan for post-COVID recovery to improve social spending, especially on healthcare.

Congo, Rep.	Government revised fiscal policy and allocated CFAF 100 billion ($174 million) to the economic recovery fund	• Adoption of a revised budget law that increased public spending by nearly 6 percent. • Strong push for public investment in the health system. • Increased public spending for enterprise support and vulnerable populations, especially for basic services such as health, water, and electricity. • Creation of a CFAF 100 billion ($174 million) solidarity fund to address population needs.
Equatorial Guinea	Government took several limited policy steps	• Adoption of economic and social protection measures to combat the pandemic. • Provision of fiscal support for small and medium-size enterprises. • Revision of budgetary framework to increase social spending. • Small increase in health spending.
Gabon	Government allocated $434 million (3 percent of GDP) for wide-ranging stimulus and support measures	• Payment of water and electricity bills for low-income populations and transport costs for public companies. • Development of a fund to support rent payments and food security. • Creation of unemployment fund for private sector workers covering 50–70 percent of salaries. • Reduction of 50 percent in specific tax payments for small and medium-size enterprises. • Creation of a CFAF 225 billion ($391.3 million) financing window for enterprises. • Adoption of scheme for debt deferral by companies. • Significant tax relief and support for healthcare costs of citizens and employees.

Source: African Development Bank statistics.

1.3 DECLINING GROWTH, WIDENING FISCAL AND CURRENT ACCOUNT IMBALANCES, AND RISING INFLATION

The pandemic has had pernicious effects on Central Africa at a time when the region was already struggling with macroeconomic uncertainties, conflicts, and governance issues. The economic impacts have outweighed the epidemiological ones and will delay Central Africa's development progress. Examples include:

- A 2.6 percent contraction in the region's real GDP growth in 2020. The Republic of Congo, Equatorial Guinea and Gabon suffered the largest declines in growth (figure 1.1). Countries are expected to rebound to average 3.3 percent GDP growth in 2021, mostly thanks to higher oil prices, matching a broader continental pattern. In Angola, Nigeria, and South Africa real GDP growth will return to precrisis levels by 2022 (AfDB 2021b).
- A 4.6 percent average decline in GDP in 2020 in the region's oil-rich economies (meaning all but the Central African Republic), which have been hit hard by the pandemic. These countries also saw a fiscal contraction—largely due to revenue shortfalls—of 3.7 percent of GDP. The fiscal contraction was muted in the Democratic Republic of Congo, at 1.4 percent of GDP, thanks to budget

support from the International Monetary Fund (IMF) and African Development Bank (figure 1.2).

- A widening in the current account deficits of all countries, mostly due to declining exports. In 2020 the region's deficit stood at –6.6 percent of GDP, down from 2.9 percent in 2019 (figure 1.3). These deficits ballooned by at least 9 percent of GDP in Chad and Equatorial Guinea. Foreign direct investment inflows have also declined.
- A rise in the region's inflation, from 2.7 percent in 2019 to 5.6 percent in 2020 (figure 1.4) The largest increase was in the Democratic Republic of Congo (the only country in the region that is not a member of CEMAC), where inflation reached 11.8 percent in 2020, up from 4.5 percent in 2019. Chad and Equatorial Guinea also experienced sharp rises in inflation.
- Responses to the crisis varied by exchange rate and policy regime. CEMAC countries, with fixed exchange rates, adjusted to terms of trade shocks by borrowing and increasing debt. The Democratic Republic of Congo printed money and adjusted its currency, with marginal increases in debt.

Figure 1.1: Real GDP growth in Central Africa by country, 2019–22 (Percent)

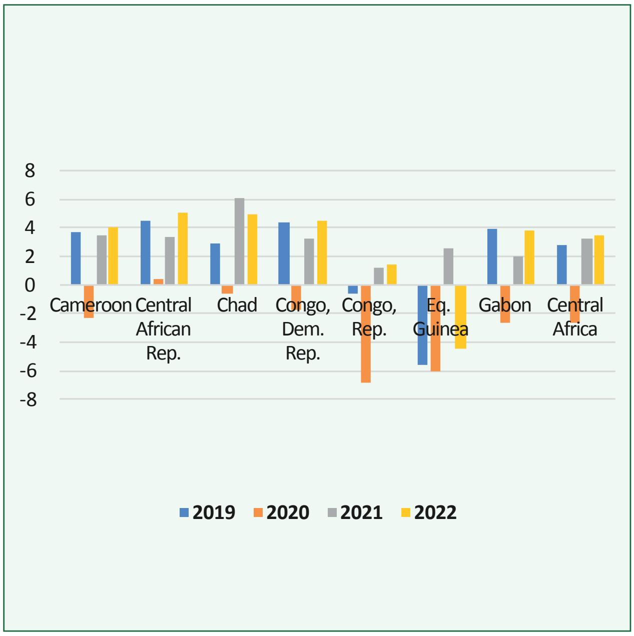
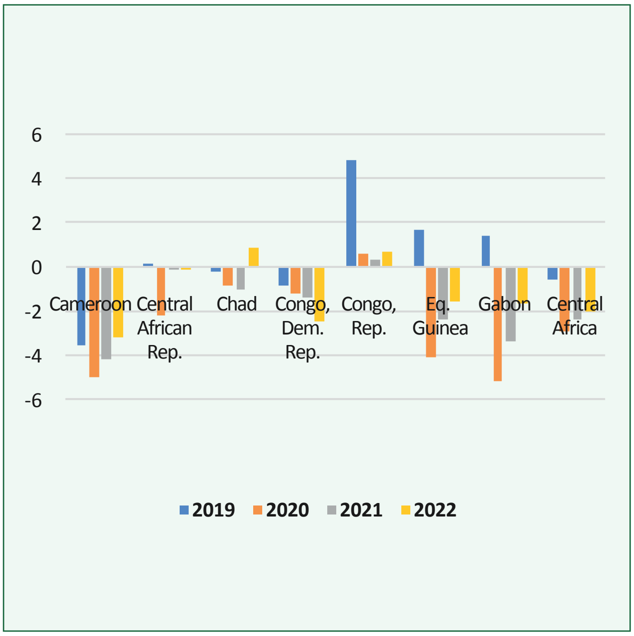


Figure 1.2: Fiscal balances in Central Africa by country, 2019–22 (Percentage of GDP)



Source: African Development Bank statistics.
Note: Data are estimates for 2020 and projections for 2021 and 2022. Fiscal and current account balances include grants.

Figure 1.3 Current account balances in Central Africa by country, 2019–22 (Percentage of GDP)

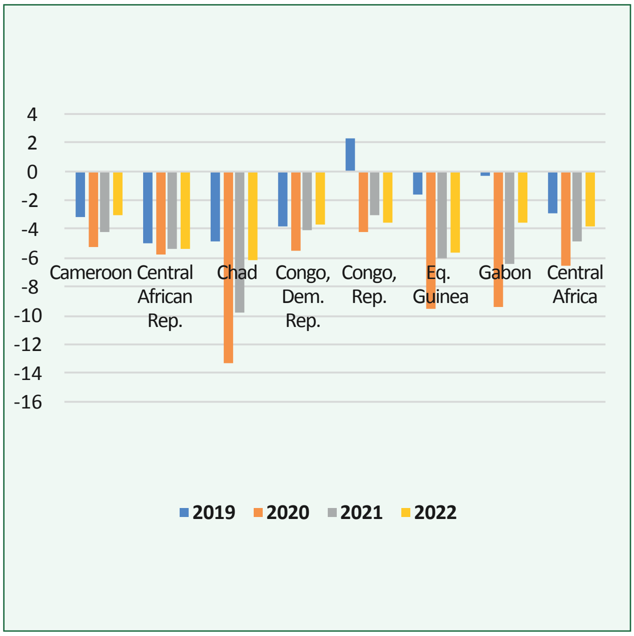
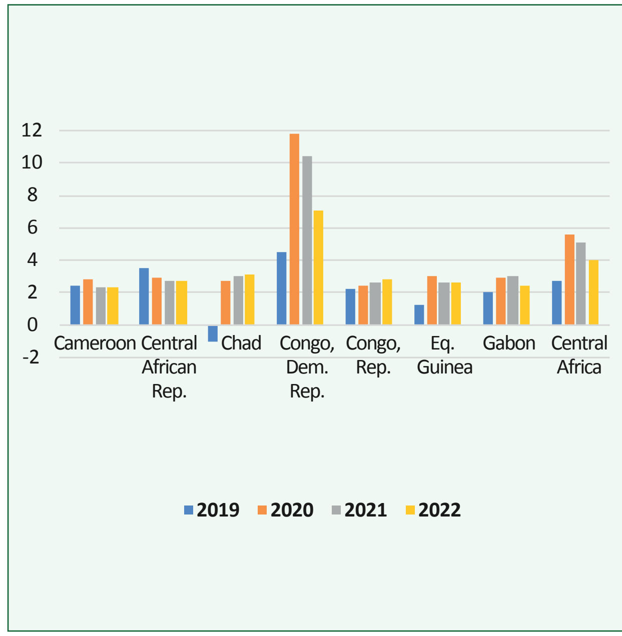


Figure 1.4 Consumer price index inflation in Central Africa by country, 2019–22 (Percent)



Source: African Development Bank statistics.
Note: Data are estimates for 2020 and projections for 2021 and 2022. Fiscal and current account balances include grants.

Cameroon. The largest economy in CEMAC, Cameroon saw real GDP growth plummet from 3.7 percent in 2019 to 0.7 percent in 2020. Growth fell across the three main sectors of economic activity, especially agriculture and manufacturing, as the country recorded its worst economic performance in two decades. Diaspora remittances also declined significantly, from $355.55 million in 2019 to $339.67 million in 2020. The pandemic has dealt a severe shock to the country's public finances and made it harder to mobilize domestic resources, reducing revenues by 20 percent relative to forecasts. The budget deficit as a share of GDP rose from 3.6 percent in 2019 to 4.9 percent in 2020, while the current account deficit went from 3.1 to 5.2 percent.

Central African Republic. The pandemic mainly affected the Central African Republic through diminished economic activity, trade, and supply chain issues as it is a landlocked country and depends heavily on Cameroon. COVID-19 amplified previous shocks because the diamond-rich country already faced difficulties in controlling its territory, with about half the country in rebel hands. As the only nonoil economy in CEMAC, the Central African Republic still managed to grow in 2020. But real GDP growth fell from 4.5 in 2019 to 0.4 percent in 2020. Its fiscal balance as a share of GDP fell from 0.2 percent in 2019 to –2.2 percent in 2020 as the government prepared emergency fiscal packages.

Chad. A landlocked oil economy, Chad had barely recovering from two years of recession in 2016–17 when the pandemic undermined that rebound. In 2020 GDP growth was –0.6 percent against the 5.5 percent initially expected. On the fiscal front, Chad experienced a deficit of –0.8 percent in 2020—despite significant pandemic-related spending that was ultimately offset by budget support from the IMF, World Bank, European Union, and African Development Bank.

Democratic Republic of Congo. The country's real GDP growth dropped from 4.4 percent in 2019 to –1.7 percent in 2020. Because the Democratic Republic of Congo is large and fragile, with a volatile political and security environment, COVID-19 amplified existing vulnerabilities. According to the Central Bank, the Business Confidence Index stayed negative from March to September 2020. There was some rebound in mining in the latter part of 2020, with copper prices recovering from their fall earlier in the year. But activities outside mining have not performed well. In 2020 agriculture grew 7.1 percent and services 0.2 percent, while manufacturing contracted 4.9 percent. As revenues fell and spending pressures increased, the budget deficit widened from 0.8 percent of GDP in 2019 to 1.2 percent in 2020. Budget tensions due to pressure from increased social spending, coupled with the low attractiveness of treasury bills, contributed to an accumulation of arrears. The deficit was financed through a combination of printing money (through August 2020) and budget support from the IMF and African Development Bank. Inflation rose from 4.5 percent in 2019 to 13.8 percent in 2020, partly as a result of a nearly 18 percent depreciation of the Congolese franc relative to the U.S. dollar and increased costs for imported goods.

Republic of Congo. In 2020 the Republic of Congo's economy, which had already been in recession for five years, was hit hard by the pandemic. Real GDP growth contracted 6.8 percent, compared with a 0.6 percent decrease in 2019. Given the country's lack of economic diversification, the collapse in oil prices in 2020 and the consequent decline in demand had negative ripple effects on the economy. Indeed, the Republic of Congo—like other OPEC members—lowered its annual production goal from 140 million barrels in 2019 to 110 million in 2020. Economic activities outside oil contracted more than 10 percent due to falls in activity in construction (–9.9 percent), trade and hospitality (–18.2 percent), manufacturing (–8.2 percent), and services (–15.7 percent). The country saw its fiscal surplus plummet from 8.8 percent of GDP in 2015 to 0.6 percent in 2020. Inflation was contained at 2.4 percent despite disruptions in production and market supply routes. The monetary policy framework of the Bank of Central African States has helped keep inflation under control.

Equatorial Guinea. Small Equatorial Guinea relies heavily on oil revenues, which in 2018 accounted for nearly 50 percent of GDP, 95 percent of export earnings, and 85 percent of budget revenues. Real GDP growth fell from –5.6 percent in 2019 to –6.1 percent in 2020—the seventh consecutive year of recession. In 2020 falling oil prices led to a 7.2 percent drop in oil sector as well as nonoil revenues, which are closely linked to the oil sector. Even agriculture registered a decline, in wood production. In 2019 the budget balance was 1.6 percent of GDP, but in 2020 it went into a deficit of 4.7 percent, contrasted to a strong surplus predicted before the pandemic. Inflation was relatively low, at 1.2 percent in 2019 and 3.0 percent in 2020.

Gabon. COVID-19 hit oil-rich Gabon at a time when the country was restoring its macroeconomic framework. Efforts between 2017 and 2019 had allowed the economy to rebound; after being near zero in 2017 and 2018, real GDP growth reached 3.9 percent in 2019. But in 2020 Gabon's real GDP contracted 2.7 percent against a projected increase of 3.7 percent. Activities outside the oil sector also declined due to restrictions on travel and gatherings. The areas most affected by the pandemic were air transport (–52.4 percent contraction), tourism (–52.0 percent), mining (–23.0 percent), industrial gas (–20.3 percent), construction (–19.2 percent), construction materials (–6.5 percent), and oil production (–1.2 percent). The country's fiscal space shrank due to the decline in oil revenue resulting from falling prices and production, the reduction in nonoil revenue due to the slowdown in economic activity, and increased spending on COVID-19. As a result, the fiscal balance widened from a surplus of 1.4 percent of GDP in 2019 to a deficit of –2.0 percent in 2020. The current account deficit also widened dramatically in 2020, to –6.0 percent of GDP. But the trade balance posted a surplus of 0.5 percent of GDP because of lower imports (–9.1 percent contraction) than exports (–3.9 percent).

1.3.1 Impacts on small and medium-size enterprises

In Central Africa more than 80 percent of jobs are in informal and small and medium-size enterprises. These jobs span a wide range of sectors including agriculture, retail trade, and transport. They are also ancillary industries to the oil sector. The pandemic's shocks to the region's small and medium-size enterprises has been significant. On the supply side, such enterprises have suffered from a decline in labor supply due to travel restrictions, quarantines, and sickness. On the demand side, there has been a collapse in revenue and demand among these enterprises, leading to significant liquidity shortages.

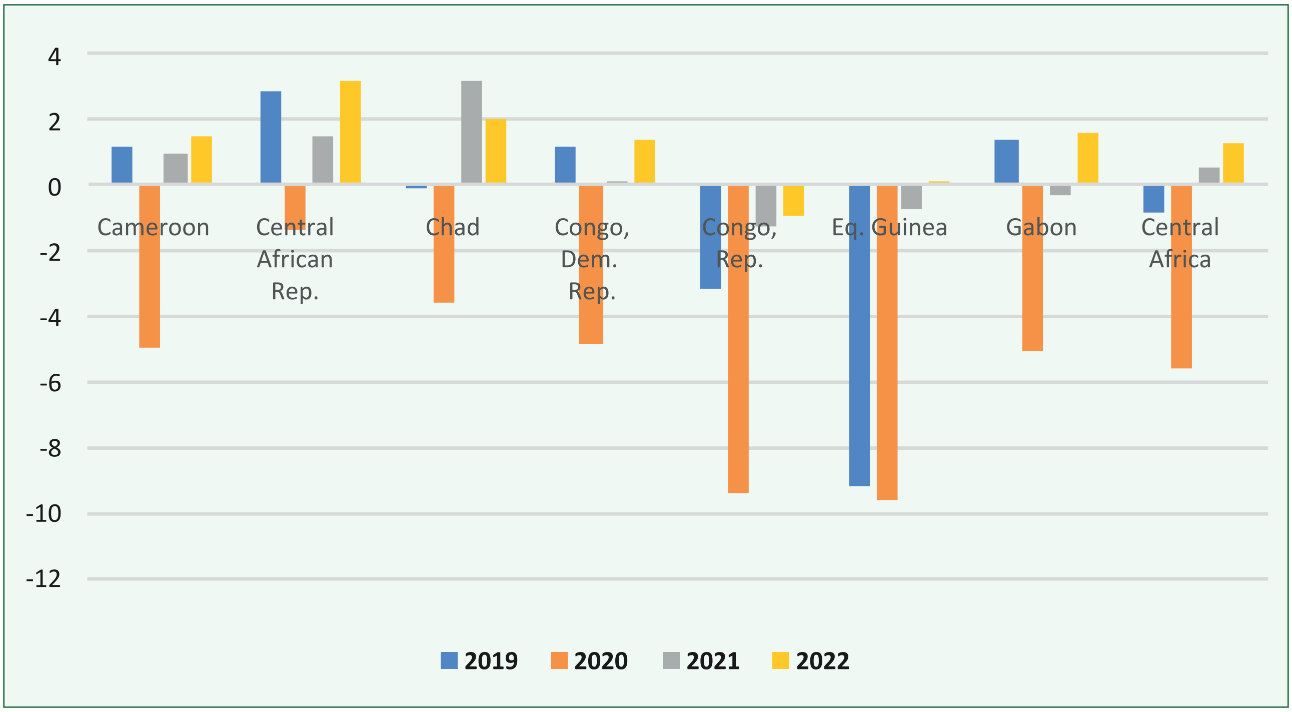
Examples abound of COVID's deleterious effects on small and medium-size enterprises in the region:

- In Cameroon, according to the Inter-Patronal Management Group (2020), more than 95 percent of companies had been negatively affected by the crisis by the end of June 2020. Annual revenue losses could reach CFAF 3,139 billion ($5.5 billion) for companies in the formal sector. This situation has also led to reduced assets, job losses (42.6 percent of companies), and layoffs (12.4 percent). At the end of June 2020, 53,346 employees on fixed-term contracts were unemployed and 13,834 permanent employees had been laid off (Inter-Patronal Management Group 2020).
- In Chad nonfood stores—which accounted for 82 percent of the 37,830 closed structures in the city of N'Djamena—were under shutdowns in early 2020. The shutdowns caused considerable revenue losses for these shops, estimated at CFAF 177 billion ($307.8 billion) in April 2020.
- In the Democratic Republic of Congo, the pandemic could destroy 30 percent of jobs in 2021 (ILO 2020). A May 2020 survey of 103 companies on the impact of COVID-19 conducted by the Federation of Congo Enterprises found that 21 percent were on total shutdown, 41 percent had postponed their investments, 14 percent had lost almost three-quarters of their turnover, and 39 percent could no longer pay salaries.
- In Gabon 70 percent of informal production units have slowed their activities because of COVID-19. The most affected areas are bars and restaurants, retail and wholesale trade, and construction.

1.3.2 Impacts on incomes and poverty

COVID-19 has worsened incomes and poverty in Central Africa. Most of the region's population is under the age of 25, and more than a quarter is unemployed, especially in urban areas. The pandemic has had three main effects on labor markets. First, there was a general decline in per capita incomes and welfare (figure 1.5). In the Republic of Congo and Equatorial Guinea these declines are expected to last longer than in countries like Cameroon and Gabon, which are more diversified. Second, COVID-19 has amplified the divide between rural and urban areas. With limited safety nets, the share proportion of the population living in poverty is expected to increase. Only formal sector employees in large companies who have pension and health benefits—and who make up a small portion of the labor force—have managed to survive economically during the pandemic.

Figure 1.5: Per capita income growth in Central Africa by country, 2019–22 (Percent)



Source: African Development Bank statistics.
Note: Data are estimates for 2020 and projections for 2021 and 2022.

- In Cameroon the social situation has deteriorated, pushing many people into precarious situations. A 2020 survey by the National Statistical Institute found that 65 percent of respondents reported having suffered a drop in wages or incomes and 43 percent reported difficulties in accessing consumer products.
- In Chad higher food prices are affecting the purchasing power of many vulnerable households.
- In Equatorial Guinea COVID-19 has exacerbated poverty, which was already 44 percent in 2011. Due to limited social safety nets and low fiscal transfers, the pandemic has amplified rural-urban inequalities, with two major cities in the country comprising most of the country's population.
- In Gabon a June 2020 survey found that job losses totaled 104,000 nationally (UN and UNDP 2020). The impacts were more severe in urban areas (Port Gentil and Franceville) and for workers engaged in trade (30.4 percent of jobs lost), education (17.1 percent), and staff services (10.5 percent). About 66.7 percent of households operating nonfarm businesses reported a decline in income, as did 64.6 percent of the nation's households. Only 45 percent of households believed that their standard of living would improve over the next year, while 27 percent said they have had difficulty obtaining essential products due to lack of income, rising prices, or unavailability.

CHAPTER 2

DEBT DYNAMICS AND FINANCING ISSUES

COVID-19 could worsen debt dynamics in Central Africa—especially for the Republic of Congo and Gabon—with adverse effects on both external and domestic debt. Accordingly, this chapter examines policy options for alleviating debt distress. Some of these options are under international discussion, including debt relief and restructuring and haircut arrangements. Given the complexity of the creditor landscape, including the role of China and private creditors, policy responses will be more complex than under traditional debt relief.

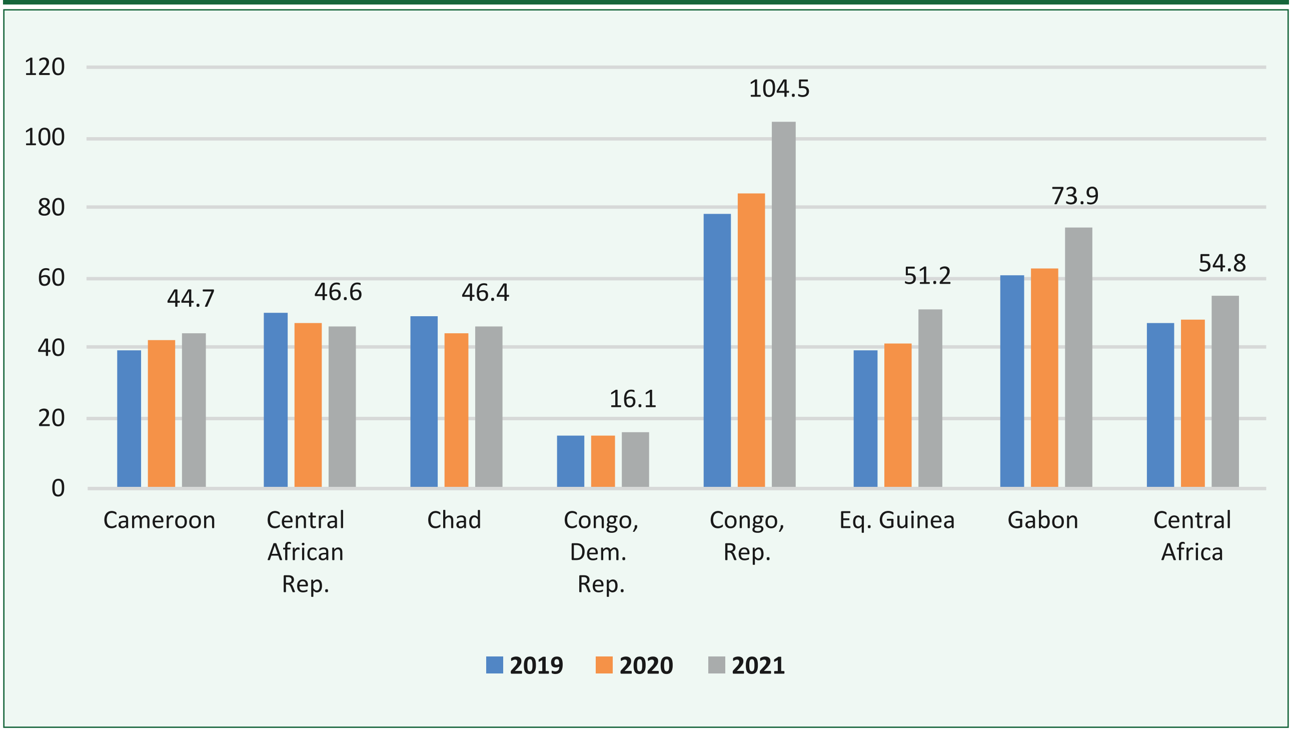
2.1 DEBT SUSTAINABILITY AND COVID-19'S IMPACTS

Even before COVID-19, debt as a share of GDP was high in many Central African countries. But the pandemic-induced combination of declining oil prices and reduced trade flows has led to deterioration in the current accounts and fiscal positions of oil exporters, delayed debt service payments, and forced many countries to borrow.

The region's ratio of debt to GDP rose from 48.0 percent in 2018 to 54.8 percent in 2020. The situation is especially difficult in the Republic of Congo (which has a high share of Chinese and private debt), Equatorial Guinea (where more than 70 percent of debt is expensive domestic debt), and Gabon (which faces high borrowing costs). Cameroon, the Central African Republic, and Chad have rising but manageable debt. In 2020 the Democratic Republic of Congo was the only country in Central Africa with a debt/GDP ratio below 17 percent (figure 2.1).

The global development community has responded to these challenges, offering partial debt service suspensions to low-income countries eligible for financing from the World Bank Group's International Development Association. (Multilateral and commercial debts are excluded from debt service suspensions).

Figure 2.1: Government debt in Central Africa by country, 2018–20 (Percentage of GDP)



Source: IMF 2021b; BEAC 2020.

2.2 REGIONAL DEBT ISSUES

Central African countries have two types of debt: external and domestic. External debt is money borrowed from foreign creditors including commercial banks, governments, international financial institutions, and donor organizations. Domestic debt is owed to domestic lenders. Each type of debt must be repaid in the currency in which it was incurred.

2.2.1 External debt

The region's external debt has grown in recent years (table 2.1). During 2016–19 long-term debt accounted for 95,8 percent of total external debt; short-term debt accounted for 4.2 percent. In 2016, 40.0 percent of external debt was owed to bilateral creditors and 21.2 percent to multilateral creditors. By 2019 that pattern remained the same, with bilateral creditors accounting for 43.7 percent and multilateral creditors for 29.2 percent. In addition, private creditors shrank as a share of the region's total external debt, from 27,1 percent in 2016 to 18.7 percent in 2019, reflecting a decrease in loans from commercial banks and others. Debt levels vary significantly by country, with some owing a lot to China (Republic of Congo) and others with very low debt (Democratic Republic of Congo).

Table 2.1: Composition of external debt in Central Africa, 2016–19 (Millions of U.S. dollars)				
Type of debt	**2016**	**2017**	**2018**	**2019**
Long term	22,943.5	26,293.5	27,199.6	31,216.4
Public and publicly guaranteed	21,931.2	25,368.1	26,497.0	29,813.4
Public sector	21,931.2	25,368.1	26,497.0	29,813.4
General government support	21,901.6	25,314.4	26,438.0	29,753.6
Private sector guaranteed by public sector	0.0	0.0	0.0	0.0
Private sector not guaranteed	1,012.3	925.5	702.6	1,403.0
Short term	1,010.3	1,249.7	1,100.3	1,326.7
IMF credit	1,997.7	2,578.0	2,943.3	3,535.1
Total	**25,951.6**	**30,121.2**	**31,243.1**	**36,078.2**
Type of credit/creditor	**2016**	**2017**	**2018**	**2019**
Public and publicly guaranteed	21,931.2	25,368.1	26,497.0	29,813.4
Official creditors	15,442.2	18,931.8	20,263.4	23,720.0
Multilateral	5,073.0	7,364.1	8,429.1	9,505.8
World Bank	2,151.6	2,989.7	3,370.0	1,976.0
African Development Bank	1,597.4	2,342.5	2,672.4	3,062.2
Bilateral	10,369.2	11,567.6	11,834.4	14,214.1
Private creditors	6,488.9	6,436.1	6,233.4	6,093.5
Bondholders	3,281.4	3,236.1	3,194.9	3,167.6
Commercial banks and others	1,621.5	1,614.4	1,454.1	1,342.8
Private sector not guaranteed	1,012.3	925.5	702.6	1,403.0
Bondholders	0.0	0.0	0.0	0.0
Commercial banks and others	1,012.3	925.5	702.6	1,403.0
IMF credit	1,997.7	2,578.0	2,943.3	3,535.1

Source: African Development Bank statistics.

2.2.2 Domestic debt

CEMAC members. Domestic debt has been growing in CEMAC countries as they seek to supplement external borrowing with domestic credit. Though capital markets are nascent, regulatory reforms have been made to develop bond and equity markets.[2] The government bond market is growing, while the corporate bond market is weak. CEMAC's public securities market is segmented between a syndication market for bond issuance on the Central African Securities Exchange (BVMAC) and a market for bond auctions overseen by the Securities Settlement and Custody Unit of the Bank of Central African States.

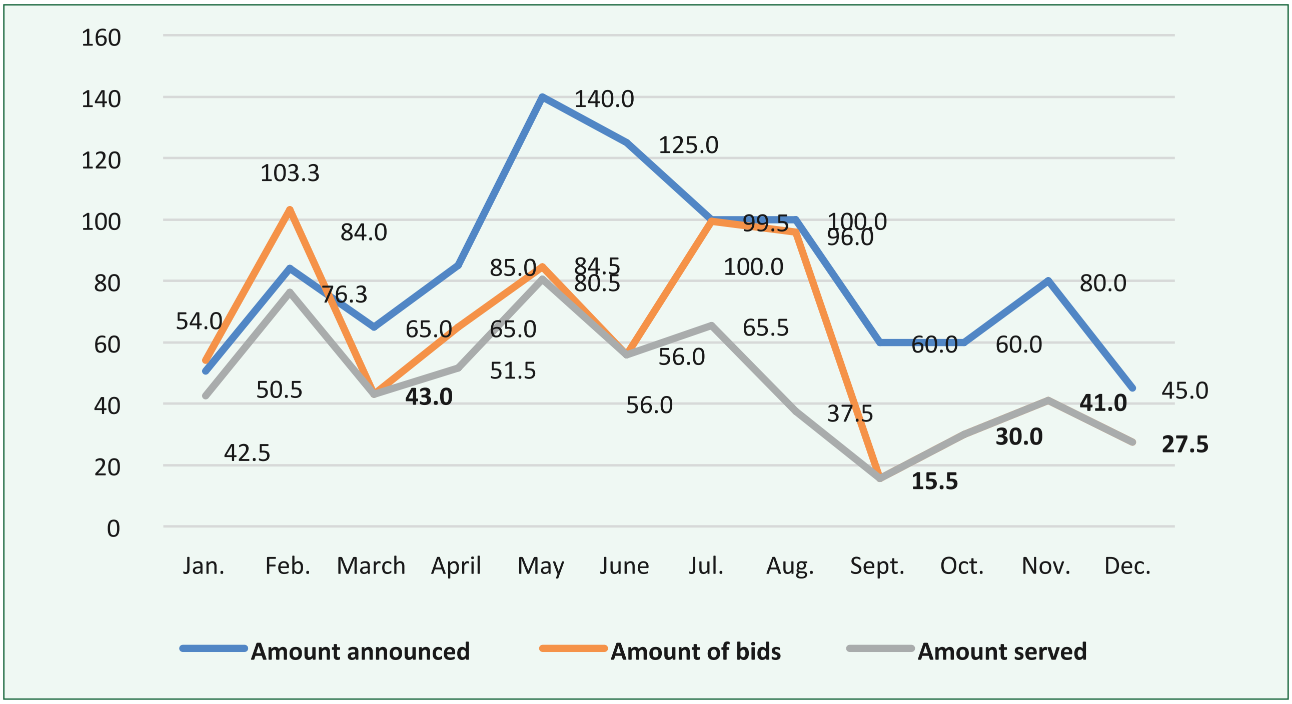
Between July and December 2019 about 4 million bonds were exchanged at BVMAC worth CFAF 16 billion ($27.3 million). In 2020, 15.6 million bonds were exchanged worth CFAF 79 billion ($137.4 million). The market capitalization of these bonds fell 14 percent between 2019 and 2020, to CFAF 603 billion ($1.0 billion). The public securities market reached a record high in 2019, with CFAF 2,962 billion ($5.2 billion) raised through 178 auctions. The auctions comprised 145 assimilable treasury bills worth CFAF 2,109 billion ($3.7 billion) and 33 assimilable treasury bonds worth CFAF 852 billion ($1.5 billion). These resources accounted for nearly 40 percent of the resources raised on the public securities market since its launch in 2011. In 2020 the public securities raised CFAF 2,709 billion ($4.7 billion).

Short-term issuance dominates CEMAC's public securities market, though longer-term issuance is growing. Between 2011 and 2020 the securities issued by CEMAC countries totaled CFAF 10,022 billion ($17.4 billion). At the end of 2020, local banks held nearly 95 percent of outstanding assets. Nonbank financial institutions and other market participants were minor players. Cameroon is among the countries with significant investors, who are also active in the Republic of Congo and Gabon, facilitating regional financial integration. Reforms have recently been implemented to strengthen the mobilization of domestic resources in support of regional financial integration and the structural transformation of economies. These reforms are supported by regional financial institutions tied to the Bank of Central African States and technical and financial partners such as the African Development Bank, World Bank, and IMF–African Regional Technical Assistance Center (AFRITAC).

Democratic Republic of Congo. The Democratic Republic of Congo's financial market is in its infancy, with no stock exchange. But in 2018 a public securities market was created through a decree setting terms for issuance and repayment of treasury bills and bonds. In 2019 a new institutional framework was implemented for monetary and exchange rate policy, with the Central Bank regulating money markets and promoting capital markets. In October 2019 the Central Bank began issuing treasury securities, which helped mitigate injections of bank liquidity related to the public deficit. At the same time, the government—with Central Bank support—launched a domestic treasury bill market to cover its cash deficits and finance its investment projects. In 2019 the emissions selected totaled CDF 112 billion ($68 million), rising to CDF 566 billion ($300.2 billion) in 2020 (figure 2.2). Some of these funds were used to finance government spending.

[2] In 2019 CEMAC merged Cameroon's Douala Stock Exchange with those of the other five CEMAC countries, forming the Central African Securities Exchange (BVMAC), under the leadership of the Bank of Central African States. BVMAC is in Douala; the regional regulator is the Financial Market Supervisory Commission, in Libreville, Gabon; the central custodian is the Securities Settlement and Custody Unit (CRCT), at the Bank of Central African States in Yaoundé, Cameroon.

Figure 2.2: Treasury bond issuance in the Democratic Republic of Congo, 2020 (Billions of CFAF)



Source: African Development Bank statistics.

2.3 CHALLENGES TO DEBT RESTRUCTURING

Debt restructuring efforts face unique challenges in Central Africa, particularly among CEMAC members. Debt levels vary enormously by country, as do financing abilities. Moreover, high uncertainty surrounds debt forecasts. But the international landscape makes it difficult to find an optimal solution for the debt problems facing CEMAC members. First, there is a lack of international consensus and a forum to resolve these issues. Second, there is some creditor reluctance to grant multilateral debt relief. Third, creditors have changed, with many official creditors, private creditors, and emerging donors such as China. It is hard to bring all the parties to the same table, as was the case with the Paris Club of official creditors and the London Club of private creditors.

- The region's lower-income and middle-income countries—Cameroon, the Central African Republic, Chad, the Democratic Republic of Congo, and the Republic of Congo—can try to use traditional debt restructuring and the G20-sponsored Debt Service Suspension Initiative (DSSI). But the region's two upper-middle-income countries, Equatorial Guinea and Gabon, have not participated in such efforts because they are concerned that credit rating agencies will downgrade their ratings and bond markets will hinder their access to debt markets.
- Countries like the Republic of Congo, which have much higher debts and owe more money to China and private creditors like Glencore and Trafigura will have to work on many fronts.
- Middle-income countries like Cameroon and Gabon face liquidity challenges, though they have the potential to access bond markets. In February 2020 Gabon issued a 10-year Eurobond worth $1 billion (6 percent of GDP) with an interest rate of 6.625 percent, 82 percent of which was earmarked for the early repayment of some of its Eurobond maturing in 2024 and 2025.

The international community has been searching for ways to address these challenges:

- Use of the Debt Service Suspension Initiative, which serves low-income countries, could be explored for middle-income countries. In November 2020 the G20 launched a framework to streamline the process to help countries defer or negotiate down their debt as part of a wider relief program.
- Through its Catastrophe Containment and Relief Trust, the IMF has provided debt service relief to 29 of its poorest, most vulnerable member countries, covering their eligible debt falling due to the IMF between April 2020 and April 2021.
- Bilateral lenders could consider independent, voluntary forgiveness of debts owed by developing countries, as has been done in the past by countries such as Norway.
- The IMF's Executive Directors are discussing a Special Drawing Rights (SDR) general allocation of $650 million to address the long-term global need for reserve assets. This allocation could provide financial support for reserves and exchange rates and support the global recovery from COVID-19.
- Partial debt forgiveness modeled on the Heavily Indebted Poor Countries (HIPC) initiative has also been discussed.
- The African Development Bank has proposed a financial stabilization mechanism that enables African countries to pool their funds, allowing countries to have more "endogenous" fiscal and monetary policies.

The African Development Bank's African Economic Outlook Report 2021 recommends three sets of reforms to improve the process of debt resolutions and the nexus with governance and sustainable growth. The current global architecture requires better coordination among creditors, which can be achieved by establishing a wider forum that brings together official bilateral, multilateral, and private creditors to agree on common terms for debt restructuring and resolution.

2.4 RESOURCE MOBILIZATION

Resource mobilization in Central Africa faces several challenges. First, countries have limited fiscal space due to low levels of revenue, especially nonoil revenue. Second, they are competing with many other countries for scarce public capital. Third, the debt of Central African countries undermines fiscal sustainability—leading to lower foreign capital inflows and higher borrowing costs.

Cameroon

In 2020 the government tried to fill its CFAF 917 billion ($1.7 billion) financing gap using financial support from the international community. The IMF provided emergency assistance of $382 million and $156 million under the Rapid Credit Facility. The African Development Bank, along with other development partners, contributed €88 million ($95.9 million) to the financing of the budget deficit under the Fiscal Support Program.

Central African Republic

In April 2020 the country sought $38 million in urgent balance of payments financing from the IMF under the Rapid Credit Facility. It is also benefiting from IMF debt service relief under the Catastrophe Containment and Relief Trust. It is also seeking assistance from the World Bank and African Development Bank to fill its funding gaps.

Chad

With a tax burden of less than 10 percent of GDP, fiscal sustainability in Chad requires better fiscal policy. Security spending, which accounts for more than 30 percent of public spending, has become incompressible in the Chadian political and security context. This implies an expansion of the budgetary space, which should be based on rationalization of other expenditures, particularly operating expenditures. As part of the support for the fight against COVID-19, in June 2020 the Paris Club granted Chad a payment moratorium until December 31, 2020. Chad requested a moratorium on payments for 2021 under the common framework set up by the Paris Club and the G20 for debt payments. The country has also received significant support from the IMF, World Bank, European Union, and African Development Bank to finance its COVID response plan, which has significantly improved the government's cash position. The clearance of domestic arrears with the private sector, which is part of the COVID response plan, is one of the key measures for the economy's post-COVID recovery.

Democratic Republic of Congo

The country has benefited from the DSSI and the moratorium on debt payments. Yet it still had a $631 million financing gap in 2020, so it is seeking external financing from traditional creditors. The authorities are also issuing treasury bonds to help finance the fiscal deficit. These bonds shot from CDF 136.4 billion ($82.8 million) in 2019 to 994.5 billion ($537 million) in 2020, with the volume of selected emissions reaching CDF 112.0 billion ($68.0 million) in 2019 and CDF 566.3 billion ($300.2 million) in 2020.

Republic of Congo

The country faces a funding gap of about CFAF 433 billion ($0.8 billion) for its 2021 budget. The budget guidelines are based on revenues of CFAF 1,874 billion ($3.5 million) and expenditures of CFAF 1,645 billion ($3.1 million), creating a budget deficit of CFAF 229 billion ($0.4 billion). The government is taking several steps to close the gap: restructuring debt with traders, searching for new international financing, shifting resources from public investment to the health sector, and clearing debt of CFAF 300 billion ($0.6 billion)—an operation supported by the Club of Brazzaville—which could stimulate domestic demand by paying arrears to economic operators.

Equatorial Guinea

To avoid debt problems, the Government has decided not to borrow internationally for three years. Instead it will focus on mobilizing more expensive domestic debt. The pandemic has reduced the government's financing and fiscal maneuvering options. The government is also rationalizing public spending and reallocating resources toward the health sector. Efforts are also being made to reduce fiscal exemptions and tax evasion.

Gabon

Gabon faces a budget financing gap estimated at nearly CFAF 350 billion ($0.65 billion). Revenue shortfalls and spending increases have been significant. To bridge the gap, the authorities are seeking international assistance, shifting resources from public investment to social spending, and tapping the international bond market. In 2021 the country envisages borrowing CFAF 320 billion ($0.6 billion) on the regional financial market but none on the external market. In June 2021 the authorities reached an agreement with the IMF on a three-year program under the Extended Fund Facility to anchor policy and reform efforts aimed at bolstering the country's response to COVID-19 and paving the way for strong, sustainable, inclusive growth. Implementation of this program is expected to attract new investors and financial partners.

CHAPTER 3

POLICY PRIORITIES TO RECOVER FROM COVID-19

This chapter first assesses Central Africa's short-term development prospects and risks, then identifies crucial medium- and long-term priorities and actions. It concludes with policy recommendations for each of these timeframes.

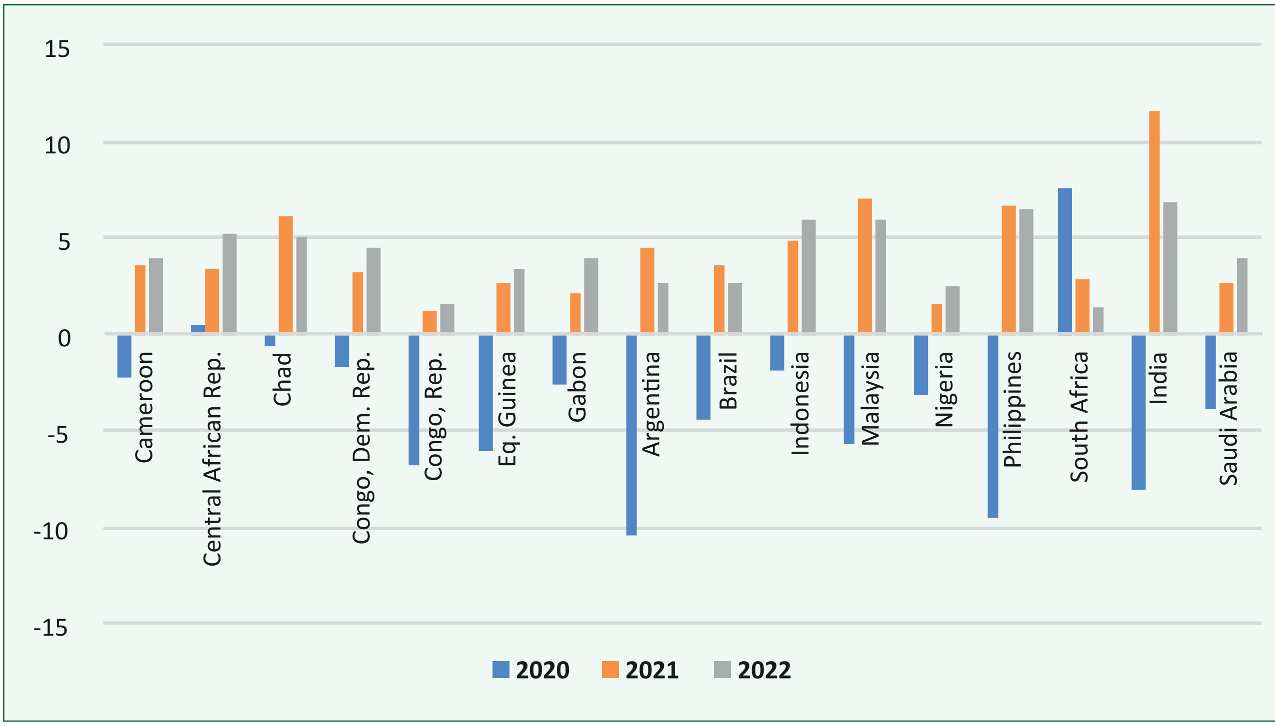
3.1 SHORT-TERM DEVELOPMENT PROSPECTS AND RISKS

Over the next couple years, COVID-19 will continue to have ripple effects on CEMAC members and the Democratic Republic of Congo. As the global economy rebounds and the pandemic is brought under control in 2021–22, Central Africa is expected to see a resurgence in economic activity, fueled by higher oil prices and renewed trade activities. Accordingly, the fiscal situation should improve significantly in all seven countries in the region. But trade and foreign direct investment will likely remain sluggish because the region investors still perceive the region as being challenging. Growing external and domestic debt will constrain fiscal space and prevent governments from launching medium-term investments in growth-generating projects.

The region has no clear economic leader that can act as a growth magnet (figure 3.1), and structural fragility hinders many countries' ability to perform (box 3.1). Cameroon could rebound slowly, weakened by its lack of a strong growth engine. Despite reforms, Gabon is also projected to have less than stellar growth performance. Only Chad is expected to grow at or above 5 percent in 2021–22, though an update may be needed because of the security and political situation.

The Republic of Congo and Equatorial Guinea are expected to muddle through, dealing with governance challenges, growing debt, and difficulty obtaining adequate external financing. The economic outlook for the Democratic Republic of Congo for 2021–22 should remain favorable if the pandemic is brought under control and global demand recovers, but inflationary pressures and the security situation may affect the medium-term recovery. As the only nonoil country in the region, the Central African Republic's performance will be less dependent on oil prices but will face challenges due to the government's inability to fully control its territory.

Figure 3.1: Real GDP growth in Central Africa and other developing countries, 2020–22 (Percent)



Source: IMF 2021b.
Note: Data are estimates for 2020 and projections for 2021–22.

Risks to this outlook include:

- Central Africa remains highly sensitive to volatility in oil prices and could be adversely affected by the global decline in oil production and increase in use of renewable energy sources.
- The lack of fiscal buffers and flexible monetary policies in CEMAC countries could undermine a strong recovery. Because these countries' revenues depend heavily on oil, they may not have enough reserves beyond several months of imports coverage. So fiscal and monetary policies will increasingly be used to support the pegged CFAF exchange rate, potentially tightening fiscal space.
- Rising ratios of debt to GDP would also constrain fiscal space and undermine long-term public investments.
- The overvalued currency peg to the euro could continue to hinder competitiveness and prevent diversification, constituting a tax on exports and a subsidy on imports.
- Countries in the region remain reluctant to undertake deep structural reforms, especially to increase competitiveness and strengthen governance and transparency.
- Security challenges—especially in Cameroon, the Central African Republic, and the Democratic Republic of Congo—will continue to adversely affect growth and well-being.
- The balance sheets of financial firms and small and medium-size enterprises in the region will continue to face difficulties despite global stimulus.
- Central Africa will face competition from other regions in Africa and the world.

Box 3.1: Fragility, security, and development

According to the Organisation for Economic Co-operation and Development (OECD), "a fragile region or state has weak capacities to carry out basic governance functions and lacks the ability to develop mutually constructive relations with society. Fragile regions or states are also more vulnerable to internal or external shocks such as economic crisis or natural disaster." Accordingly, many Central African countries are considered fragile states and face ongoing security challenges. The Central African Republic, Chad, and the Democratic Republic of Congo are fragile states with medium-intensity conflict. All have governments that do not have full control and access to their national territories. The Republic of Congo is considered to have high institutional and social fragility. Only two countries in Central Africa—Equatorial Guinea and Gabon—are not considered fragile.

The loss of a country's physical control over its territory and inability to police borders lead to challenges for state capacity and legitimacy. One result is an inability to provide reasonable public services, especially to populations outside capital cities. Wars and conflicts can cause "development in reverse" by damaging productive, human, and social capital of affected economies. The collapse of an economy's asset base, frequently coupled with poor public spending and low trade, leads to low or negative growth and lingers for years even after a post-conflict situation evolves into a more peaceful one. Cameroon's situation is improving but remains fragile due to the persistence of security challenges. The most prominent threat are the attacks by terrorist group Boko Haram in the north part of the country. Since 2016 the country's two anglophone regions—the Northwest and Southwest—have experienced social movements including secessionist claims and protests, with socioeconomic consequences.

The Democratic Republic of Congo has suffered conflict for decades. Despite large supplies of gold, diamonds, and many minerals, the country is poor. It also has the unenviable distinction of having the world's largest number of internally displaced people, at 4.5 million. In the Central African Republic, the diamond trade and resource-related conflicts have fueled a war and ongoing conflict between the government and the Seleka rebels that has disrupted economic activity. In all three countries the nexus between fragility, security, and development is clear: fragile states become insecure and less developed, exacerbating their fragility.

Source: OECD 2020.

3.2 MEDIUM-TERM PRIORITIES AND ACTIONS

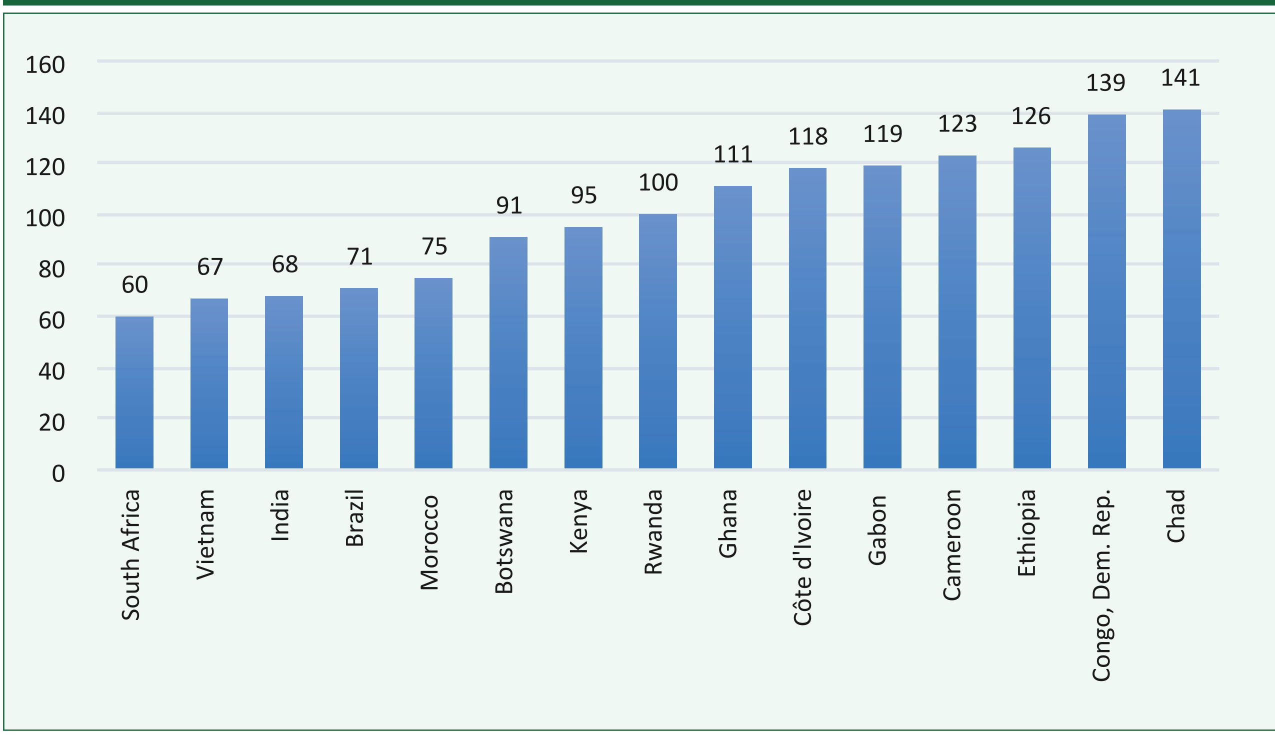
3.2.1 Increasing competitiveness

Some of the main challenges facing Central African countries are linked to competitiveness. Using a broad definition, the World Economic Forum measures competitiveness as "the set of institutions, policies and factors that determine the level of productivity of a country" (WEF 2017, p. xi). In its 141-country Global Competitiveness Index ranking countries using 12 criteria, all Central African countries fell near the bottom in 2019. (The index is designed for policymakers to look beyond short-term measures and to instead assess their progress against the full set of factors that determine productivity.) Gabon ranked at 119, Cameroon at 123, the Democratic Republic of Congo at 139, and Chad at 141 (figure 3.2).

The region's other countries—the Central African Republic, Republic of Congo, and Equatorial Guinea—were not included in the dataset, but they have many metrics similar to the others. Aside from oil, Central African countries are not major exporters and suffer from the "Dutch disease" contraction of manufacturing and trade after the discovery of oil. Many frameworks and methodologies are used to analyze competitiveness; among the most pertinent findings are that:

- Central Africa is home to one of the world's most expensive transit corridors, with the average transport price at 11 U.S. cents per kilometer along the Douala-Ndjamena corridor. In Brazil it was 3, in China it was 5, along Lomé-Ouagadougou it was 7, and along Mombasa-Kampala it was 8.
- In 2019 credit to the private sector was much higher in most Sub-Saharan countries (averaging 23 percent of GDP) than in CEMAC ones (close to 11 percent).
- Between 2010 and 2020, Central African countries ranked quite low on the World Bank Group's Doing Business indicators. The Central African Republic, Chad, and the Democratic Republic of Congo were consistently among the bottom 10 countries in the rankings.

Figure 3.2: Global Competitiveness Index rankings for Central African and other developing countries, 2019



Source: WEF 2019.

3.2.2 Improving transparency and accountability

CEMAC members and the Democratic Republic of Congo would benefit from better fiscal governance and transparency (box 3.2). Transparency is lacking in many aspects of public financial management, and countries have not set clear targets and strategies for their rising public spending—creating risks for the post-COVID era. Given the difficult political economies in the region, several steps should be taken:

- ***Revenue auditing.*** Countries should audit revenues to ensure proper accounting. The Republic of Congo has made some progress on this front. Among other steps, the authorities have published oil industry reconciliation reports prepared by KPMG and enacted a law requiring the national oil company (SNPC) to undergo annual external audits. Progress was also made on transparency, with the publication of the 2018 audit report.
- ***Revenue sharing.*** To counter the risk that oil revenues are diverted to overseas tax havens or misspent by governing elites, such revenues can be distributed directly to countries' populations, who can then be taxed to finance public spending (Devarajan 2019). Though this approach could be difficult to implement in CEMAC countries, conceptually it increases accountability in the use of oil funds.
- ***Information and data.*** CEMAC countries and the Democratic Republic of Congo should provide better access to information on contracts and public funds. The Extractive Industries Transparency Initiative (EITI), a global effort that promotes open and accountable management of oil, gas, and mineral resources, could be useful in this regard.
- ***Public investment.*** Public investment projects should be rigorously monitored and evaluated to ensure that their budgets are executed properly.
- ***Mining contracts.*** Mining laws should be modernized—especially in the Democratic Republic of Congo, to ensure that it is collecting sufficient revenue according to global standards.

Box 3.2: Governance, debt management, and the participatory budget process in the Democratic Republic of Congo

Governance. The Democratic Republic of Congo's performance on the World Bank's Country Policy and Institutional Assessment (CPIA) rose from 2.7 in 2006 to 3.3 in 2015, then fell starting in 2016 and stagnated at 3.1 in 2018–20. The initial improvement was driven by reforms launched during a period of political stability. The drop and stagnation occurred for multiple reasons—including political instability, the long-term effects of the 2016 collapse in global oil price, and COVID-19—that hampered the country's capacity to complete some reforms. As a result, IMF Extended Credit Facility and World Bank budget support scheduled for 2020 have been delayed.

Debt management. The Democratic Republic of Congo has a debt management system, and there is good coordination between debt management and macroeconomic policies. Debt recording systems are adequate and reliable, and data on public debt are published regularly. The country also has an adequate legal framework for debt management. But according to its 2019 Public Expenditure and Financial Accountability (PEFA) assessment, data on external debt are complete and reliable and reported quarterly and annually, yet data on domestic public debt are not exhaustive.

The legislation governing public finance authorizes the minister of finance to borrow and issue new debt and issue loan guarantees on behalf of the central government, but the guidelines and criteria are not clear enough. The debt strategy mainly relies on linking debt under resources-for-infrastructure agreements to commodity prices, so that part of mining proceeds can be used for development spending. A decree has been issued that reinforces the centralizing role of the debt unit. The unit also has a computerized Debt Management and Financial Analysis System that can produce external debt reports. The unit records all debts, including those contracted under resources-for-infrastructure agreements. Debt sustainability analysis is often done with IMF support, but it was not used to set up a medium-term debt management strategy indicating the desired assessment of risk factors, such as interest rates and refinancing. In this context, all NGOs need to build their technical capacities on debt analysis to properly review financial laws as required by efforts to enhance the transparency of the budget process.

Participatory budget process. Since 2014 the government and NGOs have worked together within the participatory budget process. Reports by civil society organizations include their views and comments on every financial law submitted to the parliament and are available online (https://budget.gouv.cd/budget-citoyen/). According to the Open Budget Survey, the Democratic Republic of Congo started with a score of 1 (out of 100) in 2008 and reached 33 in 2019. That year, its budget transparency score was 33 (out of 100), while its public participation score was 31. Implementation and audit are the main weaknesses of the budget process, while formulation and approval are its strengths. The country's parliament and supreme audit institution provide limited oversight during the budget process, with a composite oversight score of 44. To increase government revenue and make spending more efficient, including for debt management, a group of NGOs is using information and communications technology and covering mining contracts to help ensure exhaustivity, transparency, and ownership.

3.2.3 Restructuring debt

In the post-COVID world, it will be important for all CEMAC economies to undertake debt restructuring. (This is a lower priority for the Democratic Republic of Congo because debt is such a low percentage of GDP.) For CEMAC's oil economies, the primary balances needed to stabilize debt after 2021 and return it to pre-COVID levels will be significant. Countries will face painful adjustment scenarios, especially the Republic of Congo and Gabon. For the Democratic Republic of Congo the biggest challenges will be accessing international capital markets to finance infrastructure and deepening domestic markets to mobilize resources for long-term investment.

All countries in the region should set clear debt management goals and support them with sound governance and prudent cost and risk management strategies. Countries can opt for restructuring, standstills, or both—though standstills are not a substitute for debt restructuring if debt sustainability is in question (Reinhart 2020). CEMAC countries there is no easy path forward given their high debt servicing burdens. Another challenge facing CEMAC countries will be reductions in capital flows and foreign direct investment post-COVID. Historically, capital flows to developing counties have been negatively correlated with the global share of countries in default (Reinhart, Reinhart, and Trebesch 2020, cited in Reinhart 2020).

Policy options include:

- Preparing medium-term fiscal frameworks that strike a balance between projected revenue and spending.
- Setting up rigorous frameworks for debt sustainability.
- Taking advantage of global debt reduction initiatives.
- For countries that can borrow on the market, like Gabon, it will be important to avoid further sovereign downgrades and restore access to international bond finance at low borrowing costs, knowing that borrowing on the regional market is the best option.
- For lower- and lower-middle-income countries such as Cameroon, the Central African Republic, Chad, the Democratic Republic of Congo, and the Republic of Congo, there is scope to capitalize on the DSSI and other policies to reduce debt service.
- For the Republic of Congo, it will be important to undertake fiscal consolidation and engage in debt restructuring with private creditors and China. All these debts should be fully accounted for in the country's consolidated debt.

3.3 LONG-TERM PRIORITIES AND ACTIONS

3.3.1 Macro-fiscal policy reform

As the post-COVID recovery emerges, a longer-term vision for macro-fiscal reform will be needed in CEMAC and the Democratic Republic of Congo. In a world of volatile and declining oil prices and COVID shocks, pressures on external and financial balance sheets are likely to continue, potentially jeopardizing current account sustainability and continuing to put pressure on foreign exchange reserves and the exchange rate. Tighter external conditions—including higher interest rates, lower international aid, and insufficient debt relief or principal haircuts—could undermine post-COVID recovery in Central Africa.

Given uncertainties about international aid and Special Drawing Rights (SDRs) availability for CEMAC countries and the Democratic Republic of Congo, policies should aim to develop their macroeconomic policies including proper revenue mobilization, competent administration, and sound expenditure frameworks. For countries like Gabon, the Democratic Republic of Congo, and the Republic of Congo such an approach would will help them push them toward longer-term sustainability. Countries should consider:

- Over the longer term, countries will need to deepen their domestic financial systems. CEMAC's domestic debt market has gone from issuance of CFAF 1,000 billion to CFAF 3,000 billion in 2019 thanks to domestic reforms. There is large scope for mobilizing regional savings and developing a regional capital market, using pension, insurance, and mutual funds.

- Creating stabilization or sovereign wealth funds modeled on those in Botswana, Norway, and the Russian Federation that allow for the savings of funds when oil or copper prices go above a certain threshold.
- Developing fiscal rules that allow longer-term planning. Currently, less than a quarter of oil-producing emerging economies have fiscal rules. These rules can set certain revenue targets, including goals for medium-term nonoil balances.[3]
- Strengthening revenue forecasting models to provide more accurate revenue data.
- Improving control of public sector wage bills and ensuring that wage increases are in line with broader fiscal goals and targets.
- Avoiding single sourcing in procurement contracts above certain amounts.
- In more structural terms, promoting regional integration, which will generate economies of scale and lead to more viable companies that can help provide resources and create jobs.

3.3.2 Future of the CFAF peg

The CFAF has been pegged to the euro since 1999, and before that to the French franc. It is one of the world's longest-running fixed exchange rate regimes. The institutional system combines the fixed exchange parity with an operations account at the French treasury where reserves are pooled and a French treasury guarantee of convertibility. There are concerns that the system may continue to have macroeconomic consequences down the road.

One challenge with the existing regime is that it leads to overvaluation. The IMF "EBA [external balance assessment] lite" current account model, which compares the underlying current account balance with the model-estimated current account norm, finds an overvaluation of 11.4 percent—with the 2019 current account deficit estimated at 2.5 percent of GDP against a norm of 0.3 percent GDP surplus (assuming a –0.25 elasticity of the current account to the real effective exchange rate; IMF 2019). Macroeconomic pressures are arising from growing fiscal and current account deficits, making difficulties in managing reserves under a fixed exchange rate more evident. Reserves are projected to be rebuilt at a slower pace than envisaged but should reach the equivalent of five months of imports by 2025. With support, there could be a projected adjustment that would bring the primary nonoil fiscal deficit to 4 percent of nonoil GDP by 2023 (IMF 2021b).

One option is for Central African countries to continuously seek external financing—especially from the IMF and African Development Bank—and engage in programs of fiscal consolidation and macroeconomic adjustment. These programs could help fill the financing gap. Another option is to reform the exchange rate regime. The Bank of Central African States has begun assessing the situation in Central Africa. In the medium term, CEMAC could replicate the experiences of Nigeria and the Russian Federation, which have used flexible exchange rates to adjust to shocks. In an environment of declining oil production, an overvalued currency, and difficulties adjusting to terms of trade shocks, in the medium term, it would be better for CEMAC to introduce flexibility into the exchange rate system and modernize its macroeconomic framework. Moving to a basket peg based on a tripartite formula with the euro, the dollar, and the price of oil could help achieve that goal. Other options include a dollar peg and a managed float, each with advantages and disadvantages. In sum, it would be useful to assess future options to find those that maximize Central Africa's development potential.

3.3.3 Benefits and drawbacks of a dollarized economy in the Democratic Republic of Congo

Dollarization, defined as the holding and adoption of U.S. dollars as a medium of exchange in a foreign country, resolves hyperinflation in an economy by creating a nominal anchor.

[3] The IMF defines fiscal rules as those that impose a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates.

Used in countries as diverse as East Timor, El Salvador, and Panama, dollarization makes full use of the world's reserve currency to anchor inflation and solves the problem of national currency collapse. Dollarization can take many forms and be full or partial, de facto or de jure. The risk of dollarization is that a country can lose sovereignty over its monetary policy. As with any exchange rate regime, there are advantages and disadvantages.

The Democratic Republic of Congo is a hybrid example because two parallel currencies are used. Some have characterized the economy as "partially dollarized," while others argue that it is "de-dollarized." The best description is a dual-currency economy, using both dollars and Congolese francs, with most financial transactions conducted in dollars. In the 1990s and early 2000s the country was de facto dollarized as all financial operations were denominated in dollars as were many smaller transactions. Ten years later, as the Congolese franc strengthened and the central bank stipulated it as the country's legal tender, even though the dollar is used for price-setting and for holding most savings. With COVID-19, all efforts and reforms implemented by the central bank to achieve a de-dollarized economy are regressing because the dollarization ratio (measured as "foreign currency deposits on M2 with provisions") is again on the rise, increasing from 76.2 percent in 2019 to 79.5 percent in 2020.

From the central bank's perspective, it was important to develop domestic financial markets so they could meet the financing needs of the domestic private sector. The key advantage of the dollar is that it reduces country and currency risk and helps households maintain their purchasing power. In 2000 in El Salvador, dollarization lowered interest rates by 4–5 percent by reducing currency risk, generating net annual savings averaging 0.5 percent of GDP for the private sector and 0.25 percent of GDP for the public sector (net of the losses from forgone seigniorage; Swiston 2011). Dollarization has stabilized economic activity more than monetary policy did under the country's pegged system and more than policy rates have done in Central American countries with independent monetary policy. The conversion rate is critical to ensuring that households do not lose purchasing power when converting from Congolese francs to U.S. dollars.

Though the current system has improved, shortcomings remain. First, the continuing inflation and fall of the Congolese franc since 2015 mean that there is no clear solution to the impasse facing policymakers. Disadvantages of dollarization include the consequences of imported inflation on the Congolese economy and the links between domestic prices, international reserves, and imports. Second, international banks operating in the country are not set up to provide good options for exchanging U.S. dollars into Congolese francs. Third, de-dollarization is an unstable equilibrium. On the one hand, it could encourage volatility; on the other it is not proceeding with enough speed or confidence, leaving the country in currency limbo. Another disadvantage of dollarization is that the domestic economy faces liquidity shocks. Moving forward, the Democratic Republic of Congo will have to find a model that enables the dual-currency approach to work.

3.4 POLICY RECOMMENDATIONS

Macroeconomic and governance policy interventions are needed to accelerate Central Africa's post-COVID recovery. These include fiscal policies that boost economic restoration and implement social mitigation measures, monetary policies that mitigate the harmful effects of COVID-19 and consolidate foreign exchange reserves, governance reforms that fight corruption and strengthen debt management and institutional capacities, and debt policies that help countries shift from endless debt restructuring to lasting debt sustainability while improving domestic revenue mobilization (table 3.1).

Table 3.1: Short-, medium-, and long-term policy recommendations for Central Africa

Type of policy	Short-term	Medium-term	Long-term	Analytical foundations
Fiscal	• Provide fiscal support for social safety nets for vulnerable populations • Provide tax relief for firms • Analyze optimal debt thresholds by country	• Conduct subsidy reform to focus on well-targeted ones • Mobilize nonoil revenue • Harmonize mining tax and create fiscal buffers through increased public tax compliance	• Develop fiscal rules for oil revenue and spending management • Create sovereign wealth funds in CEMAC countries and the Democratic Republic of Congo based on the Botswana model and not future generation funds (where many countries failed). • Reform state enterprises to reduce contingent liabilities on budget	• Maliszewski (2009)
Monetary	• Keep countercyclical monetary policy • Maintain low interest rates • Relax capital adequacy ratios to provide liquidity in economy • Introduce other policy measures to provide greater liquidity, including further relaxation of collateral requirements	• Develop a more sophisticated inflation-targeting framework in the Democratic Republic of Congo • Provide targeted support to small and medium-size enterprises • Pursue a more sophisticated asset purchase approach, as the European Central Bank and U.S. Federal Reserve have recently done	• Develop an "inflation targeting lite" frame-work for CEMAC countries • Reform interbank market and private debt markets and ensure that banking systems do not hold only government paper • Make greater use of collateral registries and credit scoring models at central banks • Strengthen development of long-term corporate bond market by improving regulatory frameworks for bond issuance	• IMF (2006)
Governance	• Promote stronger audits of government oil budget windfalls and state enterprises • For the Central African Republic, promote an integrated budget	• Ensure greater civil society access to public revenue information • Introduce direct transfers of oil revenue to populations • For the Democratic Republic of Congo, improve management of mining contracts	• Build effective institutional and judicial checks and balances on executive authority • Enforce anticorruption and fiscal evasion legislation • Increase public oversight of budgets and enhance	• Akitoby and Coorey (2012)

			transparency • Ensure compliance with foreign exchange regulation, especially for mining and oil companies in CEMAC countries • Bring in foreign over sight agencies	
Exchange rate	• For the Democratic Republic of Congo, review the status of de-dollarization and projections of currency demand	• Develop local financial institutions that can covert currencies	• Initiate CFAF exchange rate reform • Possibly deepen reforms promoting the Congolese franc	• Analytical literature on East Timor, El Salvador, and Panama
Debt	• Reach agreements on debt standstills agreements for low-income countries • In the Republic of Congo, renegotiate debt with China and private creditors	• Develop longer-term frameworks for debt sustainability • Secure new financing on preferential terms	• Make debt restructuring deals with multilateral partners • Pursue Special Drawing Rights (SDRs) and debt forgiveness/haircuts	• World Bank (2021) • Reinhart and Rogoff (2010) • Reinhart (2020)

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