INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

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REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from May 1, 2014. Since then, and against the back of highly challenging circumstances, the C.A.R. authorities have made progress in improving macroeconomic conditions and headway in the structural area, with significant budget support and targeted technical assistance from the donor community. Further challenges lie ahead, including bringing the debt situation back under control, as the updated DSA confirms that C.A.R. remains at a high risk of debt distress. It also underscores the need for prudent fiscal and debt policies, including only highly concessional debt financing as well as structural policies.

BACKGROUND

26. C.A.R.'s external public debt remained stable in 2014. At end-2014, C.A.R.'s public and publicly-guaranteed external (PPGE) debt stood at CFAF 259.5 billion (Text Table 1). About 88 percent of C.A.R.'s outstanding PPGE debt is owed to bilateral creditors, with multilateral creditors accounting for the remainder. External debt was 64 percent of total debt. The ratio of PPGE to GDP rose to 33.4 percent at end-2013, from 20.3 percent in 2012, following the 2013 political and security crisis.[21] However, it fell to 30.5 percent of GDP in 2014.

27. In 2014, C.A.R.'s total public debt to GDP ratio declined slightly from 2013, mainly reflecting budget support by the international community.[22] At end-2014, C.A.R.'s public and publicly-guaranteed debt (PPG) stood at CFAF 405.6 billion (47.6 percent of GDP), of which about a third was domestic. The PPG-to-GDP ratio declined by 4.7 percentage points from 2013, to 47.6 percent at end-2014.

Text Table 1. Central African Republic: Total Debt Stock, Central Government, 2011–14

	2011	2012	2013	2014		2011	2012	2013	2014
	(CFAF billions)				(Percent of total)	(Percent of GDP)			
Total	341.1	366.4	397.3	405.6	100.0	32.9	33.1	52.3	47.6
External debt	203.4	224.8	253.5	259.5	64.0	19.6	20.3	33.4	30.5
Multilateral	19.8	27.9	28.3	32.3	8.0	1.9	2.5	3.7	3.8
Bilateral	183.6	197.0	225.2	227.2	56.0	17.7	17.8	29.6	26.7
Domestic debt [1]	137.7	141.6	143.8	146.1	36.0	13.3	12.8	18.9	17.2

Sources: C.A.R. authorities; IMF staff estimates.

[1] Domestic debt includes securities issued in the CEMAC market.

UNDERLYING DSA ASSUMPTIONS

28. The baseline macroeconomic assumptions for the current DSA are consistent with the macroeconomic framework underlying the proposed RCF arrangement. In the short- to medium-term, they are mainly based on the assumption of improving political and security stability and continued donor support. In this context, staff is projecting growth rates averaging 5.7 percent for the medium term. This will partly offset the sharp contraction of 2013. However, in the long run, growth rates are expected to return to an average of 3.5 percent, lower than in the previous DSA, reflecting more realistic assumptions

[21] About 10.3 percentage points of the sharp increase are attributable to the contraction of GDP (by -36 percent) in 2013 (see Table 1).

[22] About 0.3 percentage point of the reduction is due to the marginal increase in real GDP (1 percent) in 2014 (see Table 1).

on macroeconomic development and the business environment. The primary fiscal balance recorded a surplus of 3.6 percent of GDP in 2014, compared with a deficit of 8.6 percent of GDP projected in the previous DSA. This improvement is mainly a result of strong budget support from the international community, prudent expenditure, and low investment execution capacity (Text Table 2 and Box 1).

Box 1. Central African Republic: Macroeconomic Assumptions for 2015–34

Medium-term (2015–19) projections are consistent with the macroeconomic framework of the proposed RCF arrangement which assumes relatively stronger growth than previous DSA, predicated on improving security and political stability. **Long-term (2020–34)** projections are revised to reflect more realistic assumptions on macroeconomic development and the business environment.

Real GDP growth is expected to recover to 5.5 percent in 2015 and remain buoyant in 2016 and 2017, resulting from the return of security, external support for investment projects, and structural reforms. This growth will be mainly driven by a rebound in agriculture, livestock, construction, and trade as well as the gradual resumption of mining (following the re-certification by the Kimberley Process Certification Scheme) and forestry activities. The impact of development projects on growth is also reflected in the projections. Accordingly, GDP growth is aimed to average at least 5.7 percent over the period 2015-2019, and is expected to contribute to the medium-term catch up from the contraction recorded during the 2013 crisis. The long-term growth rates are revised down to 3.5 percent, reflecting more realistic assumptions on economic activities.

Average inflation (measured by the GDP deflator in US dollar terms) was 11.1 percent in 2014, reflecting the impact of the 2013 crisis, but it is expected to normalize rapidly and stabilize at 3.3 percent on average over the medium term, basically in line with the CEMAC convergence criteria (3 percent, in the long run).

The primary fiscal balance recorded a surplus of 3.6 percent of GDP in 2014, reflecting budget support from the international community, prudent expenditure, and low investment execution capacity. A deficit of 3 percent of GDP is projected for 2015. The deficit is expected to steadily come down to reach an average of around 1.5 percent of GDP in the medium term, and then gradually shift into a surplus of 0.3 percent of GDP over the long run, reflecting continued prudent fiscal policies and buoyant activities. Government revenue is projected to progressively rise to 17.6 percent of GDP, and primary expenditures are expected to reach 17.3 percent of GDP in 2034, mainly on account of higher capital spending.

The non-interest current account deficit is projected to reach 10.4 percent of GDP in 2015 and to gradually decline in the medium to long term. Based on recent information from the authorities, exports are expected to pick up, resulting from the planned recovery of mining, timber and other forestry activities, boosted by improved security conditions and the partial lifting of the diamond export ban. Nevertheless, exports in percent of GDP remain broadly unchanged from their pre-conflict level. The rising non-interest current deficit during 2015–17 is partly due to the increase of investment-related imports needed to execute projects.

External assistance: Grant-equivalent financing is about 8.2 percent of GDP in 2015 and is assumed at about 2.4 percent of GDP in the long run, accounting for 89 percent of external assistance.

Text Table 2. Central African Republic: Selected Indicators, 2013–18
(Percent)

	2013	2014	2015	2016	2017	2018
				Proj.		
Real GDP growth						
Old DSA	-36.0	1.5	5.3	5.7	5.7	5.8
New DSA	-36.0	1.0	5.5	5.7	5.9	6.0
GDP deflator in US dollar terms						
Old DSA	10.7	8.7	6.4	4.1	3.8	3.7
New DSA	10.8	11.1	-10.8	7.2	7.5	6.7
Primary fiscal balance						
Old DSA	-6.1	-8.6	1.9	1.1	0.6	0.3
New DSA	-5.7	3.6	-3.0	-1.4	-0.7	-0.4
Exports of goods and services growth						
Old DSA	-45.7	3.2	12.7	9.5	8.6	9.1
New DSA	-19.1	-3.0	-7.2	17.6	21.5	9.4
Non-interest Current Account Deficit						
Old DSA	10.5	14.2	13.7	5.6	5.8	5.3
New DSA	2.7	5.7	10.3	9.6	7.3	7.4

Sources: C.A.R. authorities; and IMF staff estimates and projections.

EXTERNAL DEBT SUSTAINABILITY RESULTS

29. Under the baseline scenario, four indicators breach the threshold. The present value (PV) of debt-to-exports ratio and the PV of debt-to-revenue ratio are projected to stay above the policy threshold until 2022 and 2018, respectively. The debt service-to-export ratio breaches the threshold until 2016 and the debt service-to-revenue ratio breaches the threshold during 2014–17. These results are mostly due to C.A.R.'s narrow export base and the slow recovery of exports and government revenues from the 2013 crisis. In contrast, the PV of debt-to-GDP ratio is expected to remain below the threshold throughout the projection period (Figure 1 and Text Table 3). These results are similar to those of the 2014 DSA. However, considering C.A.R. as a post-HIPC debt relief country and in view of its current fragile post-conflict situation, this DSA assumes that the authorities will strengthen their debt management capacities and continue to seek maximum concessionality for the external resources they need to meet their external financing requirements. This, together with the improved macroeconomic management, will lead to improvements in the debt service-to-exports, debt-service-to-revenues, and PV of debt-to revenue ratios in the long run.

30. The current DSA results reaffirm the findings of the 2014 DSA, namely that C.A.R.'s risk of debt distress is high. In the most extreme scenario, all indicators breach the threshold. In particular, the PV of debt-to-exports ratio remains above the policy threshold under the extreme scenario for a significant period, and deteriorates in the historical scenario. And the PV of debt-to-revenue ratio and debt service-to-revenue ratio stay above the policy threshold under the extreme scenario in the medium term. Analysis of the impact of additional shocks indicates the vulnerabilities already contained in this DSA. Compared to the previous DSA, all indicators are further aggravated under the stress test scenarios.

Text Table 3. Central African Republic: Policy-Based Thresholds and External Debt Burden indicators

	Thresholds 1/	Baseline Scenario Ratios	
		2014	2015-34 Peak
PV of PPG external debt in percent of			
GDP	30	22.4	23.7
Exports	100	181.3	194.5
Revenue	200	455.5	346.0
PPG external debt service in percent of			
Exports	15	21.2	17.5
Revenue	18	53.3	31.2

Sources: C.A.R. authorities; and IMF and World Bank estimates.

1/ Policy-based thresholds as defined in the LIC DSA framework for a weak policy performer based on the 3-year average CPIA score.

PUBLIC DEBT SUSTAINABILITY RESULTS

31. **Compared to the previous DSA, public debt indicators under the baseline scenario barely improved.** On the positive side, the PV of public debt-to-GDP ratios decline in 2014–15. Unlike in the previous DSA, the ratios now remain slightly below the 40 percent benchmark throughout 2014–34, following a declining trend as macroeconomic conditions improve. However, the PV of debt-to-revenue ratio and the debt service to revenue ratio are projected to be much higher than the previous DSA in the medium term, reflecting a slower-than-projected recovery of government revenues (see Text Table 4). This reflected lower-than-expected economic activity, associated with the continued insecurity, two inoperative regional tax and customs directorates, and imports consisting mainly of food products subject to low customs duties.

Text Table 4. Central African Republic: Comparative Debt Ratios, 2013–18

(Percent)

	2013	2014	2015	2016	2017	2018
			Proj.			
PV of debt to GDP ratio						
Old DSA	30.4	44.2	38.1	31.6	28.3	25.6
New DSA	41.3	39.5	39.6	33.7	31.3	29.5
PV of debt to revenue ratio						
Old DSA	361.3	474.8	169.2	135.6	118.4	105.9
New DSA	490.9	253.6	345.3	273.8	266.4	274.4
Debt service to revenue ratio						
Old DSA	22.0	21.1	11.9	11.9	9.4	10.2
New DSA	46.0	21.2	26.8	24.9	19.5	21.8
Revenue and grants (in percent of GDP)						
Old DSA	8.4	9.3	22.5	23.3	23.9	24.2
New DSA	8.4	15.6	11.5	12.3	11.8	10.7

Sources: C.A.R. authorities; and IMF staff estimates and projections.

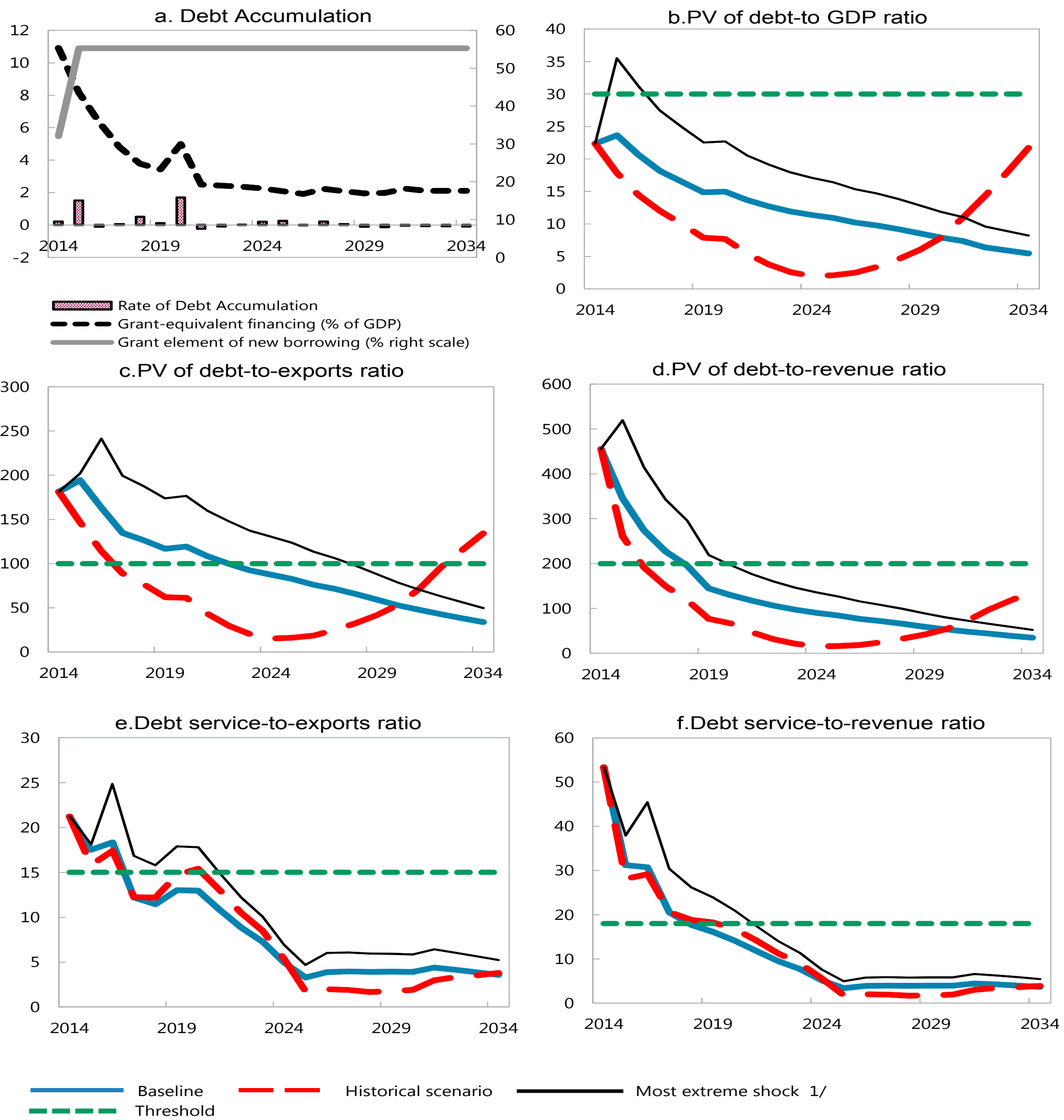
32. The alternative scenarios suggest that the baseline is very sensitive to the growth assumptions. The most extreme shock—a one-standard deviation drop in the growth rate for 2015 and 2016—will substantially increase the public debt and lead to a breach of C.A.R.'s benchmark for the PV of debt-to-GDP ratio (Figure 2 and Table 2). The PV of debt-to-revenue ratio is projected to rise under the most extreme shock, and debt service-to-revenue ratio will also increase significantly in the medium term.

CONCLUSION

33. C.A.R.'s debt remains at high risk of debt distress. The debt sustainability indicator has not improved since the 2014 DSA. Although the PV of public debt-to-GDP ratio stays below the benchmark, almost all the external debt indicators deteriorate. In particular, the PV of external debt-to-exports ratio remains for a significant period above the policy threshold under the extreme scenario and deteriorates in the historical scenario.

34. C.A.R. should pursue a debt strategy limited to grant and highly concessional financing. The high-risk classification and the vulnerabilities evidenced by the alternative and stress test scenarios underline the importance of increasing exports from the traditional forestry and diamond sectors, while taking steps to widen the export base. At the same time, it is essential for C.A.R. to steadfastly pursue fiscal reforms and strengthen macroeconomic stability through sound policies, step up domestic revenue mobilization, and restrain expenditures. Meanwhile, it is critical for the authorities to intensify their efforts to substantially improve public debt management, with assistance from the Regional Technical Assistance Center for Central Africa, and push for funding and putting in place Version 6.0 of the Debt Management and Financial Analysis System (DMFAS) software. Also, more stringent procedures should be put in place to ensure that new financial commitments are undertaken only with the approval and signature of the minister of finance. Finally, to the maximum extent possible, C.A.R. should rely on grant financing, considering its fragile post-conflict situation. Beyond that, staff encourages the authorities to continue to seek maximum concessionality in their external financing.

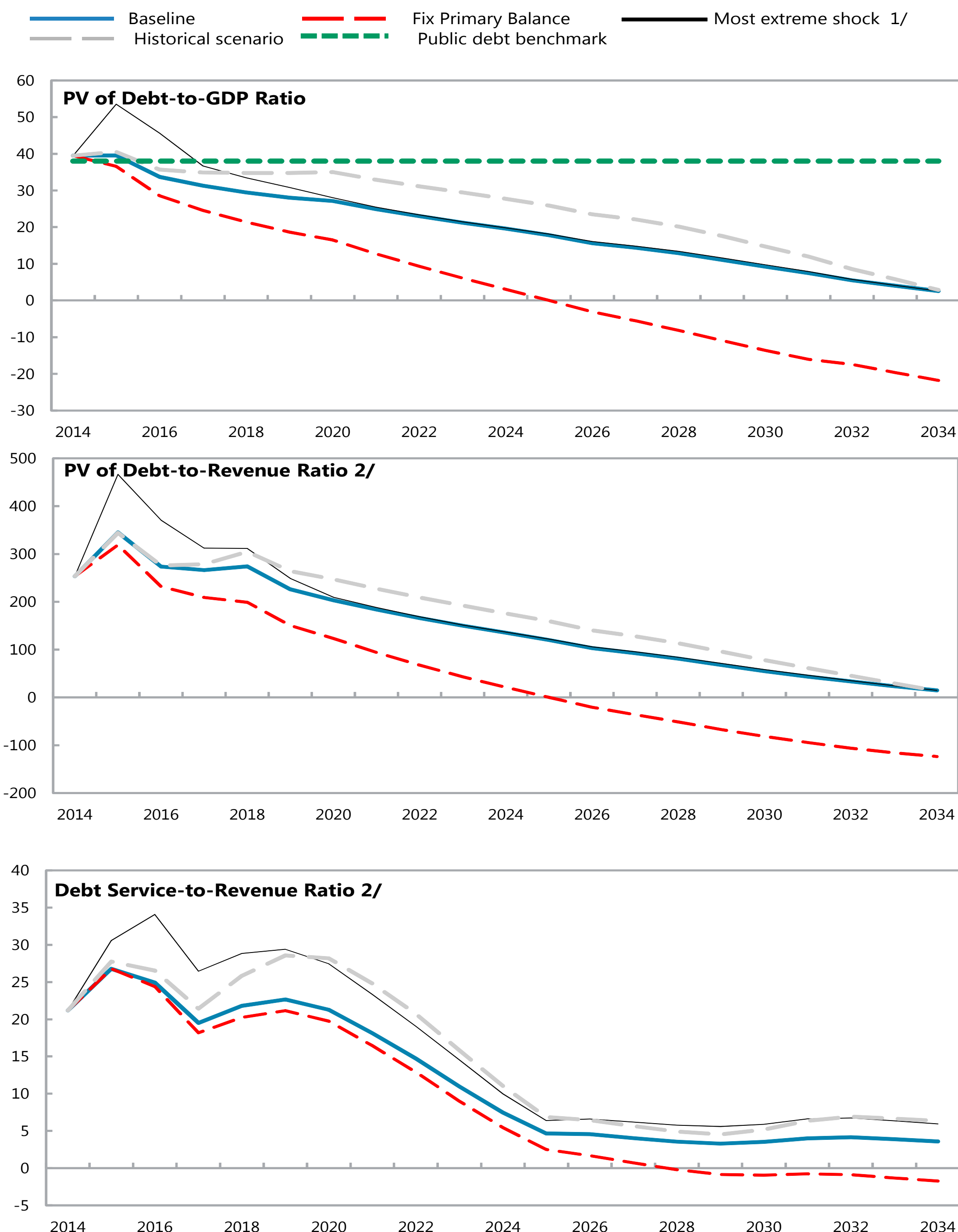
Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014–34 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a Growth shock

Figure 2. Central African Republic: Indicators of Public Debt Under Alternative Scenarios, 2014–34 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

2/ Revenues are defined inclusive of grants.

Table 1. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2011–34 1/

(Percent of GDP, unless otherwise indicated)

	Actual				Historical 6/ Average	Standard 6/ Deviation	Projections								
	2011	2012	2013	2014			2015	2016	2017	2018	2019	2015-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**19.6**	**20.3**	**33.4**	**36.3**			**39.2**	**41.1**	**51.1**	**51.4**	**52.2**		**48.0**	**13.1**	
of which: public and publicly guaranteed (PPG)	19.6	20.3	33.4	30.5			26.8	24.4	32.0	30.3	29.1		22.4	10.3	
Change in external debt	-0.2	0.7	13.1	2.9			2.9	2.0	10.0	0.3	0.9		-1.0	-4.5	
Identified net debt-creating flows	4.0	1.6	11.2	2.3			9.4	7.7	4.2	3.8	3.8		0.7	-2.4	
Non-interest current account deficit	**7.3**	**4.5**	**2.7**	**5.7**	**5.7**	**2.9**	**10.3**	**9.6**	**7.3**	**7.4**	**6.6**		**4.3**	**0.1**	3.0
Deficit in balance of goods and services	11.0	11.4	10.4	24.8			21.3	21.1	16.8	15.7	15.1		10.4	4.5	
Exports	13.5	12.5	14.3	12.3			12.2	12.6	13.5	13.0	12.8		13.0	16.2	
Imports	24.4	23.9	24.7	37.1			33.4	33.7	30.3	28.7	27.9		23.4	20.7	
Net current transfers (negative = inflow)	-3.0	-6.3	-7.1	-18.3	-5.8	4.4	-9.0	-9.8	-8.6	-7.3	-7.0		-6.0	-4.1	-5.5
of which: official	-2.3	-3.2	-4.6	-11.1			-2.5	-4.0	-3.3	-2.5	-2.5		-2.5	-2.0	
Other current account flows (negative = net inflow)	-0.7	-0.7	-0.7	-0.8			-1.9	-1.7	-0.9	-1.0	-1.6		-0.1	-0.3	
Net FDI (negative = inflow)	**-1.7**	**-3.2**	**-0.1**	**-0.1**	**-2.4**	**1.6**	**-0.3**	**-1.5**	**-1.8**	**-1.7**	**-1.7**		**-1.8**	**-2.0**	-2.0
Endogenous debt dynamics 2/	**-1.7**	**0.4**	**8.7**	**-3.3**			**-0.6**	**-0.3**	**-1.4**	**-1.9**	**-1.2**		**-1.8**	**-0.5**	
Contribution from nominal interest rate	0.2	0.1	0.3	0.3			1.6	1.6	0.8	0.8	1.2		-0.2	0.1	
Contribution from real GDP growth	-0.6	-0.8	10.3	-0.3			-2.1	-2.0	-2.1	-2.7	-2.3		-1.6	-0.6	
Contribution from price and exchange rate changes	-1.3	1.0	-2.0	-3.3			...	...	...	...	...		...	...	
Residual (3-4) 3/	**-4.2**	**-1.0**	**1.9**	**0.6**			**-6.6**	**-5.7**	**5.8**	**-3.6**	**-2.9**		**-1.7**	**-2.0**	
of which: exceptional financing	-0.6	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	22.3	28.1			36.0	37.3	37.2	37.6	38.0		37.0	8.2	
In percent of exports	...	...	156.5	228.3			295.7	295.5	276.4	288.4	298.2		284.6	50.9	
PV of PPG external debt	**...**	**...**	**22.3**	**22.4**			**23.7**	**20.7**	**18.2**	**16.5**	**14.9**		**11.4**	**5.5**	
In percent of exports	**...**	**...**	**156.5**	**181.3**			**194.5**	**163.6**	**134.8**	**126.5**	**116.7**		**87.5**	**33.8**	
In percent of government revenues	**...**	**...**	**393.1**	**455.4**			**346.0**	**274.1**	**226.8**	**195.4**	**144.6**		**90.3**	**34.6**	
Debt service-to-exports ratio (in percent)	**24.0**	**25.0**	**21.5**	**21.2**			**17.5**	**18.3**	**12.2**	**11.5**	**13.0**		**5.0**	**3.6**	
PPG debt service-to-exports ratio (in percent)	**24.0**	**25.0**	**21.5**	**21.2**			**17.5**	**18.3**	**12.2**	**11.5**	**13.0**		**5.0**	**3.6**	
PPG debt service-to-revenue ratio (in percent)	**29.9**	**27.2**	**54.0**	**53.3**			**31.2**	**30.7**	**20.6**	**17.7**	**16.1**		**5.1**	**3.7**	
Total gross financing need (Billions of U.S. dollars)	0.2	0.1	0.1	0.1			0.2	0.2	0.2	0.2	0.2		0.1	-0.1	
Non-interest current account deficit that stabilizes debt ratio	7.5	3.8	-10.4	2.8			7.5	7.6	-2.7	7.1	5.8		5.3	4.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.3	4.1	-36.0	1.0	-0.6	11.8	5.5	5.7	5.9	6.0	5.0	5.7	3.5	3.5	3.5
GDP deflator in US dollar terms (change in percent)	7.0	-5.0	10.8	11.1	5.8	6.6	-10.8	7.2	7.5	6.7	5.9	3.3	3.0	3.0	3.8
Effective interest rate (percent) 5/	1.3	0.7	1.2	1.1	1.0	0.4	4.0	4.7	2.1	1.8	2.5	3.1	-0.4	0.5	0.0
Growth of exports of G&S (US dollar terms, in percent)	26.0	-8.1	-19.1	-3.0	3.9	14.2	-7.2	17.6	21.5	9.4	8.9	10.1	7.1	10.9	9.2
Growth of imports of G&S (US dollar terms, in percent)	1.8	-3.2	-26.8	68.8	13.0	23.6	-15.3	14.4	2.4	7.2	8.0	3.3	3.9	7.0	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3
Government revenues (excluding grants, in percent of GDP)	10.8	11.5	5.7	4.9			6.8	7.5	8.0	8.4	10.3		12.6	15.8	13.6
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.1	0.2			0.2	0.1	0.1	0.1	0.1		0.1	0.2	
of which: Grants	0.1	0.1	0.0	0.2			0.1	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.0	0.0	0.0	0.0			0.1	0.0	0.0	0.1	0.1		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	10.9			8.2	6.3	4.8	3.8	3.4		2.3	2.1	2.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	95.6			74.0	83.3	85.0	76.0	76.1		88.1	90.3	88.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	2.2	2.2	1.5	1.7			1.6	1.8	2.1	2.4	2.6		3.8	7.7	
Nominal dollar GDP growth	10.6	-1.1	-29.1	12.2			-5.9	13.3	13.9	13.1	11.2	9.1	6.6	6.6	7.5
PV of PPG external debt (in Billions of US dollars)			0.4	0.4			0.4	0.4	0.4	0.4	0.4		0.4	0.4	
(PVt-PVt-1)/GDPt-1 (in percent)							1.5	-0.1	0.0	0.5	0.1	0.4	0.2	-0.1	0.1
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	22.4	22.4			23.8	20.7	18.2	16.5	14.9		11.4	5.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	162.0	187.3			200.7	168.4	138.2	129.6	119.4		89.2	34.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	22.3	21.9			18.1	18.9	12.5	11.7	13.3		5.1	3.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34

(Percent)

	Projections						
	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio							
Baseline	24	21	18	16	15	**11**	5
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2014-2034 1/	18	14	12	10	8	**2**	22
A2. New public sector loans on less favorable terms in 2014-2034 2	26	23	21	20	19	**17**	10
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	29	31	27	24	22	**17**	8
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	24	22	20	18	16	**13**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	21	20	18	16	15	**11**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	26	27	24	21	20	**15**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	25	31	27	25	23	**18**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	36	31	27	25	23	**17**	8
PV of debt-to-exports ratio							
Baseline	194	164	135	126	117	**88**	34
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2014-2034 1/	147	114	89	77	62	**15**	134
A2. New public sector loans on less favorable terms in 2014-2034 2	210	185	157	153	148	**132**	65
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	194	164	135	127	117	**87**	34
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	202	241	199	187	174	**131**	50
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	194	164	135	127	117	**87**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	214	210	175	164	153	**117**	43
B5. Combination of B1-B4 using one-half standard deviation shocks	197	239	199	187	174	**133**	50
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	194	164	135	127	117	**87**	34
PV of debt-to-revenue ratio							
Baseline	346	274	227	195	145	**90**	35
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2014-2034 1/	261	191	150	119	77	**16**	138
A2. New public sector loans on less favorable terms in 2014-2034 2	373	309	264	237	184	**136**	66
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	419	407	337	290	215	**133**	51
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	348	298	248	214	159	**99**	38
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	312	270	224	193	143	**89**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	382	352	294	254	190	**121**	44
B5. Combination of B1-B4 using one-half standard deviation shocks	364	411	343	296	221	**140**	52
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	520	414	343	295	219	**136**	52

Table 2. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34 (continued)

(Percent)

Debt service-to-exports ratio							
Baseline	18	18	12	11	13	**5**	4
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2014-2034 1/	16	17	12	12	15	**5**	4
A2. New public sector loans on less favorable terms in 2014-2034 2	18	19	13	13	15	**7**	5
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	18	18	12	11	13	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	18	25	17	16	18	**7**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	18	18	12	11	13	**5**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	18	19	13	12	14	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	17	21	15	14	16	**6**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	18	18	12	11	13	**5**	4
Debt service-to-revenue ratio							
Baseline	31	31	21	18	16	**5**	4
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2014-2034 1/	28	29	21	19	18	**6**	4
A2. New public sector loans on less favorable terms in 2014-2034 2	31	32	22	20	18	**7**	5
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	38	45	30	26	24	**8**	5
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	31	31	21	18	16	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	28	30	20	17	16	**5**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	31	31	22	19	17	**6**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	31	37	26	22	20	**7**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	47	46	31	27	24	**8**	6
Memorandum item:							
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	52	52	52	52	52	**52**	52

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assumi
an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–34

(In percent of GDP, unless otherwise indicated)

	Actual						Projections									
	2011	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	32.9	33.1	52.3	47.6			42.8	37.5	45.2	43.3	42.2	42.5		30.6	7.4	
of which: foreign-currency denominated	19.6	20.3	33.4	30.5			26.8	24.4	32.0	30.3	29.1	30.3		22.4	10.3	
Change in public sector debt	0.6	0.2	19.2	-4.7			-4.9	-5.3	7.7	-1.9	-1.1	0.3		-2.7	-1.6	
Identified debt-creating flows	1.9	-2.2	17.0	-6.3			3.0	-1.7	-2.7	-3.6	-2.2	-3.0		-2.0	-1.2	
Primary deficit	1.7	-0.7	5.7	-3.6	-0.6	4.1	3.0	1.4	0.7	0.4	0.3	0.3	1.2	0.2	-0.3	-0.1
Revenue and grants	13.3	16.4	8.4	15.6			11.5	12.3	11.8	10.7	12.4	13.4		14.5	17.6	
of which: grants	2.5	4.9	2.7	10.7			4.6	4.8	3.7	2.3	2.1	1.9		1.9	1.8	
Primary (noninterest) expenditure	15.1	15.6	14.1	12.0			14.5	13.7	12.5	11.2	12.7	13.7		14.7	17.3	
Automatic debt dynamics	-0.4	-1.6	14.6	-1.7			0.0	-3.1	-3.4	-4.0	-2.7	-3.4		-2.1	-0.4	
Contribution from interest rate/growth differential	-1.0	-1.4	15.8	-5.1			-3.1	-2.9	-3.1	-3.7	-2.3	-3.0		-2.1	-0.4	
of which: contribution from average real interest rate	0.0	-0.1	-2.8	-4.5			-0.6	-0.5	-1.0	-1.1	-0.2	-1.4		-0.9	-0.1	
of which: contribution from real GDP growth	-1.0	-1.3	18.6	-0.5			-2.5	-2.3	-2.1	-2.6	-2.1	-1.6		-1.1	-0.3	
Contribution from real exchange rate depreciation	0.6	-0.3	-1.3	3.4			3.0	-0.3	-0.3	-0.3	-0.4	-0.4		...	...	
Other identified debt-creating flows	0.6	0.1	-3.3	-1.0			0.0	0.0	0.0	0.0	0.2	0.2		-0.1	-0.4	
Privatization receipts (negative)	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.6	-0.1	-3.3	-1.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-0.1	
Other (specify, e.g. bank recapitalization)	0.0	0.3	0.0	0.0			0.0	0.0	0.0	0.0	0.2	0.2		-0.1	-0.3	
Residual, including asset changes	-1.3	2.4	2.3	1.6			-7.9	-3.6	10.4	1.7	1.1	3.2		-0.7	-0.5	
Other Sustainability Indicators																
PV of public sector debt	...	...	41.3	39.5			39.6	33.7	31.3	29.5	28.0	27.2		19.6	2.6	
of which: foreign-currency denominated	...	...	22.3	22.4			23.7	20.7	18.2	16.5	14.9	15.0		11.4	5.5	
of which: external	...	...	22.3	22.4			23.7	20.7	18.2	16.5	14.9	15.0		11.4	5.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.4	3.5	9.5	-0.3			6.1	4.5	3.0	2.8	3.1	3.1		1.3	0.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	490.9	253.6			345.3	273.8	266.4	274.4	226.1	203.0		135.2	14.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	726.3	805.0			578.8	446.7	391.0	349.5	272.2	235.8		155.4	16.3	
of which: external 3/	...	...	393.1	455.4			346.0	274.1	226.8	195.4	144.6	130.0		90.3	34.6	
Debt service-to-revenue and grants ratio (in percent) 4/	27.7	26.2	46.0	21.2			26.8	24.9	19.5	21.8	22.7	21.3		7.5	3.6	
Debt service-to-revenue ratio (in percent) 4/	34.2	37.3	68.1	67.3			44.9	40.7	28.6	27.8	27.3	24.7		8.6	4.0	
Primary deficit that stabilizes the debt-to-GDP ratio	1.1	-0.9	-13.6	1.1			7.9	6.7	-7.0	2.3	1.3	0.0		2.9	1.3	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	3.3	4.1	-36.0	1.0	-0.6	11.8	5.5	5.7	5.9	6.0	5.0	4.0	5.7	3.5	3.5	3.5
Average nominal interest rate on forex debt (in percent)	1.3	0.7	1.2	1.1	1.0	0.4	4.9	6.9	3.6	2.9	4.3	0.0	4.5	-0.8	0.8	0.1
Average real interest rate on domestic debt (in percent)	1.3	2.1	-5.1	-8.5	0.8	5.2	-1.2	-4.0	-3.5	-2.9	-0.8	-1.3	-2.5	-0.7	-5.7	1.2
Real exchange rate depreciation (in percent, + indicates depreciation)	3.3	-1.4	-4.3	11.2	0.6	8.8	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.0	2.7	7.2	11.0	4.1	3.1	4.7	7.0	6.5	5.4	4.6	4.5	5.6	3.0	3.0	3.6
Growth of real primary spending (deflated by GDP deflator, in percent)	-11.3	7.9	-42.5	-13.9	-5.4	13.7	27.5	0.1	-3.7	-4.9	19.2	12.1	7.6	6.1	7.7	5.7
Grant element of new external borrowing (in percent)	...	...	...	32.0	32.0	...	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Central African Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2014–34

	Projections						
	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio							
Baseline	40	34	31	29	28	20	3
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	40	36	35	35	35	28	3
A2. Primary balance is unchanged from 2014	37	29	25	21	19	3	-22
A3. Permanently lower GDP growth 1/	41	36	34	34	34	34	46
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	49	52	50	49	49	48	45
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	40	35	33	31	29	21	3
B3. Combination of B1-B2 using one half standard deviation shocks	44	43	41	40	39	35	27
B4. One-time 30 percent real depreciation in 2015	54	46	37	33	31	20	3
B5. 10 percent of GDP increase in other debt-creating flows in 2015	44	38	35	33	31	22	5
PV of Debt-to-Revenue Ratio 2/							
Baseline	345	274	266	274	226	135	15
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	344	276	279	305	264	176	14
A2. Primary balance is unchanged from 2014	319	232	209	199	150	21	-123
A3. Permanently lower GDP growth 1/	351	285	285	306	264	224	243
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	391	359	372	416	367	315	244
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	349	287	278	287	236	142	18
B3. Combination of B1-B2 using one half standard deviation shocks	365	312	318	347	300	236	150
B4. One-time 30 percent real depreciation in 2015	467	371	312	312	249	137	15
B5. 10 percent of GDP increase in other debt-creating flows in 2015	385	307	298	307	251	154	30
Debt Service-to-Revenue Ratio 2/							
Baseline	27	25	20	22	23	7	4
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	28	27	21	26	29	11	6
A2. Primary balance is unchanged from 2014	27	24	18	20	21	5	-2
A3. Permanently lower GDP growth 1/	27	26	21	24	25	10	11
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	30	31	26	30	32	13	12
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	27	25	20	22	23	8	4
B3. Combination of B1-B2 using one half standard deviation shocks	29	29	23	27	28	11	8
B4. One-time 30 percent real depreciation in 2015	31	34	26	29	29	10	6
B5. 10 percent of GDP increase in other debt-creating flows in 2015	27	26	21	22	23	8	4

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Statement by Mr. Yambaye, Executive Director for the Central African Republic and Mr. Tall, Senior Advisor to the Executive Director September 14, 2015

First of all, we would like to convey our Central African Republic authorities' appreciation for the continued support of the IMF, and the productive discussions with staff in the context of program negotiations. The balanced set of reports reflects well these discussions, and the broad agreement reached between the authorities and staff on the challenges facing the country and the policy recommendations going forward.

The Central African Republic (CAR) is gradually emerging from a conflict which has caused, since 2013, an unprecedented humanitarian and political crisis with spillovers in the region. When the transition Government assumed power in January 2014, inter-community violence was at its height, and state functions had collapsed. About half of the population was either internally displaced, or sought refuge in neighboring countries.

In this particularly difficult context, the authorities strived to restore peace and implement an emergency economic recovery plan. The support of the international community, particularly from the UN's MINUSCA, France, as well as member countries of the Economic Community of Central African States (CEEAC), has been decisive in stopping the violent conflict, and progressively improving the security outlook.

Building on this momentum, the authorities pursued efforts to further consolidate peace and democratic governance in CAR. In this vein, an inclusive political dialogue forum was held in Bangui in May 2015, which saw the broad participation of armed rebel groups and militias, political and civil society organizations, and religious representatives. A consensus was reached at the end of this Bangui Forum, with participants agreeing to a ceasefire, endorsing a road map for elections, and for the demobilization and reinsertion into civil life of former combatants.

The authorities have been working tirelessly to implement the Bangui Forum's resolutions and meet the timetable for elections. The legal framework required for these elections has been enacted, and voter registration has been in train. In spite of the significant progress achieved, major obstacles remain, including securing the remaining financing needed for the elections, and addressing insecurity in certain regions. The authorities have been reaching out to development partners to close the financing gap for the conduct of credible elections, as well as the successful disarmament, demobilization and reinsertion (DDR) of former combatants.

Economic rebuilding and a stable macroeconomic framework is the third pillar of the strategy to achieve a lasting peace in CAR. The authorities' economic policies have been guided by their homegrown Emergency Recovery Plan which had been endorsed by donors. Beyond emergency social and humanitarian measures, they focused on rebuilding economic governance institutions, and laying the ground for medium-term reforms.

The authorities' continued to build a track record of satisfactory IMF- supported program performance, with economic outcomes for the first half of 2015 broadly in line with targets. Despite challenging conditions, the authorities met all their end-March and end-June quantitative and policy objectives under the Rapid Credit Facility (RCF). On structural reforms, major accomplishments include the appointment of the head of the treasury unit, ACCT, improving revenue collection, and the cleaning of the civil service roster.

In spite of the improved near-term outlook, significant challenges lay ahead, including in maintaining the momentum for peace, and accelerating economic recovery efforts to address pressing humanitarian and social needs, while making inroads towards sustainable development goals. Against this backdrop, the authorities are requesting continued Fund support to meet urgent balance of payments needs, and catalyze essential donor's support, as they intensify their efforts to rebuild state functions, further strengthen capacity, and create conditions for longer-term engagement with the Fund.

I. Recent Economic Developments

The **macroeconomic outlook** for 2015 has improved compared to 2014, as security gains consolidated and facilitated the resumption of economic activity. Indeed in 2014, economic activity was subdued with a real GDP growth rate of 1 percent, while average inflation reached 11.6 percent of GDP, due to conflict-related supply bottlenecks. As the security situation is improving, economic recovery is building momentum. Notably, displaced populations have started to return and efforts were made to improve the security of goods transportation in the international trade corridors. Accordingly, real GDP growth rate is projected to reach 5.5 percent in 2015, while average inflation declined to 6 percent as of June 2015.

On ***fiscal policy,*** the authorities adhered to prudent goals in the context of lower than anticipated revenues. They sought to improve *revenue collection*, including through the rebuilding of revenue administration capacity. However, security challenges and capacity constraints continued to weigh on revenue performance. *On spending,* the authorities aimed for a prudent execution in budgeted spending, in the face of significant spending needs. They met all current and social spending goals, including through the timely payment of wages and pensions, and by clearing outstanding wage arrears. They prioritized capital spending plans to match their implementation capacity, and the availability of external support. They also completed the payroll cleaning exercise, which yielded a CFA 2.8 billion in saving. Overall, these efforts helped contain the projected primary deficit for 2015 at 3 percent of GDP, following the primary surplus of 3.6 percent of GDP recorded in 2014.

On structural fiscal reforms, the authorities made inroads in strengthening the fiscal framework, and public financial management. The Director and Deputy Director of ACCT have been appointed. The externally-appointed Director of the Treasury's accounting unit, ACCT, has been given considerable statutory powers to approve or deny payment requests, and strong controls have been put in place to ensure that development assistance is used as intended. The Treasury and Public Financial Management Committees have been functioning as planned. Moreover, a National Committee for Aid Coordination has been established to further improve the management of development assistance.

II. Economic Policies for the Remainder of 2015, and Medium Term Outlook

The authorities' first priority going forward is the successful organization of credible elections, which will usher in a new democratically-elected leadership. The authorities are also working towards the consolidation of peace and security throughout the country. Economic policies for the remainder of 2015 will continue to be guided by the Emergency Recovery Plan.

Assuming continued improvements in the security situation, GDP growth rate is projected to reach 5.7 percent in the medium term, while inflation is projected to return to an average of 3.3 percent in the medium term, in line with the regional convergence criteria. The current account deficit is projected to reach 10.4 percent of GDP in 2015 on account of increased imports to finance major energy and infrastructure projects, and is expected to gradually decline in the medium run

Fiscal Policy

The authorities' fiscal policies are aimed in the short run at mobilizing the resources needed to address urgent spending needs, including for elections and the DDR process, and rebuilding capacity. Medium-term policies are geared towards supporting growth and reducing poverty while preserving fiscal sustainability.

To improve revenue collection, the authorities will progressively rebuild state functions, including the equipment and staffing of decentralized revenue administration offices. They will also broaden the tax base by reducing tax exemptions, and strengthening controls to ensure compliance. In the same vein, they will seek to strengthen international tax cooperation and the exchange of information, especially with Cameroon's customs authorities.

The authorities also adopted a comprehensive medium-term plan to strengthen domestic revenue collection. In this regard, they plan to deepen reforms already underway, including by further streamlining tax exemptions, and undertake new initiatives--amongst others, an overhaul of tax policy in the forestry, mining, and telecommunication sectors. They intend to phase in these reforms progressively, as administrative capacity is rebuilt, and with the benefit of Fund's technical assistance.

On spending, the authorities plan to improve the efficiency of spending and align it with available financing with the view to achieving their fiscal sustainability goals. In the context of reduced revenues, the authorities will intensify efforts to control the wage bill by proceeding with the next phases of the payroll cleaning operation. They are also committed to meeting their spending ceiling target, including through sizeable reductions in public investments to reflect weaker administrative capacity.

The authorities are also prioritizing spending to ensure that the monthly cash management plan is implemented, and that available resources are directed towards priority spending. Structural reforms to improve public financial management will be intensified as well.

Over the medium term, the authorities are aiming for a return to normal budgetary procedures.

To that effect, they are committed to strictly limiting the use of exceptional budget and spending procedures, to reestablish the Treasury single account, and to ensure the effective operations of the Treasury's ACCT.

Debt Sustainability

The authorities have taken good note of staff's advice in the Debt Sustainability Analysis, which highlighted CAR's exports vulnerability to conflict-related dislocations, and the volatility of commodity markets, especially in the aftermath of the global financial crisis. They are committed to preserving debt sustainability, against a particularly difficult internal and external environment.

Following the 2013 political and security crisis, CAR's external public debt-to-GDP ratio spiked to 33.4 percent, while the total public debt–to-GDP ratio, including domestic debt, reached 47 percent. Owing to the authorities' prudent debt policies, these ratios have been on a declining path since.

To broaden their export base and reduce debt vulnerabilities, the authorities took additional measures to ensure compliance with the requirements of the Kimberley certification process, which resulted in the partial lifting of the ban on diamond exports from CAR. They are working towards securing the remaining diamond production areas and to regain their market share in timber and forestry goods exports.

The authorities remain also committed to seeking financing only in the form of grants and highly concessional borrowing. Moreover, they are determined to intensify reforms aimed at strengthening debt management capabilities, with Fund's technical assistance.

Structural Reforms

The authorities' structural reforms will aim at broadening the sources of growth, leveraging CAR's competitive advantage--notably in natural resources--to build an inclusive economy and reduce poverty in order to break the conflict cycle.

In the short run, the authorities' priority is to reduce tensions, facilitate the return of displaced populations, and restore social cohesion, which will help ensure that economic activity is resumed throughout the country. They will also seek to remove conflict-related bottlenecks including by rebuilding infrastructure, securing trade routes, and investing in priority sectors such as health and education.

They will further accelerate the pace of reforms aimed at improving the business environment. In this respect, they plan to modernize and streamline the legal and regulatory framework for businesses, particularly in the mining and forestry sectors. They also plan to review the investment code to make it more attractive.

III. Conclusion

The Central African Republic's authorities are grateful to the international community for the

support they have been receiving, which has been decisive in halting the conflict's downward spiral, and building much needed momentum for peace consolidation and economic rebuilding.

They undertook key reforms under the RCF, and laid out a vision to address the daunting medium-term challenges ahead. To succeed, the authorities need the full support of the international community, particularly at this critical juncture as they set out to organize the upcoming elections, and lay the foundations for medium-term economic policies.

The IMF in particular has an essential role to play in this fragile situation, notably through scaled up technical assistance, a successor medium-term program engagement, and its support in mobilizing the external resources critical to building a strong and inclusive economy, and securing a lasting peace.

On the basis of the authorities' track record of Fund program implementation, ownership of the program as evidenced by the implementation of all prior actions and program performance criteria, as well as their commitment to sound policies going forward, we call on Executive Directors to support the Central African Republic authorities' requests.