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CENTRAL AFRICAN REPUBLIC

July 2018

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE CENTRAL AFRICAN REPUBLIC

In the context of the Fourth Review Under the Extended Credit Facility Arrangement, Requests for Waiver of Nonobservance of Performance Criterion, Modification of Performance Criteria, Augmentation of Access, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 2, 2018, following discussions that ended on May 11, 2018 with officials of the Central African Republic on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. The staff report was completed on June 19, 2018 based on information available at the time of the discussions.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Central African Republic.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of the Central African Republic*
Memorandum of Economic and Financial Policies by the authorities of the Central African Republic*
Technical Memorandum of Understanding*
*Also included in the Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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July 2, 2018

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IMF Executive Board Completes Fourth Review Under the ECF Arrangement for the Central African Republic and Approves US$ 32.1 Million Disbursement

On July 2, 2018, the Executive Board of the International Monetary Fund (IMF) completed the fourth review under the Extended Credit Facility (ECF) arrangement [1] for the Central African Republic. The completion of the review enables a disbursement of SDR 22.84 million (about US$ 32.1 million), which will bring total disbursements under the arrangement to SDR 88 million (about US$ 123.7 million).

The ECF arrangement for the CAR was approved by the Executive Board on July 20, 2016 (see Press Release No. 16/352) for SDR 83.55 million and subsequently augmented twice to a total of SDR 133.68 million (about US$ 189.0 million, 120 percent of Central African Republic's quota at the IMF).

At the conclusion of the Board's discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, stated:

Performance under the ECF-supported program has been satisfactory despite a challenging security environment and difficult humanitarian conditions. The authorities stepped up the implementation of their reform agenda and public investment plan.

"Fiscal policy is broadly on track. The revised 2018 budget includes new revenue measures and remains anchored to the domestic primary balance objective while allowing a scale-up of social and capital spending. Renewed efforts to mobilize domestic revenues, which remain weak, will be critical to support the scaling-up. Given the country's high risk of debt distress, continued reliance on grant financing is essential to support debt sustainability. The implementation of the investment program for the National Recovery and Peacebuilding Plan will boost economic prospects.

"The authorities continued to implement fiscal structural reforms, which contributed to the strengthening of the treasury single account, improved budget transparency and traceability

[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems. Details on Central African Republic' arrangement are available at www.imf.org/external/country/CAF.

of domestic revenues. Quarterly publication of budget execution reports allows for better tracking and monitoring of government expenditures. More consideration should be given to streamlining quasi-fiscal taxes, reducing exceptional payment procedures, and strengthening the asset declaration regime. It will also be important to follow through on commitments to strengthen transparency in the management of natural resources.

"The government started the comprehensive clearance of domestic arrears. The transparent repayment of arrears will support growth, bolster the credibility of the state, and strengthen the banking sector.

"The Central African Republic's program is supported by the implementation of policies and reforms by the regional institutions in the areas of foreign exchange regulations and monetary policy framework and to support an increase in regional net foreign assets, which are critical to the program's success."

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

June 18, 2018

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context: The economy of the Central African Republic (C.A.R.), a fragile state, is recovering gradually. Following the 2013 crisis, macroeconomic conditions have stabilized: growth has resumed, inflation has declined, domestic revenues have recovered, and debt ratios have decreased. The outlook, however, is clouded by persistent fragility amid repeated eruptions of violence. Half of the population depends on humanitarian assistance. Stronger and more inclusive growth is necessary to make a dent into widespread poverty. The government's economic strategy is supported by a three-year arrangement under the Extended Credit Facility (ECF)—launched in July 2016—with total access of SDR 133.68 million (120 percent of quota).

Program: Program performance has been satisfactory. All end-December 2017 quantitative performance criteria and indicative targets were met except for the domestic revenue target and the continuous criterion on the non-accumulation of external arrears. The clearance of domestic arrears is underway. Program discussions focused on revenue mobilization and transparency and accountability of public finances. A revised budget for 2018 has been submitted to Parliament. It includes additional revenue measures and additional priority investment, consistent with program objectives. The program is supported by union-level efforts to maintain an appropriate monetary policy stance, build up regional reserves, and promote financial sector stability.

Staff's view: Staff supports the authorities' requests for completion of the fourth review under the ECF arrangement and the waivers of non-observance of the performance criteria on domestic revenue and non-accumulation of external arrears. Completion of this review will release a disbursement equivalent to SDR 22.84 million. Staff also recommends that the financing assurances review be completed.

Approved By
Joel Toujas-Bernaté (AFR) and Martin Sommer (SPR)

Discussions took place in Washington, D.C. (April 18–24) and Paris (May 4–May 11). The staff team comprised Mr. Jahjah (head), Mss. Raoilisoa, Diallo, and Messrs. Ouedraogo, Stenzel (all AFR), and Messrs. Benon (Resident Representative). Ms. Tenison (AFR) supported the mission from headquarters. The team had talks with President Touadéra, Finance and Budget Minister Dondra, Economy, Planning and International Cooperation Minister Moloua, the National Director of BEAC and senior government officials. Mr. Kibassim (Advisor to the ED) participated in the discussions. The team also discussed with representatives of the European Union (EU), the World Bank (WB), and the French Development Agency (AFD). Ms. Attey's help with the production of the staff report is gratefully acknowledged.

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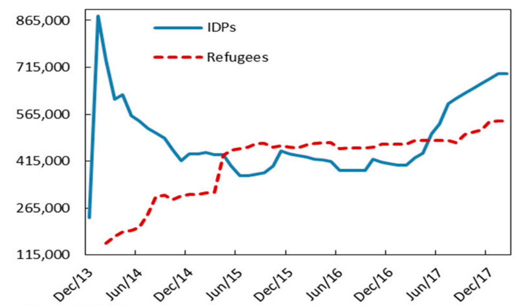
CONTEXT

1. **The Central African Republic (C.A.R.) is caught in a fragility trap.** Poor governance, lack of opportunities, and a proliferation of armed groups have led to political instability and eroded state control. Poverty is extremely high—estimated at more than 75 percent by the World Bank.

Text Figure 1. Central African Republic: IDPs and Refugees, 2014–17



Source: UNHCR

2. **Renewed violence threatens peace building.** Tensions and violence have picked up since 2017. The number of internally displaced people and refugees has increased (Text Figure 1) and half of the population depends on humanitarian assistance. The security situation is unsettled throughout the country. In April 2018, an unsuccessful arrest attempt in a restive neighborhood of the capital Bangui triggered a wave of deadly clashes. Since then, stability in Bangui has been gradually restored but remains prone to setbacks.

3. **The authorities continue to implement their agenda to restore the authority of the state, improve governance and fight poverty although with mixed results.** The National Recovery and Peacebuilding Plan (NRPP), running from 2017 to 2021 and backed by substantial donor support, provides a comprehensive framework to rebuild public administration and promote economic recovery (Box 1). First steps focused on deploying government officials in administrative regions (effective in 12 out of 16 regions), rebuilding the judiciary and criminal justice system to fight impunity, and reforming and rejuvenating the armed forces.

4. **The ECF arrangement enters its third year**. The program has catalyzed substantial budget support from the WB, African Development Bank (AfDB), EU, and France. It is part of the Fund's comprehensive approach to address challenges in the Central African Economic and Monetary Union (CEMAC) and its strategy is fully in line with regional reform priorities. An updated assessment on developments on the regional level, which remains vital for the success of C.A.R.'s program, is discussed in detail in the June 2018 staff report on the Common Policies in Support of Member Countries Reform Programs.

ECONOMIC DEVELOPMENTS AND OUTLOOK

5. **The recovery continues at a modest pace.** Growth in 2017 is estimated at 4.3 percent, supported by robust activity in foresty, mining, construction, and trade. Insecurity, however, affected agricultural production. Inflation stood at 4.1 percent, driven by rising food prices.

6. **The fiscal deficit has been contained despite revenue underperformance.** Domestic revenue mobilization stalled in 2017 due to weak tax controls, low collection of tax arrears, limited yields from the retroactive control of import valuations, and falling tax revenues from the forestry sector. However, revenue performance in Q1 2018 was stronger with nominal revenues increasing by 23 percent compared to 2017. The end-March indicative target was met, suggesting that some reforms started bearing fruit. On the expenditure side, the wage bill declined to 5.1 percent of GDP. The government, supported by a bilateral donor, retired about 800 soldiers that have reached retirement age. Other current spending remained broadly unchanged compared to 2016. Overall, the domestic primary deficit stood at 2.2 percent of GDP. Public investment picked up, largely due to externally-financed capital spending. Public debt declined to 53 percent of GDP[1], supported by debt relief from China.

7. **External developments were broadly as expected.** The current account deficit remained unchanged compared to 2016 at 8 ½ percent of GDP. Rising wood and diamond exports were balanced by higher oil and public investment-related imports. The overall balance of payments was in surplus, contributing to a larger than expected accumulation of net foreign assets.

8. **Credit growth was weak**. Credit to the economy grew by 1.4 percent in 2017, restrained by one specfic loan reaching maturity in the telecommunications sector. Financial soundness indicators suggest that banks remain resilient in a challenging bussiness environment while NPL's have declined slightly from a high level

9. **The medium-term outlook has improved**. Staff expects broadly unchanged growth of 4.3 percent in 2018 and an increase to 5 percent in the medium-term driven by foresty, construction and accelerated project implementation under the NRPP. Plans for a major solar power plant have firmed up with construction scheduled to begin 2019. The doubling of power supply would address a major bottleneck to growth.

10. **Downside risks dominate with the possibility of escalating violence.** A further surge of tensions and fighting would severely impact trade, agricultural production, and construction as well as derail the government's development strategy. This in turn would intensify the humanitarian crisis, depress confidence, increase inflation, and lower government revenues. Further increasing international oil prices would weaken the fiscal position and require additional policy measures to safeguard stability. Other risks include the government's limited capacity to implement the development strategy and delayed external support which could lower public investment and complicate treasury management. On the upside, a stronger rebound is possible if security improves and long-standing governance weaknesses are addressed.

[1] Includes pre-HIPC arrears.

Box 1. Implementation of the National Development Strategy

The National Recovery and Peacebuilding Plan (NRPP) consists of three pillars: (i) supporting peace, security, and reconciliation; (ii) renewing the social contract between the State and the population; and (iii) promoting economic recovery and boosting productive sectors. The government adopted the NRPP in October 2016. One month later, donors pledged US$2 billion of support.

The first review of the NRPP found mixed results. Disbursements for projects and budget support under the NRPP reached US$240.2 million up to November 2017 (Box Table 1). Measured against initial objectives the implementation fell short along several dimensions. For example, 81 elementary schools were renovated against a target of 113; sanitation facilities were installed in 73 buildings against a target of 90; fewer than envisaged road building projects have been launched; and only 3 percent of the initially targeted 7000 combattants participated in demobilization programs. The review recommended to improve project selection, speed up their implementation and reinforce oversight and ownership by strengthening the role of the interministerial committee.

Project execution is accelerating in 2018. In the first three months of 2018, 22 new projects to improve health, education, infrastructure, and water and sanitation services have been launched. These projects amount to 7 percent of GDP, of which 3 percent of GDP are expected to be disbursed in 2018.

Box Table 1. C.A.R.: Poverty Reduction Strategy Implementation

(2017, in US dollar millions)

Pillar 1		**Pillar 3**	
Disarmament and reinsertion	29.8	Productive sectors	4.7
Security sector reform	4.4	Agriculture, husbandry	2.6
Justice	7.4	Forestry/natural resources	2.1
Social cohesion and refugees	16.7	Extractives industries	0.0
Total	**58.2**	Infrastructure	21.3
		Roads and transport	20.2
Pillar 2		Electricity	1.1
Reestablishing local governm	13.9	Telecommunications	0.0
Basic social services	19.8	Private sector and employmer	5.0
Education	0.6	**Total**	**31.0**
Health	15.8		
Water and sanitation	3.5	**TOTAL**	**240.2**
Social protection	0.0		
Resilience and food security	4.2		
Macroeconomic stability and good governance	113.0		
Total	**151.0**		

Source: CAR authorities

The implementation is subject to risks. A deteriorating security environment would jeopardize the restoration of basic public services in many parts of the country. However, this risk is partly mitigated by the strong commitment of the international community to support NRPP implementation.

PROGRAM DISCUSSIONS

Policy discussions focused on the revised budget for 2018, enhancing transparency and accountability, taking stock of progress to rein in para-fiscal taxes and the implementation of the domestic arrears clearance strategy.

A. Revised Budget 2018

11. **Staff argued that the 2017 revenue underperformance calls for a revision of the 2018 budget and new revenue measures.** In addition, the non-adoption by parliament of tax hikes on forestry and diamond exports, higher oil prices, and delayed implementation of 2018 tax measures will weigh on revenues. If unaddressed, the shortfall relative to the 2018 revenue projection would be about 1 percent of GDP.

12. **Staff and the authorities agreed on the key parameters for a revised budget, new tax policy measures and spending adjustment.** Budget execution could be affected by heightened security risks in the capital Bangui.

- New revenue measures include: Increase of tax rates on forestry and diamond exports (0.02 percent of GDP), increase of reference price for wood (0.02 percent of GDP), improved collection of income tax (0.16 percent of GDP) and integration of the revenues from provinces, the road usage fee, and the universal service fee into the budget (0.39 percent of GDP). In total and despite these additional measures, expected revenues for 2018 have been revised to CFAF 112 billion (MEFP, ¶15), down from CFAF 116 billion.

- On the expenditure side, non-priority spending on transfers and subsidies and goods and services will be reduced by 0.5 percent of GDP compared with the original 2018 budget. Domestically-financed capital spending will be increased slightly to accommodate the rehabilitation of two key roads.

- Deficit: The authorities continue to target a domestic primary deficit, the fiscal anchor of the program, of 1.4 percent of GDP and a cash buffer of at least 1.5 percent of GDP.

Text Table 1. Central African Republic: Additional Revenue Measures

(in percent of GDP)

Increase of Tax on Wood and Diamond Exports	0.02
Increase Reference Price of Wood	0.02
Integration of Revenues from Provinces, Road Usage Fee, and Telecommunication Fee	0.39
Improved collection of income tax	0.16

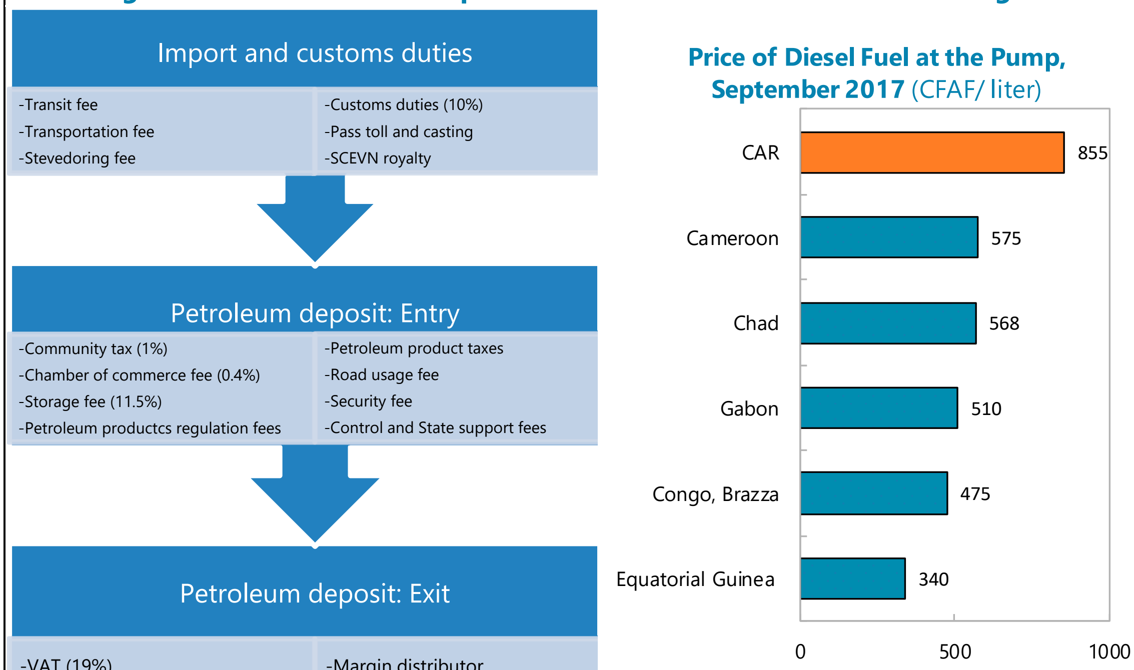
13. **Additional measures to strengthen revenues have been agreed.** Based on a recent FAD TA mission on revenue mobilization, staff recommended stepping up the control of tax declarations, improving the information exchange between customs and tax department, and strengthening the collection of tax arrears. The authorities agree with the recommendations and are committed to their implementation. In addition, the revision of the petroleum price structure is expected before end June to reduce margins for intermediaries (structural benchmark, end-June 2018) (MEFP, ¶15). Higher oil prices would translate into lower revenues given no other changes. While there is space to simplify the petroleum price structure, retail prices are already the highest in the region, limiting the room for further adjustments (Text Figure 2). Full implementation of these measures provides upside potential to current revenue projections.

B. Strengthening Efficiency And Transparency of Public Finances

14. **The streamlining of parafiscal taxes is ongoing.** The authorities have integrated the airport tax into the treasury single account (TSA). Next, revenues from the road usage fee, the universal service fee as well as revenues from provinces will be registered in the TSA. The remaining ones will either be transferred subsequently, notably in the context of the 2019 budget law, or eliminated. The authorities are assigning accountants to parafiscal agencies to improve financial oversight and have launched a wide-ranging audit program. International

audits of two particularly important agencies, the Forestry Fund and the Telecommunications Regulatory Agency, are underway which will shed light on their financial operations (structural benchmark, end-June 2018) (MEFP, ¶17).

Text Figure 2. Central African Republic: Petroleum Price Structure and Regional Prices



Source: Hydrocarbons Prices Stabilization Fund

15. **Enforcing regular spending procedure remains a challenge.** In 2017, spending through exceptional procedures stood at 24 percent of non-wage expenditures. They are mainly used for cash funds in certain sectors, cash advances, missions abroad, and medical evacuations. The government normalized spending procedures in the defense, education, and health sectors by prohibiting the use of cash funds. This helped reduce the share of exceptional spending to 9 percent in the first quarter of 2018. The authorities intend to further strengthen budget procedures by: i) specifiying a ceiling for the amount that can be committed via cash funds and imprest accounts in the revised budget; ii) prohibiting the renewal of cash funds if spending is not properly regularized; iii) closing all cash funds systematically at the end of the fiscal year (*new structural benchmark, end-December 2018*); (iv) adopting a new decree that will regulate the modalities of medical evacuations (*new structural benchmark, end-March 2019*); and (v) issuing a budget execution circular to provide guidance to line ministries with the 2019 budget law (*new structural benchmark, end-December 2018*) (MEFP, ¶19, 20).

16. **The authorities agreed to strengthen financial oversight of public institutions and state-owned enterprises**. The financial situation of agencies and enterprises outside the central government perimeter is opaque. The authorities will therefore strengthen oversight by

re-organizing the monitoring within the ministry and by revising the legal framework of public instutions and state-owned enterprises (*new structural benchmark, end-March 2019*) (MEFP, 20).

17. **Strengthening the asset declaration regime would improve transparency and accountability.** Most obliged officials have submitted their declarations to the constitutional court. Staff argued that the regime could be strengthened by publishing the asset declarations, specifying the scope of assets to be declared, enforcing sanctions in case of breach of obligations, and criminalizing acts of corruption, including illicit enrichment in line with the United Nations Convention against Corruption. The authorities underscored the challenges of changing the current legislative framework and cautioned that it would be difficult to go beyond the current practice.

C. Reducing Debt

18. **The clearance of wage and commercial arrears is underway.** Strict controls and identification requirements and later than expected disbursements of budget support have shifted some repayments from end-2017 to early 2018. Only a small amount of commercial arrears remains to be cleared (0.2 percent of GDP) (Text Table 2). An international audit confirmed that the repayment of arrears at end-March 2018 is broadly in line with the time-bound plan and that all safeguards are applied comprehensively. The government is servicing debt to commercial banks, in line with the agreed repayment plan. Amortizations to the BEAC will start in 2022, consistent with regional commitments to repay statutory and exceptional advances.

19. **Some external creditors provided debt relief**. China canceled five loans amounting to 2 percent of GDP and provided flow relief on outstanding debt. Discussion with India to regularize arrears have made progress. An agreement is being finalized based on the full clearance of arrears in 2018 and a restructuring of the remaining debt is envisaged withrepayments set to start in 2024. C.A.R. also reached debt restructuring agreements with two private creditors. The small remaining amount (0.2 percent of GDP) will be repaid within five years. C.A.R. accumulated a small amount of arrears in early 2018 to the International Fund for Agricultural Development. A lack of clarity about payment obligations compounded by the fact that C.A.R.'s debt archives were partly destroyed during the 2013 crisis caused the omission. The authorities have cleared these arrears swiftly following discussions with the creditor. C.A.R. owes CFAF 128 billion of pre-HIPC debt to Non-Paris Club members (Argentina, Equatorial Guinea, Iraq, Libya, Taiwan Province of China). All official creditors to which there are outstanding pre-HIPC arrears have consented to Fund financing[2] (MEFP, ¶22). C.A.R. remains in arrears to a private creditor and is continuing to make good-faith efforts to reach a collaborative agreement. As prompt financial support is considered essential for the successful implementation of

[2] In the case of Libya, consent to Fund financing notwithstanding the arrears has been deemed to be received in line with the revised modalities to seek creditor consent (FO/DIS/17/46).

C.A.R.'s program, and C.A.R. is pursuing appropriate policies, the Fund may provide financing to C.A.R. notwithstanding its external arrears to private creditors.

Text Table 2. Central African Republic: Domestic Arrears Clearance Plan 2017–19

	2017	2018				2019				2020
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
			proj.	proj.	proj.	proj.	proj.	proj.	proj.	proj.
Wage and Pension Arrears										
Stock										
(in CFAF billion)	64.9	62.6	57.6	46.4	35.1	23.9	18.0	12.0	6.1	
(in percent of GDP)	5.8	5.2	4.8	3.8	2.9	1.8	1.4	0.9	0.5	0.0
Repayments	2.3	5.0	11.2	11.2	11.2	6.0	6.0	6.0	6.0	
Arrears to Small and Medium-Sized Enterprises										
Stock										
(in CFAF billion)	9.4	9.4	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(in percent of GDP)	0.8	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	6.9	2.5							

Source: C.A.R. authorities and IMF Staff calculations.

20. **The 2018 Debt Sustainability Analysis (DSA) confirms C.A.R.'s high risk of debt distress**. The threshold breach in the baseline and alternative scenarios show that C.A.R.'s debt trajectory is vulnerable to GDP, export, and revenue shocks. The authorities share the view that C.A.R. should mobilize grant financing with strict limits on highly concessional financing for critical projects for which grants could not be secured. Improved reporting on debt can be expected once the debt management system Sygade is in use *(structural benchmark, end-June 2018)* (MEFP, ¶23).

Text Table 3. Central African Republic: External Borrowing Program, 2018

PPG external debt	Volume of new debt in 2018[1]		PV of new debt in 2018 (program purposes)	
	CFAF billion	Percent	CFAF billion	Percent
By sources of debt financing	**9.0**	**100**	**4.4**	**100**
Concessional debt, of which	**9.0**	**100**	**4.4**	**100**
Multilateral debt	9.0	100	4.4	100
Bilateral debt	0.0	0.0	0.0	0.0
Non-concessional debt, of which	**0.0**	**0.0**	**0.0**	**0.0**
Uses of debt financing	**9.0**	**100**	**4.4**	**100**
Infrastructure	9.0	100	4.4	100
Social Spending	0.0	0.0	0.0	0.0
Budget Financing	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Memo Items				
Indicative projections				
Year 2	**6.0**		**2.9**	
Year 3	**6.0**		**2.9**	

[1] Without IMF.

D. Financial Stability and Development

21. **The banking system has remained stable but on-site supervisory mission identified shortcomings.** The Central African Banking Commission (COBAC), the regional banking supervisor, has resumed on-site inspections of all banks operating in the C.A.R. The on-site inspections revealed room to improve governance, internal controls and compliance with prudential standards. The authorities are committed to promptly follow up on the recommendations (MEFP, ¶27).

E. Business Environment

22. **The business climate is weak.** The relationship between the public and private sector is marred by a lack of trust. The judiciary system is weak and the application and enforcement of existing laws is uneven. The authorities are working to address this: they overhauled the commercial and tax code; a revised investment charter has been submitted to Parliament; and committees have been created to discuss tax issues as well as strengthen the dialogue between the public and private sectors.

23. **The authorities committed to increase transparency in the management of natural resources.** To this end, the authorities will publish all forestry permits granted until June 30, 2018 (*new structural benchmark, end-September 2018*). They will also publish all new mining permits granted from January 1, 2018 on the website of the Ministry of Finance on a quarterly basis (*new structural benchmark, end-September 2018*) (MEFP, ¶25).

24. **Construction of a major solar power plant is scheduled to begin in 2019.** Power shortage is an important constraint to growth in the C.A.R. The authorities have signed an agreement with the World Bank to build a solar power plant that could double current capacity. Construction is expected to start in 2019. The investment, entirely financed by grants, amounts to 3 percent of GDP.

TECHNICAL ASSISTANCE AND THE CAPACITY BUILDING FRAMEWORK

25. **The Fund provides significant support to capacity building**. From January 2017, under the IMF's Capacity Building Framework (CBF) pilot project (Annex I), C.A.R. benefited from substantial IMF and AFRITAC Central TA. Expected medium-term outcomes are to increase revenue, enhance spending efficiency, restore budget discipline and transparency, strengthen debt management, and create a core macro-fiscal capacity. The priorities for capacity building are closely aligned with key reform objectives under the program, notably domestic revenue mobilization, budget preparation and implementation, treasury management, and debt management. TA is also delivered on public finance statistics and national accounts. The number of TA missions, combined with weak absorptive capacity, have highlighted the need to improve monitoring and coordination. To this end, the authorities strengthened the Economic and

Financial Reform Monitoring Unit (CS-REF) to better coordinate technical assistance and training (**MEFP**, ¶28-30).

PROGRAM MODALITIES AND FINANCING ASSURANCES

26. **Program implementation as of end-December 2017 has been satisfactory.** All end-December performance criteria (PC) and indicative targets were met, with the exception of the domestic revenue target and the continuous criterion on the non-accumulation of external arrears (**MEFP**, Table 1). The authorities cleared arrears and increased spending in the health and education sector, exceeding the indicative target on social spending by a large margin. They request waivers for the missed performance criteria on domestic revenues and the non-accumulation of external arrears based on the corrective measures they have taken, including reinvigorating efforts to strengthen tax administration and tax policy changes in the revised 2018 budget as well as the immediate clearance of external arrears. It is proposed to modify end-June 2018 performance criteria to reflect the revised budget and to establish new end-December 2018 performance criteria.

27. **Three of four end-December and March structural benchmarks have been implemented, although two with a slight delay**. The government adopted an action plan to streamline para-fiscal taxes and published a list of all existing tax exemptions (**MEFP**, Table 2). The computerization of a key customs office faces delays due to problems with the internet connection. Laws or decrees creating 52 structures that were identified to collect para-fiscal taxes have been published in May. Of the originally identified 54 structures, two no longer exist. New structural benchmarks for 2018/2019 are proposed to strengthen transparency, accountability, and the business environment.

28. **The program remains fully financed**. C.A.R. has obtained firm financing commitments for the upcoming 12 months, and there are good prospects for financing for the remainder of the program period (Text Table 5). The AfDB and World Bank disbursed budget support in 2018, and disbursements from France and the EU are expected later this year. In the event that budget support is not disbursed as expected, the authorities are committed to delaying non-priority current and domestically-financed investment spending until the funds are received.

Text Table 4. Central African Republic: Financing need in 2018–19 and Sources of Financing
(Billions of CFAF)

	2018	2019
1. Financing Need	76.9	55.0
2. Budget support (grants)	39.7	36.4
World Bank	14.6	8.8
European Union	13.1	15.1
African Development Bank	5.4	5.9
France	6.6	6.6
Other	0.0	0.0
3. IMF Financing	37.2	18.6
4. Residual financing gap (1-2-3)	0.0	0.0

29. **BEAC and COBAC have pursued the implementation of their policy commitments and provided new policy assurances in support of CEMAC countries' programs**.[3] Implementation of previous commitments included tighter monetary policy, the elimination of statutory advances, and maintaining firm control over the extension of credit to banks. Moreover, regional NFA accumulation up to December 2017 was in line with projections and corrective actions addressing recent fiscal slippages in some CEMAC countries are being implemented to put NFA accumulation back on a desired upward path, following the underperformance in early 2018. The BEAC also provided new policy assurances aimed at enhancing monetary policy transmission and reinforcing centralization of foreign exchange reserves at BEAC, which will be critical for the success of the CEMAC countries' programs. These policy assurances include the completion by end-2018 of the modernization of the monetary policy operation framework and the submission (for adoption) to the CEMAC ministerial committed by end-2018 of revised foreign exchange regulations. Moreover, the policy assurance on achieving the projected regional NFA accumulation is based on BEAC's commitment to implement an adequately tight monetary policy together with the commitment by the member states to implement adjustment policies in the context of IMF-supported programs. These policy assurances are critical for the success of C.A.R.'s program as they will support rebuilding sufficient external reserves cover for the external sustainability of the region, and hence for C.A.R.

30. **C.A.R. has adequate capacity to repay the Fund.** Significant Fund repayments will continue to accrue in 2018 (Table 10). To safeguard these payments, the authorities are making regular deposits at the BEAC.

31. **Risks to program implementation are significant.** They include (i) a volatile security environment, (ii) weak administrative capacity, (iii) potential delay on delivery of external budget support, and (iv) political and social tensions, including opposition from civil society.

[3] See Staff Report on the Common Policies in Support of CEMAC Member Countries Reform Programs, June 2018.

32. **Safeguards Assessment**. A full safeguards assessment under the periodic four-year cycle for regional central banks was completed in August 2017. The assessment noted the positive steps taken by the BEAC to strengthen its governance through amendments to its charter and plans to strengthen financial reporting transparency through full transition to IFRS. The BEAC continues to implement the outstanding recommendations from the 2017 assessment.[4]

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33. **A stronger rebound is necessary to create jobs and reduce poverty**. While economic recovery continues, reaching the pre-crisis level of economic activity will take well into the 2020s under the current projection. An end to the recent outburst of violence, restoration of peace and reconciliation, the redeployment of the state, and expediting the implementation of the development agenda will be key for a sustained economic recovery and to create economic opportunities for the youth.

34. **Program implementation has been satisfactory in a difficult context.** The authorities' have demonstrated exceptional commitment to their program. The proposed measures in the revised 2018 budget signal progress towards enhancing transparency, mobilizing additional domestic revenues, and entrenching macroeconomic stability. The integration of some taxes and fees into the official budget is an important first step to address the pervasive problem of parafiscal taxation which undermines the business environment. Staff encourages the authorities to use the 2019 budget to further consolidate the Treasury Single Account.

35. **Staff welcomes the authorities' intention to increase spending transparency**. The recent drop in the share of spending following exceptional procedures is an encouraging sign. It is laudable that the authorities have integrated many recommendations of a recent IMF PFM TA mission into their program. Another important signal to break with past poor governance performance could be given by strengthening the asset declaration regime. Public access to the declarations should be facilitated and obligations and sanctions brought in line with best practices.

36. **External financing should continue in the form of grants.** Although total debt is on a declining trajectory, the risk of debt distress remains high and debt management weak. The government should refrain from borrowing and should contract highly concessional loans only in exceptional cases within program debt limits. Steadfast implementation of the domestic arrears clearance strategy is criticial to further reduce debt, restore trust in the state, and promote social cohesion.

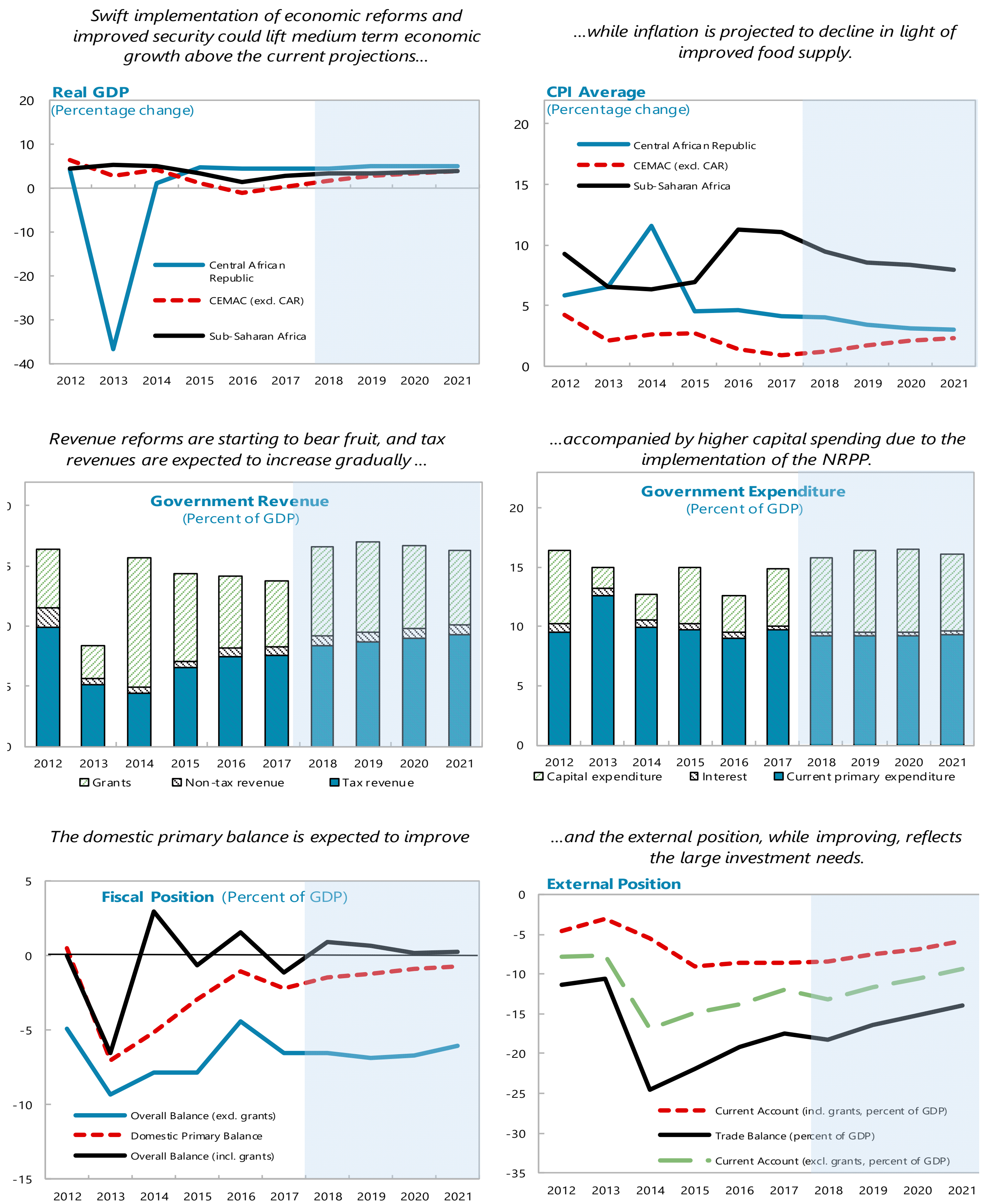
37. **Risks to program implementation have increased**. The recent flare-up of political tensions, including outbursts of violence in the capital, has increased downside risks. A further escalation could undermine growth, revenues and the authorities' ability to implement the

[4] See June 2018 *Staff Report on the Common Policies in Support of CEMAC Member Countries Reform Programs.*

program. Staff will continue to assess the impact of the political and security environment on the program. Notably, the materializing risk of higher international oil prices will translate into lower domestic revenues without policy action. Staff therefore welcomes the authorities' commitment to simplify the petroleum price structure by eliminating margins for intermediaries which should help protect budget revenues. If necessary, domestic retail fuel prices could be adjusted, although the social impact and the risk of increased fraud should be carefully assessed given that fuel prices are already high compared to neighboring countries.

38. **Based on C.A.R.'s performance under the program, and the adequate implementation of the regional policy assurances, staff recommends the completion of the fourth review.** Staff also supports the request for waivers of non-observance of the domestic revenue and non-accumulation of external arrears performance criteria, based on the corrective actions taken by the authorities. The economic program set out in the attached Letter of Intent and Memorandum of Economic and Financial Policies remains appropriate to achieve the program objectives in a challenging security environment and limited administrative capacity. Staff proposes that completion of the fifth review will be conditional on the implementation of critical policy assurances at the union level, as established in the June 2018 union-wide background paper. Staff also recommends completion of the financing assurances review.

Figure 1. Central African Republic: Macroeconomic Performance and Prospects, 2012–20



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

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2016–23

	2016	2017		2018		2019	2020	2021	2022	2023
	Est.	3rd Rev.	Est.	3rd Rev.	Proj.			Proj.		
	(Annual percentage change; unless otherwise indicated)									
National income and prices										
GDP at constant prices	4.5	4.0	4.3	4.0	4.3	5.0	5.0	5.0	5.0	5.0
GDP per capita at constant prices	2.6	2.1	2.4	2.0	2.4	3.1	3.0	3.0	3.1	3.1
GDP at current prices	11.1	7.7	8.0	7.9	8.4	8.6	8.3	8.1	8.1	8.1
GDP deflator	6.3	3.5	3.5	3.8	3.9	3.4	3.2	3.0	2.9	2.9
CPI (annual average)	4.6	3.8	4.1	3.5	4.0	3.4	3.2	3.0	3.0	3.0
CPI (end-of-period)	4.7	3.6	4.2	3.6	3.6	3.4	3.0	3.0	3.0	3.0
Money and credit										
Broad money	5.8	1.1	10.3	5.1	8.6	8.6	8.3	8.1	8.1	8.1
Credit to the economy	17.5	17.5	1.4	16.2	5.9	7.0	15.8	13.8	14.5	15.9
External sector										
Export volume of goods	32.3	17.7	42.5	11.8	9.3	8.4	8.1	8.6	8.6	5.5
Import volume of goods	35.2	6.4	1.4	7.7	6.7	7.0	4.9	6.0	5.3	6.1
Terms of trade	25.0	-10.9	-19.7	-0.8	-11.4	1.5	0.7	2.3	0.0	-0.2
	(Percent of GDP; unless otherwise indicated)									
Gross national savings	5.1	4.9	5.2	5.7	6.9	8.4	9.1	9.6	10.2	10.8
Of which: current official transfers	3.7	3.2	1.9	3.1	3.3	2.7	1.9	1.7	1.6	1.4
Gross domestic savings	-5.4	-5.9	-3.7	-4.7	-3.0	-0.5	0.9	1.6	2.4	3.4
Government	-1.0	-1.0	-1.6	-0.2	-0.1	0.2	0.5	0.7	0.8	1.1
Private sector	-4.4	-5.0	-2.1	-4.5	-2.9	-0.6	0.4	1.0	1.6	2.3
Consumption	105.4	105.9	103.7	104.7	103.0	100.5	99.1	98.4	97.6	96.6
Government	7.3	7.3	7.5	7.3	7.0	7.0	7.0	7.1	7.1	7.1
Private sector	98.2	98.6	96.1	97.4	96.0	93.5	92.1	91.3	90.5	89.5
Gross investment	13.7	13.4	13.8	14.0	15.3	15.9	16.0	15.5	15.5	16.0
Government	3.1	4.3	4.8	5.0	6.3	6.9	7.0	6.5	6.5	6.5
Private sector	10.6	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.5
External current account balance										
with grants	-8.6	-8.5	-8.6	-8.4	-8.4	-7.6	-7.0	-5.9	-5.3	-5.2
without grants	-13.8	-14.2	-12.0	-13.9	-13.2	-11.6	-10.5	-9.4	-8.7	-8.4
Overall balance of payments	0.9	-1.2	3.1	-2.5	-1.6	0.0	0.9	1.0	1.1	1.2
Central government finance										
Total revenue (including grants)	14.1	15.0	13.7	16.0	16.6	17.0	16.7	16.3	16.5	16.6
of which: domestic revenue	8.2	9.1	8.3	9.6	9.2	9.5	9.8	10.1	10.3	10.6
Total expenditure [1]	12.6	14.6	14.8	14.9	15.8	16.4	16.5	16.1	16.2	16.2
of which: capital spending	3.1	4.3	4.8	5.0	6.3	6.9	7.0	6.5	6.5	6.5
Overall balance										
Excluding grants	-4.4	-5.5	-6.5	-5.4	-6.6	-6.9	-6.7	-6.0	-5.8	-5.6
Including grants	1.6	0.4	-1.1	1.0	0.9	0.7	0.2	0.2	0.3	0.4
Domestic primary balance [2]	-1.1	-1.7	-2.2	-1.4	-1.4	-1.2	-0.9	-0.7	-0.6	-0.3
Public sector debt	56.0	51.8	52.9	47.0	47.0	41.9	38.6	35.7	33.0	30.6
Of which: domestic debt [3]	26.3	23.1	25.1	20.3	21.2	18.0	16.5	15.1	13.8	12.6
Of which: external debt	29.7	28.6	27.8	26.7	25.8	23.9	22.2	20.6	19.2	18.0
CEMAC Foreign Reserves										
(US$ billions, end-of-period)	5.0	5.6	5.8	6.7	7.8	9.2	10.4	11.8	13.2	14.4
(in months of extrazone imports)	2.4	2.5	2.4	2.8	3.3	3.7	3.9	4.5	5.0	5.3
PPP per capita (PPP dollars)	651.8		676.9		705.9	735.8	765.0	795.0	824.8	855.9
Nominal GDP (CFAF billions)	1,041	1,121	1,124	1,209	1,218	1,324	1,434	1,550	1,676	1,811

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

[1] Expenditure is on a cash basis.

[2] Excludes grants, interest payments, and externally-financed capital expenditure.

[3] Comprises government debt to BEAC, commercial banks and government arrears.

Table 2a. Central African Republic: Central Government Financial Operations, 2016–23

(CFAF billions)

(CFAF billions)

	2016	2017		2018		2019	2020	2021	2022	2023
		3rd Rev	Est.	3rd Rev	Proj.			Proj		
Revenue	147.1	168.4	154.0	193.0	202.7	225.6	238.9	253.2	275.7	300.1
Domestic revenue	84.9	102.0	93.4	116.0	112.0	125.5	140.2	156.2	173.4	192.0
Tax revenue	78.0	93.2	84.6	106.3	102.3	114.9	128.8	143.8	160.0	177.5
Taxes on profits and property	19.2	22.8	21.2	26.1	25.3	27.4	31.7	35.3	39.1	43.2
Taxes on goods and services	39.2	47.2	42.2	53.2	51.0	60.0	62.5	69.8	77.7	86.2
Of which: VAT	22.7	28.5	24.7	31.9	30.2	36.8	36.8	41.2	46.0	51.2
Taxes on international trade	19.5	23.2	21.2	26.9	25.9	27.6	34.6	38.7	43.2	48.1
Non-tax revenue	6.9	8.8	8.9	9.7	9.7	10.6	11.5	12.4	13.4	14.5
Grants	62.2	66.4	60.6	77.0	90.6	100.1	98.7	97.0	102.3	108.1
Program	38.4	36.3	21.2	37.3	39.7	36.4	27.8	27.0	26.0	25.0
Project	23.8	30.1	39.4	39.7	50.9	63.7	70.9	70.0	76.3	83.1
Expenditure [1]	130.9	163.3	166.8	180.7	192.0	216.6	236.2	249.3	270.8	292.6
Primary Spending	96.2	120.8	118.1	132.4	129.4	141.1	153.4	167.4	182.6	197.4
Current primary expenditure	93.3	110.2	109.2	117.1	111.6	121.2	131.9	144.2	157.5	170.3
Wages and salaries	55.9	57.9	57.0	60.6	60.6	65.6	71.7	77.5	83.8	90.6
Transfers and subsidies	17.6	28.2	24.5	29.0	26.6	28.5	30.8	34.9	38.5	41.7
Goods and services	19.8	24.1	27.7	27.5	24.4	27.1	29.4	31.8	35.2	38.0
Interest	5.8	4.4	3.8	3.4	4.1	4.3	4.4	4.4	4.4	4.6
External	3.6	1.6	2.1	2.3	2.2	2.4	2.6	2.6	2.6	2.9
Domestic	2.2	2.8	1.7	1.1	1.9	1.9	1.8	1.8	1.8	1.8
Capital expenditure	31.8	48.7	53.8	60.3	76.2	91.1	99.9	100.8	108.9	117.7
Domestically financed	2.9	10.6	9.0	15.3	17.8	19.9	21.5	23.3	25.1	27.2
Externally financed	28.9	38.1	44.9	45.0	58.4	71.2	78.4	77.5	83.8	90.6
Overall balance										
Excluding grants	-46.0	-61.3	-73.4	-64.8	-79.9	-91.1	-96.0	-93.1	-97.4	-100.6
Of which: domestic primary balance [2]	-11.3	-18.8	-24.7	-16.4	-17.3	-15.6	-13.2	-11.2	-9.2	-5.4
Including grants	16.2	5.0	-12.8	12.2	10.7	9.0	2.7	3.9	4.9	7.5
Net change in arrears ((-) = reduction)	-3.5	-30.4	-11.5	-30.2	-48.9	-27.8	0.0	0.0	0.0	0.0
Domestic	-6.0	-27.9	-9.0	-30.2	-47.9	-27.8	0.0	0.0	0.0	0.0
of which: Social arrears		-10.4	-2.4	-28.3	-38.7	-23.8				
External	2.5	-2.5	-2.5	0.0	-1.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	1.3	0.0	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	14.0	-25.3	-19.5	-18.0	-38.2	-18.8	2.7	3.9	4.9	7.5
Identified financing	-14.1	25.3	19.5	17.9	38.2	18.8	-2.7	-3.9	-4.9	-7.5
External, net	-0.4	12.4	12.6	1.2	1.8	1.8	1.8	2.3	2.1	3.5
Project loans	5.1	8.0	5.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Program loans	0.0	8.8	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-8.7	-4.4	-1.8	-6.3	-5.7	-5.7	-5.7	-5.2	-5.4	-4.0
Exceptional financing	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	-13.7	12.9	7.0	16.7	36.4	17.0	-4.5	-6.2	-7.0	-11.0
Banking system	-13.7	12.9	0.6	16.7	36.4	17.0	-9.5	-11.2	-17.0	-26.0
BEAC	-7.2	13.4	8.2	19.5	39.2	19.8	-6.6	-8.2	-13.8	-22.7
of which: Counterpart to IMF resources (BEAC)	9.0	22.8	21.6	28.8	28.8	11.2	-4.4	-4.8	-8.9	-14.3
Amortization of advances and consolidated	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-7.3	-7.5
Commercial banks	-6.4	-0.5	-7.6	-2.8	-2.8	-2.8	-2.9	-3.0	-3.2	-3.3
Nonbank	0.0	0.0	0.0	0.0	0.0	0.0	5.0	5.0	10.0	15.0
Exceptional financing [4]	0.0	0.0	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Memorandum items:										
Total government debt	582.8	580.2	594.7	568.0	572.1	554.5	554.0	553.6	553.6	554.6
Government domestic currency debt[3]	274.1	259.1	282.3	245.6	257.9	238.5	236.2	233.5	231.4	228.9
Nominal GDP	1041	1121	1124	1209	1218	1324	1434	1550	1676	1811

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

[1] Expenditure is on a cash basis

[2] Excludes grants, interest payments, and externally-financed capital expenditure.

[3] Including arrears and on-lending of IMF resources.

[4] Due to new loan agreements with commercial banks.

Table 2b. Central African Republic: Central Government Financial Operations, 2016–23

(In percent of GDP)

	2016	2017		2018		2019	2020	2021	2022	2023
		3rd Rev	Est.	3rd Rev	Proj.			Proj.		
					(In percent of GDP)					
Revenues	14.1	15.0	13.7	16.0	16.6	17.0	16.7	16.3	16.5	16.6
Domestic revenue	8.2	9.1	8.3	9.6	9.2	9.5	9.8	10.1	10.3	10.6
Tax revenue	7.5	8.3	7.5	8.8	8.4	8.7	9.0	9.3	9.5	9.8
Taxes on profits and property	1.8	2.0	1.9	2.2	2.1	2.1	2.2	2.3	2.3	2.4
Taxes on goods and services	3.8	4.2	3.8	4.4	4.2	4.5	4.4	4.5	4.6	4.8
Of which: VAT	2.2	2.5	2.2	2.6	2.5	2.8	2.6	2.7		
Taxes on international trade	1.9	2.1	1.9	2.2	2.1	2.1	2.4	2.5	2.6	2.7
Non-tax revenue	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Grants	6.0	5.9	5.4	6.4	7.4	7.6	6.9	6.3	6.1	6.0
Program	3.7	3.2	1.9	3.1	3.3	2.7	1.9	1.7	1.6	1.4
Project	2.3	2.7	3.5	3.3	4.2	4.8	4.9	4.5	4.6	4.6
Expenditure [1]	12.6	14.6	14.8	14.9	15.8	16.4	16.5	16.1	16.2	16.2
Primary Spending	9.2	10.8	10.5	10.9	10.6	10.7	10.7	10.8	10.9	10.9
Current primary expenditure	9.0	9.8	9.7	9.7	9.2	9.2	9.2	9.3	9.4	9.4
Wages and salaries	5.4	5.2	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Transfers and subsidies	1.7	2.5	2.2	2.4	2.2	2.2	2.2	2.3	2.3	2.3
Goods and services	1.9	2.1	2.5	2.3	2.0	2.1	2.1	2.1	2.1	2.1
Interest	0.6	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
External	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Domestic	0.2	0.3	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Capital expenditure	3.1	4.3	4.8	5.0	6.3	6.9	7.0	6.5	6.5	6.5
Domestically financed	0.3	0.9	0.8	1.3	1.5	1.5	1.5	1.5	1.5	1.5
Externally financed	2.8	3.4	4.0	3.7	4.8	5.4	5.5	5.0	5.0	5.0
Overall balance										
Excluding grants	-4.4	-5.5	-6.5	-5.4	-6.6	-6.9	-6.7	-6.0	-5.8	-5.6
Of which: domestic primary balance [2]	-1.1	-1.7	-2.2	-1.4	-1.4	-1.2	-0.9	-0.7	-0.6	-0.3
Including grants	1.6	0.4	-1.1	1.0	0.9	0.7	0.2	0.2	0.3	0.4
Net change in arrears ((-) = reduction)	-0.3	-2.7	-1.0	-2.5	-4.0	-2.1	0.0	0.0	0.0	0.0
Domestic	-0.6	-2.5	-0.8	-2.5	-3.9	-2.1	0.0	0.0	0.0	0.0
of which: Social arrears				-2.3	-3.2	-1.8	0.0			
External	0.2	-0.2	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.1	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	1.3	-2.3	-1.7	-1.5	-3.1	-1.4	0.2	0.2	0.3	0.4
Identified financing	-1.4	2.3	1.7	1.5	3.1	1.4	-0.2	-0.3	-0.3	-0.4
External, net	0.0	1.1	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Project loans	0.5	0.7	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.4
Program loans	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.8	-0.4	-0.2	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.2
Exceptional financing	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	-1.3	1.2	0.6	1.4	3.0	1.3	-0.3	-0.4	-0.4	-0.6
Banking system	-1.3	1.2	0.0	1.4	3.0	1.3	-0.7	-0.7	-1.0	-1.4
BEAC	-0.7	1.2	0.7	1.6	3.2	1.5	-0.5	-0.5	-0.8	-1.3
of which: Counterpart to IMF resources (BEAC)	0.9	2.0	1.9	2.4	2.4	0.8	-0.3	-0.3	-0.5	-0.8
Commercial banks	-0.6	0.0	-0.7	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Nonbank	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.6	0.8
Exceptional financing [4]	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total government debt	56.0	51.8	52.9	47.0	47.0	41.9	38.6	35.7	33.0	30.6
Government domestic debt [3]	26.3	23.1	25.1	20.3	21.2	18.0	16.5	15.1	13.8	12.6

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

[1] Expenditure is on a cash basis.

[2] Excludes grants, interest payments, and externally-financed capital expenditure.

[3] Including arrears and on-lending of IMF-resources.

[4] Due to new loan agreements with commercial banks.

Table 3. Central African Republic: Monetary Survey, 2016–23

(CFAF billions, end of period)

	2016	2017		2018					2019			2020	2021	2022	2023
				Q1	Q2	Q3	Q4	Q4	Q1	Q2	Q4				
		3rd Rev.	Prel.	Proj.	Proj.	Proj.	3rd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
							(CFAF billions; end of period)								
Net foreign assets	54.7	39.2	103.7	83.6	82.6	87.7	9.0	84.3	86.0	74.3	84.7	97.5	113.4	132.2	154.6
Bank of Central African States (BEAC)	38.7	23.2	74.0	54.0	53.0	58.1	-7.0	54.7	56.4	44.7	55.0	67.9	83.7	102.5	125.0
Commercial banks	16.0	16.0	29.6	29.6	29.6	29.6	16.0	29.6	29.6	29.6	29.6	29.6	29.6	29.6	29.6
Net domestic assets	218.0	236.5	197.0	223.5	231.0	232.3	280.7	242.2	246.3	265.1	270.0	286.7	302.0	316.8	330.7
Domestic credit	317.2	355.5	319.8	346.2	353.7	355.0	399.6	364.9	369.0	387.8	392.7	409.4	424.7	439.5	453.4
Credit to the public sector	172.5	185.4	173.0	170.0	187.2	186.8	202.1	209.4	210.9	226.9	226.4	216.9	205.7	188.7	162.7
Credit to central government (net)	172.5	185.4	173.0	170.0	187.2	186.8	202.1	209.4	210.9	226.9	226.4	216.9	205.7	188.7	162.7
BEAC	153.9	167.3	162.1	159.8	177.7	178.0	186.8	201.3	203.5	220.2	221.1	214.5	206.3	192.5	169.8
Loans/counterpart SDR	114.4	112.6	112.6	112.6	112.6	112.6	112.6	112.6	112.6	112.6	112.6	112.6	112.6	105.3	97.8
IMF (net)	70.3	93.0	87.2	84.2	98.9	95.9	121.9	116.0	116.0	130.6	127.2	122.8	118.1	109.2	95.0
Deposits	-30.7	-40.1	-37.7	-37.0	-33.8	-30.6	-49.4	-27.3	-25.2	-23.0	-18.7	-21.0	-24.4	-22.0	-23.0
Commercial banks	18.5	18.0	10.9	10.2	9.5	8.8	15.2	8.1	7.4	6.7	5.3	2.4	-0.6	-3.8	-7.1
Credit to other public agencies (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy	144.7	170.1	146.7	176.2	166.5	168.3	197.6	155.5	158.2	160.9	166.3	192.5	219.0	250.8	290.7
Public enterprises	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Private sector	141.4	166.7	143.4	172.8	163.1	164.9	194.2	152.1	154.8	157.5	162.9	189.1	215.6	247.4	287.3
Other items (net)	-99.2	-119.0	-122.7	-122.7	-122.7	-122.7	-119.0	-122.7	-122.7	-122.7	-122.7	-122.7	-122.7	-122.7	-122.7
Money and quasi-money	272.6	275.6	300.7	307.2	313.6	320.0	289.7	326.5	333.3	340.2	354.6	384.2	415.3	449.0	485.3
Currency	143.7	142.4	162.1	165.5	169.0	172.4	145.9	175.8	179.6	183.4	191.0	206.9	223.7	241.8	261.3
Deposits	128.9	133.3	138.6	141.6	144.6	147.6	143.8	150.7	153.7	156.8	163.7	177.3	191.7	207.2	224.0
Demand deposits	68.9	71.2	79.9	81.5	83.2	84.9	76.8	86.6	88.3	90.0	94.1	101.9	110.2	119.1	128.7
Term and savings deposits	60.0	62.0	58.7	60.1	61.4	62.7	66.9	64.1	65.5	66.8	69.6	75.4	81.5	88.1	95.2
							(Annual percentage change)								
Net foreign assets	29.5	-28.4	89.6				-77.0	-18.7			0.4	15.2	16.3	16.6	17.0
Net domestic assets	1.1	8.5	-9.6				18.7	22.9			11.5	6.2	5.3	4.9	4.4
Monetary base	0.2	7.7	25.0				7.9	8.4			8.6	8.3	8.1	8.1	8.1
Credit to the economy	17.5	17.5	1.4				16.2	5.9			7.0	15.8	13.8	14.5	15.9
Public enterprises	4.2	0.0	0.0				0.0	0.0			0.0	0.0	0.0	0.0	0.0
Private sector	17.9	18.0	1.4				16.5	6.1			7.1	16.1	14.0	14.8	16.1
Memorandum items:															
NDA of the central bank (CFAF billions)	123.3	151.3	128.5				195.2	164.9			183.5	190.5	195.6	199.5	201.5
Monetary base (CFAF billions)	162.0	174.4	202.5				188.2	219.6			238.5	258.4	279.4	302.0	326.4
Nominal GDP (CFAF billions)	1041	1121	1124				1209	1218			1324	1434	1550	1676	1811
Velocity (GDP/broad money)															
End of period	3.8	4.1	3.7				4.2	3.7			3.7	3.7	3.7	3.7	3.7

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

Table 4a. Central African Republic: Balance of Payments, 2016–23

(Billions of CFA francs)

	2016	2017		2018		2019	2020	2021	2022	2023
	Est.	3rd Rev.	Est.	3rd Rev.	Proj.			Proj.		
				(Billions of CFA francs)						
Current account	-89.2	-95.5	-96.7	-101.1	-102.1	-100.2	-99.8	-91.5	-89.6	-94.1
Balance on goods	-161.5	-162.7	-168.0	-172.8	-199.5	-207.1	-211.7	-214.7	-223.0	-237.1
Exports, f.o.b.	67.5	67.9	83.6	75.3	86.3	93.2	100.6	109.4	119.1	125.2
of which: Diamonds	1.3		5.3		7.2	8.5	9.9	11.7	13.9	15.3
of which: Wood products	39.9		53.5		52.9	56.3	60.0	64.6	69.6	71.5
Imports, f.o.b.	-229.0	-230.6	-251.6	-248.1	-285.8	-300.3	-312.3	-324.1	-342.2	-362.3
of which: Petroleum products	-58.4		-73.6		-82.2	-82.8	-82.0	-80.1	-84.2	-89.6
Services (net)	-37.7	-53.9	-28.6	-53.5	-23.6	-9.8	-5.6	-1.2	3.4	8.2
Credit	81.5	76.0	88.2	76.9	92.4	96.9	101.7	106.8	112.1	117.8
Debit	-119.2	-129.9	-116.8	-130.4	-116.0	-106.7	-107.3	-107.9	-108.7	-109.6
Income (net)	-3.4	1.6	0.1	1.5	0.1	-0.5	-0.6	-0.8	-0.7	-0.6
Credit	12.1	11.4	13.1	11.8	13.7	14.4	15.1	15.8	16.6	17.4
Debit	-15.5	-9.8	-13.0	-10.4	-13.6	-14.8	-15.7	-16.6	-17.3	-18.1
Transfers (net)	113.4	119.6	99.8	123.8	120.9	117.2	118.0	125.2	130.7	135.3
Private	59.0	55.8	61.4	56.8	62.4	63.3	67.2	71.4	74.1	76.9
Official	54.4	63.8	38.4	67.0	58.6	53.9	50.8	53.9	56.7	58.4
of which: Program	38.4	36.3	21.2	37.3	39.7	36.37	27.8	27.0	26	25
Capital account	23.8	30.1	39.4	39.7	50.9	63.7	70.9	70.0	76.3	83.1
Project grants	23.8	30.1	39.4	39.7	50.9	63.7	70.9	70.0	76.3	83.1
Other transfers (debt forgiveness)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	14.8	52.4	36.6	31.2	31.8	36.8	41.8	37.3	32.1	33.5
Direct investment	4.4	10.0	10.0	10.0	10.0	15.0	20.0	20.0	20.0	20.0
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	10.4	42.4	26.6	21.2	21.8	21.8	21.8	17.3	12.1	13.5
Public sector (net)	-3.6	12.4	12.6	1.2	1.8	1.8	1.8	2.3	2.1	3.5
Project disbursement	5.1	8.0	5.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Program disbursement	0.0	8.8	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-8.7	-4.4	-1.8	-6.3	-5.7	-5.7	-5.7	-5.2	-5.4	-4.0
Monetary authorities (SDR allocation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term flows	14.0	30.0	14.0	20.0	20.0	20.0	20.0	15.0	10.0	10.0
Errors and omissions	59.8	0.0	56.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	9.2	-13.0	35.4	-30.1	-19.3	0.3	12.8	15.8	18.8	22.5
Identified financing	-9.2	13.0	-35.4	30.1	19.4	-0.4	-12.8	-15.9	-18.8	-22.5
Net IMF credit	9.0	22.8	21.6	28.8	28.8	11.2	-4.4	-4.8	-8.9	-14.3
IMF purchase	-20.4	-32.7	-31.0	-37.2	-37.2	-18.6	0.0	0.0	0.0	0.0
IMF repurchase	11.3	9.9	9.4	8.4	8.4	7.4	4.4	4.8	8.9	14.3
Other reserves (increase = -)	-20.7	-7.3	-54.4	1.3	-8.4	-11.6	-8.5	-11.1	-9.9	-8.2
Exceptional financing	2.5	-2.5	-2.5	0.0	-1.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing	2.5	-2.5	-2.5	0.0	-1.0	0.0	0.0	0.0	0.0	0.0
Debt payment arrears (reduction=-)	2.5	-2.5	-2.5	0.0	-1.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Memorandum items:										
Terms of trade	25.0	-10.9	-19.7	-0.8	-11.4	1.5	0.7	2.3	0.0	-0.2
Unit price of exports	4.8	-4.8	-13.0	-0.8	-5.6	-0.3	-0.1	0.1	0.3	-0.3
Unit price of imports	-16.1	6.9	8.3	-0.1	6.5	-1.8	-0.9	-2.1	0.2	-0.2
Current account (percent of GDP)	-8.6	-8.5	-8.6	-8.4	-8.4	-7.6	-7.0	-5.9	-5.3	-5.2
Capital account (percent of GDP)	2.3	2.7	3.5	3.3	4.2	4.8	4.9	4.5	4.6	4.6
Nominal GDP (CFAF billions)	1041	1121	1124	1209	1218	1324	1434	1550	1676	1811

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

Table 4b. Central African Republic: Balance of Payments, 2016–23

(In percent of GDP)

	2016	2017		2018		2019	2020	2021	2022	2023
	Est.	3rd Rev.	Est.	3rd Rev.	Proj.			Proj.		
				(In percent of GDP)						
Current account	-8.6	-8.5	-8.6	-8.4	-8.4	-7.5	-7.0	-5.9	-5.3	-5.2
Balance on goods	-15.5	-14.5	-14.9	-14.3	-16.4	-15.6	-14.8	-13.9	-13.3	-13.1
Exports, f.o.b.	6.5	6.1	7.4	6.2	7.1	7.0	7.0	7.1	7.1	6.9
of which: Diamonds	0.1		0.5		0.6	0.6	0.7	0.8	0.8	0.8
of which: Wood products	3.8		4.8		4.3	4.3	4.2	4.2	4.2	3.9
Imports, f.o.b.	-22.0	-20.6	-22.4	-20.5	-23.5	-22.7	-21.8	-20.9	-20.4	-20.0
of which: Petroleum products	-5.6		-6.5		-6.7	-6.3	-5.7	-5.2	-5.0	-4.9
Services (net)	-3.6	-4.8	-2.5	-4.4	-1.9	-0.7	-0.4	-0.1	0.2	0.5
Credit	7.8	6.8	7.9	6.4	7.6	7.3	7.1	6.9	6.7	6.5
Debit	-11.5	-11.6	-10.4	-10.8	-9.5	-8.1	-7.5	-7.0	-6.5	-6.0
Income (net)	-0.3	0.1	0.0	0.1	0.0	0.0	0.0	-0.1	0.0	0.0
Credit	1.2	1.0	1.2	1.0	1.1	1.1	1.1	1.0	1.0	1.0
Debit	-1.5	-0.9	-1.2	-0.9	-1.1	-1.1	-1.1	-1.1	-1.0	-1.0
Transfers (net)	10.9	10.7	8.9	10.2	9.9	8.9	8.2	8.1	7.8	7.5
Private	5.7	5.0	5.5	4.7	5.1	4.8	4.7	4.6	4.4	4.2
Official	5.2	5.7	3.4	5.5	4.8	4.1	3.5	3.5	3.4	3.2
of which: Program	3.7	3.2	1.9	3.1	3.3	2.7	1.9	1.7	1.6	1.4
Capital account	2.3	2.7	3.5	3.3	4.2	4.8	4.9	4.5	4.6	4.6
Project grants	2.3	2.7	3.5	3.3	4.2	4.8	4.9	4.5	4.6	4.6
Other transfers (debt forgiveness)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.4	4.7	3.3	2.6	2.6	2.8	2.9	2.4	1.9	1.9
Direct investment	0.4	0.9	0.9	0.8	0.8	1.1	1.4	1.3	1.2	1.1
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	1.0	3.8	2.4	1.8	1.8	1.6	1.5	1.1	0.7	0.7
Public sector (net)	-0.3	1.1	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Project disbursement	0.5	0.7	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.4
Program disbursement	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-0.8	-0.4	-0.2	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.2
Monetary authorities (SDR allocation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term flows	1.3	2.7	1.2	1.7	1.6	1.5	1.4	1.0	0.6	0.6
Errors and omissions	5.7	0.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.9	-1.2	3.1	-2.5	-1.6	0.0	0.9	1.0	1.1	1.2
Identified financing	-0.9	1.2	-3.1	2.5	1.6	0.0	-0.9	-1.0	-1.1	-1.2
Net IMF credit	0.9	2.0	1.9	2.4	2.4	0.8	-0.3	-0.3	-0.5	-0.8
IMF purchase	-2.0	-2.9	-2.8	-3.1	-3.1	-1.4	0.0	0.0	0.0	0.0
IMF repurchase	1.1	0.9	0.8	0.7	0.7	0.6	0.3	0.3	0.5	0.8
Other reserves (increase = -)	-1.0	-0.6	-4.8	0.1	-0.7	-0.9	-0.6	-0.7	-0.6	-0.5
Exceptional financing	0.2	-0.2	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing	0.2	-0.2	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Debt payment arrears (reduction=-)	0.2	-0.2	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Terms of trade (percent change)	25.0	-10.9	-19.7	-0.8	-11.4	1.5	0.7	2.3	0.0	-0.2
Unit price of exports	0.5	-0.4	-1.2	-0.1	-0.5	0.0	0.0	0.0	0.0	0.0
Unit price of imports	-1.6	0.6	0.7	0.0	0.5	-1.8	-0.1	-0.1	0.0	0.0
Current account	-0.8	-0.8	-0.8	-0.7	-0.7	-0.6	-0.5	-0.4	-0.3	-0.3
Capital account	0.2	0.2	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Nominal GDP (CFAF billions)	1041	1121	1124	1209	1218	1324	1434	1550	1676	1811

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

Table 5. External Financing Needs, 2018–23

	2018	2019	2020	2021	2022	2023
			Projection			
1. Total financing requirement	165.3	161.2	146.2	139.6	139.8	145.6
Current account deficit (excl. budget support)	141.8	136.5	127.6	118.5	115.6	119.1
Debt amortization	5.7	5.7	5.7	5.2	5.4	4.0
Repayment to the Fund	8.4	7.4	4.4	4.8	8.9	14.3
Change in other reserves	8.4	11.6	8.5	11.1	9.9	8.2
Arrears Repayment	1.0					
2. Total financing sources	88.4	106.2	118.4	112.5	113.8	120.6
Capital transfers	50.9	63.7	70.9	70.0	76.3	83.1
Foreign direct investment (net)	10.0	15.0	20.0	20.0	20.0	20.0
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	7.5	7.5	7.5	7.5	7.5	7.5
Public Sector	7.5	7.5	7.5	7.5	7.5	7.5
Non-public sector	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt	0.0	0.0	0.0	0.0	0.0	1.0
Other net capital inflows	20.0	20.0	20.0	15.0	10.0	10.0
Exceptional Financing						
Errors and Omissions	0.0	0.0	0.0	0.0	0.0	0.0
3. Total financing needs	76.9	55.0	27.8	27.1	26.0	25.0
Budget support (grants)	39.7	36.4	27.8	27.0	26.0	25.0
World Bank	14.6	8.8				
African Development Bank	5.4	5.9				
European Union	13.1	15.1				
France	6.6	6.6				
Other	0.0	0.0				
Budget support (loans)	0.0	0.0	0.0	0.0	0.0	0.0
African Development Bank	0.0	0.0	0.0	0.0	0.0	0.0
4. Residual financing need	37.2	18.6				
IMF	37.2	18.6				

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

Table 6. Central African Republic: Treasury Cash Management Plan, 2018

(millions CFAF francs)

	Actual			Projections									Total 2018
	January	February	March	April	May	June	July	August	September	October	November	December	
Deposits beginning of month (I)[1]	**30.593**	**20.552**	**18.172**	**17.468**	**9.948**	**18.365**	**25.714**	**17.913**	**24.143**	**16.173**	**16.793**	**11.465**	**30.593**
Gross cash inflows (II)	**12930**	**10697**	**14323**	**8200**	**28252**	**26928**	**13372**	**22699**	**9590**	**16480**	**15332**	**28590**	**207393**
Domestic Revenue	9038	10697	8901	8200	8300	8328	9480	9580	9590	9880	9980	9990	111,964
Revenue Customs	4834	4572	4073	4000	4000	4000	4750	4850	4850	4950	4950	4950	54,779
Revenue Tax	3210	5071	3944	3400	3500	3528	3900	3900	3910	4100	4200	4210	46,873
Other revenue	385	414	241	200	200	200	230	230	230	230	230	230	3,020
Salary Tax	609	640	643	600	600	600	600	600	600	600	600	600	7,292
Financing	3,892	0	5,422	0	19,952	18,600	3,892	13,119	0	6,600	5,352	18,600	95,429
Treasury securities	3,892	0	0	0	5,352	0	3,892	0	0	0	5,352	0	18,488
Other budget support	0	0	5,422	0	14,600	18,600	0	13,119	0	6,600	0	18,600	76,941
World Bank	0	0	0	0	14,600	0	0	0	0	0	0	0	14,600
African Development Bank	0	0	5,422	0	0	0	0	0	0	0	0	0	5,422
IMF Disbursements	0	0	0	0	0	18,600	0	0	0	0	0	18,600	37,200
European Union	0	0	0	0	0	0	0	13,119	0	0	0	0	13,119
France	0	0	0	0	0	0	0	0	0	6,600	0	0	6,600
Gross cash outflows (III)	**22,971**	**13,077**	**15,027**	**15,720**	**19,835**	**19,579**	**21,173**	**16,469**	**17,560**	**15,860**	**20,660**	**19,920**	**217,851**
Primary expenditure	7,900	8,022	10,288	10,445	10,445	12,570	10,870	10,870	12,970	10,870	10,970	13,220	129,440
Wages	4,168	4,279	4,312	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,550	60,601
add f.i. salary charges	609	640	643	600	600	600	600	600	600	600	600	600	
Transfers	1,256	1,378	3,600	1,545	1,545	3,670	1,570	1,570	3,670	1,570	1,570	3,670	26,614
of which: pensions	0	0	1,965	0	0	1,965	0	0	1,965	0	0	1,965	7,860
Goods and services	1,867	1,630	1,202	2,100	2,100	2,100	2,200	2,200	2,200	2,200	2,300	2,300	24,399
Capital		95	531	1,700	1,700	1,700	2,000	2,000	2,000	2,000	2,000	2,100	17,826
Interest and Amortization	6,196	259	3,097	1,775	5,890	3,209	6,503	1,799	790	1,190	5,890	2,900	39,498
Domestic	5,923	196	999	390	5,890	2,509	6,118	1,099	390	390	5,890	1,800	31,594
of which: IMF repayments	1,734	0	709	0	0	2,119	1,728	709	0	0	0	1,410	8,409
of which: treasury securities	4,000	0	0	0	5,500	0	4,000	0	0	0	5,500	0	19,000
of which: Interest	0	7	0	150	150	150	150	150	150	150	150	150	1,357
of which: BEAC Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0
of which: Commercial Banks	189	189	290	240	240	240	240	240	240	240	240	240	2,828
External	273	63	2,098	1,385	0	700	385	700	400	800	0	1,100	7,904
of which: Interest	0	42	383	685	0	0	385	0	400	0	0	300	2,195
of which: Amortizations	273	21	1,715	700	0	700	0	700	0	800	0	800	5,709
Arrears payments	8,875	4,796	1,642	3,500	3,500	3,800	3,800	3,800	3,800	3,800	3,800	3,800	48,913
Retrait des correspondants													
Net cash flow (=II-III)	**-10,041**	**-2,380**	**-704**	**-7,520**	**8,417**	**7,349**	**-7,801**	**6,230**	**-7,970**	**620**	**-5,328**	**8,670**	**-10,458**
Deposits at end of month (=I+(II-II	**20,552**	**18,172**	**17,468**	**9,948**	**18,365**	**25,714**	**17,913**	**24,143**	**16,173**	**16,793**	**11,465**	**20,135**	**20,135**

Source: Data provided by the authorities and staff calculations.

[1] Freely usable deposits.

Table 7. Central African Republic: Commitments for 2018 and 2019

	Disbursements 2018	Commitments for 2018		Commitments for 2019		Purpose
			CFA francs, bn		CFA francs, bn	
IMF		SDR 45.68 million	37.2	SDR 22.84 million	18.6	Balance of payments support
World Bank		US$ 25 million	14.6	US$ 15 million	8.8	Budget support
African Development Bank	US$10 million		5.4	US$ 10 million	5.9	Budget support
European Union		€ 20 million	13.1	€ 23 million	15.1	Budget support
France		€ 10 million	6.6	€ 10 million	6.6	Budget support
Total			76.9		55.0	
excluding IMF			**39.7**		**36.4**	

Table 8. Central African Republic: Indicators of Capacity to Repay the IMF, 2017–29

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
IMF obligations based on existing credit												
(SDR millions)												
Principal	7.32	9.10	5.35	5.85	10.86	17.49	16.65	15.26	13.03	8.02	0.00	0.00
Charges and interest	0.34	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47
IMF obligations based on existing and prospective credit												
(SDR millions)												
Principal	7.32	9.10	5.35	5.85	10.86	19.77	28.07	28.96	26.74	21.73	11.42	2.28
Charges and interest	0.34	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47
IMF obligations based on existing and prospective credit												
(CFA billions)												
Principal	5.97	7.42	4.36	4.77	8.85	16.11	22.88	23.60	21.79	17.71	9.31	1.86
Charges and interest	0.28	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38
Outstanding IMF Credit												
SDR Millions	147.30	161.04	155.68	149.83	138.97	119.20	91.13	62.17	35.43	13.70	2.28	0.00
CFAF Billions	112.42	121.48	115.62	109.99	102.02	87.51	66.90	45.64	26.01	10.06	1.67	0.00
Percent of government revenue	100.33	96.79	82.45	70.43	58.82	45.57	32.05	20.07	10.49	3.72	0.56	0.00
Percent of exports of goods and services	62.90	63.90	57.15	50.89	44.12	36.01	26.41	17.28	9.31	3.39	0.53	0.00
Percent of debt services	616.74	697.74	799.03	764.33	548.34	383.16	309.41	224.75	141.98	72.89	23.58	0.00
Percent of GDP	9.23	9.18	8.06	7.10	6.09	4.83	3.47	2.21	1.18	0.43	0.07	0.00
Percent of quota	132.23	144.56	139.75	134.50	124.75	107.00	81.80	55.81	31.80	12.30	2.05	0.00
Net use of IMF credit (SDR millions)												
Disbursements	45.7	22.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	7.66	9.57	5.82	6.32	11.33	20.24	28.54	29.43	27.21	22.20	11.89	2.75
Memorandum items:												
Nominal GDP (billions of CFA francs)	1218.4	1323.6	1433.8	1550.2	1675.7	1811.3	1929.5	2062.8	2204.8	2356.7	2519.1	2693.0
Exports of goods and services (billions of CFA francs)	178.7	190.1	202.3	216.1	231.3	243.0	253.3	264.1	279.3	296.7	316.1	338.2
Government revenue (billions of CFA francs)	112.0	125.5	140.2	156.2	173.4	192.0	208.8	227.4	247.9	270.4	297.1	326.3
Debt service (billions of CFA francs)	18.2	17.4	14.5	14.4	18.6	22.8	21.6	20.3	18.3	13.8	7.1	6.9
IMF Quota (SDR millions)	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4

Source: IMF staff projections.

Table 9. Central African Republic: Financial Soundness Indicators, December 2010–December 2017

(Percent, end of period)

Concept	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Jun-16	Dec-16	Jun-17	Nov-17
Capital Adequacy										
Total bank regulatory capital to risk-weighted assets	16.5	25.6	22.7	39.1	42.2	38.7	37.4	32.0	40.1	30.7
Percentage of banks greater or equal to 10 percent										
Share of these banks/total banking system assets										
Percentage of banks below 10 and above 6 percent minimum										
Share of these banks/total banking system assets										
Percentage of banks below 6 percent minimum										
Total capital (net worth) to assets	17.1	22.3	22.2	23.7	21.9	21.1	19.3	19.2	18.8	18.9
Asset Quality										
Non-performing loans to total loans	12.6	12.0	9.6	28.5	27.7	30.9	28.4	25.6	28.2	22.7
Non-performing loans net of provision to capital	1.5	3.3	1.6	50.0	44.4	34.9	25.6	18.7	25.7	4.2
FX loans to total loans										
Earnings and Profitability										
Net income to average assets (ROA)	4.0	5.0	4.5	-1.3	0.9	-0.9	0.9	0.8	n.a.	n.a.
Net income to average capital (ROE)	24.4	24.4	20.7	-5.4	3.8	-4.0	4.5	4.2	n.a.	n.a.
Non interest expense to gross income	65.9	59.9	64.0	79.5	73.6	72.8	70.5	67.3	77.4	n.a.
Personnel expense to gross income										
Non interest income to gross income										
Expenses/Income										
Liquidity										
Liquid assets to total assets	28.1	24.3	16.6	19.2	27.5	40.0	34.0	31.9	31.2	29.2
Liquid assets to short-term liabilities	132.6	160.7	114.5	149.1	203.1	276.1	246.8	219.6	220.6	208.2
Loan/deposits										
Liquid assets/total deposits										
Sensitivity to market/FX risk										
Foreign exchange liabilities/total liabilities										
Foreign currency deposits/official reserves										

Sources: C.A.R. authorities and the Banque des Etats de l'Afrique Centrale.

Table 10. Central African Republic: Schedule of Disbursements, 2016–19

	Date	Disbursement	
		Millions of SDR	Percent of Quota
First disbursement upon program approval.	July 20, 2016	SDR 12.525 million	11.2
Second disbursement upon observance of the performance criteria for August 31, 2016 and completion of the first review.	December 21, 2016	SDR 12.525 million	11.2
Third disbursement upon observance of the performance criteria for December 31, 2016 and completion of the second review.	July 20, 2017	SDR 11.70 million	10.5
Fourth disbursement upon observance of the performance criteria for June 30, 2017 and completion of the third review.	December 15, 2017	SDR 28.41 million[1]	25.5
Fifth disbursement upon observance of the performance criteria for December 31, 2017 and completion of the fourth review.	March 21, 2018	SDR 22.84 million[2]	20.5
Sixth disbursement upon observance of the performance criteria for June 30, 2018 and completion of the fifth review.	October 22, 2018	SDR 22.84 million[2]	20.5
Seventh disbursement upon observance of the performance criteria for December 31, 2018 and completion of the sixth review.	March 20, 2019	SDR 22.84 million[2]	20.5
Total		SDR 133.68 million[3]	120.0

[1] Reflects augmentation at 2nd and 3rd review. Approved amount at program request was SDR 11.70 million.
[2] Reflects augmentation at 3rd review. Approved amount at program request was SDR 11.70 million.
[3] Reflects augmentation at 2nd review and 3rd review. Approved amount at program request was SDR 83.55 million.

Table 11. Central African Republic: Risk Assessment Matrix (RAM)[1]

Sources of Risks		Relative Likelihood	Impact If Realized	Policy Response if Materialized
Deterioration of security situation		**High**	**High** Intensifying humanitarian crisis, decline in confidence, investment and business activity, lower economic growth.	Make room for more security-related spending. Accelerate the implementation of the NRPPto advance peace, security and reconciliation.
Limited institutional and human resources capacity		**High**	**High** Weak implementation of TA recommendations provided by the development partners and the Fund, and delayed adoption of structural reforms	Improving TA effectiveness by prioritizing resident advisor TA, and follow-up mission.
Delayed delivery of external financial assistance		**Medium**	**Medium** Negative effects on investment, growth and employment, and poverty. Less financing could undermine macroeconomic stability.	Strengthen external support through better compliance to donors' conditionality and emphasizing the needs of CAR's development strategy (NRPP).
Weaker-than-expected global growth		**Medium**	**Medium** Falling export demand would likely reduce net export and revenue, increasing fiscal risks.	Intensify structural reform and improve business environment to support diversification.
Higher energy price		**Medium**	**High** Revenue generated by oil taxation is important in CAR, and rising international prices would lead to lower oil revenues.	Simplify the price structure of petroleum products to limit revenue losses and the need to adjust retail price

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

Annex I. Capacity Building Framework Strategy

June 2018

1. Central African Republic's (C.A.R.) reform program is supported by an arrangement under the Extended Credit Facility (ECF) approved by the Executive Board on July 20, 2016. Targeted and timely TA is key to ensure the success of the program. This note presents the capacity development strategy, expected objectives, and technical assistance (TA) priorities that would support the macroeconomic policy priorities in the context of the ECF. The note also defines a set of milestones and outcomes related to the TA program and describes actions to be undertaken by the authorities to achieve the agreed goals.

A. Policy Priorities

2. **C.A.R. is a fragile state plagued by significant weaknesses in administrative and institutional capacity and a volatile security environment**. Within this context, the overarching policy priorities for C.A.R. remain: (i) enhancing domestic revenue collection and revenue performance; (ii) returning to normal budget procedures and improving the efficiency of the public spending process, including the capital spending framework; (iii) building debt management capacity and improving debt management strategy; and (iv) improving data compilation in the national accounts, consumer prices government finance statistics, and the external sector.

B. Assessment of Past TA Effectiveness

3. **Timely TA delivery during the transition (January 2014–March 2016) was instrumental in rebuilding basic institutions**. During that period, the donor community offered limited and targeted technical assistance in the areas of treasury management, public financial management (connecting the key modules of the public finance management system), the wage bill, and macro-fiscal capacity. In addition, the European Union, France, and the WB developed TA programs and posted several long-term experts covering budget, customs, and aid management. Delivery of Fund TA was hampered by the suspension of TA missions due to the deterioration of security conditions. However, AFRITAC Central organized several offsite TA/training seminars on post-conflict public financial management, revenue mobilization, debt management, and national accounts.

C. TA Priorities Going Forward

4. **In support of the policy priorities, TA priorities to be covered by the Fund are**: (i) tax policy and revenue administration; (ii) public financial management; (iii) public debt management; and (iv) statistics issues on national accounts, government finance statistics, and the external sector. Accordingly, the proposed TA priorities for 2016/2018 IMF TA are shown in the following tables.

Tax Policy and Administration (2016–18)	
• Objective:	Achieve more effective and efficient mobilization of domestic resources by: (i) improving the design and administration of VAT and excise taxes; (ii) rationalizing tax and customs exemptions; (iii) reforming the tax and customs administration; and (iv) reform diamond, telecom, and forestry taxation and rationalize parafiscal charges.
• Outcomes:	(i) improved compliance enforcement of VAT filing; (ii) strengthened customs operations; (iii) significantly reduced tax exemptions; (iv) improved domestic revenue, from 7.1 percent of GDP in 2015 to 9.5 percent in 2018.
• Milestones:	(i) improve revenue from the downstream oil sector, forestry and mining sectors (2018); (ii) implement tax laws and streamline tax exemptions (2017-2018); (iii) streamline and modernize processes for large taxpayers/ importers, secure revenue collection through commercial banks network, exchange customs and tax administration data to prevent and combat tax fraud (2017-2018).
• Input:	(i) HQ-led follow-up FAD TA mission on tax policy in FY18; (iii) HQ-led follow up tax administration mission and short term expert visits to monitor reform implementation. (ii) follow-up mission by AFRITAC; and
• Assumptions:	(i) improved tax and custom services facilitate better compliance; (ii) improved taxation on the diamond, telecom, and forestry sectors; (iii) strong commitment to implementing potentially difficult reforms (e.g., rationalize parafiscal taxes and tax and customs exemptions).
Public Finance Management (2016–18)	
• Objective:	(i) Comprehensive, credible, and policy based budget preparation; (ii) improved budget execution and control; (iii) improved coverage and quality of fiscal reporting.
• Outcomes:	(i) More credible medium-term macro-fiscal framework that supports budget preparation; (ii) budget execution and controls are strengthened; (iii) stock of expenditure arrears as share of expenditure and frequency of monitoring; (iv) existence of payroll controls; (iv) the chart of accounts and budget classifications are aligned with international standards.
• Milestones:	Streamlining the budget execution procedures, including exceptional and emergency procedures; strengthening of State Owned Enterprises (SOEs) oversight; and aligning the management of earmarked revenues and revenues from parafiscal taxes with best practices (2018).
• Input:	HQ-led TA mission on Public Financial Management; and follow up mission from headquarters and AFRITAC in the PFM area.

• Assumptions:	(i) continued political support to PFM reforms; and (ii) further enhancement of governance practices.
Public debt management (2016–18)	
• Objective:	Building debt management capacity and improving the debt management strategy.
• Outcomes:	(i) modernize the institutional, legal and regulatory framework for public debt management; (ii) improve debt management strategy and reporting; and (iii) strengthen analytical and operational capabilities of debt managers.
• Milestones:	Review the institutional and regulatory framework for public debt management and improve debt management strategy (2017).
• Input:	Ongoing missions from AFRIAC Central on debt management with support from HQ on: (i) the institutional, legal and regulatory framework for debt management; (ii) debt portfolio and risk management, including MTDS; (iii) debt reporting; and (iv) debt sustainability analysis and LIC DSA.
• Assumption	Strong commitment toward strengthening debt management.
Statistical Issues on National Accounts, Government Finance Statistics, and the External Sector (2016–18)	
• Objective:	Produce more accurate statistics on prices, national accounts, government finance statistics, and the external sector.
• Outcomes:	Improve economic policy making and inform private sector decisions.
• Milestones:	For national accounts, improve and disseminate the compilation of the 2005–15 annual national accounts in line with 1993 SNA; improve the price collection and update the CPI. For the external sector, improve the compilation and dissemination of the balance of payments and start producing the International Investment Position data. For government finance statistics, start producing the statement of government operations following the GFSM 2001/2014 and implementing the CEMAC TOFE directive based GFSM 2001.
• Input:	For national accounts, visits by short-term experts from AFRITAC Central to review national accounts and fix the CPI methodology. For the external sector, a three-year project funded by the Japanese government launched this year. The project targets 17 beneficiary francophone countries, including all the member states of the CEMAC. For government finance statistics, visits by long-term experts from AFRITAC Center to help them implement the TOFE directive.
• Assumptions:	(i) Human and financial resources are available; (ii) collaboration between national agencies involved in statistics.

D. Risks and Mitigation Measures

The implementation of the technical assistance program is subject to various risks. The table below summarizes these risks and lays out the measures to monitor and mitigate their impact during the TA implementation. This will be a live TA management tool to be updated periodically as the TA program evolves.

Risk	***Probability***	***Impact***	***Mitigation Measures***
Persistently delicate and fluid security situation			
The first risk relates to security, which remains volatile despite recent progress. A deterioration of security conditions could hinder timely delivery of TA in the field and reduce its effectiveness.	***High***	***High***	To mitigate the security risk, the authorities may consider sending staff to outside locations to build capacity.
Delayed support from the development partners			
Lack of resources could cause delays or prevent proper implementation of TA recommendations and outcomes. For example, TA recommendations that require the purchase of equipment and/or the hiring of staff may be delayed if the necessary equipment and staff could not be procured and hired for budgetary reasons.	***Medium***	***High***	The authorities are mobilizing resources pledged during the November 2016 donor conference in Brussels.
Implementation capacity constraints			
Weak institutional and human resources capacity could cause delays or hamper implementation. Government units involved in economic and financial affairs are understaffed, poorly equipped, and work under difficult conditions, including a lack of sufficient energy to power computers and office equipment.	***High***	***High***	As part of their CBF pilot, the new authorities are committed to improve capacity and make the best use of the TA that will be provided by the development partners and the Fund. To offset the lack of specialized local staff, they plan to hire young college graduates and train them in the specialty identified as crucial to improve capacity. Equipment modernization is underway with donor support.

E. Authorities' Commitments

The C.A.R. authorities are committed to continue to rebuild capacity to ensure successful implementation of the ECF-supported program. TA was delivered in 2016-2017 by development partners to enhance customs and tax revenue collection; improve treasury management; strengthen the Government financial management information system (GESCO) pending the development of a new system (SIM BA) in 2020; and pursue civil service reform. For

2017–18, the authorities have reached an understanding with the Fund on a comprehensive capacity-building strategy in the context of the Capacity Building Framework (CBF) pilot project. Within this framework, their priorities remain domestic revenue collection, PFM, public debt management, macroeconomic statistics, civil service reform, and macro-fiscal capacity. The outcomes will be first strengthening the institutional framework in place that coordinates TA and training with a view to increasing revenue; enhancing spending efficiency; restoring budget discipline; strengthening debt management; and creating core macro-fiscal capacity. If security risk heightens, the authorities plan to send staff to outside locations for training. They are also looking forward to taking full advantage of additional TA provided by the Fund under the CBF pilot on tax policy, revenue administration, PFM, national accounts data compilation, and external trade data (Tables 1 and 2). The authorities are committed to improving capacity and making the best use of the TA and training provided by development partners and the Fund through improved coordination of activities.

Table 1. Central African Republic: Technical Assistance Activities, 2017

Date	Department	Mission purpose
Jan-17	FAD	Tax policy
	FAD	AFC-Revenue administration
	MCM	Balance of payments statistics
Feb-17	FAD	Tax administration
	FAD	Customs administration
	FAD	AFC-Revenue administration
	MCM	AFC-Debt management
	STA	AFC-Government finance statistics
Mar-17	FAD	AFC-Revenue administration
	FAD	Public finance management
	FAD	AFC-Public finance management
	MCM	AFC-Debt management
	STA	AFC-National accounts
May-17	FAD	AFC-Revenue administration
	STA	AFC-National accounts
Jun-17	STA	AFC-Government finance statistics
Sep-17	STA	AFC- National Accounts
	FAD	Revenue administration
Oct-17	MCM	AFC- Debt management
Nov-17	FAD	Revenue administration
Dec-17	FAD	Tax Policy
	FAD	AFC- Customs administration
	FAD	AFC- Public finance management

Table 2. Central African Republic: Technical Assistance Activities, 2018

Date	Department	Mission purpose
Jan-18	FAD	AFC-Revenue administration
	MCM	AFC-Debt Management
	MCM	Balance of payments statistics
Mar-18	FAD	Revenue administration
	FAD	Public finance management
April-18	FAD	Tax administration
	STA	AFC-National accounts
	STA	AFC-Government finance statistics (planned)
Jun-18	FAD	Public finance management (planned)
	FAD	AFC-Customs administration (planned)
July-18	FAD	Public finance management (planned)
	MCM	AFC-Debt management (planned)
	FAD	AFC-Revenue administration (planned)
Aug-18	FAD	Tax policy (planned)
Sep-18	STA	AFC- National Accounts (planned)
	FAD	Revenue administration (planned)
Oct-18	MCM	AFC- Debt management (planned)
Nov-18	FAD	AFC- Revenue administration (planned)
	FAD	AFC-Public finance management (planned)
Dec-18	STA	AFC-Government finance statistics (planned)
	FAD	AFC- Public finance management (planned)

Appendix I. Letter of Intent

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC, 20431

Bangui, June 18, 2018

Dear Madame Lagarde:

1. On December 15, 2017, the Executive Board completed the third review of the ECF arrangement and approved an augmentation of SDR 38.99 million (35 percent of quota), enabling a disbursement of SDR 28.41 million. The attached Memorandum of Economic and Financial Policies (MEFP) describes recent economic development in the C.A.R., progress that has been made in implementing our policies through end March 2018 and our medium-term reform agenda.

2. All performance criteria at end-December 2017 have been met, except for the domestic revenue target and the continous performance criteria on the non-accumulation of external arrears, for which we are requesting waivers. Revenue underperformed due to delays in the implementation of our tax reform program, weak tax arrears collection, and declining revenues from the forestry sector. Three out of the four structural benchmarks as of end-December 2017 and end-March 2018 have been implemented, but some with delays.

3. Our medium-term objectives remain to: strengthening revenue mobilization to widen our fiscal space, improving public spending efficiency, promoting transparency and good governance, moving forward in the implementation of our poverty reduction goals and stimulate growth. To this end, we submitted to the National Assembly a draft revised budget law for 2018 consistent with the ECF-supported program, a prior action for the completion of the fourth review. We are determined to redouble efforts to mobilize domestic revenue. To achieve our revenue target for 2018, we will implement all tax and customs policy measures described in the attached MEFP.

4. We are committed to repaying domestic arrears in line with the government's strategy and avoiding new accumulation of arrears. We stayed current on all external debt service falling due with one small exception for which we request a waiver. To restore long-term debt sustainability, since the approval of the ECF arrangement in

July 2016, neither the central government, state-owned enterprises nor government agencies have contracted or guaranteed new external loans, except for the highly concessional budget support loan provided by the African Development Bank in 2017. We are mobilizing only grants and will contract highly concessional financing only within the borrowing limits of the program to finance our development projects. We reiterate our commitment to systematically consult with IMF staff before contracting any new external borrowing.

5. Based on progress made so far, we are requesting the disbursement of the fifth tranche of the ECF arrangement, amounting to SDR 22.84 million (20.5 percent of our quota), to cover our persistent balance of payments needs.

6. We remain convinced that the measures and policies outlined in the attached MEFP are adequate to achieve the objectives of our program and to reduce our balance of payments needs going forward. We will not introduce any measures or policies that would compound our balance of payments difficulties. We will consult with the Fund on revisions to policies contained in the MEFP in accordance with the Fund's policies on such consultations. We will provide the Fund staff all data and information needed to assess our policies, particularly those mentioned in the Technical Memorandum of Understanding (TMU).

7. We intend to publish the IMF staff report, including this letter, the attached MEFP, and the TMU as an appendix. We therefore authorize the Fund staff to publish these documents on the IMF's external website once the Executive Board has completed the second review of the ECF arrangement.

Sincerely yours,

/s/	/s/
Henri-Marie Dondra	Simplice Mathieu Sarandji
Minister of Finance and Budget	Prime Minister

Attachments:
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

This memorandum updates the December 2017 MEFP prepared for the Third Review under the economic program supported by the Extended Credit Facility (ECF), approved by the IMF Executive Board in July 2016. The objectives of the program are to consolidate macroeconomic stability, create the conditions for sustainable and inclusive growth, fight poverty and strengthen the government's efforts to promote peace and reconciliation. The MEFP outlines recent macroeconomic developments, program implementation at end-December 2017 and end-March 2018, economic prospects and risks, and macroeconomic and structural policy objectives for the remainder of 2018 and beyond.

RECENT ECONOMIC DEVELOPMENTS

1. **The security situation remains volatile.** To deal with this problem, the government continues to implement its strategy to restore security, the authority of the state and to promote economic development. After having normalized the situation in the city of Bambari, the redeployment of the administration, particularly the installation of prefects and sub-prefects, will allow us to gradually normalize the situation in the remaining cities. That said, many people are still in need of urgent humanitarian assistance.

2. **Economic growth remains robust.** We estimate growth at 4.3 percent in 2017, compared with 4.5 percent in 2016. For the first time in decades, GDP growth has been over 4 percent for three consecutive years. This economic performance stems from the sustained recovery in construction activities, forestry, diamonds and trade. The agriculture sector has been severely affected by the continued instability in some rural areas. In 2017, inflation remained subdued at 4.1 percent, against 4.6 percent in 2016.

3. **The government followed a prudent fiscal policy in 2017 that translated into a primary fiscal deficit-on cash basis-of 2.2 percent of GDP.** Tax revenue as a share of GDP has remained well below expectations. This underperformance is due to the low tax compliance, the weak recovery of tax arrears, the fall in forestry revenue, the fragmentation of the treasury single account and the slow progress to restore tax services in violence-affected zones. Current spending, including the salary bill, has been broadly contained. As for investment spending, they reached 4.8 perent of GDP, largely financed through external resources. Public debt declined from 56 percent of GDP in 2016 to 52.9 percent in 2017, reflecting the government’s efforts to clear domestic debt arrears and a prudent borrowing policy. In 2017, we contracted only one highly concessional loan from the African Development Bank.

4. **The external current account deficit remained stable in 2017.** Exports increased by 24 percent, driven by wood and diamonds from the green zone. Imports grew by 9.6 percent reflecting ongoing reconstruction. As for current transfers, they declined from 10.9 percent of GDP in 2016 to 8.9 percent in 2017due to the delayed disbursements by some key international donors.

5. **Broad money grew by 10.3 percent in 2017, driven by the strong increase in net foreign assets (+89.6 percent).** Credit to the economy increased modestly with a growth rate of 1.4 percent. Non-performing loans declined in 2017, but remain high. However, banks continue to be sufficiently capitalized and their profits increased between 2016 and 2017.

IMPLEMENTATION OF THE PROGRAM FOR 2017 AND EARLY 2018

6. **Implementation of the program has been broadly satisfactory.** Based on available data, we met all the quantitative performance criteria (QPCs) at end-December 2017, except for the domestic revenue target:

- Net domestic financing of the government stood at FCFA -16.4 billion at end-December 2017, for an adjusted ceiling of FCFA 2.2 billion.
- The domestic primary fiscal balance amounted to FCFA -24.7 billion at end-December 2017, for an adjusted ceiling of FCFA -29.4 billion.
- Total domestic government revenue amounted to FCFA 93.4 billion at end-December 2017, compared to a floor of FCFA 102 billion.
- Clearance of domestic payments arrears stood at FCFA 9 billion at end-December 2017, compared to a floor of FCFA 7.5 billion.

7. **We missed one continuous performance criteria (CPCs).** The government did not contract or guarantee any new non-concessional external debt but did accumulate external arrears for a short time. Furthermore, we have met the indicative target related to priority social spending, which stood at a total of CFAF 15.6 billion, compared to a floor of CFAF 6 billion.

8. **Two of the three structural benchmarks at end-December 2017 have been met, although with delays. All existing statutory tax exemptions have been published.** The government has adopted an action plan to eliminate all unjustified parafiscal taxes and to transfer other revenues to the Treasury Single Account (TSA). The deployment of ASYCUDA at the Béloko Customs post is not yet operational because of the weak internet connection. It will be up and running once the operator upgrades the connection. The publication of the texts creating the 54 agencies, offices or funds responsible for collecting taxes, fees, and parafiscal taxes and fees (structural benchmark at end-March 2018) is effective since May 9, 2018[5].

9. **Good progress has been made on streamlining parafiscal taxation. It is being steered by *l'Inspection générale des finances* (IGF).** At this stage, the summary table of the agencies, offices, funds, and earmarked funds account, as well as the action plan for their streamlining, have been validated by the Minister of Finance and Budget. The summary table lists the entities in three categories. Category I groups together the nonoperational entities that will need to be eliminated by the end of 2018. Category II lists the entities benefiting from fees for their services. Category III

[5] Of the 54 agencies initially identified, 52 have a legal foundation.

contains all other entities that collect parafiscal taxes. In accordance with the action plan, the following measures have been implemented: (i) creation of accounting agencies within the entities (Category III) to improve the monitoring of the collection and the use of public funds, and (ii) determination of the modalities for the collection and use of the proceeds of the airport safety tax which have been transferred to the TSA in accordance with the 2018 budget law (LF).

10. **However, several reforms and actions aimed at increasing revenues introduced in 2017 did not yield the expected results.** The retroactive control of customs valuation for the period from January 2016 to May 2017 yielded limited results. Indeed, of the estimated CFAF 1.7 billion shortfall in customs duties resulting from the undervaluation of imports, CFAF 1.5 billion was verified, and only CFAF 529 million were recovered. The remainder concerns a telecommunications operator in distress. Similarly, of the CFAF 8.8 billion in tax arrears, particularly from telecommunications operators, only CFAF 3.3 billion was recovered. Furthermore, expenditures executed using the exceptional procedure increased significantly, reaching 24 percent of expenditure excluding salaries and debt service at end-December 2017.

OUTLOOK AND RISKS FOR 2018–21

11. **The outlook in the medium term is favorable.** We forecast growth to increase from 4.3 percent in 2018 to 5 percent in the medium term, supported by the strong performance in forestry and construction activities, and stepped up execution of investment projects under the National Recovery and Peacebuilding Plan (NRPP). An important solar energy project financed by grants will start in 2019 and will increase energy supply. The primary fiscal deficit will converge to 1 percent of GDP by 2020, resulting from increasing domestic revenue and efficient spending management. The external current account will gradually decline, driven by the recovery in domestic production, and the pick-up in exports. Inflation will be under control at 3 percent on average over the medium term.

12. **However, some domestic and external risks could compromise the execution of the reform program.** The fragility of the security situation is a constant threat to economic activities. Improved institutional coordination and more cohesion within the government could lead to better implementation of reforms. Furthermore, the increase in international oil prices is a risk as it could lower domestic revenue. Uncertainty regarding the disbursement schedule of budget support could complicate treasury management and the contribution of the forestry sector is subject to the volatility of world market prices.

MACROECONOMIC AND STRUCTURAL POLICIESM

13. **In line with the NRPP, we remain committed to pursuing policies to maintain macroeconomic stability, stimulate economic growth and job creation, and fight poverty.** Achieving these goals will require to: i) mobilize more domestic revenue to widen our fiscal space; ii) strengthen public spending efficiency through the prioritization of social and infrastructure spending, without compromising the sustainability of public finances; iii) promote transparency and strengthen governance; and iv) improve the business environment to boost the development of the private sector and external competitiveness.

14. **The government will revise the 2018 budget to incorporate** (i) the non-implementation of the excise tax on tobacco, (ii) the increase in oil prices, and (iii) the need to budget some new investment projects financed by domestic and external resources. In addition, the revised budget will incorporate new tax measures. As a result, expected revenue is revised to FCFA 112.0 billion. Primary spending will reach FCFA 129.4 billion, including FCFA 17.8 billion for domestically-financed investment spending and FCFA 24 billion for social spending. The primary fiscal deficit will be contained at 1.4 percent of GDP.

Increase the Mobilization of Domestic Revenue

15. **We remain committed to redouble our efforts to mobilize further domestic revenues.** Thus, we are committed to achieving our objective of domestic revenues of FCFA 112.0 billion in 2018. To this end, we will increase forestry and diamond taxes, to 10 percent and 4 percent, respectively (FCFA 0.2 billion), revise the market price of forestry products (FCFA 0.3 billion), restructure the price structure of petroleum products (new structural benchmark at end June 2018), and transfer the road usage fees (RUR) (FCFA 1.7 billion), the airport security tax (TSA) (FCFA 1 billion) and the universal service tax (FCFA 0.6 billion) to the Treasury Single Account (TSA). We are determined to continue fighting against tax and customs fraud, improving fiscal controls, and modernizing the recovery procedures in accordance with the recommendations of the IMF's TA missions.

16. **We have implemented all the fiscal measures included in the 2018 budget, except the excise tax on imported tobacco, and we ensure that ASYCUDA is calibrated to reflect all new measures.** Non-collected taxes during the first quarter of 2018 will be regularized. Furthermore, we will immediately implement the recommendations of the IMF's TA mission regarding the controls of the salary tax and undertake necessary adjustments (FCFA 2 billion). To improve fiscal controls and ensure better tax collection, we will strengthen the collaboration between DGID and DGDDI on the hand, and between DGDDI and BIVAC on the other hand, by regularly exchanging information through monthly meetings and publishing the results of this collaboration. We will ensure that all tax revenue collected by the Customs administration in Douala are transferred to the government account at BEAC. We also commit to restoring the unit to recover tax arrears at DGID in order to ensure that all tax debt is collected.

17. **We are committed to eliminating all economically unjustified parafiscal taxes and to transfer all justified taxes to the Treasury Single Account (structural benchmark, end December 2018).** Since January 2018, we already transferred the revenues from the airport safety tax and road usage fee taxes. In return, we have integrated the spending corresponding to the road usage fee in the 2018 revised budget (transfers related to the airport safety tax were already included in the 2018 budget). Our goal is to integrate all parafiscal charges into the TSA in the 2019 budget law. Moreover, we received financial support from French Development Agency (AFD) to conduct an external audit of the telecommunication regulatory agency and the forestry development fund. This will allow us to analyze the nature and usage of taxes and fees (structural benchmark end June 2018). The audits of the other entities will be conducted by IGF and we are seeking technical assistance to support this work. The nomination of public accountants to be posted within these agencies and funds is underway.

18. **In the medium term, the government will pursue the necessary actions aiming at promoting tax compliance, strengthening fiscal controls, and improving the recovery of tax debt.** To this end, we will consider the recommendations on tax and customs administration made by the recent IMF's TA missions. We recognize the need to reinforce the IT-system SYSTEMIF and to make its usage obligatory for all fiscal operations and we will develop the interface between SYDONIA and SYSTEMIF.

Strengthen Expenditure Efficiency

19. **The Government is committed to enhancing the efficiency, quality and transparency of public spending.** The reduction of expenditures following exceptional procedures remains our priority. During the first quarter of 2018, 9.1 percent of expenditures excluding salaries and debt were executed using exceptional procedures, reflecting the regularization of expenses related to supplies for the national defense and security forces, hospitals, universities and prison facilities. To respect the 5 percent ceiling, we adopt the following measures: i) Establishing, in the 2018 revised budget and subsequent budgets, a ceiling for cash funds, ii) including the list of cash funds in the 2018 revised budget, and iii) prohibiting immediately the renewal of cash funds without regularization of the previous ones by July 1, 2018. In addition, the cash funds and imprest accounts will be systematically closed on December 31st of each year (new structural benchmark end-December 2018) in order to allow the accountants to carry out the control. Finally, we will develop an inter-ministerial decree specifying the conditions and modalities for medical evacuations by January 2019 (new structural benchmark for end-March 2019).

20. **To streamline public expenditure execution procedures, we will introduce a budget execution circular starting from the 2019 budget (new structural benchmark for end December 2018).** We have identified unscheduled expenses which we will audit by December 2018. To promote budget transparency, we will continue to publish the quarterly budget execution report, which is produced from GESCO pending the development of the Simba software. We will strengthen the financial oversight of public entities and state-owned enterprises (SOEs) and reinforce the monitoring, by the Ministry of Finance and Budget, of the state's financial holdings in SOEs by applying the existing legislation. Accordingly, we will revise the legislation governing public entities and para-public institutions (new structural benchmark for end March 2019), and develop a new organizational chart of the Ministry of Finance, particularly with a view to strengthening the monitoring of the State's financial holdings. In line with our commitments, we intend to steer the deconcentration of spending commitments in the priority sectors of health, education, and agriculture as early as January 2019. Finally, with the support of the World Bank, we will revise the public procurement code to improve transparency and limit direct contracts, once the audit of the system in force since 2008 has been completed.

Debt Management

21. **We are implementing our domestic arrears clearance strategy.** At end-March 2018, FCFA 14.2 billion of commercial and wage arrears were cleared. The auditor's report confirms the proper implementation of these operations. In addition, there has been no accumulation of domestic

arrears during 2017. We will continue the clearance of commercial and wage arrears according to the initial plan.

22. **We have stayed current on all external debt service with a small exception.** We paid FCFA 0.2 billion between January and March, of which FCFA 0.1 billion in amortization and FCFA 0.1 billion in interest. With India, we agreed that the amount of arrears amounted to FCFA 1 billion at end February 2018. It was agreed to restructure the remaining debt. A new repayment schedule still needs to be approved by the government of India. China has canceled five loans amounting to FCFA 20 billion and considers the full cancellation of the remaining debt. We accumulated arrears in early 2018 to the International Fund for Agricultural Development which we have cleared immediately when it was brought to our attention. We pursue our efforts to resolve pre-HIPC arrears owed to creditors, with which no agreement hasn't yet been reached (Argentina, Equatorial Guinea, Iraq, Libya, and Export-Import Bank Taiwan, Province of China). We also have arrears to a private company, and continue to negotiate in good faith to reach an agreement.

23. **We are determined to fully honor our external debt service.** We intend to publish the projections for monthly external debt service payments and the external debt stock from June 2018 to May 2019 generated by Sygade (structural benchmark end June 2018). We remain committed to seeking grants and highly concessional financing within the borrowing limits of the ECF arrangement. The ceiling for concessional loans is FCFA 9 billion for 2018.

Promote transparency and good governance

24. **The crisis has intensified institutional and structural weaknesses.** The government is committed to consolidating reforms aimed at strengthening institutions, combating corruption, and promoting transparency in public financial management. All members of the government and most members of Parliament have declared their assets to the Constitutional Court. The members of the High Authority for good governance have been appointed, and a national strategy paper on good governance has been finalized. In addition, we recognize the deficiencies in the implementation of the United Nations Convention Against Corruption (UNCAC), including the criminalization of acts of corruption and to facilitate mutual legal assistance. Consequently, we are committed to take measures to strengthen the legal and institutional framework for the fight against corruption.

Improving Business Environment

25. **The government continues to improve the business environment.** Several obstacles need to be addressed, particularly shortcomings of our judiciary system. Accordingly, we prioritize legal and institutional reforms aimed at improving the business climate and promoting the private sector to boost competitiveness. To boost investments and strengthen collaboration with the private sector, we have updated the commercial code and the tax code. The investment charter law has been amended and is under consideration by the National Assembly. The amended draft law on the public-private partnership is being finalized. At the institutional level, the joint consultative framework for business improvement (CMCAA) and the consultative framework on tax administration and the private sector are in place and contribute to the dialogue between the government and the private sector. To

improve transparency in key sectors of our economy, we will publish all forestry permits issued until June 30, 2018 on a government website, particularly that of the ministry of finances and budget (new structural benchmark for end-September 2018). In the same vein, we will publish all new mining permits issued since January 2018 on a government website, including on the website of the ministry of finances and budget, from September 30, 2018 onwards (new structural benchmark for end-September 2018).

Fight Against Poverty

26. **The second year of implementation of the National Recovery and Peacebuilding Plan 2017–21 (NRPP),** the government's strategy to promote growth and reduce poverty, coincides with the growing importance of the secretariat monitoring the activities related to the plan, in line with the recommendations of the first annual review in December 2017. We are vigorously pursuing the mobilization of resources. For the first three months of 2018, 22 projects were officially launched, for a total of FCFA 76 billion, in the health, education, water and sanitation sectors, for roads, and to build a fibre network. We are implementing the Bambari stabilization Plan (POSIB), which amounts FCFA 50 billion. We signed an agreement with the World bank for the construction of a solar power plant, fully financed by grants amounting to US$65 million. Construction will begin in 2019 for a capacity of 25 MW during the first phase of the project.

Financial Sector

27. **We recognize the need to safeguard financial sector stability and to improve financial intermediation.** COBAC, the regional banking supervisor, has completed inspection reports analyzing the state of all banks, and we intend to swiftly follow up on its recommendations. Increasing people's access to banking services and SME–SMI access to credit could help boost economic activity. To this end, we continue to implement the recommendations that have been developed by the National Credit Council. To date, 30 percent of the recommended measures have been implemented.

CAPACITY BUILDING

28. **Strengthening administrative and technical capacities is key to ensure a successful implementation of our economic program.** To this end, we benefit from sustained technical assistance from our partners to improve revenue mobilization, ensure better cash management, reinforce the spending chain, and pursue reforms of the civil service.

29. **We have established a capacity building framework with the IMF, and the implementation is this program is ongoing.** The main priorities are domestic revenue mobilization, the management of public finances, the management of public debt, macroeconomic statistics, and the macro-budgetary capacity.

30. **Similar strategies will be defined with the other development partners on their respective fields of intervention.** Once this work is done, we will implement a global administrative and technical capacity building strategy. In the same vein, we will strengthen the coordination of partners' support to maximize the benefit from all available technical assistance. To this end, we have

strengthened the entity in charge of monitoring economic and financial reforms and ensuring the coordination of technical assistance and trainings (CS-REF).

PROGRAM MONITORING

31. **The program will be monitored semi-annually by the IMF Executive Board.** Revised performance criteria at end June and December 2018 are proposed, reflecting the revisions of the macroeconomic outlook and the budget. The end June 2018 performance criteria will be assessed as part of the fifth review in the second half of 2018.

32. **We have adopted new structural benchmarks for 2018 and 2019, including:**

- Publish all forest permits issued until June 30, 2018 on a government website, notably the Ministry of Finance and Budget website, (new structural benchmark for end-September 2018).
- Publish quarterly all new mining permits issued since January 1, 2018 on a government website, notably the Ministry of Finance and Budget website, from September 30, 2018 onwards (new structural benchmark for end-September 2018).
- Close systematically all cash funds at December 31, 2018 (new structural benchmark for end-December 2018)
- Establish a budget execution circular with the budget 2019 to streamline public expenditure execution procedures (new structural benchmark for end-December 2018).
- Revise the legislation governing public agencies and state-owned enterprises (new structural benchmark for end March 2019).
- Establish an inter-ministerial decree governing the conditions and terms of medical evacuations by March 2019 (new structural benchmark for end-March 2019)

33. **Exchange restrictions:** Throughout the duration of the program, we are committed to not impose or expand restrictions on payments and transfers on current international transactions, or to resort to multiple currency practices, to conclude bilateral agreements that do not comply with Article VIII of the IMF's Articles of Agreement, or impose or expand restrictions to influence the balance of payments. In addition, the authorities commit to adopt, in consultation with IMF staff, any new financial or structural measures that may be necessary to ensure the success of the program.

Table 1. Central African Republic: Performance Criteria (PC) and Indicative Targets, 2017–19

(CFAF billions)

	End-June 2017				End-September 2017				End-December 2017				End-March 2018			End-June 2018		End-September 2018	End-December 2018	End-March 2019	End-June 2019
	PC	Adjusted PC[6)]	Actual	Status	Indicative Target	Adjusted Indicative Target[6)]	Actual	Status	PC	Adjusted PC[6]	Actual	Status	Indicative Target	Actual	Status	PC	Proposed PC	Proposed Indicative Target	Proposed PC	Proj.	Proj.
Quantitative performance criteria																					
Domestic government financing (ceiling, cumulative flows for the year)	-2.5	6.7	5.0	Met	-4.0	-2.4	0.7	Not met	-5.3	2.2	-16.4	Met	15.1			-6.0	8.0	17.9	14.0	3.0	5.0
Domestic revenue (floor, cumulative for the year)[1]	50.1	50.1	47.2	Not met	74.7	74.7	70.3	Not met	102.0	102.0	93.4	Not met	27.9	28.6	Met	56.4	53.4	82.1	112.0	29.0	59.0
Domestic primary deficit (ceiling, cumulative for the year)[2]	-13.7	-22.9	-4.9	Met	-16.0	-17.6	-12.9	Met	-21.9	-29.4	-24.7	Met	-5.0	2.4	Met	-10.0	-10.0	-15.0	-18.0	-4.3	-8.6
Reduction in domestic payments arrears (floor, cumulative for the year)	-4.0	-4.0	-5.9	Met	-6.0	-6.0	-6.7	Met	-7.5	-7.5	-9.0	Met	-7.1	-15.3	Met	-14.2	-14.2	-21.5	-30.0	-6.0	-12.0
Continuous performance criteria																					
Contracting or guaranteeing of new external non concessional debt (ceiling)[3,4]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Non accumulation of external payments arrears (ceiling, cumulative for the year)[3,4]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	Not Met	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets																					
Social spending (floor, cumulative for the year)[5]	3.0	3.0	6.6	Met	4.5	4.5	9.8	Met	6.0	6.0	13.9	Met	3.0	3.6	Met	6.2	9.0	16.0	24.0	4.0	9.0
Spending through extraordinary procedures (ceiling, cumulative for the year)													1.0	1.6	Not met	1.9	1.8	2.6	3.4	1.3	2.6
Memorandum item:																					
New concessional/external debt contracted or guaranteed by the government	8.8	8.8	8.8	Met	8.8	8.8	8.8	Met	8.8	8.8	8.8	Met	9.0	0.0	Met	9.0	9.0	9.0	9.0	6.0	6.0

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

[1] Domestic revenue, which excludes foreign grants and divestiture receipts (see the TMU for more details).

[2] The domestic primary balance is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditure.

[3] These objectives will be monitored continuously.

[4] Contracted or guaranteed by the government (see the TMU).

[5] Social spending is defined as public non-wage spending on primary and secondary eduction, health, social action, water and sanitation, microfinance, agriculture and rural development (see TMU).

[6] Adjusted for other than programmed budget support (see the TMU).

Table 2. Central African Republic: Prior Actions and Structural Benchmarks, 2017–19

Measures	Timeline	Macroeconomic Rationale	Status	Comment
Quarterly publication of budget execution reports within 30 days from the end of the quarter	Quarterly, from end September	Improve transparency and accountability	Met	
Adoption of an action plan to eliminate unjustified para-fiscal taxes and transfer of other revenues to the Single Treasury Account	End December 2017	Improve transparency and revenue collection	Met	
Full utilization of ASYCUDA at customs in Beloko	End December 2017	Improve transparency and revenue collection	Not Met	Delayed due to problems with the internet connection.
The publication of all existing tax exemptions	End December 2017	Improve transparency and accountability	Not Met	Completed in February 2018.
Publication of all laws or decrees creating the 54 structures that were identified to collect para-fiscal taxes	End March 2018	Improve transparency and revenue collection	Not met	Completed in May 2018.
Completion of an external audit of the forestry fund and the telecommunications regulations agency	End June 2018	Improve transparency and revenue collection		
Publish projections for monthly external debt service payments and the external debt stock from June 2018 to May 2019 generated by Sygade	End June 2018	Strengthen debt management		
Revision of the price structure of petroleum products at the pump	End June 2018	Improve transparency and revenue collection		
Removal of parafiscal taxes without economic justification	End December 2018	Improve transparency and revenue collection		
Proposed new measures				
Submission to Parliament of a revised budget in line with the program objectives	Prior action		Met	Submitted in June
Publish all forestry permits issued before June 30, 2018 on a government website, notably on the Ministry of Finance and Budget website	End September 2018	Improve transparency in the management of natural resources and the business environment		
From September 30, 2018, publish quarterly all new mining permits issued since January 1, 2018 on a government website, notably on the Ministry of Finance and Budget website	Quarterly, from end September 2018	Improve transparency in the management of natural resources and the business environment		
Close systematically all cash fund agencies on December 31, 2018	End December 2018	Strengthen the efficiency of public spending		
Establish budget execution circular from LF 2019	End December 2018	Rationalize public spending execution procedures		
Revise legislation governing public agencies	End March 2019	Strengthen the efficiency of public spending		
Establish inter-ministerial decree laying down the conditions and terms of medical evacuations	End March 2019	Strengthen the efficiency of public spending		

Attachment II. Technical Memorandum of Understanding 2018

INTRODUCTION

1. **This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Memorandum of Economic and Financial Policies (MEFP)** prepared by C.A.R.'s authorities. More, specifically, it describes:

- data reporting periodicity and timeframes;
- definitions and computation methods;
- quantitative targets;
- adjusters of quantitative targets;
- structural benchmarks; and
- other commitments made within the MEFP.

2. **Unless otherwise specified,** all performance criteria and indicative targets are assessed on a cumulative basis as of January 1 of the same year.

A. Program Assumptions

3. **Exchange rate.** For the purposes of this TMU, the value of transactions denominated in foreign currencies will be converted into CFA Francs (CFAF), the currency of the C.A.R., on the basis of the exchange rates used to prepare the ECF. The key exchange rates are shown below.

CFAF/US$: 585

CFAF/Euro: 656

CFAF/SDR: 815

B. Definitions

4. **Unless otherwise specified, the government is defined as the central government of C.A.R. and does not include any local governments**, the central bank, or any public entity with separate legal personality (i.e., enterprises wholly or partially owned by the government) that are not included in the government financial operations table(*Tableau des operations financières de l'État*—TOFE).

5. **Definition of debt**. The definition of debt is set out in point 8 of Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended on December 5, 2014, by Executive Board Decision No. 15688-(14/107):

(a) **"Debt"** is defined as a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a specific schedule; these payments will discharge the obligor of the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. leases, i.e., arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments necessary for the operation, repair, or maintenance of the property.

(b) Under the **definition of debt** set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(c) **External debt** is defined as debt borrowed or serviced in a currency other than the CFA Franc of the Financial Cooperation of Africa (CFAF).

(d) **Domestic debt** is defined as debt borrowed or serviced in the CFA Franc of the Financial Cooperation of Africa (CFAF).

6. **Guaranteed debt.** The guaranteeing of a debt by the government is understood to be an explicit legal obligation to service a debt in the event of nonpayment by the borrower (by means of settlements in cash or in kind).

7. **Concessional debt.** A debt is considered concessional if its grant element is at least 50 percent. The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value. The present value of the debt at the date on which it is contracted is calculated by discounting the debt service payments at the time of the contracting of the debt. The discount rate used for this purpose is 5 percent.

8. **Total government revenue** is tax and non-tax revenue or other revenue (as defined in *GFSM 2001*, Chapter 5) and is recorded on a cash basis. Proceeds from taxation on contracts, asset sales, revenue from privatization or from the granting or renewal of licenses, and

placement proceeds on government assets and grants are not considered government revenue for the purposes of the program.

9. **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees, goods and services, transfers (including subsidies, grants, social benefits, and other expenses), interest payments, and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. Total government expenditure also includes expenditure executed before payment authorization (*dépenses avant ordonnancement (DAO*) and not yet regularized.

10. **Wages and salaries** correspond to the compensation of government employees as described in paragraphs 6.8–6.18 of *GFSM 2001*, namely, all employees (permanent and temporary), including civil servants and members of the armed and security forces. Compensation is defined as the sum of wages and salaries, allowances, bonuses, pension fund contributions on behalf of civil servants, and any other form of monetary or non-monetary payment.

11. **For the purposes of this memorandum, the term of arrears** is defined as any debt obligation (as defined in paragraph 5 above) that has not been amortized in conformity with the conditions specified in the pertinent contract establishing them.

12. **Domestic payment arrears** are the sum of: (i) payment arrears on expenditure; and (ii) payment arrears on domestic debt.

- **Payment arrears on expenditures** are defined as all payment orders to the Treasury created by the entity responsible for authorizing expenditure payments but not yet paid 90 days after authorization to pay given by the treasury. Expenditure payment arrears so defined are part of "balance payable" (or "amounts due"). Balance payable corresponds to government unpaid financial obligations and include the domestic floating debt besides the expenditure arrears. They are defined as expenditure incurred, validated and certified by the financial controller and authorized by the public Treasury but which have not been paid yet. These obligations include bills payable but not paid to public and private companies, but do not include domestic debt financing (principal plus interest). For the program target, domestic payment arrears are "balances payables" whose maturity goes beyond the 90-day regulatory deadline, while floating debt represents "balances payable" whose maturity does not go beyond the 90-day deadline.

- **Payment arrears on domestic debt** are defined as the difference between the amount required to be paid under the contract or legal document and the amount actually paid after the payment deadline specified in the pertinent contract.

13. **External payment arrears** are defined as arrears on external debt obligations. They are the difference between the amount required to be paid under the contract or legal document

and the amount actually paid after the payment deadline specified in the pertinent contract. An obligation that has not been paid within 30 days after falling due is considered an external payments arrear.

C. Quantitative Targets

14. The **quantitative targets (QTs)** listed below are those specified in Table 1 of the MEFP. Adjusters of the quantitative targets are specified in Section D.

Ceiling on domestic financing of the State budget

- **Domestic public financing to the government** is defined as the sum of the (i) the bank credit to the government, defined below; and (ii) non-bank financing to the government, including proceeds from the sale of government assets, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and denominated in CFA Francs on the CEMAC regional financial market, and any Bank of Central African States (BEAC) credit to the government, including any drawings on the CFA Franc counterpart of the allocation of Special Drawing Rights (SDRs).

- **Bank credit to the government** is defined as the balance between the debts and claims of the government vis-à-vis the central bank, excluding the use of IMF credit, and the national commercial banks. The scope of credit to the government is that used by the BEAC and is in keeping with general IMF practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 3. Government claims include the CFA Franc cash balance, postal checking accounts, subordinated debt (*obligations cautionnées*), and all deposits with the BEAC and commercial banks of government owned entities, with the exception of industrial or commercial public agencies (*établissements publics à caractère industriel et commercial (EPICs*) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and the national commercial banks, including Treasury bills and other securitized debt.

Floor for Total Domestic Government Revenue

- **Domestic government revenue:** only cash revenues (tax and non-tax revenue) will be taken into account for the TOFE.

Floor for Government Social Spending

- **Poverty-reducing social spending** comprises public non-wage spending on primary and secondary education, health, social action, water and sanitation, microfinance (SME – SMI), agriculture, and rural development. Its execution is monitored on a payment-order basis during the program.

Ceiling on Domestic Primary Deficit

- **The domestic primary fiscal balance** (cash basis) is defined as the difference between government domestic revenue and government expenditure, less all interest payments and externally financed capital expenditure. Payments on arrears are not included in the calculation of the domestic primary balance.

Floor on Reduction of Domestic Payments Arrears

- The government undertakes to settle some priority arrears that were validated.

Ceiling on Contracting or Guaranteeing of New External Non Concessional Debt

- **The government undertakes not to contract or guarantee non-concessional debt**. Loans for financing projects must not exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staff of the WB and the IMF. Financing from the IMF is excluded from this criterion.

Non-Accumulation of New External Payment Arrears by the Government

External payment arrears are defined in paragraph 13.

- **The government undertakes not to accumulate external payment arrears, with the** exception of arrears relating to debt that is the subject of renegotiation or rescheduling. This quantitative performance criterion applies on a continuous basis. For the purposes of this performance criterion, an obligation that has not been paid within 30 days after falling due is considered an external payments arrear. This quantitative performance criterion will apply on a continuing basis.

Limitation of spending through extraordinary procedures to 5 percent of expenditure (non-salary or debt service)

- All necessary provisions will be taken in the 2018 Budget Law and the total of all expenditure following extraordinary disbursement procedures (exceptional procedures, cash operations, etc.,) will not exceed 5 percent of total expenditure on non-salary spending or debt service (principal and interests) on average per quarter. Observation of this indicative target will be assessed quarterly, starting from March 2018.

D. Adjusters of Quantitative Targets

15. To take into account the factors or changes that are essentially outside the government's performance, **various quantitative targets for 2017** will be adjusted as follows:

a. If the total revenue from privatization or renewal of telecommunication licenses or forestry or oil licenses is greater than the amount programmed, the following adjustments will be made:

i. The floor for the primary budget balance can be adjusted downward by 50 percent of these additional receipts;

ii. The ceiling on net domestic financing of the government will be adjusted downward by the remained of the additional receipts.

b. If the total budget support is below the programmed amount, the following adjustments will be made:

i. The ceiling on net domestic financing of the government will be adjusted upward by 50 percent of disbursements programmed but not made;

ii. The floor for the primary budget balance will be adjusted downward by 50 percent of disbursements programmed but not made.

c. If the total budget support is above the programmed amount, the following adjustments can be made:

i. The ceiling on net domestic financing of the government will be adjusted downward by 50 percent of disbursements above the programmed amounts;

ii. The floor for the primary budget balance will be adjusted upward by 50 percent of disbursements above the programmed amounts.

E. Structural Benchmarks

The Production of the Revenue and Expenditure Account for 2016

- The revenue and expenditure account for 2016 will have to be prepared and published by end of September 2017.

The Publication of all Existing Tax Exemptions

- All existing tax exemptions, both statutory and discretionary, should be identified and made public by the end of December 2017, for purposes of transparency, in order to reduce the scale of tax exemptions.

Retrospective Control of Customs Values Set from January 1, 2016 to May 31, 2017

- By end of September 2017, all values of imported goods set for the period January 1, 2016 to May 31, 2017 will have to be checked for compliance with the minimum values determined by the pre-inspection company and, if need be, impose the specified customs clearance tariffs and related penalties, to ensure the regularity of customs clearance operations.

Produce a Quarterly Budget Execution Report Within 30 days of the End of the Quarter

- A quarterly budget execution report will be produced as from the end of September 2017, and thereafter every quarter within 30 days of the end of the quarter. The first report will cover the second quarter of 2017.

Adoption of an Action Plan to Eliminate Unjustified Parafiscal Fees and Transfer Their Proceeds to the Treasury Single Account

- On the basis of an inventory of all parafiscal charges to be drawn up, an action plan will be adopted before the end of December 2017 with a view to eliminating all illegal and unjustified parafiscal charges. The plan will be accompanied by an instruction to transfer the proceeds of the parafiscal taxes collected to the treasury single account.

Full Utilization of ASYCUDA at the Beloko Customs Post

- The main customs office in Beloko will be equipped with all facilities for ASYCUDA operation and data transmission, and all ASYCUDA modules will be fully deployed by end-December 2017.

Completion of an External Audit on the Forestry Fund and the Telecommunications Regulatory Agency

- The forestry fund and the telecommunications regulatory agency should be audited by end-june 2018, in order to analyze the nature and use of the taxation and resources allocated to these entities.

Publication of Mmonthly Public Debt Service Projections

- Monthly estimates of the public debt service, and the debt stock for the period running from June 2018 to end-May 2019, generated directly from the SYGADE system will be published by the end of June 2018, so as to pursue efforts to strengthen debt management.

Revision of the Pertroleum Price Structure

- Petroleum price strucutre will be revised by the end of June 2018, with the view to its simplification.

Elimination of Parafiscal Taxes Considered to have no Economic Justification.

- Based on the results of the inventory of parafiscal taxes, those with no economic justification must be eliminated before the end of September 2018.

New measures

Publication of all Forestry Permits on a Government Website, Notably on the Ministry of Finance and Budget Website

- All forestry permits that have been issued by June 30, 2018 will be published on a government website by September 30, 2018.

Quarterly Publication of all Mining Permits on a Government Website, Notably on the Ministry of Finance and Budget Website.

- All new mining permits that have been issued since January 1, 2018 will be published on a government website, starting from September 30, 2018.

Closure of all Cash Funds and Imprest Accounts at end-December 2018

- All cash funds and imprest accounts will be closed at December 31, 2018

Implementation of a Budget Execution Circular Starting from the Budget Law 2019

- To streamline public expenditure execution procedures, we will introduce a budget execution circular starting from the LF 2019 by end December 2018.

Revision of the Legislation on Public Agencies and State-owned Enterprises

- The February 13, 2008 law -08-011- governing the institutionnal framework of public agencies and state-owned enterprises will be revised by end March 2019 with the objective to clarify the legal nature of public entities, to reinforce the monitoring of the state's financial holdings in SOEs, and to strengthen the supervision of all public entities by the Ministry of Finance.

Elaboration of an Inter-Ministerial Decree Establishing the Conditions and Modalities for Medical Evacuations by end-March 2019.

- An inter-ministerial decree establishing the conditions and modalities for medical evacuations will be elaborated by end March 2019.

Reporting to the IMF

16. **Quantitative data on the government's indicative targets will be reported to IMF staff according to the periodicity described in Table III.1**. Moreover, all data revisions will be promptly communicated. The authorities undertake to consult Fund staff regarding any and all information or data not specifically addressed in this TMU but which is necessary for program implementation, and inform Fund staff whether the program objectives have been reached.

Table 1. Central African Republic: Reporting to the IMF as Part of Financing Under the ECF Arrangement

Description of data	Deadline
Bi-annual report evaluating quantitative indicators and structural measures (tables 1 and 2 of MEFP), with supporting documents	Within four weeks of the end of each quarter.
Monetary position, monthly central bank and commercial bank accounts	Within four weeks of the end of each month.
Monthly cash flow operations table	Within ten days of the end of each month.
Government financial operations table	Within four weeks of the end of each month.
Total monthly amount of domestic payment arrears on goods and services and on wages, including unpaid pensions and bonuses	Within four weeks of the end of each month.
External debt stock at end of period	Within four weeks of the end of each month.
Breakdown of expenditures listed in TOFE (goods and services, wages, interest, etc.)	Within four weeks of the end of each month.
Summary table of actual expenditures in priority areas, such as health, education, and security	Within four weeks of the end of each quarter.
Breakdown of current expenditure and capital disbursements, financed with own and external resources	Within four weeks of the end of each quarter.
Breakdown of revenues by institution and economic classification	Within four weeks of the end of each quarter.
Revenues and expenditures recognized against one another without a cash settlement (by expenditure and revenue type)	Within four weeks of the end of each quarter.
Breakdown of debt service and external arrears, particularly by interest and principal, and by main creditor	Within four weeks of the end of each month.
Amount of new non-concessional and concessional external debt contracted by the government	Within four weeks of the end of each month.
Actual disbursements for projects and programs receiving foreign financial assistance and relief of external debt granted by external creditors (including the date, amount, and creditor)	Within four weeks of the end of each month.

CENTRAL AFRICAN REPUBLIC

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS[1]

June 18, 2018

Approved By
Joel Toujas-Bernate (AFR) and Martin Sommer (SPR) and Paloma Anos Casero (IDA)

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

Risk of external debt distress:	**High**
Augmented by risks stemming from public-domestic debt	**Yes**

Central African Republic (C.A.R.) continues to be assessed at high risk of external debt distress. This rating is unchanged from the previous analysis and consistent with the Staff Report of December 2017 (EBS/17/123). Under the baseline scenario, one debt burden indicator breaches its threshold. And stress tests show that both external and total public debt sustainability is vulnerable to slower GDP, export, and revenue growth. For total public and publicly guaranteed (PPG) debt (external plus domestic), the debt-to-GDP indicator remains below its prudent benchmark. However, the existence of large arrears to suppliers and unpaid public-sector wages in the domestic debt stock justifies the assessment of a heightened overall risk of debt distress. Contingent liabilities could further exacerbate vulnerability concerns. To safeguard debt sustainability, the government's investment program requires grant financing, with highly concessional debt financing to be considered only in exceptional cases.

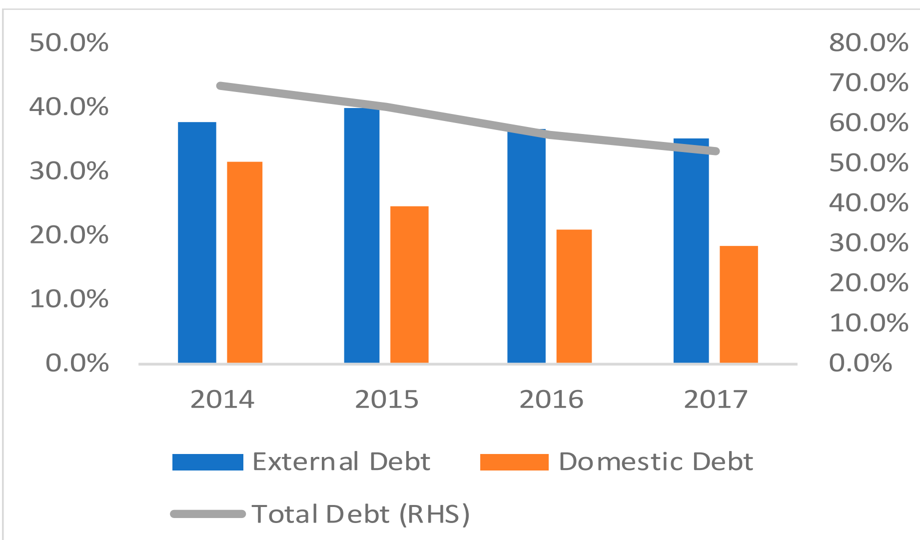
[1] C.A.R.'s average rating in the World Bank's Country Policy and Institutional Assessment (CPIA) during 2014-2016 is 2.44. This corresponds to a weak policy performance under the Debt Sustainability Framework for Low-Income Countries.

BACKGROUND

1. **C.A.R.'s debt is on a declining path.** Debt indicators deteriorated significantly following the 2013 crisis when GDP collapsed and domestic and external arrears were accumulated. Since then, conditions have improved, supported by economic recovery, stronger revenue mobilization, arrears clearance and limited new borrowing (Text Figure 1). At end-2017, total external public debt stood at 35.5 percent of GDP in 2017, down from 36.4 and 39.8 percent of GDP in 2016 and 2015, respectively. Total public and publicly-guaranteed (PPG) debt (external plus domestic) decreased from 64.2 percent of GDP in 2015 to 51.5 percent in 2017, reflecting a reduction of domestic debt by 6.2 percentage points of GDP and of external debt by 4.8 percentage points of GDP.

2. **The authorities' overall macroeconomic objectives aimed at reducing the debt ratio over the medium term.** The government's strategy centers on resolving pre-HIPC and post-HIPC arrears, clear domestic arrears, strengthening debt management, and relying on grant financing to support their investment program. C.A.R. reached the HIPC completion point in June 2009.

Text Figure 1. C.A.R: Total Central Government Debt 2014–20
(in percent of GDP)



Sources: Authorities' data and staff calculations.

RECENT DEVELOPMENTS AND STRUCTURE OF DEBT[2]

3. **C.A.R.'s external public debt is, essentially, owed to multilateral and bilateral creditors.** The composition of the external debt stock has remained unchanged over time. In 2017, most external debt was owed to multilateral creditors (13.2 percent of GDP), while debt to bilateral creditors stood at 7.8 percent of GDP and debt to private creditors at 3.1 percent of GDP. The remainder are pre-HIPC arrears (11.4 percent of GDP) owed to Non-Paris Club members (Argentina, Equatorial Guinea, Iraq, Libya, and China).

4. **Some external creditors provided debt relief**. China canceled five loans amounting to Yuan 198.4 million (2 percent of GDP) and provided flow relief on outstanding debt. Discussions with India to regularize arrears have made good progress. An agreement is being finalized based on the full clearance of arrears in 2018 and a restructuring of the remaining debt is envisaged with repayments set to start in 2024. The authorities have concluded debt restructurings with two private creditors. The small remaining amount (0.2 percent of GDP) will be repaid within 5 years.

5. **C.A.R. has contracted one small new loan in 2017**. The African Development Bank provided a highly concessional budget support loan of US$15 million with a grant element of 60.6 percent.

6. **Domestic debt consists mainly of payment arrears and loans by the regional central bank (BEAC)**. At end-2017, domestic debt amounted to CFAF 195.9 billion (17.4 percent of GDP). In line with regional commitments, the government signed an agreement with BEAC to consolidate all loans and advances amounting to CFAF 80.5 billion, with a 4-year grace period, and to be repaid over 14 years. The debt to commercial banks (CFAF 27.2 billion or 2.4 percent of GDP as of December 31, 2017) will be repaid over 8 years. Arrears to private suppliers as of December 31, 2017 (CFAF 9.4 billion as of December 31, 2017) have largely been cleared. Social arrears amount to CFAF 64.9 billion (5.8 percent of GDP). They consist of wage, benefits and pension payments. According to the government clearance strategy, they should be cleared over the next three years. An international audit confirmed that the repayment of arrears at end-March 2018 is broadly in line with the timebound plan and that all safeguards are applied comprehensively. Cross-debts and other debts are estimated at CFAF 4.4 billion. Outstanding T-bills of CFAF 9.5 billion account for the remainder of the domestic debt.

Text Table 1. Central African Republic: Domestic Stock 2017

Type of Creditor	Current (in CFA billion)	Arrears (in CFA billion)	Total (in CFA billion)	(in percent of GDP)
Domestic				
Total	119.5	76.4	195.9	17.4
BEAC	80.5	0.0	80.5	7.2
Commercial Banks	27.2	0.0	27.2	2.4
Private Suppliers	0.0	9.4	9.4	0.8
Social Arrears	0.0	64.9	64.9	5.8
T-Bills	9.5	0.0	9.5	0.8
Cross Debt and Other	2.3	2.1	4.4	0.4

Sources: C.A.R. authorities and IMF Staff calculations.

[2] The debt (both external and domestic) covers gross central government's debt. Debt to the IMF is included in external debt.

Text Table 2. Central African Republic: External Debt Stock 2017

Type of Creditor	Total (in CFAF billion)	(in percent of GDP)	of which in arrears
Total[1]	399.2	35.5	
Multilateral	148.4	13.2	
World Bank	36.8	3.3	
IMF	86.4	7.7	
Other	25.1	2.2	
Bilateral	88.1	7.8	
Paris Club	0.0	0.0	
Non-Paris Club	88.1	7.8	
Saudi Arabia	9.9	0.9	
India	23.0	2.0	3.3
China	24.9	2.2	
Congo	18.2	1.6	
Kuwait	12.1	1.1	
Private	34.8	3.1	25.5
Pre-HIPC Arrears	128.0	11.4	128.0
Argentina	19.4	1.7	19.4
Eq. Guinea	3.6	0.3	3.6
Iraq	2.7	0.2	2.7
Libya	7.4	0.7	7.4
Taiwan Province of China	89.1	7.9	89.1
Ofid	5.8	0.5	5.8

Sources: C.A.R. authorities and IMF Staff calculations.

[1] Includes pre-HIPC arrears

UNDERLYING ASSUMPTIONS

7. **Macroeconomic assumptions have been updated moderately compared with the November 2017 DSA.** The main changes relate to the primary balance, the non-interest current account balance and GDP growth for the medium term (Text Table 3).

- Real GDP growth has been revised upward due to a pick-up in public investment. Growth is expected to reach 4.3 in 2018 and to average 5 percent over 2019–23. Longer-term output gains are expected to average 3.4 percent per year, a conservative assumption given low levels of per-capita GDP.

- On the fiscal front, the medium-term primary surplus has been lowered from 1.1 percent of GDP (in the 2017 DSA) to 0.6 percent of GDP, reflecting a downward revision of projected domestic revenues. In the longer term, a primary deficit of about 2 percent of GDP is projected reflecting a gradual decline in external grants.

- The non-interest current account deficit is expected to decline gradually in the medium to long term. The average medium-term non-interest current account deficit is projected to improve from 6.8 percent of GDP in the 2017 DSA to 6.0 percent of GDP in the 2018 DSA, driven by more favorable export developments for wood and diamond exports.

- Grant-equivalent financing is assumed to decline from an average of 7 percent of GDP in 2018-23 to about 2.7 percent of GDP in the long run (2024–38).

Text Table 3. Central African Republic: Macroeconomic Projections

	Dec-17			DSA-18		
	2017	Aver. 2018-21	Aver. 2023-37	2018	Aver. 2019-23	Aver. 2024-38
	(Percent of GDP; unless otherwise indicated)			*(Percent of GDP; unless otherwise indicated)*		
GDP growth (percent)	4.0	4.0	3.4	4.3	5.0	3.4
GDP deflator (percent)	3.5	3.2	3.4	3.9	3.1	3.3
Non-interest current account balance	-8.3	-6.8	-3.0	-8.2	-6.0	-2.8
Primary balance	0.9	1.1	-1.4	1.2	0.6	-1.9
Exports	12.8	12.7	13.2	14.7	13.9	14.0
Revenues	15.0	16.2	13.9	16.6	16.6	13.3

EXTERNAL DEBT SUSTAINABILITY RESULTS

8. **The present value (PV) of the external PPG debt-to-exports ratio is expected to narrowly breach the policy threshold over 2018-19 years**.[3] The breach has noticeably shortened compared to the 2017 DSA due mainly to debt relief and or rescheduling provided by some external creditors. All other external PPG debt indicators remain below their respective thresholds under the baseline scenario. The low level of debt service related indicators is essentially explained by the concessionality of the outstanding debt (Figure 1).

9. **Alternative scenarios and stress tests underline vulnerabilities.** Except for the PV of the debt-to-GDP ratio, which does not show any breach under stress tests, almost all the other external PPG debt indicators record large and protracted breaches under the most extreme shock scenarios. The PV of debt-to-exports ratio remains above the policy threshold throughout the projection period, under a combination stress-test.[4] Furthermore, the PV of debt-to-revenue ratio stays above its threshold from 2019 until 2025 under the same assumptions. These sensitivity analyses underline the vulnerabilities to lower growth and exports—which stand as the most extreme shock scenario. It should be noted that the historical scenario provides a distorted picture of future developments due to the impact of the 2013 crisis.

[3] The high residual in the external debt sustainability framework (Table 1 on p.10) can be explained by project grants (recorded in the capital account) and unrecorded non-debt creating inflows.

[4] The combination stress test reflects the combined effect of a scale-back in real GDP and export growth, with diminishing inflation and reduced non-debt creating flows (0.5 standard deviation below historic averages).

PUBLIC DEBT SUSTAINABILITY RESULTS

10. **The total PPG debt (external plus domestic) indicator lies below its respective benchmark under the baseline scenario**. The total PPG debt indicator does not show any breach under the baseline scenario. Such results would suggest an attenuated risk of total PPG debt distress. However, the large share of arrears in the domestic debt stock (40 percent) justifies the assessment of heightened overall risk of debt distress. Under the most extreme shock scenario, a falloff in GDP growth, the PV of debt-to-GDP ratio remains above the benchmark from 2024 until the end of the projection period. The sensitivity analysis shows that total debt is vulnerable to lower GDP and revenue growth. In addition, contingent liabilities could further exacerbate sustainability concerns. The main sources of contingent liabilities in C.A.R. pertain to debt held by the three main state-owned enterprises (ENERCA, SODECA, SOCATEL) which operate respectively in the energy, water and telecommunications sectors. Their debt is essentially domestic and held by commercial banks. The government did not guarantee this debt.

CONCLUSION

11. **The updated DSA confirms that C.A.R. stands at high risk of external debt distress, with overall risk heightened by large domestic arrears, and potential for contingent liabilities to worsen debt dynamics**. This rating reflects mainly the past collapse of GDP, tax revenues, and exports as well as the existence of legacy external arrears. The outlook is subject to significant downside risks. An escalation of violence would depress growth and lower revenues and alternative scenarios show that C.A.R.'s debt trajectory is vulnerable to GDP, export and revenue shocks. Contingent liabilities could exacerbate debt vulnerabilities and sustainability concerns. The PV of external debt-to-exports ratio remains for a short time above the policy threshold under the baseline scenario.

12. **The authorities concur with staff's assessment.** Consistent with the conclusions, the authorities remain committed to securing grants to finance investments and contracting highly concessional loans only in exceptional cases.

Table 1. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2015–38 1/

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-2023 Average	2028	2038	2024-2038 Average
External debt (nominal) 1/	**39.8**	**36.4**	**35.5**			**32.5**	**30.3**	**27.5**	**25.0**	**22.7**	**20.4**		**19.2**	**22.0**	
of which: public and publicly guaranteed (PPG)	39.8	36.4	35.5			32.5	30.3	27.5	25.0	22.7	20.4		19.2	22.0	
Change in external debt	2.1	-3.4	-0.9			-3.0	-2.2	-2.8	-2.5	-2.3	-2.3		1.0	0.9	
Identified net debt-creating flows	11.6	4.3	4.4			6.3	4.9	4.2	3.4	3.0	3.0		1.1	1.1	
Non-interest current account deficit	**8.7**	**8.2**	**8.4**	**7.3**	**2.3**	**8.2**	**7.4**	**6.8**	**5.7**	**5.2**	**5.0**		**2.8**	**2.8**	2.8
Deficit in balance of goods and services	22.0	19.1	17.5			18.3	16.4	15.2	13.9	13.1	12.6		9.5	8.0	
Exports	12.6	14.3	15.3			14.7	14.4	14.1	13.9	13.8	13.4		14.0	14.0	
Imports	34.6	33.5	32.8			33.0	30.8	29.3	27.9	26.9	26.1		23.5	22.0	
Net current transfers (negative = inflow)	-12.5	-10.9	-8.9	-7.9	5.0	-9.9	-8.9	-8.2	-8.1	-7.8	-7.5		-7.2	-5.2	-6.6
of which: official	-5.8	-5.2	-3.4			-4.8	-4.1	-3.5	-3.5	-3.4	-3.2		-3.8	-2.6	
Other current account flows (negative = net inflow)	-0.8	0.0	-0.2			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		0.6	0.0	
Net FDI (negative = inflow)	**-0.3**	**-0.4**	**-0.9**	**-1.8**	**1.8**	**-0.8**	**-1.1**	**-1.4**	**-1.3**	**-1.2**	**-1.1**		**-1.3**	**-1.2**	-1.4
Endogenous debt dynamics 2/	**3.3**	**-3.5**	**-3.2**			**-1.1**	**-1.3**	**-1.2**	**-1.1**	**-1.0**	**-0.9**		**-0.4**	**-0.5**	
Contribution from nominal interest rate	0.4	0.3	0.2			0.2	0.2	0.2	0.2	0.2	0.1		0.2	0.2	
Contribution from real GDP growth	-1.9	-1.6	-1.4			-1.3	-1.5	-1.4	-1.3	-1.2	-1.1		-0.6	-0.7	
Contribution from price and exchange rate changes	4.8	-2.2	-1.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-9.6**	**-7.6**	**-5.3**			**-9.3**	**-7.1**	**-7.0**	**-5.9**	**-5.3**	**-5.3**		**-0.1**	**-0.2**	
of which: exceptional financing	0.0	-0.2	0.2			0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	15.6			15.5	14.7	13.5	12.3	11.2	10.0		8.3	11.5	
In percent of exports	...	...	102.3			105.4	102.4	95.4	88.3	81.5	74.6		59.2	82.1	
PV of PPG external debt	**...**	**...**	**15.6**			**15.5**	**14.7**	**13.5**	**12.3**	**11.2**	**10.0**		**8.3**	**11.5**	
In percent of exports	**...**	**...**	**102.3**			**105.4**	**102.4**	**95.4**	**88.3**	**81.5**	**74.6**		**59.2**	**82.1**	
In percent of government revenues	**...**	**...**	**188.2**			**168.1**	**155.1**	**137.6**	**122.2**	**108.7**	**94.4**		**69.0**	**95.8**	
Debt service-to-exports ratio (in percent)	**8.3**	**7.9**	**2.4**			**9.2**	**8.2**	**6.6**	**6.5**	**6.2**	**8.0**		**5.5**	**3.1**	
PPG debt service-to-exports ratio (in percent)	**8.3**	**7.9**	**2.4**			**9.2**	**8.2**	**6.6**	**6.5**	**6.2**	**8.0**		**5.5**	**3.1**	
PPG debt service-to-revenue ratio (in percent)	**14.7**	**13.8**	**4.4**			**14.7**	**12.4**	**9.5**	**9.0**	**8.3**	**10.2**		**6.4**	**3.7**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.1	0.2	
Non-interest current account deficit that stabilizes debt ratio	6.6	11.6	9.3			11.2	9.6	9.6	8.2	7.4	7.4		1.8	1.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.8	4.5	4.3	-0.8	12.7	4.3	5.0	5.0	5.0	5.0	5.0	4.9	3.5	3.4	3.4
GDP deflator in US dollar terms (change in percent)	-11.4	6.0	5.6	3.4	8.3	14.1	4.6	4.4	3.7	3.6	3.3	5.6	3.3	3.3	2.8
Effective interest rate (percent) 5/	0.9	0.9	0.6	1.8	0.8	0.5	0.5	0.6	0.6	0.7	0.7	0.6	0.9	0.9	0.9
Growth of exports of G&S (US dollar terms, in percent)	-10.0	25.6	17.7	3.2	15.9	14.2	7.6	7.6	7.6	7.7	5.5	8.4	6.9	6.9	6.6
Growth of imports of G&S (US dollar terms, in percent)	-14.5	7.2	8.0	7.1	25.3	19.8	2.4	4.3	3.7	5.1	5.1	6.7	6.9	6.9	5.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.0	37.4	51.4	51.4	51.4	51.4	46.7	51.4	51.4	51.4
Government revenues (excluding grants, in percent of GDP)	7.1	8.2	8.3			9.2	9.5	9.8	10.1	10.3	10.6		12.0	12.0	11.6
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.1			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.3	
of which: Grants	0.1	0.1	0.1			0.2	0.2	0.2	0.2	0.2	0.2		0.1	0.1	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			8.9	8.2	7.2	6.5	6.3	6.2		3.4	2.3	2.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			78.5	88.1	96.6	96.5	96.7	96.8		71.7	65.3	74.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	1.6	1.8	1.9			2.3	2.5	2.8	3.0	3.3	3.6		4.6	9.0	
Nominal dollar GDP growth	-7.1	10.8	10.2			19.1	9.9	9.6	8.9	8.8	8.5	10.8	6.9	6.9	6.4
PV of PPG external debt (in Billions of US dollars)			0.3			0.4	0.4	0.4	0.4	0.4	0.4		0.4	1.0	
(PVt-PVt-1)/GDPt-1 (in percent)						2.1	0.7	0.0	-0.1	-0.1	-0.4	0.4	1.0	1.4	0.7
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)	...	...	15.8			15.6	14.8	13.6	12.4	11.3	10.1		8.3	11.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	108.6			111.8	108.5	100.8	93.1	85.8	78.4		60.0	82.9	
Debt service of PPG external debt (in percent of exports + remittance	...	...	2.5			9.8	8.6	7.0	6.8	6.6	8.5		5.6	3.2	

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, 2018–38

(Percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
PV of debt-to GDP ratio								
Baseline	15	15	13	12	11	10	**8**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	15	15	15	15	15	16	**24**	52
A2. New public sector loans on less favorable terms in 2018-2038 2	15	15	14	13	12	11	**12**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	15	18	20	18	17	15	**12**	17
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	15	16	17	16	15	13	**11**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	15	16	16	15	14	12	**10**	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	15	18	20	19	18	16	**14**	14
B5. Combination of B1-B4 using one-half standard deviation shocks	15	21	29	27	25	23	**20**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	15	21	19	17	16	14	**12**	16
PV of debt-to-exports ratio								
Baseline	105	102	95	88	82	75	**59**	82
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	105	107	106	108	112	116	**173**	371
A2. New public sector loans on less favorable terms in 2018-2038 2	105	105	99	92	86	80	**82**	128
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	105	103	96	89	82	75	**59**	82
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	105	139	185	173	162	151	**123**	137
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	105	103	96	89	82	75	**59**	82
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	105	128	144	136	127	120	**99**	97
B5. Combination of B1-B4 using one-half standard deviation shocks	105	142	187	176	165	156	**129**	124
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	105	103	96	89	82	75	**59**	82
PV of debt-to-revenue ratio								
Baseline	168	155	138	122	109	94	**69**	96
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	168	162	154	150	149	146	**202**	432
A2. New public sector loans on less favorable terms in 2018-2038 2	168	159	142	128	115	101	**96**	149
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	168	189	203	180	160	139	**102**	141
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	168	170	176	158	142	125	**95**	105
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	168	172	167	148	131	114	**83**	116
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	168	194	208	188	169	151	**115**	113
B5. Combination of B1-B4 using one-half standard deviation shocks	168	226	300	271	245	219	**168**	161
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	168	219	194	172	153	133	**97**	134

Table 2. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–38 (concluded)

(Percent)

				Debt service-to-exports ratio				
Baseline	9	8	7	6	6	8	**6**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	9	9	8	8	8	11	**9**	16
A2. New public sector loans on less favorable terms in 2018-2038 2	9	8	7	7	6	8	**4**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	9	8	7	6	6	8	**6**	3
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	9	10	10	10	10	13	**10**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	9	8	7	6	6	8	**6**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	9	8	7	7	7	9	**7**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	9	9	9	9	9	11	**9**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	9	8	7	6	6	8	**6**	3
				Debt service-to-revenue ratio				
Baseline	15	12	10	9	8	10	**6**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	15	13	11	11	11	14	**11**	18
A2. New public sector loans on less favorable terms in 2018-2038 2	15	12	10	9	9	11	**5**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	15	15	14	13	12	15	**9**	5
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	15	12	10	10	9	11	**7**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	15	14	11	11	10	12	**8**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	15	12	10	10	9	11	**9**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	15	15	14	14	13	16	**12**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	15	17	13	13	12	14	**9**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	50	50	50	50	50	50	**50**	50

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
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 tl
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, 2015–38 1/

(Percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	64.2	56.0	52.9			47.0	41.9	38.6	35.7	33.0	30.6		30.1	28.7	
of which: foreign-currency denominated	39.8	36.4	35.5			32.5	30.3	27.5	25.0	22.7	20.4		19.2	22.0	
Change in public sector debt	-5.0	-8.1	-3.1			-6.0	-5.1	-3.2	-2.9	-2.7	-2.4		1.1	0.4	
Identified debt-creating flows	-2.8	-6.9	-7.7			-6.7	-4.7	-3.6	-3.3	-3.1	-2.9		-0.5	0.6	
Primary deficit	0.1	-2.1	0.8	0.1	2.5	-1.2	-1.0	-0.5	-0.5	-0.6	-0.7	-0.7	1.2	2.2	1.9
Revenue and grants	14.3	14.1	13.7			16.6	17.0	16.7	16.3	16.5	16.6		14.0	13.0	
of which: grants	7.2	6.0	5.4			7.4	7.6	6.9	6.3	6.1	6.0		2.0	1.0	
Primary (noninterest) expenditure	14.4	12.0	14.5			15.4	16.1	16.2	15.8	15.9	15.9		15.2	15.2	
Automatic debt dynamics	-1.9	-4.7	-7.5			-5.4	-3.7	-3.1	-2.8	-2.5	-2.3		-1.7	-1.6	
Contribution from interest rate/growth differential	-6.5	-5.9	-3.8			-3.8	-3.4	-2.9	-2.6	-2.4	-2.2		-1.7	-1.6	
of which: contribution from average real interest rate	-3.3	-3.1	-1.5			-1.6	-1.1	-0.9	-0.8	-0.7	-0.6		-0.7	-0.7	
of which: contribution from real GDP growth	-3.2	-2.8	-2.3			-2.2	-2.3	-2.0	-1.8	-1.7	-1.6		-1.0	-0.9	
Contribution from real exchange rate depreciation	4.5	1.1	-3.7			-1.7	-0.3	-0.2	-0.2	-0.1	-0.1		...	...	
Other identified debt-creating flows	-1.0	-0.1	-1.0			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
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	
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	
Debt relief (HIPC and other)	-1.0	-0.1	-1.0			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-2.2	-1.2	4.6			0.8	-0.4	0.4	0.4	0.4	0.5		1.6	-0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	33.1			29.9	26.3	24.6	23.0	21.6	20.2		19.2	18.2	
of which: foreign-currency denominated	...	...	15.6			15.5	14.7	13.5	12.3	11.2	10.0		8.3	11.5	
of which: external	...	...	15.6			15.5	14.7	13.5	12.3	11.2	10.0		8.3	11.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	1.3	-0.8	2.1			1.1	1.0	1.2	1.1	0.9	1.0		2.4	2.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	241.4			180.0	154.1	147.7	141.1	131.1	122.0		136.8	139.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	397.9			325.6	277.0	251.7	228.8	208.4	190.6		159.6	151.3	
of which: external 3/	...	...	188.2			168.1	155.1	137.6	122.2	108.7	94.4		69.0	95.8	
Debt service-to-revenue and grants ratio (in percent) 4/	8.9	9.4	3.8			9.1	7.7	6.3	6.2	5.9	7.1		5.7	3.4	
Debt service-to-revenue ratio (in percent) 4/	18.0	16.3	6.2			16.5	13.9	10.8	10.1	9.4	11.1		6.6	3.7	
Primary deficit that stabilizes the debt-to-GDP ratio	5.1	6.0	3.9			4.8	4.1	2.7	2.4	2.1	1.8		0.1	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.8	4.5	4.3	-0.8	12.7	4.3	5.0	5.0	5.0	5.0	5.0	4.9	3.5	3.4	3.4
Average nominal interest rate on forex debt (in percent)	0.9	0.9	0.6	1.8	0.8	0.5	0.5	0.6	0.6	0.7	0.7	0.6	0.9	0.9	0.9
Average real interest rate on domestic debt (in percent)	-5.0	-5.0	-2.6	-0.2	6.1	-2.8	-2.0	-1.6	-1.5	-1.4	-1.5	-1.8	-3.0	...	-2.6
Real exchange rate depreciation (in percent, + indicates depreciation	13.3	3.2	-10.9	2.5	7.5	-5.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.2	6.3	3.5	5.1	2.9	3.9	3.4	3.2	3.0	2.9	2.9	3.2	3.3	3.3	3.3
Growth of real primary spending (deflated by GDP deflator, in percer	24.3	-12.4	25.5	3.7	11.8	11.1	9.3	5.8	2.5	5.6	5.1	6.6	3.5	3.4	3.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	37.0	37.4	51.4	51.4	51.4	51.4	46.7	51.4	51.4	...

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.

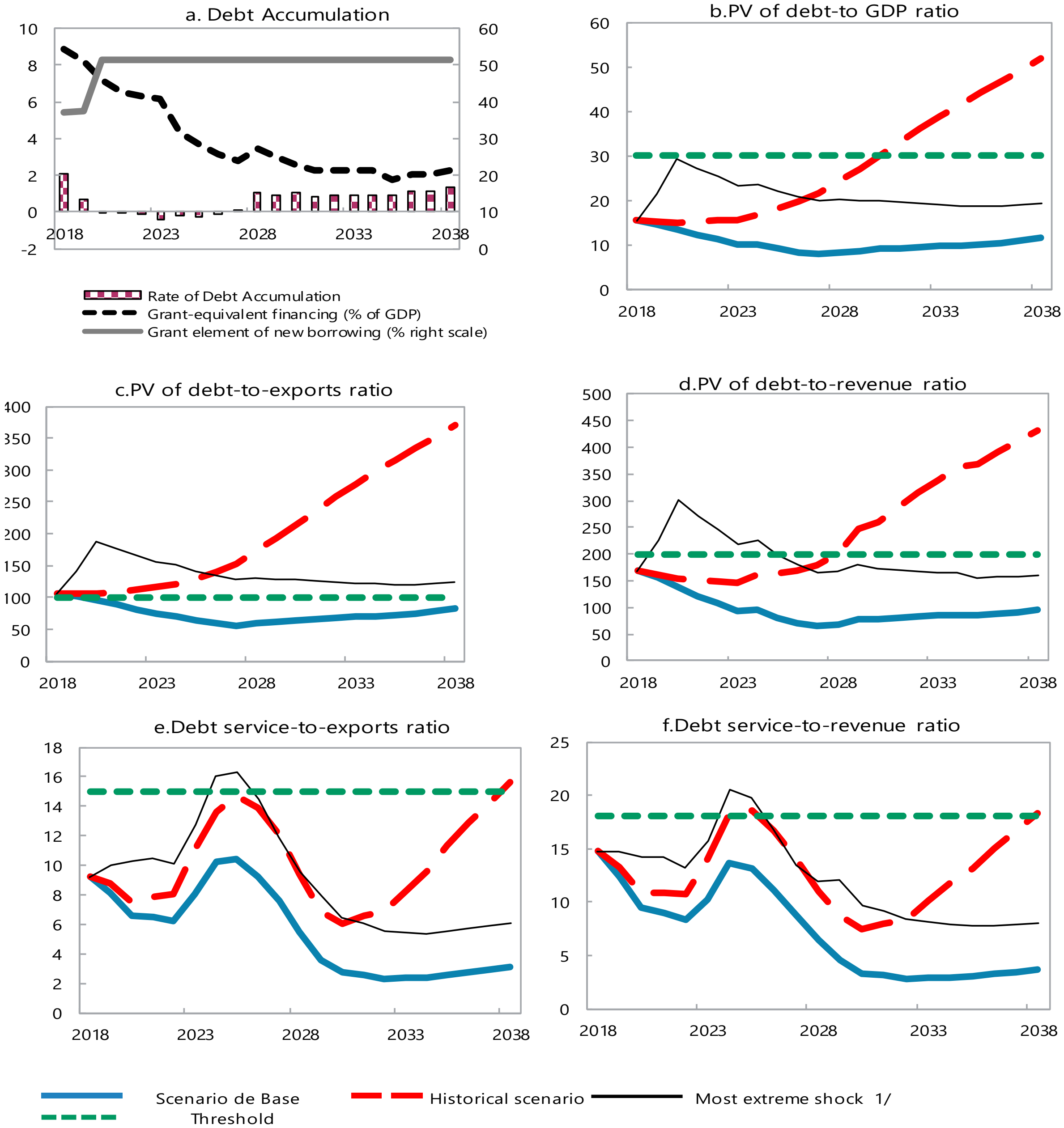
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Central African Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2018–38

		Projections						
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	30	26	25	23	22	20	19	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	30	28	28	28	28	29	29	19
A2. Primary balance is unchanged from 2018	30	26	24	22	20	19	12	-2
A3. Permanently lower GDP growth 1/	30	27	26	26	25	25	34	70
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	30	33	40	39	39	39	50	65
B2. Primary balance is at historical average minus one standard deviations in 2019-202	30	28	28	26	24	23	22	20
B3. Combination of B1-B2 using one half standard deviation shocks	30	31	34	33	32	32	37	46
B4. One-time 30 percent real depreciation in 2019	30	32	30	28	26	24	20	17
B5. 10 percent of GDP increase in other debt-creating flows in 2019	30	31	29	27	26	24	23	20
PV of Debt-to-Revenue Ratio 2/								
Baseline	180	154	148	141	131	122	137	140
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	180	162	162	162	158	155	191	128
A2. Primary balance is unchanged from 2018	180	153	145	136	124	113	88	-12
A3. Permanently lower GDP growth 1/	180	157	154	152	147	144	232	507
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	180	176	199	204	204	204	334	486
B2. Primary balance is at historical average minus one standard deviations in 2019-202	180	164	167	159	148	138	155	151
B3. Combination of B1-B2 using one half standard deviation shocks	180	171	181	182	177	174	257	347
B4. One-time 30 percent real depreciation in 2019	180	188	179	170	157	145	146	131
B5. 10 percent of GDP increase in other debt-creating flows in 2019	180	183	176	168	156	146	164	157
Debt Service-to-Revenue Ratio 2/								
Baseline	9	8	6	6	6	7	6	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	8	7	7	7	9	8	4
A2. Primary balance is unchanged from 2018	9	8	6	6	6	7	5	-1
A3. Permanently lower GDP growth 1/	9	8	7	7	6	8	8	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	9	9	8	8	8	10	10	16
B2. Primary balance is at historical average minus one standard deviations in 2019-202	9	8	7	7	6	7	6	4
B3. Combination of B1-B2 using one half standard deviation shocks	9	8	7	8	7	9	8	11
B4. One-time 30 percent real depreciation in 2019	9	9	9	9	8	10	8	6
B5. 10 percent of GDP increase in other debt-creating flows in 2019	9	8	7	7	6	7	6	5

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.

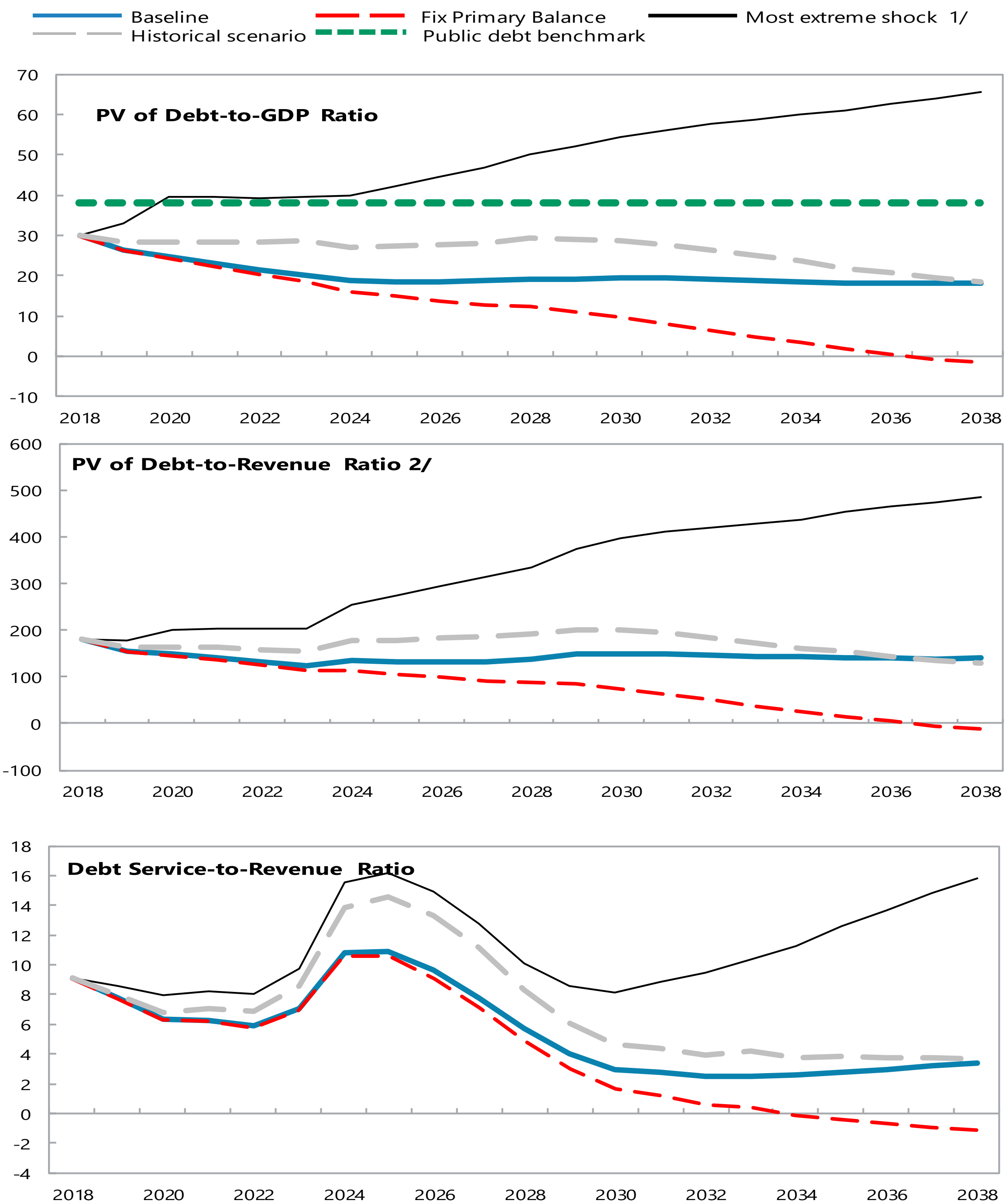
Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2018–38 1/



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 2028. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock

Figure 2. Central African Republic: Indicators of Public Debt Under Alternative Scenarios, 2018–38



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 2028.
2/ Revenues are defined inclusive of grants.

Statement by Mr. Daouda Sembene, Executive Director for the Central African Republic, Mr. Sidi Bouna, Senior Advisor to Executive Director, and Mr. Bangrim Kibassim, Advisor to Executive Director

July 2, 2018

The Central African Republic authorities are appreciative of the constructive and candid policy discussions held with IMF staff in the context of the fourth review under the Extended Credit Facility (ECF). They recognize that the current ECF-supported program with its focus on macroeconomic stability, poverty reduction, and sustainable and inclusive growth is a key element of the government's peace building and reform efforts. In addition, program implementation continues to help strengthening the country's macroeconomic framework and remains in line with the regional crisis exit strategy of the Central African Economic and Monetary Community (CEMAC).

Despite the challenging security and humanitarian environment, performance under the ECF remains satisfactory and the country's economic outlook remains favorable. All end-December 2017 performance criteria and indicative targets were met, except the continuous performance criteria on the non-accumulation of external arrears and the indicative target on domestic revenue. At the same time, two structural benchmarks out of three at end-December 2017 have been implemented—albeit with some delays. They have continued to demonstrate their strong commitment to the program's objectives, as reflected in the recent submission of a revised 2018 budget to the Parliament which embodies several revenue-boosting measures.

Recent Economic Developments, Risks and Outlook

C.A.R.'s economic growth remains strong and is projected to reach 4.3 percent in 2017, supported by construction, forestry and the diamonds sector. Improvements in food supply have resulted in slightly lower inflation from 4.6 percent in 2016 to 4.1 percent in 2017.

While the authorities' efforts to streamline expenditures helped to contain the wage bill, domestic revenue mobilization was weaker than expected due to lower forestry revenues, insufficient tax arrears recovery and shortage of tax administration. As a result, the primary deficit is estimated to have increased in 2017. Nevertheless, prudent debt management contributed to a reduction of public debt from 56.0 percent of GDP in 2016 to 52.9 percent of GDP in 2017. The current account deficit stabilized partly thanks to improved forestry and diamond export performance.

Over the medium-term, potential risks to the C.A.R.'s reform program include volatile security conditions, insufficient institutional coordination, an increase in oil prices and delays in budgetary support from development partners. Despite a difficult environment, the economic outlook remains positive with GDP growth projected to reach 4.3 percent in 2018 supported by dynamic construction and forestry sectors as well as the implementation of public investment program, consistent with the National Recovery and Peace-building Plan (NRPP). For 2018-2021, GDP growth is projected at reach 5.0 percent with average inflation stabilizing at about 3.0 percent.

Fiscal Policy and Public Financial and Debt Management

The Central African Republic authorities' fiscal policy will continue to be guided by the need to increase domestic revenue mobilization and enhance public spending efficiency by focusing on three areas.

In response to the 2017 revenue shortfall, the 2018 budget has been revised and incorporates new tax and customs measures, including an increase in forestry and diamond exports taxes, an increase of wood reference price, improvements in income tax collection and the remittance to the TSA of revenues from provinces, road usage fee and universal service fee. In addition, the government will work with Fund's technical assistance to secure improvements to tax declarations, tax arrears collection and the information exchange between tax administration (DGID) and customs administration (DGDDI).

Moreover, recourse to exceptional expenditures procedures (DAO) for related expenses to security forces, universities, hospitals and prison facilities has been reduced. Stricter control over cash funds and imprest accounts will be exerted with a view to closing them by end-year. Other measures to strengthen efficiency in public spending include the publication of the quarterly budget execution report, a strict application of supervision by the Ministry of finance and legislation on State-Owned-Enterprises (SOEs) and a revision of the public procurement code.

Since the approval of the ECF in July 2016, improved debt management and reduction have been a key goal of the authorities. In this connection, the government is committed to a full implementation of its domestic arrears clearance strategy which is bearing fruit already. As confirmed by an international audit, arrears repayment is being conducted in accordance with program commitments. The authorities made significant progress in discussions with external creditors which led to positive outcomes reported by staff. Other private and non-Paris Club creditors negotiations are progressing satisfactorily.

Financial Sector Reforms and Private Sector Development

Recognizing the critical role of the financial system in supporting economic recovery, the authorities are stepping up their efforts to address vulnerabilities in collaboration with regional authorities. In this regard, they will take necessary steps to ensure financial stability by improving supervision, governance and regulatory compliance in the banking system. At the same time, efforts to enhance financial intermediation will continue, including by implementing the recommendations of the National Credit Council.

The political and security shocks that C.A.R. recently endured have severely impacted the country's institutional capacities and people's well-being. Therefore, the authorities' priority is to create enabling conditions for a harmonious development and their recovery strategy in these areas is based on a successful implementation of the NRPP which in turn requires continued capacity development efforts by the IMF and other development partners. Under the NRPP process, notable progress is underway as demonstrated by the recent execution of important infrastructure projects, notably in collaboration with the World Bank.

To improve the business climate, several reforms are being undertaken with the authorities' priorities being focused on promoting the public–private sectors dialogue, and the implementation of an updated investment charter. Finally, the government will engage in reforms aimed at further increasing transparency in the mining sector and efficiency in the judiciary system to restore confidence and credibility.

Conclusion

The economic and financial program of C.A.R. supported by the Fund's ECF arrangement remains pivotal for preserving macroeconomic and external stability and sustaining economic recovery. Based on the progress achieved and measures undertaken, the authorities seek the IMF Executive Board's favorable completion of the fourth review under the ECF arrangement, and request waivers of nonobservance of performance criteria and modification of performance criteria.