INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/1

CENTRAL AFRICAN REPUBLIC

January 2020

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE CENTRAL AFRICAN REPUBLIC

In the context of the Request for a Three-Year Arrangement under the Extended Credit Facility (ECF), 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 December 20, following discussions that ended on November 8, 2019, with the officials of the Central African Republic on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 10, 2019.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- A **Supplement** providing additional information.
- A **Statement by the Executive Director** for the 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 by the authorities of the Central African Republic*

*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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

INTERNATIONAL MONETARY FUND

COM COMMUNICATIONS DEPARTMENT

Press Release No. 19/484
FOR IMMEDIATE RELEASE
December 20, 2019

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$115.1 Million Three-Year Extended Credit Facility (ECF) Arrangement for the Central African Republic

- Board's decision enables an immediate disbursement of SDR 11.936 million, about US$16.4 million
- Structural reforms will aim at improving the government's capacity to design and implement policies and reforms, and enhancing governance, including through strengthening anticorruption institutions.
- Fiscal policy will focus on enhanced revenue mobilization, spending prioritization, and strengthened public financial management

On December 20, 2019, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the IMF's Extended Credit Facility (ECF) for the Central African Republic (CAR) equivalent to SDR83.55 million (about US$115.1 million, or 75 percent of the Central African Republic's quota in the Fund). The IMF-supported program aims to maintain macroeconomic stability, strengthen administrative capacity, governance and the business climate, and address the country's protracted balance of payment needs.

The IMF Executive Board's decision enables an immediate disbursement of SDR 11.936 million, about US$16.4 million. Disbursement of the remaining amount will be phased in over the duration of the program, subject to semi-annual reviews of the IMF-supported program by its Executive Board.

Following the Executive Board's discussion on Central African Republic, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"Despite significant progress under the ECF arrangement that expired last July, the Central African Republic (C.A.R.) remains very fragile, with a volatile security environment, limited administrative capacity, poor governance, and lack of social cohesion.

"The new three-year program supported by the IMF Extended Credit Facility (ECF) will support the implementation of the February 2019 peace agreement and of C.A.R.'s medium-term development strategy. It aims at maintaining macroeconomic stability, strengthening administrative capacity, governance and the business climate, promoting robust and sustainable growth, and reducing poverty.

“Fiscal policy will focus on enhanced revenue mobilization, spending prioritization, and strengthened public financial management. This will ensure that C.A.R.’s considerable security, social, and infrastructure spending needs are sustainably met. Revenue mobilization measures will include the daily reconciliation of revenue data, the digitalization of tax returns and payments, and enhanced coordination between revenue administrations. The further strengthening of public financial management will involve the elimination of the remaining public agencies with no economic justification, the finalization of the audit of domestic arrears, and the strengthening of SOEs’ oversight and management.

“Structural reforms will aim at improving the government’s capacity to design and implement policies and reforms, enhancing governance, including through strengthening anticorruption institutions, and removing bottlenecks and regulatory impediments to private investment.

“Continued financial and technical support from development partners will be critical to the program’s success. Given its high risk of debt distress and limited revenue base, C.A.R. will have to continue relying heavily on grant financing to finance its most pressing spending needs. The authorities will work closely with their technical partners to ensure that capacity development focuses on priorities closely aligned with the program objectives and is efficiently delivered.

“The C.A.R.’s program is supported by the implementation of policies and reforms by the CEMAC 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 program’s success.”

Annex

Recent Economic Developments

The Central African Republic authorities’ program of economic policies and reforms implemented under the three-year ECF arrangement that expired in July helped to restore economic growth, reduce fiscal and external imbalances, and strengthen public administration. Recent economic developments have been broadly satisfactory, with growth expected to recover to 4 ½ percent this year, mainly driven by the mining, forestry and construction sectors. As the inflationary pressures that resulted from the blockade of the main trade route between Bangui and Cameroon in March have abated, inflation is expected to be limited to 3¼ percent on average this year and less than 3 percent next year. The current account deficit is expected to narrow to 5.6 percent of GDP in 2019, thanks primarily to an increase in official transfers.

The banking sector remains well capitalized, liquid, and profitable although credit to the private sector declined by 3 percent year-to-year in September 2019. Some progress has also been made in the implementation of structural reforms.

Progress under the peace agreement signed in February 2019 remains fragile. Overall, CAR remains in a very fragile situation, with a volatile security environment, limited administrative capacity, poor governance, and lack of social cohesion.

Program Summary

The program will support the implementation of the peace agreement and of CAR's medium-term development strategy. Fiscal policy will focus on revenue mobilization, spending prioritization, and strengthening public financial management, with a view to allow, over the medium term, the sustainable financing of CAR's considerable security, social, and infrastructure spending needs. Structural reforms will aim at improving the government's capacity to design and implementing policies and reforms, at enhancing governance, and at removing bottlenecks and regulatory impediments to private investment.

The medium-term outlook remains broadly favorable, provided security holds. Given the peace agreement's slow implementation, the macroeconomic framework assumes no conflict resurgence but factors in only limited peace dividends at this juncture. Growth is expected to amount to 5 percent over the medium term, driven by the recovery in the mining sector, the implementation of structural reforms, and the gradual loosening of the energy and transportation bottlenecks. Inflation is expected to remain under the CEMAC ceiling of 3 percent over the medium term. The current account deficit would stabilize at about 5½ percent of GDP, as the improvement in the balance of goods and services would broadly offset the decline in official transfers. The domestic primary balance would stabilize at around 2½ percent, allowing a gradual reduction of the debt/GDP ratio. Facing lower-than-expected revenues, the authorities are committed to containing the domestic primary balance.

The new arrangement will help catalyzing external concessional financing from other development partners, which is critical to support CAR's path out of fragility. The IMF will also continue its extensive capacity development on priorities that are aligned with the program objectives.

However, risks to the outlook remain high. Political pressures and uncertainty could weaken policy and reform implementation in the run-up to the 2020–21 presidential and general elections. A renewal of violence could also exacerbate the humanitarian crisis and political instability.

Background

The Central African Republic, which became a member of the IMF on July 10, 1963, has an IMF quota of SDR111.4 million.

For additional information on the IMF and the Central African Republic, see:

https://www.imf.org/en/Countries/CAF

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2017–2024

	2017	2018		2019		2020	2021	2022	2023	2024
	Est.	6th Rev.	Est.	6th Rev.	Est.			Proj.		
	(Annual percentage change; unless otherwise indicated)									
National income and prices										
GDP at constant prices	4.5	3.8	3.8	4.5	4.5	5.0	5.0	5.0	5.0	5.0
GDP per capita at constant prices	3.2	1.9	2.3	2.5	2.8	3.2	3.1	3.0	3.0	2.9
GDP at current prices	11.3	5.3	5.2	7.2	7.4	7.6	7.6	7.7	7.7	7.6
GDP deflator	6.4	1.4	1.3	2.7	2.8	2.5	2.5	2.6	2.5	2.5
CPI (annual average)	4.5	1.6	1.6	3.5	3.2	2.5	2.5	2.5	2.5	2.5
CPI (end-of-period)	7.2	4.6	4.6	3.0	-0.3	2.5	2.5	2.5	2.5	2.5
Money and credit										
Broad money	10.3	14.0	14.0	14.1	3.2	14.9	5.8	8.9	9.4	9.6
Credit to the economy	1.4	11.5	11.5	9.7	3.0	5.0	7.0	8.0	8.0	8.0
External sector										
Export volume of goods	42.5	10.3	10.3	2.8	-6.5	14.9	6.0	7.0	8.3	9.2
Import volume of goods	-1.9	0.1	-0.2	4.2	10.4	7.8	4.0	5.0	4.2	4.1
Terms of trade	-18.4	-11.7	-12.0	5.7	12.7	3.5	2.2	0.5	-1.6	-1.5
	(Percent of GDP; unless otherwise indicated)									
Gross national savings	5.7	7.1	8.5	12.8	10.5	10.6	11.0	10.9	11.1	11.8
Of which: current official transfers	1.8	3.0	3.0	5.9	6.0	3.7	3.4	2.7	1.9	1.8
Gross domestic savings	-2.9	-2.7	-1.4	0.2	-1.9	0.3	0.9	1.5	2.6	3.5
Government	-1.4	-1.2	-1.2	-0.7	-1.6	-1.3	-0.9	-0.6	-0.5	-0.4
Private sector	-1.5	-1.5	-0.2	1.2	-0.3	1.6	1.7	2.2	3.1	3.9
Consumption	102.9	102.7	101.4	99.5	101.9	99.7	99.1	98.5	97.4	96.5
Government	7.0	7.7	7.7	7.6	7.3	7.5	7.5	7.5	7.5	7.5
Private sector	95.9	95.0	93.7	91.9	94.6	92.3	91.7	90.9	89.9	89.0
Gross investment	13.5	15.1	16.4	16.6	16.2	16.9	16.3	16.3	16.8	17.3
Government	4.5	6.0	7.4	7.5	7.1	7.9	7.2	7.2	7.3	7.3
Private sector	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.5	10.0
External current account balance										
with grants	-7.8	-7.9	-8.0	-3.7	-5.6	-6.3	-5.3	-5.4	-5.7	-5.5
without grants	-11.0	-12.3	-12.3	-10.9	-12.9	-11.6	-10.4	-9.8	-9.4	-9.1
Overall balance of payments	2.9	-1.7	-1.7	2.9	1.0	1.3	1.5	1.4	2.4	2.6
Central government finance										
Total revenue (including grants)	12.8	16.6	16.6	20.9	19.4	18.6	18.4	17.8	17.2	17.1
of which: domestic revenue	7.8	8.9	8.9	9.9	8.7	9.7	10.0	10.3	10.6	10.8
Total expenditure [1]	13.9	16.3	17.6	18.3	17.6	19.0	18.3	18.3	18.4	18.5
of which: capital spending	4.5	6.0	7.4	7.5	7.1	7.9	7.2	7.2	7.3	7.3
Overall balance										
Excluding grants	-6.1	-7.4	-8.7	-8.4	-8.9	-9.3	-8.2	-8.0	-7.8	-7.8
Including grants	-1.1	0.4	-1.0	2.6	1.8	-0.4	0.2	-0.5	-1.2	-1.4
Domestic primary balance [2]	-2.0	-1.7	-1.7	-2.5	-3.0	-2.7	-2.5	-2.5	-2.5	-2.5
Public sector debt	50.3	48.8	50.0	43.4	47.1	42.6	39.8	37.1	35.1	33.0
Of which: domestic debt [3]	16.2	13.9	13.9	10.2	10.2	7.8	6.9	5.9	5.1	4.3
Of which: external debt	34.1	34.9	36.1	33.2	36.9	34.8	32.9	31.2	30.0	28.6
Memorandum items:										
GDP per capita (US dollars)	451	449	489	457	500	534	567	603	639	688
Nominal GDP (CFAF billions)	1,203	1,266	1,266	1,356	1,360	1,464	1,575	1,696	1,826	1,966

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 expenditures.

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

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

December 10, 2019

EXECUTIVE SUMMARY

Context: The program of economic policies and reforms implemented under the three-year ECF arrangement that expired in July helped to restore growth, reduce fiscal and external imbalances, and strengthen public administration. While the peace agreement was signed last February, its implementation has been slow, reflecting in part the lack of ownership by some of the armed groups. Overall, the C.A.R. remains in a very fragile situation, with a volatile security environment, limited administrative capacity, poor governance, and lack of social cohesion. To help address the country's protracted balance of payment financing needs in this challenging environment, the authorities have requested a new three-year arrangement under the ECF for an amount of SDR 83.55 million (75 percent of quota).

Program objectives: Consistent with the Fund's Country Engagement Strategy, the Fund-supported program will support the implementation of the peace agreement and of C.A.R.'s medium-term development strategy. Its main objectives will be to maintain macroeconomic stability, strengthen administrative capacity, governance, and the business climate, and address C.A.R.'s protracted balance of payments needs. Fiscal policy will focus on revenue mobilization, spending prioritization, and strengthening public financial management, with a view to allow, over the medium term, the durable financing of C.A.R.'s considerable security, social, and infrastructure spending needs. Structural reforms will aim at improving the government's capacity to design and implementing policies and reforms, at enhancing governance, including through strengthening anticorruption institutions, and at removing bottlenecks and regulatory impediments to private investment. The new arrangement will also help catalyzing external concessional financing from other development partners, which is critical to support C.A.R.'s path out of fragility. The IMF will also continue its extensive capacity development on priorities that are aligned with the program objectives.

Risks: Downside risks to the program include weakened reform implementation ahead of the 2020–21 elections, a renewal of violence, and a global slowdown. On the upside, a faster implementation of reforms and of the peace agreement could anchor confidence and boost medium-term growth, investment and capital inflows.

Approved By
Analisa Fedelino (AFR) and Seán Nolan (SPR)

Discussions took place in Bangui from October 29–November 8, 2019. The mission team comprised Messrs. Martin (head), Diaby, Million, Ouedraogo (all AFR), Basdevant (FAD), Davies and Zoungarani (resident representative and local economist). Messrs. Raghani (ED) and Ondo Bile (OED) participated in some of the discussions, as did Ms. Fedelino. Staff of the World Bank, the European Union, and the African Development Bank also attended some of the meetings. The team met with President Touadéra, Prime Minister Ngrébada, Minister of Finance Dondra, Minister of Economy Moloua, several other ministers, the President of the National Assembly, the national Director of BEAC, senior government officials and parliamentarians, as well as representatives of the business and donor communities and of the civil society and NGOs. Mses. Attey and Hreib and Mr. Kalfa's help with the production of the staff report is gratefully acknowledged.

CONTENTS

TABLES

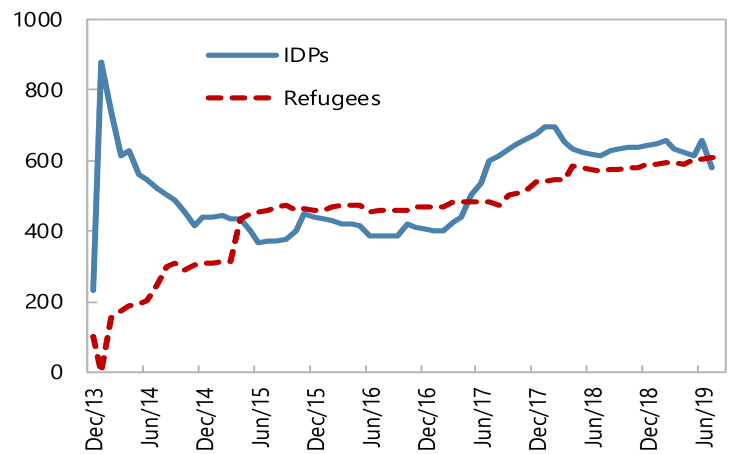
ANNEXES

APPENDIX

CONTEXT

1. **Despite some recent progress, the Central African Republic (C.A.R.) continues to exhibit many deep-rooted dimensions of fragility,** including a volatile security environment, limited administrative capacity, poor governance and weak government legitimacy, and lack of social cohesion. The government controls less than one third of the national territory, which hinders the implementation of development policies throughout the whole country and hampers developing capacity and data quality.[1] This persistent fragility has contributed to (and has been reinforced by) very poor social outcomes, with C.A.R.'s HDI ranking of 188 out of 189 countries, a poverty rate estimated at 72.2 percent in 2017, and very high infant and under-five mortality rates (Text Table 1). The numbers of refugees and of internally displaced persons remain high, at around 600,000 and 580,000, respectively, in October (Text Figure 1). The number of persons in need of humanitarian aid was estimated at 2.9 million, or about 60 percent of total population, at end-July.

Text Figure 1. Internally Displaced Persons (IDPs) and Refugees, 2013–19
(in thousands)



Source: UNHCR

Text Table 1. Selected Social Indicators (2017 or latest available)

	C.A.R.	Cameroon	Gabon	Chad	Equatorial Guinea	Congo	SSA
Human development index	0.37	0.56	0.70	0.40	0.59	0.70	…
Human development ranking (out of 189)	188	151	110	186	141	137	…
Poverty headcount ratio (percent)	72.2	37.5	33.4	46.7	76.8	46.5	…
Infant mortality rate (per 1,000 live births)	87.6	55.1	35.1	73.4	65.3	34.7	51.5
Adult literacy rate (percent)	36.8	71.3	82.3	22.3	95.0	79.3	64.3
Life expectancy at birth, total (years)	52.9	58.6	66.5	53.2	57.9	65.1	60.8
GINI index	56.2	46.6	38.0	43.3	…	48.9	…

Sources: World Bank, United Nations and Staff calculations

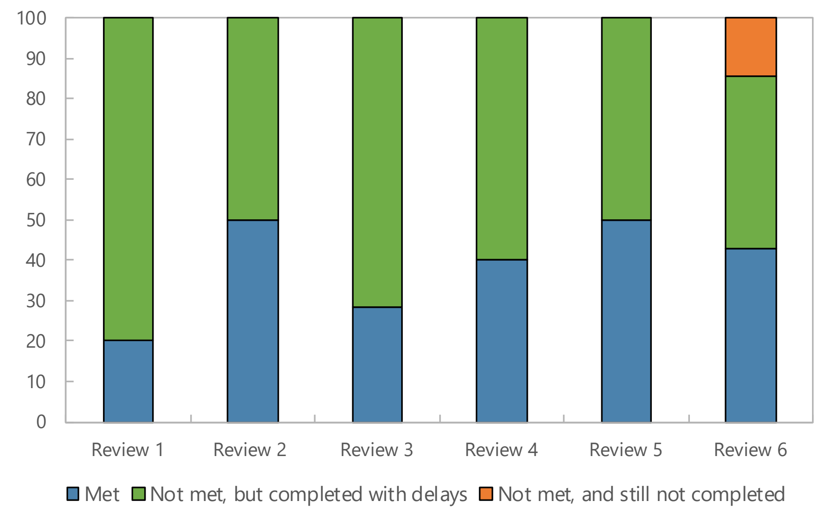
2. **Progress under the February 2019 peace agreement remains fragile.** While the number of violations of its provisions by the armed groups has gradually declined, violent outbursts may still occur, as illustrated by the clashes in September in Birao—a key center in the North—where

[1] Inflation estimates are limited to Bangui and based on 40-year old weights. GDP estimates are also highly uncertain (e.g. informal sector estimates are based on a 1982 survey). Extensive TA is being provided by the Fund and other developments partners to help improve these and other statistics, although significant problems will remain until data collection is feasible across the entire country.

60 persons were killed. All the national and regional monitoring committees are now operational, while a first joint brigade is being established in the Western part of the country. Yet, there are still some concerns among the population about the recrudescence of criminal incidents and the lack of strict enforcement of sanctions against those who violate the peace initiative provisions.

3. **Despite a difficult security context, the 2016–19 ECF-supported program has helped to stabilize macroeconomic conditions, catalyze budget support from development partners, and increase the authorities' capacity to design and implement policies** (Text Table 2).[2] Following the 2013 crisis—which resulted in an estimated loss of one third of GDP—the economy has gradually recovered (though not fully to pre-crisis levels) while inflation has remained contained. Domestic tax revenue increased by 0.7 percent of GDP a year in 2016–18, contributing to a steady decline in the domestic primary fiscal deficit and a substantial reduction in public debt. These achievements fell somewhat short of the program's initial objectives, reflecting the persistently difficult security situation and limited administrative capacity. Regarding structural reforms, notable progress has been accomplished in enhancing spending control, strengthening revenue and customs administrations, and promoting fiscal transparency. However, some reforms have experienced some delays (Text Figure 2), including the reform of parafiscal taxes, the reduction of the use of exceptional spending procedures, and the use of IT systems in the customs administration.

Text Figure 2. Implementation of Structural Benchmarks
(percent)



Text Table 2. Key Macro Variables Before (2014–15) and During the Program (2016–18)
(average values)

	Before	During	
		Initial Proj.	Actual
Economic growth (percent)	2.9	5.5	4.4
Inflation (percent)	8.6	3.5	3.6
Domestic tax revenue (percent of GDP)	5.5	8.5	8.0
Primary domestic fiscal balance (percent of GDP)	-3.7	-2.2	-1.8
Overall fiscal balance (including grants, percent of GDP)	-4.4	-3.1	-0.3
Total public debt (percent of GDP)	61.0	41.4	51.4

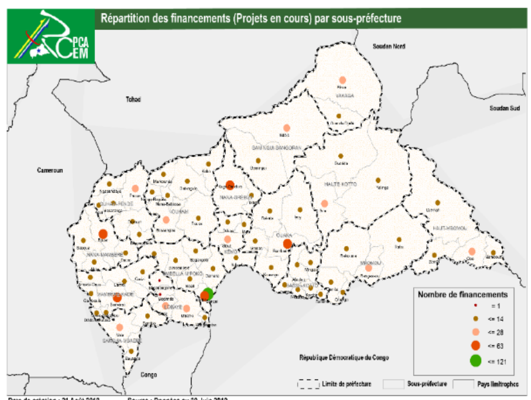
Sources: C.A.R. authorities and IMF staff estimates.

[2] See also Box 1 of IMF Country Report 19/216.

Box 1. The National Recovery and Peacebuilding Plan (RCPCA)

- The RCPCA is a five-year (2017–21) recovery plan, adopted by the government of C.A.R. in October 2016 and supported by the European Union, the United Nations, and the World Bank to enhance sustainable peace and economic recovery. The plan is articulated around the following three pillars: (1) supporting peace, security, and reconciliation; (2) renewing the social contract between the state and the government; and (3) promoting economic recovery and boosting productive sectors.

- The financial needs for the RCPCA were estimated at US$3,161 million for five years, and US$1,700 million for the first three years. The requirements for the three pillars account for 14.7, 42.0, and 38.7 percent, respectively, of the five-year needs—with the remainder devoted to the plan-related capacity building. Until June 2019, most projects have been implemented in the Western part of the country, while the Eastern and Northeastern regions, where insecurity is highest, benefited from fewer projects and financing (map below).



- Out of the US$1,700 million for 2017–19, 99 percent had been approved by the bilateral and multilateral donors during the round table in Brussels in November 2016. However, until June 2019, only US$736 million (43 percent) had been effectively disbursed. Moreover, the rate of completion of the various projects varies widely. For example, only 7 of the 35 sectoral committees have been set up. Similarly, the progress on the disarmament, demobilization, reintegration, and repatriation (DDRR, pillar 1) has been slow, with only 261 demobilized fighters in the western regions out of the initial target of 5000 as of January 2019. On the positive side, several projects related to health (pillar 2) have been completed and some road construction projects (pillar 3) have made significant progress.
- According to development partners, the low disbursement and delays in the completion of numerous projects reflect several constrains such as: insecurity and the continued presence of armed groups; the lack of leadership and coordination; the heavy regulation on the work of NGOs; weak accountability and linkages between the peace agreement sealed in February 2019 (APPR) and the RCPCA; and the low level of domestic resource mobilization. The authorities are determined to address these issues.

- Following the APPR, the government has decided to refocus and extend the RCPCA until 2023, again with the support of the technical and financial partners. Indeed, the APPR offers a crucial opportunity to reach the most remote regions of the country, speed up project execution, and reach out to the most vulnerable populations. The strategy note that articulates the RCPCA extension is expected to be officially validated by the government in the first quarter of 2020.

4. **The authorities have requested a successor arrangement to help address C.A.R.'s protracted external financing needs.** The new arrangement will help C.A.R. contribute to the regional efforts to rebuild an adequate level of international reserves while gradually improving its current account balance (excluding grants). Consistent with the Fund's Country Engagement Strategy (Annex I), the new arrangement will also support the implementation of the peace agreement and of C.A.R.'s development strategy, the National Recovery and Peacebuilding Plan (RCPCA, Box 1). Building on the achievements of the last ECF arrangement, the new arrangement would notably continue to provide a macroeconomic framework for the government's economic policies and reforms and catalyze donor financing. It would also contribute to the further strengthening of fiscal institutions and overall governance, which are key to establishing the legitimacy of the state and social cohesion. Protecting the most vulnerable, through an increase in resources allocated to key social sectors, will be an important priority of the program, pursued in consultation with other development partners.

RECENT DEVELOPMENTS

5. **Recent economic developments have been broadly in line with expectations** (Table 1)**.** Economic growth is expected to recover to 4½ percent this year, driven by the mining, forestry and construction sectors. At end-September, diamond and gold productions had already surpassed their 2018 annual levels, while wood production increased by around 10 percent y-o-y. As the inflationary pressures that resulted from the blockade of the main trade route between Bangui and Cameroon in March have abated, inflation is expected to be limited to 3¼ percent on average this year and less than 3 percent next year, helped by C.A.R.'s membership in CEMAC. The current account deficit is expected to narrow to 5.6 percent of GDP in 2019, thanks primarily to an increase in official transfers (Figure 1).

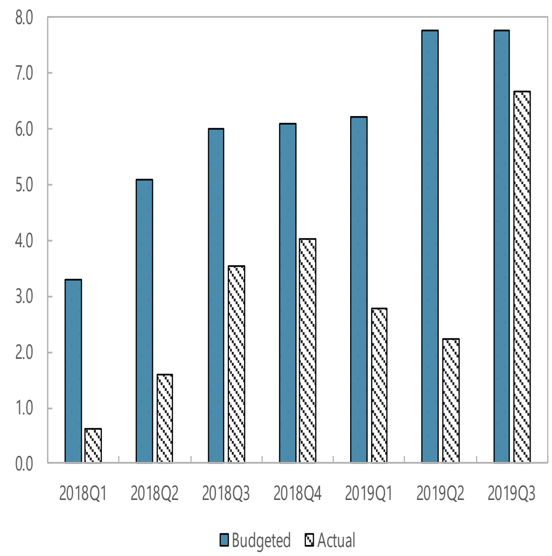
6. **Government revenue and spending have been significantly lower than projected over the last few months** (Text Table 3)**.** Domestic revenue amounted to CFAF 86.1 billion through end-September, significantly lower than projected at the time of the 6th review (CFAF 99.3 billion). While significant discrepancies between the revenue estimates provided by the tax and customs departments and those of the Treasury obscure the reasons for this underperformance, the latter seems to reflect primarily: further delays in transferring parafiscal taxes to the Treasury Single Account (TSA); delays in the accounting of revenue from provinces; fewer controls by the tax department; and the granting of exemptions going beyond what is provided under the investment charter.[3] Spending was also low (CFAF 116.9 billion versus CFAF 132.2 billion), reflecting primarily low transfers to public agencies (in direct compensation for the non-transfer of the parafiscal taxes to the TSA) and delays in public investment (Text Figure 3). At CFAF 35.6 billion, social spending was, however, higher than projected (CFAF 30 billion). Spending through exceptional procedures declined further, to 5.7 percent from 11 percent at end-December 2018.

[3] While staff considers the investment charter as adequate, these exemptions were granted without prior consultation of the exemption committee to ensure their conformity with the charter's provisions.

Text Table 3. Fiscal Outturn, 2018–19
(percent of GDP)

	2018	2019		
	Jan.-Sep.	Jan.-Sep.		
	Act.	6th. Rev.	Act.	Diff.
Domestic revenue	6.6	7.3	6.3	-1.0
Customs revenue	3.1	3.1	2.9	-0.1
Tax revenue	2.9	3.2	2.8	-0.4
Non-tax revenue	0.2	0.6	0.2	-0.5
Public agencies	0.0	0.4	0.0	-0.4
Others	0.2	0.2	0.2	-0.1
Salary charges	0.4	0.4	0.4	0.0
Primary expenditures	7.5	9.7	8.6	-1.1
Primary current expenditures	7.1	8.4	7.7	-0.6
Wages and salaries	3.1	3.1	3.1	0.1
Salary charges	0.4	0.4	0.4	0.0
Transfers and subsidies	1.6	2.1	2.1	-0.1
Goods and services	1.6	2.7	2.0	-0.7
Regies des ministeres	0.0	0.0	0.0	0.0
Spending in provinces	0.3	0.0	0.1	0.1
Capital expenditures	0.5	1.3	0.9	-0.5
Domestic primary balance	-0.9	-2.4	-2.3	0.2
Memo				
Social spending	2.3	2.2	2.6	0.4

Text Figure 3. Domestically Financed Capital Spending (CFAF billions)



7. **End-2017 and -2018 public debt estimates were revised upward by around 0.9 and 1.5 percent of GDP, respectively.** This owed primarily to the past misclassification as grants of disbursements under a World Bank project loan to finance the modernization of the main road between Bangui and Cameroon. Disbursements under this loan—contracted in 2012 and due to expire next June—are projected at CFAF 5.7 and 9.2 billion in 2019 and 2020, respectively. The authorities have continued their good faith efforts to resolve external arrears. In June, China forgave CFAF 1.6 billion in loans. Discussions with Taiwan, province of China, have restarted, while talks with Libya, Equatorial Guinea, Argentina, Chad and the private company from Montenegro have continued.

8. **The banking sector remains well capitalized, liquid, and profitable** (Table 9).[4] However, credit to the private sector declined by 3 percent y-o-y in September 2019. Also, after declining sharply in the second half of 2018 (from 22 to 15.6 percent), non-performing loans (NPLs) have since rebounded somewhat (to 19.1 percent at end-August) owing to the failure of one big company to honor its debt and the technical reclassification of some loans following a COBAC inspection mission. These NPLs remain adequately provisioned.

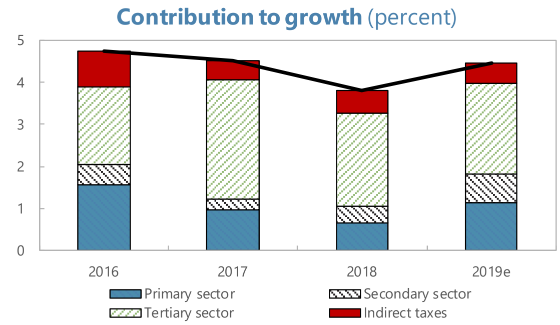
9. **Some progress has been made in implementing structural reforms**. Since mid-November, the parafiscal taxes levied by public agencies are being transferred to the TSA. Following the audit of some of these agencies, the General Inspectorate of Finance (IGF) has recommended the elimination of several agencies and parafiscal taxes with no economic justification. About two thirds of the stock of potential domestic arrears identified last spring were

[4] The banking sector consists of 4 banks with total assets about 20 percent of GDP. Three of these banks are foreign-owned, while the fourth, which represents 25 percent of the sector, is state-owned.

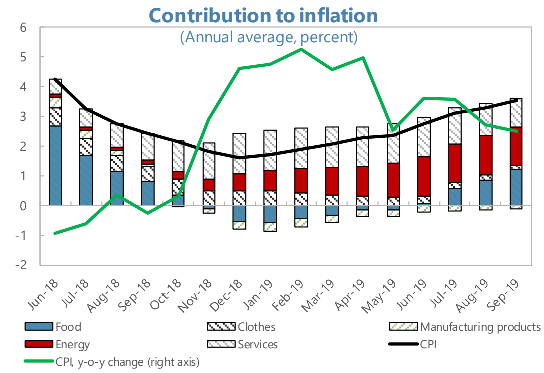
audited: about 0.2 percent of GDP was validated; 3.3 percent of GDP were rejected; while claims equivalent to 2 percent of GDP will need to be further investigated owing to a lack of supporting evidence. The hiring of a new service provider to help the authorities better monitor wood exports and enhance imports valuation is moving ahead, two providers having been selected and asked to provide detailed technical and financial proposals. The authorities have also started negotiating conventions with airlines companies for government employees' missions to rationalize related costs.

Figure 1. Central African Republic: Recent Economic Developments, 2014–19

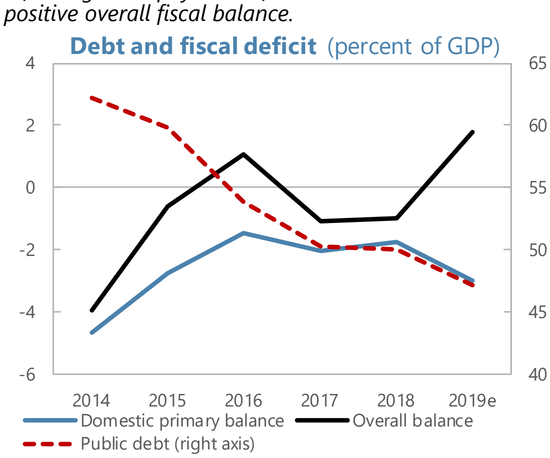
Economic activity is expected to accelerate in 2019, driven by rebound in the forestry and mining sectors.



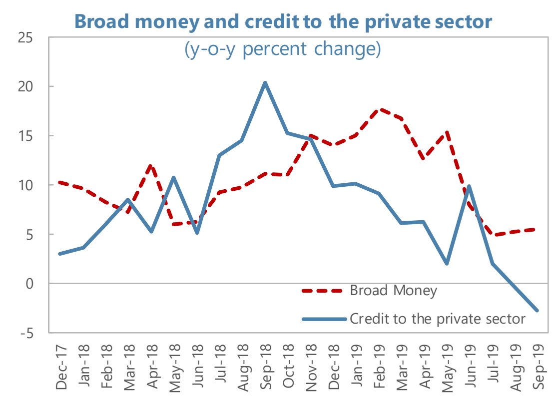
Inflation pressures have started abating since the re-opening of the Bangui-Cameroon corridor.



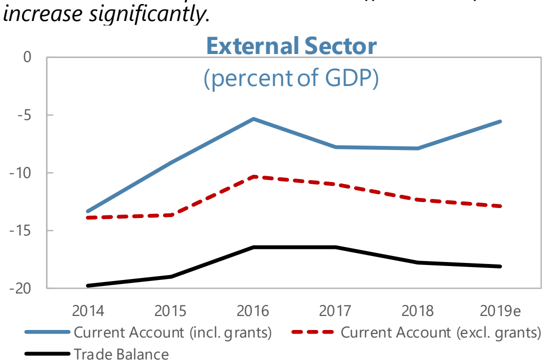
Public debt is expected to decline further in 2019, reflecting the repayment of domestic arrears and a positive overall fiscal balance.



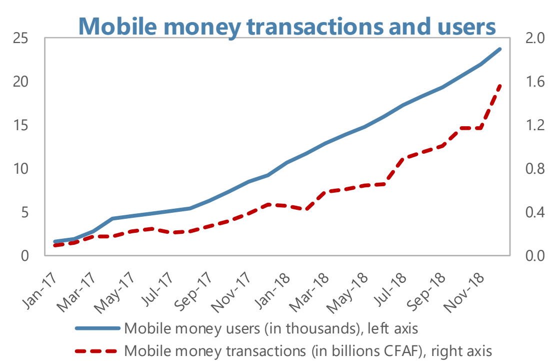
Domestic credit to the economy has recently slowed down.



After deteriorating slightly in 2018, on account of an increase in oil imports, the current account and trade balances would improve in 2019 as official transfers increase significantly.



Mobile money transactions have continued to surge.



Source: CAR authorities and IMF staff calculations

OUTLOOK AND RISKS

10. **The medium-term outlook remains broadly favorable provided security holds** (Text Table 4)**.** Given the peace agreement's slow implementation, the macroeconomic framework assumes no conflict resurgence but factors only limited peace dividends at this juncture. Growth is expected to amount to 5 percent over the medium term, driven by the recovery in the mining sector, the implementation of structural reforms, and the gradual loosening of the energy and transportation bottlenecks. Inflation is expected to remain under the CEMAC ceiling of 3 percent over the medium term. The current account deficit would stabilize at about 5½ percent of GDP, as the improvement in the balance of goods and services would broadly offset the decline in official transfers. The domestic primary balance would stabilize at around 2½ percent, allowing a gradual reduction of the debt/GDP ratio.

11. **Risks to this outlook remain high.** Domestically, in the run-up to the 2020–21 presidential and general elections, political pressures and uncertainty could weaken policy and reform implementation. A renewal of violence could also exacerbate the humanitarian crisis and political instability. In addition, weak administrative capacity, lack of political cohesion and governance issues could delay public investment projects and slow the pace of implementation of reforms and of the development strategy. Externally, an intensification of global trade tensions could weaken growth and affect commodity prices. Delays in the delivery of external budget support and project grants could impede the government's capacity to meet its most urgent spending needs (Table 11). On the upside, a faster implementation of reforms and of the peace agreement could boost medium-term growth, investment and capital inflows.

12. **The authorities concurred with staff on the outlook and risks and reasserted their commitments to maintain prudent macroeconomic policies and speed up structural reforms.** They agreed that the implementation of such policies and reforms was key to strengthening further macroeconomic stability and anchoring the legitimacy of the state, bolstering inclusive growth, containing inflation, and reducing further external and fiscal imbalances.

Text Table 4. Selected Economic Indicators, 2017–24

	2017	2018		2019	2020	2021	2022	2023	2024
		IMF CR 19/216							
	Est.	Proj.		Est.			Proj.		
Real GDP	4.5	3.8	3.8	4.5	5.0	5.0	5.0	5.0	5.0
Inflation (period average)	4.5	1.6	1.6	3.2	2.5	2.5	2.5	2.5	2.5
Current account balance (percent of GDP)	-7.8	-7.9	-8.0	-5.6	-6.3	-5.3	-5.4	-5.7	-5.5
Overall fiscal balance (incl. grants, percent of GDP)	-1.1	0.4	-1.0	1.8	-0.4	0.2	-0.5	-1.2	-1.4
Domestic primary fiscal balance (percent of GDP)	-2.1	-1.7	-1.7	-3.0	-2.7	-2.5	-2.5	-2.5	-2.5
Public Debt (percent of GDP)	50.3	48.8	50.0	47.1	42.6	39.8	37.1	35.1	33.0
Budget support (percent of GDP)	1.8	3.0	3.0	6.0	3.7	3.4	2.7	1.9	1.8

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

POLICY DISCUSSIONS

Consistent with the Fund's Country Engagement Strategy, the Fund-supported program's main objectives will be to: maintain macroeconomic stability; strengthen administrative capacity, governance, and the business climate; protect the most vulnerable and reduce poverty; and address C.A.R.'s protracted balance of payments needs. Fiscal policy will focus on revenue mobilization, spending prioritization, and strengthening revenue administration and public financial management, with a view to durably finance C.A.R.'s considerable security, social, and infrastructure spending needs over the medium term. Structural reforms will aim at improving the government's capacity to design and implementing policies and reforms, enhancing governance, including through strengthening anticorruption institutions, and removing bottlenecks and regulatory impediments to private investment. The new arrangement will also help catalyze external financing from other development partners, essential to close the external financing gap and support the authorities' development efforts. Program implementation will be underpinned by continued CD activities to help strengthen capacity, from both the Fund and other CD providers.

A. Program Pillar #1: Sustainably Financing Government Priorities

13. **Fiscal policy's main objective is to ensure that C.A.R.'s most pressing spending needs are sustainably met** (Tables 2a and 2b and MEPF, ¶13). Fiscal policy will be anchored by a gradual reduction of public debt to less than 40 percent of GDP by 2022, brought about by a stabilization of the domestic primary balance at 2½ percent of GDP.[5] Consistent with this objective, efforts to increase revenue mobilization, streamline non-priority spending, and strengthen spending efficiency will allow for an increase in social, security and investment expenditures. Efforts to mobilize grant financing will remain key to financing the government major initiatives, including the expansion of public services and social support in the provinces, the strengthening of security forces, the 2020–21 elections, and infrastructure projects. Additional concessional borrowing of up to 5 percent of GDP could be accommodated over the program period to finance projects critical to the country's development as long as it comes with long grace periods and/or repayments schedules.[6]

14. **Facing lower-than-expected revenues, the authorities reiterated their commitment to contain the domestic primary balance** (MEFP ¶16). The domestic primary fiscal deficit is expected to widen slightly to about 3 percent of GDP against a revised budget target of 2.5 percent of GDP. This deterioration is largely driven by the significant projected revenue shortfall (about CFAF 16.9 billion or 1.2 percent of GDP). This shortfall will be partly offset by the lower transfers to public agencies (for about CFAF 7 billion) and the postponement of some non-priority expenditures (CFAF 2.4 billion).

[5] The overall fiscal deficit, projected to be 0.4 percent of GDP in 2020, would remain below CEMAC's convergence target of 1.5 percent of GDP through the program period.

[6] Following standard practice, concessional lending will be defined by a grant element of at least 35 percent (versus 50 percent under the previous arrangement).

15. **The authorities submitted to Parliament a draft budget law for 2020 in line with program objectives (prior action).** It targets a domestic primary fiscal deficit of 2.7 percent of GDP. Domestic revenues are expected to increase to 9.7 percent of GDP, from 8.7 percent of GDP in 2019, owing primarily to fiscal measures (0.2 percent of GDP) and the transfer to the TSA of parafiscal taxes (¾ percent of GDP). In line with Fund recommendations, fiscal policy measures include the taxation *ad valorem* of second-hand car imports and the alignment of excises taxes with the recently adopted CEMAC regulations (Text Table 5). The draft budget law also includes provisions to eliminate six public agencies with no economic justification (MEFP ¶15).[7] On the spending side, transfers to public agencies increase to compensate for the transfer of the parafiscal taxes they levied to the budget. The draft budget law also provides for a substantial increase in social spending, including for health (35 percent), education (27 percent), and humanitarian actions (10 percent).

16. **C.A.R. remains at high risk of debt distress** (see DSA, Supplement 1). While C.A.R. public debt has gradually declined, external debt service capacity remains weak given the country's low domestic revenue and weak export base. Under the baseline scenario, the external liquidity indicators are projected to breach their threshold from 2024–28, owing largely to repayments to the IMF. While this leaves time to undertake reforms and mobilize other sources of financing, the authorities will also need to follow a prudent approach to contracting new external debt, prioritizing grant financing with some limited room for concessional loan financing.

Text Table 5. Expected Yield from New Revenue Measures

Revenue measures	Expected yield (CFAF billion)
Taxation ad valorem of used vehicles	1.0
Excise taxes on imported goods	0.5
Excise taxes on locally produced goods	0.3
Administrative measures	0.5
Total	2.3

Source: C.A.R.'s authorities

B. Program Pillar #2: Strengthening Public Institutions

17. **The authorities are committed to improve the quality of revenue data through daily reconciliations.** With support from the Fund, the authorities will adopt a procedure manual for the reconciliation of the tax and customs departments' revenue estimates with those of the Treasury (prior action), which will start on a daily basis from January 1, 2020 (MEFP ¶20). This reconciliation will be supported by the Sygma-Systac software, which will become operational by end-2019 and will

[7] While staff considered that the budget law could also provide for the elimination of the seven other agencies without economic justification, the authorities argued that more time was required, lest their rapid elimination lead to social unrest (see ¶20).

allow for the electronic processing of transactions from/to the Treasury accounts at the BEAC and banks, automated cash balance tracking, and the prompt reconciliation of fiscal and monetary data.

18. **They will also continue strengthening the customs administration and limit exemptions.** The authorities are finalizing the recruitment of a new service provider to assist them in the valuation of imports and the certification and securing of wood export receipts (proposed end-January 2020 structural benchmark, SB). Once implemented, they will organize monthly meetings between the selected provider and the customs department to reconcile the valuation of imports. The authorities have also recruited a private company to establish the logistics and customs platform in Douala as part of a public/private partnership. In addition, they plan to rehabilitate the customs office near Bangui (PK 26) to improve the control of imported goods released in Bangui (MEFP ¶18). The authorities are also strengthening the joint tax and customs brigade to improve controls of the profit tax, the wages tax and the VAT and identify new taxpayers. In addition, so as to avoid the granting of exemptions not fully in line with the investment charter, they committed to: (i) submit all exemption proposals to the exemption committee to determine whether they comply with the chart's provisions; (ii) review past exemptions to ensure that they comply with these provisions, and take corrective action, if not; (iii) assess, when the exemptions expire, that all the commitments made by companies when the exemption convention was signed have been honored.

19. **The authorities will implement the project adopted last September to digitalize tax and customs procedures.** With support of the IMF, World Bank, and EU, they will launch by end-June a pilot project for the electronic payment of taxes by large enterprises. This pilot will be expanded by end-2020 to cover both tax returns and payments from all large enterprises (proposed end-December 2020 SB). The authorities will also ensure that all 2018 and 2019 corporate tax returns are entered into the Systemif software by mid-2020 (proposed end-June 2020 SB). Over the medium term, the authorities plan to digitalize all tax procedures and, with the assistance of EU and UNCTAD, to upgrade the ASYCUDA system to its World version (MEFP ¶17).

20. **The authorities will continue to consolidate the TSA**. Consistent with the IGF's recommendations, they will submit to Parliament a draft supplementary budget law providing for the elimination of the remaining public agencies without economic justification (proposed end-June 2020 SB). To further strengthen the TSA, the authorities will review by end-March the taxes and fees directly levied by line ministries, with a view to eliminating those without economic justification and transferring the others to the TSA by end-2020 (MEFP ¶21).

21. **Efforts to strengthen spending procedures will continue.** To reduce the use of exceptional expenses procedures, the authorities: have regularized all cash funds that were closed at end-2018; have implemented the new requirements for medical evacuations and prepayments on official missions' allowances; and plan to sign by end-2019 conventions with airline companies. In addition, with technical support from the World Bank, they are developing a new public financial management information system, Sim-ba, whose implementation is scheduled from January 2021. The authorities are also pursuing the decentralization of the expenditure chain to reduce delays and improve budget execution. Consistent with the reform launched in 2019, the draft budget law for 2020 will delegate spending commitment and validation functions to five additional line ministries.

Finally, the authorities launched last September the review of the public procurement procedures. Based on the conclusions of the review, and with World Bank's assistance, they intend to revise the public procurement code by end-December 2020 (MEFP ¶23).

22. **The authorities will enhance the supervision of state-owned enterprises.** They committed to adopt the secondary legislations (proposed end-March 2020 SB) supporting the implementation of the new legal framework for SOEs, which is expected to be adopted by the National Assembly by end-2019 (MEFP ¶27). They intend to attach the first annual report on the SOE's financial performance as an appendix to the draft budget law for 2021.

23. **The clearance of identified domestic arrears is ongoing, while the audits of potential arrears will continue.** The authorities intend to achieve next year the clearance of the arrears that had been validated in 2017 (Text Table 6). They also plan to finalize by end-June 2020 the audits of the potential arrears identified last spring, with a view to adopting by end-September a clearance plan for validated claims and clearing them by end-2021 (MEFP ¶24).

24. **The authorities will intensify efforts to strengthen debt management.** An inter-ministerial order has been issued to ensure the debt directorate has all the necessary information to compile and monitor all financial engagements through the IT debt management system Sygade (MEFP ¶25). The debt management report for 2018 was released in August, the first of its kind since the outbreak of the conflict. The authorities will prepare annual debt management reports and publish them on the ministry of finance's website.

Text Table 6. Domestic Arrears Repayment Plan, 2017–20

	2017	2018				2019				2020			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 Est.	Q1 proj.	Q2 proj.	Q3 proj.	Q4 proj.
Wage Arrears													
Stock (end of period)													
(in CFAF billion)	62.5	57.3	56.9	52.9	50.6	43.3	40.4	36.9	28.3	19.7	11.0	2.4	0.0
(in percent of GDP)	5.6	4.7	4.7	4.3	4.1	3.3	3.0	2.8	2.1	1.4	0.8	0.2	0.0
Repayments	2.4	5.2	0.4	4.0	2.3	7.3	2.9	3.5	8.6	8.6	8.6	8.6	2.4
Arrears to Small and Medium-Sized Enterprises													
Stock (end of period)													
(in CFAF billion) [1)]	9.2	3.8	0.8	0.6	0.6	0.6	0.6	0.3	0.3	…	…	…	…
(in percent of GDP)	0.8	0.3	0.1	0.1	0.1	0.1	0.1	0.0	0.0	…	…	…	…
Repayments	0.0	5.4	3.0	0.2	0.0	0.0	0.0	0.3	0.0	…	…	…	…

Source: C.A.R. authorities and IMF Staff calculations.
[1)] Remaining amount to small and medium-sized enterprises due to claimants failing to provide proper documentation.

C. Program Pillar #3: Protecting the Most Vulnerable and Reducing Poverty

25. **Efforts will be made to ensure adequate budgetary provisions for social spending during the program period.** Performance in relation to the government's commitment on social spending will be monitored through an indicative target (IT, floor). Given the urgent need to expand social services in provinces, this IT represents a commendable effort to ensure that social spending is

prioritized and protected within the budget, and that safeguards are in place to protect the most vulnerable. With support from the World Bank (WB) and the EU, the authorities are notably making good efforts to support populations outside of the capital through a number of social programs such as free health care, education and money transfer system. Going forward, staff and the authorities concurred that more financing could be allocated to social sectors if domestic revenue were to overperform. To support social cohesion and improve human capital, staff encouraged the authorities to develop more targeted and sustainable social policies.

26. **To protect the most vulnerable and provide support to the victims of the conflict, the government also committed to:**

- Work with the WB to identify measures to provide free health care to pregnant and breastfeeding women and children under 5, and extend free, integrated services and care for victims of gender-based violence in some districts;
- Work with the EU to reinforce the health system and improve the access to water in C.A.R. and support the return of displaced people to Bangui and Bambari.
- Work with UNDP on the project on women, peace and inclusive governance in C.A.R., the pilot project on social and humanitarian cohesion and support the creation of jobs for the vulnerable populations in Batangafo.
- Work with the African Development Bank and the French Development Agency to support the reintegration of the vulnerable groups living in the Eastern region.

D. Program Pillar #4: Improving Governance and the Business Environment

27. **A Fund governance diagnostic mission analyzed the key factors underpinning C.A.R.'s severe vulnerabilities to corruption** (MEFP ¶28). Given the country's limited capacity and their severity, reducing these vulnerabilities will be primarily guided by three strategic dimensions reflected in program design: (i) strengthening the legal and regulatory framework; (ii) improving the oversight of public agencies; and (iii) fostering digitalization and automation in the areas of tax administration and PFM. The authorities intend to inform their revised anti-corruption strategy with the diagnostic recommendations. Notably, they committed to bringing the country's asset declaration regime into alignment with the applicable international good practices by introducing, inter alia, penalties for not declaring or submitting false declaration (proposed end-September 2020 SB) and will also take critical legal steps in the context of a new anti-corruption law (MEFP ¶29).

28. **Reforms to enhance the business environment are underway.** Revisions of the mining and labor codes to align with regional regulations and international standards are key reforms to improve the business environment. With UNDP support, a revised labor code should be submitted to Parliament by end-March 2020 and the new legal framework aiming at capping the fines applied in cases of employment litigation has been submitted to Parliament. A WB assessment of the opportunities and constraints faced by the private sector is expected to be finalized by mid-2020. The mining code is slated to be revised in early 2020, with support from the WB . In addition, more sub-provinces have been assessed to be compliant with Kimberley Process requirements, which,

along with the reduction of the certification process from one month to one week, should help boost official diamond production and exports.

29. **Financial sector reforms are ongoing.** While financial soundness indicators (FSIs) and the compliance to macroprudential standards have improved in recent years, a large proportion of the population still does not have access to the banking system. In addition, the business sector complains about the unpredictability of court decisions regarding financial sector issues. To address these problems, the authorities committed to implement the recommendations of the 2018 joint conference between the financial sector and the judiciary system. The National Credit Committee has notably prepared draft laws and regulations providing for the creation of an arbitration and mediation center and of an arbitration chamber within the commercial court in charge of banking and financial services litigations, the authorities will also create a database of court decisions and increase the number of judges and court officers to speed up court rulings and their enforcements. The authorities also reiterated their commitments to implement the recommendations of the supervisory body (COBAC)'s 2017 mission to reinforce the financial stability of the banks.

CAPACITY BUILDING

30. **The IMF will continue supporting C.A.R. through extensive capacity development on priorities that are aligned with the program objectives**. Technical assistance to be provided by the Fund in the next few years will focus on: (i) tax policy and revenue administration; (ii) public finance management, governance and anti-corruption; (iii) macroeconomic programming and statistics; and (iv) debt management capacity. Staff discussed these priorities with the authorities to make sure that their prioritization and sequencing are closely aligned with the program objectives; the authorities agreed to continue to seek complementarities with other CD providers. It was also agreed that, should pressing additional technical assistance needs emerge, staff would work with CD partners to establish how best to ensure these needs could be promptly met.

31. **The authorities are implementing their capacity building strategy with the support from the Fund, WB Group, the European Union, France, and other development partners.** This strategy, developed in 2017 in the context of the Capacity Building Framework (CBF), has been updated during the last review of the previous ECF arrangement and covers the period 2019–22.[8] The authorities have created the Economic and Financial Reform Monitoring Unit within the Ministry of Finance to coordinate technical assistance from all development partners.

PROGRAM ISSUES AND FINANCING ASSURANCES

32. **The authorities are requesting a 36-month arrangement under the Extended Credit Facility (ECF), with access of SDR 83.55 million (75 percent of quota).** The access level is based on the current outlook, the protracted BOP needs, (Table 5) and the strength of envisaged reforms

[8] See Annex I of IMF Country Report 19/216.

and is in line with the norm for ECF arrangements. The requested ECF-supported program will be catalytic, coalescing broader support from multilateral and bilateral creditors, which is crucial for C.A.R. to meet its large financing needs in the coming years. Over 2020–22, the gross financing requirement will amount to CFAF 210.3 billion (Table 5), of which CFAF 66.8 billion (about 30 percent) will be covered by the requested access to IMF resources. The remaining of the external financing requirement will be met by multilateral and bilateral partners, including the WB the EU, the African Development Bank, and France. The first 12 months are fully financed as the authorities have already received firm commitments from key partners (Table 7) and there are good prospects for full financing thereafter. Staff emphasized that greater access—which the authorities would have strongly preferred—would pose a significant debt sustainability risk, as C.A.R.'s high risk of debt distress stems primarily for the reimbursements to the Fund over the medium term. Access levels could be revisited later in the program if budget revenues and exports—key constraints on debt-servicing capacity—were to improve more rapidly than currently envisaged.

33. **Program monitoring.** Program performance will be assessed through semi-annual quantitative targets, quarterly indicative targets and structural benchmarks. Quantitative performance criteria, continuous performance criteria and indicative targets will remain the same as under the previous program. Structural conditionality will be parsimonious, focusing on a limited number of critical measures and structural conditions covering revenue mobilization, PFM, oversight of SOEs, transparency and governance, and will be phased in line with authorities' implementation capacity (Table 13). Test dates for the first and second program reviews will be end-December 2019 and end-June 2020, respectively. Given existing external official and commercial arrears, completion of each review will be subject to completion of a financing assurances review for as long as CAR has these arrears.

34. **Prior actions.** They comprise: (i) the submission to parliament of the 2020 draft budget in line with program commitments; and (ii) the adoption of the procedure manual for the daily reconciliation of the customs and tax departments' revenue estimates with those of the treasury department.

35. **Capacity to repay the Fund.** The capacity of C.A.R. to repay the Fund remains adequate, although subject to risks mostly associated with the high exposure to Fund resources. The authorities are making regular deposits at the BEAC and have always met their Fund obligations in a timely manner. Significant Fund repayments are due in the coming years (Table 8). With the newly proposed access, debt service to the IMF (including previous obligations) would peak at SDR 35.09 million in 2026, equivalent to 8 percent of exports of goods and services. Risks to the capacity to repay the Fund are mitigated by C.A.R.'s being part of a monetary union (which gives it access to CEMAC's pool of reserves provided it has budgetary resources to purchase them), the maintenance of significant government deposits with BEAC over the program period, and the upside potential from an eventual peace dividend. That said, C.A.R.'s deep-rooted challenges make it likely that the country will require continued Fund engagement, including some financing, for the foreseeable future.

36. **Program risks.** The uncertain security conditions and the upcoming elections in 2020–21 could pose a challenge to the implementation of the program. Fiscal slippages and resistance to some of the fiscal structural measures could undermine the program's fiscal strategy, thus putting debt sustainability at risk. Progress in governance and business environment may be hindered by vested interests, weakening key structural reforms and medium-term growth prospects. As observed in the previous ECF-supported program, weak administrative capacity may continue to create uncertainties about the timing of reforms implementation. These risks could be mitigated by tailored technical assistance to help achieve the program objectives, increasing monitoring of spending to avoid slippages, increasing social spending and transparency to garner support for the reforms, and collaborating closely with other partners. A successful implementation of the peace agreement would substantially boost program prospects.

37. **Safeguards assessment**. The BEAC continues to implement the remaining recommendations of the full safeguards assessment completed in August 2017. BEAC's full transition to IFRS for FY 2019 is progressing broadly as planned, and efforts are being stepped up to accelerate the revisions to the secondary legal instruments for alignment with the BEAC Charter. The adoption of the revised secondary legislations was extended beyond the initial timeline (June 2018) to allow for further consultation with stakeholders, including Fund staff.

38. **The authorities are contributing to the implementation of the new regional foreign exchange regulations** (MEFP ¶33). They determined that only one SOE, SODIAC, was holding one account abroad, and committed to request a waiver from the BEAC as this account is held to meet the requirements by the International Air Transport Association (IATA). The authorities have also submitted all mining contracts to BEAC and committed to guarantee that all new contracts are in conformity with the new foreign exchange regulations.

39. **Regional policy assurances**. The program will continue to be supported by the policies implemented by the regional institutions. The BEAC has provided an updated policy assurance on end-December 2019 NFAs in support of CEMAC countries' Fund-supported programs. In its updated letter of policy support, the BEAC proposed a revised target for the end-December 2019 NFA and, also, reiterated its commitment to implement an adequately tight monetary policy to achieve the NFA projections, while member states will implement adjustment policies in the context of IMF-supported programs. The NFA assurances provided by the BEAC are critical for the success of C.A.R.'s program and will help bolster the region's external sustainability.

40. **With the exception of Libya, official creditors to which there are outstanding external arrears have consented to Fund financing notwithstanding these arrears.** C.A.R. has accumulated arrears that pre-date the Completion Point of the HIPC initiative with some non-Paris Club creditors (Argentina, Equatorial Guinea, Iraq, Libya, and Taiwan, Province of China). All creditors have provided consent to Fund financing, except Libya, which has requested more time to convey its position. C.A.R. remains in arrears to a private creditor and is continuing good-faith efforts to reach a collaborative agreement. As prompt financial support is considered essential for the successful implementation of 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. The country remains current on its remaining external debt service obligations.

STAFF APPRAISAL

41. **C.A.R. continues to face considerable challenges.** The ECF that expired in July contributed to the stabilization of the economy, the reduction of external and fiscal vulnerabilities, and the strengthening of the government capacity. The country remains, however, in a fragility trap, in which violence, weak governance and institutions, a lack of social cohesion, and widespread poverty reinforce each other in a pernicious loop.

42. **The envisaged Fund-supported program of economic policies and structural reforms will be instrumental in helping the authorities face these challenges.** These policies and reforms are well aligned with the authorities' National Recovery and Peacebuilding Plan's objectives and will complement the implementation of the peace agreement, which aims at restoring security, government control, and public services to the whole country. The program will notably help strengthen further fiscal institutions and domestic revenue collection and support scaling up of development aid and social spending, which will help build resilience towards exiting fragility. It will also aim at strengthening governance, which is key to enhancing the government legitimacy and social cohesion. Reforms to improve the business climate should also contribute to boosting growth and employment and reducing poverty.

43. **The authorities need to redouble their efforts to mobilize revenue.** The poor revenue performance over the last few months is a worrying setback, which stems in part from delays in the implementation of reforms, the granting of exemptions with no legal basis, and a slowdown in tax controls. As domestic revenue mobilization remains the cornerstone of fiscal policy, the authorities must intensify their efforts to ensure that the program's revenue targets are met, including through digitalizing tax returns and payments, strengthening customs administration, and enhancing the collaboration between the tax and customs departments.

44. **Stronger public financial management will improve the effectiveness of government operations.** The authorities need to pursue their efforts to consolidate the TSA, strengthen expenditure controls and procedures, and to enhance debt management. Finalizing the audit of potential domestic arrears to allow for the prompt repayment of those validated remains critical. The adoption of the legal framework for SOEs will help strengthen oversight and enhance management performance.

45. **Governance reforms are needed to boost government legitimacy and social cohesion.** The authorities should publish the report from the governance diagnostic mission and its recommendations could form a sound base upon which to build the government's anti-corruption strategy. The latter should focus on simple and concrete reforms to strengthen the legal and regulatory framework, reducing vulnerabilities to corruption in revenue mobilization, and restoring confidence in public financial management processes—much in line with key reforms pursued under the proposed ECF-supported program.

46. **Reforms to improve the business environment will help boost investment and growth.** The volatile security situation remains the main impediment to investment. Much needs to be done, however, to ensure that investment recovers once the security situation improves. The streamlining of parafiscal taxes and taxes levied by ministers are important measures in this regard. So will be the adoption of new labor and mining codes and reforms to enhance the judicial system. The ongoing diagnostic of the private sector by the WB will also help identify complementary meaningful reforms going forward.

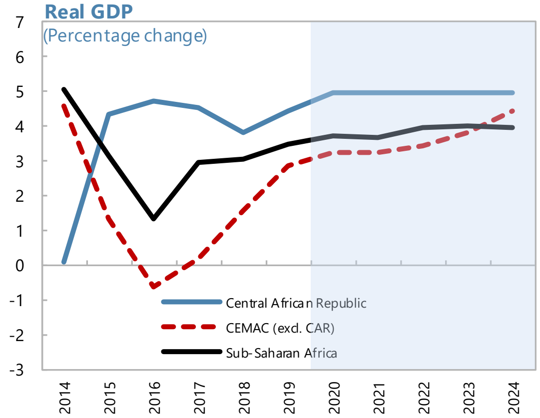
47. **Risks are elevated but so are the potential gains.** Progress in implementing the peace agreement remains fragile, and a recrudescence of violence could undermine growth and revenue and hinder program implementation. Political pressures ahead of elections, weak implementation capacity and governance issues could also slow the pace of reforms. Strong ownership and an unwavering commitment to program implementation will therefore be critical to ensure program success. At the same time, against downside risks lay potential upsides, as the successful implementation of the peace agreement could be a game changer, helping the country rise out of the fragility trap in which it has been stuck for decades.

48. **Sustained grant financing and technical assistance from the donor community remain paramount to the program's success.** Staff welcomes the donor community's commitment to continue providing substantial financial support and technical assistance to C.A.R. over the coming years. In view of its high risk of debt distress, C.A.R. will have to continue relying heavily on grant financing to meet its most pressing financing needs. TA and training will help to strengthen institutional capacity and ensure the successful implementation of the new ECF-supported program. The Fund will continue to work with CD partners to make sure C.A.R.'s needs can be promptly met. Continued strong coordination of conditionality and technical assistance between development partners will also remain essential to maximize efficient donor support and reduce reform fatigue.

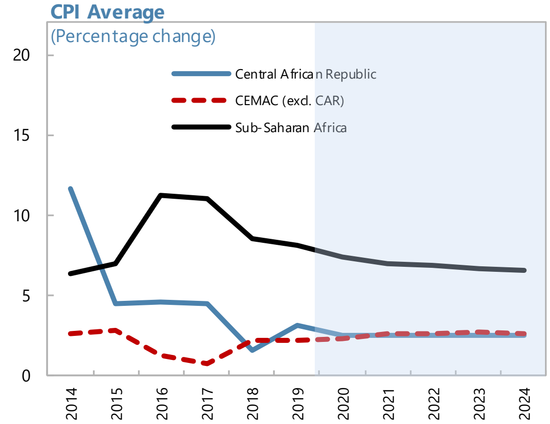
49. **In view of C.A.R.'s protracted balance of payments financing needs and the authorities' strong program of economic policies and reforms, staff supports the authorities' request for an extended arrangement under the ECF in the amount equivalent to SDR 83.55 million (75 percent of quota).** Staff also proposes that completion of the first review under the ECF arrangement be conditional on the implementation of critical policy measures at the union level, as established in the December 2019 union-wide background paper

Figure 2. Central African Republic: Medium-Term Economic Prospects, 2012–24

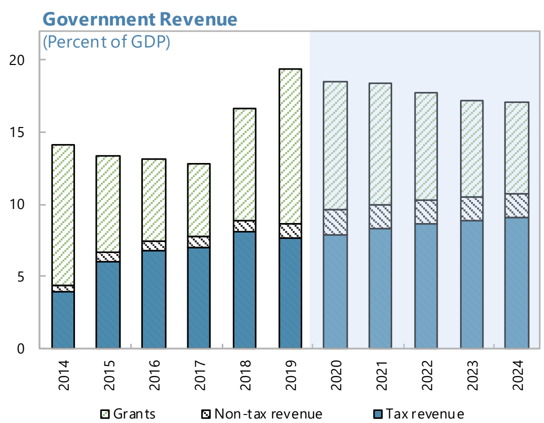
Swift implementation of economic reforms and improved security could lift medium-term economic growth above the current projections...



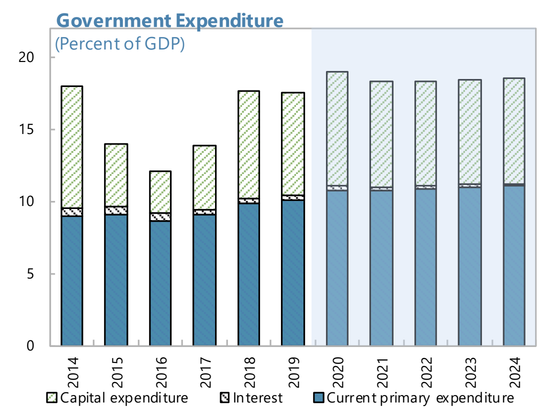
...while inflation is projected to decline in light of improved food supply.



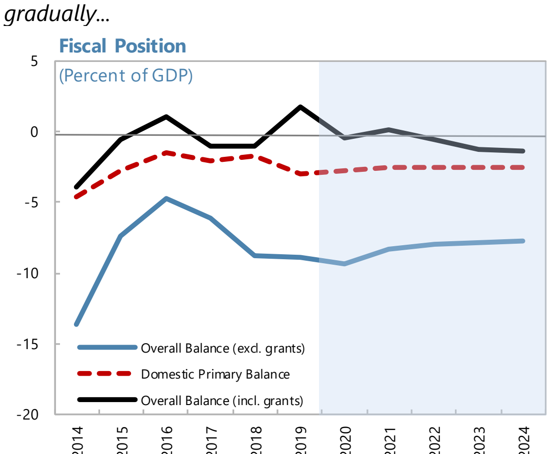
Domestic revenue is expected to increase only gradually



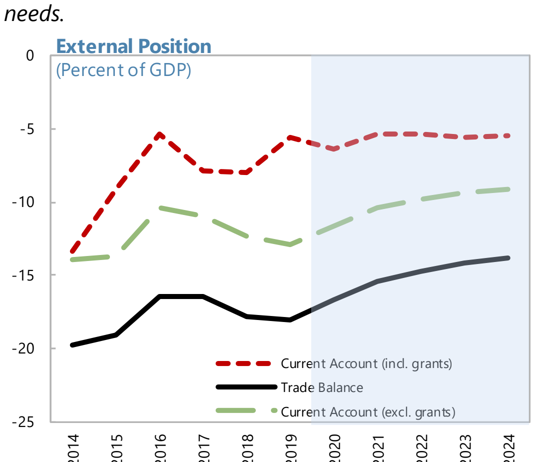
...limiting the space to increase current expenditures and domestically-financed capital spending.



The domestic primary balance is expected to improve gradually...



...and the external position reflects the large investment needs.



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

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2017–24

	2017	2018		2019		2020	2021	2022	2023	2024
	Est.	6th Rev.	Est.	6th Rev.	Est.			Proj.		
				(Annual percentage change; unless otherwise indicated)						
National income and prices										
GDP at constant prices	4.5	3.8	3.8	4.5	4.5	5.0	5.0	5.0	5.0	5.0
GDP per capita at constant prices	3.2	1.9	2.3	2.5	2.8	3.2	3.1	3.0	3.0	2.9
GDP at current prices	11.3	5.3	5.2	7.2	7.4	7.6	7.6	7.7	7.7	7.6
GDP deflator	6.4	1.4	1.3	2.7	2.8	2.5	2.5	2.6	2.5	2.5
CPI (annual average)	4.5	1.6	1.6	3.5	3.2	2.5	2.5	2.5	2.5	2.5
CPI (end-of-period)	7.2	4.6	4.6	3.0	-0.3	2.5	2.5	2.5	2.5	2.5
Money and credit										
Broad money	10.3	14.0	14.0	14.1	3.2	14.9	5.8	8.9	9.4	9.6
Credit to the economy	1.4	11.5	11.5	9.7	3.0	5.0	7.0	8.0	8.0	8.0
External sector										
Export volume of goods	42.5	10.3	10.3	2.8	-6.5	14.9	6.0	7.0	8.3	9.2
Import volume of goods	-1.9	0.1	-0.2	4.2	10.4	7.8	4.0	5.0	4.2	4.1
Terms of trade	-18.4	-11.7	-12.0	5.7	12.7	3.5	2.2	0.5	-1.6	-1.5
				(Percent of GDP; unless otherwise indicated)						
Gross national savings	5.7	7.1	8.5	12.8	10.5	10.6	11.0	10.9	11.1	11.8
Of which: current official transfers	1.8	3.0	3.0	5.9	6.0	3.7	3.4	2.7	1.9	1.8
Gross domestic savings	-2.9	-2.7	-1.4	0.2	-1.9	0.3	0.9	1.5	2.6	3.5
Government	-1.4	-1.2	-1.2	-0.7	-1.6	-1.3	-0.9	-0.6	-0.5	-0.4
Private sector	-1.5	-1.5	-0.2	1.2	-0.3	1.6	1.7	2.2	3.1	3.9
Consumption	102.9	102.7	101.4	99.5	101.9	99.7	99.1	98.5	97.4	96.5
Government	7.0	7.7	7.7	7.6	7.3	7.5	7.5	7.5	7.5	7.5
Private sector	95.9	95.0	93.7	91.9	94.6	92.3	91.7	90.9	89.9	89.0
Gross investment	13.5	15.1	16.4	16.6	16.2	16.9	16.3	16.3	16.8	17.3
Government	4.5	6.0	7.4	7.5	7.1	7.9	7.2	7.2	7.3	7.3
Private sector	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.5	10.0
External current account balance										
with grants	-7.8	-7.9	-8.0	-3.7	-5.6	-6.3	-5.3	-5.4	-5.7	-5.5
without grants	-11.0	-12.3	-12.3	-10.9	-12.9	-11.6	-10.4	-9.8	-9.4	-9.1
Overall balance of payments	2.9	-1.7	-1.7	2.9	1.0	1.3	1.5	1.4	2.4	2.6
Central government finance										
Total revenue (including grants)	12.8	16.6	16.6	20.9	19.4	18.6	18.4	17.8	17.2	17.1
of which: domestic revenue	7.8	8.9	8.9	9.9	8.7	9.7	10.0	10.3	10.6	10.8
Total expenditure [1]	13.9	16.3	17.6	18.3	17.6	19.0	18.3	18.3	18.4	18.5
of which: capital spending	4.5	6.0	7.4	7.5	7.1	7.9	7.2	7.2	7.3	7.3
Overall balance										
Excluding grants	-6.1	-7.4	-8.7	-8.4	-8.9	-9.3	-8.2	-8.0	-7.8	-7.8
Including grants	-1.1	0.4	-1.0	2.6	1.8	-0.4	0.2	-0.5	-1.2	-1.4
Domestic primary balance [2]	-2.0	-1.7	-1.7	-2.5	-3.0	-2.7	-2.5	-2.5	-2.5	-2.5
Public sector debt	50.3	48.8	50.0	43.4	47.1	42.6	39.8	37.1	35.1	33.0
Of which: domestic debt [3]	16.2	13.9	13.9	10.2	10.2	7.8	6.9	5.9	5.1	4.3
Of which: external debt	34.1	34.9	36.1	33.2	36.9	34.8	32.9	31.2	30.0	28.6
Memorandum items:										
GDP per capita (US dollars)	451	449	489	457	500	534	567	603	639	688
Nominal GDP (CFAF billions)	1,203	1,266	1,266	1,356	1,360	1,464	1,575	1,696	1,826	1,966

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 expenditures.

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

Table 2a. Central African Republic: Central Government Financial Operations, 2017–24

(Billions of CFAF)

	2017	2018		2019		2020	2021	2022	2023	2024
	Est.	6th Rev.	Est.	6th Rev.	Est.			Proj.		
Revenue	154.0	210.6	210.6	283.8	263.2	271.7	290.6	301.9	313.6	336.6
Domestic revenue	93.5	112.4	112.4	134.9	118.0	141.7	157.9	175.5	192.8	211.5
Tax revenue	84.6	102.2	102.2	111.0	103.9	115.9	131.2	146.7	161.7	178.1
Income and property tax	14.5	21.6	21.6	26.7	23.3	25.6	29.5	33.2	35.4	40.9
Taxes on goods and services	40.7	51.6	51.6	56.6	54.3	58.9	65.5	72.2	81.6	89.7
Of which: VAT	29.4	33.1	33.1	35.4	34.4	36.3	40.3	44.7	51.0	55.9
Taxes on international trade	29.4	29.0	29.0	27.7	26.2	31.4	36.2	41.3	44.8	47.6
Non-tax revenue	8.9	10.2	10.2	23.9	14.1	25.8	26.7	28.8	31.0	33.4
Grants	60.6	98.2	98.2	148.9	145.2	130.0	132.7	126.4	120.8	125.1
Program	21.2	37.6	37.6	80.2	81.9	54.1	53.9	45.0	35.0	34.7
Project	39.4	60.6	60.6	68.7	63.3	75.9	78.8	81.4	85.8	90.4
Expenditure [1]	166.8	205.9	222.8	248.8	239.0	277.8	287.8	310.8	336.1	364.2
Primary Spending	118.1	134.4	134.4	168.3	158.9	181.6	197.1	217.9	239.0	260.2
Current primary expenditure	109.2	124.6	124.6	142.2	137.7	158.1	169.1	184.3	199.8	216.9
Wages and salaries	57.0	61.3	61.3	63.5	64.5	70.2	75.6	81.2	87.4	94.0
Transfers and subsidies	24.5	27.5	27.5	38.9	38.0	48.9	51.3	56.5	62.8	69.3
Goods and services	27.7	35.8	35.8	39.8	35.3	39.0	42.2	46.6	49.7	53.6
Interest	3.8	5.1	5.1	4.3	4.6	4.6	4.5	4.0	3.7	3.5
External	2.1	2.6	2.6	1.7	2.0	2.0	2.1	1.8	1.8	1.8
Domestic	1.7	2.5	2.5	2.7	2.7	2.6	2.4	2.2	1.9	1.7
Capital expenditure	53.8	76.2	93.1	102.3	96.7	115.1	114.2	122.5	132.5	143.7
Domestically financed	9.0	9.8	9.8	26.1	21.2	23.5	27.9	33.5	39.2	43.2
Externally financed	44.9	66.4	83.3	76.2	75.5	91.6	86.3	88.9	93.3	100.4
Overall balance										
Excluding grants	-73.3	-93.5	-110.4	-113.9	-121.0	-136.1	-129.9	-135.3	-143.3	-152.6
Of which: domestic primary balance [2]	-24.7	-22.0	-22.0	-33.3	-40.9	-39.9	-39.2	-42.4	-46.3	-48.7
Including grants	-12.8	4.7	-12.2	35.0	24.2	-6.1	2.8	-8.9	-22.5	-27.5
Net change in arrears ((-) = reduction)	-11.5	-29.7	-29.7	-35.6	-29.5	-36.4	0.0	0.0	0.0	0.0
Domestic	-9.0	-29.7	-29.7	-35.6	-29.5	-36.4	0.0	0.0	0.0	0.0
External	-2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.8	-4.2	-4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-23.5	-29.2	-46.1	-0.6	-5.3	-42.5	2.8	-8.9	-22.5	-27.5
Identified financing	23.5	29.2	46.1	0.6	5.3	42.5	-2.8	8.9	22.5	27.5
External, net	12.6	1.8	18.7	1.9	6.5	10.3	1.8	1.2	28.9	35.5
Project loans	5.5	7.5	24.4	7.5	12.2	15.7	7.5	7.5	7.5	10.0
Program loans[3]	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.0	30.0
Amortization	-1.8	-5.7	-5.7	-5.6	-5.7	-5.4	-5.7	-6.3	-3.6	-4.5
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	11.0	27.4	27.4	-1.3	-1.1	32.2	-4.6	7.6	-6.4	-8.0
Banking system	0.6	31.4	31.4	-1.3	-1.1	32.2	-4.6	7.6	-8.4	-10.0
BEAC	8.2	35.4	35.4	1.6	1.8	35.2	-1.6	7.6	-13.4	-15.0
Counterpart to IMF resources (BEAC)	21.9	27.8	27.8	11.0	26.3	14.7	14.3	10.2	-14.3	-21.0
Deposit withdrawals	-13.7	7.6	7.6	-9.4	-24.5	20.5	-15.9	-2.6	0.8	6.0
Commercial banks	-7.6	-4.0	-4.0	-2.9	-2.9	-3.0	-3.1	0.0	5.0	5.0
Nonbank	4.0	-4.0	-4.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0
Exceptional financing[4]	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total government debt	605.2	618.8	633.5	589.9	640.7	623.7	627.1	629.3	641.3	648.0
Government domestic currency debt[5]	194.5	176.0	176.0	138.4	138.4	114.0	108.8	100.2	93.0	85.0
Nominal GDP	1,203	1,266	1,266	1,356	1,360	1,464	1,575	1,696	1,826	1,966

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] Budget support loans to be identified from 2023 to 2024

[4] Loan agreements with commercial banks.

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

Table 2b. Central African Republic: Central Government Financial Operations, 2017–24

(Percent of GDP)

	2017	2018		2019		2020	2021	2022	2023	2024
	Est.	6th Rev.	Est.	6th Rev.	Est.			Proj.		
Revenues	12.8	16.6	16.6	20.9	19.4	18.6	18.4	17.8	17.2	17.1
Domestic revenue	7.8	8.9	8.9	9.9	8.7	9.7	10.0	10.3	10.6	10.8
Tax revenue	7.0	8.1	8.1	8.2	7.6	7.9	8.3	8.6	8.9	9.1
Income and property tax	1.2	1.7	1.7	2.0	1.7	1.8	1.9	2.0	1.9	2.1
Taxes on goods and services	3.4	4.1	4.1	4.2	4.0	4.0	4.2	4.3	4.5	4.6
Of which: VAT	2.4	2.6	2.6	2.6	2.5	2.5	2.6	2.6	2.8	2.8
Taxes on international trade	2.4	2.3	2.3	2.0	1.9	2.1	2.3	2.4	2.5	2.4
Non-tax revenue	0.7	0.8	0.8	1.8	1.0	1.8	1.7	1.7	1.7	1.7
Grants	5.0	7.8	7.8	11.0	10.7	8.9	8.4	7.5	6.6	6.4
Program	1.8	3.0	3.0	5.9	6.0	3.7	3.4	2.7	1.9	1.8
Project	3.3	4.8	4.8	5.1	4.7	5.2	5.0	4.8	4.7	4.6
Expenditure [1]	13.9	16.3	17.6	18.3	17.6	19.0	18.3	18.3	18.4	18.5
Primary Spending	9.8	10.6	10.6	12.4	11.7	12.4	12.5	12.8	13.1	13.2
Current primary expenditure	9.1	9.8	9.8	10.5	10.1	10.8	10.7	10.9	10.9	11.0
Wages and salaries	4.7	4.8	4.8	4.7	4.7	4.8	4.8	4.8	4.8	4.8
Transfers and subsidies	2.0	2.2	2.2	2.9	2.8	3.3	3.3	3.3	3.4	3.5
Goods and services	2.3	2.8	2.8	2.9	2.6	2.7	2.7	2.7	2.7	2.7
Interest	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
External	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Domestic	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Capital expenditure	4.5	6.0	7.4	7.5	7.1	7.9	7.2	7.2	7.3	7.3
Domestically financed	0.7	0.8	0.8	1.9	1.6	1.6	1.8	2.0	2.1	2.2
Externally financed	3.7	5.2	6.6	5.6	5.6	6.3	5.5	5.2	5.1	5.1
Overall balance										
Excluding grants	-6.1	-7.4	-8.7	-8.4	-8.9	-9.3	-8.2	-8.0	-7.8	-7.8
Of which: domestic primary balance [2]	-2.0	-1.7	-1.7	-2.5	-3.0	-2.7	-2.5	-2.5	-2.5	-2.5
Including grants	-1.1	0.4	-1.0	2.6	1.8	-0.4	0.2	-0.5	-1.2	-1.4
Net change in arrears ((-) = reduction)	-1.0	-2.3	-2.3	-2.6	-2.2	-2.5	0.0	0.0	0.0	0.0
Domestic	-0.8	-2.3	-2.3	-2.6	-2.2	-2.5	0.0	0.0	0.0	0.0
External	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.1	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-2.0	-2.3	-3.6	0.0	-0.4	-2.9	0.2	-0.5	-1.2	-1.4
Identified financing	2.0	2.3	3.6	0.0	0.4	2.9	-0.2	0.5	1.2	1.4
External, net	1.0	0.1	1.5	0.1	0.5	0.7	0.1	0.1	1.6	1.8
Project loans	0.5	0.6	1.9	0.6	0.9	1.1	0.5	0.4	0.4	0.5
Program loans[3]	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	1.5
Amortization	-0.1	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	0.9	2.2	2.2	-0.1	-0.1	2.2	-0.3	0.4	-0.4	-0.4
Banking system	0.0	2.5	2.5	-0.1	-0.1	2.2	-0.3	0.4	-0.5	-0.5
BEAC	0.7	2.8	2.8	0.1	0.1	2.4	-0.1	0.4	-0.7	-0.8
Counterpart to IMF resources (BEAC)	1.8	2.2	2.2	0.8	1.9	1.0	0.9	0.6	-0.8	-1.1
Deposit withdrawals	-1.1	0.6	0.6	-0.7	-1.8	1.4	-1.0	-0.2	0.0	0.3
Commercial banks	-0.6	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	0.0	0.3	0.3
Nonbank	0.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Exceptional financing[4]	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total government debt	50.3	48.5	50.0	43.4	47.1	42.6	39.8	37.1	35.1	33.0
Government domestic debt[5]	16.2	12.8	13.9	10.2	10.2	7.8	6.9	5.9	5.1	4.3

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] Budget support loans to be identifed from 2023 to 2024

[4] Loan agreements with commercial banks.

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

Table 3. Central African Republic: Monetary Survey, 2017–24

	2017	2018	2019					2020				2021	2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q4	Q1	Q2	Q3	Q4				
	Est.	Est.	Est.	Est.	Proj.	6th Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(CFAF billions, unless otherwise indicated)														
Net foreign assets	103.7	79.8	68.2	101.9	82.9	121.7	95.2	105.4	105.6	116.3	116.1	141.6	167.7	214.9	268.5
Bank of Central African States (BEAC)	74.0	52.1	33.4	62.3	28.5	91.9	65.4	75.1	74.6	84.8	84.0	107.1	130.5	174.9	225.4
Commercial banks	29.6	27.7	34.8	39.6	54.4	29.7	29.8	30.4	30.9	31.5	32.1	34.5	37.2	40.0	43.1
Net domestic assets	197.0	263.1	286.5	238.2	261.9	269.8	258.9	273.6	259.2	279.1	290.7	288.9	301.4	298.2	294.0
Domestic credit	319.7	371.0	399.4	350.6	375.6	385.5	374.8	391.7	379.5	401.6	415.4	423.2	445.9	453.8	461.6
Credit to the public sector	173.0	207.4	235.0	187.2	218.7	206.1	206.3	221.5	209.3	237.2	238.5	233.9	241.5	233.1	223.1
Credit to central government (net)	173.0	207.4	235.0	187.2	218.7	206.1	206.3	221.5	209.3	237.2	238.5	233.9	241.5	233.1	223.1
BEAC	162.1	200.5	221.4	174.5	203.8	202.1	202.2	218.2	206.7	235.4	237.4	235.9	243.5	230.0	215.0
Loans/counterpart SDR	115.2	115.9	116.5	116.5	116.5	115.9	115.9	116.5	116.5	116.5	115.9	108.6	101.1	93.4	85.6
IMF (net)	87.2	117.3	117.0	114.7	133.9	128.3	143.6	142.2	151.0	149.2	158.3	172.7	182.9	168.6	147.6
Deposits	-40.2	-32.8	-12.1	-56.8	-46.7	-42.2	-57.3	-40.6	-60.8	-30.3	-36.8	-45.4	-40.5	-32.1	-18.3
Commercial banks	10.9	6.9	13.6	12.7	15.0	4.0	4.0	3.3	2.6	1.8	1.1	-2.0	-2.0	3.1	8.1
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	146.7	163.6	164.4	163.4	156.8	179.4	168.5	170.2	170.2	164.4	176.9	189.3	204.4	220.7	238.4
Public enterprises	1.2	3.6	3.5	4.3	4.4	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Private sector	145.6	160.0	160.8	159.2	152.5	175.8	164.9	166.7	166.7	160.8	173.4	185.7	200.9	217.2	234.9
Other items (net)	-122.7	-107.9	-112.9	-112.4	-113.7	-115.7	-115.9	-118.1	-120.3	-122.5	-124.7	-134.2	-144.6	-155.6	-167.5
Money and quasi-money	300.7	343.0	354.7	340.1	344.7	391.5	354.1	379.0	364.8	395.4	406.8	430.5	469.0	513.1	562.5
Currency	162.1	183.7	186.3	176.0	180.2	212.7	195.3	198.3	186.6	200.8	224.9	238.1	258.9	283.9	311.6
Deposits	138.6	159.3	168.4	164.0	164.5	178.5	158.8	180.8	178.1	194.6	181.9	192.4	210.2	229.3	251.0
Demand deposits	79.9	97.8	105.1	102.5	106.0	113.9	94.1	115.1	111.5	127.0	113.2	118.5	130.6	143.6	158.8
Term and savings deposits	58.7	61.5	63.4	61.6	58.6	64.7	64.7	65.7	66.7	67.7	68.7	73.9	79.6	85.7	92.2
	(Annual percentage change)														
Net foreign assets	89.7	-23.0	-17.8	5.3	-7.9	52.4	19.2	54.7	3.6	40.4	22.0	22.0	18.4	28.2	24.9
Net domestic assets	-29.5	33.5	98.1	9.2	10.7	2.5	-1.6	-4.5	8.8	6.6	12.3	-0.6	4.3	-1.0	-1.4
Monetary base	25.0	12.1	16.1	7.1	-1.0	12.2	7.4	16.1	7.1	-1.0	2.6	7.6	7.7	7.7	7.6
Credit to the economy	1.4	11.5	6.6	9.4	-1.6	9.7	3.0	3.5	4.2	4.8	5.0	7.0	8.0	8.0	8.0
Public enterprises	-65.3	204.5	36.2	-7.8	66.7	0.0	0.0	0.5	-16.4	-18.6	0.0	0.0	0.0	0.0	0.0
Private sector	3.0	9.9	6.1	9.9	-2.7	9.9	3.1	3.6	4.7	5.5	5.1	7.1	8.1	8.1	8.1
Memorandum items:															
NDA of the central bank (CFAF billions)	128.5	174.8	195.4	151.7	179.1	162.8	178.4	170.3	172.3	163.7	166.2	162.2	159.5	137.3	110.6
Monetary base (CFAF billions)	202.5	226.9	228.8	213.9	207.6	254.7	243.7	245.4	247.0	248.6	250.2	269.3	290.0	312.1	336.0
Nominal GDP (CFAF billions)	1203	1266	…	…	…	1356	1360	…	…	…	1464	1575	1696	1826	1966
Velocity (GDP/broad money)															
End of period	4.0	3.7	…	…	…	3.5	3.8	…	…	…	3.6	3.7	3.6	3.6	3.5

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

Table 4a. Central African Republic: Balance of Payments, 2017–24

(Billions of CFAF)

	2017	2018		2019		2020	2021	2022	2023	2024
	Est.	6th Rev.	Est.	6th. Rev.	Est.			Proj.		
Current account	-94.1	-100.6	-100.7	-50.7	-76.5	-92.5	-83.5	-91.3	-103.3	-108.4
Balance on goods	-170.0	-188.5	-188.5	-184.2	-207.1	-206.8	-208.2	-216.6	-228.5	-239.0
Exports, f.o.b.	85.6	91.1	91.1	94.7	93.6	108.1	116.0	125.3	137.0	151.1
of which: Diamonds	5.3	5.0	5.0	2.6	4.4	6.2	8.1	10.1	12.7	16.1
of which: Wood products	53.5	56.8	56.8	59.7	55.8	65.2	67.9	71.5	77.0	84.1
Imports, f.o.b.	-255.6	-279.6	-279.6	-278.9	-300.6	-314.9	-324.3	-341.9	-365.5	-390.1
of which: Petroleum products	-68.6	-87.5	-87.5	-79.8	-91.6	-90.4	-86.3	-87.3	-90.7	-94.3
Services (net)	-28.0	-36.6	-36.6	-34.0	-38.7	-36.8	-34.9	-33.4	-30.5	-31.9
Credit	106.0	110.7	110.7	116.1	116.1	121.9	128.0	136.9	147.9	159.7
Debit	-134.0	-147.3	-147.3	-150.1	-154.8	-158.7	-162.8	-170.4	-178.3	-191.7
Income (net)	-2.0	-1.6	-1.6	-2.0	-1.9	-2.2	-2.1	-1.8	-1.7	-1.6
Credit	12.1	12.6	12.6	13.1	13.1	13.8	14.5	15.2	15.9	16.7
Debit	-14.1	-14.1	-14.1	-15.1	-15.1	-15.9	-16.6	-17.0	-17.6	-18.4
Transfers (net)	105.8	126.0	126.0	169.5	171.2	153.3	161.7	160.6	157.4	164.2
Private	67.5	70.6	70.6	71.7	71.7	76.2	80.9	84.9	89.2	93.6
Official	38.3	55.4	55.4	97.8	99.5	77.1	80.8	75.7	68.2	70.6
of which: Program	21.2	37.6	37.6	80.2	81.9	54.1	53.9	45.0	35.0	34.7
Capital account	39.4	60.6	60.6	68.7	63.3	75.9	78.8	81.4	85.8	90.4
Project grants	39.4	60.6	60.6	68.7	63.3	75.9	78.8	81.4	85.8	90.4
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	38.3	20.7	37.6	21.9	26.5	35.3	27.8	33.2	61.9	68.5
Direct investment	9.5	10.0	10.0	15.0	15.0	20.0	22.0	24.0	25.0	27.5
Portfolio investment	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	28.6	10.5	27.4	6.9	11.5	15.3	5.8	9.2	36.9	41.0
Public sector (net)	12.6	1.8	18.7	1.9	6.5	10.3	1.8	1.2	28.9	35.5
Project disbursement	5.5	7.5	24.4	7.5	12.2	15.7	7.5	7.5	7.5	10.0
Program disbursement	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.0	30.0
Scheduled amortization	-1.8	-5.7	-5.7	-5.6	-5.7	-5.4	-5.7	-6.3	-3.6	-4.5
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	16.0	8.7	8.7	5.0	5.0	5.0	4.0	8.0	8.0	5.5
Errors and omissions	51.9	-2.7	-19.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	35.4	-22.0	-22.0	39.8	13.3	18.7	23.1	23.4	44.4	50.5
Identified financing	-35.4	22.0	22.0	-39.8	-13.3	-18.6	-23.1	-23.4	-44.4	-50.5
Net IMF credit	21.9	27.8	27.8	11.0	26.3	14.7	14.3	10.2	-14.3	-21.0
IMF purchase	-31.5	-35.9	-35.9	-18.3	-27.9	-19.1	-19.1	-19.1	0.0	0.0
IMF repurchase	9.5	8.1	8.1	7.3	1.6	4.4	4.8	8.9	14.3	21.0
Other reserves (increase = -)	-54.8	-5.8	-5.8	-50.8	-39.6	-33.4	-37.4	-33.6	-30.2	-29.5
Exceptional financing	-2.5	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt payment arrears (reduction=-)	-2.5	0.0	0.0	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:										
Terms of trade (percent change)	-18.4	-11.7	-12.0	5.7	12.7	3.5	2.2	0.5	-1.6	-1.5
Unit price of exports	-11.7	-3.5	-3.5	1.2	9.8	0.6	1.2	0.9	0.9	1.0
Unit price of imports	8.2	9.3	9.6	-4.3	-2.6	-2.9	-1.0	0.4	2.6	2.5
Current account (percent of GDP)	-7.8	-7.9	-8.0	-3.7	-5.6	-6.3	-5.3	-5.4	-5.7	-5.5
Capital account (percent of GDP)	3.3	4.8	4.8	5.1	4.7	5.2	5.0	4.8	4.7	4.6
Nominal GDP (CFAF billions)	1,203	1,266	1,266	1,356	1,360	1,464	1,575	1,696	1,826	1,966

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

Table 4b. Central African Republic: Balance of Payments, 2017–24

(Percent of GDP)

	2017	2018		2019		2020	2021	2022	2023	2024
	Est.	6th Rev.	Est.	6th Rev.	Est.			Proj.		
Current account	-7.8	-7.9	-8.0	-3.7	-5.6	-6.3	-5.3	-5.4	-5.7	-5.5
Balance on goods	-14.1	-14.9	-14.9	-13.6	-15.2	-14.1	-13.2	-12.8	-12.5	-12.2
Exports, f.o.b.	7.1	7.2	7.2	7.0	6.9	7.4	7.4	7.4	7.5	7.7
of which: Diamonds	0.4	0.4	0.4	0.2	0.3	0.4	0.5	0.6	0.7	0.8
of which: Wood products	4.4	4.5	4.5	4.4	4.1	4.5	4.3	4.2	4.2	4.3
Imports, f.o.b.	-21.2	-22.1	-22.1	-20.5	-22.1	-21.5	-20.6	-20.2	-20.0	-19.8
of which: Petroleum products	-5.7	-6.9	-6.9	-5.9	-6.7	-6.2	-5.5	-5.1	-5.0	-4.8
Services (net)	-2.3	-2.9	-2.9	-2.5	-2.8	-2.5	-2.2	-2.0	-1.7	-1.6
Credit	8.8	8.7	8.7	8.5	8.5	8.3	8.1	8.1	8.1	8.1
Debit	-11.1	-11.6	-11.6	-11.1	-11.4	-10.8	-10.3	-10.0	-9.8	-9.7
Income (net)	-0.2	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Credit	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Debit	-1.2	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.0	-1.0	-0.9
Transfers (net)	8.8	9.9	10.0	12.5	12.6	10.5	10.3	9.5	8.6	8.4
Private	5.6	5.6	5.6	5.3	5.3	5.2	5.1	5.0	4.9	4.8
Official	3.2	4.4	4.4	7.2	7.3	5.3	5.1	4.5	3.7	3.6
of which: Program	1.8	3.0	3.0	5.9	6.0	3.7	3.4	2.7	1.9	1.8
Capital account	3.3	4.8	4.8	5.1	4.7	5.2	5.0	4.8	4.7	4.6
Project grants	3.3	4.8	4.8	5.1	4.7	5.2	5.0	4.8	4.7	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	3.2	1.6	3.0	1.6	1.9	2.4	1.8	2.0	3.4	3.5
Direct investment	0.8	0.8	0.8	1.1	1.1	1.4	1.4	1.4	1.4	1.4
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	2.4	0.8	2.2	0.5	0.8	1.0	0.4	0.5	2.0	2.1
Public sector (net)	1.0	0.1	1.5	0.1	0.5	0.7	0.1	0.1	1.6	1.8
Project disbursement	0.5	0.6	1.9	0.6	0.9	1.1	0.5	0.4	0.4	0.5
Program disbursement	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	1.5
Scheduled amortization	-0.1	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.2	-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	0.7	0.7	0.4	0.4	0.3	0.3	0.5	0.4	0.3
Errors and omissions	4.3	-0.2	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.9	-1.7	-1.7	2.9	1.0	1.3	1.5	1.4	2.4	2.6
Identified financing	-2.9	1.7	1.7	-2.9	-1.0	-1.3	-1.5	-1.4	-2.4	-2.6
Net IMF credit	1.8	2.2	2.2	0.8	1.9	1.0	0.9	0.6	-0.8	-1.1
IMF purchase	-2.6	-2.8	-2.8	-1.3	-2.0	-1.3	-1.2	-1.1	0.0	0.0
IMF repurchase	0.8	0.6	0.6	0.5	0.1	0.3	0.3	0.5	0.8	1.1
Other reserves (increase = -)	-4.6	-0.5	-0.5	-3.7	-2.9	-2.3	-2.4	-2.0	-1.7	-1.5
Exceptional financing	-0.2	0.0	0.0	0.0	0.0	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	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt payment arrears (reduction=-)	-0.2	0.0	0.0	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:										
Terms of trade (percent change)	-18.4	-11.7	-12.0	5.7	12.7	3.5	2.2	0.5	-1.6	-1.5
Unit price of exports	-1.0	-0.3	-0.3	0.1	0.7	0.0	0.1	0.1	0.0	0.1
Unit price of imports	0.7	0.7	0.8	-4.3	-2.6	-0.2	-0.1	0.0	0.1	0.1
Nominal GDP (CFAF billions)	1,203	1,266	1,266	1,356	1,360	1,464	1,575	1,696	1,826	1,966

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

Table 5. Central African Republic: External Financing Requirements, 2019–24
(Billions of CFAF)

	2019	2020	2021	2022	2023	2024
	Projection					
1. Total financing requirements	205.3	189.7	185.3	185.0	186.3	198.1
Current account deficit (excl. budget support)	158.4	146.6	137.5	136.3	138.3	143.1
Debt amortization	5.7	5.4	5.7	6.3	3.6	4.5
Repayment to the Fund	1.6	4.4	4.8	8.9	14.3	21.0
Change in other reserves	39.6	33.4	37.4	33.6	30.2	29.5
2. Total available financing	95.5	116.6	112.3	120.9	126.3	133.4
Capital transfers	63.3	75.9	78.8	81.4	85.8	90.4
Foreign direct investment (net)	15.0	20.0	22.0	24.0	25.0	27.5
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	12.2	15.7	7.5	7.5	7.5	10.0
Public Sector	12.2	15.7	7.5	7.5	7.5	10.0
Other net capital inflows	5.0	5.0	4.0	8.0	8.0	5.5
3. Financing gap	**109.8**	**73.2**	**73.0**	**64.1**	**60.0**	**64.7**
4. Expected sources of financing	81.9	54.1	53.9	45.0	60.0	64.7
of which: Budget support (grants)	81.9	54.1	53.9	45.0	35.0	34.7
World Bank	57.6	28.3	28.1	...	...	...
African Development Bank	0.0	2.8	2.8	...	...	...
European Union	17.7	16.4	16.4	...	...	...
France	6.6	6.6	6.6	...	...	...
Other	0.0	0.0	0.0	...	...	...
of which: Budget support (loans)[1]	0.0	0.0	0.0	0.0	25.0	30.0
5. Residual financing gap	27.9	19.1	19.1	19.1	0.0	0.0
ECF program	27.9	19.1	19.1	19.1	0.0	0.0

Source: IMF staff projections.

[1] Budget support loans to be identified.

Table 6. Central African Republic: Sustainable Development Goals, 2000–18

Goal	Indicator	2000	2008	2015	2016	2017	2018
1	*No poverty*						
	Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population	…	66.3	…	…	…	…
2	*Zero hunger*						
	Prevalence of undernourishment (% of population)	42.5	33.7	57.8	59.8	59.6	…
3	*Good health and wellbeing*						
	Maternal mortality ratio (modeled estimate, per 100,000 live births)	1280	1090	912.0	890.0	829.0	…
4	*Quality education*						
	Primary completion rate, female (% of relevant age group)	…	25.9	…	33.5	…	…
	Primary completion rate, male (% of relevant age group)	…	44.3	…	50.9	…	…
	Primary completion rate, total (% of relevant age group)	…	35.1	…	42.2	…	…
5	*Gender equality*						
	Proportion of seats held by women in national parliaments (%)	7.3	10.5	…	7.2	8.6	8.6
6	*Clean water and sanitation*						
7	*Affordable and clean energy*						
	Access to electricity (% of population)	6.0	9.5	24.2	27.1	30.0	…
8	*Decent work and economic growth*						
	GDP per capita growth (annual %)	-4.7	0.3	3.9	4.0	3.1	2.8
9	*Industry, innovation, and infrastructure*						
	Manufacturing, value added (% of GDP)	0.0	0.0	18.0	17.8	15.7	…
	Manufacturing, value added (annual % growth)	0.0	0.0	8.5	3.4	-0.9	…
10	*Reduced inequalities*						
	Foreign direct investment, net inflows (% of GDP)	0.1	5.9	0.2	0.4	0.3	0.8
11	*Sustainable cities and communities*						
	Urban population (% of total)	37.6	38.5	40.3	40.6	41.0	41.4
	Urban poverty gap at national poverty lines (%)	…	29.8	…	…	…	…
12	*Responsible consumption and production*						
	Mineral rents (% of GDP)	…	0.0	0.1	0.1	0.1	…
	Coal rents (% of GDP)						
	Forest rents (% of GDP)	11.2	11.8	14.7	14.0	13.5	…
13	*Climate action*						
14 & 15	*Life below water; life on land*						
	Terrestrial and marine protected areas (% of total territorial area)	0.0	…	…	18.1	18.1	18.1
	Terrestrial protected areas (% of total land area)	0.0	…	…	18.1	18.1	18.1
16	*Peace and justice: strong institutions*						
	Battle-related deaths (number of people)			…	…	…	47
17	*Partnerships for the goals*						
	Internet users (per 100 people)	0.0	0.0	…	…	…	…

Sources: UN Statistics Office, IMF and World Bank Development Indicators

Table 7. Central African Republic: BOP and Budget Support, 2019–21

	Commitments for 2019		Commitments for 2020		Projections for 2021		Purpose
		CFA francs, bn		CFA francs, bn		CFA francs, bn	
IMF	SDR 34.78 million	27.9	SDR 23.87 million	19.1	SDR 23.87 million	19.1	BoP support
World Bank	US$ 100 million	57.6	US$ 50 million	28.3	US$ 50 million	28.1	Budget support
African Development Bank	US$ 0 million	0.0	US$ 5 million	2.8	US$ 5 million	2.8	Budget support
European Union	€ 27 million	17.7	€ 25 million	16.4	€ 25 million	16.4	Budget support
France	€ 10 million	6.6	€ 10 million	6.6	€ 10 million	6.6	Budget support
Total		109.7		73.1		72.9	
excluding IMF		**81.9**		**54.1**		**53.9**	

Table. 8 Central African Republic: Indicators of Capacity to Repay the IMF, 2019–30

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
IMF obligations based on existing credit												
(SDR millions)												
Principal	1.98	5.35	5.85	10.86	17.49	25.79	28.96	26.74	21.73	13.70	4.57	0.00
Charges and interest	0.11	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41
IMF obligations based on existing and prospective credit												
(SDR millions)												
Principal	1.98	5.35	5.85	10.86	17.49	25.79	32.54	35.09	34.86	30.41	21.28	13.13
Charges and interest	0.11	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41
IMF obligations based on existing and prospective credit												
(CFA billions)												
Principal	1.61	4.36	4.77	8.85	14.25	21.02	26.52	28.60	28.41	24.78	17.34	10.70
Charges and interest	0.09	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33
Outstanding IMF Credit												
SDR Millions	173.0	191.5	209.5	222.5	205.0	179.3	146.7	111.6	76.8	46.3	25.1	11.9
CFAF Billions	138.3	153.0	167.3	177.7	163.8	143.2	117.2	89.1	61.3	37.0	20.0	9.5
Percent of government revenue	117.2	108.0	106.0	101.3	85.0	67.7	52.5	37.3	24.0	13.6	6.9	3.1
Percent of exports of goods and services	66.0	66.5	68.6	67.8	57.5	46.1	35.8	25.8	16.9	9.7	5.0	2.2
Percent of debt services	1160.1	1066.4	1123.5	930.5	758.1	492.5	355.2	286.7	226.2	180.9	151.4	101.1
Percent of GDP	10.2	10.5	10.6	10.5	9.0	7.3	5.6	3.9	2.5	1.4	0.7	0.3
Percent of quota	155.3	171.9	188.1	199.7	184.1	160.9	131.7	100.2	68.9	41.6	22.5	10.7
Net use of IMF credit (SDR millions)												
Disbursements	34.8	23.9	23.9	23.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	2.1	5.8	6.3	11.3	17.9	26.2	33.0	35.5	35.3	30.8	21.7	13.5
Memorandum items:												
Nominal GDP (billions of CFA francs)	1359.9	1463.7	1575.4	1696.5	1826.3	1965.9	2107.7	2259.1	2409.6	2569.6	2740.4	2922.9
Exports of goods and services (billions of CFA francs)	209.7	230.0	244.0	262.3	284.9	310.8	327.7	345.2	363.2	382.4	402.8	425.2
Government revenue (billions of CFA francs)	118.0	141.7	157.9	175.5	192.8	211.5	223.2	239.3	255.4	272.5	290.7	310.2
Debt service (billions of CFA francs)	11.9	14.3	14.9	19.1	21.6	29.1	33.0	31.1	27.1	20.5	13.2	9.4
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, 2011–19

Concept	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Jun-18	Dec-18	Jun-19
Capital Adequacy										
Total bank regulatory capital to risk-weighted assets	25.6	22.7	39.1	42.2	38.7	32.0	34.3	32.0	28.5	31.4
Total capital (net worth) to assets	22.3	22.2	23.7	21.9	21.1	19.2	21.0	20.6	21.3	21.0
Asset Quality										
Non-performing loans to total loans	12.0	9.6	28.5	27.7	30.9	25.6	22.9	22.0	15.6	19.1
Non-performing loans net of provision to capital	3.3	1.6	50.0	44.4	34.9	18.7	4.3	5.2	0.6	7.4
Earnings and Profitability										
Net income to average assets (ROA)	5.0	4.5	-1.3	0.9	-0.9	0.8	0.9	2.6	4.0	2.7
Net income to average capital (ROE)	24.4	20.7	-5.4	3.8	-4.0	4.2	4.8	12.7	18.8	13.0
Non interest expense to gross income	59.9	64.0	79.5	73.6	72.8	67.3	88.6	79.2	76.7	71.5
Liquidity										
Liquid assets to total assets	24.3	16.6	19.2	27.5	40.0	31.9	30.7	27.1	29.9	27.6
Liquid assets to short-term liabilities	160.7	114.5	149.1	203.1	276.1	219.6	227.4	186.6	198.6	182.7

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

Table 10. Central African Republic: Schedule of Disbursements, 2019–22

Condition for Disbursement	Date	Amount of Disbursement	
		Millions of SDR	Percent of quota [1]
First disbursement upon program approval.	Approval of the ECF arrangement	SDR 11.936 million	10.7
Second disbursement upon observance of the performance criteria for December 31, 2019 and the continuous performance criteria, and the completion of the first review.	April 30, 2020	SDR 11.936 million	10.7
Third disbursement upon observance of the performance criteria for June 30, 2020 and the continuous performance criteria, and the completion of the second review.	October 30, 2020	SDR 11.936 million	10.7
Fourth disbursement upon observance of the performance criteria for December 31, 2020 and the continuous performance criteria, and the completion of the third review.	April 30, 2021	SDR 11.936 million	10.7
Fifth disbursement upon observance of the performance criteria for June 30, 2021 and the continuous performance criteria, and the completion of the fourth review.	October 29, 2021	SDR 11.936 million	10.7
Sixth disbursement upon observance of the performance criteria for December 31, 2021 and the continuous performance criteria, and the completion of the fifth review.	April 29, 2022	SDR 11.936 million	10.7
Seventh disbursement upon observance of the performance criteria for June 30, 2022 and the continuous performance criteria and the completion of the sixth review.	October 31, 2022	SDR 11.934 million	10.7
Total		SDR 83.55 million	75.0

[1] C.A.R's quota is SDR 111.4 million

Table 11. Central African Republic: Risk Assessment Matrix

Sources of Risks	Relative Likelihood	Impact If Realized	Policy Response if Materialized
Rising protectionism and retreat from multilateralism	**High**	**Medium** Escalating and sustained trade actions threaten the global trade system, with adverse effects on the price of C.A.R. exports.	Intensify structural reform and improve business environment to support diversification.
Weaker-than-expected global growth	**Medium**	**Medium** Falling export demand would likely reduce exports and fiscal revenue, increasing fiscal risks.	Intensify structural reform and improve business environment to support diversification.
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 RCPCA to advance peace, security and reconciliation.
Limited institutional and human resources capacity	**High**	**High** Weak implementation of the reform program and TA recommendations could undermine confidence and reduce growth	Improving TA effectiveness by strengthening the role of the coordinating unit and by making sure to have a well-prioritized reform agenda for which targeted TA is requested.
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 comprehensive reform implementation and communicating the needs of C.A.R.'s development strategy (RCPCA).
Sizeable deviations from baseline energy prices	**Medium**	**High** Revenue generated by oil taxation is important in C.A.R. An increase in 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 prices
Elections	**Medium**	**Medium** Fiscal slippages and resistance to reforms	Intensify structural reform and build fiscal buffers

[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. Country Engagement Strategy

Context

- The Central African Republic (C.A.R.) is a fragile state that has been long marred by violence, weak governance and institutions, a lack of social cohesion, and widespread poverty. C.A.R.'s main sources of fragility include: (i) disintegration of the state and lack of state's control over the whole territory (at present only one third of the country is under government control); (ii) absence of a nationally owned common vision; (iii) lack of education and employment opportunities; and (iv) lasting political instability. These sources reinforce each other, resulting in a persistent "fragility trap". This fragility trap has kept the country in extreme poverty with one of the lowest rankings of social indicators in the world (World Bank, 2019).[1]

- The number of persons in need of humanitarian aid was estimated at 2.7 million at end-September (out of a total population of about 5 million).

- As in other countries, the conflict has also resulted in worsened economic, fiscal and financial positions, and lower institutional quality (IMF, 2019).[2] The conflict has also led to huge regional disparities in the supply of public services and social assistance, as illustrated by the distribution of civil servants in the country: nearly 80 percent of them are now posted in Bangui, which accounts for less than 15 percent of the population (Text Table 1). These disparities are only partly compensated by donor's and NGOs' direct humanitarian and social assistance to the most vulnerable in peripheral regions.

[1] World Bank (2019): Central African Republic-Systematic Country Diagnostic: Priorities for Ending Poverty and Boosting Shared Prosperity. Report #125268.

[2] IMF (2019): Sub-Saharan Africa Regional Economic Outlook: Recovery Amid Elevated Uncertainty. https://www.imf.org/en/Publications/REO/SSA/Issues/2019/04/01/sreo0419.

Text Table 1: Distribution of the population and civil servants

	Number of civil servants (as of Sep. 2019)	Population (2015), in thousands	Population density (2015)
Bangui	21796	690	10478.5
Lobaye	854	311	16.7
Ouham	773	466	8.8
Ombella Mpoko	771	513	17.0
Mambere-Kadei	747	447	15.0
Ouaka	563	348	7.1
Mbomou	494	202	3.4
Nana-Mambere	441	295	10.8
Nana-Gribizi	339	149	7.5
Ouham-Pende	244	548	16.9
Kemo	225	147	8.9
Bamingui-Bangoran	204	55	0.9
Sangha-Mbaere	144	126	7.3
Haute-Kotto	138	115	1.3
Basse-Kotto	88	308	18.7
Haut-Mbomou	55	74	1.3
Vakaga	36	65	1.4
Total	27912	4857	

Source: C.A.R's authorities and United Nations

- The February 2019 peace agreement is an ambitious attempt, backed by the international community, to help C.A.R. exit from this fragility trap by addressing all the main sources of fragility, through power-sharing, strengthened governance and accountability, enhanced security, and the expansion of government control and public services in the provinces. While the agreement has the potential to be a game-changer, its implementation has been slow, reflecting in part the lack of ownership by some armed groups and their unwillingness to disarm and cede territorial control and revenue. A large portion of the population and civil society considers that the government has been too accommodative, rewarding to the armed group leaders with total immunity for their past crimes and not sanctioning them for their repeated violations of the provisions of the peace agreement.

- The election of President Faustin Archange Touadéra in February 2016, and of the National Assembly, reinstituted constitutional order in C.A.R. after the civil war erupted in 2013 and nearly three years of political transition. In March 2019, President Touadéra reshuffled the government and formed an inclusive cabinet composed of his allies and representatives of armed groups.

- Presidential and general elections are scheduled for late 2020-early 2021. President Touadéra is widely expected to seek a second mandate. As in 2015-16, the voting will be held on the whole territory, security permitting. Electoral assistance, including sourcing adequate financial support, good offices, technical advice, logistical assistance and security support, are expected to be provided by the international community.

Overall Strategy/RCPCA

- The authorities are implementing their 2017–21 national development plan called *Stratégie de Relèvement et de Consolidation de la Paix en Centrafrique*–RCPCA), with strong financial support from the international community (US$2.2 billion). The RCPCA meets the Fund's requirements under the policy for poverty reduction strategies. The plan—which is being extended to 2023—addresses the economic challenges and pervasive poverty that are hindering peace and social progress. The implementation of investment projects play an important role in achieving the economic stabilization and development objectives.

- The RCPCA is centered on three pillars: security, governance and growth.
  - ✓ *Security*: to support peace, security, and reconciliation as essential underpinnings to recovery and normalization. A national disarmament, demobilization, reintegration, and repatriation (DDRR) strategy is being developed, complemented by a reform of the security sector.
  - ✓ *Governance*: to renew the social contract between the state and the population by building state presence and capacity to provide basic social services such as education, health, and water and sanitation.
  - ✓ *Growth*: to promote economic recovery and boost productive sectors to provide the population with income-generating activities and employment opportunities in core productive sectors (agriculture, forestry, and extractive industries), while upgrading the countries weak infrastructure in transport, electricity, and communication.

- Consistent with the RCPCA identified priorities, the peace agreement calls for the mobilization of national and international resources to implement national development programs focusing on basic social and economic infrastructure, social protection, rehabilitation and local development throughout the territory. The implementation of the agreement thus offers the opportunity to refocus the RCPCA's objectives toward the 15 Sustainable Development Goals (SDGs) applicable to C.A.R. and their 35 targets being prioritized by the government. The international community supports the authorities' decision to extend the RCPCA until 2023 and focus it on SDGs, including basic social services of water and sanitation, health, food security, primary and secondary education, the promotion of the agro-pastoral sector, and good governance.

- As long as security and government control are not fully restored to the whole territory, the delivery of public services and humanitarian assistance in the provinces controlled by the armed groups will continue to rely, to a large extent, on donors' and NGOs' direct support.

Support of the International Community

- While aware of the substantial risks surrounding the peace agreement, the international community recognizes the potential for the peace agreement to be a game changer and is committed to continue supporting the authorities in the implementation of this agreement and of the RCPCA.[3] It has unified its efforts through the C.A.R. International Support Group and other coordination mechanisms.

- ✓ *Security*: since 2016, the return to stability has been facilitated by the deployment of the 12,000-person United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA). Reform of the security sector is also supported notably by the European Commission (EC)—providing training to security forces; China and the US—providing logistics support; and France and Russia—providing arms and complementing the training offered by the EC.

- ✓ *Humanitarian*: implementation of the RCPCA has been complemented by a Humanitarian Response Plan (HRP) focusing on life-saving interventions, severe malnutrition, protection against violence, and provision of basic services in unstable or inaccessible areas, with the objective to progressively enable the provision of basic services by the authorities. The HRP receives financial support—on average US$280 million/year during 2016–19—from the Humanitarian Fund and various donors, including USA, Germany, EU/ECHO, UK, Ireland, Canada, France, Norway, Switzerland and Belgium.

- ✓ *Financing*: In terms of budget support, the World Bank (WB), EC, France and the African Development Bank (AfDB) have provided funding averaging US$80 million/year during 201619, with a peak of about US$140 million in 2019 to support the implementation of the peace agreement. Budget support is expected to remain substantial over the coming years, leveraged by the Fund financial support under the proposed new ECF arrangement. Project grants, investments, or direct support to the implementation of the peace agreement (establishment of mixed brigades; organization of elections; redeployment of security and civil services) are also being provided by the WB, the EC, AfDB, France, China and UNDP.

- ✓ *Capacity development*: C.A.R. has benefited from significant CD support from the international community, notably the WB, EC, AfDB, UNDP, France, USA on governance—including financial governance TA complementing the Fund's CD—education and health, natural resources management, and business climate improvement. Formal coordination is achieved through regular meetings of the joined RCPCA steering committee complemented by informal donors' meetings. For 2019–22, the authorities have reached an understanding with the Fund on the updated capacity-building strategy in the context of the Capacity Building Framework (CBF) pilot project (see Annex II and below). Within the updated CBF, the WB will continue to support PFM reforms, notably the development of a new software (Simba) for budget implementation and public accounting and the strengthening of public procurement. The EU will support the digitalization of revenue administration procedures, including the development of electronic procedures for tax returns and payment. The UNDP and USA will continue supporting governance reforms, including with regard to the judiciary sector.

[3] The April 2018 report "Escaping the fragility trap" by the LSE-Oxford Commission on State Fragility, Growth and Development emphasize the importance of capitalizing on pivotal moments.

The Role of the Fund

- The recent ECF-supported program has contributed to restoring macroeconomic stability, strengthening fiscal institutions and domestic revenue collection and scaling up development aid and social spending, thereby helping building resilience towards exiting fragility. Growth has recovered while inflation has declined. Domestic revenue mobilization has also rebounded—though less than initially envisaged, reflecting tax reforms, consolidation of the treasury single account and better revenue administration. This increase in tax revenue allowed for both a gradual increase in spending and declines in the domestic primary fiscal deficit and the debt-to-GDP ratio. Banks are adequately capitalized and liquid, and nonperforming loans have declined steadily. Private sector credit growth remains, however, sluggish and access to financial services very low—a key constraint to inclusive and sustained growth.

- Under the proposed new ECF arrangement, the Fund will continue to provide advice on macroeconomic policies and structural reforms aligned with the RCPCA. The objectives are to maintain macroeconomic stability, improve governance, and address C.A.R.'s protracted balance of payments needs. Fiscal policy will focus on revenue mobilization, spending prioritization, and strengthening public financial management, with a view to durably finance C.A.R.'s considerable security, social, and infrastructure spending needs. Structural reforms will aim at improving governance, including through strengthening anticorruption institutions, and removing bottlenecks and regulatory impediments to private investment. In all these areas, CD activities will continue to help build capacity (see below).

- The Fund-supported program will be catalytic, coalescing broader support from multilateral and bilateral creditors, which is crucial for C.A.R. to meet its large financing needs in the coming years. Donors committed to maintaining their exposure throughout the program period, including by providing budget support, direct support and technical assistance consistent with program objectives.

- Given the country's limited capacity, program's conditionality will be parsimonious and realistic about what the authorities can achieve, as well as about the time they need to implement specific reforms. In the current volatile environment, and as was the case under the previous program, program implementation will also need to respond flexibly to new developments.

- The Fund will continue to provide technical assistance in areas of expertise to support program design and implementation in the context of the updated Capacity Building Framework (CBF) which covers the 2019–22 period. Fund TA will be complemented by other partners' support to critical reforms, including digitalization of revenue agencies to improve revenue mobilization (EC and WB); development of a new IT system for budget preparation and execution (WB); strengthening public procurement (WB); and control over public enterprises (France).

Risks to Program Implementation

- Downside risks: on the domestic side, political pressures and uncertainty could weaken policy and reform implementation. Renewal of violence could exacerbate the humanitarian crisis and political instability. Weak administrative capacity, lack of political cohesion and governance issues could delay public investment projects, slow the pace of reform and implementation of the development strategy. On the external side, an intensification of global trade tensions could weaken growth and affect the prices of commodities. A delayed delivery of external budget support and project grants could impede the government's capacity to meet the most urgent spending needs.

- Upside risks: a faster reform implementation and successful implementation of the peace agreement could boost medium-term growth, with gains and improvements across the macroeconomic environment.

Annex II. Summary of the Capacity Development Strategy Note

A. CD Strategy

1. **C.A.R. is a fragile state plagued by significant weaknesses in administrative and institutional capacity and a volatile security environment.** Since January 2017, the authorities have implemented key parts of their capacity building strategy in the context of the Capacity Building Framework (CBF) pilot project, although much remains to be done to overcome capacity weaknesses. The CBF strategy was updated in June 2019, based on progress achieved during 2017-18. Going forward, in the context of a possible successor ECF arrangement, policy priorities remain: (i) enhancing domestic revenue collection; (ii) strengthening good governance and reducing vulnerabilities to corruption (notably in the fiscal area); (iii) building macroeconomic programming capacity, (iv) strengthening debt management capacity; and (v) improving data compilation.

B. Key Overall CD Priorities Going Forward

Priorities	Objectives
Tax policy and revenue administration	Increasing mobilization of domestic resources by reforming taxation of natural resources, rationalizing parafiscal charges, limiting tax and customs exemptions, and strengthening the tax and customs administration.
Public financial management, governance and anti-corruption	Reinforcing the overall legal, judicial, and institutional framework to reduce vulnerabilities to corruption. Continued improvements in fiscal governance (notably PFM and fiscal transparency),
Macroeconomic programming	Operationalizing the macroeconomic and budgetary committee, improving the preparation of the budget to make it more detailed, credible and policy-based, and strengthening the identification, monitoring and management of budgetary risks.
Macroeconomic statistics	Producing more accurate statistics on annual national accounts, government finance statistics, and the external sector.
Debt management	Strengthening debt management capacity and improving the debt management strategy.

C. Main Risks and Mitigation

2. **Security remains volatile despite recent progress.** While the implementation of the February 2019 peace agreement raises favorable expectations, the security situation remains fragile and any deterioration of security conditions could affect the effectiveness of capacity building

activities. C.A.R. faces a difficult balance between the numerous and deep CD needs and a weak absorption capacity owed to limited human and technical resources.[1] Therefore, progress may remain slow and uneven, despite the authorities' strong commitment.

3. **To mitigate the security risks, the authorities may consider sending staff to outside location to build capacity.** The authorities' limited absorptive capacity will also be considered in delivering CD by the Fund. For instance, hands-on TA activities will be mixed to the extent possible with peer learning focusing on achievable outcomes. In terms of monitoring, the staff of the Economic and Financial Reform Monitoring Unit has been increased to follow up on the reform program and coordinate the technical assistance and training provided by all partners.

D. Authorities' Views

4. **The authorities are committed to continue rebuilding capacity to ensure successful implementation of the ECF-supported program.** For 2019–22, the authorities have reached an understanding with the Fund on the updated capacity-building strategy in the context of the Capacity Building Framework (CBF) pilot project. Within this framework, their priorities remain domestic revenue collection, PFM, macroeconomic statistics, public debt management, and macro-fiscal capacity. The authorities also intend to strengthen governance and they have requested and received an IMF governance diagnostic mission whose findings and recommendations will guide reforms in this area. Building on progress made in 2017–18, the expected outcomes are further strengthening the institutional framework to increasing revenue; enhancing spending efficiency; restoring budget discipline; strengthening debt management; and building core macro-fiscal capacity. The authorities are also looking forward to continuing taking full advantage of additional hands-on focused TA provided by the Fund on tax policy, revenue administration, PFM, national accounts data compilation, GFS and external trade data. Under the CBF, they are taking the lead in coordinating CD delivery plans from various donors to avoid overburden on officials, monitor implementation of recommended reforms and identify measures to address unsatisfactory CD outcomes.

[1] Equipment modernization is underway with donor support and coordination of TA under the CBF leverages inputs from development partners and the Fund.

Appendix I. Letter of Intent

Bangui, December 10, 2019

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
United States of America

Madam Managing Director:

1. Despite the significant progress made in recent years under the program supported by the Extended Credit Facility (ECF) arrangement, the Central African Republic (C.A.R.) continues to face considerable challenges. The implementation of a sound fiscal policy and ambitious structural reforms contributed to restoring sustained growth and contained inflation, reducing fiscal and external vulnerabilities, and substantially strengthening public administration capacity. Nevertheless, the security environment remains unstable, the humanitarian situation very challenging—as more than half of the population needs assistance—and social indicators worrisome, with a poverty rate estimated at 72.2 percent in 2017, high infant mortality, and one of the world's lowest human development indicator.

2. The Political Agreement for Peace and Reconciliation (*Accord politique pour la paix et la réconciliation* – APPR) signed in February 2019 is a unique opportunity to address these challenges. Its primary objective being to restore peace and stability in the C.A.R., it notably provides for a more inclusive government, enhanced governance and accountability, increased security, and the re-establishment of State authority across the entire territory. The government plans to make the most of the peace dividends arising from the APPR to accelerate the implementation of the country's Recovery and Peacebuilding Plan (*Plan de Relèvement et de Consolidation de la Paix* -RCPCA), which we are currently updating to refocus and extend until 2023.

3. To support us in implementing the APPR and RCPCA and to help us meet our external financing needs, we are requesting a new arrangement under the ECF for a period of three years and in an amount equivalent to SDR 83.55 million (or 75 percent of our quota). Building on the experience and achievements from the previous program, this new arrangement will aim to: provide a solid macroeconomic framework for the economic policies and reforms that we plan to carry out over the next three years (as described in the Memorandum of Economic and Financial Policies (MEFP)); foster the mobilization of financing from other technical and financial partners; strengthen public institutions and good governance; and increase the resources allocated to protecting the most vulnerable. We see these reforms are critical to meeting our objectives of

restoring a sustained inclusive growth and reducing poverty. The disbursements under the new arrangement will be subject to compliance with the performance criteria and structural benchmarks shown in tables 1 and 2 of the attached MEFP.

4. We believe that the economic and financial policies set out in the MEFP will enable us to achieve the objectives that we have set ourselves as part of this program. However, we stand ready to take any further measures that may prove necessary to meet these objectives. The government will consult with the IMF prior to adopting any revisions to the policies set forth in the MEFP, in accordance with the rules governing such consultations. We will also provide Fund staff with all data and information needed to assess the policies and measures contained in the Technical Memorandum of Understanding (TMU).

5. We intend to publish the IMF staff report, including this letter of intent and the attached MEFP and TMU. We therefore authorize Fund staff to publish these documents on the IMF website once the Executive Board has approved this new program under the ECF.

Very truly yours,

/s/	/s/
Henri-Marie Dondra	Firmin Ngrébada
Minister of Finance and Budget	Prime Minister

Attachments:
Memorandum of Economic and Financial Policies (MEFP)
Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies (MEFP) for 2019

The MEFP describes recent macroeconomic developments, the objectives of the economic program supported by the Extended Credit Facility (ECF), the economic outlook and risks, as well as the macroeconomic policies and structural reforms that we intend to implement over the next three years.

BACKGROUND

1. **The program supported by the ECF that expired last July resulted in significant progress in terms of resumption of growth, reduction in fiscal and external vulnerabilities, and capacity building, all of which occurred in a challenging security environment.** Thus, the economic recovery accelerated after the 2013 crisis, while inflation remained moderate. Tax revenues grew by 0.7 percent of GDP per year in the period 2016–18, which contributed to a decline in the primary fiscal deficit and a substantial reduction in public debt. As far as the structural reforms are concerned, significant progress has been made in public financial management, controlling spending, strengthening the tax and customs administrations, the quality of economic data, and the capacity to implement macroeconomic policies.

2. **The government is pursuing its efforts to durably restore peace and stability in the Central African Republic (C.A.R.), in particular within the framework of the Political Agreement for Peace and Reconciliation (APPR).** Progress has been made since the signing of this agreement last February, including with the formation of an inclusive government, a gradual reduction in violations of the terms of the agreement by the armed groups, the strengthening of security forces, and the launching of joint security brigades. While significant, these results took a bit longer to materialize than initially planned. It is therefore crucial that we pursue our efforts to put an end to violence against the civilian population and allow for the redeployment of security forces and the restoration of public services throughout the country.

3. **The government will also continue to implement the National Recovery and Peacebuilding Plan (RCPCA).** In addition, we have decided to realign the objectives to improve our response to the most pressing needs of the entire population in general and the population in remote areas in particular. More specifically, once it has been formally extended in the first quarter of 2020, the RCPCA will focus first and foremost on basic social services, such as education, health, and food security, the agricultural and pastoral productive sectors, and improved governance (including justice and security). The government thus intends to take full advantage of the peace dividends arising from the APPR in order to accelerate the implementation of the RCPCA. The APPR and the RCPCA will therefore be the two essential pillars for the maintenance and strengthening of peace in the Central African Republic.

4. **The support of the international community remains essential to the achievement of these objectives.** While we intend to continue our efforts aimed at expanding our own resources, these resources will remain insufficient to allow us to meet the country's considerable needs for humanitarian, social, security, and infrastructure spending and the financing needs for the 2020–21 elections. The implementation of the APPR and the RCPCA will therefore remain dependent upon the support of our technical and financial partners.

RECENT MACROECONOMIC DEVELOPMENTS

5. **Recent macroeconomic developments have been broadly in line with expectations:**

- Economic growth, driven by the mining, forestry, and construction sectors, is expected to rebound to 4½ percent this year.
- Following an increase in inflationary pressures in the wake of a rise in the price of firewood (resulting from deforestation of areas close to Bangui) and the blockade of the trade route between Bangui and Cameroon in March, these pressures have eased somewhat. While inflation is expected to average 3¼ percent in 2019, it should be slightly negative year-on-year at end- year.
- The current account deficit is expected to decline to 5½ percent of GDP in 2019, owing primarily to an increase in current grants.

6. **Over recent months domestic fiscal revenues were substantially lower than expected.** They amounted to CFAF 86.1 billion in the first three quarters of 2019, compared to a projected total of CFAF 99.3 billion. This shortfall can be explained primarily by: further delays in the transfer of parafiscal taxes into the treasury single account (TSA); the impact of tax exemptions granted on a derogatory basis; a decline in the recovery of tax arrears; and delays in the recording of revenues from the provinces. Primary domestic expenditures were also lower than projected (CFAF 116.9 billion compared to CFAF 132.2 billion), owing in, particular to smaller transfers to public agencies and to delays in the execution of investment spending. Overall, the primary domestic fiscal deficit amounted to CFAF 30.8 billion, which is slightly lower (+CFAF 2 billion) than projected. Social spending reached CFAF 35.6 billion, which was substantially higher than projected (CFAF 30 billion). At CFAF 19.7 billion, the settlement of wage and domestic commercial arrears was lower than projected (CFAF 23.4 billion), owing to delays arising from the need to reach an agreement with the unions on the payment schedule.

7. **Public debt stock estimates for 2017 and 2018 were revised upward** (by around 0.9 percent and 1.5 percent of GDP, respectively). This revision is explained primarily by the previously incorrect classification—as grants—of disbursements under a World Bank project loan to finance the upgrading of the main road linking the C.A.R. and Cameroon.

8. **The government has continued the reforms aimed at improving public financial management and revenue mobilization.** Thus, we have begun an audit of the potential arrears not included in the 2017 arrears payment strategy. To date, we have managed to audit CFAF 75 billion in potential arrears, of which CFAF 2.4 billion were validated, CFAF 45 billion were rejected, and CFAF 27 billion will be the subject of additional investigation owing to a lack of sufficient documentation. In addition, the transfer of parafiscal taxes collected by public authorities to the TSA has been operational since mid-November 2019. Based on an audit of the public agencies levying them, the General Inspectorate of Finance (IGF) was able to identify several public agencies and parafiscal taxes with no economic justification. Furthermore, we launched a request for tenders to recruit a new service provider to support the customs administration in the valuation of imports, as well as the securing and certification of timber exports. To reduce official travel costs, we have undertaken negotiations with airlines.

9. **The financial sector's situation remains sound overall.** Commercial banks are sufficiently liquid and capitalized: the capital adequacy ratio was 31.4 percent in June 2019, one of the highest in the Central African Economic and Monetary Community (CEMAC) zone. The proportion of nonperforming loans fell sharply between 2015 and the first six months of 2019, from 30.9 to 19.1 percent of all loans, thanks to the repayment settlement of the government's various commercial arrears. However, credit to the private sector fell by 3 percent year-on-year in September 2019.

PROGRAM OBJECTIVES AND MEDIUM-TERM POLICIES

10. **Our economic program will aim at further reducing our fiscal and external imbalances, while promoting robust and sustainable growth and reducing poverty.** It will be based on a sound fiscal policy aimed at ensuring the sustainable financing of our needs in terms of humanitarian, social, security, and infrastructure spending through further efforts to mobilize domestic revenue and rationalize non-priority expenditures. It will also be supported by an ambitious structural reform program that is intended to provide for: further strengthening of the country's institutions and governance, which is essential for building greater social cohesion; and the elimination of bottlenecks and regulatory barriers to private investment.

ECONOMIC OUTLOOK AND RISKS

11. **The medium-term outlook remains favorable.** Growth is expected to reach 5 percent over the medium term, thanks to an improved security situation, the recovery of the mining sector, the implementation of structural reforms, and the gradual easing of bottlenecks in the energy and transport sector. Inflation is expected to remain moderate, while the current account deficit is expected to stabilize at around 5½ percent of GDP over the medium term, with a gradual improvement in the balance of transactions in goods and services compensating for the expected decline in official transfers.

12. **The success of the program is subject to both upside and downside risks.** A deterioration in the security situation could compromise the government's efforts. In addition, the weakness of administrative capacities and vulnerabilities to corruption could slow down the pace of reforms and the implementation of the development strategy. Externally, an intensification of global trade tensions could undermine growth and affect commodity prices. A delay in the granting of external budgetary assistance could hinder the government's ability to respond to the most urgent spending needs. Nevertheless, a more rapid implementation of reforms and successful implementation of the peace agreement could stimulate growth over the medium term.

ECONOMIC AND FINANCIAL POLICIES

I. FISCAL POLICY

13. **We will continue to implement a sustainable fiscal policy aimed at ensuring the sustainable financing of the Central African Republic's most pressing needs**. This policy will be guided by the objective of gradually reducing public debt, from 50 percent of GDP at end-2018 to less than 40 percent at end-2022. In order to achieve this, we are committed to lowering the domestic primary balance to 2.5 percent over the medium term. This strategy will be backed up by a policy aimed at increased mobilization of domestic revenue, rationalization of non-priority spending, and an improvement in the efficiency of public spending. To avoid compromising fiscal sustainability, we will resort only to concessional loans to finance our investments and do so within the limits established under the ECF-supported program.

14. **The government is determined to contain the primary domestic fiscal deficit to less than 3 percent of GDP in 2019.** Given domestic revenues that are lower than projected, this will imply keeping domestic primary spending at CFAF 158.9 billion. This will be achieved primarily through smaller transfers to public agencies (to compensate for the decline in their own resources) and the postponement of some investment projects.

15. **We submitted to the National Assembly a draft budget law for 2020 that is in line with the program objectives (prior action).** This draft law calls for a significant increase in domestic revenue to contribute both to the financing of an increase in priority domestic spending and to a reduction in the domestic primary fiscal balance to 2.7 percent of GDP. An increase in domestic revenue by 1 percent of GDP should result from the impact of the transfer of parafiscal revenue to the treasury single account and from fiscal policy measures, such as the *ad valorem* taxation of used cars imports and the alignment of excise taxes with the new CEMAC regulations. The increase in spending affects primarily the Ministry of Education (+27 percent), the Ministry of Health (+35 percent), humanitarian actions (+10 percent), and elections (+30 percent). The draft law also provides for elimination of six public agencies without economic justification. The domestic primary deficit and the payment of domestic arrears (see below) will be financed by budgetary support from our partners and a decline in deposits held by the government with the Bank of Central African States (BEAC).

Text Table 1. Impact of tax measures

Revenue measures	Expected yield (CFAF billion)
Taxation ad valorem of used vehicles	1.0
Excise taxes on imported goods	0.5
Excise taxes on locally produced goods	0.3
Administrative measures	0.5
Total	2.3

II. PUBLIC FINANCIAL REFORM

The continuation of structural reforms is essential to achieve the fiscal policy objectives and to address some of the issues that were raised by the recent governance diagnostic mission.

Revenue Mobilization

16. **In accordance with our commitments under the previous program, we will ensure that all exemptions granted to companies by the government fall within the framework provided for by the law and are not granted on an exceptional basis.** As such, from now on, draft inter-ministerial orders granting tax and customs exemptions under the investment charter will be systematically submitted to the inter-ministerial committee responsible for tax and customs exemptions for approval prior to their adoption, and the committee will forward its opinion to the Minister of Finance. In addition, by end-March 2020 we will conduct a review of all the exemptions granted to companies in order to ensure that they follow the law. Measures taken on an exceptional basis will be brought into compliance. Finally, upon expiration of the agreements and extensions, we will verify that all the commitments made by the exempt companies are kept, otherwise reimbursement for the exemptions will be made.

17. **Along these same lines, in October 2019 the government launched a project to digitize tax procedures with the aim of reducing vulnerabilities to corruption, facilitating declaration formalities, and improving the business environment.** Over the short term, by end-June 2020 we will put into place a pilot electronic payment system for large companies and provide for the widespread use of electronic filing and electronic payment of taxes by these same companies by end-2020 (structural benchmark). We are also committed to ensuring that all corporate tax returns for 2018 and 2019 are entered in the SYSTEMIF software program by end-June 2020 (structural benchmark). Over the medium term, we intend to digitize all tax procedures with the support of our partners.

18. **Significant efforts will be made to strengthen controls on values declared at customs.** We are committed to recruiting a new provider by end-January 2020 to provide support in controlling import valuation and certifying and securing timber export revenues (structural benchmark). We will reinstate the monthly meeting for reconciliation of the provider's

data with customs data starting in March 2020 (based on February data) and we will evaluate the implementation of the new contract by end-September 2020. The government also intends to put into place a logistics and customs platform at the port of Douala as part of a public/private partnership. Negotiations with the partner who has been identified are in progress and the contract should be finalized by end-March 2020. Furthermore, the government is going to rehabilitate the PK 26 regional office to improve the control of goods intended for consumption in Bangui. In addition, we will continue to strengthen the controls on the profit tax and the income tax, as well as those on the VAT, in collaboration with customs department as part of the joint brigade.

19. **We will also strengthen further security with regard to the use of the ASYCUDA (Automated System for Customs Data) information system.** With a view to reducing vulnerabilities to corruption, we have halted the use of temporary tax identification numbers for imports and the entry of declarations by customs agents, and we reiterate our commitment to eliminating the fast-track customs clearance units by end-January 2020. Moreover, we are committed to continuing the rollout of the ASYCUDA software to the main customs clearance offices. In the short term, by June 30, 2020, we will ensure the interconnection of the Douala single window and the offices in Berberati and Mongoumba with the central customs services in Bangui. In the medium term, the government intends to roll out ASYCUDA World, which offers greater flexibility and is more secure.

Consolidation of the TSA

20. **We will continue to consolidate the TSA and to implement a strict management of the government's cash flow.** Pursuant to the IMF’s recommendations, we are committed to conducting a daily reconciliation of the revenue data provided by the tax and customs administrations with the Treasury data starting on January 1, 2020. In order to facilitate this reconciliation, we will adopt a manual on the relevant procedures (prior action). We are also committed to launching the SygmaSystac software on that same date, which will allow for the real-time processing of operations on the Treasury account at the BEAC, automated tracking of the cash balance, and its reconciliation with monetary data. Consistent with the IGF recommendations, we will also submit to parliament by end-June 2020 a draft supplementary budget law providing for the elimination of the seven remaining public agencies without economic justification (structural benchmark).

21. **We will identify all the fees and minor revenues collected by the ministries.** We are aware that certain fees or charges collected by the ministries are not reflected in the budget, in terms of both revenues and expenditures. The corresponding revenues are not accounted for correctly nor are they transferred to the Treasury and their use is not consistent with public expenditure standards. We therefore intend to identify all these revenues and monitor their use during the first quarter of 2020. Based on this identification process and the outcome of the monitoring, we will subsequently adopt an action plan aiming at eliminating the unjustified fees

and transferring other revenues to the TSA by end-2020. We will integrate these revenues and the corresponding expenditures into the draft budget law for 2021.

Public financial management

22. **The government remains determined to implement the public financial management reform program**, the action plan for which was updated during the IMF technical assistance mission in November 2019. With the support of the World Bank, the development of the new budget and accounting management software (Sim-ba) is under way and it is expected to be completed by end-June 2020 and tested during the second half of the year. The software will be put into use starting on January 1, 2021, in parallel with GESCO, the old application. We will also redouble our efforts to limit the use of exceptional spending procedures to 5 percent of non-salary spending. We are committed to the strict application of the regulatory provisions adopted in 2019 to limit expenditures related to medical evacuations and to the regularization of mission expenses. We also intend to finalize by December 31, 2019, the draft agreements with airline companies to reduce mission expenses. In addition, with a view to the conversion of budget management to medium-term programming, as of January 1, 2020, we will expand the delegation of expenditure commitments to five additional line ministries. Finally, within the framework of the project to digitize revenue-collecting agencies, we will use electronic transfer to pay the salaries of the officials living in two localities in early 2020.

23. **We are determined to improve governance in the management of public procurement in order to increase the efficiency of expenditures.** We will revise the public procurement code, with the support of the World Bank, in order to submit the revised legislation to the National Assembly by December 31, 2020. During the overhaul of public procurement management procedures, we will focus on the following elements:

- Submit public investments above a certain threshold to mandatory cost-benefit analysis (which will initially require support from the funding entities).
- Publish these assessments.
- Introduce a legal obligation—accompanied by sanctions in the event of noncompliance—to publish tenders on the government's website.
- Publish criteria for the selection of the companies.

In the medium term, the General Directorate for Public Procurement will work on developing a management tool backed up by a public procurement portal to ensure full transparency of the public procurement mechanism.

Clearance of domestic arrears and public debt management

24. **We will continue the implementation of the action plan for the clearance of domestic arrears approved in 2017, which we will complete in 2020.** We are also committed to auditing all the potential domestic arrears identified in the Spring of 2019. Before

end-June 2020 we will conduct additional investigations of the CFAF 27 billion whose audit could not be completed owing to a lack of sufficient documentation, as well as an audit of the CFAF 46 billion that have not yet been audited. During the third quarter of 2020, we will adopt a schedule for the clearance of these arrears before end-December 2021. In order to avoid the accumulation of new domestic arrears, in addition to the consolidation of the TSA, we will continue to improve the cash flow plan and its synchronization with the consolidated commitment plan and the plan for issuing debt securities.

25. **We will also continue our efforts to improve public debt management.** We have taken the necessary measures to ensure that the Public Debt Directorate has all the information required to perform comprehensive monitoring of our commitments and that this information is reflected in the Sygade program. We are committed to preparing the debt management report [on an annual basis] and publishing it on the website of the Ministry of Finance. We will continue to negotiate in good faith with creditors to whom pre-HIPC arrears are owed and with whom we do not yet have debt relief agreements with a view to concluding such agreements.

26. **Given the high risk of debt distress, the government will continue to rely on grants and will not enter into any non-concessional loan agreement.** The use of concessional loans will be limited to investment projects critical to the country's development for which it will not be possible to obtain grants, and within the limits agreed upon with the IMF (a total of 5 percent of GDP for the duration of the program). So as to not increase further the already elevated debt-service-to exports and -to-revenue ratios projected over the medium term these loans will need to have long grace periods and/or repayments schedules.

Supervision of public enterprises

27. **The government intends to implement without delay a reform of the supervision of public and para-public institutions and enterprises.** The draft legal framework that we presented to the National Assembly will allow for an improvement in the financial oversight and supervision of these structures. We intend to approve its secondary legislations by end-March 2020 (structural benchmark) and include the first annual report on their performance as an annex to the draft budget law for 2021.

III. PROMOTE GOVERNANCE AND THE BUSINESS ENVIRONMENT

Promote transparency and good governance

28. **We will publish the final report of the IMF diagnostic mission on governance by end-March 2020.** We globally agree with the diagnostic assessment and the recommendations made in the report, which we intend to use to update our anti-corruption strategy (a first draft of which will be prepared by March 2020 and which will be published later). We intend to continue our dialogue with IMF staff and technical and financial partners to ensure that this strategy is focused on the most critical areas at the macroeconomic level and that it can benefit from the necessary technical assistance.

29. **We intend to articulate this anti-corruption strategy around a pact of transparency and exemplarity.** We will stress the following issues in particular:

- ***Strengthening the transparency framework*** through: (i) the systematic publication of all laws on the government's website (all new laws will be published immediately after their enactment), along with their implementing documents, decrees, and orders, starting in 2021; (ii) as of July 1, 2020, the publication of all judicial rulings on the websites of the institutions concerned, or in the absence of dedicated websites, on the government's site, starting with judicial decisions of the Constitutional Court, the Court of Cassation, Appeals Courts, the Council of State, and Administrative Appeals Courts; (iii) a campaign to make officials aware of the rights and obligations contained in the law on transparency through publications in the press before end-June 2020; (iv) as of July 1, 2020, the application of administrative sanctions for failure to publish the information required by the law on transparency; and (v) readmission, in the future, to the Extractive Industries Transparency Initiative (EITI) through the use of the government's website to publish not only all contracts granting licensing rights for natural resources, [but also] basic data on production and revenues allocated to the budget, to allow for a comparison of revenues owed to the government against those actually received.
- ***Reducing impunity by strengthening incentives to comply with the law.*** We will strengthen awareness of the laws among officials and government employees through: (i) public awareness campaigns; and (ii) the strict application of administrative sanctions against officials who do not comply with the law.
- ***Strengthening the legal arsenal to help combat corruption.*** The asset declaration regime will be brought into alignment with the applicable international good practices via a law that will be submitted to the National Assembly by September 2020 (structural benchmark) and will include: (i) sanctions and penalties in the event that the declaration obligation is not met or a false declaration is made; (ii) broadening the range of persons who are required to declare their assets; (iii) redesign of the form for the declaration of assets (including external assets); (iv) extension of the asset declaration requirement to family members and close associates; (v) declaration verification procedures; and (vi) a mechanism to implement the constitutional requirement to publish declarations. Finally, we will allow for the possibility of verifying the accuracy of information provided in asset declarations, through the cross-checking of declarations against information available to the tax administration. We will submit a new anti-corruption law to the National Assembly in line with the provisions of the United Nations Convention against Corruption (UNCAC) by March 2021. Under this law, it is our intention to create an anonymous reporting system via a free telephone hotline that allows citizens to raise alerts regarding problems of bad governance or corruption with the competent authorities, while providing the necessary protections for whistleblowers. Finally, we will submit to the National Assembly

by end-March 2021 a draft organic law setting formally the Audit Court's responsibilities and providing for the systematic publication of its reports.

- ***Strengthening the rule of law.*** Starting in 2021 we are planning on the annual publication of data, court by court, on: (i) the number of new cases settled during the year; (ii) the total number of cases brought before the court; and (iii) the average time it takes for a case to be handled by the courts. We will put into place specialized training for commercial court judges and we will launch public awareness campaigns regarding the legal requirement (according to the 1958 law) to have real property transfers performed based on notarized deeds (thereby excluding transfers by private arrangement), through announcements in the media in particular.

Improvement of the business environment

30. **The government is determined to improve the business environment in order to promote the development of the private sector**. The draft law capping the fines in the event of unlawful employment termination is expected to be approved by the National Assembly soon. With the support of the United Nations Development Programme (UNDP), we have undertaken an updating of the Labor Code, a revised version of which is expected to be submitted to the National Assembly by end-March 2020. We are also working with the World Bank on a draft electronic business guide, and on a diagnostic assessment of the private sector. This diagnostic assessment, which will be completed by end-June 2020, will evaluate the major opportunities for and constraints on private sector development and it will seek to identify the priority actions and political reforms needed over the next three to five years for the mobilization of private investment. In addition, we intend to continue the strengthening of the Joint Consultation Framework for Business Improvement (CMCAA) in order to promote and strengthen the government-private sector dialogue.

31. **Other structural and institutional reforms will be implemented**. They will regard in particular the updating and simplification of tax and customs procedures within the context of the project to digitize revenue-collecting agencies that was launched in October 2019. With the support of the World Bank, we are in the process of drafting a new mining code, which we intend to submit to the National Assembly by end-March 2020. Furthermore, we will carry out a reform of the judicial sector in line with the strategy approved in September 2019.

32. **We will pursue financial sector reforms**. With the development of banking transactions via mobile phone (which grew from CFAF 2.9 billion to CFAF 10.9 billion between 2017 and 2018), financial inclusion is progressing for the entire population. A working group has been created to follow up on the recommendations from the "Financial Sector and Justice in the C.A.R." conference that was organized by the National Credit Council (CNC) in June 2018. The group has prepared and submitted to the CNC draft laws and inter-ministerial orders regarding the creation of and operating procedures for an arbitration and mediation center, as well as an arbitration chamber under the commercial court that would be responsible for banking and financial disputes.

SUPPORT FOR THE IMPLEMENTATION OF REGIONAL FOREIGN EXCHANGE REGULATIONS

33. **In order to make a meaningful contribution to rebuilding the subregion's foreign exchange reserves, the government will continue to support the implementation of the new foreign exchange regulations by the regional institutions:**

- From the identification of accounts abroad held by state-owned enterprises, it was determined that only the SODIAC company held an account abroad as required by the IATA. The company will file a request with the BEAC by end-December 2019 for an exception to the foreign exchange regulations in order to be able to keep its account.
- The contracts concluded with extractive industry operators, specifying revenue sharing, the procedures for repatriating this revenue, and the financial terms, have been shared with the BEAC and the Technical Secretariat of the CEMAC's Economic and Financial Reform Program (PREF-CEMAC). The government will set a timetable to make certain that these contracts are in full compliance with the new foreign exchange regulations by end-March 2020. Lastly, we are committed to consulting with BEAC staff prior to the signature of new mining concession contracts/permits or revenue-sharing agreements with extractive industries to ensure they are following foreign exchange regulations.
- The BEAC has held high-level consultative meetings with commercial banks, the private sector, and government agencies to clarify the new foreign exchange regulations and to examine all issues relating to their implementation.
- The government has instructed the unit responsible for the repatriation of export earnings within the Ministry of Finance to do its due diligence with respect to the new body of regulations on the domiciliation of all export transactions with a resident commercial bank.

CAPACITY BUILDING

34. **The technical assistance (TA) and training provided by the IMF will be vital in the coming years for building our institutional capacity and ensuring the successful implementation of this new program supported by the ECF.** We have designed and are implementing with the IMF a capacity-building strategy, which was updated in May 2019. To this end, we are receiving ongoing technical assistance to improve customs and tax revenue collection, ensure better cash management, and strengthen the public expenditure chain.

35. **We will implement this capacity-building strategy with the support of the Fund, the World Bank Group, the European Union, France, and other development partners.** Our priorities in terms of TA are as follows: (i) improvement of revenue administration; (ii) strengthening of public financial management and improvement of fiscal governance and anti-corruption mechanisms; (iii) building macroeconomic programming and debt management capacity; and (iv) improvement of the quality of economic and financial statistics.

36. **Similar strategies were designed in coordination with other donors in their own fields of intervention.** Similarly, we will continue efforts to strengthen and coordinate the support of our partners to make the most of available technical assistance. To this end, we have increased the staff of the Economic and Financial Reform Monitoring Unit (*Cellule de suivi des réformes économiques et financières*, or CS-REF) in charge of following up on the reform program and coordinating the technical assistance and training provided by all partners.

PROGRAM MONITORING

37. **Program monitoring will be carried out using quantitative performance criteria, indicative targets, and structural benchmarks as defined in the Technical Memorandum of Understanding** (Attachment II). The quantitative performance criteria have been set for end-December 2019 and end-June 2020, and the indicative targets have been set for end-March and end-September 2020 (Table 1). Structural benchmarks have been set up to December 2020 (Table 2). It is envisaged that the first review of the ECF arrangement concerning performance at end-December 2019 will take place by end-June 2020 and that the second review concerning performance at end-June 2020 will take place by end-December 2020.

38. **Exchange restrictions**: Throughout the duration of the program, we are committed not to impose or expand restrictions on payments and transfers relating to current international transactions, resort to multiple currency practices, conclude bilateral agreements that do not comply with Article VIII of the IMF's Articles of Agreement, or impose or expand restrictions in order 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. In accordance with the recommendations from the tripartite discussion, we support the efforts by the BEAC in the implementation of the exchange regulations by pursuing the full repatriation of export earnings and the centralization of foreign currency holdings on the BEAC's books, including actions to ensure that all public entities repatriate and surrender their foreign currency holdings.

Table 1. Central African Republic: Proposed Performance Criteria and Indicative Targets, 2019–20
(in CFAF billions)

	End December 2019	End-March 2020	End-June 2020	End-September 2020	End-December 2020
	PC	Indicative Target	PC	Indicative Target	Indicative target
Quantitative performance criteria					
Domestic government financing (ceiling, cumulative for the year)	-27.0	17.0	-4.0	25.0	18.0
Domestic revenue (floor, cumulative for the year) [1]	118.0	34.6	70.8	104.2	141.7
Domestic primary fiscal balance (floor, cumulative for the year)[2]	-40.9	-3.6	-9.4	-26.5	-39.9
Repayments of domestic arrears (floor, cumulative for the year)	29.5	9.0	18.0	27.0	36.4
Continuous performance criteria					
Contracting or guaranteeing of new external non concessional debt (ceiling) [3,4]	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	0.0	0.0
Indicative targets					
Social spending (floor, cumulative for the year)[5]	25.0	5.9	12.4	20.2	28.0
Spending through extraordinary procedures (ceiling, cumulative for the year)	4.7	1.2	2.5	4.0	5.6
Memorandum item: [6]					
New concessional/external debt contracted or guaranteed by the government	6.0	25.0	25.0	25.0	25.0
Budget support	81.9	0.0	31.1	31.1	54.1
Privatization receipts	0.0	0.0	0.0	0.0	0.0

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

[1] Domestic revenue, which excludes foreign grants and divestiture receipts.

[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.

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

[6] Projected on a cumulative basis.

Table 2. Central African Republic: Prior Actions and Structural Benchmarks, January 2020–December 2020

Measures	Timeline	Macroeconomic Rationale
Submit to parliament the 2020 draft budget in line with program objectives	Prior action-Met	Improve accountability
Adopt a procedures manual for the daily reconciliation of the customs and tax departments' revenue estimates with those of the treasury department	Prior action	Improve transparency and revenue collection
Recruit new service provider to assist the custom authorities in controlling import valuation and certifying and securing timber export revenues	End-January 2020	Improve transparency and revenue collection
Approve secondary legislations to support the implementation of the new legal framework for public and para-public institutions and enterprises	End-March 2020	Improve oversight of SOEs
Submit to parliament a draft supplementary budget law providing for the elimination of the seven remaining public agencies without economic justification identified by the IGF	End-June 2020	Improve transparency and revenue collection
Capture all the 2018 and 2019 corporate tax returns into the SYSTEMIF IT system	End-June 2020	Reduce corruption and improve revenue collection
Submit to Parliament a law to bring the asset declaration regime into alignment with the applicable international good practices	End-September 2020	Improve accountability
Deploy e-procedures (declaration and payments) for large companies	End-December 2020	Improve transparency and revenue collection

Attachment II. Technical Memorandum of Understanding 2019

1. **This Technical Memorandum of Understanding (TMU) defines the quantitative targets (performance criteria and indicative targets) and structural benchmarks that will be used to evaluate performance under the program for the Central African Republic (C.A.R.) presented in the Memorandum of Economic and Financial Policies.** The TMU also establishes the framework and deadlines for the reporting of data which will enable IMF staff to evaluate the program's implementation.

E. Definitions

2. **Unless otherwise specified, the government is defined as the central government of the 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).

3. **Definition of debt**. The definition of debt is set out in point 8 of the Attachment to IMF 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.

(d) **Domestic debt** is defined as debt borrowed or serviced in the CFA franc.

4. **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).

5. **Concessional debt.** A debt is considered concessional if its grant element is at least 35 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.

6. **Total government revenue** is tax and nontax revenue or other revenue recorded on a cash basis. Proceeds from financial 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.

7. **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 investment expenditure, recorded on a settlement basis, unless otherwise stated. Total government expenditure also includes expenditures executed before payment authorization and not yet settled.

8. **Wages and salaries** correspond to the compensation of government employees as described in paragraphs 6.8–6.18 of *GFSM 2014*, 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, and any other form of monetary or non-monetary payment

9. **For the purposes of this memorandum, the term arrears** is defined as any debt obligation (as defined in paragraph 3 above) that has not been paid in conformity with the conditions specified in the pertinent contract establishing them.

10. **Domestic payment arrears** are the sum of: (i) payment arrears on expenditures; 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 "balances payable" (or "amounts due"). Balances payable correspond to government unpaid financial obligations and include the domestic floating debt in addition to expenditure arrears. They are defined as expenditures incurred, validated by the financial controller, settled (authorized), and assumed by the public Treasury, but which have not yet been paid. These obligations include bills payable but not paid to public and private companies, but they do not include domestic debt financing (principal plus interest). For the program target, domestic payment arrears are "balances payable" 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 and the amount actually paid after the payment deadline specified in the pertinent contract.

11. **External payment arrears** are defined as arrears on external debt obligations. They represent the difference between the amount required to be paid under the contract and the amount actually paid after the payment deadline specified in the pertinent contract.

F. Quantitative Targets

12. **The quantitative targets listed below are those specified in Table 1 of the MEFP.** Adjusters of the quantitative targets are specified in Section D**.** Unless otherwise indicated, all performance criteria and indicative benchmarks are assessed on a cumulative basis from the beginning of the calendar year in which they are set.

a) Performance Criteria

Ceiling on net domestic financing of the government

- **Net domestic financing of the government** is defined as the sum of (i) net bank credit to the government, defined below; and (ii) non-bank financing of the government, including proceeds from the sale of financial assets, proceeds from privatization or the granting of licenses, Treasury bills, and other securitized debt issued by the government in the CEMAC regional financial market and denominated in CFA francs, 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).

- **Net 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], securitized 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 local commercial banks, including Treasury bills and other securitized debt.

Floor for domestic government revenue

- **Domestic government revenue:** only revenue on a cash basis (tax and nontax revenue) will be taken into account in the TOFE.

Floor for the domestic primary fiscal balance

- **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 for the payment of domestic arrears

- The government undertakes to settle on a priority basis **domestic arrears** that have been validated.

Ceiling on new external debt contracted or guaranteed by the government

- **The government undertakes not to contract or guarantee non-concessional loans.**

Non-accumulation of new external payment arrears by the government

- **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 is applied on a continuous basis.

b) Indicative targets

Floor for social spending

- Poverty-reducing social spending comprises public non-wage spending on national education (primary, secondary, and higher education), health, social action (promotion of women and families, humanitarian actions), water and sanitation, microfinance (small and medium-sized enterprises and industries), agriculture, livestock, and rural development. Only domestically-financed spending is taken into account. Its execution is monitored on a payment-order basis during the program.

Ceiling on spending through extraordinary procedures

- This ceiling is set at 5 percent of total non-salary spending or debt service (principal and interest) and funded by external resources.

c) Memorandum item

Ceiling on new external concessional debt contracted or guaranteed by the government

- Recourse to concessional debt will be limited to investment projects critical to the country's development for which it will not be possible to obtain grants.

G. Adjusters of Quantitative Targets

13. To take into account the factors or changes that are essentially outside the government's performance, **various quantitative targets for 2020 and beyond** will be adjusted as follows:

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

   i. The ceiling on net domestic financing of the government will be adjusted upward by an amount equivalent to 50 percent of these additional receipts;

ii. The floor for the primary domestic budget balance will be adjusted downward by an amount equivalent to 50 percent of these additional receipts.

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

i. The ceiling on net domestic financing of the government will be adjusted downward by an amount equivalent to 50 percent of the disbursements in excess of the programmed amounts;

ii. The floor for the primary domestic budget balance will be adjusted downward by an amount equivalent to 50 percent of the disbursements in excess of the programmed amounts.

c. **If the total budget support is less than the programmed amount**, the following adjustments will be made:

i. The ceiling on net domestic financing of the government will be adjusted upward by an amount equivalent to the remainder of disbursements programmed but not made, that is, 50 percent of the disbursements programmed but not made;

ii. The floor for the primary domestic budget balance will be adjusted upward by an amount equivalent to 50 percent of the disbursements programmed but not made.

H. Structural Benchmarks

a) Prior actions

These measures need to be implemented prior to the discussion of the new ECF arrangement by the IMF Executive Board.

Submit to parliament the 2020 draft budget in line with the program objectives

- This draft should be in line with the commitments made under paragraph 15 of the MEFP.

Adopt a procedures manual for the daily reconciliation of customs and tax departments' revenues estimates with those of the treasury department

- This manual will define the procedures to be followed in the daily reconciliation of customs and tax data with Treasury data in order to improve transparency and the mobilization of budget resources.

b) Structural benchmarks

Recruit new service provider to assist the custom authorities in controlling import valuation and certifying and securing timber export revenues

- By end-January 2020 a new service provider should be recruited to assist the customs administration and to carry out a valuation of imports and secure the export revenues of the forestry sector.

Approve secondary legislations to support the implementation of the new legal framework for public and para-public institutions and enterprises

- These implementing decrees should be adopted by end-March 2020.

Submit to parliament a draft supplementary budget law providing for the elimination of the seven remaining public agencies without economic justification identified by the IGF.

- This draft law should be submitted by end-June 2020.

Capture all the 2018 and 2019 corporate tax returns into the SYSTEMIF IT system

- All corporate tax returns for 2018 and 2019 should be entered into the SYSTEMIF IT system before end-June 2020.

Submit to Parliament a law to bring the asset declaration regime into alignment with the applicable international good practices.

- This law, which is expected to be presented to parliament by end-September 2020, will, inter alia, specify the assets that are supposed to be declared, the persons concerned, the means for the publication of declarations, and penalties in the event of failure to comply with the law.

Deploy e-procedures (declaration and payments) for large companies

- Online procedures for filing tax returns and making tax payments are expected to be put into place for large taxpayers before end-December 2020.

I. Reporting of Data to the IMF

14. **Quantitative data on the government's indicative targets will be reported to IMF staff according to the periodicity described in Table III.** 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 3. Central African Republic – Reporting of Data to the IMF under the ECF Funding Arrangement

Description of data to be provided in Excel format	Deadline
Semi-annual evaluation report on qualitative indicators and structural measures (Tables 1 and 2 in the MEFP), accompanied by supporting documents	Within four weeks of the end of each quarter
Monetary survey, monthly central bank and commercial bank accounts	Within four weeks of the end of each month
Table of the government's monthly cash flow operations, reconciled with the BEAC	Within 10 days of the end of each month
Government financial operations table (TOFE)	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
Stock of external debt at end of period	Within four weeks of the end of each month
Breakdown of expenditures listed in the TOFE (goods, 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, whether domestically or externally funded	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 netted out 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 creditors	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

December 10, 2019

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Annalisa Fedelino (AFR); Seán Nolan (SPR); and Marcello Estevão (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)[1]

Central African Republic Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgement	No

The Central African Republic (C.A.R.) remains at high risk of external debt distress and overall high risk of debt distress, unchanged from the last DSA.[2] Solvency indicators remain below their relevant thresholds, but liquidity indicators breach their thresholds under the baseline scenario. Sensitivity of debt indicators to standard stress tests, highly uncertain macroeconomic projections, a volatile security environment, and sizeable contingent liabilities are all considerations supporting the high-risk assessment. Staff recommendation is that the government should continue to rely heavily on grant financing to finance its most pressing spending needs, with limited room for concessional financing.[3]

[1] This DSA has been prepared jointly by the IMF and World Bank, following the revised LIC-DSF Framework and Guidance Note (2017) in effect as of July 1, 2018.

[2] Country Report No. 19/216, July 2019.

[3] With a score of 2.42, C.A.R.'s composite indicator signals a weak debt-carrying capacity (Text Table 3).

PUBLIC DEBT COVERAGE

1. **The coverage of public sector debt is in line with the previous DSA, exhibiting some gaps.** Information is available on the central government's contractual debt obligations. State and local governments do not borrow, there are no social security funds guaranteed by the public sector, and the government has not guaranteed other debt (Text Table 1).

2. **Compared to the last DSA, the end-2018 debt stock has been revised slightly upward, while some contingent liabilities appear less likely to materialize.** The debt stock revision, amounting to 0.9 and 1.5 percent of GDP at end-2017 and end-2018, respectively, stemmed from the previous misclassification as grants of loan disbursements under a project loan. While little information is still available on the financial situation and domestic debt and arrears of state-owned enterprises (SOEs), the recent audit of most of the potential government domestic arrears identified in the Spring appears to indicate that only a fraction will need to be repaid.

3. **The authorities are taking specific steps to improve financial oversight of SOEs, which should lead to better debt coverage going forward.** They submitted to parliament a new legal framework governing SOEs and have reorganized the Ministry of Finance. The debt unit is being strengthened through training and better IT systems supported by development partners.

4. **The contingent liabilities stress test assumes a shock of 15 percent of GDP for its tailored portion (Text Table 1).** This significant amount reflects the uncertainty about non-guaranteed SOE debt and arrears, potential additional domestic arrears, and financial market risks. The contingent liabilities shock from SOE debt is set at 5 percent of GDP (instead of 2 percent for its default value) to reflect heightened risks associated with non-guaranteed SOE debt and potential expenditure arrears. The shock from domestic arrears is set at 5 percent of GDP to factor in past and persisting shortcomings in the country's public expenditure management systems. The financial market risk shock is kept at the minimum default value of 5 percent of GDP given the small size and depth and relatively robust financial position of the financial sector in C.A.R.

Text Table 1. Central African Republic: Coverage of Public Sector Debt and Design of the Contingent Liability Stress Test

Subsectors of the public sector	Sub-sectors covered
Central government	X
State and local government	X
Other elements in the general government	
o/w: Social security fund	X
o/w: Extra budgetary funds (EBFs)	
Guarantees (to other entities in the public and private sector, including to SOEs)	X
Central bank (borrowed on behalf of the government)	X
Non-guaranteed SOE debt	

The country's coverage of public debt	The central, state, and local governments plus social security, central bank, government-guaranteed debt		
	Default	**Used for the analysis**	**Reasons for deviations from the default setting**
Other elements of the general government not captured above	0 percent of GDP	5	Possible domestic payment arrears not included in debt stock
SOEs' debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	5	Limited information SOEs' financial position
PPP	35 percent of PPP stock	0	
Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (in percent of GDP)		15	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully caputred under the coutnry's public debt definition. If it is already included in the goverenment debt and risks associated with SOE debt not guaranteed by the government is assessed to be neglibible, a country team may reduce this to 0%.

Source: IMF staff estimates and country authorities

BACKGROUND ON DEBT

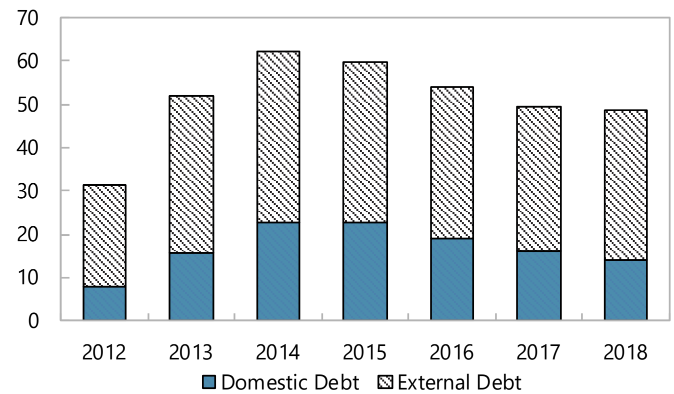
5. **C.A.R.'s public and publicly guaranteed (PPG) debt has continued to gradually decline.** It is now estimated at 50 percent of GDP at end-2018 (compared with 50.3 percent of GDP at end-2017), with external debt amounting to 36.1 percent of GDP (34.1 percent of GDP at end-2017).[4, 5] Debt indicators deteriorated significantly in the wake of the 2013 crisis when GDP collapsed, and domestic and external arrears accumulated. Conditions have improved since, supported by economic recovery, stronger revenue mobilization, arrears clearance, and limited new borrowing (Text Figure 1).

[4] External debt is defined on a residency basis with the exception of BEAC advances, which are considered domestic debt as in the last DSA for C.A.R. Mechanically, the CFAF-denominated debt held by the BEAC would weaken the external debt sustainability indicators if they were considered external debt, but the risk from this debt is lower than foreign currency denominated debt owing to the lack of currency risk, strong institutional ties, and the relative ease of rescheduling. All outstanding T-bills are held by domestic banks and included in domestic debt.

[5] These debt stocks include about 10 percent of GDP in arrears to non-Paris Club official creditors. These arrears are not expected to be repaid at better terms than those of the 2009 Paris Club agreement: no debt service on these loans is assumed in the DSA.

6. **The government has not contracted any new loan since the last DSA.** So far this year, disbursements have been limited to CFAF 3.6 billion under the afore-mentioned World Bank project loan, 2.4 billion from the Saudi Fund, 0.5 billion from the Arab Bank for Economic Development in Africa and CFAF 18.3 billion under the ECF-supported program.

Text Figure 1. Central African Republic: Evolution of Public Sector Debt, 2012–18 (percent of GDP)



Sources: IMF staff estimates and country authorities

7. **Pre-HIPC arrears and debt owed to multilateral creditors continue to account for the bulk of external debt.** Multilateral creditors, mainly the IMF and the World Bank, hold almost half of the external debt. Bilateral debt amounts to 7.2 percent of GDP, with India, China and Congo being the main creditors. Pre-HIPC arrears are owed to Non-Paris Club creditors (Argentina, Equatorial Guinea, Iraq, Libya, and Taiwan, Province of China). The average nominal interest rate stood at 0.6 percent for external debt, reflecting the preponderance of concessional borrowing. Half of the domestic debt consists of statutory and exceptional advances from the Central Bank, which have been consolidated into one loan to be repaid from 2022 onwards, in line with regional arrangements. The remainder mainly includes officially recognized arrears amounting to 4.7 percent of GDP.

UNDERLYING MACROECONOMIC ASSUMPTIONS

8. **Medium-term projections (up to 2024) have been slightly updated and are fully consistent with the new program scenario.**

- The current account balance is expected to improve over time thanks to a gradual decline of imports relatively to GDP from exceptionally high post-crisis levels.
- A very limited primary deficit is expected in the next five years amid substantial grant financing.
- A medium-term GDP growth rate of 5 percent reflects the assumption of further catch-up to the pre-crisis level of GDP.

Text Table 2. Central African Republic: Macroeconomic Assumptions

	DSA-19		DSA-update	
	2019-24 average	2025-2039 average	2019-24 average	2025-2039 average
	(% of GDP)		(% of GDP)	
GDP growth (percent)	4.9	3.4	4.9	3.4
GDP deflator (percent)	2.6	2.8	2.9	2.8
Non-interest current account balance	-4.8	-2.8	-5.3	-2.8
Exports	14.8	14.6	15.2	15.5
Primary balance	0.4	-1.0	-0.1	-1.0
Revenues and grants	18.2	16.6	18.1	16.5

Source: IMF staff calculations

9. **There has been no major changes to the long-term macroeconomic projections since the last DSA (Text Table 2).**

- External sector variables remain broadly unchanged. Current transfers are expected to decline and FDI to increase gradually from a low level. Overall, it is expected that the non-interest current account deficit will reach 3 percent of GDP in the long run.

- Domestic revenues are assumed to follow a gradual upward trend, reaching 14 percent of GDP at the end of the projection period. And the fiscal primary surplus is expected to turn into a deficit of 1 percent of GDP over the long run as grant financing gradually declines.

- After increasing sharply in the short run, budget grants are assumed to decline in the long run, from an average of 7.5 percent of GDP during 2019–24 to 2 percent of GDP by 2039.[6] The financing needs in the short run are covered by deposit withdrawals while it is assumed that 80 percent of longer-term needs would be covered through external concessional borrowing—with a gradually decreasing degree of concessionality—and the remaining 20 percent through domestic borrowing.

- In the long run (2025–39), a 3.4 percent growth is assumed—unchanged from the last DSA. This implies modest per-capita GDP growth as population growth is estimated at about 2.5 percent.

10. **The realism tools do not flag significant risks around the baseline scenario** (Figures 3 and 4). Both external and public PPG debt projections are in line with the previous DSA. Factors contributing to debt dynamics appear broadly in line with historical contributions. Unexpected changes in external and public debt are close to the median for all LICs. The envisaged fiscal path

[6] This assumption is consistent with multilateral development institutions providing support in the form of a mix of grants and concessional financing. Even if C.A.R.'s risk rating was to improve, a substantial share of financing would likely be provided in the form of grants.

is well in line with the historical performance and the experience in other LIC countries. It is also worth noting that, in the case of C.A.R., changes in the primary balance are not always a good indicator to gauge the impact of fiscal policy. While the primary balance is expected to improve substantially (owing to the significant increase in external grants, which will be only partly spent), fiscal policy is likely to prove expansionary (owing to the increase in spending).

Table 3. Central African Republic: Calculation of Composite Indicator and Thresholds

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.471	0.95	39%
Real growth rate (in percent)	2.719	3.272	0.09	4%
Import coverage of reserves (in percent)	4.052	32.644	1.32	55%
Import coverage of reserves^2 (in percent)	-3.990	10.657	-0.43	-18%
Remittances (in percent)	2.022	0.097	0.00	0%
World economic growth (in percent)	13.520	3.579	0.48	20%
CI Score			2.42	100%
CI rating			Weak	

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

Sources: IMF staff estimates, Word Bank *Country Policy and Institutional Assessment*, and country authorities

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

11. **Solvency indicators of the external PPG debt remain below their thresholds under the baseline scenario** (Figure 1). Under this scenario, the present values (PV) of the debt-to-GDP and debt-to-exports ratios do not breach their thresholds and decline from their initial level over the projection period. The PV of the external debt-to-GDP ratio would breach the thresholds for three years under the most extreme standardized stress test (a combination of a shock to growth, the primary balance, exports, other non-debt creating flows, and depreciation). The standardized stress test of lower nominal export growth leads to a temporary breach of the PV of the external debt-to-exports ratio.[7] Setting key variables to their historical average would result in a clear upward trend of both debt ratios.

[7] The shock assumes nominal export growth of one standard deviation below its historical average in the second and third year of the projection period.

12. **Liquidity indicators of the external PPG debt breach their thresholds for five years under the baseline scenario** (Figure 1). The external debt service-to-exports ratio breaches the threshold from 2024–28, driven by a significant uptick of debt service during that period related to the end of the grace period of a loan as well as significant repayments to the Fund. The trajectory of the external debt service-to-revenue ratio is similar, even if the breach is shorter and of a lesser magnitude. Both breaches are larger than in the previous DSA, owing mainly to the projected disbursements under the proposed new ECF arrangement. Significant and persistent breaches of the external debt service-to-exports ratio and the external debt service-to-revenue ratio would happen under the historical scenario and the most extreme standardized stress test (standardized shocks to exports and a combination of shocks respectively).

B. Public Debt Sustainability Analysis

13. **The total PPG debt indicator remains well below its benchmark under the baseline scenario** (Figure 2). In addition, the PV of the debt-to-revenue ratio is declining over the projection period. The debt-service-to-revenue and grants ratio is set to rise until 2025 reflecting the start of repayments of exceptional and statutory advances to BEAC and higher external debt service payments. A standardized shock to growth would trigger a breach of the treshold for the PV of the debt-to-GDP ratio and lead to a significant increase of the PV of the debt-to-revenue ratio.[8] It is also worth noting that public debt indicators could worsen owing to contingent liabilities. An important stock of unverified arrears may lead to additional payment obligations. Adding domestic debt to the analysis does not change the overall risk of debt distress.

CONCLUSION

14. **C.A.R remains at high risk of external debt distress and overall high risk of debt distress.** The solvency indicators for both external PPG debt ratios stay below their respective thresholds. However, C.A.R.'s capacity to service debt is severly constrained by its low revenue mobilization and weak export base, with the external debt service-to-export and external debt service-to-revenue ratios breaching their respective thresholds under the baseline scenario.

15. **A number of other considerations support the high-risk assessment.** Macroeconomic projections are highly uncertain given the still volatile security environment. Standardized stress tests also underline the sensitivity of the debt indicators to assumptions. Lower export or real GDP growth would trigger a significant deterioration of debt sustainability indicators with multiple threshold breaches. In addition, sizeable contingent liabilities, notably related to the limited financial information available on SOEs, could materialize.

16. **The authorities broadly agreed with this assessment.** They shared the view that C.A.R.'s capacity to service debt is limited and are committed to mobilizing grant financing to cover their financing needs to the largest extent possible. At the same time, they emphasized that the overall public debt is on a declining trend but agreed that there is a need to strengthen debt monitoring, especially by broadening the coverage to SOEs and clarifing the status of unverified domestic arrears.

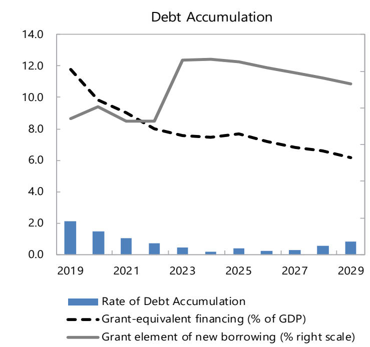
[8] The shock assumes real GDP growth of one standard deviation below its historical average in the second and third year of the projection period.

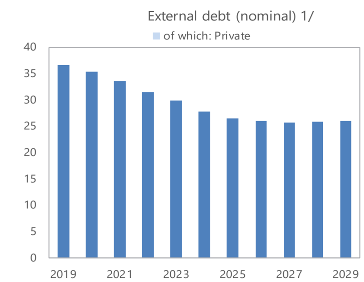
Table 1. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2016–39

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	35.1	35.4	37.2	36.7	35.4	33.5	31.5	29.8	27.8	26.0	25.7	25.8	29.5
of which: public and publicly guaranteed (PPG)	35.1	35.4	37.2	36.7	35.4	33.5	31.5	29.8	27.8	26.0	25.7	25.8	29.5
Change in external debt	-1.8	0.4	1.8	-0.5	-1.3	-1.9	-2.0	-1.7	-2.0	0.2	0.0		
Identified net debt-creating flows	...	2.9	3.9	2.8	3.1	2.2	2.3	2.7	2.6	0.5	0.0	3.4	1.7
Non-interest current account deficit	5.0	7.7	7.8	5.4	6.0	5.0	5.1	5.3	5.1	2.8	2.7	7.5	4.2
Deficit in balance of goods and services	16.4	16.5	17.8	17.7	16.1	15.0	14.4	13.8	13.3	8.5	8.5	14.3	12.1
Exports	18.0	15.9	15.9	15.1	15.2	15.1	15.1	15.2	15.2	15.5	15.5		
Imports	34.4	32.4	33.7	32.9	31.4	30.1	29.4	29.1	28.5	24.0	24.0		
Net current transfers (negative = inflow)	-11.4	-8.8	-10.0	-12.4	-10.2	-10.0	-9.2	-8.4	-8.0	-7.4	-5.8	-6.8	-8.8
of which: official	-5.0	-3.2	-4.4	-7.2	-5.1	-5.0	-4.3	-3.6	-3.5	-3.9	-2.9		
Other current account flows (negative = net inflow)	0.0	0.0	-0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	1.8	0.0	-0.1	0.9
Net FDI (negative = inflow)	-0.4	-0.8	-0.8	-1.1	-1.3	-1.4	-1.4	-1.3	-1.3	-1.7	-2.2	-1.4	-1.4
Endogenous debt dynamics 2/	...	-4.0	-3.1	-1.4	-1.5	-1.4	-1.4	-1.3	-1.2	-0.6	-0.5		
Contribution from nominal interest rate	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3		
Contribution from real GDP growth	-1.6	-1.4	-1.2	-1.6	-1.7	-1.6	-1.5	-1.5	-1.4	-0.8	-0.8		
Contribution from price and exchange rate changes	...	-2.8	-2.0	...	...	...	...	...	...	...	...		
Residual 3/	...	-2.5	-2.1	-3.4	-4.4	-4.0	-4.3	-4.5	-4.6	-0.3	0.0	-2.3	-2.7
of which: exceptional financing	...	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	18.5	19.8	19.6	19.1	18.3	17.3	15.9	13.4	16.2		
PV of PPG external debt-to-exports ratio	...	...	116.1	131.0	128.8	126.8	121.6	114.0	104.8	86.0	104.3		
PPG debt service-to-exports ratio	6.0	1.8	3.8	4.8	6.3	6.7	8.0	8.4	10.3	8.3	5.9		
PPG debt service-to-revenue ratio	14.6	3.7	6.8	8.3	9.9	10.1	11.6	12.1	14.6	10.8	6.5		
Gross external financing need (Million of U.S. dollars)	104.2	148.9	173.2	118.7	144.4	129.5	148.2	173.1	192.7	121.0	129.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.7	4.5	3.8	4.5	5.0	5.0	5.0	5.0	5.0	3.4	3.4	-0.2	4.2
GDP deflator in US dollar terms (change in percent)	2.7	8.6	6.0	-0.5	3.6	3.1	3.2	3.0	4.7	2.5	2.5	2.6	3.2
Effective interest rate (percent) 4/	0.9	0.4	0.5	0.4	0.5	0.5	0.5	0.6	0.6	0.8	1.2	1.1	0.6
Growth of exports of G&S (US dollar terms, in percent)	13.8	0.3	10.2	-1.2	9.5	7.1	8.3	9.2	9.9	6.0	6.0	6.0	7.3
Growth of imports of G&S (US dollar terms, in percent)	2.7	6.8	14.6	1.4	3.8	3.8	6.0	6.8	7.8	6.0	6.0	7.6	4.3
Grant element of new public sector borrowing (in percent)	...	...	...	37.0	40.3	36.3	36.3	53.1	53.2	46.6	31.9	...	45.8
Government revenues (excluding grants, in percent of GDP)	7.4	7.8	8.9	8.7	9.7	10.0	10.3	10.6	10.8	11.8	14.0	8.1	10.6
Aid flows (in Million of US dollars) 5/	5205.0	14434.2	24576.9	272.7	254.9	246.7	237.1	228.1	240.8	247.9	180.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	11.8	9.8	9.0	8.0	7.6	7.4	6.2	2.7	...	8.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	86.3	87.3	89.3	88.8	90.1	88.7	80.9	65.6	...	85.8
Nominal GDP (Million of US dollars)	1,825	2,071	2,280	2,371	2,579	2,792	3,026	3,271	3,596	5,049	9,029		
Nominal dollar GDP growth	7.6	13.5	10.1	4.0	8.8	8.2	8.4	8.1	10.0	6.0	6.0	2.2	7.5
Memorandum items:													
PV of external debt 7/	...	...	18.5	19.8	19.6	19.1	18.3	17.3	15.9	13.4	16.2		
In percent of exports	...	...	116.1	131.0	128.8	126.8	121.6	114.0	104.8	86.0	104.3		
Total external debt service-to-exports ratio	6.0	1.8	3.8	4.8	6.3	6.7	8.0	8.4	10.3	8.3	5.9		
PV of PPG external debt (in Million of US dollars)			421.9	470.4	506.1	533.5	554.3	567.5	573.5	674.8	1460.0		
(PVt-PVt-1)/GDPt-1 (in percent)				2.1	1.5	1.1	0.7	0.4	0.2	0.8	1.3		
Non-interest current account deficit that stabilizes debt ratio	6.9	7.3	6.0	5.9	7.2	6.8	7.1	7.1	7.1	2.6	2.7		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





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) + Εα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes valuation adjustments. For projections also includes contribution from price and exchange rate changes. High value of the residual is related to capital grants which are not captured in this presentation.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ 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).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

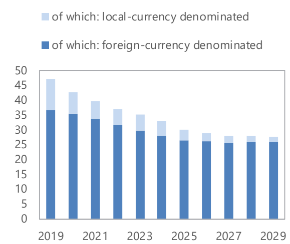
Table 2. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario 2016–39

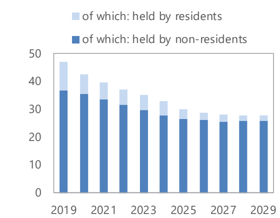
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	**53.9**	**50.3**	**50.0**	**47.1**	**42.6**	**39.8**	**37.1**	**35.1**	**33.0**	**27.7**	**27.0**	**41.9**	**34.3**
of which: external debt	**35.1**	**35.4**	**37.2**	**36.7**	**35.4**	**33.5**	**31.5**	**29.8**	**27.8**	**26.0**	**25.7**	**25.8**	**29.5**
Change in public sector debt	-5.9	-3.6	-0.3	-2.9	-4.5	-2.8	-2.7	-2.0	-2.2	-0.2	0.0		
Identified debt-creating flows	**-4.3**	**-7.9**	**-0.1**	**-3.8**	**-4.6**	**-2.8**	**-2.7**	**-1.9**	**-2.1**	**-0.2**	**0.0**	**0.8**	**-2.1**
Primary deficit	**-1.6**	**0.7**	**0.6**	**-2.1**	**0.1**	**-0.5**	**0.3**	**1.0**	**1.2**	**1.1**	**1.2**	**0.8**	**0.3**
Revenue and grants	13.2	12.8	16.6	19.4	18.6	18.4	17.8	17.2	17.1	16.7	16.0	**13.6**	**17.5**
of which: grants	5.8	5.0	7.8	10.7	8.9	8.4	7.5	6.6	6.4	4.9	2.0		
Primary (noninterest) expenditure	11.6	13.5	17.2	17.2	18.7	18.0	18.1	18.2	18.3	17.9	17.2	**14.4**	**17.8**
Automatic debt dynamics	**-2.7**	**-8.6**	**-0.8**	**-3.5**	**-3.3**	**-2.9**	**-2.7**	**-2.5**	**-2.7**	**-1.3**	**-1.1**		
Contribution from interest rate/growth differential	-3.8	-5.2	-2.2	-3.1	-3.0	-2.7	-2.5	-2.3	-2.1	-1.3	-1.2		
of which: contribution from average real interest rate	-1.1	-2.8	-0.3	-1.0	-0.8	-0.7	-0.6	-0.6	-0.5	-0.4	-0.3		
of which: contribution from real GDP growth	-2.7	-2.3	-1.9	-2.1	-2.2	-2.0	-1.9	-1.8	-1.7	-0.9	-0.9		
Contribution from real exchange rate depreciation	1.1	-3.5	1.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.2**	**1.8**	**-1.4**	**0.5**	**-0.3**	**-0.5**	**-0.7**	**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 contingent liabilities (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		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Change in deposits	...	...	0.2	1.8	-1.4	0.5	-0.3	-0.5	-0.7	0.0	0.0		
Residual	**-1.6**	**4.3**	**-0.2**	**0.5**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.5**	**0.0**	**0.0**	**0.7**	**-0.2**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**32.1**	**30.2**	**26.8**	**25.3**	**23.8**	**22.6**	**21.1**	**15.1**	**17.4**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**192.8**	**156.0**	**144.3**	**137.2**	**134.0**	**131.6**	**123.1**	**90.1**	**109.0**		
Debt service-to-revenue and grants ratio 3/	**14.0**	**9.2**	**18.6**	**13.1**	**20.7**	**10.5**	**12.4**	**14.4**	**18.9**	**13.9**	**8.8**		
Gross financing need 4/	-0.3	1.7	3.7	0.4	3.9	1.5	2.4	3.4	4.4	3.4	2.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.7	4.5	3.8	4.5	5.0	5.0	5.0	5.0	5.0	3.4	3.4	**-0.2**	**4.2**
Average nominal interest rate on external debt (in percent)	0.9	0.5	0.5	0.4	0.5	0.5	0.5	0.6	0.6	0.8	1.2	**1.1**	**0.6**
Average real interest rate on domestic debt (in percent)	-2.0	-5.3	-0.4	-1.1	-0.7	-0.1	0.0	0.3	0.8	2.7	5.8	**-1.0**	**0.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	3.2	-10.9	4.0	...	...	...	...	...	...	...	...	**2.3**	**...**
Inflation rate (GDP deflator, in percent)	3.0	6.4	1.3	2.8	2.5	2.5	2.6	2.5	2.5	2.5	2.5	**4.6**	**3.0**
Growth of real primary spending (deflated by GDP deflator, in percent)	-9.8	22.4	31.8	4.7	13.6	1.1	5.6	5.6	5.8	3.0	3.0	**3.8**	**4.6**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	4.3	4.3	0.8	0.8	4.6	2.3	3.0	3.0	3.4	1.3	1.1	**3.2**	**2.3**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus social security, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29

	Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	**19.8**	**19.6**	**19.1**	**18.3**	**17.3**	**15.9**	**14.8**	**14.1**	**13.5**	**13.3**	**13.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	19.8	21.6	23.5	25.1	26.2	27.1	29.4	31.7	34.0	36.7	39.7
A2. Alternative Scenario : 6th Review	17.0	15.8	15.5	14.9	13.9	12.8	11.5	10.8	10.5	10.6	10.9
B. Bound Tests											
B1. Real GDP growth	19.8	24.1	28.9	27.7	26.3	24.1	22.3	21.3	20.5	20.2	20.2
B2. Primary balance	19.8	20.2	21.5	20.8	19.7	17.9	16.6	15.9	15.3	15.0	14.9
B3. Exports	19.8	21.0	22.7	21.8	20.7	19.1	17.8	17.0	16.4	16.0	15.8
B4. Other flows 2/	19.8	23.6	26.9	25.8	24.6	22.8	21.2	20.4	19.6	18.9	18.5
B5. One-time 30 percent nominal depreciation	19.8	24.6	20.4	19.6	18.5	16.9	15.6	14.8	14.1	14.1	14.3
B6. Combination of B1-B5	19.8	30.3	35.9	34.4	32.7	30.3	28.1	27.0	25.8	25.0	24.7
C. Tailored Tests											
C1. Combined contingent liabilities	19.8	25.2	25.6	25.0	23.7	21.7	20.2	19.4	18.8	18.6	18.5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30.0**	**30.0**	**30.0**	**30.0**	**30.0**	**30.0**	**30.0**	**30.0**	**30.0**	**30.0**	**30.0**
PV of debt-to-exports ratio											
Baseline	**131.0**	**128.8**	**126.8**	**121.6**	**114.0**	**104.8**	**94.9**	**90.6**	**87.1**	**85.7**	**86.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	131.0	141.7	155.8	166.5	172.0	178.2	189.3	203.8	218.8	236.0	255.5
A2. Alternative Scenario : 6th Review	109.7	103.7	102.8	101.0	97.4	92.7	83.3	77.7	74.6	74.7	76.5
B. Bound Tests											
B1. Real GDP growth	131.0	128.8	126.8	121.6	114.0	104.8	94.9	90.6	87.1	85.7	86.0
B2. Primary balance	131.0	132.8	142.5	138.0	129.5	117.8	106.8	102.1	98.3	96.4	96.2
B3. Exports	131.0	161.6	202.8	194.7	183.0	169.1	153.6	147.2	141.6	138.0	136.8
B4. Other flows 2/	131.0	155.1	178.5	171.4	161.6	150.0	136.6	131.5	126.2	121.8	119.3
B5. One-time 30 percent nominal depreciation	131.0	128.8	108.2	103.7	96.9	88.6	79.9	75.8	72.6	72.3	73.7
B6. Combination of B1-B5	131.0	172.9	155.9	177.9	167.3	154.8	140.7	135.0	128.9	125.4	123.9
C. Tailored Tests											
C1. Combined contingent liabilities	131.0	165.6	169.7	165.7	155.9	143.0	130.0	125.0	121.1	119.4	119.4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140.0**	**140.0**	**140.0**	**140.0**	**140.0**	**140.0**	**140.0**	**140.0**	**140.0**	**140.0**	**140.0**
Debt service-to-exports ratio											
Baseline	**4.8**	**6.3**	**6.7**	**8.0**	**8.4**	**10.3**	**11.9**	**11.9**	**11.4**	**10.4**	**8.3**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	4.8	6.7	7.6	9.7	10.9	14.3	17.7	18.7	19.1	18.8	16.6
A2. Alternative Scenario : 6th Review	6.9	5.4	5.4	7.0	7.8	10.9	11.8	10.6	8.9	7.0	4.7
B. Bound Tests											
B1. Real GDP growth	4.8	6.3	6.7	8.0	8.4	10.3	11.9	11.9	11.4	10.4	8.3
B2. Primary balance	4.8	6.3	6.8	8.3	8.7	10.6	12.0	12.3	12.0	11.5	9.4
B3. Exports	4.8	7.4	9.3	11.3	11.8	14.4	16.5	16.5	16.4	15.8	12.8
B4. Other flows 2/	4.8	6.3	7.1	8.7	9.0	10.9	12.4	12.4	13.1	13.2	10.9
B5. One-time 30 percent nominal depreciation	4.8	6.3	6.7	7.7	8.2	10.1	11.7	11.7	11.3	9.3	7.3
B6. Combination of B1-B5	4.8	6.9	8.4	9.9	10.4	12.7	14.4	14.5	15.5	14.2	11.6
C. Tailored Tests											
C1. Combined contingent liabilities	4.8	6.3	7.3	8.6	9.0	10.9	12.3	12.3	11.9	10.8	8.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**
Debt service-to-revenue ratio											
Baseline	**8.3**	**9.9**	**10.1**	**11.6**	**12.1**	**14.6**	**16.8**	**16.5**	**15.6**	**13.9**	**10.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	8.3	10.5	11.4	14.1	15.6	20.3	25.1	26.0	26.1	25.1	21.7
A2. Alternative Scenario : 6th Review	10.8	8.1	7.8	9.6	10.2	13.4	14.2	12.7	10.6	8.3	5.5
B. Bound Tests	10.8	8.1	7.8	9.6	10.2	13.4	14.2	12.7	10.6	8.3	5.5
B1. Real GDP growth	8.3	12.2	15.3	17.6	18.4	22.1	25.4	25.0	23.6	21.0	16.4
B2. Primary balance	8.3	10.0	10.3	12.0	12.5	15.0	17.1	17.1	16.4	15.4	12.3
B3. Exports	8.3	10.0	10.4	12.2	12.7	15.2	17.4	17.1	16.6	15.7	12.5
B4. Other flows 2/	8.3	9.9	10.6	12.6	13.0	15.4	17.5	17.2	17.9	17.7	14.3
B5. One-time 30 percent nominal depreciation	8.3	12.4	12.7	14.1	14.8	18.0	20.7	20.4	19.3	15.7	12.0
B6. Combination of B1-B5	8.3	12.5	16.3	18.6	19.3	23.0	26.3	25.8	27.1	24.4	19.5
C. Tailored Tests											
C1. Combined contingent liabilities	8.3	10.0	10.9	12.5	13.0	15.4	17.5	17.1	16.2	14.4	11.3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Includes official and private transfers and FDI.

Table 4. Central African Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2019–29

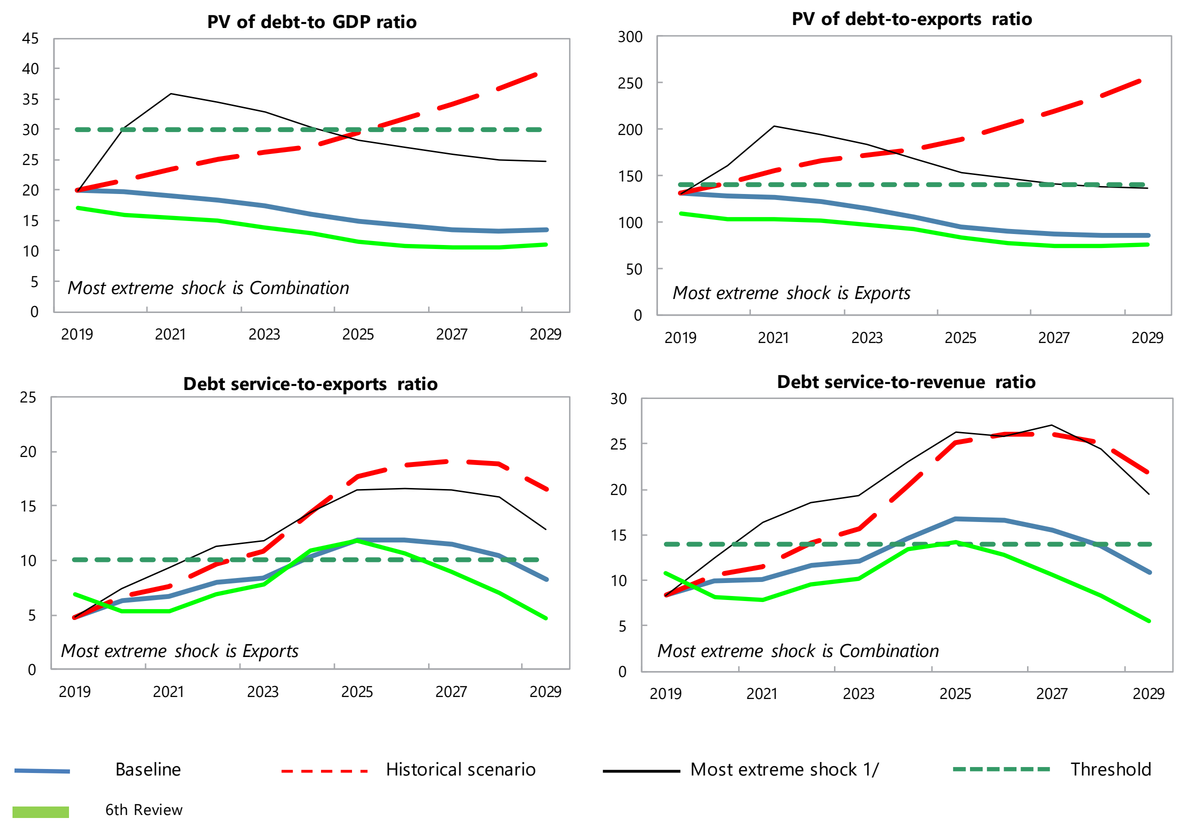
	Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	PV of Debt-to-GDP Ratio										
Baseline	**30.2**	**26.8**	**25.3**	**23.8**	**22.6**	**21.1**	**18.3**	**16.9**	**15.9**	**15.4**	**15.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	30.2	28.1	27.7	27.4	26.9	25.9	24.3	23.1	22.2	21.4	20.9
A2. Alternative Scenario : 6th Review	27.1	23.6	22.4	20.8	18.9	17.1	14.9	13.8	13.0	12.8	12.8
B. Bound Tests											
B1. Real GDP growth	30.2	63.6	77.7	77.5	77.5	76.7	73.2	73.4	74.4	76.1	78.0
B2. Primary balance	30.2	27.8	28.1	26.4	25.1	23.7	20.7	19.2	18.2	17.5	17.1
B3. Exports	30.2	28.0	28.6	27.0	25.6	24.0	21.1	19.6	18.5	17.8	17.3
B4. Other flows 2/	30.2	30.8	33.1	31.3	29.8	28.0	24.8	23.3	22.0	21.0	20.3
B5. One-time 30 percent nominal depreciation	30.2	63.2	59.5	56.5	53.6	50.2	44.7	41.7	39.4	37.6	36.1
B6. Combination of B1-B5	30.2	29.2	33.2	31.0	29.9	28.5	25.9	24.2	23.1	22.5	22.1
C. Tailored Tests											
C1. Combined contingent liabilities	30.2	35.4	32.6	30.6	29.2	27.5	24.4	22.8	21.7	21.1	20.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**35.0**	**35.0**	**35.0**	**35.0**	**35.0**	**35.0**	**35.0**	**35.0**	**35.0**	**35.0**	**35.0**
	PV of Debt-to-Revenue Ratio										
Baseline	**156.0**	**144.3**	**137.2**	**134.0**	**131.6**	**123.1**	**107.5**	**99.6**	**94.3**	**91.7**	**90.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	156.0	149.1	146.0	147.8	148.9	142.4	131.5	125.0	120.2	116.5	113.9
A2. Alternative Scenario : 6th Review	19.7	14.4	8.7	11.3	12.0	14.5	15.0	13.5	12.2	10.7	9.2
B. Bound Tests											
B1. Real GDP growth	156.0	308.6	341.0	358.0	376.6	376.0	363.0	367.8	377.1	390.1	404.6
B2. Primary balance	156.0	149.7	152.2	148.2	146.1	138.3	121.7	113.3	107.5	104.2	101.8
B3. Exports	156.0	150.9	154.9	151.7	149.3	140.0	123.5	115.3	109.6	105.9	103.2
B4. Other flows 2/	156.0	165.9	179.3	176.0	173.7	163.2	145.5	137.0	130.2	125.0	121.0
B5. One-time 30 percent nominal depreciation	156.0	354.4	335.1	328.5	322.4	302.0	269.7	252.4	239.3	229.0	220.9
B6. Combination of B1-B5	156.0	152.0	164.1	160.2	161.2	154.5	141.1	133.2	128.0	125.5	124.1
C. Tailored Tests											
C1. Combined contingent liabilities	156.0	190.5	177.0	171.9	169.8	160.8	143.1	134.4	128.5	125.4	123.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	**13.1**	**20.7**	**10.5**	**12.4**	**14.4**	**18.9**	**22.7**	**18.9**	**16.7**	**15.5**	**13.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	13.1	21.2	11.6	13.2	15.6	20.8	25.9	22.2	19.8	19.0	17.3
A2. Alternative Scenario : 6th Review	19.7	14.4	8.7	11.3	12.0	14.5	15.0	13.5	12.2	10.7	9.2
B. Bound Tests											
B1. Real GDP growth	13.1	23.1	14.2	20.0	24.6	30.7	36.0	32.5	30.8	30.7	29.9
B2. Primary balance	13.1	20.9	12.4	16.6	16.7	19.3	22.3	19.1	17.3	16.7	15.2
B3. Exports	13.1	20.7	10.6	12.6	14.6	19.1	22.9	19.1	17.3	16.6	15.0
B4. Other flows 2/	13.1	20.7	10.8	13.0	14.9	19.4	23.1	19.4	18.3	18.1	16.4
B5. One-time 30 percent nominal depreciation	13.1	21.0	12.9	14.8	16.8	21.7	25.8	22.6	19.9	18.4	15.9
B6. Combination of B1-B5	13.1	21.6	12.4	16.2	19.1	23.7	27.9	24.3	22.3	21.2	19.6
C. Tailored Tests											
C1. Combined contingent liabilities	13.1	20.9	22.0	20.2	16.9	19.8	22.7	19.2	17.2	16.0	14.4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2019–29



Customization of Default Settings		
	Size	**Interactions**
Standardized Tests	Yes	
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	**User defined**
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.7%	0.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	6	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Central African Republic: Indicators of Public Debt Under Alternative Scenarios, 2019–29

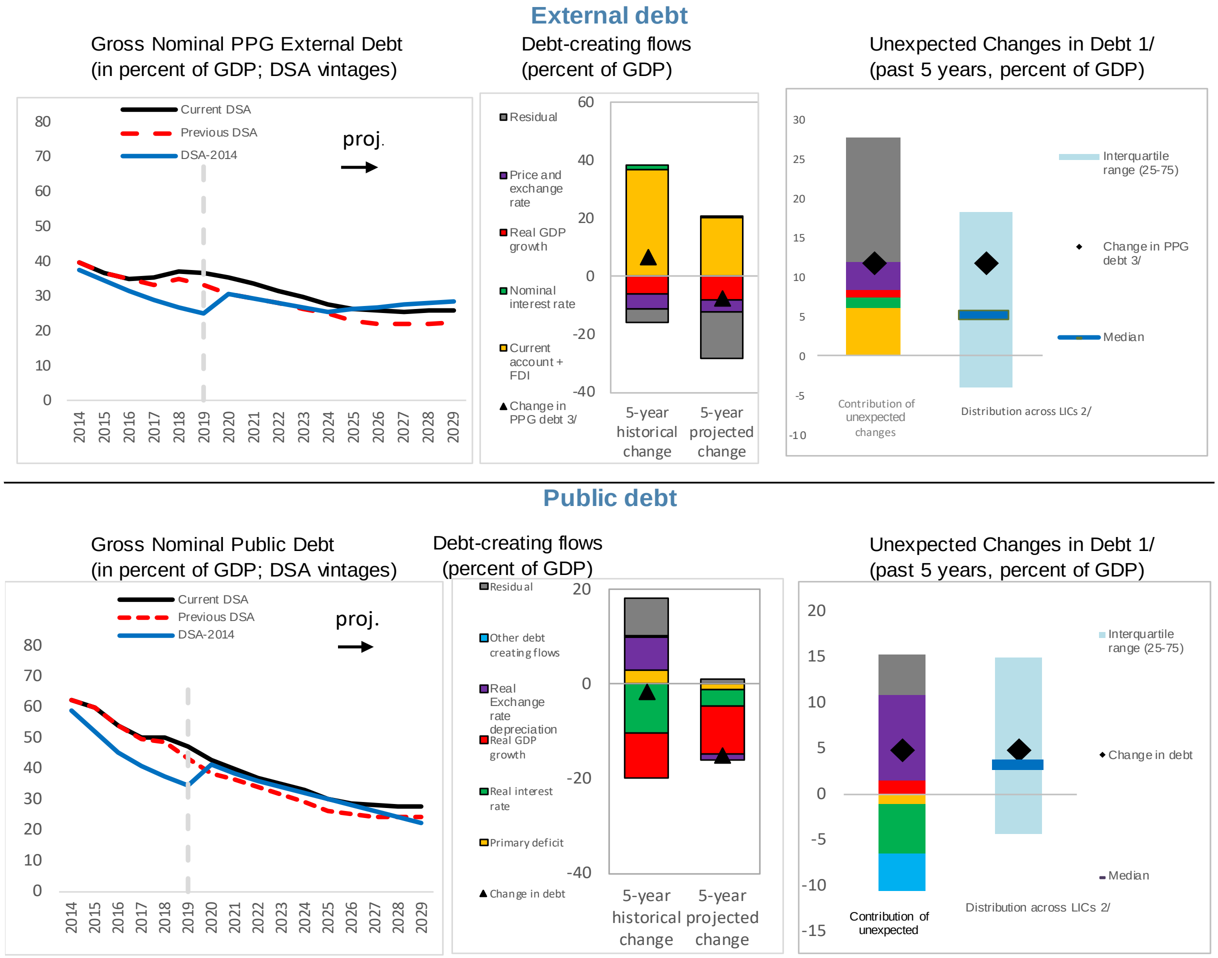
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	79%	79%
Domestic medium and long-term	7%	7%
Domestic short-term	14%	14%
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.7%	0.7%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.2%	5.2%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	1%	2.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Central African Republic: Drivers of Debt Dynamics - Baseline Scenario



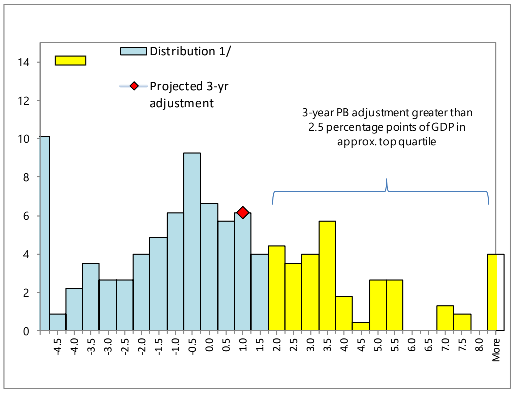
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

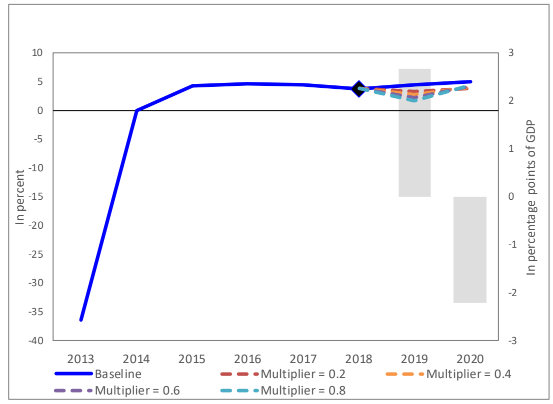
Figure 4. Central African Republic: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



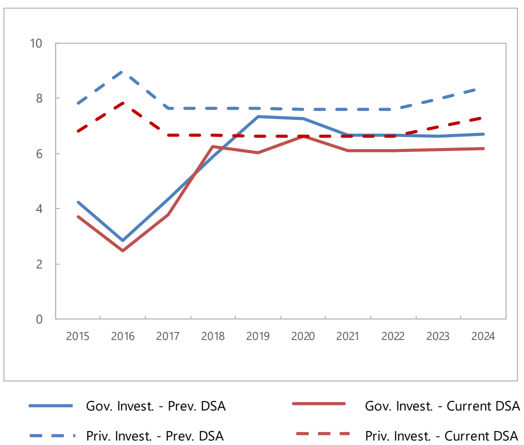
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

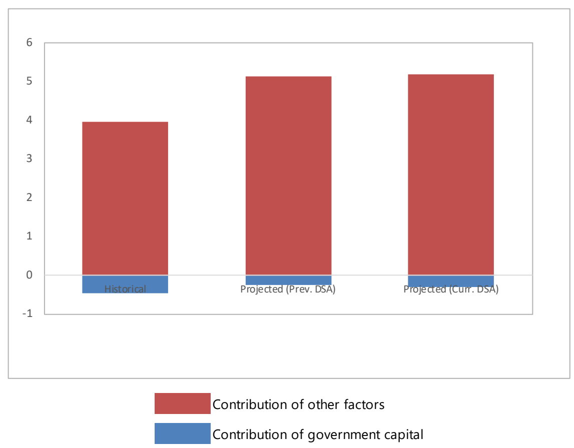


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)



CENTRAL AFRICAN REPUBLIC

December 13, 2019

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—SUPPLEMENTARY INFORMATION

Prepared By | The African Department

1. **This supplement provides staff's assessment of the ability of the Fund to provide financing to the Central African Republic (C.A.R.) notwithstanding official bilateral external arrears to Libya.** It does not alter staff's assessment of policy issues and recommendations contained in the report.

2. **Staff has not yet received consent from the Libyan authorities regarding the provision of Fund financing to the C.A.R., but staff assesses that the Fund can nevertheless provide financing to the C.A.R.** Under the Fund's lending-into-official-arrears (LIOA) policy, in the absence of creditor consent, the Fund can only lend into official bilateral arrears under carefully circumscribed circumstances. In the case of the arrears of the C.A.R. to Libya, staff assesses that these circumstances are met. Specifically, since the arrears are related to official sector involvement under a non-representative Paris Club agreement, staff had to assess whether a set of three criteria is met. Staff's detailed assessment is provided as part of this supplement, which will be added to the staff report. Staff recommends approval of C.A.R.'s request for a three-year arrangement supported by the Extended Credit Facility notwithstanding official bilateral arrears to Libya.

Annex I. Lending into Arrears to Official Bilateral Creditors

Staff assesses that the conditions are met for the Fund to provide financing to C.A.R. in line with the policy on arrears to official bilateral creditors, notwithstanding its outstanding arrears to Libya. In particular:

- **Prompt financial support from the Fund is considered essential and the member is pursuing appropriate policies**. C.A.R. continues to face significant macroeconomic challenges and deep-seated structural rigidities hindering growth. Financial support from the Fund is considered essential to allow for orderly adjustment by covering the protracted balance of payment need, catalyzing external support, and supporting the successful implementation of C.A.R.'s program. C.A.R.'s policies in the context of a new ECF-supported program covering 2020–22 are expected to pursue macroeconomic stability and external viability through fiscal and structural reforms, notably by mobilizing domestic revenue, enhancing the efficiency of spending, restoring and building basic infrastructure and utilities, and improving governance and the business environment.

- **The debtor is making *good faith efforts* to reach agreement with the creditor on a contribution consistent with the parameters of the Fund-supported program:**

  - *In terms of process,* the C.A.R. authorities have contacted the Libyan authorities bilaterally through letters (most recently on December 4, 2019) and meetings (most recently last March in Tunis), offering to engage in substantive dialogue and start a collaborative process on resolving the outstanding arrears. Relevant information has been shared with the Libyan authorities on a timely basis. The C.A.R. authorities are committed to continue making their good faith efforts until all the remaining arrears are resolved.

  - *The terms offered* by the C.A.R. authorities to the Libyan authorities are in line with the financing and debt objectives of the Fund-supported program and would not result in financing contributions that exceed the requirements of the Fund-supported program. The terms offered imply a contribution that is not disproportionate relative to those sought from other official bilateral creditors at the time of the HIPC operation. Indeed, the authorities are seeking from Libya exactly comparable HIPC terms of 94 percent debt cancellation.

- **The decision to provide financing despite the arrears is not expected to have an undue negative effect on the Fund's ability to mobilize official financing packages in future cases**. The contribution sought from Libya did not account for the majority of financing contributions required from official bilateral creditors in the context of the HIPC operation. Libya does not appear to have a strong track record of providing contributions in the context of Fund-supported programs (having undertaken only 5 HIPC restructurings out of its total 18 Completion-Point debtors). Therefore, in staff's view, providing financing to C.A.R. despite the arrears is not expected to have an undue negative effect on the Fund's ability to mobilize future financing packages, given strong support from the international community in the context of the Fund-supported program for C.A.R. and the C.A.R. authorities' efforts to resolve this in a timely manner.

Statement by Mr. Raghani, Executive Director for the Central African Republic, Mr. N'Sonde, Senior Advisor to Executive Director, and Mr. Bangrim, Advisor to Executive Director

December 20, 2019

1. The authorities of Central African Republic (C.A.R.) would like to thank the Executive Board, Management and Staff for their constant support which has been instrumental in implementing the 2016–19 Extended Credit Facility (ECF) arrangement. This program has supported the authorities' efforts to restore macroeconomic stability and advance structural reforms. Program performance has been broadly satisfactory amid a challenging security and humanitarian environment. Real GDP growth has continued to expand throughout the program period, fiscal and external positions have strengthened, and public financial management has improved.

2. While progress is still underway, the country continues to cope with daunting challenges stemming notably from its fragility situation. A full restoration of state authority, full return to peace and capacity development remain key priorities. The authorities will leverage the peace dividends from the country's Political Agreement for Peace and Reconciliation (*Accord politique pour la paix et la réconciliation*, APPR) to step up the implementation of their refocused and extended Recovery and Peacebuilding Plan (*Plan de relèvement et de consolidation de la paix, RCPCA).*

3. To address these challenges while reinforcing macroeconomic stability, enhancing administrative capacities and laying solid foundations for stronger, sustained and inclusive growth, the authorities are requesting a new three-year ECF arrangement. The new program should also help catalyze highly needed support from other external partners.

I. Recent Economic Developments and Outlook

Recent Economic Developments

4. Supported by the forestry, mining and construction sectors, real GDP growth is expected to increase from 3.8 percent in 2018 to 4.5 percent this year. As well, a positive output growth has been recorded in other sectors, including gold, diamonds and wood. Improved security conditions, particularly on the Douala-Bangui main economic corridor, have helped to dampen inflationary pressures. As a result, CPI inflation is projected at 3.2 percent this year against 3.5 percent anticipated at the conclusion of the 6^{th} review under the previous ECF program. Revenue performance was slightly weaker than expected over the past few months on account of capacity constraints as well as unplanned tax exemptions. Expenditure as shown by primary domestic spending was also lower than anticipated due to reduced transfers to

public agencies and delays in public investment. Structural fiscal reforms are advancing, including the transfer of parafiscal taxes to the Treasury single account (TSA) and the elimination of a selected number of agencies. Furthermore, actions to enhance the monitoring of wood exports and the valuation of imports, and rationalization of current spending are currently underway. The domestic primary fiscal balance should stand at 3.0 percent of GDP this year against 2.0 percent last year. Public debt has been on a declining path and is expected to decrease to 47.1 percent of GDP at end-2019 compare to 50.0 percent in 2018. On the external front, the current account deficit (including grants) is narrowing from 8.0 percent of GDP in 2018 to 5.6 percent in 2019 owing notably to a significant increase in official transfers.

5. Regarding the financial sector, indicators show that the banking system is well capitalized and liquid, and it remains profitable in 2019 albeit slightly rising non-performing loans (NPLs) which are nevertheless adequately provisioned.

Outlook and Risks

6. The progress made on the political front with the APPR, complemented by the ongoing macroeconomic stabilization, have improved prospects in CAR. Growth is projected at 5.0 percent over the medium-term and the anticipated economic recovery should be broad-based, supported notably by the revitalization of the energy, mining and transport sectors. In view of elevated domestic and external risks, stemming mainly from security issues, next-year elections, a slowdown of global growth and potential delays in partners financial support, the authorities intend to step up their efforts to accelerate the implementation of key policies and reforms.

II. Policy and Reform Agenda for the Medium-Term

7. The authorities are determined to conduct policies and reforms aiming to enhance macroeconomic stability further, strengthen capacity building, reduce poverty while facilitating a gradual exit from crisis under the regional strategy. For this purpose, their approach which requires a substantial support from donors, will focus mainly on three areas: (i) *fiscal policy* oriented towards increasing domestic revenue mobilization; (ii) reinforcement of *public financial management* and public institutions to improve efficiency and credibility; and (iii) targeted structural reforms to reduce vulnerabilities and shortcomings respectively in *governance and business climate*.

Fiscal Policy

8. Going forward, the government's fiscal policy will be anchored in reducing public debt to 40.0 percent of GDP over the medium-term and achieving a domestic primary fiscal deficit of about 2.5 percent of GDP. Already, the 2020 budget submitted to the National Assembly considers a domestic primary fiscal deficit of 2.7 percent of GDP, down from the 3.0 percent

deficit expected in 2019. It will strive to implement CEMAC directives and remove six public agencies with no meaningful economic justification in connection with the parafiscal reform.

9. The revenue mobilization strategy will be supported by efforts to streamline exemptions, digitalize tax administration, strengthen customs procedures, including by improving imports value declaration, upgrading IT systems and the interconnection of main offices. In the same vein, profit taxes, income taxes, and the VAT systems will be enhanced. Moreover, strict management of the government's cash flows under the TSA will be thoroughly followed. On the other hand, public spending will be streamlined notably by limiting transfers to public entities and non-priority expenditure.

10. The 2020 budget envisages a substantial increase in resources to health, education and humanitarian sectors. Throughout the program period, appropriate measures will be taken to safeguard resources allocated to social spending. The authorities will work with development partners, notably the World Bank, African Development Bank, French Development Agency (AFD), UNDP, and European Union to support the victims of the conflict and protect the most vulnerable segments of the population.

Public Financial and Debt Management

11. To achieve an efficient management of public finances, significant changes will be introduced to budget and accounting management software, and to the public procurement system while a strict control of exceptional spending procedures will be enforced. Furthermore, cognizant of the risk of debt distress, the authorities are reinforcing debt management by improving reporting, auditing and monitoring debt dynamics while ameliorating the quality of debt data. This also includes the clearance of domestic arrears with the continued implementation of the action plan approved in 2017. The authorities will continue to negotiate in good faith with external creditors, adopt a sound borrowing strategy and prioritize grants and concessional loans.

Monetary and Financial Sectors

12. The government of CAR remains committed to implement the enhanced foreign exchange regulation in collaboration with BEAC, in order to help rebuild the international reserves. In this context, the central bank is organizing outreach events with commercial banks and the private sector, including mining companies, with a view to enhance awareness and promote better understanding of the purpose of the regulation. The authorities will continue to support BEAC in enforcing the regulation in CAR, including the repatriation and surrender of foreign exchange deposits from export proceeds.

13. Regarding the financial sector, the government's policies intend to expand access to financial services through the increased use of mobile banking, thereby fostering financial

inclusion. The authorities also plan to improve the sector's business framework, including the creation of a credit bureau and the establishment of an arbitrage and mediation center for financial disputes, consistent with the outcome of the "Financial Sector and Justice in the CAR" conference.

Structural Reforms

14. Cognizant of the need to strengthen governance, capacity and business environment, the authorities are taking decisive actions to enhance transparency, accountability and the rule of law in line with the recommendations of the Fund diagnostic mission on governance. At the same time, the frameworks for enforcing officials' asset declaration requirements and aligning anti-corruption laws with the United Nations Convention Against Corruption (UNCAC) will be consolidated to address corruption challenges, especially those with macro critical implications.

15. Regarding capacity building, the authorities highly value the technical assistance provided by the Fund and other development partners. To augment the efficiency and coordination of capacity development support, they will reinvigorate the unit in charge of economic and financial reforms (CS-REF) while focusing on public financial and debt management, tax and customs administrations, statistics and fiscal governance.

16. The government aims to attract more private investments through greater ease of doing business. In this regard, with support from the UNDP and World Bank respectively, the authorities are making progress towards reinforcing the legal frameworks to limit the maximum amounts of liquidated damages due from employers and revise the labor code to introduce more flexibility. Meanwhile, they will maintain a close dialogue with the private sector under the dialogue platform CMCAA (*Cadre Mixte de Concertation pour l'Amélioration des Affaires*). It is also worth noting that additional initiatives are underway to simplify tax and customs procedures, develop an electronic business guide, revise the mining code as well as conduct a reform of the judicial system in line with their strategy adopted in September 2019.

III. Conclusion

17. Our CAR authorities reiterated their strong commitment to pursue sound policies and far reaching reforms to consolidate the gains achieved under the 2016-19 ECF arrangement and continue supporting the CEMAC regional strategy. In this regard, they are requesting a new three-year arrangement under the ECF which will help catalyze the assistance of other external partners. We would appreciate the Executive Board's approval of their request.