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Central African Republic: 2011 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Central African Republic

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with Central African Republic, the following documents have been released and are included in this package:

- The staff report for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 16, 2011, with the officials of Central African Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 13, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 31, 2012 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Central African Republic.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

January 13, 2012

KEY ISSUES

Context: Almost nine years after the end of the conflict, the Central African Republic (C.A.R.) continues to grapple with the challenges of a fragile state with low capacity and formidable obstacles to economic take-off. Growth remained low, barely exceeding population growth and, with limited fiscal space for investment in social programs and public services, poverty is pervasive and social indicators are weak.

Perspectives: The growth and inflation outlooks are favorable as risks and uncertainties related to the domestic environment have subsided. Growth is projected to reach 4.1 percent in 2012 and accelerate to over 5 percent by 2014 on the back of continued strong performance of the primary sector and major investments in the mining sector. Increased agricultural production would reduce inflationary pressures, with consumer price inflation remaining below 3 percent. However, the ongoing global crisis, particularly in the Euro area could dampen the growth prospects and frustrate the authorities' efforts at restoring fiscal sustainability.

Near- and medium-term challenges: In the near term, there is a need to regain control of budget execution and restore fiscal discipline to allay governance concerns following the fiscal slippages in 2010 and early 2011. Staff and the authorities agreed on the need to consolidate the fiscal position in 2012 and align expenditures with available resources. Going forward, the main challenge is to create fiscal space for poverty reduction and investment in infrastructure through stronger domestic resource mobilization and prioritization of government expenditures. With C.A.R. very dependent on external assistance, another challenge is to improve public financial management (PFM) and governance, and strengthen capacity and institutions to ensure efficient use of public resources.

Longer-term challenge: A longer-term challenge is to promote sustained high growth and ensure diversification of the economy, which will require scaling up investment in basic infrastructures and improving competitiveness.

Approved By
Michael Atingi Ego and Dhaneshwar Ghura

Discussions took place in Bangui during November 3–16, 2011. The staff team comprised Messrs. Toé (head), Fischer, Keller, and Tapsoba, (all AFR). Mr. Ntamatungiro, resident representative, assisted the mission. Mr. Tall (OED) participated in the discussions as did staff from the World Bank, the European Union, and the African Development Bank

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INTRODUCTION

1. **The Central African Republic (C.A.R.) continues to grapple with the challenges of a fragile post-conflict state**. Macroeconomic performance has been broadly satisfactory since the conflict ended in 2003, but growth remained modest and well below the averages for sub-Saharan Africa (SSA) and other fragile states (Text Table 1). Insufficient domestic and external resources, deep-rooted structural deficiencies, weak institutional capacity, and the lack of diversification of the economy are hampering economic take-off and poverty reduction.

Text Table 1. Central African Republic: Composition of Growth, 1994–2011

(Percent of GDP)

	Primary	o/w Agriculture & Livestock	Secondary	Tertiary	CAR GDP	Fragile States GDP	SSA GDP
1994–2002 (Average)	1.6	0.8	-0.3	0.3	0.9	1.5	4.0
2003	-1.6	0.3	-1.0	-3.9	-7.2	0.1	5.0
2004–11 (Average)	1.0	1.1	0.5	0.9	2.8	2.9	5.7

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

2. **Domestic resource mobilization is low making the economy highly dependent on external assistance**. Despite sustained efforts at strengthening revenue administration over the past several years under Fund-supported programs, C.A.R. has one of the lowest domestic revenue-to-GDP ratios in SSA. At less than 10 percent of GDP, it barely covers current expenditures, limiting investment in basic infrastructures (Text Table 2). As a result, C.A.R. is dependent donor assistance, which has been quite volatile.

Text Table 2. Central African Republic: Average Revenue-to-GDP Ratios of SSA Groupings, 1990–2010

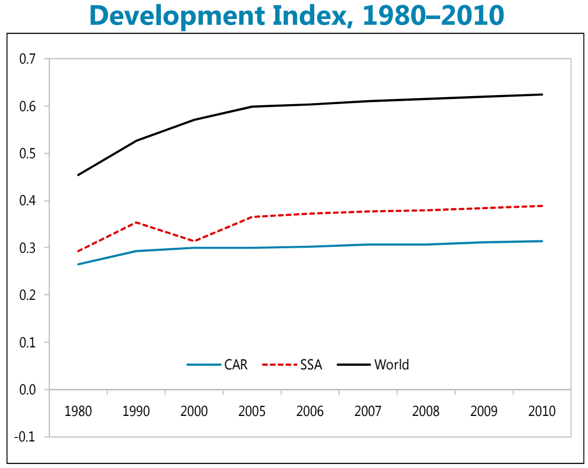
Text Table 2. Average Revenue-to-GDP Ratios of Selected SSA Groupings (1990–2010)

	Total revenue	Tax	Non tax
Central African Republic	9.2	8.0	1.2
Sub-Saharan Africa	18.2	13.5	4.7
CFA Franc	14.4	10.6	3.8
CEMAC	16.9	10.2	6.7
Fragile states	13.8	11.4	2.4
Non resource rich countries	16.9	14.0	2.9
Landlocked	19.2	15.9	3.3

Source: IMF database.

3. **Poverty is pervasive and social indicators are weak** (Box 1). C.A.R. has one of the highest poverty rates in SSA at 63 percent, and it is unlikely to meet any of the Millennium Development Goals (MDGs) by 2015. The human development indicators, while characteristic of a post-conflict and fragile state, are particularly weak when compared to other low-income SSA countries, and some indicators have deteriorated (Figure 1).

Figure 1. Central African Republic: Human Development Index, 1980–2010



Box 1. Central African Republic and the MDGs: Falling Far Behind

Social indicators place the C.A.R. among the least developed countries in the world. The 2011 UNDP Human Development Report ranks the C.A.R. near the bottom of its Human Development Index (HDI) (179 out of 187 countries). In 2010, it scored 0.34 in the UNDP HDI, well below the SSA average of 0.39.

C.A.R. is unlikely to achieve the MDGs by 2015. The public provision of basic social services has been limited and inequitable. For example, the poorest 20 percent of households benefit from only 8 percent of public expenditure on primary education. Also, certain (implicit) subsidies, such as for fuel and electricity, are mostly benefitting the richest segment of the population.

While education provision has increased in recent years, its quality is generally poor, and more than 40 percent of teachers are untrained community teachers, hired directly by families.

Several health indicators reflect the high poverty in C.A.R.: Life expectancy has fallen from 50 years in the 1990s to 45 years in 2007; maternal mortality, estimated at 850 per 100,000 live births in 2009, remains very high; the HIV/AIDS prevalence rate, at 6.3 percent for the 15–49 age group in 2005, is high although considerably below the double-digit rates found in a number of southern African countries; and maternal and infant mortality rates have been increasing.

Progress in Selected MDGs Goals

	Indicators for monitoring progress	Baseline 1990	Objective 2015	Status 2009
MDG1: Eradicate extreme poverty	Proportion of population below $1.25 (PPP) per day (in percent)	83	41.51	63
MDG2: Achieve Universal Education	Total enrollment ratio in primary education (in percent)	58	100	67
	Proportion of pupils starting grade 1 who reach last grade of primary (in percent)	31	100	38
MDG3: Promote gender equality and empower women	Ratio of girls to boys primary enrollment (in percent)	63	100	71
MDG4: Reduce child mortality	Under five mortality rate (in percent)	175	70	171
	Proportion of 1–2 years-old children immunized against measles (in percent)	82	100	62
MDG5: Improve maternal health	Maternal mortality ratio (per 100,000 live births)	880	293	850
MDG6: Combat HIV/AIDS, malaria and other diseases	HIV prevalence among population aged 15-49 years (in percent)	3.1	1.5	4.73
	Incidence of tuberculosis (per 100,000 people)	145	73	327
MDG7: Ensure environmental sustainability	Proportion of population using improved drinking water source (in percent)	58	79	67
	Proportion of population using an improved sanitation facility (in percent)	11	55	34

Source: The World Bank.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

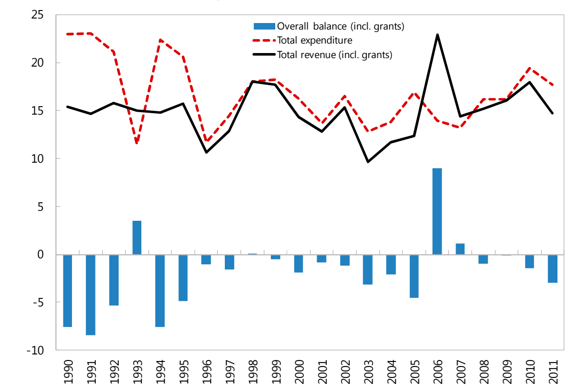
A. Recent Developments

4. Macroeconomic performance in 2010 and 2011 was mixed. As a result of a rebound of agricultural production in 2010 and contained world oil prices, real GDP growth reached 3.3 percent—somewhat higher than population growth—and average inflation was held down at 1.5 percent (Table 1 and Figure 3). For 2011, economic growth has been weaker than anticipated as the expected recovery in domestic demand after the prolonged electoral period did not materialize. Moreover, due to post-election uncertainties, major investments in the mining sector and oil exploration in the troubled Northeast of the country were delayed. Thus, despite stronger agricultural production and a recovery in external demand for wood products and diamonds, economic growth is estimated to have decelerated to 3.1 percent. Average inflation continued its downward trend since peaking in 2008 and fell to 0.7 percent, owing to increased local food stuff production and depressed domestic demand.

5. The fiscal accounts deteriorated sharply in 2010 (Tables 2 and 3). Reversing hard-won gains under the ECF-supported program, fiscal discipline weakened in 2010 and early 2011 with the resulting slippages raising serious governance concerns that prompted donors to suspend budget support.[1] Fiscal imbalances widened and payment arrears were accumulated to domestic suppliers and external creditors. Domestic revenue in 2010 benefitted from a number of one-off effects and reached 11.6 percent of GDP. But expenditures, spurred by election-related spending, soared to 19.4 percent of GDP, resulting in a widening of the overall deficit (Figures 2 and 4).

Figure 2. Central African Republic: Fiscal Indicators, 1990–2010

(In percent of GDP)



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

6. The tight liquidity situation would lead to a somewhat better fiscal outcome in 2011. Suspension of budget support by donors and lower domestic revenue gave rise to a very tight fiscal situation and intensified the liquidity constraints. This prompted the government to curtail expenditures, which are projected to decrease to 17.7 percent of GDP, thus reducing the overall fiscal deficit (excluding grants) by 1.2 percentage points to 6.5 percent of GDP. However, the domestic primary deficit and overall deficit including grants would increase significantly because of higher domestically-financed investment and lower donor support.

[1] A July 2011 staff mission to negotiate a successor ECF arrangement found that large payments (about 5 percent of GDP) were made by the Treasury outside normal expenditure procedures.

7. Monetary aggregates expanded in 2010–11, but provided little support to growth (Table 4 and Figure 5). After a slight decline in 2009, credit to the economy grew rapidly in 2010 and is projected to grow further in 2011. Nonetheless, financial intermediation remains very low. By end-2011 credit to the economy in C.A.R. is projected to reach 10.9 percent of GDP compared to averages of 14.7 and 40.5 percent for fragile SSA countries and SSA, respectively. The agriculture sector—one of the main driver of growth in C.A.R.—receives little bank financing.

8. The external position remains fragile (Table 5 and Figure 6). Despite a volume-driven strong export performance, the external position weakened in 2010 with the current account deficit widening to about 10 percent of GDP, partly reflecting a surge in imports prices, particularly oil. Gross official reserves fell only marginally as foreign direct investment (FDI) inflows increased significantly. In 2011, the current account deficit is projected to decline to 7.2 percent of GDP on account of an improvement in the terms of trade. However, as a result of lower foreign capital inflows, international reserves are expected to fall to 2.7 months of goods and services imports.

B. Medium-term Outlook and Risks

9. Growth prospects for 2012 are favorable. With the elections-related uncertainties subsiding and the security situation improving, real GDP growth is projected to reach 4.1 percent in 2012, mainly reflecting sustained agricultural production and stronger livestock and forestry activities. Improved security in the countryside should facilitate implementation of key projects to further support agricultural production.

10. Consumer prices would continue to trend down. Inflation would be contained at 2.5 percent, partly thanks to moderating food prices[2] on account of improved agricultural production.

11. The fiscal position is projected to improve on substantially strengthened expenditure control. The 2012 budget approved by parliament on December 29, 2011 aims at further reducing current primary expenditures to 10.9 percent of GDP following similar efforts in 2011. However, capital expenditures are budgeted at 10.6 percent of GDP, assuming project financing by donors of 8.1 percent of GDP, which appears unrealistic. Staff projects a more realistic path starting with some fiscal consolidation in 2012 and targets the overall deficit, including grants, as anchor to allow room for donor financing. A Donor Roundtable would be held in February 2012 in Bangui to mobilize financing for the Program of Priority Actions identified in the second generation Poverty Reduction Strategy Paper (PRSP II) adopted in November 24, 2011. The PRSP II has three inter-dependent strategic pillars: (i) Consolidation of peace, governance and the legally constituted state; (ii) Economic revival and regional integration; and (iii) Development of human capital and essential social services.

[2] Food items represent 70 percent of the consumer price index; prices are driven mainly by domestic supply conditions, rather than imported food prices.

12. Overall credit to the economy is expected to moderate. However, the projected steady decline in credit to the government should provide some room for private sector credit, to remain strong.

13. External accounts are expected to improve in 2012. The external current account deficit is projected to decrease further to 6.8 percent of GDP, in line with a resumption of donor assistance.

14. The medium-term macroeconomic framework assumes acceleration of growth in a stable price environment (Text Table 3). Growth is expected to pick up to over 5 percent by 2014, underpinned by strong investment and a recovery in the manufacturing sector (cement and sugar mills). Inflation will remain below the regional convergence criterion of 3 percent. Reserve coverage is projected to remain above 3 months of imports, as the external current account deficit reverts to the historical level of 5 percent of GDP helped by the reengagement of C.A.R.'s traditional donors and a recovery in FDI. Public debt is expected to remain below 40 percent of GDP. The medium-term macroeconomic framework will be updated in light of the outcome of the February 2012 Donor Roundtable.

15. Risks to the outlook are on the downside. Staff concurred with the authorities that poor weather conditions, delays in public and planned private investments, including in mining, and recurrence of political uncertainty and insecurity in parts of the country would delay the economic recovery. Also, further accumulation of domestic payment arrears would weigh heavily on the growth prospects. Price developments would be affected by domestic food supply conditions and international oil prices.

16. The ongoing crisis in Europe could further cloud the outlook. Europe is C.A.R.'s major trading partner. An intensification of the current debt crisis in the Euro area could weaken demand for its exports and further delay the economic recovery expected in 2012. With no room for countercyclical response, the fiscal deficit would widen, underscoring the need for improved PFM to secure much-needed donor support.

Text Table 3. Central African Republic: Macroeconomic Outlook, 2010–14

	2010 Prel.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
Real GDP growth	3.3	3.1	4.1	4.2	5.9
Consumer prices (avg)	1.5	0.7	2.5	1.9	2.3
Current account[1]	-9.9	-7.2	-6.8	-5.9	-5.4
Reserves coverage[2]	3.2	2.7	3.0	3.6	4.3
Public sector debt[1]	37.8	39.6	38.2	36.5	33.7

[1] Percent of GDP.

[2] Gross official reserves (months of imports, f.o.b.) .

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

ISSUES OF DISCUSSION

The immediate challenge is to quickly restore fiscal discipline and strengthen budget execution to address the fiscal slippages of 2010 and early 2011. Near- and medium-term challenges are to (i) create fiscal space to meet critical needs; (ii) strengthen institutional capacity to support the reform agenda; and (iii) accelerate structural reforms to improve external competitiveness and support sustained growth.

A. Mobilizing Domestic Resources for Poverty Reduction

Background

17. **Revenue performance in C.A.R. has consistently been about 2 percentage points below the tax potential during 1990–2010** (Box 2). This is the key finding of analytical work prepared by staff on C.A.R.'s tax potential. It indicates the range of improvement in revenue that could be realistically expected going forward. Failure to pass through world oil prices to domestic petroleum prices in 2011 entailed significant fiscal losses and direct subsidies (Box 3).

18. **Efforts at revenue mobilization were not sustained**. A number of measures adopted under the ECF-supported program yielded notable gains, but were not pursued during the electoral period. Also, implementation of TA recommendations on revenue administration stalled.

Staff's advice

19. **Domestic revenue mobilization should be given top priority**. Based on the study of C.A.R.'s tax potential, staff urged the authorities to effectively implement a comprehensive tax policy and customs administration reform aimed at improving the efficiency of taxation while broadening the tax net. FAD provided substantive technical assistance and recommended, in particular, a fundamental review of the tax system (to simplify the personal income tax system, streamline the corporate tax systems, and tax more effectively small businesses) and a reform of the customs administration (to reduce exemptions and concentrate customs clearance at the points of entry).

20. **Adjustment of domestic petroleum prices would provide an immediate boost to revenue**. Given the revenue loss experienced to date and increasing subsidies to be borne by the government on account of the current petroleum pricing, staff recommended implementation, at monthly intervals, of the automatic adjustment mechanism of domestic petroleum prices, based on the current pricing formula to eliminate consumer subsidies and safeguard the 2012 fiscal framework. Staff further recommended targeted fiscal measures, e.g. subsidies for urban bus transportation or possibly direct subsidies to the most vulnerable segments of the population, instead of the general oil subsidies that benefit mostly the better-off.

21. **Strengthening PFM and enhancing transparency in the use of public funds is also necessary**. Fiscal slippages and delays in public financial management reforms led

donors to withhold planned budget support. Staff encouraged the authorities to restore the centrality of the budget in the PFM process and prioritize expenditures while making public spending more effective and transparent. In particular, there is a need to (i) adhere strictly to the established expenditure procedures; (ii) establish monthly cash flow plans and commit expenditures based on these plans; (iii) pay only expenditure duly processed through the computerized information system (Gesco); and (iv) operationalize the liquidity management committee.

Authorities' views

22. The authorities agreed on the need to increase domestic revenue mobilization. They recognized that revenue mobilization is particularly challenging even compared to other fragile post-conflict countries in SSA as conflict in C.A.R. is continuing with some areas of the country under the control of rebel groups.[3] They also indicated that resumption of donor support would enhance capacity and accelerate the reforms being implemented to strengthen revenue mobilization.

23. The authorities committed to adjusting domestic petroleum prices on a regular basis. However, they indicated that the 2008 pricing structure was outdated and needed streamlining to lessen the steep price adjustments that would ensue. They also indicated that such work was well underway, making it possible to implement that measure in early 2012 in the context of the budget submitted to parliament. The authorities recognized the importance of targeted measures to facilitate acceptability and mitigate the social impact of the petroleum price adjustments on the most vulnerable groups, including civil servants whose career advancement had been frozen since 2004.

[3] The Lord Resistance Army (from Uganda) and another rebel group (from Chad) have bases in C.A.R.

Box 2. Central African Republic: Domestic Revenue Mobilization Needs to Be Stepped Up

The C.A.R. has one of the lowest revenue-to-GDP ratios of SSA countries. Over the last two decades, the revenue-to-GDP ratio has averaged 9.2 percent—far below the averages for SSA countries, SSA fragile states, and the 14 Franc zone countries.

Analytical work on the C.A.R.'s revenue performance indicates that traditional determinants of revenue mobilization reported in the literature are valid also for C.A.R., namely:

- Revenue collection increases with income, openness, demand for public goods and services, and a strong institutional environment with checks and balances.
- Prevalence of the primary sector in the economy has a negative impact on the revenue-to-GDP ratio.

The study also found CAR-specific factors at play:

- Revenue performance improved under Fund-supported programs.
- Aid inflows appear associated with lower revenue collection.

The methodology used in the study was to assess the tax potential of the C.A.R. given its economic structure and to compare it with the averages for SSA countries and other selected groupings. For this purpose, we formed a panel dataset covering 32 SSA countries from 1990 to 2010 and estimated the determinants of revenue-to-GDP ratios to infer the potential revenue for C.A.R.

The main finding of the study shows that C.A.R.'s revenue potential has consistently been low and well below the averages for SSA countries. This reflects weak economic fundamentals with difficult-to-tax sectors (agriculture in particular). During 1990–2010, the tax potential for C.A.R. hovered at about 11 percent of GDP, 4 percentage points below the estimate for SSA. Actual revenue collection averaged 9.2 percent of GDP during the period, or just 84 percent of C.A.R.'s potential, leaving scope for the C.A.R. to raise revenue by about 1.8 percentage points of GDP. On the other hand, actual revenue collection for the SSA sample has been above the potential of 15 percent of GDP. These findings are consistent with Sen Gupta (2007)[1] and should be interpreted with caution as the methodology focuses on revenue effort compared to the potential which is determined by the fundamentals of the economy. Although above potential, the actual revenue-to-GDP ratio of the sample significantly lags the averages of other developing regions.

Central African Republic: Actual and Potential Fiscal Revenues, 1990–2010
(Percent of GDP)

	Actual	Predicted	Gap
Central African Republic			
Total revenue	9.2	11.0	-1.8
Tax revenue	8.5	8.6	-0.1
Income and profit tax	2.2	2.6	-0.4
Tax on goods and services	3.4	4.3	-0.9
Tax on international trade	2.9	2.3	0.6
Non-tax revenue	3.7	2.1	1.6
Sub-Saharan Africa			
Total revenue	18.2	15.0	3.3
Tax revenue	13.6	12.0	1.6
Income and profit tax	4.4	3.6	0.8
Tax on goods and services	4.4	4.8	-0.3
Tax on international trade	4.8	3.5	1.3
Non-tax revenue	3.7	3.2	0.5

Source: Staff's estimates.

Levying tax on goods and services, and income and profit tax are the areas where C.A.R. underperformed, suggesting efficiency problems with the tax administration. Until the structural transformation of the C.A.R. economy needed to increase the tax potential takes place, efforts to raise the revenue-to-GDP ratio should focus on tax administration reforms to broaden the tax base and improve efficiency. Based on the experience in 2009–10, taxation of petroleum products (and pass-through of world oil prices to domestic prices) constitutes a source to raise government revenue (see Box 3).

[1] Sen Gupta, Abhijit., 2007, "Determinants of Tax Revenue Efforts in Developing Countries," IMF Working Paper 07/184 (Washington: International Monetary Fund).

Box 3. Central African Republic: The Case for Petroleum Price Adjustment

The automatic price adjustment formula for petroleum product prices was a key reform measure under the past ECF arrangement. Faced with rising subsidies on fuel consumption, the government implemented in June 2008, as prior action under the second review of the ECF arrangement (2006–10), an automatic quarterly petroleum pricing formula that ensures full pass-through to the consumer of world oil prices and taxes. The measure then became a continuous structural benchmark under the program and contributed to significant increases in domestic revenue in 2008–09.

Impact of Petroleum Price Freeze on Tax Revenues, 2008–11

	2008	2009	2010	2011
	(CFAF billions)			
Actual petroleum revenue	2.4	13.7	14.1	12.0
Subsidies to be paid to marketers	-6.7	-0.5	-0.6	-3.6
Revenue without subsidies	9.0	14.2	14.7	15.6
Excises	…	0.3	4.2	10.0
Potential petroleum revenue	9.0	14.5	19.8	23.7
	(Percent of GDP)			
Actual petroleum revenue	0.3	1.5	1.4	1.2
Subsidies to be paid to marketers	-0.8	-0.1	-0.1	-0.4
Revenue without subsidies	1.0	1.5	1.5	1.5
Excises	…	0.0	0.4	1.0
Potential petroleum revenue	1.0	1.6	2.0	2.3

Sources: C.A.R. authorities and staff's calculations.

However, the mechanism was intermittently applied, resulting in loss of revenue and costly subsidies. Since the introduction of the reform, international oil prices almost doubled, but domestic pump prices were adjusted only three times and automaticity was abandoned, resulting each time in difficult political decision-making.

The measure was again made a prior action in the context of the sixth ECF review and pump prices were adjusted in May 2010; they have since then remained frozen. As a result, the revenue loss in 2011 as a whole is estimated at CFAF 8.1 billion (0.8 percent of GDP) based on the 2008 pricing structure, and direct subsidies reached CFAF 3.6 billion; these subsidies have to be repaid directly to the marketers.

Full pass-through will eliminate the subsidies and bring in additional revenue. Staff estimates that in 2012, using WEO oil prices and the 2008 pricing structure, additional revenue of up to 1.3 percent of GDP could be generated. This is predicated on truly automatic adjustments on a monthly basis, thus depoliticizing petroleum pricing and safeguarding the revenue objective.

Well targeted social measures need to be put in place. Staff and the authorities recognize the pass-through could potential negative impact of the on the most vulnerable group of consumers. Accordingly, the authorities will introduce mitigating social measures, e.g., improving product distribution in the countywide, subsidizing public transportation, or considering well-targeted cash transfers.

B. Strengthening Institutional Capacity

Background

24. Capacity constraints are prevalent. As a fragile state, C.A.R. is confronted with weak administrative capacity and institutions, which constrain economic management and resource absorption. High turnover of trained staff also limits the effectiveness of capacity building.

25. The new government held a national forum aimed at marshalling support for the reform agenda. In response to the challenges in getting a hold on reform strategies, improve PFM, and restore budget transparency, inclusive discussions were held in September in the context of a national forum on public finances (NFPF). The forum allowed stocktaking of existing reform strategies and provided new impetus for action.

Staff's advice

26. Administrative capacity and institutions in all areas of the public sector need to be strengthened in a durable way. Staff underscored the importance of enhancing donor coordination and leverage TA resources to maximize synergies, and increase the effectiveness of TA and capacity building. In this connection, staff welcomed the focus of the PRSP II on forming human capital and improving access to social services. Staff and the authorities agreed that posting resident advisors could help foster capacity building.

27. Efficient public debt management is critical. Staff pointed to the unhealthy practice of relying on expensive bank overdraft facilities to finance current expenditures and not involving the debt unit in loan negotiations as evidence of weaknesses in the institutional and legal framework for debt and liquidity management. Staff urged the authorities to strengthen the debt management unit, which would ensure that all new debts are consistent with debt sustainability. Staff indicated that the accumulation of payment arrears to Paris Club creditors and multilateral institutions as further evidence of weaknesses in debt management and called for the clearance of these arrears.

Authorities' views

28. The authorities agreed on the need to build capacity and institutions. They pointed to their recent decisions reviving and strengthening the committees in charge of liquidity management and monitoring macroeconomic developments and structural reforms. A Technical Unit has also been set up to assist the latter committee, which is chaired by the Prime Minister. Additional measures are being put in place to improve budget execution, including preparing monthly cash flow projections and weekly monitoring of expenditure commitments.

29. The authorities reiterated their commitment to intensify PFM reforms. They indicated that the NFPF's recommendations are in line with existing donor-supported PFM reform programs, which they intend to accelerate. To this end, they stressed the need for a Fund-supported program to anchor their reform programs and catalyze donor support, both financial and technical.

30. The authorities acknowledged the need to strengthen debt management. They also set up a National Committee on Public Debt under the chairmanship of the Minister of Finance, who has sole authority to financially commit the State. They also indicated that the debt unit will be strengthened through proper staffing and capacity building.

C. Maintaining External Stability and Diversifying the Economy

Background

31. Assessment of C.A.R.'s real effective exchange rate (REER) suggests an overvaluation above the average level of the monetary union (Appendix I). The union's REER, current account and reserves have been assessed by staff as consistent with external stability (SM/11/163, July 6, 2011). C.A.R. therefore needs to implement structural reforms to foster competitiveness, particularly non-price competitiveness. The main challenge is to address the unfriendly business environment and tax climate, inadequate infrastructure, and persisting security problems in the countryside.

Staff's advice

32. **Reforms to improve the business environment should be broadened and accelerated**. The International Finance Corporation has made recommendations to help attract investment in agriculture and mining, the main sources of future growth. Sustained implementation of these recommendations would stimulate growth and expand job opportunities. Private sector activity is constrained by ill-coordinated tax controls, which need to be addressed. Sustained sound macroeconomic policies would also help promote private sector development.

33. **Fostering competitiveness in all areas is needed**. Staff noted that low productivity, deficient transport and electricity generation, and a difficult regional trade environment all weigh on domestic costs and competitiveness of the economy. While addressing these would take time, staff pointed to immediate measures that could improve market efficiency and reduce costs. These include (i) opening bidding procedures for major procurements and investment decisions, (ii) lessening entry costs in the transport sector, and (iii) attempts to reduce the size of the informal sector through a series outreach campaign. Improving and effectively implementing anti-money laundering and combating the financing of terrorism regulations in the artisanal gold and diamond mining sectors could potentially increase government revenue.

34. **Project management should be improved**. Building on the findings of a recent public expenditure review by the World Bank, procedures need streamlining and bottlenecks to project implementation have to be removed to increase absorption capacity to secure continued financing from the World Bank and the African Development Bank (AfDB).

Authorities' views

35. **The authorities indicated that the currency peg to the euro has served C.A.R. well**. They reaffirmed their commitment to implementing the structural reforms needed to foster competitiveness and enhance C.A.R.'s contribution to the external stability of the union.

36. **They consider deficient road transportation and electricity generation as the main impediments to investment and growth**. They pointed to the potential benefits of surfacing the main road for exports to the Cameroonian border, which is well underway with assistance from the European Union and AfDB, and of improving navigation on the Oubangi River. Completion of these projects would bring much-needed relief in the medium term and contribute to develop agricultural activities in the countryside. Lack of power generation capacity is also a key constraint, which cannot be addressed in the absence of donor support.

37. **The authorities were concerned by the recent setbacks in mining investments**. In particular, they were disappointed by one mining company suspending its investment plans for a prolonged period and one other apparently unable to raise sufficient financing for their plans, thus frustrating their strategy to

promote growth and make an entry into the formal mining business on the global level.

38. Efforts to streamline corporate taxation are ongoing. Action to better coordinate audits of big taxpayers is underway. Dissatisfaction was voiced by large corporations over duplicate controls by competing institutions, including a private company, which has an exclusive mandate. Diamond collectors' licenses that were revoked in 2008 for non-observance of the mining code have been reinstated, boosting the production prospects.

OTHER ISSUES

39. Implementation of past Fund advice has been uneven. In concluding the last Article IV consultation, Executive Directors underscored the importance of (i) further strengthening fiscal management; (ii) avoiding contracting nonconcessional debt, and (iii) reducing vulnerability in the banking system while recapitalizing a problem bank. The authorities indicated that capacity constraints have limited progress with respect to some recommendations.

40. Commercial banks have been recapitalized. All four private banks now meet the regional minimum capital standard of CFAF 5 billion. This includes an ailing bank, for which a government bond has been issued to dilute the former majority holder's share. An international bid was launched to select a new strategic investor, but the authorities declared it unsuccessful. Staff impressed on the authorities to intensify their efforts to find a strategic investor and divest their majority stake.

41. Financial indicators of the banking system are stable (Table 6 and Box 4). However, the methodology used by the regional banking supervisor—*Commission bancaire d'Afrique centrale* (COBAC)—does not take into account the accumulation of government payment arrears, which would have required much higher provisioning for banks' exposure to sovereign debt. Loan losses are decreasing and profitability is stable.

42. The updated debt sustainability analysis indicates that C.A.R. continues to face a moderate risk of debt distress (Appendix II). Although all debt indicators remain below the policy-dependent thresholds, C.A.R.'s debt position is vulnerable to export shocks. In view of persistently weak debt management capacity, commercial borrowing is risky, calling for largely concessional external financing to preserve debt sustainability.

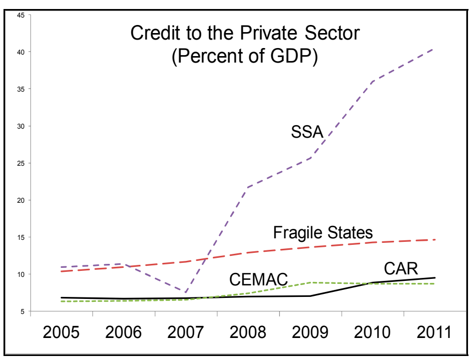
43. Resources to collect statistical data are insufficient. Price indices could not be collected in July 2011 due to lack of financial resources. Reliable statistics are essential for macroeconomic monitoring. The authorities, in coordination with donors, should ensure that sufficient resources are made available to collect consistent data series. Delays in properly clearing accounts at the national branch of the regional central bank have led to problems in harmonizing and updating monetary data.

44. Key stakeholders shared staff and authorities' views on the challenges facing C.A.R. Staff met representatives of the private sector, civil society and the donor community, and parliamentarians. Stakeholders concurred with the importance of mobilizing domestic revenues, partly through fuel taxation, and strengthening PFM and governance. Parliamentarians considered budgetary support essential to alleviate the liquidity constraints facing the government and set the stage for strong growth to reduce poverty.

Box 4. Central African Republic: A Small but Growing Domestic Financial Sector

Although progressing, the domestic financial sector plays a limited role in financing private sector activities. Financial intermediation remains shallow, with a limited number of institutions and a heavy concentration in Bangui.

- C.A.R.'s financial system is small (total assets are 17.6 percent of GDP at end-2010) and heavily concentrated in four commercial banks, representing 93 percent of the financial system's consolidated assets. Other financial institutions include two insurance companies (4 percent of assets) and eleven microfinance institutions (3 percent of assets).



- The main sectors benefitting from bank loans are trade and commerce (20 percent), transport and communications (16 percent), forestry (12 percent) and other services (28 percent). The agriculture sector benefits only 4 percent of total loans.

Financial soundness indicators of the banking sector provide a mixed picture. Commercial banks increased their capital to the mandatory CFAF 5 billion, but the banking system's liquidity is tightening, compliance with prudential regulations remains poor and regulations are out of line with international best practices. The predominant role of the Government also represents a risk.

- The progressive increase of the commercial banks' statutory capital (71 percent y-o-y increase in August 2011) increases the buffer against shocks and helps comply with prudential regulations, including those related to connected lending and loan concentration.

- The banking system's liquidity has tightened considerably. Liquid assets to short-term liabilities declined from 177 percent in 2009 to 96 percent in August 2011, and two banks failed to comply with the liquidity requirement of 100 percent. Sight deposits remain the commercial banks' main source of financing (56 percent of total liabilities), while time deposits barely represent 13 percent of total liabilities.

- Within the CEMAC region only Chad and C.A.R. have (net) debts vis-à-vis the banking sector. While declining in Chad the government's exposure to the banking sector in C.A.R. has tripled between September 2010 and September 2011, and represents 1.8 percent of GDP.

- Restructuring of an ailing bank is proceeding. The government temporarily recapitalized the bank through Treasury bond (CFAF 5.5 billion), thus holding 51 percent of the share capital. Local shareholders also increased their capital by CFAF 500 million. The government's disengagement from the bank is delayed as the authorities declared unsuccessful the bid launched to select a strategic investor, despite interest by an international banking group.

STAFF APPRAISAL

45. C.A.R.'s economy has been resilient and is set to recover over the medium term. Strong response from the agricultural sector to measures in the aftermath of the 2008–09 food price shock was instrumental in sustaining economic growth in the face of the unfavorable global environment. To sustain the recovery going forward, efforts should be made to avoid further delays of major public and private investments, including in the mining sector. The expansion in agricultural output needs to be sustained through appropriate policies as security returns to the countryside. This is essential to lessen the inflationary pressures from international food prices. Despite C.A.R.'s limited integration into the global economy, the authorities are encouraged to monitor the situation to detect emerging vulnerabilities should the global crisis intensify.

46. Growth take-off over a long period is critical for making progress towards poverty reduction. Given the pervasive poverty and dismal social indicators, stepped-up efforts are needed to tap the country's natural endowment for economic take-off. This requires a comprehensive and multidisciplinary strategy as articulated in the PRSP II. Beside supportive macroeconomic policies, C.A.R. needs to (i) substantially increase investment to address infrastructural gap, (ii) improve the business climate, and (iii) deepen financial intermediation.

47. The fiscal slippages in 2010 have dealt a setback to the hard-won gains under the ECF-supported program. With the electoral process now over and the lull on the political and security fronts, full attention should be given to macroeconomic management and the respect of the rules and regulations pertaining to PFM. In this regard, it is important that accountability be enforced and steps be taken to improve governance on a durable basis.

48. Efforts to restore budgetary discipline and transparency are steps in the right direction. The authorities need to consolidate the recent progress by taking concrete measures to ensure that the budget is executed in line with the priorities approved by parliament. It is important to ensure effective implementation of the agreed measures by a fully staffed coordination unit with strong mandate.

49. Membership in the monetary union, has helped to cushion the impact of the global crisis on C.A.R. It is imperative to restore non-price competitiveness through structural reforms aimed at improving the business climate and addressing infrastructure gap.

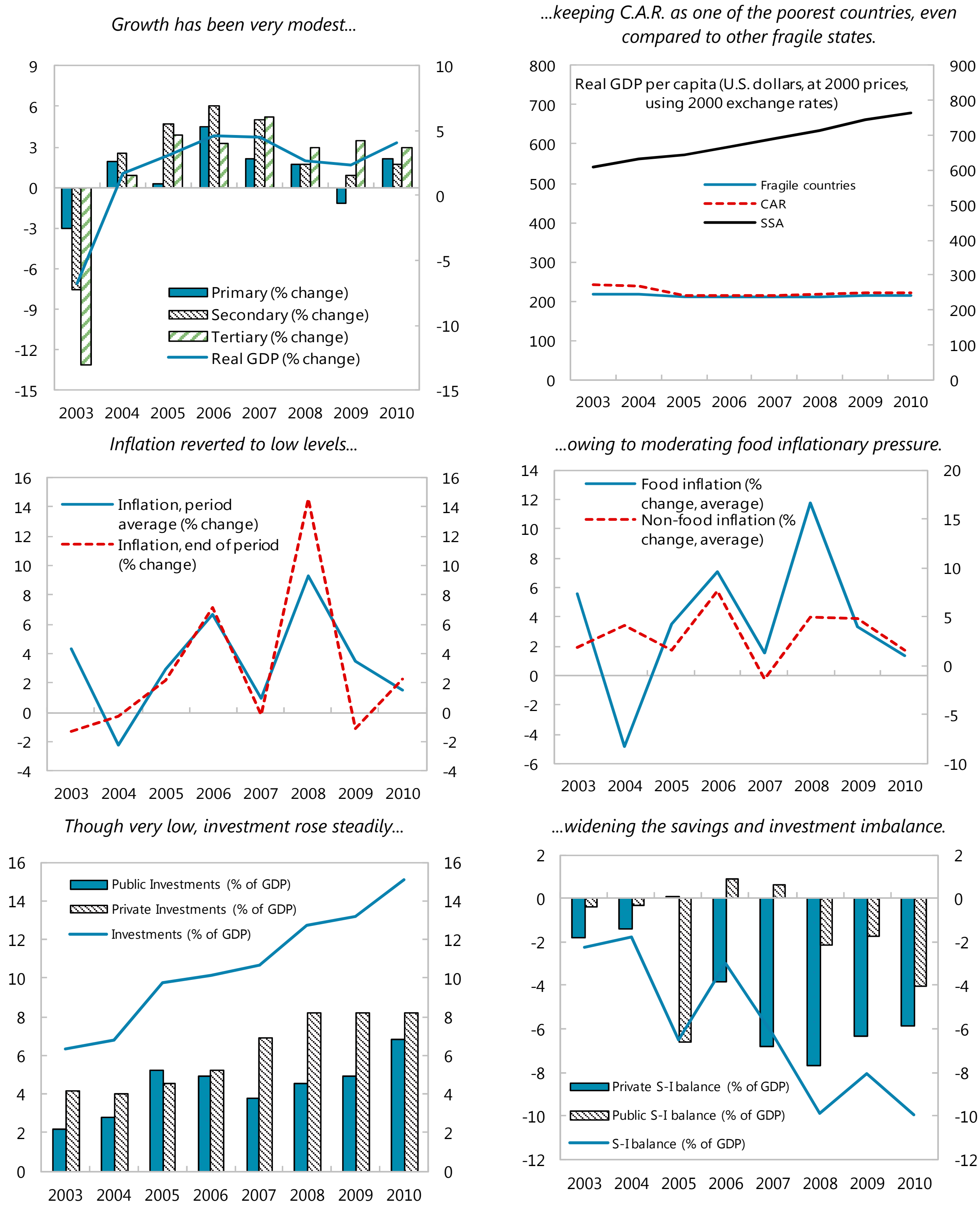
50. An orderly framework for the authorities' reform is critical. The authorities' intention to seek a Fund-supported program is welcome. They need to forge ahead with the pending measures to strengthen budget execution and improve governance. Implementation of the mechanism for automatic adjustments, on a monthly basis, of petroleum prices early in the year, together with measures to strengthen revenue administration, will safeguard the 2012 fiscal framework and partly provide much-needed resources for critical social and infrastructure needs.

51. Management of public debt needs to be strengthened. This is all the more necessary given C.A.R.'s weak debt management capacity and moderate risk of debt distress. Contracting new debt on concessional terms is critical to preserve debt sustainability. Arrears on nonreschedulable external debt should be cleared to help unlock access to concessional financing consistent with C.A.R.'s post-HIPC status.

52. Adequate resources should be devoted for data collection. The importance of reliable data for economic management cannot be overemphasized. The authorities are encouraged to commit sufficient budgetary resources to strengthen the statistical agency and enable it to collect reliable data necessary for macroeconomic analysis and program monitoring.

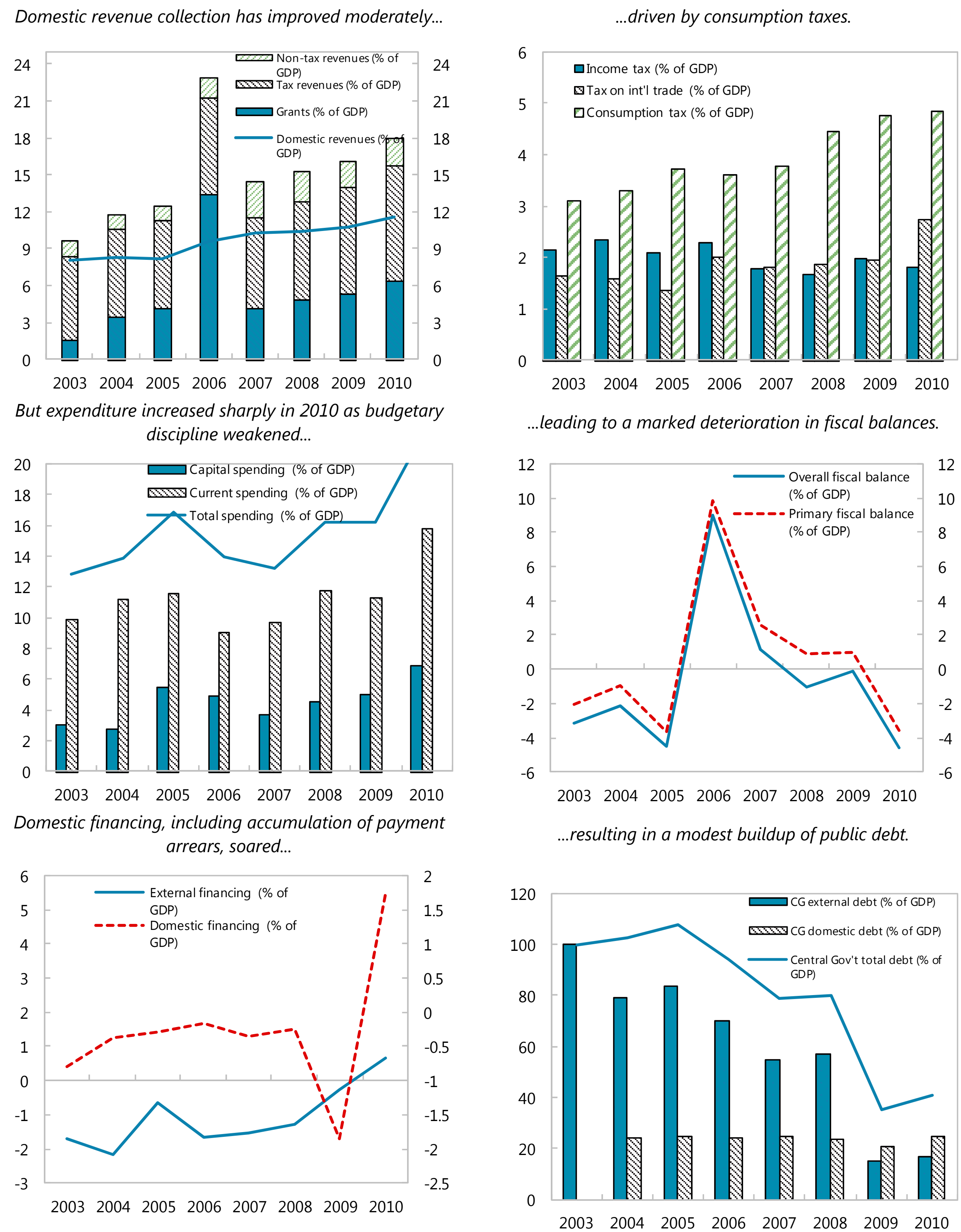
53. Article IV consultation cycle. Staff recommends that the next Article IV consultation with C.A.R. be held on the standard 12-month cycle.

Figure 3. Central African Republic: Recent Economic Performance, 2003–10



Sources: CAR authorities; and IMF Staff estimates.

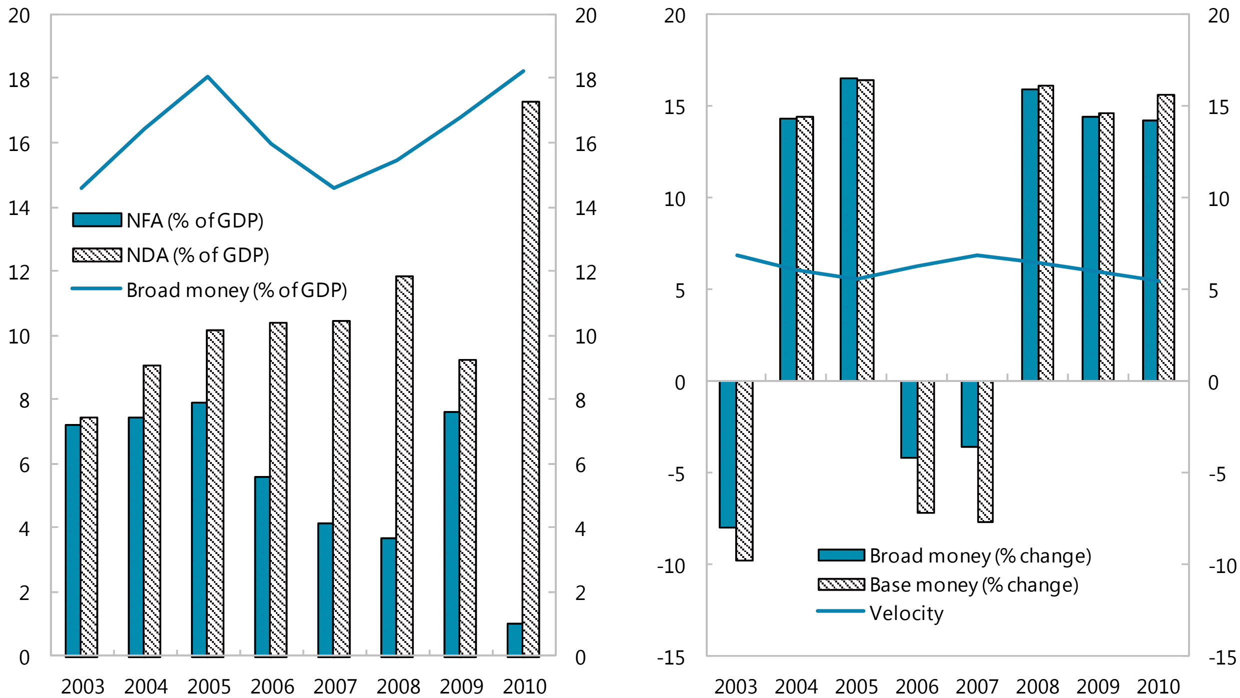
Figure 4. Central African Republic: Fiscal Developments, 2003–10



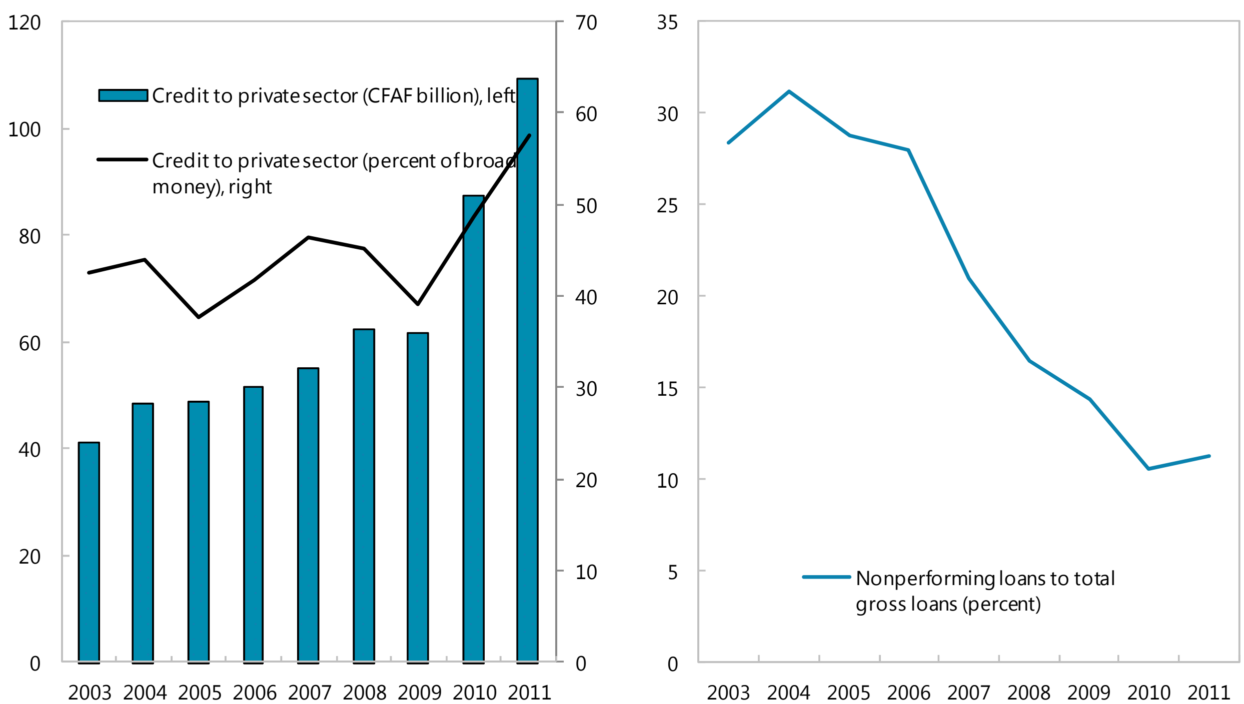
Sources: CAR authorities; and IMF Staff estimates.

Figure 5. Central African Republic: Monetary Developments, 2003–10

Overall, money supply remained under control, with velocity of broad money relatively stable, and net domestic assets increasing in line with stepped up credit to the private sectors.

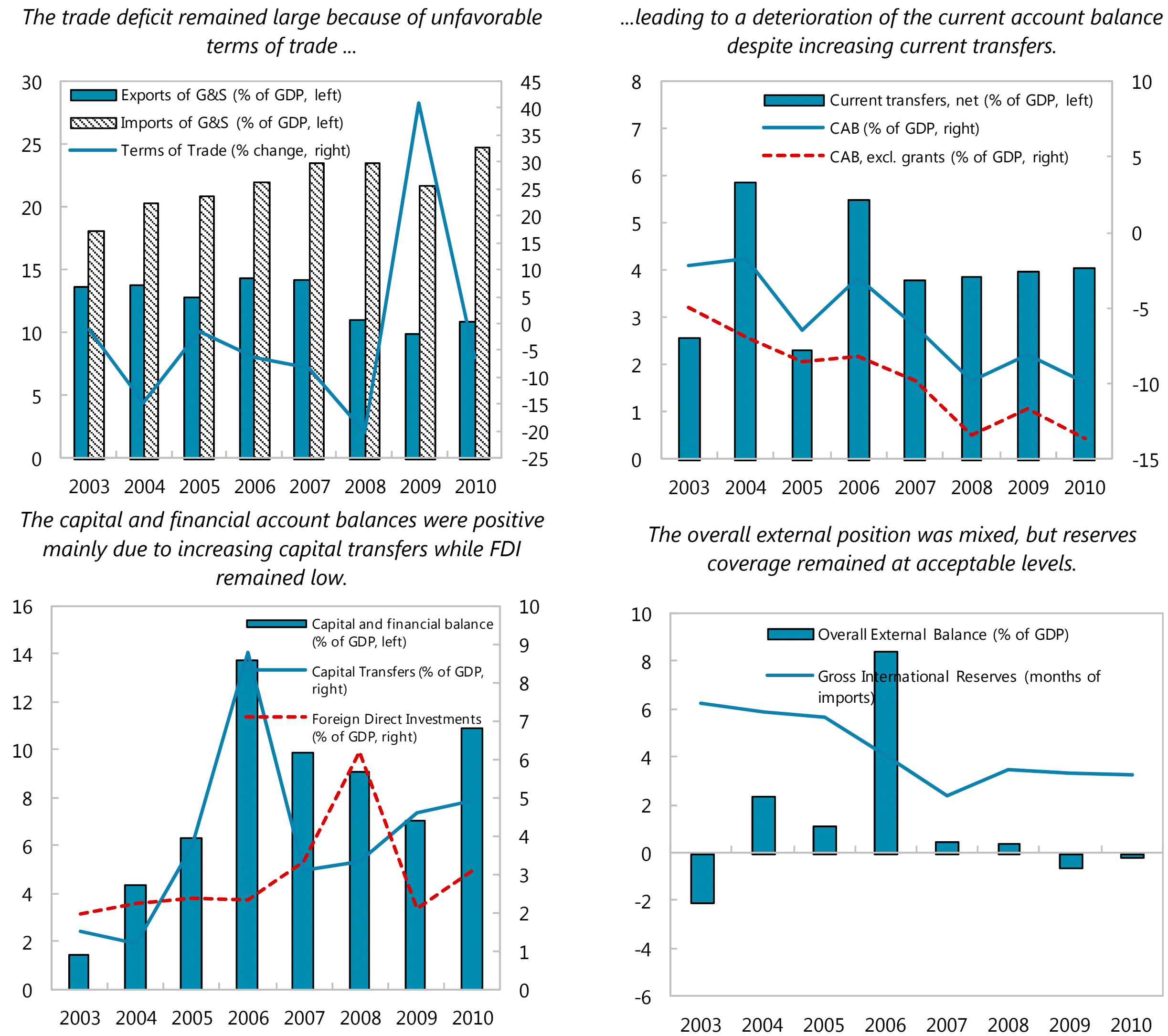


Credit to the private sector represents a relatively important proportion of broad money, and has been stable relative to GDP.



Sources: CAR authorities; and IMF Staff estimates.

Figure 6. Central African Republic: External Developments, 2003–10



Sources: CAR authorities; and IMF Staff estimates.

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2008–14

	2008	2009	2010		2011		2012	2013	2014
			Prel.[1]	Est.	Prog.[1]	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change; unless otherwise indicated)								
National income and prices									
GDP at constant prices	2.0	1.7	3.3	3.3	4.1	3.1	4.1	4.2	5.9
GDP at current prices	9.2	5.3	6.6	5.0	7.2	4.0	6.9	6.4	8.6
GDP deflator	7.0	3.6	3.2	1.7	2.4	0.3	2.8	2.1	2.6
CPI (annual average)	9.3	3.5	1.5	1.5	2.7	0.7	2.5	1.9	2.3
CPI (end-of-period)	14.5	-1.2	2.3	2.3	3.4	1.3	1.8	2.0	2.0
Central government finance									
Total revenue and grants	15.1	11.5	9.5	17.5	1.4	-14.8	17.3	11.9	11.9
Total expenditure	33.5	5.4	13.8	25.8	-1.9	-5.1	3.8	11.6	8.2
Money and credit									
Net domestic assets [2]	21.0	10.5	15.1	28.7	7.1	-17.1	18.5	0.4	-4.1
Domestic credit [2]	14.2	-12.6	20.0	27.9	6.2	21.6	3.6	-0.1	-0.3
Broad money	15.9	14.4	7.7	14.2	7.6	5.5	8.4	7.6	7.9
Velocity of broad money (end-of-period)	6.5	6.0	5.9	5.5	5.9	5.4	5.3	5.3	5.3
External sector									
Exports, f.o.b. (US$ basis)	-16.9	-12.6	12.6	11.9	29.8	42.0	16.6	7.5	8.5
Export volume of goods	-15.5	-21.9	9.2	10.0	17.7	21.0	14.6	4.8	5.0
Imports, f.o.b. (US$ basis)	20.3	-9.9	13.1	12.5	11.6	-2.6	19.7	8.9	7.8
Import volume of goods	-2.2	13.3	11.5	3.6	-1.8	-16.3	18.2	10.3	8.5
Terms of trade	-20.1	40.8	0.8	-6.3	-2.8	0.9	0.6	3.9	4.0
Nominal effective exchange rate	1.7	-0.8	-4.2	-4.2	...	...	...	...	...
Real effective exchange rate	7.5	2.0	-4.6	-4.7	...	...	...	...	...
	(Percent of GDP; unless otherwise indicated)								
Gross national savings	2.9	5.1	5.2	5.1	3.2	6.9	7.7	10.0	11.1
Of which: current official transfers	1.4	1.8	1.4	1.4	0.6	0.0	0.8	1.6	1.6
Gross domestic savings	0.1	1.4	0.7	1.3	0.1	4.3	4.3	5.9	6.9
Government	-0.2	0.0	-0.3	-0.7	0.6	-0.6	0.2	0.4	1.0
Private sector	0.4	1.4	1.0	2.0	-0.5	5.0	4.1	5.5	5.9
Consumption	99.9	98.6	99.3	98.7	99.9	95.7	95.7	94.1	93.1
Government	7.1	7.5	7.6	8.2	7.4	7.8	7.2	7.2	7.3
Private sector	92.8	91.1	91.7	90.5	92.5	87.9	88.5	86.9	85.8
Gross investment	12.7	13.2	13.9	15.1	13.6	14.1	14.5	15.9	16.4
Government	4.5	4.9	5.6	6.8	5.2	5.7	5.7	6.7	6.7
Private sector	8.2	8.2	8.2	8.2	8.4	8.4	8.8	9.3	9.7
Current transfers and factor income (net)	2.7	3.7	4.4	3.9	3.1	2.5	3.4	4.2	4.2
External current account balance	-9.9	-8.1	-8.7	-9.9	-7.4	-7.2	-6.8	-5.9	-5.4
Overall balance of payments	0.4	-0.6	-0.8	-0.2	-0.4	-0.5	-2.4	-1.0	0.0
Central government finance									
Total revenue	15.2	16.1	16.5	18.0	15.8	14.7	16.2	17.0	17.5
Total expenditure [3]	-16.2	-16.2	-17.1	-22.8	-16.6	-17.7	-17.2	-18.0	-18.0
Overall balance [3]									
Excluding grants	-5.8	-5.4	-6.1	-7.7	-4.8	-6.5	-5.6	-6.4	-5.7
Including grants	-1.0	-0.1	-0.6	-1.4	-0.8	-3.0	-1.0	-1.0	-0.4
Domestic primary balance [4]	-0.5	-0.3	-0.8	-1.0	-0.1	-1.9	-0.1	-1.1	-0.7
NPV of external public and guaranteed debt	36.2	7.5	16.9	10.7	15.3	12.3	13.0	13.4	13.1
Public sector debt	80.3	35.0	32.7	37.8	35.4	39.6	38.2	36.5	33.7
Of which: domestic debt [5]	23.3	20.4	18.1	21.2	19.3	21.3	17.9	14.9	11.9
Gross official foreign reserves									
(US$ millions, end-of-period)	120.6	148.4	130.9	125.1	145.6	129.0	149.7	186.4	236.1
(months of imports, f.o.b.)	3.5	3.3	3.3	3.2	3.0	2.7	3.0	3.6	4.3
Nominal GDP (CFAF billions)	888	935	997.5	983	1,055	1,022	1,092	1,163	1,262
Exchange rate (average; CFAF per US$)	445.7	471.0	494.4	494.4	…	…	…	…	…

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

[1] Policy Note for the new ECF arrangement (April 2011).

[2] Percent of broad money at beginning of the period.

[3] Expenditures are on a cash basis for current period expenditures.

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

[5] Comprises government debt to BEAC and commercial banks, government arrears and public enterprises' domestic debt.

Table 2. Central African Republic: Central Government Operations, 2008–14

(CFAF billions)

	2008	2009	2010	2011		2012		2013	2014
			Prel.	Budget	Proj.	Budget	Proj.	Proj.	Proj.
Revenue	134.7	150.3	176.5	200.5	150.4	206.0	176.5	197.5	221.0
Domestic revenue	92.5	100.8	114.3	115.7	114.2	124.4	126.4	135.0	154.0
Tax revenue	70.7	81.1	92.0	105.4	97.3	91.5	108.5	121.3	138.4
Taxes on profits and property	14.6	18.4	17.8	27.0	19.2	…	21.1	23.5	26.7
Taxes on goods and services	56.0	62.7	74.2	78.4	78.1	…	87.4	97.7	111.7
Of which: international trade	16.5	18.2	26.9	…	27.3	…	30.3	33.8	38.8
Nontax revenue	21.8	19.8	22.3	10.3	16.9	32.9	17.8	13.7	15.6
PM: earmarked revenue	*0.0*	*28.5*	*4.2*	*15.4*	*4.6*	*26.7*	*5.6*	*0.0*	*0.0*
Grants	42.3	49.4	62.2	84.8	36.2	81.6	50.1	62.6	67.0
Program	12.6	16.6	13.8	13.3	0.0	0.0	9.3	18.9	20.5
Project	29.7	32.8	48.4	71.5	36.2	81.6	40.9	43.7	46.5
Expenditure [2]	-143.6	-151.3	-190.4	-200.0	-180.6	-233.4	-188.6	-209.3	-226.5
Current primary expenditure	-86.9	-94.5	-113.3	-101.3	-113.9	-117.8	-117.8	-125.3	-137.1
Wages and salaries	-38.6	-42.1	-43.3	-45.5	-46.2	-50.8	-50.8	-54.1	-58.7
Transfers and subsidies [3]	-24.2	-24.7	-32.3	-25.8	-34.6	-35.8	-35.8	-38.1	-41.4
Goods and Services	-24.1	-27.7	-37.6	-29.9	-33.2	-31.2	-31.2	-33.2	-37.1
Interest due	-16.6	-10.5	-9.9	-4.4	-8.3	-5.9	-7.9	-6.3	-5.1
External	-9.0	-4.1	-2.0	-0.4	-1.7	…	-1.4	-1.1	-0.8
Domestic	-7.7	-6.4	-7.9	-4.0	-6.6	…	-6.5	-5.1	-4.3
Capital expenditure	-40.1	-46.3	-67.2	-94.4	-58.4	-109.7	-62.9	-77.7	-84.3
Domestically financed	-10.4	-9.2	-11.1	-13.3	-19.5	-16.7	-11.2	-22.4	-25.2
Externally financed	-29.7	-37.0	-56.1	-81.0	-38.8	-93.0	-51.7	-55.3	-59.1
Overall balance									
Excluding grants	-51.2	-50.5	-76.1	-84.4	-66.4	-109.0	-62.2	-74.3	-72.5
Of which: domestic primary balance [4]	-4.8	-3.0	-10.1	1.1	-19.3	-10.1	-2.6	-12.8	-8.3
Including grants	-8.9	-1.1	-13.9	0.5	-30.2	-27.4	-12.1	-11.8	-5.5
Net change in arrears ((-) = reduction)	-4.9	-4.5	-6.2	-12.0	6.8	-5.0	-18.0	-15.0	-15.0
Domestic	-4.9	-4.5	-7.5	-12.0	5.1	-5.0	-15.0	-15.0	-15.0
External	0.0	0.0	1.3	0.0	1.7	0.0	-3.0	0.0	0.0
Errors and omissions	-5.3	17.6	-8.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-19.2	12.0	-28.9	-11.5	-23.4	-32.4	-30.0	-26.8	-20.5
Identified financing	19.2	-12.0	28.9	-7.0	22.1	-2.4	-7.6	-3.9	-6.5
External, net	5.8	3.7	6.4	3.7	1.1	-2.4	3.5	4.1	4.8
Project loans	0.0	4.2	7.7	5.1	2.6	10.8	10.8	11.6	12.6
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-11.3	-6.6	-1.3	-1.3	-1.5	-13.3	-7.4	-7.6	-7.8
Exceptional financing	17.1	6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club [5]	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [6]	16.1	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	13.4	-15.7	22.5	-10.7	20.9	…	-11.1	-8.0	-11.3
Banking system	8.8	-6.2	22.1	-9.5	18.6	…	-8.4	-8.0	-11.3
Counterpart to IMF resources (BEAC)	4.9	18.7	6.5	0.0	0.0	…	0.0	-1.1	-2.6
Central Bank	-3.0	-12.7	10.9	-4.7	14.2	…	-4.4	-4.4	-8.4
Commercial banks	6.9	-12.1	4.7	-4.8	4.4	…	-4.0	-2.6	-0.2
Of which: new bond issues	0.0	0.0	0.0	…	0.0	…	0.0	0.0	0.0
Nonbank [7]	4.6	-9.6	0.4	-1.2	2.3	…	-2.7	0.0	0.0
Of which: new bond issues	...	…	0.0	…	0.0	…	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	18.5	1.4	34.8	37.6	30.7	27.0
Memorandum items:									
Total government debt	712.7	327.2	370.9	…	404.5	…	418.8	425.6	426.5
Government domestic debt	207.1	190.4	208.8	…	217.6	…	195.4	173.3	149.6
Of which: domestic arrears	109.8	105.2	119.7	…	124.8	…	109.8	94.8	79.8
Spending for DDR	0.0	0.4	1.9	0.0	2.6	…	…	…	…
Nominal GDP	888	935	983	1,060	1,022	1,080	1,092	1,163	1,262

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

[1] Policy note for the new ECF arrangement (April 2011).

[2] Expenditures are on a cash basis, except for interest, which is recorded on a due-basis.

[3] In 2009 and beyond, includes outlays for the peace process (DDR).

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

[5] Reflects Paris Club rescheduling and moratorium agreement in April 2007.

[6] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, also includes debt service to non-Paris Club and commercial creditors. From mid-2009 onward, reflects full delivery of HIPC and MDRI relief on a flow basis.

[7] Includes repayments to CEMAC commercial banks and domestic oil suppliers in 2009, and on expected future bond issues.

Table 3. Central African Republic: Central Government Operations, 2008–14

(Percent of GDP)

	2008	2009	2010	2011		2012		2013	2014
			Prel.	Budget	Proj.	Budget	Proj.	Proj.	Proj.
Revenue	15.2	16.1	18.0	18.9	14.7	19.1	16.2	17.0	17.5
Domestic revenue	10.4	10.8	11.6	10.9	11.2	11.5	11.6	11.6	12.2
Tax revenue	8.0	8.7	9.4	9.9	9.5	8.5	9.9	10.4	11.0
Taxes on profits and property	1.6	2.0	1.8	2.6	1.9	…	1.9	2.0	2.1
Taxes on goods and services	6.3	6.7	7.6	7.4	7.6	…	8.0	8.4	8.8
Of which: taxes on international trade	1.9	1.9	2.7	…	2.7	…	2.8	2.9	3.1
Nontax revenue	2.5	2.1	2.3	1.0	1.7	3.0	1.6	1.2	1.2
PM: earmarked revenue	…	*3.0*	*0.4*	*1.4*	*0.5*	*2.5*	*0.5*	*0.0*	*0.0*
Grants	4.8	5.3	6.3	8.0	3.5	7.6	4.6	5.4	5.3
Program	1.4	1.8	1.4	1.3	0.0	0.0	0.8	1.6	1.6
Project	3.3	3.5	4.9	6.8	3.5	7.6	3.7	3.8	3.7
Expenditure [2]	-16.2	-16.2	-19.4	-18.9	-17.7	-21.6	-17.3	-18.0	-17.9
Current primary expenditure	-9.8	-10.1	-11.5	-9.6	-11.2	-10.9	-10.8	-10.8	-10.9
Wages and salaries	-4.3	-4.5	-4.4	-4.3	-4.5	-4.7	-4.6	-4.6	-4.6
Transfers and subsidies [3]	-2.7	-2.6	-3.3	-2.4	-3.4	-3.3	-3.3	-3.3	-3.3
Goods and Services	-2.7	-3.0	-3.8	-2.8	-3.2	-2.9	-2.9	-2.9	-2.9
Interest due	-1.9	-1.1	-1.0	-0.4	-0.8	-0.5	-0.7	-0.5	-0.4
External	-1.0	-0.4	-0.2	0.0	-0.2	…	-0.1	-0.1	-0.1
Domestic	-0.9	-0.7	-0.8	-0.4	-0.6	…	-0.6	-0.4	-0.3
Capital expenditure	-4.5	-4.9	-6.8	-8.9	-5.7	-10.2	-5.8	-6.7	-6.7
Domestically financed	-1.2	-1.0	-1.1	-1.3	-1.9	-1.5	-1.0	-1.9	-2.0
Externally financed	-3.3	-4.0	-5.7	-7.6	-3.8	-8.6	-4.7	-4.8	-4.7
Overall balance									
Excluding grants	-5.8	-5.4	-7.7	-8.0	-6.5	-10.1	-5.7	-6.4	-5.7
Of which: domestic primary balance [4]	-0.5	-0.3	-1.0	0.1	-1.9	-0.9	-0.2	-1.1	-0.7
Including grants	-1.0	-0.1	-1.4	0.0	-3.0	-2.5	-1.1	-1.0	-0.4
Net change in arrears ((-) = reduction)	-0.6	-0.5	-0.6	-1.1	0.7	-0.5	-1.6	-1.3	-1.2
Domestic	-0.6	-0.5	-0.8	-1.1	0.5	-0.5	-1.4	-1.3	-1.2
External	0.0	0.0	0.1	0.0	0.2	0.0	-0.3	0.0	0.0
Errors and omissions	-0.6	1.9	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-2.2	1.3	-2.9	-1.1	-2.3	-3.0	-2.7	-2.3	-1.6
Identified financing	2.2	-1.3	2.9	-0.7	2.2	-0.2	-0.7	-0.3	-0.5
External, net	0.7	0.4	0.7	0.4	0.1	-0.2	0.3	0.4	0.4
Project loans	0.0	0.4	0.8	0.5	0.3	1.0	1.0	1.0	1.0
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-1.3	-0.7	-0.1	-0.1	-0.1	-1.2	-0.7	-0.6	-0.6
Exceptional financing	1.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club [5]	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [6]	1.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	1.5	-1.7	2.3	-1.0	2.0	…	-1.0	-0.7	-0.9
Banking system	1.0	-0.7	2.2	-0.9	1.8	…	-0.8	-0.7	-0.9
Counterpart to IMF resources (BEAC)	0.6	2.0	0.7	0.0	0.0	…	0.0	-0.1	-0.2
Central Bank	-0.3	-1.4	1.1	-0.4	1.4	…	-0.4	-0.4	-0.7
Commercial banks	0.8	-1.3	0.5	-0.5	0.4	…	-0.4	-0.2	0.0
Of which: new bond issues	…	…	…	0.0	0.0	…	0.0	0.0	0.0
Nonbank [7]	0.5	-1.0	0.0	-0.1	0.2	…	-0.2	0.0	0.0
Of which: new bond issues	…	…	…	0.0	0.0	…	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	1.7	0.1	3.2	3.4	2.6	2.1
Memorandum items:									
Total government debt	80.3	35.0	37.8	…	39.6	…	38.3	36.6	33.8
Government domestic debt	23.3	20.4	21.2	…	21.3	…	17.9	14.9	11.9
Of which: domestic arrears	12.4	11.3	12.2	…	12.2	…	10.0	8.2	6.3
Spending for DDR	…	0.0	0.2	…	0.3	…	…	…	…

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] Policy note for the new ECF arrangement (April 2011).
[2] Expenditures are on a cash basis, except for interest, which is recorded on a due-basis.
[3] In 2009 and beyond, includes outlays for the peace process (DDR).
[4] Excludes grants, interest payments, and externally-financed capital expenditure.
[5] Reflects Paris Club rescheduling and moratorium agreement in April 2007.
[6] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, also includes debt service to non-Paris Club and commercial creditors. From mid-2009 onward, reflects full delivery of HIPC and MDRI relief on a flow basis.
[7] Includes repayments to CEMAC commercial banks and domestic oil suppliers in 2009, and on expected future bond issues.

Table 4. Central African Republic: Monetary Survey, 2008–14

	2008	2009	2010	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
	(CFAF billions, end of period)						
Net foreign assets	32.3	71.0	9.5	15.2	31.5	46.4	72.8
Bank of Central African States (BEAC)	28.4	57.4	-1.0	-4.1	11.9	26.5	52.6
Commercial banks	3.9	13.6	10.5	19.3	19.6	19.9	20.2
Net domestic assets	109.7	124.1	169.2	138.5	173.5	174.3	165.4
Domestic credit	160.8	143.5	187.2	225.9	232.7	232.5	231.8
Credit to the public sector	96.7	80.3	98.5	114.6	107.0	99.0	87.0
Credit to central government (net)	102.1	82.3	106.8	123.5	116.7	108.9	97.9
BEAC	83.4	75.7	95.5	107.9	103.7	98.6	87.8
Current account	17.6	21.5	22.4	22.8	18.4	14.1	9.4
Consolidated loans	42.0	43.4	44.7	45.3	45.3	45.3	41.5
IMF (net)	30.7	35.7	44.6	42.8	43.0	42.2	39.9
Deposits	-6.8	-24.9	-16.2	-3.0	-3.0	-3.0	-3.0
Commercial banks	18.7	6.6	11.3	15.6	13.0	10.4	10.1
Credit to other public agencies (net)	-5.5	-2.0	-8.2	-8.9	-9.7	-10.0	-10.9
Credit to the economy	64.2	63.2	88.7	111.3	125.7	133.6	144.8
Public enterprises	2.1	1.7	1.6	2.3	2.3	2.3	2.3
Private sector	62.0	61.5	87.0	109.0	123.4	131.3	142.5
Other items (net)	-51.1	-19.4	-18.0	-87.3	-59.2	-58.2	-66.4
Money and quasi-money	137.3	156.97	179.2	189.2	205.0	220.7	238.2
Currency	72.9	78.0	94.4	108.3	118.0	131.2	141.0
Deposits	64.4	79.0	84.8	80.9	87.0	89.5	97.2
Demand deposits	40.0	51.3	55.0	52.4	56.4	58.0	63.0
Term and savings deposits	24.3	27.6	29.8	28.4	30.6	31.4	34.1
	(Annual change, in percent of beginning period broad money)						
Net foreign assets	-1.1	28.2	-39.1	3.2	8.6	7.3	12.0
Net domestic assets	21.0	10.5	28.7	-17.1	18.5	0.4	-4.1
Net domestic credit	14.2	-12.6	27.9	21.6	3.6	-0.1	-0.3
Net credit to central government	10.6	-14.4	15.6	9.3	-3.6	-3.8	-5.0
Credit to the economy	4.3	-0.7	16.2	12.6	7.6	3.9	5.1
Money and quasi–money	15.9	14.4	14.2	5.5	8.4	7.6	7.9
	(Annual percentage change)						
Monetary base	19.8	28.1	3.4	17.6	17.8	9.8	7.7
Credit to the economy	8.6	-1.5	40.3	25.5	12.9	6.3	8.4
Public enterprises	-49.0	-20.0	-4.2	40.4	0.0	0.0	0.0
Private sector	13.0	-0.8	41.5	25.2	13.2	6.4	8.6
Memorandum items:							
Gross official foreign reserves (CFAF billions)	58.1	66.7	62.1	58.8	69.0	86.7	110.7
NDA of the central bank (CFAF billions)	53.4	47.4	109.3	131.5	138.2	138.4	124.9
Monetary base (CFAF billions)	81.8	104.8	108.3	127.4	150.1	164.8	177.6
Nominal GDP (CFAF billions)	888	935	983	1,022	1,092	1,163	1,262
Velocity (GDP/broad money)							
End of period	6.5	6.0	5.5	5.4	5.3	5.3	5.3

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

Table 5. Central African Republic: Balance of Payments, 2008–14

	2008 Prel.	2009 Prel.	2010 Prel.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
	(CFAF billions)						
Current account	-87.6	-75.7	-97.7	-74.0	-74.2	-68.8	-67.6
Balance on goods	-68.4	-66.9	-79.4	-42.1	-53.1	-60.0	-64.3
Exports, f.o.b.	66.1	61.0	71.7	94.8	110.3	119.6	130.9
Diamonds	22.2	23.3	25.9	30.9	34.8	37.0	39.3
Wood products	33.6	24.7	29.6	42.6	52.5	57.5	63.7
Imports, f.o.b.	-134.4	-128.0	-151.1	-136.9	-163.4	-179.6	-195.3
Petroleum products	-41.3	-30.9	-40.6	-38.6	-48.5	-52.2	-57.2
Public investment program	-12.0	-12.1	-18.1	-15.7	-16.7	-20.9	-22.7
Services (net)	-43.5	-43.0	-56.3	-57.7	-57.9	-57.2	-55.7
Credit	30.4	30.6	34.4	35.1	36.2	37.4	39.2
Debit	-73.9	-73.6	-90.7	-92.9	-94.2	-94.5	-94.9
Income (net)	-9.9	-2.6	-1.6	-1.4	-1.2	-0.9	-0.5
Credit	6.7	7.3	7.9	8.3	8.6	9.0	9.5
Debit	-16.6	-9.9	-9.5	-9.7	-9.9	-9.9	-10.1
Transfers (net)	34.1	36.9	39.6	27.2	38.1	49.2	53.0
Private	2.3	2.9	3.5	4.1	4.1	4.0	3.9
Official	31.8	34.0	36.1	23.1	34.0	45.2	49.1
Capital account	29.7	43.0	48.4	36.2	40.9	43.7	46.5
Project grants	29.7	32.8	48.4	36.2	40.9	43.7	46.5
Capital grants and transfers	0.0	10.2	0.0	0.0	0.0	0.0	0.0
Financial account	61.2	26.8	47.1	33.1	6.9	13.1	20.8
Direct investment	55.2	19.9	30.4	33.2	34.5	36.0	38.1
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	6.0	6.9	16.7	-0.1	-27.6	-22.9	-17.3
Errors and omissions	-9.8	3.9	-9.0	0.0	0.0	0.0	0.0
Overall balance	3.3	-5.9	-2.1	-4.6	-26.4	-12.0	-0.3
Identified financing	6.5	2.0	11.2	3.3	-10.2	-18.8	-26.7
Net official reserves movements	-10.5	-4.1	11.2	3.3	-10.2	-18.8	-26.7
Net IMF credit	6.5	6.6	6.5	0.0	0.0	-1.1	-2.6
SDR allocation	0.0	2.1	0.0	0.0	0.0	0.0	0.0
Other reserves (increase = -)	-17.1	-10.7	4.6	3.3	-10.2	-17.7	-24.1
Exceptional financing	17.1	6.1	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	17.1	6.1	0.0	0.0	0.0	0.0	0.0
Other exceptional financing [2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	1.4	36.6	30.8	27.0
Memorandum items:	(Annual percentage change; unless otherwise indicated)						
Terms of trade	-20.1	40.8	-6.3	0.9	0.6	3.9	4.0
Gross official foreign reserves							
(CFAF billions, end-of-period)	58.1	66.7	62.1	58.8	69.0	86.7	110.7
(months of imports, f.o.b.)	3.3	3.3	3.2	2.7	3.0	3.6	4.3
Current account (percent of GDP)	-9.9	-8.1	-9.9	-7.2	-6.8	-5.9	-5.4
Capital account (percent of GDP)	3.3	4.6	4.9	3.5	3.7	3.8	3.7
NPV of external public and guaranteed debt (percent of GDP)	36.2	7.5	10.7	12.3	13.0	13.4	13.1
Nominal GDP (CFAF billions)	888	935	983	1,022	1,092	1,163	1,262

[1] SDR allocation (CFAF 38.1 billion) is recorded as an inflow under "Financial account/Public sector (net)". The corresponding increase in official reserves is reflected as a line item in net official reserves movements.

[2] Includes HIPC debt relief from multilateral creditors. For 2008–09, includes debt service to non-Paris Club and commercial creditors. For 2010 onward, reflects full delivery of HIPC and MDRI relief on a flow basis.

Table 6. Central African Republic. Selected Financial Soundness Indicators

(in percent, unless otherwise specified)

	2001	2004	2007	2008	2009	2010	Aug-11
Capital							
Regulatory capital to risk-weighted assets [1, 2]	10.2	11.0	16.2	17.4	16.1	16.1	24.1
Tier 1 capital to risk-weighted assets [2]	10.1	12.8	16.3	17.7	16.5	16.5	21.8
Capital to total assets [3]	15.6	15.9	15.6	15.3	16.3	15.8	19.9
Asset quality							
Nonperforming loans (gross) to total loans (gross) [4]	26.4	31.1	21.0	16.5	14.4	10.6	11.2
Nonperforming loans (gross) to total loans excluding loans to government (gross)	21.9	24.9	16.7	14.5	13.5	11.7	12.1
Nonperforming loans (net of provisioning) to regulatory capital [2]	80.5	94.8	38.0	25.8	45.9	8.4	14.4
Loan loss provisions to nonperforming loans	76.0	87.3	83.1	82.8	73.3	91.9	79.5
Earnings and profitability							
Return on assets [5]	-0.2	1.9	6.3	2.2	1.3	2.6	…
Return on equity [6]	-1.5	9.3	21.0	13.0	7.8	13.3	…
Liquidity							
Ratio of net loans to total deposits [7]	112.0	108.7	106.1	114.6	114.7	122.4	115.1
Liquid assets to total assets	11.2	25.2	34.3	34.3	28.0	27.8	14.6
Liquid assets to short-term liabilities	72.9	119.9	182.8	131.4	177.3	132.6	95.6
Assets of Banks (FCFA billion)	52.7	59.5	98.4	113.8	136.1	156.6	174.7
Deposits of banks (CFA billions)	41.8	46.0	76.5	84.8	106.7	114.5	127.9

Source: BEAC, COBAC, and IMF staff estimates using definitions from IMF's "Compilation Guide on Financial Soundness Indicators".

[1] Specific loan loss provisions are excluded from the definition of capital. General loan loss provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets. Regulatory capital is the sum of Tier 1 capital and the minimum of Tier 1 and Tier 2 capital.

[2] Risk-weighted assets are estimated using the following risk weights: 0% – cash reserves in domestic and foreign currency and claims on the central bank and the government; 20% – claims on correspondent banks in foreign currency; 100% – all other assets.

[3] Loan loss provisions are excluded from the definition of capital.

[4] Total loans are the sum of claims on the economy net of claims on financial institutions, credits to nonresidents, and claims on government net of treasury bonds and related instruments (bons d'équipement).

[5] The ratio of after-tax profits to the average of beginning- and end-period total assets.

[6] The ratio of after-tax profits to the average of beginning- and end-period capital net of specific loan loss provisions.

[7] Including government deposits.

Table 7. Central African Republic: Millennium Development Goals, 1990–2009

	1990	1995	2000	2005	2009
Eradicate extreme poverty and hunger [1]					
Employment to population ratio, 15+, total (%)	73	73	73	73	73
Employment to population ratio, ages 15-24, total (%)	59	58	58	58	58
GDP per person employed (constant 1990 PPP $)	..	..	..	..	..
Income share held by lowest 20%	..	2	..	5	..
Malnutrition prevalence, weight for age (% of children under 5)	..	23	22	..	..
Poverty gap at $1.25 a day (PPP) (%)	57	..	..	28	31
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	83	..	..	62	63
Vulnerable employment, total (% of total employment)	..	..	..	..	..
Achieve universal primary education [2]					
Literacy rate, youth female (% of females ages 15-24)	35	..	47	..	57
Literacy rate, youth male (% of males ages 15-24)	63	..	70	..	72
Persistence to last grade of primary, total (% of cohort)	..	..	..	..	46
Primary completion rate, total (% of relevant age group)	30	..	..	26	38
Total enrollment, primary (% net)	58	..	..	48	67
Promote gender equality and empower women [3]					
Proportion of seats held by women in national parliaments (%)	4	4	7	11	11
Ratio of female to male primary enrollment (%)	63	..	68	69	71
Ratio of female to male secondary enrollment (%)	40	..	..	..	56
Ratio of female to male tertiary enrollment (%)	19	..	19	28	43
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	..	46.8	..
Reduce child mortality [4]					
Immunization, measles (% of children ages 12-23 months)	82	46	36	62	62
Mortality rate, infant (per 1,000 live births)	115	119	119	115	112
Mortality rate, under-5 (per 1,000)	175	183	184	177	171
Improve maternal health [5]					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	128	115	96
Births attended by skilled health staff (% of total)	..	46	44	53	44
Contraceptive prevalence (% of women ages 15-49)	..	15	28	19	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	880	890	900	910	850
Pregnant women receiving prenatal care (%)	..	67	62	69	..
Unmet need for contraception (% of married women ages 15-49)	..	16	..	..	..
Combat HIV/AIDS, malaria, and other diseases [6]					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	69	57	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	145	209	302	363	327
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	2.2
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	1
Prevalence of HIV, total (% of population ages 15-49)	3.1	9.7	9.4	6.6	4.7
Tuberculosis case detection rate (%, all forms)	50	48	20	22	60
Ensure environmental sustainability [7]					
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	0
CO2 emissions (metric tons per capita)	0	0	0	0	0
Forest area (% of land area)	37.2	..	36.8	36.5	36.3
Improved sanitation facilities (% of population with access)	11	15	22	29	34
Improved water source (% of population with access)	58	60	63	65	67
Marine protected areas (% of territorial waters)	..	..	..	..	..
Net ODA received per capita (current US$)	85	50	20	22	54
Develop a global partnership for development [8]					
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	12	12	14	0	5
Internet users (per 100 people)	0	0	0.1	0.3	0.5
Mobile cellular subscriptions (per 100 people)	0	0	0	2	4
Telephone lines (per 100 people)	0	0	0	0	0
Fertility rate, total (births per woman)	6	6	5	5	5

Source: World Development Indicators database, 2011.
1/ Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than US$1 a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
2/ Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
3/ Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.
4/ Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
5/ Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate.
6/ Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.
7/ Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water.
8/ Goal 8 targets: Develop further an open, rule-based, predictable, non discriminatory trading and financial system. Address the special seeds of the least developed countries. Address the special needs of landlocked countries and small island developing nations.

Table 8. Central African Republic: Social and Demographic Indicators, 2009

	Central African Republic	Sub-Saharan Africa
Area (thousands of square kilometers)	623.0	24,242.1
Population		
Total (millions)	4.4	839.6
Annual rate of growth (percent)	1.9	2.5
Population characteristics		
Population density (per square kilometer)	7.1	35.6
Urban population (percent of total)	38.7	36.9
Population age structure (percent of total)		
0–14 years	40.6	42.6
15–64 years	55.5	54.3
65 years and above	3.9	3.1
Access to improved water source (percent of population, 2008)		
Total	67.0	59.7
Rural	28.0	24.1
Urban	92.0	82.5
Health (2009)		
Life expectancy at birth	47.3	52.5
Infant mortality (per 1,000 live births)	112.0	80.8
People living with HIV/AIDS	4.7	5.8
PPP gross national income per capita	750.0	2,051.2
Labor force (2009)		
Total (millions)	2.1	341.0
Female (percent of total population)	46.5	43.6
Education (2009)		
School enrollment (percent, gross)		
Primary	88.6	100.1
Secondary	13.6	34.1
Tertiary	2.5	6.0
Adult literacy rate	55.2	62.3

Source: World Bank, World Development Indicators, 2011.

Table 9. Central African Republic: Central Government Operations, 2008–14

(CFAF billions)

	2008	2009	2010 Prel.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
Revenue	134.7	150.3	176.5	150.4	176.5	197.5	221.0
Domestic Revenue	92.5	100.8	114.3	114.2	126.4	135.0	154.0
Taxes	70.7	81.1	92.0	97.3	108.5	121.3	138.4
Taxes on income, profits, and capital gains	14.6	18.4	17.8	19.2	21.1	23.5	26.7
Of which,							
Payable by individuals	8.4	9.0	7.4	3.6	4.0	4.5	5.2
Payable by corporations and other enterprises	3.0	4.6	6.3	10.9	12.1	13.6	15.5
Taxes on goods & services	39.5	44.5	47.4	50.8	57.1	63.9	72.9
Taxes on international trade & transactions	16.5	18.2	26.9	27.3	30.3	33.8	38.8
Social contributions	2.0	2.2	1.8	2.0	2.1	2.3	2.4
Nontax revenue	19.8	17.5	20.5	14.9	15.7	11.4	13.2
Foreign Revenue (Grants)	42.3	49.4	62.2	36.2	50.1	62.6	67.0
Budget support grants	12.6	16.6	13.8	0.0	9.3	18.9	20.5
International institutions	12.6	13.3	13.8	6.1	9.3	5.6	19.2
Foreign governments	0.0	3.3	0.0	0.0	0.0	1.3	1.3
Project grants	29.7	32.8	48.4	36.2	40.9	43.7	46.5
Total expenditure	143.6	151.3	190.4	180.6	188.6	209.3	226.5
Expense	103.5	105.1	123.2	122.2	125.6	131.6	142.2
Compensation of employees	38.6	42.1	43.3	46.2	50.8	54.1	58.7
Use of goods & services	24.1	27.7	37.6	33.2	31.2	33.2	37.1
Interest	16.6	10.5	9.9	8.3	7.9	6.3	5.1
Domestic	7.7	6.4	7.9	6.6	6.5	5.1	4.3
Foreign	9.0	4.1	2.0	1.7	1.4	1.1	0.8
Subsidies and Transfers (incl. Social benefits)	24.2	24.7	32.3	34.6	35.8	38.1	41.4
Net acquisition of nonfinancial assets	40.1	46.3	67.2	58.4	62.9	77.7	84.3
Domestically financed	10.4	9.2	11.1	19.5	11.2	22.4	25.2
Externally financed	29.7	37.0	56.1	38.8	51.7	55.3	59.1
Net lending/borrowing	-8.9	-1.1	-13.9	-30.2	-12.1	-11.8	-5.5
(excluding foreign grants)	-51.2	-50.5	-76.1	-66.4	-62.2	-74.3	-72.5
of which: domestic primary balance	-4.8	-3.0	-10.1	-19.3	-2.6	-12.8	-8.3
Net acquisition of financial assets	5.4	18.0	-8.7	-13.2	0.0	0.0	0.0
Domestic	5.4	18.0	-8.7	-13.2	0.0	0.0	0.0
Currency and deposits (Central bank)	5.4	18.0	-8.7	-13.2	0.0	0.0	0.0
Net incurrence of liabilities	-14.6	-10.7	14.0	15.7	-24.2	-18.9	-21.5
Domestic	13.8	-2.2	6.3	12.9	-24.8	-23.0	-26.3
Currency and deposits (Cemtral bank)	1.4	3.9	0.9	0.4	-4.4	-4.4	-4.6
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	17.3	-1.6	12.9	7.3	-5.3	-3.7	-6.7
Central Bank	0.9	1.4	1.3	0.7	0.0	0.0	-3.8
Commercial banks	6.9	-12.1	4.7	4.4	-2.7	-2.6	-0.2
Nonbanks	4.6	-9.6	0.4	2.3	-2.7	0.0	0.0
IMF	4.9	18.7	6.5	0.0	0.0	-1.1	-2.6
Other accounts payable *(domestic arrears net)*	-4.9	-4.5	-7.5	5.1	-15.0	-15.0	-15.0
Foreign	-28.3	-8.5	7.7	2.8	0.5	4.1	4.8
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-11.3	-2.4	6.4	1.1	3.5	4.1	4.8
Project loans	0.0	4.2	7.7	2.6	10.8	11.6	12.6
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-11.3	-6.6	-1.3	-1.5	-7.4	-7.6	-7.8
Other accounts payable *(external arrears - net)*	-17.1	-6.1	1.3	1.7	-3.0	0.0	0.0
Errors and omissions / Financing gap	28.8	29.8	-8.9	1.4	36.3	30.7	27.0

Soures: C.A.R. authorities, and staff estimates and projections.

Table 10. Central African Republic: Central Government Operations, 2008–14

(in percent of GDP)

	2008	2009	2010 Prel.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
Revenue	15.2	16.1	18.0	14.7	16.2	17.0	17.5
Domestic Revenue	10.4	10.8	11.6	11.2	11.6	11.6	12.2
Taxes	8.0	8.7	9.4	9.5	9.9	10.4	11.0
Taxes on income, profits, and capital gains	1.6	2.0	1.8	1.9	1.9	2.0	2.1
Of which,							
Payable by individuals	0.9	1.0	0.8	0.4	0.4	0.4	0.4
Payable by corporations and other enterprise	0.3	0.5	0.6	1.1	1.1	1.2	1.2
Taxes on goods & services	4.5	4.8	4.8	5.0	5.2	5.5	5.8
Taxes on international trade & transactions	1.9	1.9	2.7	2.7	2.8	2.9	3.1
Taxes not elsewhere classified	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social contributions	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	2.2	1.9	2.1	1.5	1.4	1.0	1.0
Foreign Revenue (Grants)	4.8	5.3	6.3	3.5	4.6	5.4	5.3
Budget support grants	1.4	1.8	1.4	0.0	0.8	1.6	1.6
International institutions	1.4	1.4	1.4	0.6	0.8	0.5	1.5
Foreign governments	0.0	0.4	0.0	0.0	0.0	0.1	0.1
Project grants	3.3	3.5	4.9	3.5	3.7	3.8	3.7
Total expenditure	16.2	16.2	19.4	17.7	17.3	18.0	17.9
Expense	11.7	11.2	12.5	12.0	11.5	11.3	11.3
Compensation of employees	4.3	4.5	4.4	4.5	4.6	4.6	4.6
Use of goods & services	2.7	3.0	3.8	3.2	2.9	2.9	2.9
Interest	1.9	1.1	1.0	0.8	0.7	0.5	0.4
Domestic	0.9	0.7	0.8	0.6	0.6	0.4	0.3
Foreign	1.0	0.4	0.2	0.2	0.1	0.1	0.1
Subsidies and Transfers (incl. Social benefits)	2.7	2.6	3.3	3.4	3.3	3.3	3.3
Net acquisition of nonfinancial assets	4.5	4.9	6.8	5.7	5.8	6.7	6.7
Domestically financed	1.2	1.0	1.1	1.9	1.0	1.9	2.0
Externally financed	3.3	4.0	5.7	3.8	4.7	4.8	4.7
Net lending/borrowing	-1.0	-0.1	-1.4	-3.0	-1.1	-1.0	-0.4
(excluding foreign grants)	-5.8	-5.4	-7.7	-6.5	-5.7	-6.4	-5.7
of which: domestic primary balance	-0.5	-0.3	-1.0	-1.9	-0.2	-1.1	-0.7
Net acquisition of financial assets	0.6	1.9	-0.9	-1.3	0.0	0.0	0.0
Domestic	0.6	1.9	-0.9	-1.3	0.0	0.0	0.0
Currency and deposits (Central bank)	0.6	1.9	-0.9	-1.3	0.0	0.0	0.0
Net incurrence of liabilities	-1.6	-1.1	1.4	1.5	-2.2	-1.6	-1.7
Domestic	1.6	-0.2	0.6	1.3	-2.3	-2.0	-2.1
Currency and deposits (Cemtral bank)	0.2	0.4	0.1	0.0	-0.4	-0.4	-0.4
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.9	-0.2	1.3	0.7	-0.5	-0.3	-0.5
Central Bank	0.1	0.1	0.1	0.1	0.0	0.0	-0.3
Commercial banks	0.8	-1.3	0.5	0.4	-0.2	-0.2	0.0
Nonbanks	0.5	-1.0	0.0	0.2	-0.2	0.0	0.0
IMF	0.6	2.0	0.7	0.0	0.0	-0.1	-0.2
Other accounts payable *(domestic arrears net)*	-0.6	-0.5	-0.8	0.5	-1.4	-1.3	-1.2
Foreign	-3.2	-0.9	0.8	0.3	0.0	0.4	0.4
Loans	-1.3	-0.3	0.7	0.1	0.3	0.4	0.4
Project loans	0.0	0.4	0.8	0.3	1.0	1.0	1.0
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.3	-0.7	-0.1	-0.1	-0.7	-0.6	-0.6
Other accounts payable *(external arrears - net)*	-1.9	-0.7	0.1	0.2	-0.3	0.0	0.0
Errors and omissions / Financing gap	3.2	3.2	-0.9	0.1	3.3	2.6	2.1
Fiscal year GDP	888	935	983	1,022	1,092	1,163	1,262

Soures: C.A.R. authorities, and staff estimates and projections.

Table 11. Central African Republic: Central Government Balance Sheet, 2008–14

(CFAF billions)

	2008	2009 1/	2010 Prel.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
Net worth	-1061.4	-289.0	-313.0	-343.4	-316.3	-297.3	-275.9
Nonfinancial assets	…	…	…	…	…	…	…
Net financial worth [2]	-1061.4	-289.0	-313.0	-343.4	-316.3	-297.3	-275.9
Financial assets	7.6	25.7	17.0	3.8	3.8	3.8	3.8
Domestic	7.6	25.7	17.0	3.8	3.8	3.8	3.8
Currency and deposits (Central Bank)	7.6	25.7	17.0	3.8	3.8	3.8	3.8
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities (government bonds)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities	1069.1	314.6	329.9	347.2	320.1	301.1	279.7
Domestic	270.3	268.0	274.3	287.2	262.4	239.4	213.1
Currency and deposits (Cemtral bank)	34.7	38.6	39.5	40.0	35.6	31.2	26.6
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	100.5	98.9	111.8	119.1	113.8	110.1	103.4
Central Bank	42.0	43.4	44.7	45.3	45.3	45.3	41.5
Commercial banks	18.7	6.6	11.3	15.6	13.0	10.4	10.1
Nonbanks	10.4	0.8	1.2	3.5	0.8	0.8	0.8
IMF	29.5	48.2	54.7	54.7	54.7	53.6	51.0
Other accounts payable *(domestic arrears net)*	135.0	130.5	123.0	128.1	113.1	98.1	83.1
Foreign	798.8	46.6	55.6	60.1	57.6	61.7	66.5
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	494.4	117.1	124.8	127.6	128.1	132.2	137.0
Other accounts payable *(external arrears - net)*	304.4	-70.5	-69.2	-67.5	-70.5	-70.5	-70.5

Soures: C.A.R. authorities, and staff estimates and projections.

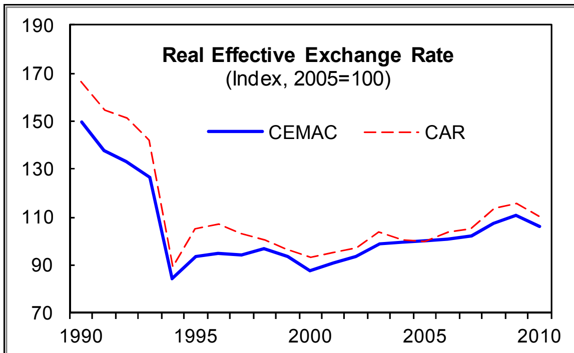
1/ Takes into account net value adjustments at the HIPC/MDRI completion point.

2/ Information is not available on existing government investments.

Appendix I. External Stability Assessment and Competitiveness

Staff's assessment of Central African Republic's (C.A.R.) external sustainability and real effective exchange rate (REER) suggests that, under current policies, the exchange rate is overvalued by 12–30 percent, well within the margin of errors given the nature of the exercise. Although the REER appreciation deviates from that of the region, staff concludes that it has remained moderate and is congruent with regional external sustainability. However, C.A.R.'s poor export performance and weak institutions underscore the need to improve competitiveness.

1. **C.A.R.'s external stability is assessed in the framework of a monetary union**. C.A.R., along with Cameroon, Chad, Republic of Congo, Equatorial Guinea, and Gabon, is a member of a currency union CEMAC—*(Communauté économique et monétaire d'Afrique centrale*—and its currency (CFA franc) is pegged to the Euro. The sustainability of the union closely depends on the external stability of individual countries. The extent to which C.A.R. deviates from the regional assessment sheds light on the policies necessary to secure the regional peg and advance national competitiveness.



Source: INS

2. **Developments in the REER.** C.A.R.'s REER has appreciated since 1994, eroding competitiveness gained after the devaluation of the CFA franc. However, this appreciation closely tracked that of the CEMAC as a whole, though moderately higher.

3. **Model-based assessment of the REER**. The assessment of C.A.R.'s external sustainability is based on the current account balance (CAB) appraisal. Standard methodologies—macroeconomic balance (MB) and the external sustainability (ES) approaches—are used along with the elasticity of the CAB with respect to the REER used for the CEMAC's most recent exchange rate assessment.

4. **The MB approach calculates exchange rate under- or overvaluation**. This approach measures the adjustment needed for the RER to close the gap between the projected medium-term CAB at the prevailing REER and the current account norm that is consistent with sustainable medium-term macroeconomic fundamentals of the country. The current account norm for the CEMAC is derived from the model using the CGER (Consultative Group on Exchange Rate issues) Hybrid Pooled estimation and estimates by Christiansen et al. (2009).[1] Comparing this norm to the medium-term current account deficit of C.A.R. yields an overvaluation of its implicit effective exchange rate of between

[1] The last exchange rate assessment (see CEMAC staff report—SM/11/163) used an elasticity of the CAB with respect to the REER of 0.37.

12 and 30 percent, which is well with the margin of errors. The ES approach—based on stabilizing the C.A.R.'s 2015 net foreign assets position at the 2010 level—points to an overvaluation below 25 percent, which is also well within the margin of errors.

5. The appreciation of C.A.R.'s REER appears, however, significant when compared to the most recent regional assessment where the appreciation was evaluated to 3–10 percent (see Table below). Given the high degree of uncertainty surrounding these exercises and the data limitations, staff concludes that the C.A.R.'s REER is moderately appreciated but remain congruent with the regional external position sustainability.

CEMAC Exchange Rate Assessments, 2015

(Bems/Carvalho)

	Constant Real Consump-tion	Constant Real Per Capita Consump-tion	External Sustain-ability
MT current account norm	1.80	4.10	1.22
Underlying current account	0.07	0.07	0.07
Current account elasticity	0.37	0.37	0.37
Over-valuation	4.69	10.90	3.13

Source: IMF staff estimates and CEMAC staff report—SM/11/163.

Structural performance and competitiveness

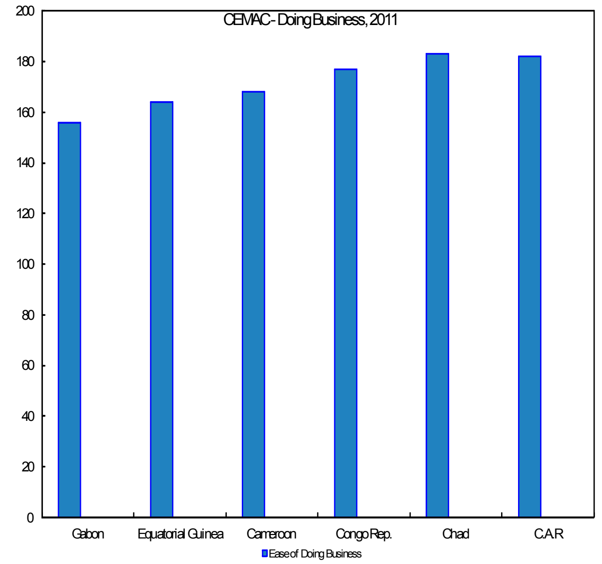
6. C.A.R.'s mixed export performance suggests there is room for improving competitiveness. Between 2003 and 2010, C.A.R.'s export growth averaged only 5.2 percent, far below the SSA or CEMAC benchmarks of about 14.5 percent and 13.5 percent, respectively. Structural factors have constrained competitiveness. C.A.R. ranked 182 among 183 countries in the 2010 and 2011 Doing Business reports of the World Bank, lagging particularly for indicators relevant for export performance, and topic rankings revealed backsliding in most respects. Improving C.A.R.'s ranking on the doing business indicators is an urgent challenge (see Table below).

Top Ranking	**DB 2011 Rank**	**DB 2010 Rank**	**Change in Rank**
Starting a business	161	160	-1
Dealing with construction permits	148	152	4
Registering property	141	140	-1
Getting credit	138	135	-3
Protecting investors	132	131	-1
Paying taxes	182	179	-3
Trading across borders	182	181	-1
Enforcing contracts	173	172	-1
Closing a business	183	183	No change
Overall ranking	**182**	**182**	**No change**

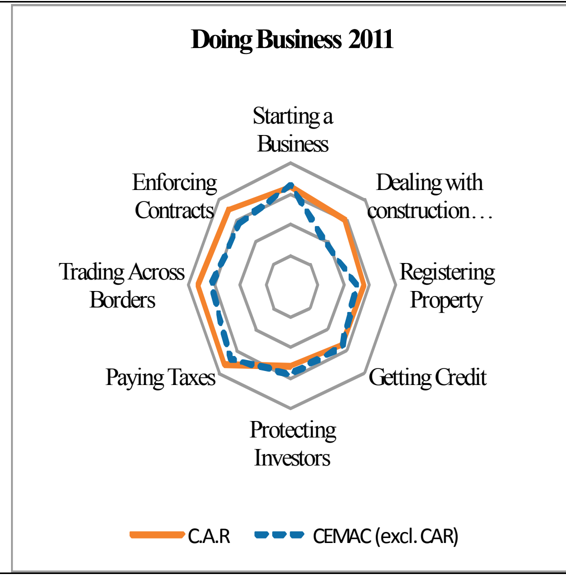
Source: Doing business reports 2010 and 2011.

7. Significant reform measures are to be put in place to improve the conditions for private sector development. These are also necessary to compensate for geographic isolation, weak infrastructure, and persisting security risks—with a view to inducing growth-enhancing domestic and external private investments in mining and manufacturing industries.

8. C.A.R. shares this challenge with other CEMAC countries. The business climate in most CEMAC countries is quite unfavorable. In the regional context, an improvement in C.A.R.'s security environment and business climate is needed to exploit the economy's potential and compensate for its remoteness. Some structural measures to improve the business climate could be easily implemented; for example the establishment of a one-stop center for business registration. Progress toward more stability and security should also increase investor attraction.



Source: Doing Business Report 2011.



Source: Doing Business Report 2011.

Appendix II. Updated Debt Sustainability Analysis Using the Low-Income Country Framework

This appendix provides an annual update to the debt sustainability analysis (DSA) prepared in May 2010.[1] Debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) at the completion point in June 2009 has alleviated C.A.R.'s debt burden and the economy continues to face a moderate risk of debt distress.[2]

1. **C.A.R.'s total public debt, including domestic arrears increased markedly, reaching 40 percent of GDP in 2011**. This is, well-above the projected level of 27 percent in the 2010 DSA. The debt dynamic in 2010–11 is driven by arrears accumulation on both domestic and external debt and a steady rise in external borrowing from Non-Paris Club members to finance infrastructure projects and social programs. In 2010–11, the C.A.R. contracted concessional loans from India and China for US$52.3 million (2.4 percent of GDP). Accumulation of arrears on external debt amounted US$9.8 million (0.5 percent of GDP)—of which US$1.4 million is due to Paris Club creditors and US$2.6 million to the European Investment Bank, and the balance to other Non-Paris Club creditors that have not yet signed bilateral agreements with C.A.R. Domestic debt accumulation amounted to 2.7 percent of GDP.

2. **The macroeconomic assumptions in the near to medium term for the updated analysis are broadly in line with the previous DSA**. Growth is expected to accelerate to around 5 percent per annum on average on the back of scaled-up infrastructures financed by concessional external loans and foreign direct investment (FDI) inflows. The external current account is projected to remain steady as imports related to oil and infrastructure projects would offset rising exports. The fiscal stance is expected to improve on account of increased revenue mobilization and strong budget execution. From 2021 onwards, major mining projects (oil and uranium) would come on stream, boosting growth and government revenue.

3. **As in the full DSA, this update suggests that C.A.R. continues to face a "moderate risk of debt distress"**. Although somewhat higher compared to last year exercise, all baseline debt indicators remain below the thresholds with stable downward trends, but the debt position could still be vulnerable to the most extreme shock to exports, yielding the highest ratio by 2021. Considering the fact that C.A.R. is categorized as having "lower debt vulnerabilities and lower capacity" under the debt sustainability framework, high concessionality is required to preserve debt sustainability.

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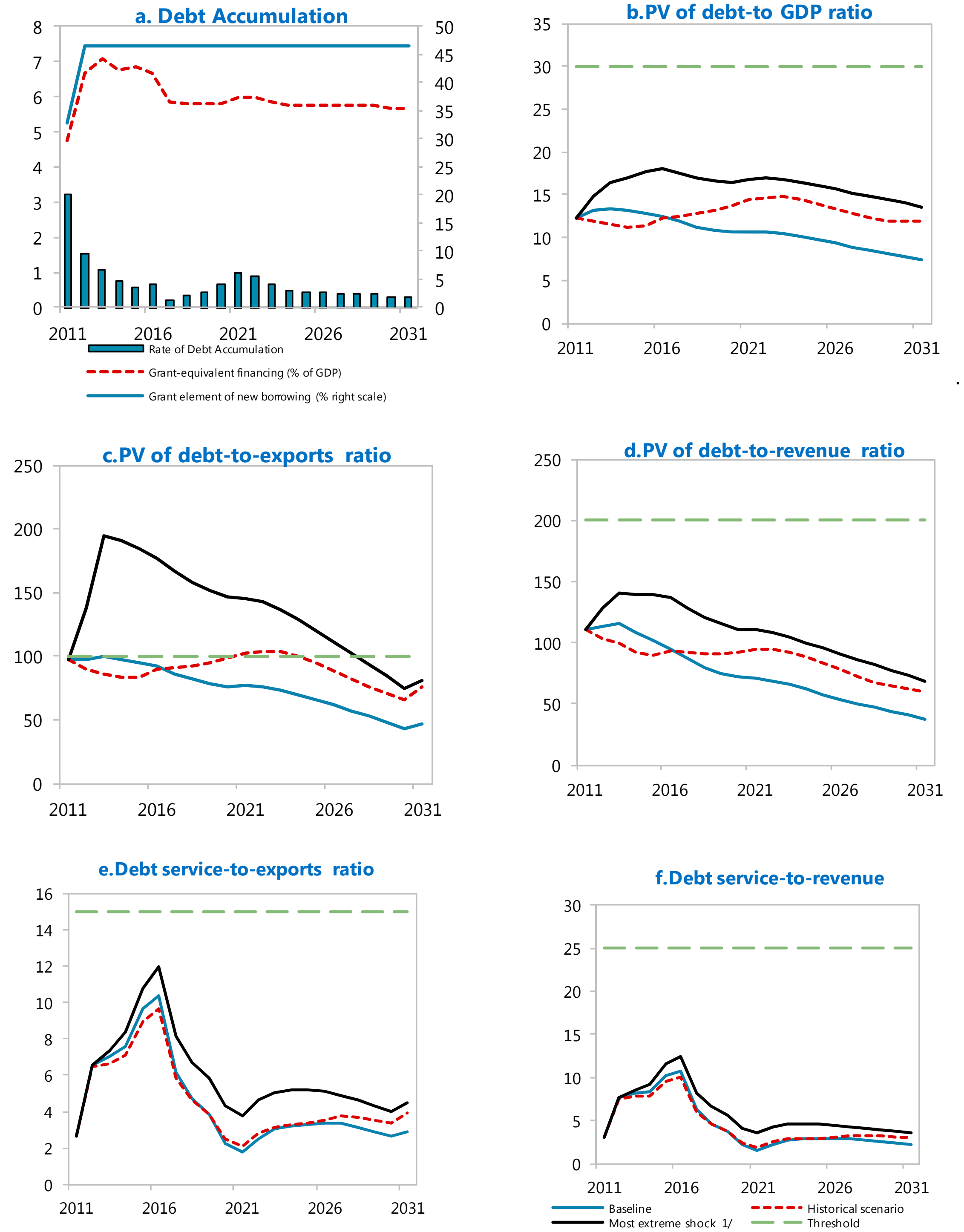
[1] Full joint Bank-Fund LIC DSAs are prepared once every three years, with short annual updates in the intermediate years (Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries, SM/10/16).

[2] All multilateral creditors with the exception of the Central African Development Bank have provided debt relief. Among Paris Club creditors, agreements have been signed with Austria, Italy, Switzerland, U.S.A., France, Germany, and Japan. For non-Paris Club creditors, agreements have been signed with Saudi Arabia, France Telecom, Assistance Publique des Hôpitaux, and GERBER Company. Negotiations are ongoing with other creditors.

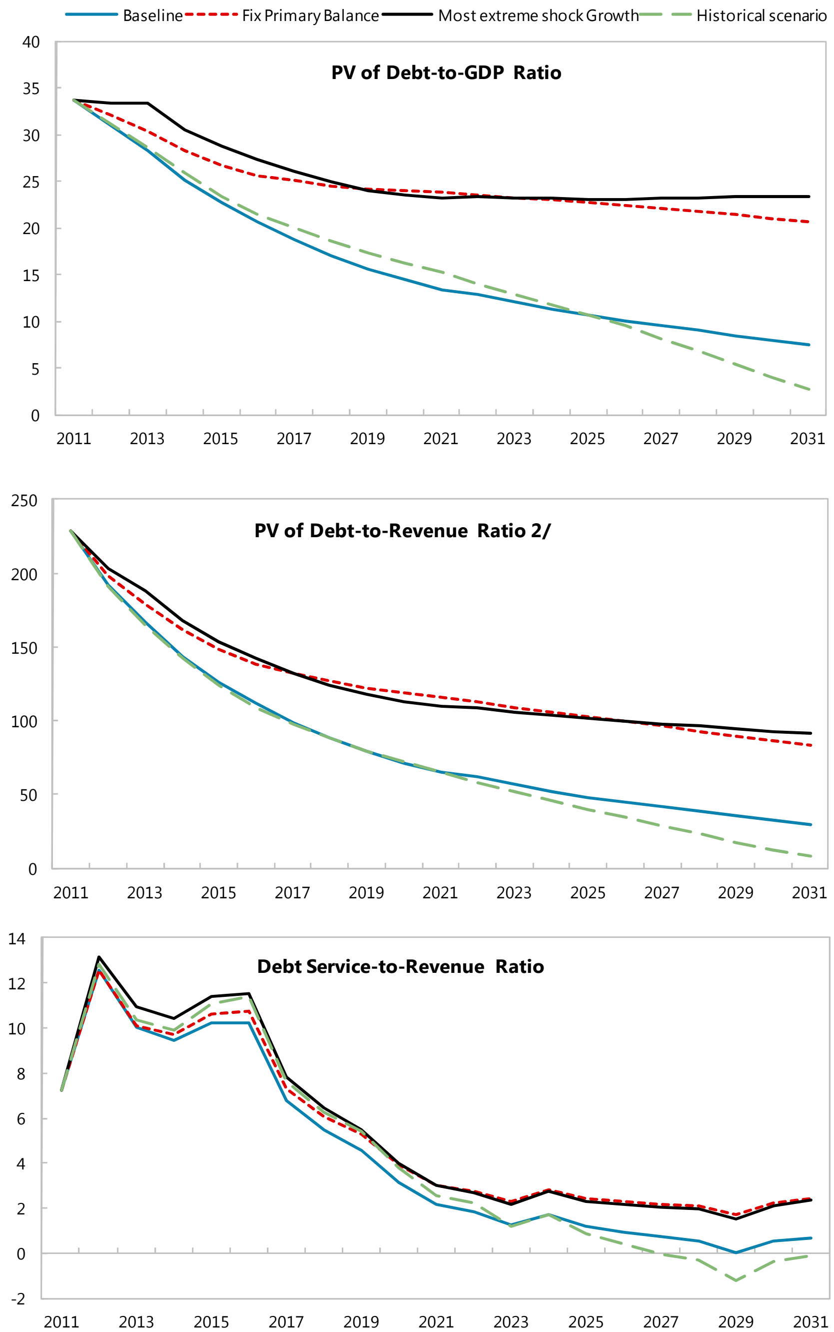
Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011–31 1/



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

1/ The most extreme stress test is the test that yields the highest ration in 2021. In figure b. it corresponds to a Combination shock; in c. to an Exports shock in d. to a Combination shock; in e. to a Terms shock and in figure f. to a Terms shock.

Figure 2. Central African Republic: Indicators of Public Debt Under Alternative Scenarios, 2011–31 1/



Sources: C.A.R. authorities; and IMF estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021.
2/ Revenues are defined inclusive of grants.

Table 1a. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2008–31 1/

(in percent of GDP, unless otherwise indicated)

	Actual			Historical 2/	Standard 2/	Projections						Projections			
	2008	2009	2010	Average	Deviation	2011	2012	2013	2014	2015	2016	Average 2011-2016	2021	2031	Average 2017-2031
External debt (nominal) 1/	**56.9**	**14.6**	**16.5**			**18.3**	**20.5**	**21.7**	**21.9**	**22.2**	**22.1**		**18.0**	**12.0**	
Of which: Public and publicly guaranteed (PPG)	56.9	14.6	16.5			18.3	20.5	21.7	21.9	22.2	22.1		18.0	12.0	
Change in external debt	2.4	-42.3	1.9			1.8	2.2	1.3	0.2	0.3	-0.1		-0.1	-0.6	
Identified net debt-creating flows	-4.4	6.2	6.8			3.5	3.0	2.0	1.2	0.0	-1.2		-0.3	0.2	
Noninterest current account deficit	**8.9**	**7.7**	**9.7**	**4.4**	**3.6**	**7.2**	**6.8**	**5.9**	**5.3**	**5.1**	**4.5**	**5.8**	**4.5**	**6.2**	**5.4**
Deficit in balance of goods and services	12.6	11.8	13.8			9.8	10.2	10.1	9.5	9.3	8.7		8.6	9.8	
Exports	10.9	9.8	10.8			12.7	13.4	13.5	13.5	13.6	13.7		14.0	15.6	
Imports	23.5	21.6	24.6			22.5	23.6	23.6	23.0	22.9	22.4		22.7	25.5	
Net current transfers (negative = inflow)	-3.8	-3.9	-4.0	-4.0	1.1	-2.7	-3.5	-4.2	-4.2	-4.2	-4.1	-3.8	-4.0	-3.5	-3.9
Of which: Official	-3.6	-3.6	-3.7			-2.3	-3.1	-3.9	-3.9	-3.9	-3.9		-3.9	-3.6	
Other current account flows (negative = net inflow)	0.1	-0.2	0.0			0.1	0.1	0.0	0.0	0.0	-0.1		-0.1	-0.1	
Net FDI (negative = inflow)	**-6.2**	**-2.1**	**-3.1**	**-2.5**	**1.6**	**-3.2**	**-3.2**	**-3.1**	**-3.0**	**-4.1**	**-4.7**	**-3.5**	**-3.9**	**-5.3**	**-4.2**
Endogenous debt dynamics 3/	**-7.1**	**0.7**	**0.2**			**-0.4**	**-0.6**	**-0.8**	**-1.1**	**-1.0**	**-1.1**		**-0.9**	**-0.7**	
Contribution from nominal interest rate	0.9	0.5	0.2			0.0	0.0	0.1	0.1	0.1	0.1		0.1	0.1	
Contribution from real GDP growth	-0.9	-1.0	-0.5			-0.5	-0.7	-0.8	-1.2	-1.1	-1.2		-1.0	-0.8	
Contribution from price and exchange rate changes	-7.1	1.2	0.5			…	…	…	…	…	…		…	…	
Residual (3-4) 4/	**6.8**	**-48.5**	**-4.9**			**-1.7**	**-0.8**	**-0.7**	**-0.9**	**0.2**	**1.1**		**0.2**	**-0.8**	
Of which: Exceptional financing	-1.9	-1.7	0.0			0.5	0.4	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	10.7			12.3	13.1	13.4	13.2	12.9	12.5		10.7	7.4	
In percent of exports	...	...	99.3			97.0	97.7	99.4	97.8	94.9	91.6		76.4	47.2	
PV of PPG external debt	**...**	**...**	**10.7**			**12.3**	**13.1**	**13.4**	**13.2**	**12.9**	**12.5**		**10.7**	**7.4**	
In percent of exports	**...**	**...**	**99.3**			**97.0**	**97.7**	**99.4**	**97.8**	**94.9**	**91.6**		**76.4**	**47.2**	
In percent of government revenues	**...**	**...**	**92.2**			**110.4**	**113.2**	**115.6**	**108.0**	**101.5**	**94.9**		**70.8**	**37.5**	
Debt service-to-exports ratio (in percent)	**-2.4**	**-2.7**	**0.6**			**2.7**	**6.6**	**7.0**	**7.6**	**9.6**	**10.4**		**1.8**	**2.9**	
PPG debt service-to-exports ratio (in percent)	**-2.4**	**-2.7**	**0.6**			**2.7**	**6.6**	**7.0**	**7.6**	**9.6**	**10.4**		**1.8**	**2.9**	
PPG debt service-to-revenue ratio (in percent)	**-2.5**	**-2.5**	**0.6**			**3.0**	**7.6**	**8.2**	**8.4**	**10.3**	**10.8**		**1.6**	**2.3**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.0		0.0	0.1	
Noninterest current account deficit that stabilizes debt ratio	6.5	50.0	7.9			5.4	4.6	4.6	5.1	4.9	4.6		4.6	6.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.0	1.7	3.3	1.1	3.2	3.1	4.1	4.2	5.9	5.4	5.7	4.7	6.0	6.9	6.2
GDP deflator in U.S. dollar terms (change in percent)	14.9	-2.0	-3.1	7.2	8.1	8.4	3.0	1.2	1.6	1.4	2.2	3.0	2.3	2.3	2.2
Effective interest rate (percent) 6/	2.0	0.8	1.3	1.0	0.5	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.7	0.6
Growth of exports of G&S (U.S. dollar terms, in percent)	-9.8	-10.1	10.3	1.9	12.5	31.6	13.0	6.2	7.4	7.7	8.9	12.5	9.1	-5.0	9.7
Growth of imports of G&S (U.S. dollar terms, in percent)	17.2	-8.4	14.3	8.5	13.0	2.1	12.5	5.3	4.9	6.5	5.7	6.2	9.9	0.0	9.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.8	46.5	46.5	46.5	46.5	46.5	44.2	46.5	46.5	46.5
Government revenues (excluding grants, in percent of GDP)	10.4	10.8	11.6			11.2	11.6	11.6	12.2	12.7	13.2		15.1	19.7	16.5
Aid flows (in billions of U.S. dollars) 7/	0.1	0.1	0.1			0.1	0.2	0.2	0.2	0.2	0.3		0.3	0.7	
Of which: Grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.2	0.2		0.2	0.6	
Of which: Concessional loans	0.0	0.0	0.0			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.7	6.7	7.1	6.8	6.9	6.7		6.0	5.7	5.8
Grant-equivalent financing (in percent of external financing) 8	...	...	...			66.0	73.7	78.4	80.1	79.6	81.1		88.5	92.7	91.1
Memorandum items:															
Nominal GDP (billions of U.S. dollars)	2.0	2.0	2.0			2.2	2.4	2.5	2.7	2.9	3.1		4.6	10.8	
Nominal dollar GDP growth	17.2	-0.3	0.1			11.8	7.2	5.5	7.6	6.9	8.0	7.8	8.3	9.3	8.6
PV of PPG external debt (in billions of U.S. dollars)			0.2			0.3	0.3	0.3	0.4	0.4	0.4		0.5	0.8	
(PVt-PVt-1)/GDPt-1 (in percent)						3.2	1.5	1.1	0.8	0.6	0.7	1.3	1.0	0.3	0.5
Gross workers' remittances (billions of U.S. dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.8			12.4	13.2	13.5	13.2	12.9	12.6		10.8	7.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	104.3			101.1	101.5	103.2	101.5	98.3	94.8		78.4	47.8	
Debt service of PPG external debt (in percent of exports + ren	...	...	0.7			2.8	6.8	7.3	7.9	10.0	10.8		1.8	2.9	

Sources: Central African Republic authorities; and IMF estimates and projections.

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

Table 1b. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–31

(in percent)

	Projections																
	2011	2012	2013	2014	2015	2016	**2021**	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio																	
Baseline	12	13	13	13	12	11	**8**	8	8	7	7	7	6	6	6	5	5
A. Alternative scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	12	12	12	11	11	11	**12**	12	12	12	12	11	10	10	10	10	10
A2. New public sector loans on less favorable terms in 2011-2031 2	12	15	16	17	16	15	**13**	13	12	12	11	11	11	10	10	10	10
B. Bound tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	12	14	15	15	14	12	**9**	9	9	8	8	7	7	7	6	6	6
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	12	15	17	17	16	14	**11**	11	10	10	9	8	8	7	7	7	6
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012-2013	12	14	14	14	13	11	**9**	9	8	8	7	7	7	6	6	6	5
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012-2013 4/	12	15	17	17	15	14	**11**	11	10	9	9	8	8	7	7	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	12	16	20	20	18	17	**13**	13	12	11	10	10	9	8	8	7	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	12	18	19	18	17	15	**12**	11	11	10	10	9	9	8	8	7	7
PV of debt-to-exports ratio																	
Baseline	97	97	99	97	89	78	**60**	57	54	51	47	43	40	36	33	29	33
A. Alternative scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	97	89	86	83	79	79	**88**	88	87	84	79	73	67	62	57	54	63
A2. New public sector loans on less favorable terms in 2011-2031 2	97	110	120	126	121	110	**92**	89	86	82	78	73	69	64	59	54	62
B. Bound tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	97	97	99	97	89	78	**60**	57	54	51	47	43	40	36	33	29	33
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	97	138	194	190	176	157	**121**	115	108	101	92	84	76	69	61	54	60
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012-2013	97	97	99	97	89	78	**60**	57	54	51	47	43	40	36	33	29	33
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012-2013 4/	97	109	126	123	114	102	**78**	75	70	65	60	55	50	45	40	35	39
B5. Combination of B1-B4 using one-half standard deviation shocks	97	134	183	178	165	148	**114**	109	102	95	87	79	71	64	57	50	55
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	97	97	99	97	89	78	**60**	57	54	51	47	43	40	36	33	29	33
PV of debt-to-revenue ratio																	
Baseline	110	113	115	108	95	81	**55**	52	48	45	41	38	35	32	30	28	26
A. Alternative scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	110	103	100	92	85	82	**81**	80	78	74	69	64	59	55	52	51	50
A2. New public sector loans on less favorable terms in 2011-2031 2	110	128	140	139	129	114	**85**	81	77	73	68	64	61	57	54	51	49
B. Bound tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	110	119	130	121	107	91	**62**	59	55	51	47	43	39	36	34	31	30
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	110	126	150	140	125	108	**74**	70	65	59	54	49	45	41	37	34	32
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012-2013	110	117	122	114	101	86	**59**	55	51	47	44	40	37	34	32	29	28
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012-2013 4/	110	127	147	136	122	105	**72**	68	63	57	52	48	44	40	36	33	31
B5. Combination of B1-B4 using one-half standard deviation shocks	110	137	174	161	145	126	**87**	81	75	68	62	56	51	47	42	39	36
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	110	158	162	151	134	114	**78**	73	68	63	58	53	49	45	42	39	37

Table 1c. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–31 (concluded)

(in percent)

Debt service-to-exports ratio																	
Baseline	3	7	7	8	10	10	**1**	2	3	3	3	3	3	2	2	2	2
A. Alternative scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	3	6	7	7	9	10	**2**	3	3	3	3	3	3	3	3	3	3
A2. New public sector loans on less favorable terms in 2011-2031 2	3	7	7	8	11	12	**3**	4	4	4	4	4	4	3	3	3	3
B. Bound tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	3	7	7	8	10	10	**1**	2	3	3	3	3	3	2	2	2	2
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	3	8	11	12	15	16	**3**	4	5	6	6	6	5	5	4	4	4
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012-2013	3	7	7	8	10	10	**1**	2	3	3	3	3	3	2	2	2	2
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012-2013 4/	3	7	7	8	10	11	**2**	2	3	4	4	4	3	3	3	3	3
B5. Combination of B1-B4 using one-half standard deviation shocks	3	8	10	11	13	14	**2**	3	5	6	6	5	5	4	4	4	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	3	7	7	8	10	10	**1**	2	3	3	3	3	3	2	2	2	2
Debt service-to-revenue ratio																	
Baseline	3	8	8	8	10	11	**1**	2	2	3	3	3	2	2	2	2	2
A. Alternative scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	3	8	8	8	9	10	**2**	2	3	3	3	3	3	3	3	3	3
A2. New public sector loans on less favorable terms in 2011-2031 2	3	8	9	9	12	12	**3**	3	4	4	4	3	3	3	3	3	3
B. Bound tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	3	8	9	9	12	12	**2**	2	3	3	3	3	3	3	2	2	2
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	3	8	8	9	11	11	**2**	2	3	4	3	3	3	3	3	2	2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012-2013	3	8	9	9	11	11	**1**	2	3	3	3	3	3	2	2	2	2
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012-2013 4/	3	8	8	9	11	11	**2**	2	3	3	3	3	3	3	3	2	2
B5. Combination of B1-B4 using one-half standard deviation shocks	3	8	9	10	12	12	**2**	3	3	4	4	4	4	3	3	3	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	3	11	12	12	14	15	**2**	3	3	4	4	4	3	3	3	3	3
Memorandum item:																	
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	43	43	43	43	43	43	**43**	43	43	43	43	43	43	43	43	43	43

Sources: Country authorities; and IMF estimates and projections.

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

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock import levels (implicitly assuming an offsetting adjustment in).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–31

(in percent of GDP, unless otherwise indicated)

	Actual				Standard	Estimate	Projections								
	2008	2009	2010			2011	2012	2013	2014	2015	2016	Average 2011–16	2021	2031	Average 2017–31
Public sector debt 2/	80.3	35.0	37.8			39.6	38.3	36.6	33.8	32.0	30.2		20.7	12.1	
Of which: Foreign-currency denominated	56.9	14.6	16.5			18.3	20.5	21.7	21.9	22.2	22.1		18.0	12.0	
Change in public sector debt	1.2	-45.3	2.8			1.8	-1.3	-1.7	-2.8	-1.7	-1.8		-1.2	-0.7	
Identified debt-creating flows	-4.0	-8.2	1.3			0.4	-1.5	-1.1	-2.3	-1.2	-1.7		-2.3	-0.9	
Primary deficit	-0.9	-1.0	0.4	-0.8	3.6	2.3	0.5	0.5	0.0	0.7	0.4	0.7	0.0	0.5	0.3
Revenue and grants	15.2	16.1	18.0			14.7	16.2	17.0	17.5	18.0	18.5		20.5	24.9	
Of which: grants	4.8	5.3	6.3			3.5	4.6	5.4	5.3	5.3	5.3		5.3	5.3	
Primary (noninterest) expenditure	14.3	15.1	18.4			17.0	16.6	17.5	17.6	18.7	18.9		20.5	25.4	
Automatic debt dynamics	-1.2	-6.6	0.8			-2.1	-1.7	-1.6	-2.3	-1.9	-2.1		-1.5	-1.1	
Contribution from interest rate/growth differential	-4.8	-2.9	-0.7			-0.8	-1.9	-1.8	-2.5	-2.1	-2.1		-1.5	-1.1	
Of which: Contribution from average real interest rate	-3.2	-1.6	0.4			0.4	-0.4	-0.3	-0.5	-0.4	-0.4		-0.3	-0.3	
Of which: Contribution from real GDP growth	-1.6	-1.3	-1.1			-1.2	-1.5	-1.6	-2.0	-1.7	-1.7		-1.2	-0.8	
Contribution from real exchange rate depreciation	3.6	-3.6	1.5			-1.3	0.2	0.2	0.2	0.2	0.0		...	...	
Other identified debt-creating flows	-1.9	-0.7	0.1			0.2	-0.3	0.0	0.0	0.0	0.0		-0.8	-0.3	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.9	-0.7	0.1			0.2	-0.3	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		-0.8	-0.3	
Residual, including asset changes	5.1	-37.0	1.5			1.5	0.3	-0.6	-0.5	-0.5	-0.1		1.1	0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	32.0			33.6	31.0	28.3	25.0	22.7	20.7		13.4	7.4	
Of which: Foreign-currency denominated	...	...	10.7			12.3	13.1	13.4	13.2	12.9	12.5		10.7	7.4	
Of which: External	...	...	10.7			12.3	13.1	13.4	13.2	12.9	12.5		10.7	7.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	-0.3	-0.6	1.3			3.4	2.5	2.2	1.7	2.6	2.3		0.5	0.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	177.9			228.4	191.8	166.7	143.0	126.1	111.6		65.4	29.9	
PV of public sector debt-to-revenue ratio (in percent)	…	…	274.8			300.9	267.9	244.0	205.2	179.2	156.7		88.3	37.9	
Of which: External 4/	…	…	92.2			110.4	113.2	115.6	108.0	101.5	94.9		70.8	37.5	
Debt service-to-revenue and grants ratio (in percent) 5/	4.0	2.6	4.9			7.3	12.6	10.0	9.4	10.2	10.3		2.2	0.7	
Debt service-to-revenue ratio (in percent) 5/	5.8	3.9	7.5			9.6	17.6	14.7	13.5	14.5	14.4		2.9	0.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-2.0	44.3	-2.4			0.5	1.7	2.2	2.9	2.5	2.2		1.2	1.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.0	1.7	3.3	1.1	3.2	3.1	4.1	4.2	5.9	5.4	5.7	4.7	6.0	6.9	6.2
Average nominal interest rate on forex debt (in percent)	2.0	0.8	1.3	1.0	0.5	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.7	0.6
Average real interest rate on domestic debt (in percent)	-3.0	-0.4	2.4	-0.5	2.4	2.3	0.2	0.5	-0.1	0.1	0.1	0.5	-0.3	-52.4	-6.9
Real exchange rate depreciation (in percent, + indicates depreciation)	7.0	-6.7	10.4	-3.3	10.4	-8.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	7.0	3.6	1.7	3.2	1.9	0.8	2.8	2.1	2.6	2.2	2.2	2.1	2.3	2.3	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	0.1	0.3	0.1	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	32.8	46.5	46.5	46.5	46.5	46.5	44.2	46.5	46.5	...

Sources: Central African Republic authorities; and IMF estimates and projections.

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

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

3/ 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.

4/ Revenues excluding grants.

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

Table 2b. Central African Republic: Sensitivity Analysis for Key Indicators of Public Debt 2011–31

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	34	31	28	25	22	19	13	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	34	31	29	26	23	21	16	4
A2. Primary balance is unchanged from 2011	34	32	30	28	26	25	24	21
A3. Permanently lower GDP growth 1/	34	31	29	26	23	20	16	18
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	34	33	33	30	28	25	22	22
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	34	32	31	28	24	21	14	7
B3. Combination of B1-B2 using one half standard deviation shocks	34	33	32	29	26	23	19	17
B4. One-time 30 percent real depreciation in 2012	34	35	32	28	24	21	13	6
B5. 10 percent of GDP increase in other debt-creating flows in 2012	34	37	34	30	27	23	15	8
PV of Debt-to-Revenue Ratio 2/								
Baseline	228	191	166	143	121	103	61	24
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	228	191	165	143	122	106	68	13
A2. Primary balance is unchanged from 2011	228	198	179	161	147	136	118	86
A3. Permanently lower GDP growth 1/	228	193	169	146	126	109	77	69
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	228	202	188	167	148	132	105	85
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	228	200	182	157	135	115	70	28
B3. Combination of B1-B2 using one half standard deviation shocks	228	200	180	159	139	123	92	68
B4. One-time 30 percent real depreciation in 2012	228	218	186	157	132	112	66	24
B5. 10 percent of GDP increase in other debt-creating flows in 2012	228	227	199	173	147	124	75	33
Debt Service-to-Revenue Ratio 2/								
Baseline	7	13	10	9	10	11	6	1
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	13	10	10	11	12	7	1
A2. Primary balance is unchanged from 2011	7	13	10	10	11	11	7	3
A3. Permanently lower GDP growth 1/	7	13	10	10	11	11	6	2
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	7	13	11	10	12	12	7	3
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	7	13	10	10	11	11	6	1
B3. Combination of B1-B2 using one half standard deviation shocks	7	13	11	10	11	12	7	2
B4. One-time 30 percent real depreciation in 2012	7	14	12	12	14	14	6	2
B5. 10 percent of GDP increase in other debt-creating flows in 2012	7	13	11	10	11	11	6	2

Sources: Central African Republic authorities; and IMF estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 13, 2012

Prepared By	The African Department (in consultation with other departments)

CONTENTS

APPENDIX I. CENTRAL AFRICAN REPUBLIC: RELATIONS WITH THE FUND

(As of November 30, 2011)

I. Membership Status: Joined: 07/10/1963; Article VIII

II. General Resources Account:

	SDR million	% Quota
Quota	55.70	100.00
Fund holdings of currency	55.45	99.55
Reserve position in Fund	0.26	0.37

III. SDR Department:

	SDR million	% Allocation
Net cumulative allocation	53.37	100.00
Holdings	2.76	5.16

IV. Outstanding Purchases and Loans:

	SDR million	% Quota
PRGF/ECF arrangements	58.68	105.35

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
PRGF/ECF	Dec. 22, 2006	Sept. 2, 2010	69.62	69.62
PRGF	Jul. 20, 1998	Jan. 19, 2002	49.44	24.48
Stand-By	Mar. 28, 1994	Mar. 27, 1995	16.48	10.71

VI. Projected Payments to the Fund (without HIPC Assistance):[1]

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal			1.49	3.53	10.05
Charges/interest		0.24	0.24	0.23	0.21
Total		0.24	1.72	3.76	10.26

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC Assistance	
Decision point date	September 2007
Assistance committed by all creditors (US$ million)[2]	578.00
Of which: IMF Assistance (US$ million)	26.77
(SDR equivalent in millions)	17.19
Completion point date	June 2009
II. Disbursement of IMF Assistance (SDR million)	
Assistance disbursed to the member	17.19
Interim assistance	6.59
Completion point balance	10.60
Additional disbursement of interest income[3]	0.90
Total disbursements	18.09

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[4]	4.02
Financed by: MDRI Trust	1.90
Remaining HIPC resources	2.13

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGF	Total
July 2009	N/A	4.02	4.02

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not applicable

[2] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.
[3] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.
[4] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

X. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on July 6, 2009. The findings of this assessment indicated that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control was limited, and that the changing risk profile of BEAC foreign exchange holdings required further actions to strengthen safeguards at BEAC.

Subsequent to revelation of Paris office fraud, a series of measures and longer term safeguard measures were agreed between the IMF and BEAC in order to continue with country programs. Consequently, BEAC adopted an action plan for 2010 with the aims of strengthening key safeguards. In addition BEAC has recently adopted additional measures to address the weaknesses highlighted by the special audit on headquarters operations and strengthen governance.

Currently, CEMAC-country reviews are allowed to proceed through end December 2011 (Staff Note on BEAC Safeguards Concerns and Implications for Programs with CEMAC Member Countries; FO/DIS/11/130).

XI. Exchange Rate Arrangement

The C.A.R. participates in a currency union with five other members of the CEMAC and has no separate legal tender. The de facto exchange rate arrangement is a conventional peg; the CFA franc is officially pegged to the euro, the intervention currency, at a fixed rate of CFAF 655.957 per €1. On November 30, 2011, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 758.5. The exchange system common to all members operates without restrictions on the making of payments and transfers for current international transactions.

XII. Article IV Consultations

The C.A.R. is currently on the standard 24-month cycle for Article IV consultations for program countries. The last Article IV consultation was concluded on December 4, 2009.

XIII. Resident Representative

The Fund’s office in Bangui reopened in October 2007 (after being closed in September 2003). The Resident Representative, until end-November 2011, was Joseph Ntamatungiro. A new Resident Representative is being appointed.

Table 1. Central African Republic: Fund Technical Assistance

Date	Department	Purpose
Jan. 2007–Aug. 2008	FAD	Public financial management.
Apr–May 2007	FAD	Fuel pricing policies, distributional impact, mitigating measures
Oct. 2007	AFRITAC/FAD	Custom administration and new customs organization.
Oct. 2007	AFRITAC/FAD	Implementation of tax administration reforms.
Nov–Dec. 2007	FAD	Inspection of FAD resident PFM advisor.
Dec. 2007	AFRITAC/STA	National account data.
March 2008	AFRITAC/MCM	Debt management.
June 2008	AFRITAC	Follow-up on implementation of tax administration.
June 2008	AFRITAC	Follow-up on implementation of customs administration.
Aug. 2008	AFRITAC/STA	National account data.
Sept. 2008	AFRITAC	Public financial management.
Sept.–Oct. 2008	AFRITAC/FAD	New accounting framework and budget classification system.
Oct. 2008	AFRITAC	Tax collection and use of tax administration information.
Jan. 2009	AFRITAC	Implementation of tax collection reform measures.
March 2009	AFRITAC/FAD	Accounting procedures reforms.
March 2009	AFRITAC	Elaboration of public debt management manual.
March 2009	AFRITAC	Improvement in the coordination of customs procedures.
May 2009	AFRITAC/FAD	Assessment of tax administration and outline for new reforms.
May 2009	AFRITAC	Reform of debt administration.
May–Sept. 2009	AFRITAC	Modernizing compilation of national account data.
July/Dec. 2009	AFRITAC	Rebasing of price statistics.
Sept. 09/Feb. 2010	AFRITAC	Assessment of customs administration/reform.
Nov. 2010	FAD/AFRITAC	Assessment of public financial management.
Jan. 2010	AFRITAC	National account statistics.
Feb. 2010	FAD	Tax administration reform strategy.
Feb./Oct. 2010	AFRITAC	Customs management and reform.
March 2010	AFRITAC	Debt management and arrears.
June 2010	STA	BoP and IIP statistics.
June/July/Oct. 2010	AFRITAC	National account statistics.
Aug. 2010	AFRITAC	Follow-up on public financial management.
Nov. 2010	FAD	Revenue administration.
Dec. 2011	FAD	Tax policy and fiscal reform.
Jan./July 2011	AFRITAC	Public accounting plan.
Feb. 2011	AFRITAC	Tax administration.
March/June/Oct. 2011	AFRITAC	National account statistics.
April 2011	AFRITAC	Customs administration and information system.
June 2011	AFRITAC	Treasury management and unified treasury account.
October 2011	AFRITAC	Customs management and reform.

APPENDIX II. RELATIONS WITH THE WORLD BANK UNDER THE JOINT BANK-FUND WORK PROGRAM (JMAP)

1. **The Fund C.A.R. team led by Mr. Toé (mission chief) met with the World Bank C.A.R. team led by Mr. Binkert (Country Director)** to identify critical structural reforms and to coordinate the two teams' work programs for the period November 2011–December 2012.

2. **C.A.R. is a fragile post-conflict country**. As pointed out in the evaluation of the first generation Poverty Reduction Strategy Paper (PRSP I; 2008–10) and the PRSP II (2011–15) approved in November 2011, the country still faces security challenges and has deep-rooted structural weaknesses and important social and infrastructural needs, which represent significant hurdles to accelerating growth and making adequate progress toward the Millennium Development Goals (MDGs).

3. **C.A.R.'s debt position remains vulnerable**. Despite generous debt relief granted at the time of the completion point under HIPC and MDRI initiatives in June 2009, preserving debt sustainability remains a challenge, in view of continuing difficulties in consistently managing domestic and external debt.

4. **The teams agreed that C.A.R.'s main macroeconomic challenges are to create fiscal space, strengthen public financial management (PFM), and improve policy and project implementation capacity**. Consequently, their policy advice should aim at (i) promoting prudent fiscal policies, (ii) accelerating growth through efficient and prioritized public investment and active participation of the private sector, (iii) deepening financial sector development, (iv) improving human capital formation, and (v) strengthening institutions, transparency and governance.

5. **The authorities have expressed their intention to request a new Extended Credit Facility (ECF) arrangement from the Fund**. Repeated delays in negotiating such a program, due to a collapse of budgetary discipline and serious slippages in fiscal performance are regrettable. The Fund stands ready to initiate program negotiations after completion of the 2011 Article IV consultation expected for January 2012, based on the authorities' progress in implementing corrective measures.

6. **Based on their common assessment, the teams identified six structural reform areas as macro-critical**, in view of their central role in achieving fiscal consolidation, sustained growth, and poverty alleviation:

- **Financial resource mobilization**: C.A.R. has one of the lowest revenue-to-GDP ratios in sub-Saharan Africa, and contributions from external donors have been uneven and declining as poor PFM practices weigh in on donors' financial assistance. Maximizing domestic revenue mobilization by expanding the tax base and passing-through world oil prices to domestic petroleum product prices in line with the established pricing formula is essential to creating the fiscal space required for pro-poor spending and critical infrastructure projects. Comprehensive reform agendas, supported by well-financed and coordinated multi-donor efforts, have been laid out and await forceful implementation by the authorities in the areas of tax and customs administrations.

- **PFM**: Progress has been made in computerizing and integrating the expenditure chain, but fiscal discipline has weakened during the protracted elections process of 2010–11, resulting in significant slippages and accumulation of domestic and external payment arrears. The effective use of the standard budget execution procedure presents a number of challenges, and PFM still needs further adjustments to fully integrate all budgetary transactions. Reforms to move toward a more active liquidity programming and management have slowed down, and operating a single treasury account requires continued attention. Technical assistance is available for strengthening budget execution and public accounting, controls of tax expenditures, and cash flow management capacity. Programming, accounting, and reporting investment spending remain particular challenges to ensure effective use of available financing. C.A.R. has finalized for the first time government accounts for FY2008 with World Bank assistance, improving Parliamentarian oversight over budget execution.

- **Social sector spending**: The PRSP II provides a blueprint for the quest for additional resources at a development partners' Roundtable held in mid-June 2011. It puts strong emphasis on promoting agricultural production underpinned by improved security in the countryside and the expected resumption of the protracted DDR process.

- **Investment climate reform**: C.A.R. ranks next to last in the Bank's "Doing Business 2012 Index". Making good use of the new forestry and mining codes, adopted with World Bank assistance, and eliminating remaining uncertainties, including on taxation, hold potential for a major upward shift in long-term growth prospects stemming from new mining projects. Progress in strengthening the banking sector and in developing market instruments should contribute to more effective financial intermediation.

- **Infrastructure investment and rehabilitation of State-owned enterprises (SOEs)**: The lack of infrastructure and deficient public utilities, including electricity, water, and telecommunications, are a major drag on investment, growth, and development. Enhanced financial resource availability from domestic and external sources, on adequately concessional terms, for scaling up public investment and improving financial management of SOEs is essential to address these deficiencies in the short and longer term.

- **Debt management**: C.A.R. was granted HIPC/MDRI debt relief in 2009. At a time when the authorities appeal to donors for additional support, and considering the country's fragility and weak debt management capacity (evidenced by the recent Debt Management Performance Analysis (DeMPA) exercise), recourse to non-concessional borrowing appears ill-advised, for the time-being. It could be considered, at the time of reviews of a future Fund-supported program, for specific, well-defined infrastructure projects. Adherence to the established plan for domestic payment arrears reduction, improved cash management, and control of commercial bank financing costs should improve the government's financial credibility with domestic economic agents, free resources for additional pro-poor spending, and make funds available for enhanced private sector activity and investment.

7. The teams agreed the following division of labor, in line with the respective primary responsibilities of our two institutions:

- **Financial resource mobilization**: The Fund leads in providing technical assistance (TA) and recommendations for increased mobilization of domestic resources, including a review of personal income taxation, simplification of tax assessment, and reducing tax exemptions, drawing on TA from the European Union (EU). An assessment of the potential for additional domestic revenue mobilization is undertaken in the context of the 2011 Article IV consultation. Furthermore, the Bank and the Fund will continue to support comprehensive reforms of customs administration, aiming at bringing customs clearance to the point of entry, through TA and the building of customs facilities and supply of equipment. Increased revenue can also result from improved regulation of artisanal gold and diamond mining and new exploration permits.

- **PFM**: The Bank leads and is planning to further support the government with policy notes and policy dialogue in several areas, focusing, inter alia, on (i) monitoring socioeconomic developments, including through implementation of the PRSPII, conducting review and analytical works on inclusive growth and strengthening dialogue and (ii) action plan on the governance agenda by taking an active role in the platform on PFM, and supporting implementation of key reforms in public procurement. The Fund (FAD and AFRITAC-Centre) is providing TA on progress with the implementation of the government's reform agenda as detailed at the National Forum on Public Finances (NFPF) held in September 2011, which has globally endorsed the public finance reform program established with multi-donor assistance and approved in July 2010. In close collaboration, the Bank and the Fund support the implementation of this agenda, including also cash management, by continuously providing TA in various forms. The Bank is focusing its TA on programming, accounting, and oversight. The Bank will continue to support the Court of Accounts to improve oversight activities and the control of budget execution by the parliament and provides assistance in financing and implementing computer systems and targeted training for operators. The Bank will try to access another Trust Fund to continue supporting PFM reforms at the closing of the present LICUS 3. The efforts of our two institutions will be leveraged by (i) the EU, which makes available €5 million, (ii) the African Development Bank (AfDB) with a SDR4.5 million grant, and (iii) France's posting of two resident advisors.

- **Social sector spending**: The Bank leads in monitoring the authorities' intervention in the social sectors and pro-poor policies. It will update data on poverty and better define social spending as the basis for monitoring the relevant benchmark of the Fund-supported ECF program. Bank and Fund staff will jointly assess, in a Joint Staff

Assessment Note, the macroeconomic impact of the PRSP II, in line with the Fund's presentation of Board presentation of a new ECF-supported program, to inform the Fund-supported ECF program framework.

- **Investment climate reform**: The World Bank Group, through its DPO IV and IFC, is assisting C.A.R. with private sector development and investment climate issues that affect private sector growth and access to finance. IFC's focus will be to: (i) strengthen the investment climate by suggesting reforms aimed at facilitating investment and assisting the C.A.R. authorities in the design and implementation of those reforms; (ii) coordinate the work of development partners and local stakeholders to help improve the country's business environment; (iii) stimulate the private sector and improve the country's investment prospects by building institutional capacity in regulatory and trade bodies; and (iv) provide support to local financial intermediaries to help them develop products that respond to the needs of small and medium-size enterprises (SMEs). The AfDB is also putting emphasis on this area in its 2012–13 budgetary support operation and stands ready to step-up its involvement.

- **Infrastructure investment and rehabilitation of SOEs**: The Bank assists the authorities in project preparation and improving project implementation capacity. It also leads in advising the authorities in formulating realistic public investment programs and budgets, consistent with implementation constraints, domestic financing, and available donor assistance in line with the PRSP II priorities. A particular focus of the Bank's intervention will lie on assisting the authorities in upgrading production, transmission, and management of public utilities (Socatel, Enerca, Sodeca), considering readiness and resource availability. The Fund will monitor regular billing and sustained payments by the government of its current consumption of utility services and the reduction of the public sector's payment arrears according to the agreed schedule. This will be a continued structural benchmark under a new Fund-supported program.

- **Debt management**: The Bank will assess, together with the AfDB, specific, well-defined infrastructure projects that cannot be financed on concessional, should they come up, and propose to the Fund, at the time of future program reviews, a possible course of action, consistent with safeguarding long-term debt sustainability. The Fund will monitor repayments of domestic payment arrears reduction. The debt department will continue to receive TA from the Fund, the Bank, and the AfDB. Bank and Fund staff will jointly prepare a full debt sustainability analysis (DSA). The Fund and the Bank will assist in strengthening debt management based on the DeMPA results.

8. The teams have the following requests for information from their counterparts:

- The **Fund team** requests to be kept informed by the Bank of progress in the above macrocritical structural and sectoral reform areas and of major strategic decisions and programs on the macroeconomic and sectoral level. *Timing*: when milestones are reached (and at least semi-annually).

- The **Bank team** requests to be kept informed of the Fund's assessments of macroeconomic policies and prospects. *Timing*: in the context of program reviews, Article IV consultations, and other missions (and at least semi-annually).
- **Dissemination of technical assistance reports**: The authorities have committed to sharing technical assistance reports with relevant partners in the donor coordination framework (*CGAR-PRGF*).

The attached table lists the teams' separate and joint work programs during the period of November 2011—December 2012.

Table 2. Central African Republic: Joint Bank-Fund Work Program, 2011–12

Title	Products	Provisional timing of missions	Actual or Expected delivery date
	A. Mutual information on relevant work programs		
World Bank work program in the next 12 months	• **Health sector support Project** to increase use and improve the quality of health services in rural areas with special emphasis on maternal and child health.	Sept. 2011	May 2012
	• **Country Status report on Health and health system**: a study on the availability of health services in C.A.R.	July 2011	Jan. 2012
	• **Public Expenditure Review (FY11)** Review of budget implementation.	July 2011	Jan. 2012
	• **Technical assistance on Mining sector**. Technical Assistance to develop the sector strategy in the mining sector.	Jan. 2012	Dec. 2012
	• **Monitoring of PRSP implementation**.	Jan. 2012	Dec. 2012
	• **Policy notes on Growth**.	Dec. 2011	Nov. 2012
	• **Technical assistance to procurement reforms implementation**.	Nov. 2011	Nov. 2012
	• **Third Economic Management and Governance Reform Grant (EMGRG III)**. Financing from the Crisis Response Window to protect spending in priority sectors and limit the poverty impact of the global economic crisis.	Feb. 2010	March 2012
	• **Debt Management Performance Analysis (DeMPA)**.	Sept. 2011	March 2012
	• New Country Partnership.	April 2012	June 2012
IMF work program in the next 12 months	**Macroeconomic policy analysis and advice.**		
	• 2011 Article IV consultation.	Nov. 2011	Jan. 2012
	• Negotiation new ECF arrangement.	March 2012	June 2012
	• First ECF review.	Sept. 2012	Nov. 2012
	• Revenue mobilization seminar.	Nov. 2011	
	Technical assistance programs (FAD, STA, AFRITAC-Center).		
	• Tax reform and revenue mobilization.	ongoing	ongoing
	• Public financial management.		
	• Customs reform.		
	• National account statistics.		
	• Consumer price indices.		

Table 2. Central African Republic: Joint Bank-Fund Work Program, 2011–12 (concluded)

Title	Products	Provisional timing of missions	Actual or Expected delivery date
	B. Requests for work program inputs		
Fund request to Bank	• Periodic update on Bank activities and progress with sector reform programs.	ongoing	ongoing
Bank request to Fund	• Regular update of medium-term macroeconomic framework covering the period until 2016. • Participation in Fund program review missions.	ongoing	ongoing
	C. Agreement on joint products and missions		
Joint products in the next 12 months	• Joint Debt Sustainability Analysis.	Sept. 2012	Nov. 2012
	• Joint Staff Assessment Note.	Sept. 2012	Nov. 2012

APPENDIX III. RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

The African Development Bank's (AfDB) Boards of Directors, on July 20, 2009, approved the Joint Country Partnership Strategy Paper (JCPSP) for C.A.R. prepared jointly by the AfDB Group and the World Bank Group (WBG). The JCPSP describes the common strategy, the proposed financing operations program, and analytical work of both institutions for the C.A.R. for 2009–12 to meet the pressing priorities identified in the pillars of C.A.R.'s Poverty Reduction Strategy (PRSP) 2008–10. It reaffirms the commitment of the AfDB and the WBG to deliver on the principles of the Paris Declaration on Aid Effectiveness, and to consolidate results achieved under their previous Joint Interim Strategy Note (JISN) 2007–08. The objective of the JCPSP is to promote strong economic growth and employment through main pillars: (i) Consolidation of Economic Governance and Institutional Capacity; and (ii) Rehabilitation and Development of Socio-Economic Infrastructure.

Resources and Financing Instruments: For 2009–10, C.A.R. benefited from AfDB support through resources allocation under ADF-11 window of: (i) approximately US$30 million representing performance-based allocation (PBA); (ii) US$18.5 million for Supplementary Support - Fragile States Facility (FSF) Pillar I; and (iii) US$4.8 million for Targeted Support (FSF Pillar III). The financing of CPS activities for 2011–12 is planned under ADF-12 (2011–13). C.A.R.'s resource allocation under ADF-12 is US$178.9 million consisting of: (i) US$25.9 million for PBA; (ii) US$41 million for FSF; and (iii) US$111 million for the regional operations window.

Portfolio: As of November 30, 2011, the Bank's portfolios in C.A.R. comprised five national operations (projects) for total net commitments amounting to US$43.1 million, and one regional sector operation (US$43 million). These projects are presented in Table 1 (in units of accounts, UA). In addition, C.A.R. was awarded US$4.8 million as Targeted Support (Pillar 3 of the FSF).

Financing planned for 2012: In 2012, the Bank intends to finance, under CSP's Pillar I, the Economic Reform Support, Phase III (PARE III) for US$24.8 million (budget support). For Pillar II, financing of three national operations (projects) is planned aiming at restoring State presence and authority in the country by developing infrastructure and economic activities, namely the Agricultural Infrastructure and Production Rehabilitation Project (US$14 million), the Rural Drinking Water and Sanitation Program (US$18 million), and Rural Financial Services Development Support (US$8 million). Under the Regional operations window, the Bank plans to finance the Regional Optical Fiber Infrastructure Project (C.A.R., Cameroon, Chad) for US$15.5 million, and Regional Boali III and Interconnection with DRC (US$47 million). The Bank will also be involved, in particular under FSF Pillar 3, in institutional and human capacity building and studies (for example, preparation of the Bangui master plan, recruitment of four experts, and two studies on domestic public resources mobilization and on the determinants of growth).

Table 1. Central African Republic: AfDB's Portfolio

(As of November 2011)

Projects	**Approval Date**	**Signature Date**	**Effectiveness**	**First Disbursement Date**	**Closing Date**	**Bank Contributions (UA millions)**			
						AWF Grant	**ADF Grant**	**FSF Grant**	**Disbursement Rate (in percent)**
Project to Build Economic and Financial Management Capacity (PARGEF)	01/31/11	02/25/11	02/25/11	07/05/11	12/31/15		4.00	0.50	16.4
Rural Infrastructure Rehabilitation Support Project (PARIR)	12/17/09	12/21/09	12/21/09	07/05/10	12/31/15			3.85	26.9
Project for Community Development and Support to Vulnerable Groups (PDCAGV)	07/22/09	07/24/09	07/24/09	05/27/10	12/31/14			8.00	17.3
Drinking Water Supply and Sanitation (PAEPA) in 3 Prefectures	11/03/09	11/10/09	11/10/09	07/21/10	12/31/14		7.00	2.89	0.6
Project for Institutional Support for Development of the Water Sector (PAIDSE)	07/02/09	08/31/09	08/31/09	04/30/10	03/31/12	1.71			36.5
Transport and Transit Facilitation Program for the Douala-N'Djamena and Douala-Bangui Corridors	07/05/07	02/29/08	02/29/08	10/21/09	12/31/12		27.80		20.0

APPENDIX IV. STATISTICAL ISSUES

(As of November 30, 2011)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings, but is broadly adequate for surveillance. Issues with source data and compilation affect most data sets, but are particularly problematic in the real sector.

National Accounts: There is a high degree of uncertainty attached to estimates of the level and growth rate of real GDP, as estimates for informal sector activity are still based on a 1982 survey. Furthermore, developments in the subsistence agriculture sector, accounting for an estimated 30 percent of the economy, are not tracked well and would benefit from the development of source data through surveys. STA is providing technical assistance in national accounts to rebase series on an upgraded 2007 level and change the structure and sectoral contribution estimates.

Price statistics: The measurement of inflation is also subject to a high degree of uncertainty since the CPI is based on expenditure weights that are thirty years old. The index is highly skewed toward food items (70 percent), in particular basic foodstuff, and covers only a limited number of modern and service items. STA is providing technical assistance to update and rebalance the index on a 2000 level and extend coverage to a number of provincial centers. Price data for July 2011 were not collected for lack of resources at the national statistics institute.

Government finance statistics: Data provision is broadly satisfactory for surveillance purposes, although coverage is not complete. The main shortcomings relate to (i) expenditures financed by line ministries' and government agencies' own resources, which are estimated on the basis of respective revenue estimates, (ii) foreign-financed investment expenditures reported bi-annually by the Ministry of Planning, and (iii) domestic arrears accumulation. Budget accounting and Treasury procedures, and domestic debt statistics, continue to suffer from serious shortcomings, delays and omissions in reporting, which are addressed through various reforms. These are a major focus of technical assistance programs, including from the Fund/AFRITAC. General government statistics are not available.

Monetary statistics: Data provision is broadly satisfactory for surveillance purposes, although subject to frequent revisions due to commercial banks' accounting problems. Delays have occurred in harmonizing databases among BEAC entities.

Table 3. Central African Republic: Common Indicators Required for Surveillance

(As of November 30, 2011)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sept. 2011	Dec. 2011	M	M	M
Reserve/Base Money	Sept. 2011	Dec. 2011	M	M	M
Broad Money	Sept. 2011	Dec. 2011	M	M	M
Central Bank Balance Sheet	Sept. 2011	Dec. 2011	M	M	M
Cons. Bal. Sheet of the Banking System	Sept. 2011	Nov. 2011	M	M	M
Interest Rates[2]	Nov. 2011	Dec. 2011	M	M	M
Consumer Price Index	Sept. 2011	Dec. 2011	M	M	M
Rev., Exp., Balance and Composition of Financing[3] – General Government[4]			NA	NA	NA
Rev., Exp., Balance and Composition of Financing[3] – Central Government	Sept. 2011	Nov. 2011	M	I	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	June 2011	Nov. 2011	A	I	A
External Current Account Balance	2010	July 2011	A	A	A
Exports and Imports of Goods and Services	2010	July 2011	A	A	A
GDP/GNP	2010	July 2011	A	A	A
Gross External Debt	2010	July 2011	A	I	A
International Investment Position	N/A	N/A	N/A	N/A	N/A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic non-bank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (N/A)

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February 9, 2012

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IMF Executive Board Concludes 2011 Article IV Consultation with the Central African Republic

On January 30, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Central African Republic (C.A.R.).[1]

Background

Since the conclusion of the last Article IV consultation in December 2009, the C.A.R. continued to grapple with the challenges of a fragile post-conflict state. Macroeconomic performance over the past few years has been broadly satisfactory but growth remained modest and well below the averages for sub-Saharan Africa and other fragile states. Insufficient domestic and external resources, deep-rooted structural deficiencies, weak institutional capacity, and a poor business environment are enduring factors holding back economic take-off. The economy is highly dependent on external assistance, poverty is pervasive, and social indicators are generally weak.

In 2010–11, real gross domestic product (GDP) growth averaged 3.2 percent, thanks mainly to rebounding agricultural production, which helped to bring down inflation to less than 1 percent by end-2011. Growth in 2011 was slightly weaker than forecast because the expected post-election recovery of domestic demand did not materialize and uncertainties delayed major investments in the mining sector and oil exploration. However, the prospects for 2012 are

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

favorable, predicated on continued good performance of the primary sector, particularly agriculture and forestry activities, and the resumption of delayed investments in the mining sector. But risks to this outlook are on the downside, as domestic and global uncertainties continue to weigh on the C.A.R. economy.

The fiscal position deteriorated sharply in 2010 with payment arrears accumulated to domestic and external creditors, reversing hard-won gains under the program supported by the Extended Credit Facility (ECF). Also, lack of transparency and due process in budget execution led to serious governance concerns and the suspension of budget support by donors. Though domestic revenue benefitted from a number of one-off effects to reach 11.6 percent of GDP, expenditures surged, fueled by election-related spending, sending the overall budget deficit, excluding grants, to 7.7 percent of GDP. A tight liquidity situation in 2011, mainly resulting from donors suspending budget support, prompted the authorities to curtail expenditures, which resulted in a decline of the overall deficit by 1.2 percentage points of GDP. The fiscal position is projected to improve further in 2012 on strengthened expenditure control and revenue measures adopted together with the 2012 budget.

Following a slowdown during the period leading to the elections, the C.A.R. authorities have recently stepped up implementation of structural measures, including strengthening budget execution and the monitoring capacity of macroeconomic developments, and improving the operations of state-owned enterprises and key public agencies.

Executive Board Assessment

Executive Directors welcomed the resilience of the economy of the Central African Republic (C.A.R.) in the face of the global crisis. While the short term outlook is favorable, C.A.R. faces significant challenges as a fragile state to enhance medium term growth prospects and reduce poverty. Directors stressed the importance of strengthening budget execution, addressing structural and infrastructural bottlenecks, and building capacity, along with improved security and political stability.

Directors regretted the fiscal slippages and underlying governance issues in 2010 and early 2011. They welcomed the measures taken to restore budget discipline and enhance transparency in the use of public funds and called for their steadfast implementation. They encouraged the authorities to redouble their efforts to strengthen public financial management, increase domestic resource mobilization, prioritize spending, and enhance donor coordination to better leverage Technical Assistance resources. Directors welcomed the recent adjustment in domestic petroleum prices. They stressed the importance of regular adjustments to ensure full pass through of international prices and safeguard fiscal resources for priority investments, along with measures to protect the poor.

Directors welcomed the second generation Poverty Reduction and Strategy Paper (PRSP). It lays out a comprehensive reform strategy to help mobilize donor assistance to build capacity, boost investment in physical infrastructure and social programs, and make progress towards the Millennium Developments Goals.

Directors noted that formidable challenges remain to improve competitiveness and develop the private sector. They encouraged the authorities to persevere in their efforts to address the structural weaknesses confronting the economy, improve the business climate, enhance the delivery of public services, and deepen financial intermediation. Directors welcomed the recapitalization of commercial banks, and encouraged the authorities to step up their efforts to divest their majority stake in the ailing bank.

Directors regretted the accumulation of external payment arrears, including to Paris Club and multilateral creditors, and urged the authorities to settle these arrears as soon as possible. They encouraged the authorities to strengthen public debt management and avoid contracting nonconcessional loans, including expensive domestic bank financing, to preserve debt sustainability. They supported the authorities' continued efforts in seeking debt relief from all bilateral and commercial creditors on terms consistent with the HIPC/MDRI Initiatives.

Directors stressed the importance of adequate macroeconomic data and encouraged the authorities to strengthen the statistical agency.

Directors considered that a new Fund arrangement could help solidify macroeconomic stabilization and support the authorities' reform agenda. They stressed that strong ownership and commitment, including strengthened budget execution and governance, will be key.

Central African Republic: Selected Economic Indicators

	2008	2009	2010 Est.	2011 Proj.	2012 Proj.
	(Annual percentage change)				
National accounts and prices					
GDP at constant prices	2.0	1.7	3.3	3.1	4.1
Inflation (period average)	9.3	3.5	1.5	0.7	2.5
Unemployment rate (in percent)	…	…	…	…	…
External sector					
Current account balance (in percent of GDP)	-9.9	-8.1	-9.9	-7.2	-6.8
Exports, f.o.b. (US$ basis)	-16.9	-12.6	11.9	42.0	16.6
Export volume of goods	-15.5	-21.9	10.0	21.0	14.6
Import, f.o.b. (US$ basis)	20.3	-9.9	12.5	-2.6	19.7
Import volume of goods	-2.2	13.3	3.6	-16.3	18.2
Gross national savings (percent of GDP)	2.9	5.1	5.1	6.9	7.7
Gross domestic investment (percent of GDP)	12.7	13.2	15.1	14.1	14.5
Terms of trade (change in percent)	-20.1	40.8	-6.3	0.9	0.6
Nominal effective exchange rate	1.7	-0.8	-4.2	…	…
Real effective exchange rate	7.5	2.0	-4.7	…	…
Money and credit					
Broad money	15.9	14.4	14.2	5.5	8.4
	(In percent of GDP)				
Central government finance					
Total revenue	15.2	16.1	18.0	14.7	16.2
Total expenditure	-16.2	-16.2	-22.8	-17.7	-17.2
Overall balance	-1.0	-0.1	-1.4	-3.0	-1.0
Public debt					
Total debt	80.3	35.0	37.8	39.6	38.2
Domestic debt	23.3	20.4	21.2	21.3	17.9

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

Statement by Kossi Assimaidou, Executive Director
for Central African Republic
January 30, 2012

On behalf of my Central African Republic (CAR) authorities, I would like to thank management and staff for the constructive policy dialogue with the authorities during the discussions held in Bangui, in the context of the 2011 Article IV consultations, and in Washington D.C during the visit of the Prime Minister. There is broad agreement between the authorities and staff on the assessment of the key challenges facing the CAR and the policy response.

The Central African Republic is gradually recovering from the impact of the global financial crisis, which at its height severely contracted its exports, notably of timber and diamond. It also faced a difficult security environment, and a protracted presidential and legislative electoral cycle which led to significant disruptions in the civil service, as well as fiscal slippages.

The authorities endeavored to address these crises, and to secure the re-engagement of the international community whose support is critical to the achievement of sustainable gains in poverty reduction and growth. They also stepped up efforts to improve security, and regional stability. They are appreciative of the support received from the international community to that regard, both in the context of the Disarmament Demobilization and Reinsertion process, and bilaterally.

As regards the economy, the authorities sought to mitigate the impact of the global economic crisis, rebuild capacity, and intensify structural reforms with the view to making inroads in poverty reduction and growth. Given the daunting challenges the country continues to face, the authorities view as essential the resumption of program relations with the IMF, whose advice and financial support are critical in the conception and implementation of policies to preserve macroeconomic stability, rebuild capacity, and in catalyzing donors' assistance.

Recent Economic Developments

Real GDP growth benefited from a recovery in agricultural production and external demand. However, due to the protracted uncertainty related to the elections, and the lingering security challenges, which delayed mining and oil explorations projects, real GDP growth has been lower than anticipated, at 3.1 percent in 2011. Inflation fell to 0.7 percent during the same period following a good harvest and contained domestic oil price increases.

Although domestic revenue performance continued to improve, expenditures increased as well, especially during the electoral period, which resulted in a significant increase in the domestic primary deficit.

The external position weakened due to an increase in import prices, notably in petroleum products. International reserves are projected to fall to about 2.7 months of imports.

Looking forward, the authorities expect the recovery to firm up, as security and election-related uncertainties are being resolved, aid flows resume, and investors regain confidence. However, they are fully aware of the substantial downside risks to the outlook, including global uncertainties.

Mobilizing Internal Resources for Poverty Reduction

The authorities are committed to creating the fiscal space required to support their development agenda. In this regard, they reiterated their resolve to mobilize additional resources, prioritize spending, and reign on fiscal slippages in line with staff's recommendations.

On the revenue side, they agreed with staff on the need for an automatic adjustment mechanism for retail oil prices, to reflect the evolution of international prices. A ministerial order has since been issued on December 30, 2011 implementing an adjustment of petroleum prices for January 2012. The authorities are also committed to reforms aimed at improving the efficiency of tax and customs administration, and at broadening the tax base.

On spending, the authorities aimed at the reallocation of spending towards priority sectors. The 2012 budget adopted by parliament provides for increased spending in health, and education sectors. Provisions were also made to help vulnerable households cope with increased petroleum product prices.

The authorities are also determined to improve public financial management, and strengthen governance. They are committed to ensuring that spending follows the expenditure chain established by the budget approved by parliament. To that effect, instructions were given to ensure that payments were made only for expenditures processed through GESCO, the public expenditure management computerized system. They are taking steps to commit expenditures on a weekly basis, and to ensure that these outlays are provisioned for in periodic cash flow plans. A technical committee tasked more generally with monitoring budget execution has also been created.

In order to preserve debt sustainability and prevent a recurrence of debt payments arrears, the authorities will intensify efforts to strengthen their debt management capabilities, and seek concessional financing for their development agenda. They will also continue to make good faith efforts to secure additional debt relief, under HIPC terms, from the remaining creditors.

Strengthening Institutional Capacity for Economic Management

The Central African Republic continues to face severe administrative capacity constraints. In line with recommendations of the National Forum on Public Finance held in September 2011, the authorities took steps to strengthen the capacity and operations of key economic management institutions, such as the Committees in charge of monitoring macroeconomic developments and structural reforms, and the Liquidity Committee. These measures are in line with recommendations already made by CAR's development partners, and the authorities are requesting support from the IMF in rebuilding technical capacity.

Preserving External stability and Promoting Growth and Economic Diversification

As part of a monetary and economic union (CEMAC), the Central African Republic shares the regional common currency, the CFA, which is pegged to the Euro. The authorities welcome staff's finding that the union's real effective exchange rate is consistent with external stability. They are of the view that the exchange rate regime has served CAR well, including by helping anchor inflation expectations, and facilitating the exchange of goods and services with the country's main trading partners.

In order to preserve external stability, the authorities' plan to implement a comprehensive structural reforms agenda to improve the countries' competitiveness, boost growth prospects, and sustainably reduce poverty. In that regard, they are in the process of finalizing their new poverty reduction strategy paper which will guide their actions going forward.

Amongst others, the authorities' efforts will focus on removing key infrastructure bottlenecks--particularly in transportation and electricity provision--and at improving the climate for business. Having reached a significant milestone in the management of their natural resources by achieving in 2011, Compliance status with the Extractive Industries Transparency Initiative, they will intensify efforts for sustained improvements in the investment climate.

Future Relations with the IMF

The CAR authorities have expressed an interest in a new ECF arrangement with the IMF to help anchor their macroeconomic stabilization and growth reforms agenda. Under the previous ECF program, they attained key objectives, including by maintaining fiscal discipline when faced with significant exogenous shocks. They also reached the completion point under the HIPC Initiative, creating fiscal space for their development agenda.

CAR is a post-conflict country whose recovery from the impact of the global financial and economic crisis is still fragile. The country also continues to face daunting poverty reduction challenges, which can only be addressed with the full support of the international community, including the IMF. In light of the authorities' commitment to sound policies going forward, as evidenced by their implementation of corrective measures agreed upon with staff to strengthen fiscal discipline, I call on Directors to support the reengagement of the Fund in the Central African Republic.