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

In the context of the third review under the Extended Credit Facility Arrangement, requests for Waiver of Nonobservance of Performance Criterion, modification of Performance Criteria, Augmentation of Access, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 15, 2017, following discussions that ended on October 12, 2017 with officials of the Central African Republic on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. The staff report was completed on November 30, 2017 based on information available at the time of the discussions.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Central African Republic.

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

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

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

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

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December 15, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under the ECF Arrangement for the Central African Republic, Approves US$40.2 Million Disbursement, and an Augmentation of US$55.1 Million

On December 15, 2017, the Executive Board of the International Monetary Fund (IMF) completed the third review under the Extended Credit Facility (ECF)[1] arrangement for the Central African Republic. The completion of the review enables a disbursement of SDR 28.41 million (about US$40.2 million).

The Executive Board also approved a request for augmentation of the ECF arrangement in the amount of SDR 38.99 million (about US$55.1 million). The augmentation will cover significant balance of payments needs in the context of the national strategy for recovery and peace and support social cohesion and economic growth.

The ECF arrangement for the Central African Republic was approved by the Executive Board on July 20, 2016 (see Press Release No. 16/352) for SDR 83.55 million (about US$118.1 million, 75 percent of Central African Republic's quota at the IMF) and, following the augmentations, total financing amounts to SDR 133.68 million (about US$189.0 million, 120 percent of the country's IMF quota).

Program performance through end-June has been satisfactory. All quantitative criteria and indicative targets were met, with the exception of the domestic revenue target for which the authorities are taking corrective actions and a waiver of non-observance was granted. All structural reforms have been implemented, albeit with some delays.

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

"Performance under the ECF-supported program has been satisfactory despite a challenging security environment and difficult humanitarian conditions. The authorities implemented their reform agenda in parallel with efforts to gradually restore security in additional urban centers to create spaces of stability, reconstruction, and growth.

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

“Fiscal policy is broadly on track. The 2018 budget remains anchored to the domestic primary balance objective while allowing a scale-up of social and capital spending. Renewed efforts to mobilize domestic revenues, which remain weak, will be critical to support the scale-up. Given the country’s high risk of debt distress, continued reliance on grant financing while limiting borrowing—even on highly concessional terms— is essential. Available assistance must be channeled effectively into priority projects to boost economic growth, create jobs, and reduce poverty. Sound implementation of the investment program for the National Plan for Recovery and Peace will boost economic prospects.

“Structural reforms have progressed, contributing to the strengthening of the treasury single account, streamlining of quasi-fiscal taxes, improved budget transparency and traceability of domestic revenues. Quarterly publication of budget execution reports allows for better tracking and monitoring of government expenditures. More consideration should be given to reducing exceptional payment procedures which can undermine recent progress.

“The government adopted a comprehensive domestic arrears clearance strategy. The repayment of arrears will support growth, bolster the credibility of the state, and strengthen the banking sector. The plan includes measures to ensure the integrity of the arrears clearance process.

“The Central African Republic’s program is supported by the implementation of supportive policies and reforms by the regional institutions, including tighter monetary policy, elimination of statutory advances, sound bank regulation and supervision, and firm controls over the extension of credit to banks.”

CENTRAL AFRICAN REPUBLIC

November 30, 2017

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NON-OBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, AUGMENTATION OF ACCESS, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Background: The three-year arrangement under the Extended Credit Facility (ECF) was approved on July 20, 2016 in an amount of SDR 83.55 million (75 percent of quota) and an augmentation of SDR 11.14 million (10 percent of quota) was approved at the second review on July 17, 2017.

Context: The Central African Republic (C.A.R.) is a fragile state. The key economic corridor between Bangui and Cameroon remains stable, but security has deteriorated in other areas. Armed groups have targeted civilians, humanitarian workers, and UN troops and half of the population needs humanitarian assistance. The government is taking steps to restore the authority of the state, notably in the provinces, and launched the disarmament, demobilization, reintegration and repatriation program. Medium-term growth has been revised downward as violence weighs on agricultural production. The ECF-supported program is an integral part of the effort in the CEMAC region to redress regional imbalances and rebuild adequate buffers.

Policy challenges: The key challenges remain to implement a broad-based and inclusive reform of the security sector, improve revenue mobilization, step up public investment, and improve transparency and the business environment.

Program: As of end-June 2017, all quantitative performance criteria and indicative targets were met except for the domestic revenue target. All structural benchmarks have been completed, albeit most with delay. The authorities adopted a comprehensive domestic arrears clearance strategy, which is critical to support social cohesion and peace. As indicated at the second review, the authorities have requested an additional augmentation of SDR 38.99 million (35 percent of quota, slightly smaller than anticipated in the second review) to cover additional balance of payments needs, which

will bring total access to 120 percent of quota. The proposed fiscal path is consistent with the regional fiscal efforts aimed at rebuilding reserves.

Staff supports completion of the third review under the ECF arrangement and the waiver of non-observance of performance criterion on domestic revenue, on the basis of the corrective actions taken. Staff also supports the authorities' request for augmentation of access. The Fund arrangement remains instrumental to catalyze donor support to address C.A.R.'s social and development needs. Completion of the third review will allow for the disbursement of an amount equivalent to SDR 28.41 million. Staff also recommends that the financing assurances review be completed.

Approved By
Roger Nord (AFR) and Bob Traa (SPR)

Discussions took place in Bangui (September 22–October 3) and in Washington, D.C. (October 11–12). The staff team comprised Mr. Jahjah (head), Mss. Shi and Tenison, Messrs. Stenzel, Rodriguez (all AFR), and Messrs. Benon (Resident Representative) and Zoungarani (local economist). Staff met with President Touadéra, Prime Minister Sarandji, Finance and Budget Minister Dondra, Economy, Planning and International Cooperation Minister Moloua, other ministers, members of Parliament, the National Director of BEAC, senior officials of the Ministry of Finance, the Ministry of Economy and BEAC, and representatives of the diplomatic community, civil society and the private sector. Representatives of the African Development Bank (AfDB), the World Bank (WB), the European Union, and France participated in the meetings. Mr. Nord, Deputy Director of the African Department, joined the mission during September 22–26, 2017. Mr. Kibassim (Advisor to the ED) participated in the discussions in Bangui and Washington, D.C.

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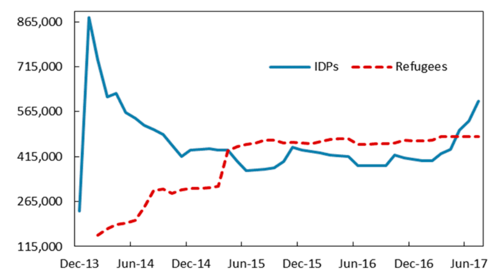
BACKGROUND, RECENT DEVELOPMENTS, AND OUTLOOK

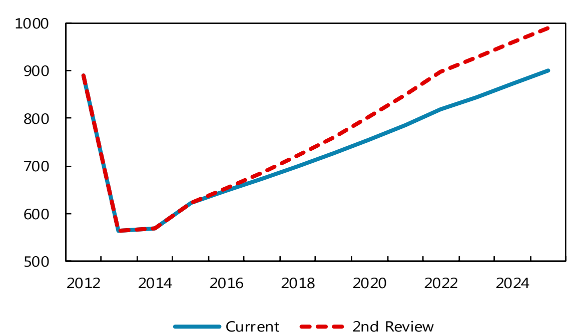
1. **The situation in the key economic corridor between Bangui and Cameroon remains stable**. However, security has deteriorated outside the capital Bangui and the humanitarian crisis remains acute. Armed groups have targeted civilians, humanitarian workers, and United Nations troops. The violence led to a significant increase in internally displaced persons (IDPs) and refugees in 2017 (Text Figure 1). International humanitarian agencies decreased their operations while half of the population remains in need of assistance.

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



2. **The government is gradually expanding the authority of the state in successive zones of stability**. In the absence of an effective peace agreement, the government's security strategy aims at gradually creating zones of stability and economic growth. After good progress in Bangui and Bambari, the government is targeting Birao and Ndélé in the North of the country, where it will deploy police, gendarmerie, and civil servants in close cooperation with UN troops.

Text Figure 2. Central African Republic: Real Gross Domestic Product, 2012–26



3. **Security sector reforms are ongoing.** The government launched the disarmament, demobilization, reintegration, and repatriation (DDRR) program in August. The first 109 ex-combatants have returned their weapons and received training to be integrated in the armed forces or their communities. The authorities adopted a National Defense Plan, recruited 500 police officers, while retiring 706 soldiers by end-2017.

4. **Economic developments in the first half of the year point to lower growth than anticipated.** Insecurity weighed on agricultural production and foreign investments, while government consumption was below projections. On the upside, developments in export-oriented sectors were more satisfactory. Timber, cotton, and official diamond exports have increased significantly in government-controlled territory. Projected GDP growth has been revised downward to 4 percent in 2017, lower than the initial projections of 4.7 percent. Inflation

is in line with expectations, and lower demand combined with increased food supply along the Douala-Bangui corridor should contain inflation at 3.8 percent by end of the year.

Box 1. C.A.R. and the CEMAC Regional Strategy

In the context of a rapidly deteriorating outlook, member countries of the Central African Economic and Monetary Union (CEMAC) set out a strategy during a heads-of-state summit in December 2016. Recognizing the serious economic conditions, this meeting agreed on a strategy based on maintaining the current peg, combined with adjustment in each country, and supported by tightening of monetary policy at the regional level. Fund support of country programs aims to balance financing and adjustment, reinvigorate growth, and protect pro-poor spending. Cameroon, Chad, Gabon, and C.A.R. are implementing IMF-supported programs and the Republic of Congo and Equatorial Guinea requested that discussions on possible programs move forward as quickly as possible. Regional institutions (BEAC, COBAC) have started implementing supportive policies to rebuild regional reserves and ensure financial sector stability. An updated assessment on the policy assurances by the CEMAC regional institutions, which remains vital for the success of CAR's program, is discussed in detail in the 2017 Staff Report on the Common Policies of Member Countries.

C.A.R. has, well before the December 2016 heads-of-state summit, started implementing an ambitious agenda of fiscal adjustment and structural reforms supported by an ECF arrangement. The reform strategy embedded in the ECF is fully in line with the priorities identified in the regional economic reform program for the CEMAC and, together with the other CEMAC countries' efforts, will contribute to redress regional imbalances and rebuild adequate buffers. C.A.R.'s economy represents only 2 percent of total CEMAC GDP and its impact on regional developments is therefore limited.

The regional policies to be pursued by the BEAC and the COBAC can support C.A.R.'s reform efforts. Regional policies include tightening of monetary policy, elimination of monetary financing of member countries, gradual repayment of statutory advances, modernization of the liquidity management framework, implementation of prudential regulations to restrict refinancing flows to members, and strengthening the banking supervision framework. Tighter monetary policy by BEAC is expected to have only a small impact as the transmission channel is not strong and the financial system under-developed. Existing statutory advances in C.A.R. will be consolidated with a consolidated loan and repayments to BEAC will start in 2022. COBAC conducted an on-site supervisory mission focusing on the two largest banks and highlighted the need to strengthen governance, internal controls, and compliance with prudential standards.

PROGRAM PERFORMANCE

5. **Program implementation as of end-June 2017 is broadly on track.** All end-June performance criteria (PC) and indicative targets were met, with the exception of the domestic revenue target, which was missed by a small margin (**MEFP**, Table 1), reflecting lower economic activity, slow implementation of the fiscal reform agenda, and undervaluation of imports. Cash expenditure was below projections, limiting the domestic primary deficit to 0.4 percent of GDP—well within the program target. The authorities increased social spending targeted at education and rural development.

6. **All structural benchmark have been completed, albeit with delay**. The government completed the consolidation of the Treasury Single Account (TSA) in August by closing all non-essential accounts with commercial banks. The government and banks collecting revenue on behalf of the government adopted a new convention (**MEFP**, Table 2), paving the way for

improved transparency and tracking of collected tax revenue. The government adopted a comprehensive plan to clear domestic arrears, drawing on the conclusions of an international audit of social and commercial arrears. The authorities have completed an inventory of parafiscal taxes, a first step towards rationalizing an opaque web of taxes and levies. They have finalized the retroactive audit of import valuations for the period of January 1, 2016 to May 31, 2017, identifying CFA 1.7 billion of foregone revenue. Budget execution reports were published for the first three quarters of 2017, while the report on revenue and expenditures for 2016 is expected by the end of the year.

POLICY DISCUSSIONS

A. Outlook and Risks

7. **The medium-term outlook has deteriorated as risks have materialized.** The government's investment plan is off to a slow start, reflecting weak capacity, a protracted peace process and rising violence. Medium-term growth has been revised from about 5.4 percent down to 4 percent on average. Annual inflation, measured in Bangui, should decline to 3 percent by 2019 due to an expected normalization in subsistence farming and continued improvement in trade flows on the secured Bangui-Douala corridor.

8. **Implementation of the government's National Plan for Reconciliation and Peace (NPRP) is underway**. The permanent secretariat to oversee and coordinate the investment program is operational since October 2017. Its priority is to translate the November 2016 US$2.2 billion pledges from C.A.R. economic and financial partners into prioritized and well-focused investment projects (**MEFP**, ¶11, ¶12). The secretariat has drawn up a list of about 150 projects which are ready for implementation, of which 15 are included in the 2018 budget.

9. **Risks to the outlook are significant**. Domestically, an escalation of violence could further depress growth, increase inflation, and lower tax revenues. Lack of political cohesion and weak capacity could undermine the authorities' peace and development strategy and restrict economic growth. Externally, a retreat from cross-border integration could reduce growth and prices for key exports (cotton, forestry, diamonds). Potential delays on delivery of external budget support and project grants could complicate program implementation. Were growth assumptions to disappoint, the authorities are committed to take contingency measures to keep the fiscal program on track. Simultaneously, there is strong upside potential to growth if the reform agenda is swiftly implemented, an inclusive peace agreement is reached, the DDRR is accelerated, and the embargo on diamond exports is fully lifted.

B. Closing 2017 and the 2018 Budget: Mobilizing Revenues, Increasing Transparency and Restoring Adequate Expenditure Procedures

10. **The 2018 budget submitted to parliament is consistent with the program.** It targets a domestic revenue-to-GDP ratio of 9.6 percent, current primary spending of 9.7 percent of GDP, and domestically-financed capital expenditure of 1.3 percent of GDP, consistent with a domestic

primary deficit of 1.4 percent of GDP. Social spending is expected to reach 1.1 percent of GDP, while the wage bill will be contained at 5 percent of GDP as the expected retirement of military personnel creates space to accommodate new hiring.

Mobilizing Revenues

The authorities are implementing corrective actions to address inadequate control and enforcement of tax policy and administrative measures, poor traceability of revenue collected across a myriad of government agencies, ad hoc tax exemptions, and partial transfer of revenue collected to the treasury account which have undermined revenue mobilization.

11. **The authorities have taken corrective actions to meet the revenue target for end 2017.** Under-valuation of imports—caused by fraud, lack of computerization, weak controls, the incomplete transfer of revenue to the TSA, and the slowdown of economic activity contributed to a revenue shortfall of 0.3 percent of GDP at end-June. The authorities have identified corrective measures to recoup the shortfall: (i) accelerate the implementation of the measures adopted in June which should generate at least CFAF 1.7 billion by the end of the year; (ii) collect tax arrears of at least CFAF 2.6 billion (Text Table 1); and (iii) maintain reinforced controls of the VAT and personal income tax which has generated CFAF 1.1 billion as of September (**MEFP**, ¶16, ¶17, ¶18).

Text Table 1. Central African Republic: Tax arrears, 2017
(Billions of CFAF)

Sector	Arrears
Taxes	5.3
Telecommunication	1.8
Other	3.5
Customs	3.5
Oil sector	2.0
Telecommunication	1.4
Other	0.1
Sum	8.8

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

12. **The authorities have rationalized exemptions.** The authorities confirmed that no new tax or customs exemptions have been granted since the start of the year, and that expiring exemptions are being phased out. Outstanding exemptions (excluding United Nations agencies, embassies, and international organizations), estimated at CFAF 8.5 billion as of August 2017, are mostly consistent with the investment code. All existing exemptions and their impact on revenue will be published and reviewed by end-December 2017, with a view to phasing out all unjustified or unnecessary exemptions (**MEFP**, ¶20).

13. **The authorities have taken initial steps to reign in pervasive parafiscal taxes.** An instruction by the Prime Minister prohibits the introduction of any new parafiscal tax and a ministerial order instituting a tax on incoming telephone calls has been canceled in June 2017. The authorities have identified 54 parafiscal agencies, offices, or funds collecting revenues of at least 1.5 percent of GDP. A public accountant from the Budget department will be placed in these institutions, and a review is underway to identify those agencies that can be eliminated as

well as those that should be incorporated in the national budget. A strategy to this end is expected by end-December (*structural benchmark, end-December 2017)*, with the objective to transfer to the Treasury all revenue collected by these parafiscal agencies. The authorities will publish all laws and decrees creating the 54 parafiscal agencies and authorizing them to collect taxes or levies (*new structural benchmark, end-March 2018*) (**MEFP**, ¶21).

14. **The authorities are committed to closing the gap between revenue collected by the customs and tax administration and that effectively recorded by Treasury.** This gap is about 1 percent of GDP—in part explained by automatic compensations performed by banks. The recently adopted revenue collection convention prohibits banks from seeking any compensation and demands the daily transfer of collected revenues to the TSA. It also prohibits expenditure payments from these accounts. Improved and timely exchange of information between the tax authorities, the commercial banks, the Treasury, and the Central Bank is essential to ensure the success of the reform (MEFP, ¶19).

15. **The authorities will review taxation in the forestry, petroleum and telecommunication sector.** An external audit of the Forestry Fund and the Telecommunications Regulatory Agency will be conducted to analyze the nature and use of the levies and resources allocated to these agencies (proposed *new structural benchmark, end-June 2018*). The Petroleum Products Stabilization and Regulatory Agency was audited. On the basis of this audit and the analysis of the petroleum taxation and parafiscal taxes, the authorities will revise the structure of pump price (*proposed new structural benchmark, end-September 2018*) (**MEFP**, ¶22).

16. **The 2018 budget contains tax policy measures expected to generate 0.4 percent of GDP additional revenue.** They include: (i) strict application of the CEMAC common external tariff to imports and repeal of derogations; (ii) increased export duties on timber, diamonds, and gold; (iii) increase of excise duties for alcoholic beverages cigarettes and other beverages; and (iv) introduction of a tax on motor vehicles (**MEFP**, ¶24). This together with the full impact of measures implemented in 2017 is expected to bring the tax-to-GDP ratio to 9.6 percent of GDP (Text Table 2).

Text Table 2. Central African Republic: Revenue Measures in the 2018 Budget
(Billions of CFAF)

Measure	Yield
Strict application of the CEMAC external tariff to imports and repeal of derogations	0.7
Increase of export duties on wood products	0.4
Increase of export duties on diamonds and gold	0.1
Increase of excise duties for alcoholic beverages and cigarettes	2.1
Increase of excise duties on other beverages	0.6
Introduction of a tax on motor vehicles	0.3
Impact of 2017 measures in 2018	4.0
Total	8.2

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

Expenditure: Normalizing Procedures

17. **The authorities intend to cut the use of exceptional payments procedures.** At end-August 2017, 20 percent of expenditure (excluding wages and debt service) followed exceptional procedures, compared to 12 percent in 2016. The authorities have reiterated their

commitment to limiting exceptional spending to a quarterly average of 5 percent in 2018 *(indicative target, from end-March 2018*) (**MEFP**, ¶27).

18. **Budget execution reporting has improved.** Budget execution reports were published for the first three quarters of 2017, with increasingly granular information on expenditure, and the 2016 revenue and expenses report was finalized (*structural benchmark, end-September 2017*). Regular treasury meetings have taken place, although not on a monthly basis as originally envisaged. The removal of inactive staff from the payroll kept the wage bill under control.

19. **A new treasury management system (Sim_Ba) will be deployed by 2020**. Until then, the production of budget execution reports will continue to be based on GESCO. To ensure the reliability of the new system and facilitate a smooth transition of the services, the two systems will be used simultaneously for a period of six months.

C. Repaying Domestic Arrears

20. **To support growth, social cohesion, and peace, the authorities are embarking on a comprehensive clearance of commercial, financial, and social arrears.** Building on an international audit completed in October the authorities adopted a comprehensive and time-bound plan to clear domestic arrears accumulated up to 2014. The international audit validated wage and pension arrears as well as commercial arrears of CFAF 74.3 billion. (Text Table 3).

- *Repayment of wage and pension arrears*: Programmed for repayment over 2018–19 in an amount of CFAF 64.9 billion (5.8 percent of GDP).
- *Repayment of arrears to small and medium-sized enterprises (SMEs)*: Should be completed by end-2017.
- *Repayment plan to commercial banks*: Complete. All banks signed an agreement to reschedule the debt over a period of eight years at an interest rate of 2.95 percent, starting in October 2017.

Text Table 3. Central African Republic: Domestic Arrearance Repayment, 2017–20

	2017	2018				2019				2020
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Wage and Pension Arrears										
Stock										
(in CFAF billion)	64.9	54.5	47.4	40.4	33.3	26.3	19.7	13.1	6.5	0.0
(in percent of GDP)	5.8	4.5	3.9	3.3	2.8	2.0	1.5	1.0	0.5	0.0
Repayments	10.4	7.1	7.1	7.1	7.0	6.6	6.6	6.6	6.5	0.0
Arrears to Small and Medium-Sized Enterprises										
Stock										
(in CFAF billion)	9.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(in percent of GDP)	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	9.4									

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

21. **The strategy includes measures to safeguard and monitor the arrears clearance process**. To ensure the transparency of the repayment process, the authorities will implement the following measures: (i) payment will be made by bank transfer only; (ii) the beneficiaries must be current in their payment of taxes; and (iii) the list of beneficiaries will be published; and (iv) the authorities recruited an independent international auditor to monitor and validate the arrears clearance operations. The auditor will produce progress reports on a quarterly basis and a final report will assess the whole process. All reports will be published (**MEFP**, ¶29).

22. **The authorities are committed to avoiding new arrears**. All invoices related to the procurement of goods and services billed by suppliers and SOEs will be reimbursed on time to avoid the accumulation of new arrears or cross-debts (**MEFP**, ¶30). The expanded quarterly budget execution reports allow staff to track the stock of float in a timely manner.

Relationship with BEAC

23. **Consistent with regional commitments, the authorities will repay all outstanding statutory advances to the Banque des États d'Afrique Central (BEAC).** The CFAF 22.5 billion statutory advances will be consolidated with another loan of CFAF 55.9 billion. The repayment to BEAC will start in 2022 and end in 2031 with an interest rate of 2.4 percent. The authorities will refrain from any new borrowing from BEAC.

D. Improving Debt Management

24. **The authorities have strengthened debt management.** Following the recommendation of a recent AFC/MCM TA mission, they have taken measures to strengthen debt management procedures and three additional staff were hired in the debt unit. A report on public debt developments in the first half of 2017 was published—the first after the 2013/14 crisis. Staff are being trained to use the debt management system (Sygade). Improved debt reporting will allow the authorities to provide detailed reporting on monthly debt service falling due through Sygade (*new structural benchmark, end-June 2018*) (**MEFP**, ¶34).

25. **The authorities stepped up their efforts to resolve arrears with creditors**. C.A.R. owes CFAF 100 billion of pre-HIPC payment arrears to Argentina, Equatorial Guinea, Iraq, Libya, and Export-Import Bank located in Taiwan Province of China. All official creditors have consented to Fund financing.[1] China has indicated its intention to cancel all outstanding debts and the authorities are negotiating a resolution with India for post-HIPC arrears. C.A.R. also has arrears to private creditors and is continuing to make good-faith efforts to reach a collaborative agreement with them. The authorities have reached out to their creditors on a timely basis, explained their economic problems and financial circumstances, and informed about the broad outlines of a viable economic program. As prompt Fund financial support is considered essential for the

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

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

26. **The updated Debt Sustainability Analysis (DSA) confirms C.A.R.'s high risk of debt distress.** Alternative scenarios show that C.A.R.'s debt trajectory is vulnerable to GDP, export, and revenue shocks. Staff supports an increase of the 2018 limit for concessional borrowing from CFAF 6 billion to CFAF 9 billion to accommodate an important infrastructure project, whose completion was stopped when the conflict erupted in 2013. The minimal increase has a negligible impact on debt indicators (Text Table 4) (**MEFP,** ¶35). The authorities share staff's view that C.A.R. should rely on grant financing with strict limits on highly concessional financing for critical projects for which grants could not be secured and project profitability is assured.

Text Table 4. Central African Republic: External Borrowing Program, 2018

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

[1] Without IMF.

E. Improving Financial Supervision

27. **The authorities are taking steps to improve financial supervision.** Despite a challenging and difficult business environment, financial soundness indicators suggest that banks remain resilient although the high level of NPLs is a concern. All banks meet the new standard on regional reserve requirements adopted by the BEAC monetary policy committee in March. The regional institution in charge of banking supervision, the Central African Banking Commission (COBAC), conduct an inspection mission in June 2017, focusing on two of the largest banks. Its preliminary findings highlight the need to strengthen governance, internal controls, and compliance with prudential standards. The authorities intend to implement COBAC's recommendations (**MEFP**, ¶40).

F. Improving Business Environment and Increasing Energy Supply

28. **The authorities are taking measures to improve the business climate.** The draft 2018 budget law introduces a deferred VAT payment mechanism for exporters and large investors to avoid the accumulation of VAT credits. The authorities are consulting with development partners to finalize the public-private partnership framework (PPP). They are aware of the fiscal risks associated with PPPs and intend to take strict measures to limit them. They will consult Fund staff on all PPP projects to assess the budgetary impact (**MEFP**, ¶36).

29. **The authorities intend to foster private sector development.** With support from the WB, they intend to update the legal framework in the main economic sectors. They also intend to streamline customs declarations, rationalize the tax system, and set up a one-stop shop for investors (**MEFP**, ¶38).

30. **The authorities are strengthening governance and transparency in the use of public resources.** The law establishing the High Authority for Good Governance has been adopted, and the institution is being established. Moreover, following the government reshuffle on September 13, all newly appointed ministers have declared their assets with the Constitutional Court. The authorities also intend to reform the anti-corruption legal framework and reactivate the independent anti-corruption agency (**MEFP**, ¶39). Going forward, the authorities' legislative reform should focus on the further criminalization of acts of corruption and the strengthening of asset declaration requirements.

TECHNICAL ASSISTANCE AND THE CAPACITY BUILDING FRAMEWORK

31. **Staff and the authorities concurred on the need for significant capacity building**. From January 2017, under the IMF's Capacity Building Framework (CBF) pilot project, C.A.R. benefited from substantial IMF and AFRITAC Central TA. Expected medium-term outcomes are to increase revenue, enhance spending efficiency, restore budget discipline and transparency, strengthen debt management, and create a core macro-fiscal capacity. TA rightly focuses on key reform objectives under the program, notably domestic revenue mobilization, budget preparation and implementation, treasury management, and debt management. TA is also delivered on public finance statistics and national accounts. Considerable technical assistance delivery and weak absorptive capacity have highlighted needs for improved coordination. To this end, the authorities aim to restore the Economic and Financial Reform Monitoring Unit (CS-REF) in its role of coordinating technical assistance and training to increase revenues, improve fiscal discipline, strengthen debt management, and create a central macro-budgetary unit. The authorities intend to take full advantage of the additional technical assistance provided by the Fund in the areas of revenue mobilization, public finance management, national accounting, public debt management, and external trade data during 2018 (**MEFP**, ¶41, ¶42, ¶43).

PROGRAM MODALITIES AND FINANCING

32. **C.A.R. continues to face significant balance of payments needs, which are expected to grow further in 2018–19 as a result of large arrears repayments.** The clearance of social arrears (about 6 percent of GDP) over the next two years will support the economy by increasing aggregate demand and imports. Hence substantial fiscal and balance of payments gaps will remain for the foreseeable future (**MEFP**, ¶28).

33. **To meet the additional BOP needs, the authorities have requested an augmentation of access of SDR 38.99 million (35 percent of quota).** This request for a second augmentation was indicated at the time of the second review and has catalyzed additional support from donors. The WB has increased its budget support by US$10 million and the US government, in coordination with the EU, supports the repayment of wage arrears through a US$3.6 million grant. Discussions with other key donors are expected to result in further support.

34. **The program remains fully financed.** C.A.R. has obtained firm commitments of financing for the upcoming 12 months and there are good prospects for financing for the remainder of the program period. A slightly backloaded phasing of the augmentation over the remaining reviews is aligned with the projected BOP needs. Current donor budget support for 2017–19 (Text Table 5), the phased disbursement of the augmentation, and already programmed disbursements will close the remaining balance of payments gap. In the event that budget support is not disbursed in a timely fashion, the authorities are committed to delaying non-priority current and domestically-financed investment spending until the funds are received.

Text Table 5. Central African Republic: Financing need in 2017–19 and Sources of Financing
(Billions of CFAF)

	2017	2018	2019
1. Financing Need	77.6	76.7	55.9
2. Budget support (grants)	30.4	37.3	28.5
World Bank	8.8	8.8	8.8
European Union	13.1	13.1	13.1
African Development Bank	0.9	8.8	0.0
France	6.6	6.6	6.6
Other	1.0	0.0	0.0
3. Budget support (loans)	8.8	0.0	0.0
African Development Bank	8.8	0.0	0.0
4. IMF Financing (as of 2nd Review)	28.1	19.1	9.5
5. Residual financing gap (1-2-3-4)	10.3	20.3	17.9
6. Additional financing			
World Bank	5.9	0.0	0.0
Bilateral	0.0	2.2	0.0
Unidentified	0.0	0.0	8.8
7. IMF augmentation *(35 percent of quota)*	4.5	18.1	9.1
percent of quota	*5.0*	*20.0*	*10.0*

35. **The program is monitored semi-annually.** The end-June 2017 performance criterion on domestic revenues was missed for which the authorities request a waiver based on the corrective measures they have implemented. Performance criteria for end-December 2017 have been maintained. Staff proposes to modify end-June 2018 performance criteria in line with the revised macroeconomic framework, the draft budget 2018, and the expected schedule of budget support payments (**MEFP**, Table 1).

36. **Additional structural benchmarks for 2018 have been proposed** (**MEFP**, Table 2). They include: (i) publication of all laws or decrees creating the 54 structures that were identified to collect parafiscal taxes (end-March 2018); (ii) completion of an external audit of the forestry fund and the telecommunications regulatory agency (end-June 2018); (iii) elimination of parafiscal levies that have no economic justification (end-December 2018); (iv) revision of the price structure of petroleum products at the pump (end-September 2018); and (v) publication of monthly debt service projections from June 2018 to the end of May 2019 using Sygade (end-June 2018).

37. **C.A.R. has adequate capacity to repay the Fund.** Significant Fund repayments will continue to accrue in 2018 (Table 10). To safeguard these payments, the authorities are making regular deposits at the BEAC. Support from development partners and careful treasury management should contribute to timely debt service payments.

38. **Risks to program implementation are significant.** They include (i) a volatile security environment, (ii) weak administrative capacity, (iii) potential delay on delivery of external budget support, and (iv) political tensions between the executive and legislative powers.

39. **Safeguards Assessment**. A full safeguards assessment under the periodic four-year cycle for regional central banks was completed in August 2017. The assessment noted the positive steps taken by the BEAC to strengthen governance in its charter and plans to strengthen financial reporting transparency through full transition to IFRS.[2]

STAFF APPRAISAL

40. **Confronted with a difficult security environment, the government adopted a strategy of gradually expanding zones of stability, with the support of the UN.** The strategy has allowed the redeployment of police and gendarmerie in key cities—which should be followed by public investment and a rebound in economic activity. In staff's view, this gradual approach is realistic and credible. Actions to improve the business environment, through the streamlining of parafiscal taxes and administrative procedure, and the settlement of domestic arrears will support and reinforce the strategy.

41. **The authorities have demonstrated strong commitment to the implementation of the program.** Staff supports the corrective measures adopted to meet the end-year revenue

[2] See 2017 *Staff Report on the Common Policies of CEMAC Member countries*

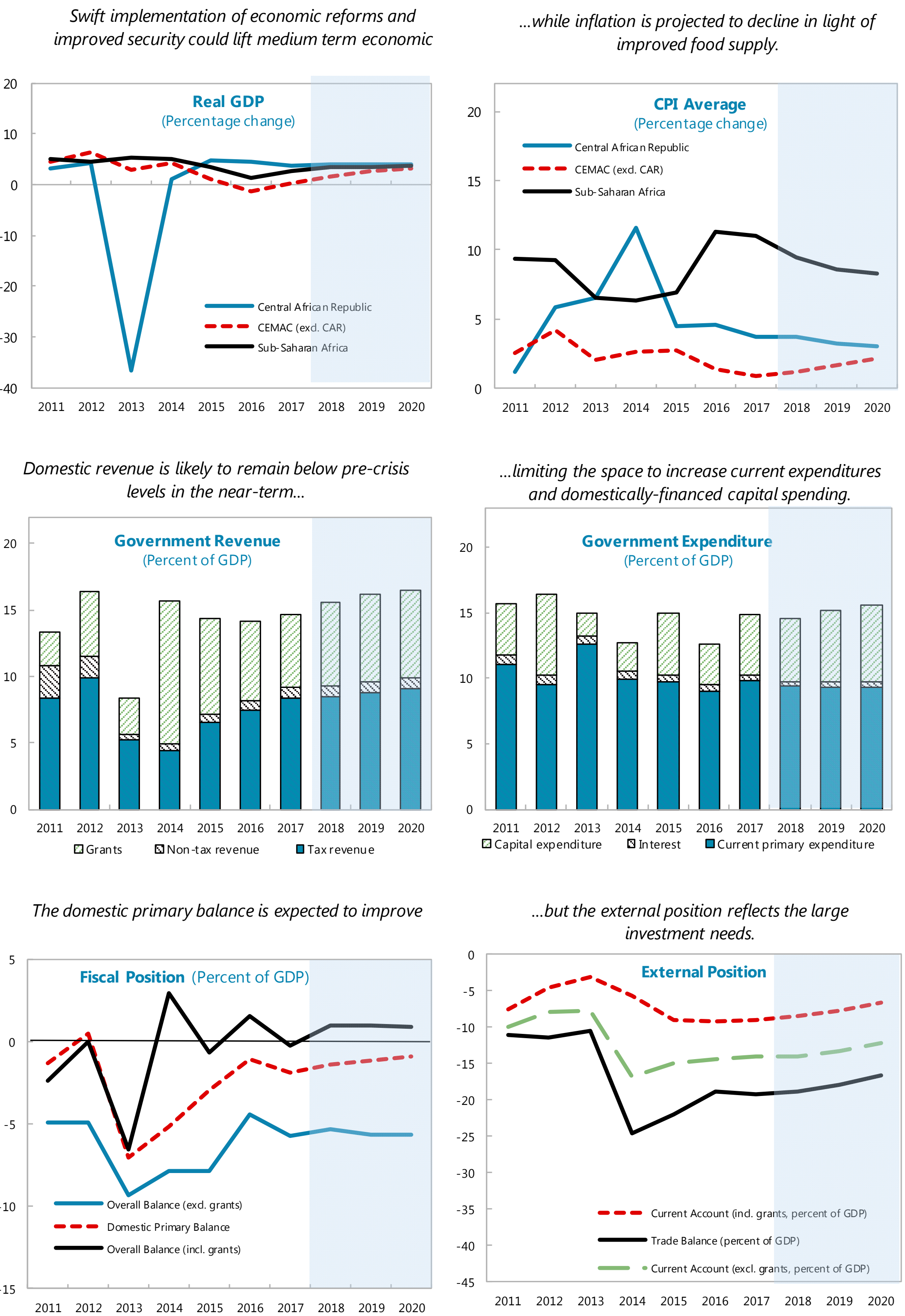
target, and urges the authorities to accelerate their implementation. Staff welcomes the implementation of structural benchmarks, and encourages the authorities to strengthen the unit responsible for these reforms to avoid delays in the future.

42. **Staff urges the authorities to step up efforts to improve domestic revenue mobilization and public financial management.** Revenue mobilization has been disappointing. The causes of this lackluster revenue performance include corruption, weak controls, lack of capacity and outdated administrative procedures. Deeply entrenched problems at customs will take time to correct. The use of pre-shipment valuations as mandatory minimum and the computerization of the main customs office by the end of the year are positive steps. Expenditure tracking and accounting, including full utilization of the accounting software, should bolster spending efficiency and transparency. Fund technical assistance on tax policy, revenue administration, and public financial management provided relevant recommendations to the authorities which should be implemented swiftly.

43. **Staff urges the authorities to limit borrowing, including highly concessional loans, to safeguard debt sustainability**. Given C.A.R's high risk of debt distress, staff strongly recommends that all available sources of grant financing, including significant amounts pledged at the Brussels donor conference, be mobilized to their fullest extent. The government should refrain from borrowing and contract highly concessional loans only in exceptional cases. Staff also encourages donors to disburse budget support on time, as delays complicate treasury management and program implementation. Steadfast donor support remains critical for a sustained recovery and exit from fragility.

44. **Staff recommends completion of the third review under the ECF arrangement based on C.A.R.'s performance under the program**. Staff also supports the authorities' requests of a 35 percent of quota augmentation in a phased manner and for a waiver of non-observance of the domestic revenue performance criterion, based on the corrective actions taken by the authorities. This recommendation takes into account the satisfactory program performance as of end-June 2017 and the implementation of all structural benchmarks, albeit with delay. The economic program remains appropriate, considering the challenging security environment and the authorities' capacity constraints. The ECF-supported program is an integral part of the effort in the CEMAC region to redress regional imbalances and rebuild adequate buffers. Staff also recommends completion of the financing assurances review.

Figure 1. Central African Republic: Macroeconomic Performance and Prospects, 2011–20



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

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2014–22

	2014	2015	2016	2017		2018	2019	2020	2021	2022
			Est.	2nd Review	Proj.			Proj.		
	(Annual percentage change; unless otherwise indicated)									
National income and prices										
GDP at constant prices	1.0	4.8	4.5	4.7	4.0	4.0	4.0	4.0	4.0	4.0
GDP per capita at constant prices	-0.9	2.8	2.6	2.7	2.1	2.0	2.1	2.0	2.0	2.0
GDP at current prices	12.2	11.3	11.1	10.6	7.7	7.9	7.3	7.1	7.0	7.0
GDP deflator	11.1	6.2	6.3	2.7	3.5	3.8	3.1	3.0	2.9	2.9
CPI (annual average)	11.6	4.5	4.6	3.8	3.8	3.5	3.2	3.0	3.0	3.0
CPI (end-of-period)	9.7	4.8	4.7	3.6	3.6	3.6	3.4	3.0	3.0	3.0
Money and credit										
Broad money	14.6	5.3	5.8	8.7	1.1	5.1	7.9	7.1	7.0	7.0
Credit to the economy	4.0	-0.2	17.5	25.8	17.5	16.2	11.9	12.4	9.7	9.3
External sector										
Export volume of goods	-28.1	4.9	23.2	7.5	17.7	11.8	8.6	7.5	6.1	6.2
Import volume of goods	78.3	23.0	24.1	5.1	6.4	7.7	4.5	1.0	3.8	3.8
Terms of trade	8.8	31.4	24.9	-11.4	-10.9	-0.8	-1.4	-0.8	1.8	-0.4
	(Percent of GDP; unless otherwise indicated)									
Gross national savings	4.6	4.9	4.6	5.6	4.9	5.7	7.1	8.2	9.1	9.9
Of which: current official transfers	8.7	3.3	3.7	2.6	3.2	3.1	2.9	2.1	1.7	1.5
Gross domestic savings	-14.3	-8.0	-5.2	-3.7	-5.9	-4.7	-3.0	-1.3	-0.1	0.9
Government	-5.3	-2.8	-1.0	-1.0	-1.0	-0.2	0.2	0.5	0.9	1.4
Private sector	-9.0	-5.2	-4.1	-2.7	-5.0	-4.5	-3.2	-1.8	-1.0	-0.5
Consumption	114.3	108.0	105.2	103.7	105.9	104.7	103.0	101.3	100.1	99.1
Government	8.2	7.7	7.3	7.1	7.3	7.3	7.3	7.3	7.3	7.2
Private sector	106.1	100.4	97.9	96.6	98.6	97.4	95.7	94.0	92.8	91.9
Gross investment	10.2	13.9	13.7	15.4	13.4	14.0	14.6	14.9	15.0	15.3
Government	2.1	4.7	3.1	4.5	4.3	5.0	5.5	5.9	5.9	6.3
Private sector	8.1	9.3	10.6	10.9	9.0	9.0	9.0	9.0	9.0	9.0
External current account balance										
with grants	-5.6	-9.0	-9.1	-9.7	-8.5	-8.4	-7.5	-6.7	-5.9	-5.4
without grants	-16.8	-14.9	-14.4	-14.7	-14.2	-13.9	-12.9	-11.6	-10.5	-10.0
Overall balance of payments	3.9	-2.2	0.9	-1.3	-1.2	-2.5	-1.2	0.2	0.6	0.9
Central government finance										
Total revenue (including grants)	15.7	14.3	14.1	14.2	15.0	16.0	16.3	16.1	16.1	16.7
of which: domestic revenue	4.9	7.1	8.2	8.9	9.1	9.6	9.9	10.2	10.5	10.9
Total expenditure [1]	12.7	14.9	12.6	14.5	14.6	14.9	15.4	15.7	15.7	16.0
of which: capital spending	2.1	4.7	3.1	4.5	4.3	5.0	5.5	5.9	5.9	6.3
Overall balance										
Excluding grants	-7.8	-7.8	-4.4	-5.6	-5.5	-5.4	-5.5	-5.5	-5.2	-5.1
Including grants	3.0	-0.6	1.6	-0.3	0.4	1.0	0.9	0.4	0.4	0.8
Domestic primary balance [2]	-5.1	-3.0	-1.1	-1.9	-1.7	-1.4	-1.1	-0.9	-0.5	0.0
Public sector debt	69.2	64.0	56.0	38.8	51.8	47.0	42.9	39.6	36.6	33.4
Of which: domestic debt [3]	31.5	30.7	26.3	21.8	23.1	20.3	17.9	16.1	14.5	12.6
CEMAC Foreign Reserves										
(US$ billions, end-of-period)	15.8	10.3	5.0	5.6	5.9	7.2	8.4	10.0	10.8	11.5
(in months of extrazone imports)	5.8	4.8	2.2	2.7	2.7	3.0	3.6	4.2	4.5	4.7
Nominal GDP (CFAF billions)	842	937	1,041	1,152	1,121	1,209	1,298	1,390	1,487	1,592

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

[1] Expenditure is on a cash basis.

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

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

Table 2. Central African Republic: Central Government Financial Operations, 2014–22

(CFAF billions)

	2014	2015	2016	2017		2018	2019	2020	2021	2022
				2nd Rev	Proj.					
Revenue	132.2	134.1	147.1	163.5	168.4	193.0	211.5	224.2	239.6	266.0
Domestic revenue	41.3	66.5	84.9	102.0	102.0	116.0	128.3	141.6	156.1	173.5
Tax revenue	37.1	60.9	78.0	93.2	93.2	106.3	117.9	130.5	144.2	160.8
Taxes on profits and property	8.1	13.1	19.2	22.9	22.8	26.1	28.0	30.7	39.9	39.0
Taxes on goods and services	29.0	47.8	58.8	70.3	70.4	80.2	89.9	99.8	104.3	121.8
Of which: VAT	11.2	19.4	22.8	27.5	28.5	31.9	38.1	35.4	35.6	46.5
Import Duties	9.2	15.3	19.5	23.6	23.2	26.9	28.3	33.3	33.4	43.8
Non-tax revenue	4.2	5.6	6.9	8.8	8.8	9.7	10.4	11.1	11.9	12.7
Grants	90.9	67.6	62.2	61.5	66.4	77.0	83.2	82.6	83.5	92.5
Program	73.6	31.0	38.4	29.4	36.3	37.3	37.3	29.5	25.0	24.0
Project	17.3	36.6	23.8	32.1	30.1	39.7	45.9	53.1	58.5	68.5
Expenditure [1]	107.3	140.0	130.9	166.8	163.3	180.7	199.7	218.5	233.3	253.9
Primary Spending	84.4	94.2	96.2	123.9	120.8	132.4	142.7	154.2	163.6	173.5
Current primary expenditure	83.6	90.9	93.3	110.2	110.2	117.1	124.6	133.4	141.3	149.6
Wages and salaries	54.9	56.4	55.9	57.9	57.9	60.6	64.9	69.5	74.4	79.6
Transfers and subsidies	14.5	19.0	17.6	28.2	28.2	29.0	29.8	32.0	32.7	35.0
Goods and services	14.2	15.5	19.8	24.1	24.1	27.5	29.8	32.0	34.2	35.0
Interest due	5.5	5.4	5.8	4.8	4.4	3.4	3.5	3.7	3.7	4.4
External	3.2	3.2	3.6	1.6	1.6	2.3	2.5	2.7	2.7	2.7
Domestic	2.3	2.2	2.2	3.2	2.8	1.1	1.1	1.0	1.0	1.7
Capital expenditure	18.1	43.7	31.8	51.8	48.7	60.3	71.6	81.4	88.3	99.9
Domestically financed	0.8	3.3	2.9	13.7	10.6	15.3	18.2	20.8	22.3	23.9
Externally financed	17.3	40.4	28.9	38.1	38.1	45.0	53.4	60.6	66.0	76.0
Overall balance										
Excluding grants	-65.9	-73.5	-46.0	-64.8	-61.3	-64.8	-71.4	-76.9	-77.2	-80.4
Of which: domestic primary balance [2]	-43.1	-27.7	-11.3	-21.9	-18.8	-16.4	-14.4	-12.6	-7.5	0.0
Including grants	25.0	-5.9	16.2	-3.3	5.0	12.2	11.8	5.7	6.3	12.1
Net change in arrears ((-) = reduction)	-13.9	-10.1	-3.5	-21.6	-30.4	-30.2	-27.8	0.0	0.0	0.0
Domestic	-12.1	-10.1	-6.0	-19.1	-27.9	-30.2	-27.8	0.0	0.0	0.0
of which: Social arrears					-10.4	-28.3	-26.2			
External	-1.8	0.0	2.5	-2.5	-2.5	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-15.3	-13.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-4.2	-29.0	14.0	-24.9	-25.3	-18.0	-16.0	5.7	6.3	12.1
Identified financing	4.2	29.1	-14.1	24.9	25.3	17.9	15.9	-5.7	-6.3	-12.1
External, net	0.9	6.1	-0.4	10.4	12.4	1.2	1.3	2.4	2.4	2.4
Project loans	0.0	3.8	5.1	6.0	8.0	7.5	7.5	7.5	7.5	7.5
Program loans	0.0	0.0	0.0	8.8	8.8	0.0	0.0	0.0	0.0	0.0
Amortization due	-5.8	-6.8	-8.7	-4.4	-4.4	-6.3	-6.2	-5.1	-5.1	-5.1
Exceptional financing	6.7	9.1	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	3.3	23.0	-13.7	14.5	12.9	16.7	14.6	-8.1	-8.7	-14.5
Banking system	3.3	23.0	-13.7	14.5	12.9	16.7	14.6	-8.1	-8.7	-14.5
BEAC	-6.6	17.3	-7.2	14.5	13.4	19.5	17.4	-5.2	-5.7	-11.3
of which: Counterpart to IMF resources (BEAC)	3.6	4.3	9.0	21.5	22.8	28.8	11.2	-4.4	-4.8	-8.9
Amortization of advances and consolidated	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	-7.8
Commercial banks	10.0	5.6	-6.4	0.0	-0.5	-2.8	-2.8	-2.9	-3.0	-3.2
Nonbank [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total government debt	582.3	599.5	582.8	446.3	580.2	568.0	556.1	550.3	544.0	531.9
Government domestic currency debt[4]	264.8	287.8	274.1	250.8	259.1	245.6	232.4	224.3	215.6	201.1
Nominal GDP	842	937	1041	1152	1121	1209	1298	1390	1487	1592

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

[1] Expenditure is on a cash basis, except for interest, which is recorded on a due basis.

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

[3] Includes repayments to CEMAC commercial banks and domestic suppliers for oil subsidies.

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

Table 3. Central African Republic: Central Government Financial Operations, 2014–22

(In percent of GDP)

	2014	2015	2016	2017		2018	2019	2020	2021	2022
				2nd Rev	Proj.					
				(In percent of GDP)						
Revenues	15.7	14.3	14.1	14.2	15.0	16.0	16.3	16.1	16.1	16.7
Domestic revenue	4.9	7.1	8.2	8.9	9.1	9.6	9.9	10.2	10.5	10.9
Tax revenue	4.4	6.5	7.5	8.1	8.3	8.8	9.1	9.4	9.7	10.1
Taxes on profits and property	1.0	1.4	1.8	2.0	2.0	2.2	2.2	2.2	2.7	2.5
Taxes on goods and services	3.4	5.1	5.6	6.1	6.3	6.6	6.9	7.2	7.0	7.7
Of which: VAT	1.3	2.1	2.2	2.4	2.5	2.6	2.9	2.6	2.4	
Import Duties	1.1	1.6	1.9	2.1	2.1	2.2	2.2	2.4	2.2	2.7
Non-tax revenue	0.5	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Grants	10.8	7.2	6.0	5.3	5.9	6.4	6.4	5.9	5.6	5.8
Program	8.7	3.3	3.7	2.6	3.2	3.1	2.9	2.1	1.7	1.5
Project	2.1	3.9	2.3	2.8	2.7	3.3	3.5	3.8	3.9	4.3
Expenditure [1]	12.7	14.9	12.6	14.5	14.6	14.9	15.4	15.7	15.7	16.0
Primary Spending	10.0	10.1	9.2	10.8	10.8	10.9	11.0	11.1	11.0	10.9
Current primary expenditure	9.9	9.7	9.0	9.6	9.8	9.7	9.6	9.6	9.5	9.4
Wages and salaries	6.5	6.0	5.4	5.0	5.2	5.0	5.0	5.0	5.0	5.0
Transfers and subsidies	1.7	2.0	1.7	2.5	2.5	2.4	2.3	2.3	2.2	2.2
Goods and services	1.7	1.7	1.9	2.1	2.1	2.3	2.3	2.3	2.3	2.2
Interest due	0.7	0.6	0.6	0.4	0.4	0.3	0.3	0.3	0.2	0.3
External	0.4	0.3	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Domestic	0.3	0.2	0.2	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Capital expenditure	2.1	4.7	3.1	4.5	4.3	5.0	5.5	5.9	5.9	6.3
Domestically financed	0.1	0.4	0.3	1.2	0.9	1.3	1.4	1.5	1.5	1.5
Externally financed	2.1	4.3	2.8	3.3	3.4	3.7	4.1	4.4	4.4	4.8
Overall balance										
Excluding grants	-7.8	-7.8	-4.4	-5.6	-5.5	-5.4	-5.5	-5.5	-5.2	-5.1
Of which: domestic primary balance [2]	-5.1	-3.0	-1.1	-1.9	-1.7	-1.4	-1.1	-0.9	-0.5	0.0
Including grants	3.0	-0.6	1.6	-0.3	0.4	1.0	0.9	0.4	0.4	0.8
Net change in arrears ((-) = reduction)	-1.7	-1.1	-0.3	-1.9	-2.7	-2.5	-2.1	0.0	0.0	0.0
Domestic	-1.4	-1.1	-0.6	-1.7	-2.5	-2.5	-2.1	0.0	0.0	0.0
of which: Social arrears						-2.3	-2.0	0.0		
External	-0.2	0.0	0.2	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-1.8	-1.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-0.5	-3.1	1.3	-2.2	-2.3	-1.5	-1.2	0.4	0.4	0.8
Identified financing	0.5	3.1	-1.3	2.2	2.3	1.5	1.2	-0.4	-0.4	-0.8
External, net	0.1	0.7	0.0	0.9	1.1	0.1	0.1	0.2	0.2	0.2
Project loans	0.0	0.4	0.5	0.5	0.7	0.6	0.6	0.5	0.5	0.5
Program loans	0.0	0.0	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0
Amortization	-0.7	-0.7	-0.8	-0.4	-0.4	-0.5	-0.5	-0.4	-0.3	-0.3
Exceptional financing	0.8	1.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	0.4	2.5	-1.3	1.3	1.2	1.4	1.1	-0.6	-0.6	-0.9
Banking system	0.4	2.5	-1.3	1.3	1.2	1.4	1.1	-0.6	-0.6	-0.9
BEAC	-0.8	1.8	-0.7	1.3	1.2	1.6	1.3	-0.4	-0.4	-0.7
of which: Counterpart to IMF resources (BEAC)	0.4	0.5	0.9	1.9	2.0	2.4	0.9	-0.3	-0.3	-0.6
Commercial banks	1.2	0.6	-0.6	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Nonbank [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total government debt	69.2	64.0	56.0	38.8	51.8	47.0	42.9	39.6	36.6	33.4
Government domestic debt[4]	31.5	30.7	26.3	21.8	23.1	20.3	17.9	16.1	14.5	12.6

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

[1] Expenditure is on a cash basis, except for interest, which is recorded on a due basis.

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

[3] Includes repayments to CEMAC commercial banks and domestic suppliers for oil subsidies.

[4] Including arrears.

Table 4. Central African Republic: Monetary Survey, 2014–22

	2014	2015	2016	2017				2018				2019	2020	2021	2022
				Q2	Q3	Q4	Q4	Q1	Q2	Q3	Q4				
				Proj.	Proj.	2nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
							(CFAF billions; end of period)								
Net foreign assets	51.7	42.2	54.7	95.6	92.4	37.5	39.2	31.6	24.1	16.5	9.0	-6.2	-3.4	4.8	19.1
Bank of Central African States (BEAC)	47.6	27.0	38.7	58.3	65.2	21.5	23.2	15.6	8.1	0.5	-7.0	-22.2	-19.4	-11.2	3.1
Commercial banks	4.1	15.3	16.0	37.3	27.3	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Net domestic assets	193.1	215.6	218.0	200.5	193.4	259.0	236.5	246.3	257.8	269.2	280.7	318.7	338.1	353.4	364.2
Domestic credit	286.5	309.2	317.2	319.5	312.4	369.0	355.5	365.3	376.7	388.2	399.6	437.7	457.1	472.4	483.2
Credit to the public sector	163.2	186.1	172.5	171.8	162.4	187.0	185.4	200.0	193.6	205.4	202.1	216.7	208.6	199.9	185.4
Credit to central government (net)	163.2	186.1	172.5	171.8	162.4	187.0	185.4	200.0	193.6	205.4	202.1	216.7	208.6	199.9	185.4
BEAC	143.8	161.1	153.9	160.3	150.8	168.4	167.3	182.6	176.9	189.4	186.8	204.2	199.0	193.3	182.0
Treasury account	62.9	64.2	58.5	57.3	57.3	58.5	58.5	58.5	58.5	58.5	58.5	58.5	58.5	58.5	56.2
Consolidated loans	45.9	48.1	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	50.3
IMF (net)	54.0	60.8	70.3	61.6	73.3	91.8	93.0	90.0	104.7	101.7	121.9	133.1	128.7	123.9	115.1
Deposits	-18.9	-12.0	-30.7	-14.5	-35.7	-37.7	-40.1	-21.8	-42.2	-26.7	-49.4	-43.2	-44.1	-45.0	-39.6
Commercial banks	19.3	25.0	18.5	11.5	11.5	18.5	18.0	17.3	16.6	15.9	15.2	12.4	9.5	6.5	3.3
Credit to other public agencies (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy	123.4	123.1	144.7	147.7	150.0	182.0	170.1	165.3	183.2	182.8	197.6	221.1	248.5	272.6	297.8
Public enterprises	2.9	3.2	3.4	3.2	3.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Private sector	120.5	119.9	141.4	144.5	146.9	178.7	166.7	162.0	179.8	179.5	194.2	217.7	245.2	269.2	294.5
Other items (net)	-93.4	-93.6	-99.2	-119.0	-119.0	-110.0	-119.0	-119.0	-119.0	-119.0	-119.0	-119.0	-119.0	-119.0	-119.0
Money and quasi-money	244.8	257.8	272.6	296.1	285.9	296.4	275.6	277.9	281.8	285.8	289.7	312.5	334.7	358.2	383.3
Currency	138.2	134.8	143.7	152.7	147.5	158.9	142.4	142.0	143.3	144.6	145.9	151.9	162.6	174.0	186.3
Deposits	106.6	123.0	128.9	143.4	138.3	137.5	133.3	135.9	138.5	141.1	143.8	160.7	172.1	184.2	197.1
Demand deposits	58.9	64.9	68.9	80.2	75.7	71.2	71.2	72.6	74.0	75.4	76.8	85.9	92.0	98.4	105.3
Term and savings deposits	47.7	58.2	60.0	63.2	62.6	66.4	62.0	63.3	64.5	65.7	66.9	74.8	80.1	85.7	91.7
							(Annual percentage change)								
Net foreign assets	500.4	-18.4	29.5			-31.5	-28.4				-77.0	-169.0	-44.6	-238.8	300.3
Net domestic assets	-28.0	11.7	1.1			18.8	8.5				18.7	13.6	6.1	4.5	3.1
Monetary base	23.6	-1.8	0.2			10.6	7.7				7.9	7.3	7.1	7.0	7.0
Credit to the economy	4.0	-0.2	17.5			25.8	17.5				16.2	11.9	12.4	9.7	9.3
Public enterprises	-15.8	11.5	4.2			0.0	0.0				0.0	0.0	0.0	0.0	0.0
Private sector	4.6	-0.5	17.9			26.4	18.0				16.5	12.1	12.6	9.8	9.4
Memorandum items:															
Imputed foreign reserves (CFAF billions)	147.5	135.9	157.2			140.0	141.7				111.5	96.3	99.1	107.3	121.6
NDA of the central bank (CFAF billions)	117.0	134.7	123.3			157.7	151.3				195.2	224.1	235.6	242.6	244.5
Monetary base (CFAF billions)	164.6	161.6	162.0			179.1	174.4				188.2	201.9	216.2	231.4	247.6
Nominal GDP (CFAF billions)	842	937	1041			1152	1121				1209	1298	1390	1487	1592
Velocity (GDP/broad money)															
End of period	3.4	3.6	3.8			3.9	4.1				4.2	4.2	4.2	4.2	4.2

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

Table 5. Central African Republic: Balance of Payments, 2014–22

	2014	2015	2016	2017 2nd Review	2017 Proj.	2018	2019	2020	2021	2022
				(Billions of CFA francs)						
Current account	-46.9	-84.7	-94.7	-112.1	-95.5	-101.1	-97.4	-92.7	-87.7	-86.6
Balance on goods	-155.7	-153.3	-142.3	-171.5	-162.7	-172.8	-180.5	-179.5	-181.4	-189.6
Exports, f.o.b.	42.6	48.7	60.6	63.4	67.9	75.3	81.5	87.9	94.3	101.4
Imports, f.o.b.	-198.4	-201.9	-202.9	-234.9	-230.6	-248.1	-262.0	-267.3	-275.7	-291.0
Services (net)	-50.8	-52.5	-54.0	-48.0	-53.9	-53.5	-47.8	-45.5	-43.0	-40.3
Credit	67.1	69.6	72.8	84.2	76.0	76.9	86.0	90.0	94.3	98.7
Debit	-117.9	-122.1	-126.8	-132.2	-129.9	-130.4	-133.8	-135.5	-137.2	-139.0
Income (net)	3.5	4.1	-0.6	1.6	1.6	1.5	3.2	2.4	2.5	2.7
Credit	10.0	10.5	11.0	11.5	11.4	11.8	12.3	12.8	13.3	13.9
Debit	-6.5	-6.4	-11.6	-9.9	-9.8	-10.4	-9.1	-10.4	-10.8	-11.2
Transfers (net)	156.1	117.0	102.2	105.7	119.6	123.8	127.6	129.9	134.1	140.6
Private	61.3	62.3	47.5	48.3	55.8	56.8	57.8	61.4	65.2	67.8
Official	94.8	54.6	54.7	57.4	63.8	67.0	69.8	68.5	68.9	72.8
of which: Program	73.6	31.0	38.4	29.4	36.3	37.3	37.3	29.5	25.0	24
Capital account	17.3	36.6	23.8	32.1	30.1	39.7	45.9	53.1	58.5	68.5
Project grants	17.3	36.6	23.8	32.1	30.1	39.7	45.9	53.1	58.5	68.5
Other transfers (debt forgiveness)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	7.4	13.2	14.8	65.3	52.4	31.2	36.3	42.4	37.4	32.4
Direct investment	1.1	3.2	4.4	24.9	10.0	10.0	15.0	20.0	20.0	20.0
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	6.3	10.0	10.4	40.4	42.4	21.2	21.3	22.4	17.4	12.4
Public sector (net)	-5.8	-3.0	-3.6	10.4	12.4	1.2	1.3	2.4	2.4	2.4
Project disbursement	0.0	3.8	5.1	6.0	8.0	7.5	7.5	7.5	7.5	7.5
Program disbursement	0.0	0.0	0.0	8.8	8.8	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-5.8	-6.8	-8.7	-4.4	-4.4	-6.3	-6.2	-5.1	-5.1	-5.1
Monetary authorities (SDR allocation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term flows	12.1	13.0	14.0	30.0	30.0	20.0	20.0	20.0	15.0	10.0
Errors and omissions	54.8	14.3	65.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	32.5	-20.6	9.2	-14.7	-13.0	-30.1	-15.2	2.8	8.2	14.3
Identified financing	-32.5	20.6	-9.2	14.7	13.0	30.1	15.2	-2.8	-8.2	-14.3
Net official reserves movements	-39.2	20.6	-11.7	17.2	15.5	30.1	15.2	-2.8	-8.2	-14.3
Net IMF credit	3.6	4.3	9.0	21.5	22.8	28.8	11.2	-4.4	-4.8	-8.9
IMF purchase	-6.3	-11.3	-20.4	-28.1	-32.7	-37.2	-18.6	0.0	0.0	0.0
IMF repurchase	2.6	7.0	11.3	6.6	9.9	8.4	7.4	4.4	4.8	8.9
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other reserves (increase = -)	-42.8	16.3	-20.7	-4.3	-7.3	1.3	4.0	1.6	-3.4	-5.5
Exceptional financing	6.7	0.0	2.5	-2.5	-2.5	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing	0.0	0.0	2.5	-2.5	-2.5	0.0	0.0	0.0	0.0	0.0
Debt payment arrears (reduction=-)	0.0	0.0	2.5	-2.5	-2.5	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Terms of trade	8.8	31.4	24.9	-11.4	-10.9	-0.8	-1.4	-0.8	1.8	-0.4
Unit price of exports	11.9	8.8	1.1	-2.1	-4.8	-0.8	-0.3	0.2	1.1	1.3
Unit price of imports	2.9	-17.2	-19.0	10.6	6.9	-0.1	1.0	1.0	-0.6	1.7
Imputed reserves[1] (CFAF billions, end-of-period)	147.5	135.9	157.2	140.0	141.7	111.5	96.3	99.1	107.3	121.6
Current account (percent of GDP)	-5.6	-9.0	-9.1	-9.7	-8.5	-8.4	-7.5	-6.7	-5.9	-5.4
Capital account (percent of GDP)	2.1	3.9	2.3	2.8	2.7	3.3	3.5	3.8	3.9	4.3
Nominal GDP (CFAF billions)	842	937	1041	1152	1121	1209	1298	1390	1487	1592

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

[1] Nationally imputed reserves are not foreign exchange reserves, since they do not meet the standard set out in the IMF's Balance of Payments Manual, which requires foreign reserves to be readily available to and controlled by monetary authorities for meeting balance of payments financing needs. However, under the statutes of the BEAC, if a country's imputed reserves fall below zero the CEMAC Council of Ministers can call for adjustment measures. Private sector access to foreign exchange is not affected by the level of nationally imputed reserves, but only its access to CFAF and the availability or foreign reserves at the level of the union.

Table 6. Central African Republic: External Financing Needs, 2017–22

	2017	2018	2019	2020	2021	2022
			Projection			
1. Total financing requirement	155.8	151.7	144.3	130.1	126.0	130.0
Current account deficit (excl. budget support)	131.7	138.4	134.7	122.2	112.7	110.6
Debt amortization	4.4	6.3	6.2	5.1	5.1	5.1
Repayment to the Fund	9.9	8.4	7.4	4.4	4.8	8.9
Change in other reserves	7.3	-1.3	-4.0	-1.6	3.4	5.5
Arrears Repayment	2.5					
2. Total financing sources	78.1	75.0	88.4	100.6	101.0	106.0
Capital transfers	30.1	37.5	45.9	53.1	58.5	68.5
Foreign direct investment (net)	10.0	10.0	15.0	20.0	20.0	20.0
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing	8.0	7.5	7.5	7.5	7.5	7.5
Public Sector	8.0	7.5	7.5	7.5	7.5	7.5
Non-public sector	0.0	0.0	0.0	0.0	0.0	0.0
Other net capital inflows	30.0	20.0	20.0	20.0	15.0	10.0
Exceptional Financing						
3. Total financing needs	77.6	76.7	55.9	29.5	25.0	24.0
Budget support (grants)	30.4	37.3	28.5	29.5	25.0	24.0
World Bank	8.8	8.8	8.8			
African Development Bank	0.9	8.8	0.0			
European Union	13.1	13.1	13.1			
France	6.6	6.6	6.6			
Other	1.0	0.0	0.0			
Budget support (loans)	8.8	0.0	0.0	0.0	0.0	0.0
African Development Bank	8.8	0.0	0.0	0.0	0.0	0.0
IMF (as of 2nd Review)	28.1	19.1	9.5	0.0	0.0	0.0
4, Residual financing need	10.4	20.3	17.9			
World Bank	5.9					
Bilateral	0.0	2.2				
IMF (augmentation)	4.5	18.1	9.1			
to be identified	0.0	0.0	8.8			

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

Table 7. Central African Republic: Domestic and External Debt, 2016

Domestic Debt 2016

Type of Creditor	Current	Arrears	Total	(in percent of GDP)
Domestic				
Total	68.1	140.2	208.3	20.0
BEAC	56.0	22.5	78.5	7.5
Commercial Banks	0.0	26.1	26.1	2.5
Private Suppliers	0.0	14.2	14.2	1.4
Social Arrears	0.0	72.2	72.2	6.9
T-Bills	9.5	0.0	9.5	0.9
Cross Debt and Other	2.6	5.2	7.8	0.7

External Debt 2016

Type of Creditor	Total (in CFAF billion)	(in percent of GDP)	of which in arrears
External			
Total[1]	374.5	36.0	155.1
Multilateral	122.7	11.8	
World Bank	34.9	3.4	
IMF	65.8	6.3	
Other	22.0	2.1	
Bilateral	108.2	10.4	11.5
Saudi Arabia	9.9	1.0	
India	24.5	2.4	3.3
China	43.5	4.2	8.2
Congo	18.2	1.7	
Kuwait	12.1	1.2	
Pre-HIPC Arrears			
Argentina	19.4	1.9	19.4
Eq. Guinea	2.4	0.2	2.4
Iraq	2.7	0.3	2.7
Libya	7.4	0.7	7.4
Taiwan Province of China	68.9	6.6	68.9
Private	42.8	4.1	42.8

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

[1] Includes pre-HIPC arrears

Table 8a. Central African Republic: Treasury Cash Management Plan, 2017

(millions CFAF francs)

	Actual									Projections			Total 2017
	January	February	March	April	May	June	July	August	September	October	November	December	
Deposits beginning of month (I)[1]	**25,545**	**19,617**	**17,848**	**14,957**	**11,944**	**10,324**	**7,460**	**29,849**	**27,687**	**20,666**	**13,163**	**8,515**	**25,545**
Gross cash inflows (II)	**11,179**	**8,585**	**7,903**	**8,211**	**13,858**	**10,763**	**36,809**	**7,215**	**7,787**	**10,899**	**19,251**	**51,649**	**194,109**
Customs and Tax Revenue	5935	7740	7169	7478	7396	6499	7214	6532	7156	9800	9900	9900	92,719
Other revenue	144	246	135	134	511	214	272	84	32	100	100	100	2,072
Salary Tax	599	599	599	599	599	599	599	599	599	599	599	599	7,188
Financing	4,501	0	0	0	5,352	3,451	28,724	0	0	400	8,652	41,050	92,130
Treasury securities	3,892	0	0	0	5,352	0	3,896	0	0	0	5,352	0	18,492
Other budget support	609	0	0	0	0	3,451	24,828	0	0	400	3,300	41,050	73,638
World Bank	0	0	0	0	0	0	0	0	0	0	0	14,600	14,600
African Development Bank	0	0	0	0	0	3,451	6,417	0	0	0	0	0	9,868
IMF Disbursements[1)]	0	0	0	0	0	0	5,292	0	0	0	0	23,150	28,442
European Union	0	0	0	0	0	0	13,119	0	0	0	0	0	13,119
France	0	0	0	0	0	0	0	0	0	0	3,300	3,300	6,600
Timor Leste/Other	609	0	0	0	0	0	0	0	0	400	0	0	1,009
Gross cash outflows (III)	**17,107**	**10,354**	**10,794**	**11,224**	**15,478**	**13,627**	**14,420**	**9,377**	**14,808**	**18,402**	**23,899**	**25,680**	**185,170**
Primary expenditure	7,549	6,961	9,719	8,211	9,080	10,588	8,688	8,977	13,435	11,949	12,099	13,559	120,815
Wages	4,041	4,069	4,099	4,168	4,189	4,194	4,240	4,190	4,165	4,350	4,500	4,500	57,893
add f.i. salary charges	599	599	599	599	599	599	599	599	599	599	599	599	
Transfers	1,082	666	2,787	1,044	1,088	2,826	1,143	1,815	3,940	3,700	3,700	4,400	28,191
of which: pensions	0	0	1,743	0	0	1,760	0	0	1,914	0	0	1,686	7,103
Goods and services	1,827	1,038	1,506	2,229	2,723	2,553	1,701	2,326	3,314	1,600	1,600	1,700	24,117
Capital	0	589	728	171	481	416	1,005	47	1,417	1,700	1,700	2,360	10,614
Interest and Amortization	6,595	10	707	1,799	5,507	2,409	5,138	25	1,036	2,053	7,100	4,121	36,500
Domestic	6,595	7	707	259	5,507	2,163	5,138	7	714	953	6,200	2,921	31,171
of which: IMF repayments	2,595	0	707	253	0	2,121	1,138	0	707	253	0	2,121	9,895
of which: treasury securities	4,000	0	0	0	5,500	0	4,000	0	0	0	5,500	0	19,000
of which: Interest	0	7	0	0	7	42	0	7	7	700	700	800	2,270
External	0	3	0	1,540	0	246	0	18	322	1,100	900	1,200	5,329
of which: Interest	0	3	0	735	0	142	0	18	0	300		400	1,598
of which: Amortizations	0	0	0	805	0	104	0	0	322	1,300	900	1,000	4,431
Arrears payments	2,963	3,383	368	1,214	891	630	594	375	337	4,400	4,700	8,000	27,855
Net cash flow (=II-III)	**-5,928**	**-1,769**	**-2,891**	**-3,013**	**-1,620**	**-2,864**	**22,389**	**-2,162**	**-7,021**	**-7,503**	**-4,648**	**25,969**	**8,939**
Deposits at end of month (=I+(II-III))[2)]	**19,617**	**17,848**	**14,957**	**11,944**	**10,324**	**7,460**	**29,849**	**27,687**	**20,666**	**13,163**	**8,515**	**34,484**	**34,484**

Source: Data provided by the authorities and staff calculations.

[1] Part of July disbursement is on special account to be used for IMF repayments and will be recorded as revenue at the time of repayments.

[2] Only freely usable deposits.

Table 8b. Central African Republic: Treasury Cash Management Plan, 2018

(millions CFAF francs)

	Projections												Total 2018
	January	February	March	April	May	June	July	August	September	October	November	December	
Deposits beginning of month (I)[1]	**34,484**	**31,591**	**26,934**	**20,129**	**14,545**	**10,778**	**42,259**	**36,773**	**31,799**	**25,834**	**28,146**	**33,510**	**34,484**
Gross cash inflows (II)	**15,404**	**9,312**	**9,313**	**9,490**	**14,842**	**50,009**	**13,736**	**9,844**	**9,844**	**16,621**	**24,173**	**28,621**	**211,209**
Customs and Tax Revenue	8502	8502	8503	8680	8680	8680	9034	9034	9034	9211	9211	9211	106,282
Other revenue	210	210	210	210	210	210	210	210	210	210	210	210	2,520
Salary Tax	600	600	600	600	600	600	600	600	600	600	600	600	7,200
Financing	6,092	0	0	0	5,352	40,519	3,892	0	0	6,600	14,152	18,600	95,207
Treasury securities	3,892	0	0	0	5,352	0	3,892	0	0	0	5,352	0	18,488
Other budget support	2,200	0	0	0	0	40,519	0	0	0	6,600	8,800	18,600	76,719
World Bank	0	0	0	0	0	0	0	0	0	0	8,800	0	8,800
African Development Bank	0	0	0	0	0	8800	0	0	0	0	0	0	8,800
IMF Disbursements	0	0	0	0	0	18,600	0	0	0	0	0	18,600	37,200
European Union	0	0	0	0	0	13,119	0	0	0	0	0	0	13,119
France	0	0	0	0	0	0	0	0	0	6,600	0	0	6,600
Project-specific	2,200	0	0	0	0	0	0	0	0	0	0	0	2,200
Gross cash outflows (III)	**18,297**	**13,969**	**16,118**	**15,074**	**18,609**	**18,528**	**19,222**	**14,818**	**15,809**	**14,309**	**18,809**	**18,369**	**201,931**
Primary expenditure	10,002	10,002	12,142	10,542	10,542	12,142	10,542	10,542	12,142	10,742	10,742	12,292	132,374
Wages	4,400	4,400	4,450	4,450	4,450	4,450	4,450	4,450	4,450	4,450	4,450	4,500	60,570
add f.i. salary charges	610	610	600	600	600	600	600	600	600	600	600	600	
Transfers	1,700	1,700	3,500	1,900	1,900	3,500	1,900	1,900	3,500	2,000	2,000	3,500	29,000
of which: pensions	0	0	1,743	0	0	1,686	0	0	1,686	0	0	1,686	6,801
Goods and services	2,292	2,292	2,292	2,292	2,292	2,292	2,292	2,292	2,292	2,292	2,292	2,292	27,504
Capital	1,000	1,000	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,400	1,400	1,400	15,300
Interest and Amortization	5,778	1,450	1,459	2,015	5,550	3,869	6,163	1,759	1,150	1,050	5,550	3,560	39,353
Domestic	5,778	50	1,459	50	5,550	2,869	5,778	759	750	50	5,550	2,160	30,803
of which: IMF repayments	1,728	0	709	0	0	2,119	1,728	709	0	0	0	1,410	8,403
of which: treasury securities	4,000	0	0	0	5,500	0	4,000	0	0	0	5,500	0	19,000
of which: Interest	50	50	50	50	50	50	50	50	50	50	50	50	600
of which: BEAC Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0
of which: Commercial Banks	0	0	700	0	0	700	0	0	700	0	0	700	2,800
External	0	1,400	0	1,965	0	1,000	385	1,000	400	1,000	0	1,400	8,550
of which: Interest	0	400	0	785	0	0	385	0	400	0	0	300	2,270
of which: Amortizations	0	1,000	0	1,180	0	1,000	0	1,000	0	1,000	0	1,100	6,280
Arrears payments	2,517	2,517	2,517	2,517	2,517	2,517	2,517	2,517	2,517	2,517	2,517	2,517	30,204
Net cash flow (=II-III)	**-2,893**	**-4,657**	**-6,805**	**-5,584**	**-3,767**	**31,481**	**-5,486**	**-4,974**	**-5,965**	**2,312**	**5,364**	**10,252**	**9,278**
Deposits at end of month (=I+(II-II	**31,591**	**26,934**	**20,129**	**14,545**	**10,778**	**42,259**	**36,773**	**31,799**	**25,834**	**28,146**	**33,510**	**43,762**	**43,762**

Source: Data provided by the authorities and staff calculations.

[1] Freely usable deposits.

Table 9. Central African Republic: Commitments for 2017 and 2018

	Commitments for 2017		Commitments for 2018		Purpose
		CFA francs, bn		CFA francs, bn	
IMF	SDR 40.11 million	32.7	SDR 45.67 million	37.2	Balance of payments support
World Bank	US$ 25 million	14.6	US$ 15 million	8.8	Budget support
African Development Bank	US$ 16.5 million	9.7	US$ 15 million	8.8	Budget support
European Union	€ 20 million	13.1	€ 20 million	13.1	Budget support
France	€ 10 million	6.6	€ 10 million	6.6	Budget support
Other		1.0		2.2	Budget support
Total		77.6		76.7	
excluding IMF		**45.0**		**39.5**	

Table 10. Central African Republic: Indicators of Capacity to Repay the IMF, 2017–29

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
IMF obligations based on existing credit													
(SDR millions)													
Principal	2.60	10.31	8.27	3.13	1.39	6.40	7.35	7.35	7.35	7.35	2.34	0.00	0.00
Charges and interest	0.07	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31
IMF obligations based on existing and prospective credit													
(SDR millions)													
Principal	2.60	10.31	8.27	3.13	1.39	6.40	15.32	24.45	26.74	26.74	21.73	11.42	2.28
Charges and interest	0.07	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31
IMF obligations based on existing and prospective credit													
(CFA billions)													
Principal	2.12	8.40	6.74	2.55	1.13	5.22	12.49	19.93	21.79	21.79	17.71	9.31	1.86
Charges and interest	0.06	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Outstanding IMF Credit													
SDR Millions	111.93	147.30	161.04	155.68	149.83	138.97	119.20	91.13	62.17	35.43	13.70	2.28	0.00
CFAF Billions	93.03	121.86	133.06	128.70	123.93	115.08	87.51	66.90	45.64	26.01	10.06	1.67	0.00
Percent of government revenue	91.21	105.07	103.70	90.88	79.39	66.32	49.59	35.63	22.88	12.16	4.42	0.69	0.00
Percent of exports of goods and services	64.64	82.60	82.62	75.77	68.91	60.38	43.78	32.04	20.92	11.28	4.11	0.64	0.00
Percent of debt services	497.47	675.95	777.12	978.42	916.23	625.61	495.60	397.64	293.68	195.04	110.57	23.80	0.00
Percent of GDP	8.30	10.08	10.25	9.26	8.33	7.23	5.12	3.66	2.34	1.25	0.45	0.07	0.00
Percent of quota	100.48	132.23	144.56	139.75	134.50	124.75	107.00	81.80	55.81	31.80	12.30	2.05	0.00
Net use of IMF credit (SDR millions)													
Disbursements	40.1	45.7	22.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	2.67	10.62	8.58	3.45	1.70	6.71	15.63	24.76	27.05	27.05	22.04	11.73	2.59
Memorandum items:													
Nominal GDP (billions of CFA francs)	1121.1	1209.5	1297.7	1389.6	1487.4	1591.7	1710.4	1829.2	1951.9	2083.1	2223.2	2373.0	2533.0
Exports of goods and services (billions of CFA francs)	143.9	147.5	161.1	169.8	179.8	190.6	199.9	208.8	218.1	230.7	244.8	260.6	278.6
Government revenue (billions of CFA francs)	102.0	116.0	128.3	141.6	156.1	173.5	176.5	187.8	199.5	213.9	227.4	243.8	261.2
Debt service (billions of CFA francs)	18.7	18.0	17.1	13.2	13.5	18.4	17.7	16.8	15.5	13.3	9.1	7.0	6.9
IMF Quota (SDR millions)	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4

Source: IMF staff projections.

Table 11. Central African Republic: Financial Soundness Indicators, December 2010–June 2017

(Percent, end of period)

Concept	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Jun-16	Dec-16	Jun-17
Capital Adequacy									
Total bank regulatory capital to risk-weighted assets	16.5	25.6	22.7	39.1	42.2	38.7	37.4	32.0	40.1
Percentage of banks greater or equal to 10 percent									
Share of these banks/total banking system assets									
Percentage of banks below 10 and above 6 percent minimum									
Share of these banks/total banking system assets									
Percentage of banks below 6 percent minimum									
Total capital (net worth) to assets	17.1	22.3	22.2	23.7	21.9	21.1	19.3	19.2	18.8
Asset Quality									
Non-performing loans to total loans	12.6	12.0	9.6	28.5	27.7	30.9	28.4	25.6	28.2
Non-performing loans net of provision to capital	1.5	3.3	1.6	50.0	44.4	34.9	25.6	18.7	25.7
FX loans to total loans									
Earnings and Profitability									
Net income to average assets (ROA)	4.0	5.0	4.5	-1.3	0.9	-0.9	0.9	0.8	8.6
Net income to average capital (ROE)	24.4	24.4	20.7	-5.4	3.8	-4.0	4.5	4.2	45.9
Non interest expense to gross income	65.9	59.9	64.0	79.5	73.6	72.8	70.5	67.3	77.4
Personnel expense to gross income									
Non interest income to gross income									
Expenses/Income									
Liquidity									
Liquid assets to total assets	28.1	24.3	16.6	19.2	27.5	40.0	34.0	31.9	31.2
Liquid assets to short-term liabilities	132.6	160.7	114.5	149.1	203.1	276.1	246.8	219.6	220.6
Loan/deposits									
Liquid assets/total deposits									
Sensitivity to market/FX risk									
Foreign exchange liabilities/total liabilities									
Foreign currency deposits/official reserves									

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

Table 12. Central African Republic: Schedule of Disbursements, 2016–19

Disbursements Conditions	Date	Disbursement			
		Approved		Proposed	
		Millions of SDR	Percent of Quota	Millions of SDR	Percent of Quota
First disbursement upon program approval.	July 20, 2016	SDR 12.525 million	11.2	SDR 12.525 million	11.2
Second disbursement upon observance of the performance criteria for August 31, 2016 and completion of the first review.	December 21, 2016	SDR 12.525 million	11.2	SDR 12.525 million	11.2
Third disbursement upon observance of the performance criteria for December 31, 2016 and completion of the second review.	July 19, 2017	SDR 11.70 million	10.5	SDR 11.70 million	10.5
Fourth disbursement upon observance of the performance criteria for June 30, 2017 and completion of the third review.	October 23, 2017	SDR 22.84 million[1]	20.5	SDR 28.41 million	25.5
Fifth disbursement upon observance of the performance criteria for December 31, 2017 and completion of the fourth review.	March 21, 2018	SDR 11.70 million	10.5	SDR 22.84 million	20.5
Sixth disbursement upon observance of the performance criteria for June 30, 2018 and completion of the fifth review.	October 22, 2018	SDR 11.70 million	10.5	SDR 22.84 million	20.5
Seventh disbursement upon observance of the performance criteria for December 31, 2018 and completion of the sixth review.	March 20, 2019	SDR 11.70 million	10.5	SDR 22.84 million	20.5
Total		SDR 94.69 million[2]	85.0	SDR 133.68 million	120.0

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

[2] Reflects augmentation at 2nd review. Approved amount at program request was SDR 83.55 million.

Annex I. Capacity Building Framework Strategy

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

A. Policy Priorities

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

B. Assessment of past TA effectiveness

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

C. TA Priorities Going Forward

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

Revenue Policy and Administration (2016–18)	
• Objective:	Achieve more effective and efficient mobilization of domestic resources by: (i) improving VAT and excises collection; (ii) rationalizing tax and customs exemptions; (iii) reforming the tax and customs administration; and (iv rationalizing the diamond, telecom, and forestry taxation, as well as parafiscal taxes.
• Outcomes:	(i) improved compliance enforcement of VAT filing; (ii) strengthened customs operations; (iii) significantly reduced tax exemptions; (iv) improved domestic revenue, from 7.1 percent of GDP in 2015 to 9.5 percent in 2018.
• Milestones:	(i) improve revenue from the downstream oil sector, forestry and mining sectors (2017); (ii) streamline tax exemptions (2017); (iii) streamline and modernize processes for large taxpayers/ importers, secure revenue collection through commercial banks network, and prevent and combat VAT fraud (2016 and 2017).
• Input:	(i) HQ-led diagnostic FAD TA mission on tax policy in FY17; (ii) follow-up mission by AFRITAC; and (iii) HQ-led missions to review the tax and customs administration.
• Assumptions:	(i) improved tax and custom services facilitate better compliance; (ii) improved taxation on the diamond, telecom, and forestry sectors; (iii) strong commitment to implementing potentially difficult reforms (e.g., rationalize parafiscal taxes and tax and customs exemptions).
Public Finance Management (2016–18)	
• Objective:	Improving the accounting framework and the reporting system while building macro-fiscal capacity; and returning to normal budget procedures and improving the efficiency of the public spending process including the capital spending framework.
• Outcomes:	(i) improved financial reporting and improved cash management (2016 – 18) and production of the treasury balances on a quarterly basis, starting in 2016; and (ii) reduce the wage bill from 6 percent of GDP in 2015 to 5 of GDP in 2018, while allowing hiring new staff to meet the needs in the social sectors.
• Milestones:	Link annual budget preparations and the medium-term macroeconomic framework underpinning the authorities' growth and poverty reduction strategy (2017).
• Input:	HQ-led TA mission on Public Financial Management; and follow up mission from headquarters and AFRITAC in the PFM area.
• Assumptions:	(i) continued political support to PFM reforms; and (ii) further enhancement of governance practices.

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

D. Risks and Mitigation Measures

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

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

E. Authorities' Commitments

6. **The C.A.R. authorities are committed to continue to rebuild capacity to ensure successful implementation of the ECF-supported program**. TA was delivered in 2016 by development partners to enhance customs revenue collection; improve treasury management; strengthen the interconnection between budget and accounting computerized modules to ensure work continuity of the Government Financial Management Information System (GESCO); and pursue civil service reform. For 2017–18, the authorities have reached an understanding with the Fund on a comprehensive capacity-building strategy in the context of the Capacity Building Framework (CBF) pilot project. Within this framework, their priorities remain domestic revenue collection, PFM, public debt management, macroeconomic statistics, civil service reform, and macro-fiscal capacity. The outcomes will be first strengthening the institutional framework in place that coordinates TA and training with a view to increasing revenue; enhancing spending efficiency; restoring budget discipline; strengthening debt management; and creating core macro-fiscal capacity. If security risk heightens, the authorities plan to send staff to outside locations for training. They are also looking forward to taking full advantage of additional TA provided by the Fund under the CBF pilot on tax policy, revenue administration, PFM, national accounts data compilation, and external trade data (Table 1). The authorities are committed to improving capacity and making the best use of the TA and training provided by development partners and the Fund.

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

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

Appendix I. Letter of Intent

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

Bangui, November 30, 2017

Dear Madame Lagarde:

1. On July 17, 2017, the Executive Board completed the second review of the arrangement and approved a request for augmentation in the amount of SDR 11.14 million (10 percent of quota). The attached Memorandum of Economic and Financial Policies (MEFP) describes recent economic trends in the C.A.R. and progress that has been made in implementing our policies through end-June 2017.

2. We continued to implement our economic program and met all quantitative targets except for the domestic revenue objective for which we request a waiver. Domestic revenues underperformed due to weaker economic activity, delays in implementing our fiscal reform agenda as well as weak management at customs. However, we adopted strong corrective measures to keep our year-end revenue target unchanged. We have implemented all end-June and end-September structural benchmarks, albeit with some delay. We completed the consolidation of the Treasury Single Account, signed new revenue conventions with commercial banks, and adopted a domestic arrears clearance plan. We stayed current on all external debt service falling due, except to China, which is considering canceling all outstanding debt.

3. Up to date, and in compliance with the provisions of our budget law for the current year, we have not granted any tax exemption that is not provided for in the tax code or current laws, and we have no plans to do so. To restore long-term debt sustainability, and since the entry into force of the ECF arrangement approved by the IMF in July 2016, neither the central government, state-owned enterprises nor government agencies have contracted or guaranteed any new external loans, apart from a highly concessional budget support loan granted by the AfDB. We renew our commitment to systematically consult the IMF staff before contracting any external debt, and to only use grants or highly concessional loans to finance our development projects, within the limit set in the program.

4. This Memorandum also presents the economic and financial policies the C.A.R. government plans to pursue in 2018 to: (i) consolidate macroeconomic stability, through improved revenue collection and stronger public financial management; (ii) support the economic recovery; and (iii) make progress in achieving our poverty reduction objectives. To this end, we have submitted to Parliament a 2018 budget law consistent with the ECF-supported program, a prior action for the completion of the third review.

5. We continue to face significant balance of payment needs over the coming years notwithstanding our efforts to gradually reduce our reliance on external support. We therefore request an augmentation of access of SDR 38.99 million (35 percent of quota) to cover additional balance of payments needs associated with our comprehensive strategy to clear all domestic arrears. In light of our satisfactory performance to date, we request the disbursement of the fourth tranche of financing equivalent to SDR 28.41 million (25.5 percent of quota) under the ECF arrangement.

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

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

Sincerely yours,

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

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

Attachment I. Memorandum of Economic and Financial Policies for 2017 and 2018 - Update

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) provides an update on the economic program supported by the International Monetary Fund (IMF), under the Extended Credit Facility (ECF) arrangement**. The economic and financial program of the C.A.R. aims to strengthen macroeconomic stability and to create the conditions for sustained, broad-based, and inclusive growth through structural reforms, so as to complement our peace and reconciliation efforts. These objectives are in line with our National Recovery and Peacebuilding Plan *(Stratégie de Relèvement et de Consolidation de la Paix en Centrafrique—RCPCA)*. This MEFP describes recent economic developments and takes stock of the implementation of the quantitative performance criteria and structural benchmarks at end-June 2017. It also lays out key policy objectives under the program through 2018 and beyond.

2. **The security situation has deteriorated and the humanitarian crisis remains acute.** Armed groups have attacked civilians, humanitarian workers, and peacekeepers. Violence has spread to more regions, destroying livelihoods and increasing the number of displaced people. Many people remain in urgent need of humanitarian assistance. The government is taking necessary steps to restore the authority of the State and to promote economic development, particularly in provinces, as a way to support the peace process. After normalizing the situation in Bambari, the appointment of prefects and sub-prefects, supported by civil servants and military police forces, will help us to gradually stabilize the situation in other urban centers.

3. **The implementation of our economic program is essential to restore peace and social cohesion.** The disarmament, demobilization, reintegration and repatriation (DDRR) program has started in Bangui as of August 30, 2017. As part of the pilot , 109 ex-combatants have returned their weapons and are receiving training, before integration into the armed forces or returning to their communities. Seven additional cities will be covered under the ongoing pilot project. Upon completion, the DDRR program aims to reach 7,000 beneficiaries. In the context of the National Program for Reconciliation and Social Cohesion and the National Defense Plan, our army receives training from international partners. Five hundred police officers and gendarmes have been recruited. The retirement of 706 soldiers and officers will take place as soon as the grants, expected by end-2017, are received. This will rejuvenate the armed forces and improve their command structure. Moreover, to end impunity, the Special Criminal Court has taken up its work to prosecute individuals suspected of having committed war crimes and human rights violations.

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

4. **Economic indicators in the first half of 2017 point to lower economic growth than anticipated.** On the supply side, foreign investors delayed investment projects, while insecurity led to an increased number of displaced persons, resulting in a decline in agricultural production and trade. On the demand side, government consumption was lower than anticipated. Developments in export-oriented sectors were more favorable. Timber production increased significantly as did the official diamond production in the green areas and cotton exports. Significant private investments were made in the beverage, communication and service sectors. The number of gas stations increased from 7 to 17, including 2 in the provinces. Taken together, GDP growth was revised downward to 4 percent in 2017, compared to an initial projection of 4.7 percent. The increased food supply along the Douala-Bangui corridor should contain inflation at 3.8 percent.

5. **Credit to the economy grew moderately.** Credit to the economy grew by 2 percent in the first half of 2017. Broad money growth exceeded expectations, driven by strong growth of net foreign assets due to transfers by NGOs and to partial repatriation of export receipts.

6. **The primary fiscal balance objective at end-June 2017 is on target, despite the failure to meet our revenue objective.** Revenues in the first half of 2017 came in lower than anticipated due to an undervaluation of imports and delays in the collection of tax arrears. Spending on transfers and subsidies and domestically financed investments were below forecasts which helped to contain the primary deficit within the limits of the performance criterion. Social spending and domestic arrears clearance exceeded the program targets, at CFAF 6.6 billion and CFAF 5.9 billion, respectively.

7. **External debt increased slightly in the first half of the year.** New disbursements amounted to CFAF 11.3 billion, including CFAF 8.8 billion of budget support from the AfDB which was initially expected as a grant. This loan is in line with the debt limit of the program and no additional external debt was contracted.

8. **Implementation of structural reforms was delayed.** Structural benchmarks were implemented, albeit many with delay**.** The consolidation of the Treasury Single Account (TSA) was achieved in August, after the closing of 269 accounts. The renegotiation of the convention with banks involved in collecting revenue has been completed in November. The domestic arrears clearance plan was adopted in November following the finalization of the audit of social and commercial arrears by an international firm. We compiled an inventory of parafiscal taxes by end of September. The establishment of the 2016 revenue and expenditure account and the ex-post control of import valuation between January 1, 2016 and May 31, 2017 were completed in November. We also evaluated all existing tax exemptions by end-October (structural benchmark, end-December).

9. **Progress was made on budget execution reporting and control of the wage bill.** The reconstitution of the 2010-2015 accounting balances was completed and quarterly budget execution reports have been produced using the budget and accounting modules of the financial management information system (GESCO), since the first quarter of 2017. The clean-up of the civil service files is well advanced, including those of the armed forces.

ECONOMIC OUTLOOK AND NATIONAL DEVELOPMENT STRATEGY

A. Economic Outlook for 2018 and beyond

10. **Our macroeconomic and fiscal strategy still aims to foster growth, increase revenue mobilization and social spending, promote social cohesion, and ensure debt sustainability.** Our updated macroeconomic projections for the ECF-supported program are as follows:

- Economic growth is projected to average an annual 4 percent over the medium term, driven largely by forestry, diamond production, agriculture, livestock, and trade. Moreover, inflation will decrease to the CEMAC convergence level of 3 percent by 2020;

- The domestic primary deficit is projected to reach 1.4 percent in 2018, and 0.9 percent in 2019, reflecting a steady rise in the domestic revenue-to-GDP ratio, supported by tax policy and administrative reforms, as well as control of current expenditure;

- The external current account deficit, excluding grants, is projected to drop below 10 percent of GDP, driven by the recovery of domestic production and an increase in exports.

B. The Recovery and Peacebuilding Plan

11. **We are implementing our 2017–21 Recovery and Peacebuilding Plan *(Stratégie de Relèvement et de Consolidation de la Paix en Centrafrique–RCPCA).*** We received strong support from the international community, which pledged US$2.2 billion during the donor conference in Brussels in November 17, 2016. This plan addresses the important economic challenges and pervasive poverty that are hindering peace and social progress.

12. **The institutional framework for the implementation of the RCPCA is in place.** We have compiled a list of about 150 priority projects, of which 15 are included in the 2018 budget. To facilitate implementation of the RCPCA strategy, and with support of our technical and financial partners, we are working to improve the public investment management framework.

ECONOMIC AND FINANCIAL PROGRAM, 2017–18

A. Macroeconomic Framework for 2017 and 2018

13. **Developments in the first half of 2017 led us to revise our macroeconomic framework. Our economic program for 2017/18 is based on the following projections**:

- Real GDP growth is expected to reach 4 percent in 2017 and 2018;

- Average annual inflation will reach 3.8 percent in 2017, and will decline to 3.5 percent in 2018, due to the recovery of food production and improved distribution.

- The target for the domestic primary deficit, the anchor of the fiscal program, remains at 1.9 percent of GDP in 2017 and 1.4 percent of GDP in 2018. In 2018, domestic revenue is expected to reach 9.6 percent and domestic primary spending 10.9 percent of GDP, of which 1.3 percent is for domestically-financed capital expenditure. This will make room for increased social spending, which should reach at least CFAF 13.2 billion in 2018. We have submitted to the National Assembly a budget bill consistent with these objectives; it also contains important measures to increase revenue (paragraph 24) and to improve public financial management .

- Financing needs for 2018 are expected to be CFAF 76.7 billion, i.e., 6.3 percent of GDP. They will be covered under the program by budget support from the European Union, WB, AfDB, France, and balance of payments support by the IMF.

B. Revenue mobilization

14. **Revenue collection was below our objective in the first half of the year.** Revenue stood at CFAF 47.2 billion, of which CFAF 3.6 billion from the new measures introduced in the 2017 budget law. Although domestic revenue increased by 11 percent compared to revenue for the same period in 2016, it remained below the estimates in the 2017 budget bill for the first half of the year. The shortfall of CFAF 2.9 billion is explained by the undervaluation of imports, the incomplete transfer of revenue to the Treasury by the Douala and regional customs offices, and the slowdown of economic activity.

15. **We adopted corrective measures in June 2017 to strengthen customs performance.** For customs services, the values endorsed by the pre-inspection company are from now on used as the minimum import assessment values. Furthermore, we have: (i) finalized ex-post verifications of declared values between January 2016 and May 2017 (*structural benchmark, end-September 2017*); (ii) adopted a ministerial order clarifying the responsibilities of the customs and IT services in the management of the ASYCUDA system, and corrected inaccurate entries in the system related to the CEMAC common external tariff and the reduced rates of VAT; (iii) increased the number of convoys between Beloko and Bangui; (iv) continued the clearing of releases; and (v) re-introduced pre-payment procedures at the Douala Single Window.

16. **At end-August, revenues stood at CFAF 62.5 billion, of which CFAF 4.8 billion from the new measures introduced in the 2017 budget law and CFAF 0.3 billion under the June 2017 customs measures.** The shortfall is attributed to the same factors as those cited earlier. Ex post control of customs values has revealed additional revenue of CFAF 1.7 billion, of which we recovered already CFAF 0.3 billion. We plan to collect the total amount before the end of the year.

17. **We are implementing measures to strengthen the tax and customs administration to reach our end-December revenue target.** We will improve customs and transit operations between the port of Douala and Bangui. Specifically, we will use our dedicated facility in Douala to connect the customs services of the C.A.R. and those of Cameroon to the C.A.R. Douala Single Window. We will promote the establishment of a commercial banking branch in Beloko. We are finalizing performance-based contracts with customs inspectors, will publish the results of customs litigation

on a monthly basis, and will strengthen our internal control and sanction systems. The preparations for the computerization of the Beloko customs office (*structural benchmark, end-December 2017*) and the full development of ASYCUDA are underway.

18. **We have stepped up our efforts to recover tax and customs arrears, estimated at CFAF 8.8 billion at end-August, of which CFAF 600 million have been collected in November.** We are collecting CFAF 2 billion of duties and taxes owed by two oil import companies. Moreover, we estimate that the corrective measures introduced in 2017 will amount to CFAF 1.9 billion, of which 1.4 billion from the ex post control of customs values. These additional efforts, together with the full effect of the measures implemented during the second quarter, will enable us to achieve the end-December 2017 revenue target.

19. **We will improve and secure the tax and customs revenue transfer to the Treasury and adopt payment procedures which will enhance the transparency of revenue flows.** The transfer to the Treasury of all the revenue collected by the Douala customs services and the tax and customs services in the provinces is expected to generate additional CFAF 2.3 billion revenue on an annual basis, from 2018 onwards. We are also expecting to integrate gradually into the TSA the revenues currently managed by the financial services of some ministerial departments—the revenues should be transferred to the VAT refund and some special accounts. In 2018, our objective is to transfer to the TSA an amount of CFAF 3.8 billion. Furthermore, we have renegotiated the convention with banks collecting government revenues and will prohibit any form of compensation and ensure the daily transfer of collected revenue to the TSA. In addition, with IMF technical assistance, we will strengthen the procedures for payment of duties and taxes and will improve information sharing among all the entities involved in the mobilization of revenue (tax services, commercial banks, Treasury and Central Bank).

20. **Tax and customs exemptions are strictly limited to those provided for by law.** No new exemption has been granted since the start of the year. Besides, we are continuing efforts to control tax exemptions. According to our current estimates, exemptions result in foregone revenues of CFAF 8.5 billion (excluding United Nations agencies, embassies, and international organizations). All existing tax and customs exemptions and their impact on revenue will be published and reviewed (*structural benchmark, end-December 2017*), with a view to phasing out unjustified or unnecessary exemptions. In September a convention granting VAT exemption to a hotel expired which will generate additional monthly revenue of about CFAF 50 million.

21. **We have compiled an inventory of all existing parafiscal taxes (*structural benchmark, end-September 2017*)**. This inventory shows 54 agencies, offices, or funds, of which 12 are inactive, responsible for collecting taxes, royalties and parafiscal taxes for an estimated amount of at least CFAF 18 billion in 2016 (1.5 percent of GDP). The General Inspectorate of Finance has started audits of these structures, which will continue until December. On this basis, we will adopt an action plan (structural benchmark end-December 2017) that aims to: (i) integrate, as from 2018, an accounting officer from the General Directorate of Treasury and Public Accounting within each of these structures to monitor revenue and expenditure management; (ii) make an inventory of agencies that serve no meaningful economic interest; (iii eliminate them by the end of 2018 (new structural

benchmark, end-December 2018); and (iv) include into the national budget those agencies whose financial autonomy is not justified. We will publish a list of all laws or decrees creating these 54 structures and authorizing them to collect taxes or levies (new structural benchmark, end-March 2018). We are convinced that these reforms will improve transparency in the management of revenue flows while improving the business environment by simplifying the tax system. In addition, an instruction from the Prime Minister prohibits, with immediate effect, the introduction of any new parafiscal tax. Moreover, the ministerial order instituting the parafiscal tax on incoming telephone calls was cancelled in June 2017.

22. **We will carry out an external audit of the forestry special assignment account and the telecommunications regulatory agency (new structural benchmark, end-June 2018)**. The objective is to analyze the nature and use of the revenues collected by and resources allocated to these entities. The agency for stabilization and regulation of oil products has been audited. Based on this audit and a review of all taxes, excises and royalties on petrol products, we will revise the price structure of petroleum products at the pump (new structural benchmarks end-September 2018) while taking into account the revision of the CEMAC directive on excises.

C. 2018 Budget

23. **We target domestic revenues of at least 9.6 percent of GDP in 2018, while current and capital spending should reach 9.7 percent of GDP and 1.3 percent of GDP, respectively.** The 2018 budget bill is consistent with a primary deficit of 1.4 percent of GDP, needed to minimize risks linked to debt in the medium term.

24. **The impact of the tax and administrative measures will enable us to reach a revenue level of CFAF 116 billion in 2018—against CFAF 102 billion projected in 2017.** The full impact of the corrective measures adopted in 2017 is expected to produce about CFAF 4.2 billion in 2018. The new fiscal measures, for the most part recommended by IMF technical assistance missions, will produce CFAF 4.1 billion. They include in particular: (i) the strict application of the CEMAC common external tariff on imports and repeal of derogations (CFAF 700 million); (ii) increased export duties on forest products (CFAF 350 million); (iii) increased export duties for diamonds and gold (CFAF 40 million); (iv) an increase in excise duties on alcoholic drinks and cigarettes (CFAF 2.1 billion); (v) an increase in excise duties on other beverages (CFAF 600 million); and (vi) the introduction of tax on motor vehicles (CFAF 300 million).

25. **We remain committed to sound expenditure management**, notably by:

- ***careful cash management***: We are committed to conducting monthly treasury committee meetings, despite lapses in 2017, and invite the donor community to keep us regularly informed of their planned disbursements in the next 12 months;

- ***pursuing civil service and security reforms***. The retirement of military personnel who have reached retirement age will be completed by end-December, subject to external financing.

Combined with previous reforms, this will create space to hire and redeploy in the provinces 500 new civilian and military polices while keeping the wage bill at 5 percent of GDP in 2018;

- ***continuing to limit expenditure.*** We are maintaining the freeze on salary advances and will keep allowances for official travel, aside from the Office of President and Prime Minister, below CFAF 600 million in 2018;

- ***stepping up social spending.*** For 2018, we are targeting CFAF 13.2 billion social spending, with a particular focus on education and rural development; and

- ***gradually deconcentrating authorization of expenditures.*** In line with the CEMAC's regional public finance management framework, we will progressively deconcentrate expenditure authorizations to sectoral ministries.

D. Public Financial Management Reforms

26. **While anticipating deployment, at the latest by 2020, of the new budget and accounting application "Sim Ba," budget execution reports and government accounts will continue to be produced on the basis of GESCO budget and accounting tools.** During the transition period, we will continue to use GESCO software to meet budget information obligations and to produce regular accounting and financial statements. To ensure that the new system is reliable, and to facilitate its appropriation by the offices, the two tools will be used simultaneously for a six-month period.

27. **We will strictly adhere to the 5 percent target on the use of exceptional spending procedures from 2018 onwards (quarterly indicative target, beginning end-March 2018).** Up to end-August, 20 percent of expenditure (excluding wages and debt service) have followed exceptional procedures, compared to 12 percent in 2016. To ensure we will meet our target in 2018, we will instruct our administrators to scrupulously apply the envisaged measures regarding the use of advances if appropriate justifications are not provided by the beneficiaries.

E. Clearing Domestic Arrears

28. **We are making good progress in clearing domestic arrears, which is key to restoring creditor confidence and government credibility, and to supporting the economy and social cohesion.** Total domestic arrears amount to CFAF 114.8 billion, i.e., 10.2 percent of GDP at end-September, and include arrears vis-a-vis commercial banks and private suppliers, cross-debts to state-owned enterprises (SOE), and unpaid wages and pensions. In November, following an external audit, we adopted a domestic arrears clearance plan (*end-June 2017 structural benchmark*), which defines the specific strategy for each category of arrears.

- ***Social payments arrears (wages, pensions, and benefits)***: The external audit of social arrears accumulated between 1993 and 2013, conducted by an international firm, verified the debt at CFAF 64.8 billion. We will clear gradually this stock of arrears in 2018 and 2019, subject to available financing and taking into account the macroeconomic impact of injecting significant amounts of liquidity.

- ***Arrears to small and medium-sized enterprises***: Clearance of commercial arrears will begin in December 2017 by applying a haircut according to the rating obtained for each arrears dossier.

- ***Commercial bank arrears:*** The settlement plan for arrears to commercial banks is complete. The banks signed agreements to reschedule the government's debts. The agreement provides for full payment of the loan within a period of eight years at an interest rate of 2.95 percent, starting in October.

29. **Measures have been put in place to safeguard and monitor the arrears clearance process.** To ensure that the process is transparent, we are putting in place the following measures: (i) payment will be made by bank transfer; (ii) the beneficiaries must be in good standing with the administration and up-to-date in their payment of taxes and fees; (iii) the list of beneficiaries will be published. We contracted an independent international auditor to monitor the process in real time. To ensure full transparency of these operations, a progress report will be produced at the end of each payment tranche. A final report will assess and summarize the entire process. All reports will be published and we will share all analytical notes prepared by the auditor with the IMF.

30. **The government is committed to avoiding the accumulation of new arrears.** Specifically, the government will honor all invoices for current consumption of goods and services from suppliers and SOEs to avoid the accumulation of new arrears and cross debts.

F. Relations with the BEAC

31. **We will regularize our situation with the BEAC and will support regional efforts to strengthen the external position of CEMAC.** In this context, the government fully supports the BEAC's decision on August 5 to eliminate statutory advances by year-end and to convert outstanding advances into long-term bonds. These advances, which amount to CFAF 79.2 billion and include the consolidated loan of CFAF 55.9 billion, will be repaid starting in 2022 at 2.4 percent interest. We will refrain from any further borrowing from the BEAC.

G. External Debt Management and Sustainability

32. **We have stayed current on all external debt service falling due in 2017**. We paid debt service of CFAF 1.8 billion between January and August. China has expressed its intention to cancel all outstanding claims amounting to CFAF 43.5 billion, and we have asked the Chinese authorities to discuss the practical arrangements for this debt relief. In addition, discussions with India are underway on arrears accumulated during the 2013 crisis. We are committed to servicing all debt coming due, and intend to use our cash buffer to honor our commitments in the event of delays in budget support disbursements.

33. **We are pursuing efforts to resolve pre-HIPC arrears**. Pre-HIPC arrears are owed to Argentina, Equatorial Guinea, Iraq, Export-Import Bank located in Taiwan Province of China and Libya. We continue negotiations with these creditors with a view to seeking debt relief. We have also accumulated arrears with private companies, and we are continuing to work with them in good faith to finalize debt relief agreements.

34. **We will pursue efforts to strengthen debt management, with the support of our partners.** Three additional employees have been assigned to debt management since January 2017, bringing the total staff to 24, 12 of whom are managing the database. The personnel have received training in the use of SYGADE software under the DMFAS program set up by UNCTAD. With the support of IMF experts, we are counting on improving reporting on debt developments. We intend to publish monthly projections of the public debt service, and the debt stock for the period running from June 2018 to end-May 2019, generated directly from the SYGADE system (*new structural benchmark for end-June 2018)*. In addition, we will publish a report on external debt developments during 2018 by end-March 2019, based on SYGADE data.

35. **We are improving our debt sustainability**. Consistent with the conclusions of the Debt Sustainability Analysis (DSA), we remain committed to securing grants and, within the borrowing limits of the ECF arrangement, highly concessional financing to fund investments planned in the framework of our National Recovery and Peacebuilding Plan (RCPCA). We will refrain from contracting new loans, even on highly concessional terms, that do not comply with the limit set in the ECF agreement. Recourse to highly concessional loans remains limited to critical projects for which grants could not be secured. For 2018, the limit for concessional loans is set at CFAF 9 billion.

H. Business Climate and Energy Supply

36. **We are taking significant steps to improve the business climate**. Under the 2018 budget bill, as of January 1, 2018, the deferred VAT payment will be applied to exporters and major investors, in order to avoid the accumulation of VAT credits. Moreover, we will consult with our partners to finalize the bill revising the framework for public/private partnerships (PPP). We are fully aware of the fiscal risks associated with PPPs, and we intend to adopt stringent measures to limit them. We will consult Fund staff on all PPP projects to assess their budget impact.

37. **Expanding the energy supply is critical to promoting investment and growth**. A solar power plant in Bangui, which could be followed by similar projects in other cities, is the most cost-effective and efficient way to increase electricity in the near term. We are working closely with the World Bank and bilateral partners and we will share all relevant information on the project. We will ensure that the financing is consistent with the debt limits of our ECF-supported program. In addition, there is a need to proceed with reform of the energy sector to ensure a broad-based, regular, and sustainable energy supply.

38. **The role of the private sector in our national economic development is fundamental to accelerating growth.** In cooperation with the International Finance Corporation (IFC), we have developed a program of structural and institutional reforms to promote development of the private

sector. As part of this effort, we are planning to update the legal framework of the principal economic sectors. Alongside reforms designed to facilitate customs declarations and collection of tax revenues, we are going to rationalize sectoral and parafiscal taxes and reduce the red tape. To this end, the government has implemented the Joint Coordination Framework for Improvement of Business (CMC-AA) to promote and enhance dialogue between the government and the private sector. In addition to the appointment of a permanent technical secretary, the proposed by-laws, action plan and budget of the CMC-AA have been approved. In conjunction with the IFC, around 30 focal points organized into technical committees have been identified to work on some of the World Bank's ''Doing Business'' indicators. Lastly, a one stop shop will be established to facilitate administrative procedures for investors.

39. **We are committed to strengthening governance and transparency in the use of public resources**. A law has been adopted to establish the "High-Authority responsible for Good Governance," and this institution is in place. In addition, following the cabinet reshuffle of September 13 and in accordance with the provisions of the Constitution, all members of the new government have deposited their asset declarations with the Constitutional Court. We also intend to reform the legal framework for fighting corruption and to reactivate the independent anti-corruption agency.

I. Financial Intermediation and Supervision

40. **We need to safeguard the financial system and enhance financial intermediation.** We are working closely with the regional banking supervisory entity, COBAC, to ensure the stability of the banking system. To this end, we will examine, together with COBAC and the banks, a strategy to reduce non-performing loans. COBAC is conducting a study of the country's entire banking system, and its preliminary conclusions emphasize the need to strengthen governance, internal controls, and respect for prudential standards. When the COBAC final report is available, we intend to swiftly follow up on the report's recommendations. All banks to which it applies will comply with the new standard on regional reserve requirements adopted by the BEAC monetary policy committee in March.

CAPACITY BUILDING AND TECHNICAL ASSISTANCE

41. **Building administrative and technical capacities will help the implementation of our economic program.** To this end, we are receiving sustained technical assistance from our partners to improve collection of customs and tax revenues, ensure better cash management, strengthen the expenditure chain, and pursue reform of the civil service.

42. **With the IMF, we have defined and are implementing a Capacity Building Framework (CBF).** Its priorities are domestic revenue collection, public finance management (PFM), public debt management, macroeconomic statistics, civil service reform, and macro-budgetary capacity.

43. **Similar strategies will be determined in coordination with other donors in their own fields of intervention.** Once this work has been completed, we will coordinate a global strategy for

strengthening the government's administrative and technical capacities. Similarly, we will pursue efforts to better coordinate the support of our partners, in order to obtain the maximum benefit from available technical assistance. To this end, we have strengthened the staff of the Economic and Financial Reform Monitoring Unit (CS-REF), in charge of following up on the program of reforms and coordinating technical assistance and training as well.

PROGRAM MONITORING

44. **Performance under the program will be monitored using quantitative performance criteria (PCs) and structural benchmarks (Table 2).** Performance criteria for end-December 2017 have been maintained (Table 1). Revised indicative targets for end-March 2018 and performance criteria for end-June 2018 are proposed. We have submitted to parliament a budget bill consistent with the program, a prior action for the completion of the third review under the ECF arrangement. The end-December 2017 performance criteria will be assessed as part of the fourth review during the first quarter of 2018.

45. **We have adopted new structural benchmarks for 2018.** They include:

- Publication of all laws or decrees creating the 54 structures that were identified to collect parafiscal taxes (end-March 2018);
- Completion of an external audit of the Forestry Fund and the Telecommunications Regulatory Agency (end-June 2018);
- Publication of projections for monthly external debt service payments and the external debt stock from June 2018 to May 2019 generated directly by Sygade (end-June 2018);
- Revision of the price structure of petroleum products at the pump (end-September 2018);
- Removal of parafiscal taxes without economic justification (end-December 2018).

46. **Exchange restrictions:** Throughout the duration of the program, we are committed to not introduce or expand restrictions on payments and transfers related to current international transactions, to refrain from using multiple exchange rate practices, to refrain from engaging in bilateral agreements that do not comply with Article VIII of the Articles of Agreement, and to refrain from imposing or expanding restrictions to influence the balance of payments. In addition, the government is committed to adopting, in consultation with Fund staff, any new measures of a financial or structural nature that may prove necessary to ensure the success of the program.

Table 1. Central African Republic: Performance Criteria (PC) and Indicative Targets, 2016–18

(CFAF billions; cumulative from beginning of the year)

	End-December 2016			End-March 2017			End-June 2017				End-September 2017				End-December 2017	End-March 2018	End-June 2018	
	PC	Actual	Status	Indicative Target	Actual	Status	PC	Adjusted PC	Actual	Status	Indicative Target	Adjusted Indicative Target	Actual	Status	PC	Indicative Target	PC set at 2nd review	Modified PC
Quantitative performance criteria																		
Domestic government financing (ceiling, cumulative flows for the year)	3.2	-22.1	Met	-1.7	14.2	Not met	-2.5	6.7	5.0	Met	-4.0	-2.4			-5.3	15.1	2.0	-6.0
Domestic revenue (floor, cumulative for the year) [1]	84.7	84.9	Met	25.0	23.2	Not met	50.1	50.1	47.2	Not met	74.7	74.7	70.3	Not met	102.0	27.9	57.5	56.4
Domestic primary deficit (ceiling, cumulative for the year) [2]	-34.7	-11.3	Met	-7.2	-1.1	Met	-13.7	-22.9	-4.9	Met	-16.0	-17.6	-12.9	Met	-21.9	-5.0	-10.0	-10.0
Reduction in domestic payments arrears (floor, cumulative for the year)	-5.6	-6.0	Met	-2.0	-3.3	Met	-4.0	-4.0	-5.9	Met	-6.0	-6.0	-6.7	Met	-7.5	-7.1	-4.0	-14.2
Continuous performance criteria																		
Contracting or guaranteeing of new external non concessional debt (ceiling) [3,4]	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
Non accumulation of external payments arrears (ceiling, cumulative for the year) [3,4]	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
Indicative targets																		
Social spending (floor, cumulative for the year)	5.0	3.8	Not met	1.5	3.3	Met	3.0	3.0	6.6	Met	4.5	4.5	9.8	Met	6.0	3.0	3.3	6.2
Spending through extraordinary procedures (ceiling, cumulative for the year)																1.0	1.9	1.9
Memorandum item:																		
New concessional/external debt contracted or guaranteed by the government	6.0	0.0	Met	6.0	0.0	Met	8.8	8.8	8.8	Met	8.8	8.8	8.8	Met	8.8	9.0	9.0	9.0

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

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

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

[3] These objectives will be monitored continuously.

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

Table 2. Central African Republic: Prior Actions and Structural Benchmarks, 2016–17

Measures	Timeline	Macroeconomic Rationale	Status	Comment
Consolidate the TSA by closing non-donors and non essential government accounts opened in Commercial Banks.	End March 2017	Improve public financial management	Not Met	Completed in August 2017.
Renegotiation of the convention with banks	End June 2017	Improve public financial management	Not Met	Completed in November 2017.
Adoption by the minister of finance of a domestic payment arrears clearance plan.	End June 2017	Improve public financial management and debt management	Not Met	Completed in November 2017.
A complete inventory of para-fiscal taxes and an action plan to ensure their timely transfer to the TSA	End September 2017	Improve public financial management	Met	
The production of the revenue and expenditure account for 2016	End September 2017	Improve accountability	Not Met	Completed in November 2017.
Retroactive control of applied import valuation for the period of January 1 2016 to May 31 2017 to assure correct customs procedures and application of the mandatory precedures	End September 2017	Improve transparency and revenue collection	Not Met	Completed in November 2017.
Quarterly publication of budget execution reports within 30 days from the end of the quarter	Quarterly, from end September	Improve transparency and accountability	Met	
Adoption of an action plan to eliminate unjustified para-fiscal taxes and transfer of other revenues to the Single Treasury Account	End December 2017	Improve transparency and revenue collection		
Full utilization of ASYCUDA at customs in Beloko	End December 2017	Improve transparency and revenue collection		
The publication of all existing tax exemptions	End December 2017	Improve transparency and accountability		
Proposed new measures				
Submission to parliament of a budget consistent with the program	Prior Action		Met	
Publication of all laws or decrees creating the 54 structures that were identified to collect para-fiscal taxes	End March 2018	Improve transparency and revenue collection		
Completion of an external audit of the forestry fund and the telecommunications regulations agency	End June 2018	Improve transparency and revenue collection		
Publish projections for monthly external debt service payments and the external debt stock from June 2018 to May 2019 gemerated by Sygade	End June 2018	Strengthen debt management		
Revision of the price structure of petroleum products at the pump	End September 2018	Improve transparency and revenue collection		
Removal of parafiscal taxes without economic justification	End December 2018	Improve transparency and revenue collection		

Attachment II. Technical Memorandum of Understanding 2017

INTRODUCTION

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

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

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

A. Program Assumptions

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

CFAF/US$: 585

CFAF/Euro: 656

CFAF/SDR: 815

B. Definitions

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

5. **Definition of debt**. The definition of debt is set out in point 8 of the Attachment to Decision No. 15688-(14/107) of the Executive Board of the IMF:

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

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

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

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

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

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

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

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

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

8. **Total government revenue** is tax and non-tax revenue or other revenue (as defined in *GFSM 2001*, Chapter 5) and is recorded on a cash basis. Proceeds from taxation on contracts, asset sales, revenue from privatization or from the granting or renewal of licenses, and placement proceeds on government assets and grants are not considered government revenue for the purposes of the program.

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

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

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

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

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

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

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

obligation that has not been paid within 30 days after falling due is considered an external payments arrear.

C. Quantitative Targets

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

Ceiling on Domestic Financing of the State Budget

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

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

Floor for Total Domestic Government Revenue

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

Floor for Government Social Spending

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

Ceiling on Domestic Primary Deficit

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

Floor on reduction of domestic payments arrears

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

Ceiling on Contracting or Guaranteeing of New External Non-Concessional Debt

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

Non-Accumulation of New External Payment Arrears by the Government

External payment arrears are defined in paragraph 13.

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

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

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

D. Adjusters of Quantitative Targets

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

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

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

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

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

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

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

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

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

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

E. Structural Benchmarks

The renegotiation of the convention with banks

- The renegotiation of agreements with commercial banks will have to begin before the end of June 2017, in order to ensure the daily transfer of balances to the treasury single account (TSA) and to systematize the cost structures in order to strengthen the treasury management system.

Adoption by the Ministry of Finance of a domestic arrears clearance plan

- A domestic arrears clearance plan should be adopted by the end of June 2017, with the aim of restoring the credibility of the State by boosting creditor confidence.

The production of the revenue and expenditure account for 2016

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

The publication of all existing tax exemptions

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

Retrospective control of customs values set from January 1, 2016 to May 31, 2017

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

Produce a quarterly budget execution report within 30 days of the end of the quarter

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

Adoption of an action plan to eliminate unjustified parafiscal fees and transfer their proceeds to the Treasury Single Account

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

Full utilization of ASYCUDA at the Beloko customs post

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

New Measures

Publication of all laws or decrees creating the 54 structures that collect parafiscal taxes

- All laws or decrees creating the 54 structures that have been identified to collect parafiscal taxes will be published by end-March 2018.

Completion of an external audit of the forestry fund and the telecommunications regulatory agency

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

Publication of monthly report on public debt management

- Publish by the end of June 2018 a report with projections for monthly external debt service payments and the external debt stock for the period running from June 2018 to end-May 2019, generated directly from the SYGADE system, so as to pursue efforts to strengthen debt management.

Revision of the methods of determining oil products' prices at the pump

- In accordance with the ongoing discussions in CEMAC regarding the revision of the excise duty directive, methods to determine oil products' price at the pump will be revised by the end of September.

Elimination of parafiscal taxes considered to have no economic justification.

- Based on the results of the inventory of parafiscal taxes, remove those with no economic justification by end of December 2018.

Reporting to the IMF

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

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

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

CENTRAL AFRICAN REPUBLIC

November 30, 2017

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NON-OBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, AUGMENTATION OF ACCESS, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS UPDATE[1]

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

This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from the second review under the ECF arrangement of July 2017 (Country report 17/245). It reflects updated information on the macroeconomic outlook and the proposed augmentation from the IMF. The Central African Republic (C.A.R.) continues to be assessed at high risk of external debt distress—unchanged from the previous analysis. Under the baseline scenario, one external debt indicator breaches the policy-related thresholds at end-2017. Alternative scenarios underline the vulnerabilities to slower GDP growth, revenue and export growth of both external and total public debt. C.A.R.'s overall risk of debt distress is also high due to vulnerabilities related to total debt. The proposed augmentation of access (35 percent of quota) has a manageable impact on external debt sustainability. To safeguard external debt sustainability, the government's investment program requires grant financing, with highly concessional debt financing to be considered only in exceptional cases.

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

STRUCTURE OF DEBT[2]

1. **In 2016, C.A.R.'s total public debt stood at 56.0 percent of GDP (Text Table 1)**. External public debt accounted for 36 percent of GDP (CFAF 253.4 billion) at end-2016. C.A.R. has about CFAF 101 billion of pre-HIPC debt to Non-Paris Club Members (Text Table 1). Under the Paris Club agreements, C.A.R. has committed to seek debt relief from its Non-Paris Club creditors with terms similar or better than those granted by the Paris Club. The government continues to reach out to the Non-Paris Club creditors to re-negotiate these obligations. During the conflict years, C.A.R. accumulated post-HIPC arrears to official creditors of 1 percent of GDP by end 2016 which it seeks to resolve. China has indicated its willingness to provide debt relief on all outstanding official debt while discussions with India about modalities to resolve a modest amount of post-HIPC arrears (0.2 percent of GDP) continue.[3] C.A.R. has also arrears to private creditors, and is continuing to make good-faith efforts to reach a collaborative agreement with them.

2. **Domestic debt mainly consists of wage and pension and commercial arrears and central bank advances.** At end 2016, domestic debt stands at CFAF 208.3 billion, of which CFAF 78.5 billion to BEAC, CFAF 14.2 billion in arrears to suppliers, CFAF 72.2 billion in wage, benefits and pension arrears, CFAF 26.1 billion in arrears to banks and CFAF 7.8 billion in cross-debt and other debts.

Text Table 1. Central African Republic: Domestic and External Debt Stock 2016

Domestic Debt 2016

Type of Creditor	Current	Arrears	Total	(in percent of GDP)
Domestic				
Total	68.1	140.2	208.3	20.0
BEAC	56.0	22.5	78.5	7.5
Commercial Banks	0.0	26.1	26.1	2.5
Private Suppliers	0.0	14.2	14.2	1.4
Social Arrears	0.0	72.2	72.2	6.9
T-Bills	9.5	0.0	9.5	0.9
Cross Debt and Other	2.6	5.2	7.8	0.7

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

External Debt 2016

Type of Creditor	Total (in CFAF billion)	(in percent of GDP)	of which in arrears
External			
Total[1]	374.5	36.0	155.1
Multilateral	122.7	11.8	
World Bank	34.9	3.4	
IMF	65.8	6.3	
Other	22.0	2.1	
Bilateral	108.2	10.4	11.5
Saudi Arabia	9.9	1.0	
India	24.5	2.4	3.3
China	43.5	4.2	8.2
Congo	18.2	1.7	
Kuwait	12.1	1.2	
Pre-HIPC Arrears			
Argentina	19.4	1.9	19.4
Eq. Guinea	2.4	0.2	2.4
Iraq	2.7	0.3	2.7
Libya	7.4	0.7	7.4
Taiwan Province of China	68.9	6.6	68.9
Private	42.8	4.1	42.8

Sources: C.A.R. authorities and IMF Staff calculations.
[1] Includes pre-HIPC arrears

[2] The debt (both external and public) covers gross central government debt. Debt to the IMF and pre-HIPC arrears are included in external debt.

[3] The obligations to China are included in the debt stock but no debt service is assumed.

MACROECONOMIC PROJECTIONS, 2017–37

3. **Macroeconomic assumptions have changed since the July DSA.** The most important changes are that medium-term growth from 2017–22 has been lowered to 4 percent and that exports are assumed somewhat stronger in the medium to long term, reflecting the recent buoyant performance of some export sectors (timber, diamonds) (Text table 2).

- Real GDP growth is expected to average 4 percent over 2018–21 compared to 5.3 percent in the previous DSA. The lack of a significant rebound in economic activity that could be expected from a low base is attributable to the lasting damage from the 2013–14 conflict and continued high level of violence. Longer-term growth is expected to average 3.4 percent per year, a conservative assumption given the low level of per-capita GDP.

- On fiscal policy, the assumption for the longer term primary deficit remains unchanged at 1.4 percent of GDP. Differences in the short term reflect the revised growth outlook and updated assumptions on external assistance. As before, revenues are expected to reach 14 percent of GDP in the longer run.

- The non-interest current account deficit is expected to decline gradually in the medium to long term, as assumed in the July DSA. However, exports will pick up somewhat stronger due to the recent recovery of the mining and forestry sectors and to better reflect pre-crisis levels.

- Grant-equivalent financing is assumed to decline from an average of 6 percent of GDP in 2017–19 to about 2.5 percent of GDP in the long run.

Text Table 2. Central African Republic: Macroeconomic Projections

	Jul-17			Dec-17		
	2017	Aver. 2018-21	Aver. 2023-2037	2017	Aver. 2018-21	Aver. 2023-2037
	(Percent of GDP; unless otherwise indicated)					
GDP growth (percent)	4.7	5.3	3.5	4.0	4.0	3.4
Inflation (GDP deflator, percent)	5.6	4.9	3.3	3.5	3.2	3.4
Non-interest current account balance	-10.0	-5.6	-2.8	-8.3	-3.6	-3.0
Primary balance	0.1	1.6	1.3	0.9	1.1	1.4
Exports	12.8	13.2	11.3	12.8	12.7	13.2
Revenues	14.2	16.3	13.8	15.0	16.2	13.9

4. **C.A.R. has contracted one small new loan in 2017.** The African Development Bank provided a highly concessional budget support loan of USD15 million with a grant element of 60.6 percent. Looking ahead, the DSA assumes that C.A.R. will sign a highly concessional loan of USD13 million with a grant element of 50 percent for a critical infrastructure project in 2018. Furthermore, this updated DSA reflects the proposed augmentation of Fund support. C.A.R. undertook two Debt Management Performance Assessments (DeMPA) and receives support by technical partners to strengthen debt management.

EXTERNAL DEBT SUSTAINABILITY RESULTS

5. **Under the baseline scenario, one external debt indicator breaches the threshold.**[4] The present value (PV) of debt-to-exports ratio is projected to breach the policy threshold until 2023. This mainly reflects C.A.R.'s narrow export base. The ratios for debt service-to-exports and debt service-to-revenue remain well below the thresholds due to the concessionality of outstanding debt and the low debt service burden. The augmentation of IMF financial support has a noticeable but manageable impact on debt service indicators from 2024 onwards.

6. **Alternative scenarios and stress tests highlight the vulnerabilities.** In the most extreme scenario, all indicators breach the threshold and the increase of external debt would be significant. The PV of debt-to-exports ratio remains above the policy threshold under the extreme scenario throughout the projection period. And the PV of debt-to-revenue ratio stays above the policy threshold under the extreme scenario till 2025.The historical scenario may not adequately reflect the baseline prospects for C.A.R. as the historical scenario captures the 2009 HIPC debt relief and the crisis years. The results of the sensitivity analysis, however, underscore the vulnerabilities particularly to lower growth and exports.

PUBLIC DEBT SUSTAINABILITY RESULTS

7. **C.A.R.'s overall risk of debt distress is also considered elevated because of significant vulnerabilities related to total debt.** The public debt level increased significantly due to the accumulation of domestic arrears and the collapse in GDP after the 2013 crisis. Contingent liabilities could further exacerbate sustainability concerns. The stress tests show that total debt is vulnerable to lower growth or a higher deficit of the primary balance. The analysis captures the strategy to repay domestic arrears over the coming years, which will lead to a significant reduction of domestic debt.

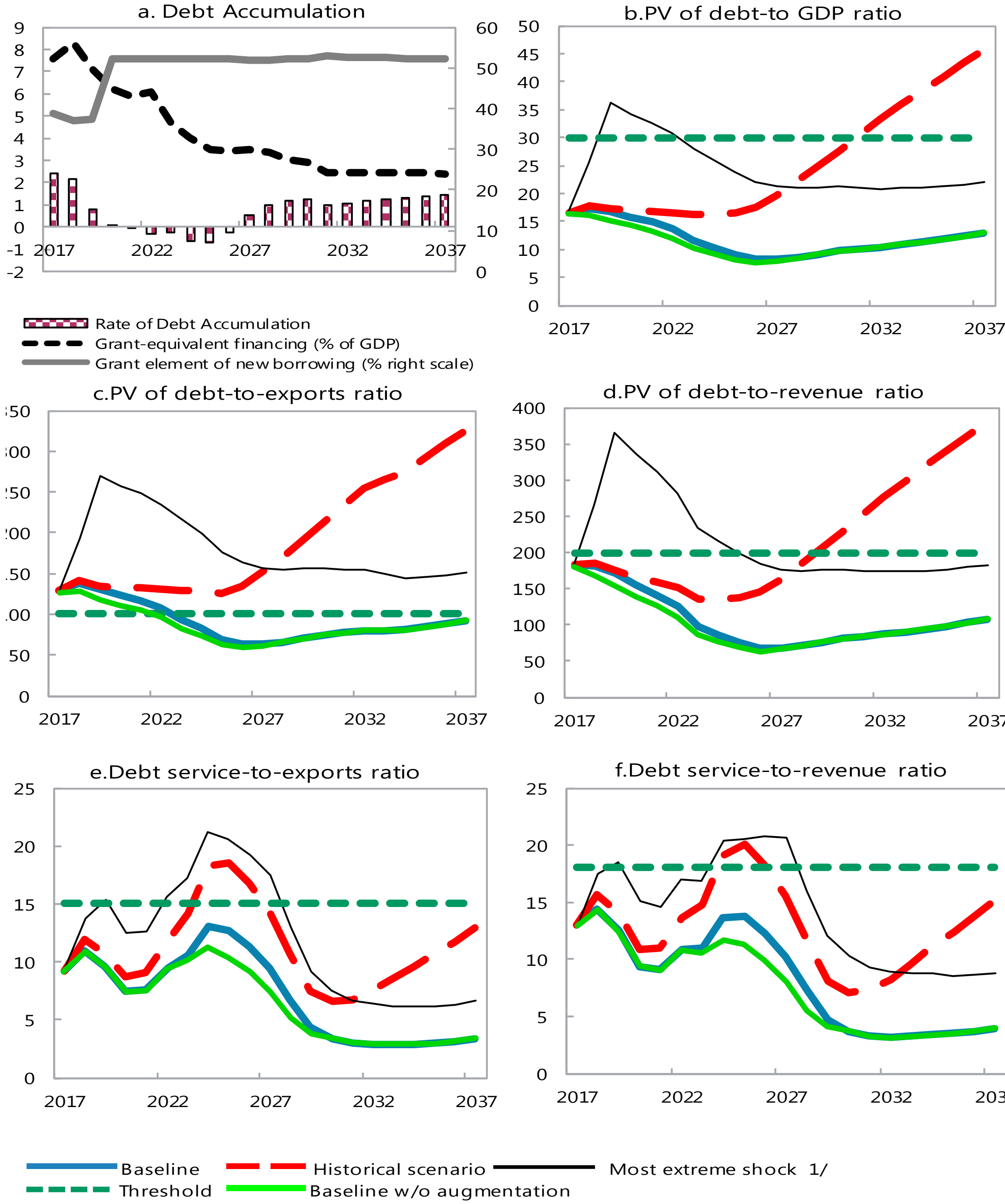
CONCLUSION

8. **The updated DSA confirms that C.A.R. is at high risk of debt distress.** This rating reflects mainly the past collapse of GDP, tax revenues and exports. Alternative scenarios show that C.A.R.'s debt trajectory is vulnerable to GDP, export and revenue shocks and materializing contingent liabilities could exacerbate debt sustainability concerns. The PV of external debt-to-exports ratio remains for some time above the policy threshold under the baseline scenario. The proposed augmentation of Fund financial support would have a noticeable but manageable impact on debt sustainability.

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

[4] The high residual in the external debt sustainability framework (Table 1 on p. 11) can be explained by project grants (recorded in the capital account) and unrecorded non-debt creating inflows.

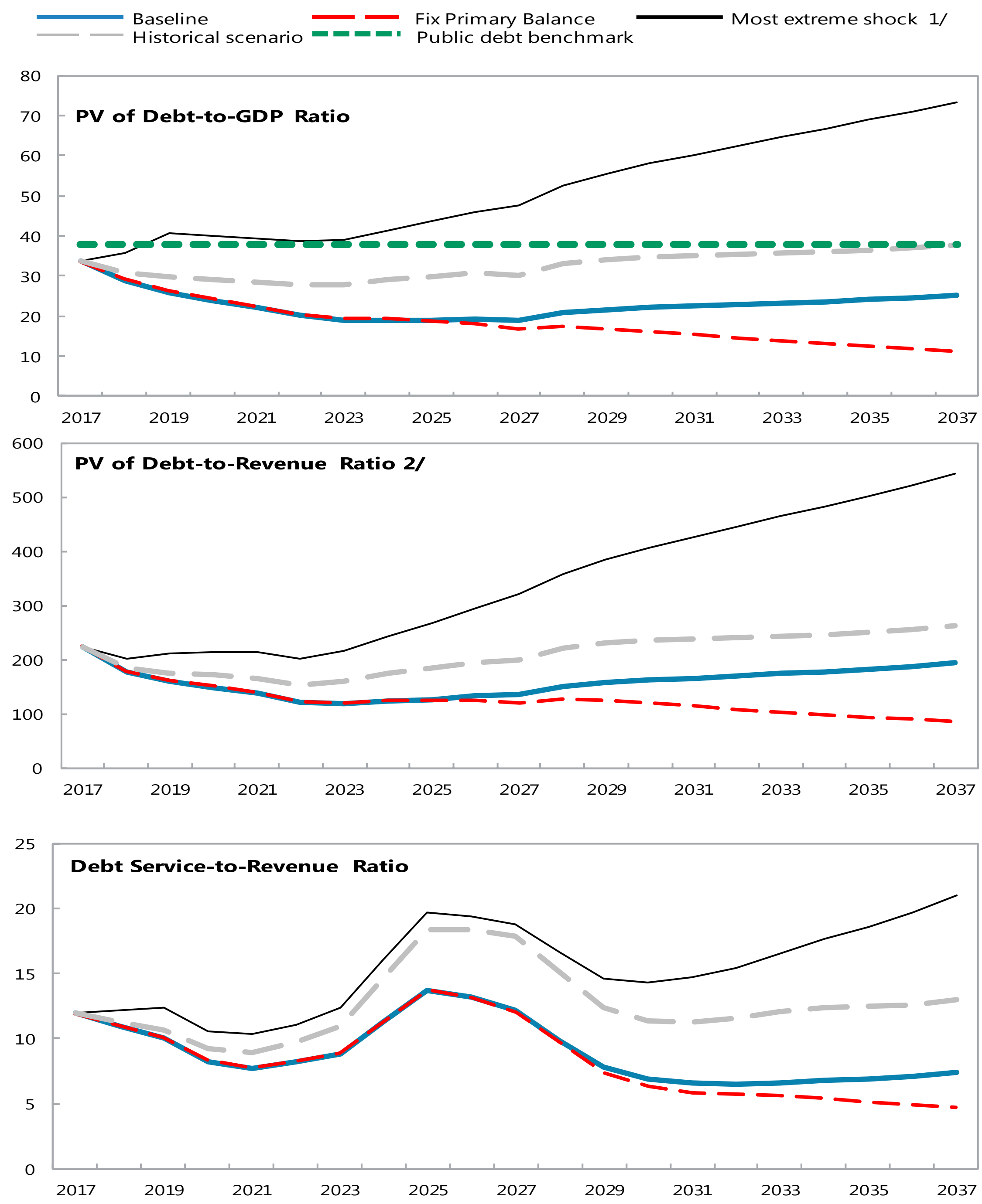
Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2017–37 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock

Figure 2. Central African Republic: Indicators of Public Debt Under Alternative Scenarios, 2017–37 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table 1. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2014–37 1/

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**43.9**	**39.8**	**36.0**			**34.7**	**35.0**	**33.5**	**31.1**	**28.9**	**26.6**		**19.1**	**25.6**	
of which: public and publicly guaranteed (PPG)	43.9	39.8	36.0			34.7	35.0	33.5	31.1	28.9	26.6		19.1	25.6	
Change in external debt	29.3	-4.1	-3.7			-1.4	0.4	-1.6	-2.4	-2.2	-2.3		0.6	0.8	
Identified net debt-creating flows	3.8	12.1	4.8			6.3	5.9	5.0	4.0	3.4	3.1		0.4	0.8	
Non-interest current account deficit	**5.2**	**8.7**	**8.8**	**7.0**	**2.4**	**8.3**	**7.7**	**7.3**	**6.5**	**5.7**	**5.2**		**2.2**	**2.8**	3.0
Deficit in balance of goods and services	24.5	22.0	18.9			19.3	18.7	17.6	16.2	15.1	14.4		9.8	7.0	
Exports	13.0	12.6	12.8			12.8	12.6	12.9	12.8	12.7	12.6		13.0	14.0	
Imports	37.6	34.6	31.7			32.2	31.3	30.5	29.0	27.8	27.0		22.8	21.0	
Net current transfers (negative = inflow)	-18.5	-12.5	-9.8	-7.2	5.0	-10.7	-10.6	-9.8	-9.3	-9.0	-8.8		-7.9	-4.5	-6.7
of which: official	-11.3	-5.8	-5.3			-5.7	-6.8	-5.8	-4.9	-4.6	-4.6		-4.1	-2.9	
Other current account flows (negative = net inflow)	-0.8	-0.8	-0.3			-0.3	-0.3	-0.5	-0.4	-0.4	-0.4		0.3	0.3	
Net FDI (negative = inflow)	**-0.1**	**-0.3**	**-0.4**	**-2.0**	**1.9**	**-0.9**	**-0.8**	**-1.2**	**-1.4**	**-1.3**	**-1.3**		**-1.3**	**-1.4**	-1.5
Endogenous debt dynamics 2/	**-1.3**	**3.7**	**-3.6**			**-1.1**	**-1.0**	**-1.1**	**-1.0**	**-0.9**	**-0.9**		**-0.4**	**-0.6**	
Contribution from nominal interest rate	0.3	0.4	0.3			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.2	
Contribution from real GDP growth	-0.1	-2.3	-1.6			-1.3	-1.2	-1.3	-1.2	-1.2	-1.1		-0.6	-0.8	
Contribution from price and exchange rate changes	-1.5	5.6	-2.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**25.5**	**-16.2**	**-8.5**			**-7.7**	**-5.5**	**-6.6**	**-6.4**	**-5.6**	**-5.4**		**0.1**	**0.0**	
of which: exceptional financing	-0.8	0.0	-0.2			0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	16.7			16.6	17.3	16.8	15.8	14.8	13.6		8.2	12.9	
In percent of exports	...	...	130.4			129.1	137.6	130.5	123.6	117.1	108.4		62.8	92.2	
PV of PPG external debt	**...**	**...**	**16.7**			**16.6**	**17.3**	**16.8**	**15.8**	**14.8**	**13.6**		**8.2**	**12.9**	
In percent of exports	**...**	**...**	**130.4**			**129.1**	**137.6**	**130.5**	**123.6**	**117.1**	**108.4**		**62.8**	**92.2**	
In percent of government revenues	**...**	**...**	**204.9**			**182.2**	**180.6**	**170.4**	**155.2**	**141.4**	**125.0**		**68.0**	**107.6**	
Debt service-to-exports ratio (in percent)	**7.6**	**8.3**	**8.8**			**9.2**	**11.0**	**9.5**	**7.5**	**7.6**	**9.4**		**9.4**	**3.4**	
PPG debt service-to-exports ratio (in percent)	**7.6**	**8.3**	**8.8**			**9.2**	**11.0**	**9.5**	**7.5**	**7.6**	**9.4**		**9.4**	**3.4**	
PPG debt service-to-revenue ratio (in percent)	**20.2**	**14.7**	**13.8**			**13.0**	**14.4**	**12.5**	**9.4**	**9.1**	**10.9**		**10.2**	**4.0**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.1	0.2			0.2	0.2	0.2	0.1	0.1	0.1		0.1	0.1	
Non-interest current account deficit that stabilizes debt ratio	-24.1	12.8	12.5			9.7	7.4	8.9	8.8	7.9	7.5		1.6	2.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.0	4.8	4.5	-0.7	12.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.3	3.3	3.4
GDP deflator in US dollar terms (change in percent)	11.2	-11.4	6.0	3.9	8.6	5.5	8.2	3.6	3.2	2.6	2.5	4.3	3.3	3.3	3.5
Effective interest rate (percent) 5/	2.7	0.8	0.9	1.8	0.8	0.6	0.6	0.7	0.7	0.8	0.8	0.7	0.9	0.9	0.9
Growth of exports of G&S (US dollar terms, in percent)	1.3	-10.0	12.5	1.6	14.0	10.0	10.3	10.5	6.4	5.6	5.7	8.1	6.7	6.8	7.8
Growth of imports of G&S (US dollar terms, in percent)	68.8	-14.5	1.5	8.1	25.9	11.5	9.5	5.0	1.9	2.1	3.7	5.6	6.7	6.8	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	38.8	36.9	37.4	52.3	52.3	52.3	45.0	51.8	52.2	52.3
Government revenues (excluding grants, in percent of GDP)	4.9	7.1	8.2			9.1	9.6	9.9	10.2	10.5	10.9		12.0	12.0	12.0
Aid flows (in Billions of US dollars) 7/	0.2	0.1	0.1			0.1	0.2	0.2	0.2	0.2	0.2		0.2	0.3	
of which: Grants	0.2	0.1	0.1			0.1	0.1	0.1	0.1	0.2	0.2		0.1	0.1	
of which: Concessional loans	...	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.6	8.3	7.1	6.2	5.9	6.1		3.5	2.4	3.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			74.3	76.4	85.8	96.0	96.1	96.4		72.0	65.7	74.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	1.7	1.6	1.8			1.9	2.2	2.3	2.5	2.7	2.8		4.1	7.8	
Nominal dollar GDP growth	12.3	-7.1	10.8			9.8	12.5	7.8	7.2	6.7	6.6	8.4	6.7	6.8	7.0
PV of PPG external debt (in Billions of US dollars)			0.3			0.3	0.4	0.4	0.4	0.4	0.4		0.3	1.0	
(PVt-PVt-1)/GDPt-1 (in percent)						2.4	2.2	0.8	0.1	0.0	-0.3	0.8	0.5	1.4	0.7
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	16.8			16.6	17.4	16.9	15.9	14.9	13.7		8.2	12.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	134.2			132.6	141.2	133.8	126.5	119.7	110.7		63.9	93.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	9.0			9.4	11.2	9.8	7.7	7.7	9.7		9.6	3.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

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

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

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37

(Percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	17	17	17	16	15	14	**8**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	17	18	17	17	17	16	**20**	46
A2. New public sector loans on less favorable terms in 2017-2037 2	17	17	17	16	15	14	**12**	21
A3. Alternative Scenario :Baseline w/o augmentation	17	15	13	10	7	4	**-10**	-11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	17	20	23	22	21	19	**12**	19
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	17	18	20	19	18	16	**11**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	17	19	20	19	18	16	**10**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	17	21	25	24	23	21	**15**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	17	25	36	34	33	31	**21**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	17	23	22	21	20	18	**11**	18
PV of debt-to-exports ratio								
Baseline	129	138	131	124	117	108	**63**	92
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	129	141	135	132	132	130	**151**	326
A2. New public sector loans on less favorable terms in 2017-2037 2	129	138	134	127	122	114	**89**	147
A3. Alternative Scenario :Baseline w/o augmentation	130	121	99	78	55	31	**-76**	-82
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	129	133	126	119	112	104	**63**	92
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	129	180	245	233	222	208	**132**	158
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	129	133	126	119	112	104	**63**	92
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	129	169	194	185	178	168	**112**	109
B5. Combination of B1-B4 using one-half standard deviation shocks	129	194	269	258	248	235	**157**	151
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	129	133	126	119	112	104	**63**	92
PV of debt-to-revenue ratio								
Baseline	182	181	170	155	141	125	**68**	108
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	182	185	176	166	159	150	**164**	380
A2. New public sector loans on less favorable terms in 2017-2037 2	182	182	174	160	147	131	**96**	172
A3. Alternative Scenario :Baseline w/o augmentation	183	158	130	98	67	36	**-82**	-95
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	182	210	237	215	196	173	**98**	155
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	182	188	201	184	169	151	**90**	116
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	182	198	203	184	168	148	**84**	133
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	182	222	253	232	215	194	**121**	128
B5. Combination of B1-B4 using one-half standard deviation shocks	182	266	365	336	311	281	**177**	183
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	182	242	227	206	188	166	**94**	149

Table 2. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37 (concluded)

(Percent)

Debt service-to-exports ratio								
Baseline	9	11	10	7	8	9	**9**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	9	12	11	9	9	12	**14**	13
A2. New public sector loans on less favorable terms in 2017-2037 2	9	11	10	8	8	10	**7**	7
A3. Alternative Scenario :Baseline w/o augmentation	9	11	10	7	7	9	**7**	-4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	9	11	10	7	8	9	**9**	3
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	9	14	15	13	13	16	**17**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	9	11	10	7	8	9	**9**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	9	11	10	8	8	10	**13**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	9	13	14	12	12	14	**18**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	9	11	10	7	8	9	**9**	3
Debt service-to-revenue ratio								
Baseline	13	14	12	9	9	11	**10**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	13	16	14	11	11	14	**15**	15
A2. New public sector loans on less favorable terms in 2017-2037 2	13	14	13	10	10	12	**8**	8
A3. Alternative Scenario :Baseline w/o augmentation	13	15	13	9	9	11	**8**	-5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	13	17	18	14	13	16	**15**	6
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	13	14	13	10	10	11	**12**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	13	16	15	12	11	13	**13**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	13	14	13	11	10	12	**14**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	13	17	19	15	15	17	**21**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	13	20	17	13	13	15	**14**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	50	50	50	50	50	50	**50**	50

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

Table 3. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–37

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	69.2	64.0	56.0			51.8	47.0	42.9	39.6	36.6	33.4		29.9	37.9	
of which: foreign-currency denominated	43.9	39.8	36.0			34.7	35.0	33.5	31.1	28.9	26.6		19.1	25.6	
Change in public sector debt	30.6	-5.2	-8.0			-4.2	-4.8	-4.1	-3.2	-3.0	-3.2		0.3	0.8	
Identified debt-creating flows	-6.7	-2.1	-6.9			-6.8	-5.3	-4.2	-3.2	-2.9	-3.0		0.1	0.6	
Primary deficit	-3.6	0.1	-2.1	-0.3	2.7	-0.9	-1.7	-1.2	-0.7	-0.7	-1.1	-1.0	1.3	2.3	1.4
Revenue and grants	15.7	14.3	14.1			15.0	16.4	16.3	16.1	16.1	16.7		14.0	13.0	
of which: grants	10.8	7.2	6.0			5.9	6.8	6.4	5.9	5.6	5.8		2.0	1.0	
Primary (noninterest) expenditure	12.1	14.4	12.0			14.1	14.7	15.1	15.4	15.4	15.6		15.4	15.3	
Automatic debt dynamics	-2.1	-1.2	-4.7			-5.9	-3.6	-3.0	-2.5	-2.2	-2.0		-1.2	-1.7	
Contribution from interest rate/growth differential	-3.6	-6.5	-5.9			-3.5	-3.5	-2.9	-2.5	-2.3	-2.1		-1.2	-1.7	
of which: contribution from average real interest rate	-3.2	-3.3	-3.1			-1.4	-1.5	-1.1	-0.9	-0.8	-0.7		-0.3	-0.5	
of which: contribution from real GDP growth	-0.4	-3.2	-2.8			-2.2	-2.0	-1.8	-1.6	-1.5	-1.4		-0.9	-1.2	
Contribution from real exchange rate depreciation	1.5	5.3	1.2			-2.4	-0.1	-0.1	0.1	0.1	0.1		...	...	
Other identified debt-creating flows	-1.0	-1.0	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.0	-1.0	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	37.3	-3.1	-1.1			2.6	0.5	0.1	-0.1	-0.1	-0.1		0.2	0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	36.7			33.6	29.2	26.2	24.3	22.5	20.4		18.9	25.2	
of which: foreign-currency denominated	...	...	16.7			16.6	17.3	16.8	15.8	14.8	13.6		8.2	12.9	
of which: external	...	...	16.7			16.6	17.3	16.8	15.8	14.8	13.6		8.2	12.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-1.9	1.7	-0.4			0.9	2.7	3.1	1.9	0.5	0.3		3.0	3.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	259.4			224.1	178.6	160.9	150.8	139.6	122.2		135.0	193.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	449.4			369.8	304.8	265.3	238.7	214.2	187.3		157.8	210.3	
of which: external 3/	...	...	204.9			182.2	180.6	170.4	155.2	141.4	125.0		68.0	107.6	
Debt service-to-revenue and grants ratio (in percent) 4/	10.5	11.7	11.9			11.9	11.0	10.0	8.2	7.7	8.2		12.1	7.4	
Debt service-to-revenue ratio (in percent) 4/	33.7	23.6	20.6			19.7	18.7	16.5	13.0	11.9	12.6		14.2	8.1	
Primary deficit that stabilizes the debt-to-GDP ratio	-34.2	5.2	5.9			3.3	3.1	2.9	2.6	2.3	2.1		1.1	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.0	4.8	4.5	-0.7	12.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.3	3.3	3.4
Average nominal interest rate on forex debt (in percent)	2.7	0.8	0.9	1.8	0.8	0.6	0.6	0.7	0.7	0.8	0.8	0.7	0.9	0.9	0.9
Average real interest rate on domestic debt (in percent)	-8.9	-4.9	-5.1	1.3	7.1	-2.1	-3.1	-2.4	-2.2	-2.1	-1.4	-2.2	1.2	0.9	0.7
Real exchange rate depreciation (in percent, + indicates depreciation	11.2	13.3	3.2	2.5	7.4	-7.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	11.1	6.2	6.3	5.0	3.1	3.5	3.8	3.1	3.0	2.9	2.9	3.2	3.3	3.3	3.4
Growth of real primary spending (deflated by GDP deflator, in percen	-13.9	24.3	-12.5	-0.2	10.2	22.0	7.9	7.1	6.4	3.7	5.6	8.8	3.1	3.3	3.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	38.8	36.9	37.4	52.3	52.3	52.3	45.0	51.8	52.2	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4. Central African Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2017–37

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	34	29	26	24	22	20	19	25
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	34	31	30	29	29	28	30	38
A2. Primary balance is unchanged from 2017	34	29	26	24	22	21	17	11
A3. Permanently lower GDP growth 1/	34	30	28	27	26	25	34	83
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	34	36	41	40	39	39	48	73
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	34	31	30	28	26	24	22	27
B3. Combination of B1-B2 using one half standard deviation shocks	34	34	35	34	33	32	36	53
B4. One-time 30 percent real depreciation in 2018	34	35	31	29	27	25	20	23
B5. 10 percent of GDP increase in other debt-creating flows in 2018	34	34	31	29	27	25	22	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	224	176	159	149	137	120	135	194
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	224	185	175	171	165	152	199	262
A2. Primary balance is unchanged from 2017	224	178	162	151	139	123	118	85
A3. Permanently lower GDP growth 1/	224	180	166	161	156	144	232	600
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	224	200	212	213	212	201	320	542
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	224	188	181	171	159	141	155	206
B3. Combination of B1-B2 using one half standard deviation shocks	224	196	196	193	188	174	248	399
B4. One-time 30 percent real depreciation in 2018	224	213	192	180	167	147	143	178
B5. 10 percent of GDP increase in other debt-creating flows in 2018	224	206	188	177	165	147	160	210
Debt Service-to-Revenue Ratio 2/								
Baseline	12	11	10	8	8	8	12	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	11	11	9	9	10	18	13
A2. Primary balance is unchanged from 2017	12	11	10	8	8	8	12	5
A3. Permanently lower GDP growth 1/	12	11	10	9	8	9	16	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	12	12	12	11	10	11	19	21
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	12	11	10	9	8	9	13	8
B3. Combination of B1-B2 using one half standard deviation shocks	12	12	12	10	9	10	16	16
B4. One-time 30 percent real depreciation in 2018	12	13	14	11	11	12	16	10
B5. 10 percent of GDP increase in other debt-creating flows in 2018	12	11	10	9	8	9	14	9

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

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

December 15, 2017

Our Central African authorities are thankful to staff for their continued engagement and valuable policy advice. The Extended Credit Facility (ECF) arrangement has helped the country address the daunting policy challenges associated with its fragile situation aggravated by recurrent political and humanitarian crises. It has been critical to creating an enabling environment for policy formulation and reform implementation. While program performance under the ECF-supported program has broadly been satisfactory, the Central African Republic (CAR) will need to sustain efforts to maintain macroeconomic stability and overcome obstacles to inclusive growth and poverty reduction. In this endeavor, the authorities request an augmentation of access under the ECF to address the country's significant balance of payments needs, thus helping consolidate macroeconomic and external stability and achieving other program objectives.

Recent Economic Developments, Program Performance, and Outlook

In 2017, economic activity was adversely impacted by the delayed implementation of the authorities' investments program and the fragile security situation. The latter led to an increased number of displaced persons, and took a toll on trade and agriculture production. Encouragingly, economic output was supported by a notable increase in exports facilitated in part by improved trade connections with neighboring countries. Thus, GDP growth is projected to hover around 4 percent this year, while inflation is expected to decrease in the medium-term notwithstanding recent inflationary pressures.

Program performance was satisfactory with all performance criteria and indicative targets met, except the domestic revenue target which was missed due to weaker economic activity and delays in implementing fiscal reforms. However, the authorities have taken significant corrective measures to further boost domestic revenue mobilization.

Progress was also made in strengthening public financial management (PFM) revenue collection, transparency, and accountability with all structural benchmarks being met although with delay in several instances.

The outlook in CAR remains dependent on continued progress on the security front, and the implementation of the National Plan for Reconciliation and Peace (NPRP) as well as the availability of external support in line with pledges made during the Brussels donor Conference. Significant potential for growth exists in several areas notably in the forestry, mining and cotton sectors, and the timely provision of this assistance remains critical for the realization of investments projects and the revitalization and diversification of the economy.

Policy and Reform Agenda

The authorities are determined to pursue prudent policies and sustain the reform momentum. More specifically, this will entail notably improving revenue collection, further strengthening PFM, deepening the financial sector and enhancing supervision, and reforming the business climate. The focus will be also put on building capacities and improving security conditions.

Improving Revenue Collection

Domestic revenue mobilization remains central to the authorities' fiscal policy objectives. In this regard, they will continue their efforts to increase tax collection through reforms aimed at strengthening the control and traceability of resources, and reducing leakages. The authorities have also initiated strong revenue collection measures to enforce tax payments by non-compliant companies, particularly in the petroleum, forestry and telecommunications sectors.

The authorities are committed to limiting the use of exemptions which represent a significant revenue shortfall for the government. In this regard, they have suspended all new exemptions, and intended to publish and streamline existing ones. In the same vein, parafiscal taxes which are collected on behalf of the government but not fully transferred to the public treasury need to be addressed. The completion of the identification process for these taxes and the establishment of the Treasury Single Account constitute notable steps towards strengthening revenue mobilization and enhancing transparency.

In the customs administration, the review of the valuations of imports is underway and measures are being taken to reduce the discrepancies between customs and treasury data, streamline customs procedures, and ensure the full implementation of the ASYCUDA system.

On the expenditure side, the authorities stand ready to swiftly implement their public investment program as security conditions improve and the redeployment of the administration materializes. They agree on the need to prioritize spending and enhance the efficiency and control of the public expenditure chain. To achieve this objective, they intend to replace the accounting IT system with a more reliable application in the medium-term to improve traceability. The use of the exceptional expenditures procedures will be limited to 5 percent of expenditures in the 2018 budget.

Strengthening Public Financial Management

Debt management is a priority for the government. The authorities are committed to addressing the accumulation of domestic and external debt arrears which is a legacy of past recurrent crises. To this end, their strategy is based on a transparent process that involves the clearance of arrears to small and medium-size enterprises, the repayment of social debts (wages and pensions) in the medium-term, and the repayment of arrears to commercial banks in a the long-term. Regarding external debt arrears, progress is being made in good faith toward engaging and reaching agreements with creditors.

To avoid accumulating arrears, the authorities are developing the capacities of the debt management unit both in terms of staffing and IT systems (SYGADE), with Fund technical assistance.

Enhancing Financial Sector Intermediation and Strengthening Supervision

The financial system continues to improve under the supervision of the regional banking commission (COBAC). The authorities plan to repay commercial banks' arrears, which should contribute to restoring confidence and supporting banks' activities. In this regard, conventions have recently been signed with three major banks while negotiations are ongoing with the remaining one. Furthermore, the implementation of COBAC June 2017 mission recommendations is expected to help enhance governance, internal controls and prudential standards in the banking system and increase its resilience. The financial sector development of financial intermediation and increased credit access also remain key priorities of the authorities in the financial sector.

Building Capacity

Our authorities are mindful that weak capacity represents a risk that could delay timely implementation of the economic program supported by the ECF. While CAR has benefitted from substantial technical assistance, particularly from the Fund with the Capacity Building Framework (CBF) pilot project, the country's extensive needs require additional support to build capacity, notably with a view to improving domestic revenue collection, strengthening public administration and efficiently implementing development projects.

Improving the Business Climate and Security

The improvement of the business climate is one of the three priorities of the authorities' structural reforms agenda. To promote the role of the private sector as an engine of growth, they intend to introduce measures to simplify the tax system, avoid the accumulation of VAT credits and improve the profitability of businesses. In this regard, efforts will continue to be made to improve the legal framework and expand energy supply with support from development partners. On the security front, the authorities are striving to restore stability across the entire country. While the objectives of the Disarmament Demobilization Reintegration (DDR) program are taking longer to be fully completed, the National Plan for Reconciliation and Peace (NPRP) process is also making modest headways.

Conclusion

Our Central African authorities remain committed to the ECF-supported program. In this regard, they will continue their efforts to consolidate macroeconomic stability, improve public financial management and the business environment, and contribute to meeting CEMAC regional program objectives. In view of CAR's overall satisfactory performance under the ECF-supported program, and the authorities' commitment to pursue reforms, we would appreciate Directors' support for the completion of the third review under the arrangement, the approval of their requests for waiver of nonobservance of performance criterion and modification of performance criteria, and augmentation of access.