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CENTRAL AFRICAN REPUBLIC

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2023 ARTICLE IV CONSULTATION AND REQUEST FOR A 38-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE CENTRAL AFRICAN REPUBLIC

In the context of the 2023 Article IV Consultation and request for a 38-month arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 27, 2023, consideration of the staff report that concluded the Article IV consultation with the Central African Republic.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 27, 2023, following discussions that ended on March 3, 2023, with the officials of the Central African Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 18, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the Central African Republic.

The document listed below have been or will be separately released.

Selected Issues

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
Washington, D.C.

IMF Executive Board Approves a US$191.4 million Extended Credit Facility Arrangement with the Central African Republic

FOR IMMEDIATE RELEASE

- The IMF Executive Board today approved an Extended Credit Facility (ECF) arrangement of about US$191.4 million with the Central African Republic (CAR).
- The ECF-supported program will help meet CAR's protracted balance of payments needs, sustain priority spending on basic public services in health and education, and provide a policy framework to advance key reforms.
- The program is part of a coordinated effort by international financial institutions (IFIs) that aims to support the people of CAR and avert a humanitarian crisis. The program contains important governance safeguards for the use of Fund resources.

Washington, DC – **April 27, 2023:** The Executive Board of the International Monetary Fund (IMF) today approved a 38-month Extended Credit Facility (ECF) arrangement of SDR 141.68 million (about US$191.4 million) with the Central African Republic. The Executive Board's decision enables an immediate disbursement equivalent to SDR 11.3 million (about US$15.2 million).

A decade after the 2013 civil war, CAR is facing crisis upon crisis resulting in exceptional hardship to its population and bringing the country to the brink of a humanitarian crisis with acute food insecurity. The country remains one of the poorest in the world, with almost 80 percent of people living in poverty.

The authorities have responded to risks to macroeconomic stability and to the financing shortfall from the 2021 suspension of donor-related budget support by adjusting spending, streamlining fuel subsidies, and postponing the clearance of domestic arrears. Against this backdrop, the government has requested Fund financial assistance to address the country's balance of payments needs.

The ECF-supported program is part of coordinated efforts by IFIs to support the people of CAR. It will help the country meet protracted financing needs and sustain spending on basic public services, including in the health and education sectors. According to the United Nations Office for the Coordination of Humanitarian Assistance (OCHA), 3.4 million people – 56 percent of the population – will need humanitarian assistance and protection in 2023, an increase of 10 percent compared to 2022.

Key policy commitments include i) safeguarding priority spending, ii) improving domestic revenue mobilization, iii) strengthening customs and tax administration, iv) streamlining tax exemptions, v) reinforcing fiscal governance and transparency, vi) reforming fuel market and fuel price structure, and vii) de-risking crypto-related projects.

At the conclusion of the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, made the following statement:

“The Central African Republic (CAR) has been affected by a confluence of shocks related to the COVID-19 pandemic, internal security upheavals, and Russia’s war in Ukraine. As a result, its humanitarian needs have spiked, and food insecurity has continued to deteriorate with up to 3 million inhabitants affected.

“With the suspension of budget support by donors, CAR is facing a difficult financing tradeoff at the time when demand for public services by an already afflicted population is most urgent, and the external environment is not favorable.

“The ECF arrangement will help free up fiscal space and catalyze donor support for essential public services, as well as provide a framework for implementing domestic reforms. Thanks to additional financing and reforms, risks of a further deterioration in the humanitarian situation would be reduced and sustainability of public finances would be strengthened.

“Looking ahead, the authorities are expected to pursue deep fiscal reforms. The priority is to strengthen customs and tax administration and streamline tax exemptions to increase domestic revenue mobilization and expand the envelope for social spending. The IMF-supported program contains important governance safeguards for the use of Fund resources designed to help the country and its population avoid a humanitarian crisis.

“The authorities will continue to cooperate with the regional institutions on the Sango project and other crypto-related projects to ensure consistency with the Central African Economic and Monetary Community (CEMAC) legal framework.

“Continued financial and technical support from development partners remains critical to the program’s success. Given its high risk of debt distress and limited revenue base, CAR will have to continue its effort to mobilize grants to finance its economic needs. Close cooperation with international partners on humanitarian assistance is also essential for supporting the population.

“CAR’s economic program will continue to be supported by the implementation of policies and reforms agreed among the CEMAC regional institutions, which notably aim at supporting an increase in regional net foreign assets and which are ultimately critical to program’s success.”

Central African Republic: Selected Economic and Financial Indicators, 2020-2027

	2020	2021	2022	2023	2024	2025	2026	2027
	Est.	Est.	Projections					
	(Annual percentage change; unless otherwise indicated)							
National income and prices								
GDP at constant prices	1.0	1.0	0.5	2.2	3.0	3.8	3.8	3.7
GDP per capita at constant prices	-0.8	-1.0	-1.5	0.2	1.0	1.9	1.6	1.5
GDP at current prices	2.8	4.3	6.9	9.1	7.2	6.4	6.3	6.2
GDP deflator	1.9	3.3	6.4	6.7	4.1	2.5	2.4	2.4
CPI (annual average) [1]	0.9	4.3	5.8	6.3	2.7	2.8	2.5	2.5
CPI (end-of-period)	1.8	2.7	7.9	4.4	2.5	2.9	2.4	2.5
Money and credit								
Broad money	11.5	14.6	2.5	3.6	4.0	5.6	3.2	6.4
Credit to the economy	8.5	-2.2	0.6	8.0	11.9	9.6	9.5	7.2
External sector								
Export volume of goods	9.4	-5.3	2.6	9.0	5.2	9.0	5.4	8.9
Import volume of goods	7.3	-11.5	-5.6	6.7	8.5	10.1	4.8	9.2
Terms of trade	-16.2	1.8	-9.4	12.4	10.3	7.8	2.8	10.2
	(Percent of GDP; unless otherwise indicated)							
Gross national savings	10.7	4.6	1.9	6.7	8.2	10.6	12.5	13.9
Of which: current official transfers	5.1	0.0	0.0	1.6	1.5	1.9	3.0	3.0
Gross domestic savings	-0.5	-2.5	-5.4	-2.1	-0.8	1.3	2.1	3.5
Government	-4.5	-3.4	-3.8	-3.1	-1.9	-1.0	-0.3	0.0
Private sector	4.0	0.9	-1.5	1.0	1.1	2.3	2.4	3.5
Consumption	100.5	102.5	105.4	102.1	100.8	98.7	97.9	96.5
Government	9.6	9.1	8.3	7.9	7.5	7.3	7.1	7.0
Private sector	90.9	93.4	97.0	94.2	93.3	91.4	90.8	89.4
Gross investment	18.9	15.7	14.9	15.3	16.0	17.5	17.8	18.5
Government	11.3	7.4	5.9	5.8	6.0	7.0	6.7	6.9
Private sector	7.5	8.3	8.9	9.5	10.0	10.5	11.1	11.6
External current account balance								
with grants	-8.2	-11.1	-13.0	-8.7	-7.9	-6.9	-5.3	-4.5
without grants	-14.9	-13.0	-15.0	-12.3	-11.4	-10.8	-10.3	-9.6
Overall balance of payments	-0.9	0.0	-8.0	-2.9	-2.3	-1.0	0.6	2.7
Central government finance								
Total revenue (including grants)	21.8	13.7	12.3	13.8	14.5	16.3	17.7	17.6
of which: domestic revenue	9.2	8.8	7.8	7.9	8.8	9.9	10.5	10.7
Total expenditure [2]	25.1	19.7	17.6	16.8	16.9	18.0	17.6	17.6
of which: capital spending	11.3	7.4	5.9	5.8	6.0	7.0	6.7	6.9
Overall balance								
Excluding grants	-16.0	-10.9	-9.9	-8.9	-8.1	-8.1	-7.1	-6.9
Including grants	-3.4	-6.0	-5.3	-3.0	-2.4	-1.7	0.1	0.0
Domestic primary balance [3]	-6.6	-5.1	-4.5	-3.6	-2.6	-2.2	-1.6	-1.4

Public sector debt [4]	43.4	47.6	51.9	50.5	49.6	48.5	45.8	43.3
Of which: domestic debt [5]	9.4	13.2	17.6	18.4	18.8	18.6	17.0	15.6
Of which: external debt	34.0	34.4	34.2	32.0	30.8	29.9	28.9	27.7
Memorandum items:								
GDP per capita (US dollars)	495	525	490	534	557	578	599	619
Nominal GDP (CFAF billions)	1,373	1,432	1,532	1,671	1,791	1,906	2,025	2,151

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

[1] Revision of CPI weights and transition to COICOP was performed starting from 2020. Therefore, there is a structural break in the series for 2019.

[2] Expenditure is on a cash basis.

[3] Excludes grants, interest payments, and externally-financed capital expenditures.

[4] The changes in domestic debt estimates reflect a correction of the estimates reported in the RCF' staff report tables, which had not been updated. This did not affect the debt sustainability analysis.

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

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

April 18, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR A 38-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. CAR is on the brink of a humanitarian crisis with acute food insecurity and access to health care drastically impaired. Social tensions have ratcheted up, including strikes in various sectors, on the back of a cost-of-living crisis triggered by the Russian invasion of Ukraine. Political tensions have also escalated from the President's plans of a third mandate requiring revisions to the constitution. The 2021 suspension of budget support—which deprived the government of 5 percent of GDP in financing—is now constraining, following the erosion of buffers, including the 2021 SDR allocation. The protracted balance of payment need is preventing the authorities from delivering basic public services to an already afflicted population. Against this backdrop, the authorities have requested Fund financing assistance.

Medium-term outlook and risks. The outlook is uncertain and hinges on a partial resumption of budget support and a significant strengthening of policies. The risks to the outlook are tilted to the downside, with a possible deterioration in security, failure to mobilize budget support, and policy missteps representing major inter-related downside risks. Given CAR's extremely fragile situation, the materialization of the above risks could easily tip the country into a deep crisis with the government unable to provide basic services or pay wages. In this situation, there are exceptionally high risks to the capacity to repay the Fund.

Fund engagement. The authorities have requested a 38-month ECF arrangement for 127.18 percent of quota (SDR 141.68 million or US$189.5 million) to address protracted balance of payment needs. The 2019 ECF arrangement went off track and eventually lapsed in mid-2022. A 9-month SMP (2022), aimed at resuming a UCT-quality program, could not be fully completed but recent corrective actions and commitments helped make progress towards building a track record of policy implementation and credibility.

Key policy commitments:

- Ensure an orderly budget execution under the tight cashflow by increasing revenues, maintaining momentum in energy price reforms, and prioritizing pro-poor spending.
- Intensify efforts to mobilize highly concessional financing.
- Continue to advance reforms, including in governance, financial inclusion, and the business climate.
- Remove legal tender and guaranteed convertibility for crypto assets.

Approved By
Vitaliy Kramarenko (AFR) and Kenneth Kang (SPR)

Discussions on the 2022 Article IV consultation and the request for IMF financing assistance took place in Bangui during December 5-16, 2022 and were concluded during February 27-March 3, 2023. The IMF staff team included Albert Touna Mama (head), Marcel Nshimiyimana, Khushboo Khandelwal, and Felix Simione (all AFR), Julieth Pico (FAD), Adina Popescu (virtually) and Maxwell Tuuli (all SPR), and Mr. Mbaye (resident representative). Yaiza Cabedo (MCM), Akihiro Yoshinaga, and Sebastian Grund (LEG) provided invaluable support in their area of expertise. The IMF team met with President Touadéra, Prime Minister Moloua, President of the National Assembly Sarandji, Finance Minister Ndoba, Energy Minister Piri, Humanitarian Action Minister Baikoua, BEAC National Director Chaïbou, other senior government officials, development partners, and representatives from the private sector. Haya Abu Sharar, and Mason Stabile (AFR) ably contributed to the preparation of this report. Philomene Mbonde and Patrick Zoungarani from the local office helped organize the mission.

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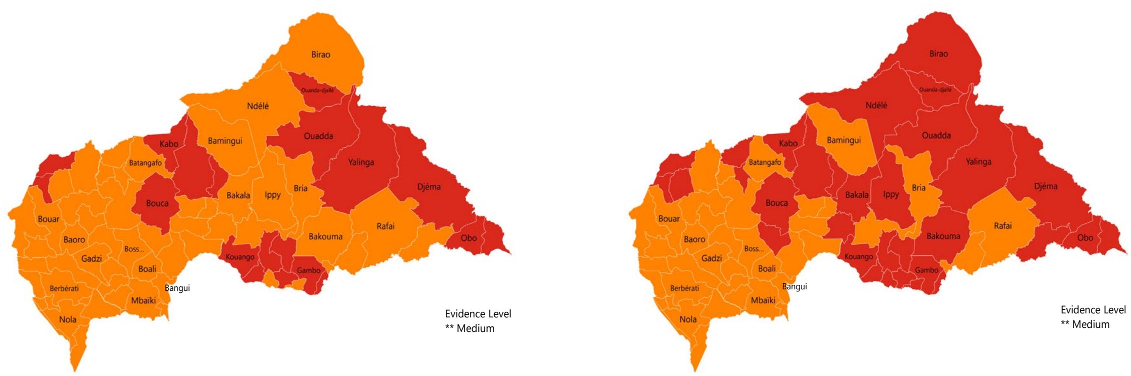
CONTEXT: CRISIS UPON CRISIS

1. **A decade after the 2013 civil war, the Central African Republic (CAR) is facing crisis upon crisis resulting in exceptional hardship to its population.** The Covid-19 crisis in 2020, an internal armed conflict intensification in early 2021, and Russia's war in Ukraine in 2022 compounded CAR's fragility, jeopardized macroeconomic stability, and worsened food insecurity. Approximately 2.7 million people, almost half of the Central African Republic's population (44 percent), are experiencing high levels of acute food insecurity, classified in Crisis and Emergency (Phase 3 and 4 of the Integrated Food Security Phase Classification; IPC) between September 2022 to March 2023. This number could increase to 3 million (49 percent of the population analyzed) between April to August 2023, if no assistance is provided (Text Figure 1).

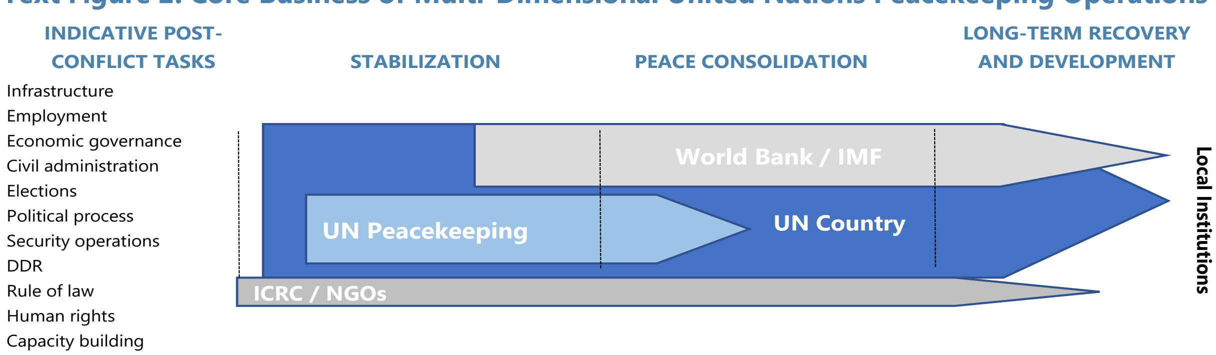
Text Figure 1. Map of Acute Food Insecurity at Crisis (orange) and Emergency (red) Levels

(Sep. 2022-March 2023 vs. projected April-August 2023)



Source: IPC Food Security Update, Sept 2022-Aug 2023.

Text Figure 2. Core Business of Multi-Dimensional United Nations Peacekeeping Operations



Source: United Nations, Peacekeeping Operations, 2008.

2. **CAR remains dependent on international support to achieve stabilization on several fronts, including peace, security, humanitarian, and macroeconomic.** In the aftermath of the 2013 civil war, a multi-dimensional UN peacekeeping operations (MINUSCA) was deployed in 2014 as part of a much broader international effort to help CAR transition to sustainable peace. Subsequently, the Brussels Conference, held on November 17, 2016, helped mobilize donors to fund

the recovery and the peace consolidation plan (RCPCA) and complemented by programs with IFIs—including an ECF arrangement approved on July 20, 2016. On November 14, 2022, the UN Security Council renewed the mandate of MINUSCA while recognizing the continued need to support CAR. On the food security front, WFP continues to provide the first line of defense.

3. **Against this backdrop, the suspension of budget support since mid-2021 has posed serious challenges to macroeconomic stability as well as fiscal and debt sustainability.** The country is facing a difficult financing tradeoff at the time when demand for public services is most urgent, and the external environment is not supportive. The authorities have responded by adjusting spending, postponing the repayment of domestic arrears, and raising domestic borrowing. At the same time, protracted disruptions in the fuel supply since the second half of 2022 undermined growth and revenue collection.

4. **The 2018 Article IV consultation recommendations provided an initial blueprint for policy reforms and Fund engagement, but, later, their momentum waned** (Annex I)**.** Commitments to improving domestic revenue mobilization and governance, reducing poverty, and promoting gender equality underpinned the ECF-arrangement in 2019 which lapsed in mid-2022 as no review was completed within an 18-month period. Policy shortcomings and the complete stop in donor budget support precluded a timely resumption of the program. A follow-up SMP provided a framework for sound policy implementation in the first half of 2022 but ultimately the second review could not be completed as uncertainties created by the granting of legal tender status to crypto assets were not resolved.

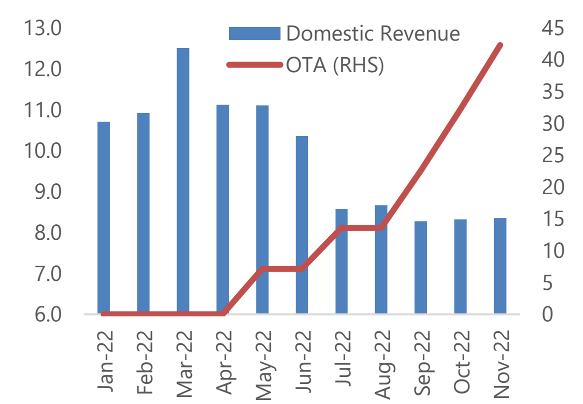
RECENT ECONOMIC DEVELOPMENTS

5. **Macroeconomic conditions have deteriorated due to the shock of Russia's war in Ukraine and the suspension of budget support, halting the economic recovery post-pandemic and post-2020 security crisis.**

- *Growth*. Following subdued performance in 2020-21, the economy is set to slightly expand by 0.5 percent in 2022 driven by forestry, mining, hotels, and telecoms. However, fuel shortages have affected adversely transport and manufacturing sectors.

- *Inflation*. Higher food prices pushed headline year-on-year inflation to 7.6 percent in December 2022 from 2.0 percent a year ago, the highest in the CEMAC region. The inflationary pressures continued in Q1 2023 following a high increase of fuel pump prices.

Text Figure 3. Domestic Revenue and Domestic Debt Issuances
(CFAF Billions)



Source: CAR Authorities and IMF staff estimates.

- *Fiscal situation.* In 2022, the domestic primary deficit declined to 4.5 percent of GDP (compared to 4.0 percent in the original budget) from 5.1 percent in 2021. The fuel shortage and the slowdown in economic activity negatively affected revenue collection. Monthly domestic revenues declined starting in mid-year from around CFAF 11.0 billion to CFAF 8.5 billion. To respond to the revenue shortfall, the authorities implemented a partial adjustment on non-priority domestic spending of CFAF 9.5 billion (0.6 percent of GDP). By year-end, the treasury had almost depleted its cash balance while using up the SDR allocation (CFAF 50.5 billion) and raising domestic financing (CFAF 46 billion).

- *Public debt.* The public debt-to-GDP ratio is estimated to have risen to 51.9 percent of GDP at end-2022, mainly through a drawdown of the rest of the SDR allocation, net domestic bond issuance of CFAF 31.7 billion, and the depreciation of the CFAF against the U.S. dollar.

- *Banking stability.* Aggregate financial soundness indicators remain broadly adequate, with some heterogeneity, but liquidity indicators have deteriorated since end-2021. The NPLs remain high at 14.8 percent as of the end-April 2022. There is one private bank whose capital adequacy ratio is drifting towards the regulatory minimum and recapitalization and asset recovery measures are yet to be implemented.

- *Current account.* The worsening of the current account of about 2 percent of GDP (to a deficit of about 13.1 percent of GDP) in 2022 compared to 2021, is driven mainly by a 9.4 percent drop in terms-of-trade.

- *External assessment.* The external position is substantially weaker than implied by medium-term fundamentals and desirable policy settings (Annex III), largely due to the exhaustion of buffers and a significant lack of competitiveness compounded by commodity price shocks.

OUTLOOK AND RISKS

6. The medium-term outlook is highly uncertain. The baseline scenario assumes a partial resumption of budget support and a significant strengthening of policies consistent with program commitments. Real GDP growth is projected to rebound to 2.2 percent in 2023, driven partly by the base effect and a policy adjustment paving the way for improved fuel supply. Inflation is expected to average 6.3 percent in 2023, above the CEMAC target of 3 percent. In the medium term, growth could average 3.6 percent between 2024 and 2027 and inflation is expected to come below the regional target and converge to 2.5 percent from 2026 onwards. Assuming the government implements its medium-term program budget objectives, the fiscal domestic primary deficit would narrow to about 1.4 percent of GDP by 2027 with a concurrent gradual drop in the external current account deficit to 4.5 percent by 2027.

7. CAR remains at high risk of external debt distress and overall high risk of debt distress. Public debt is projected to be sustainable, though there exist substantial liquidity risks, as shown by relevant debt indicators, stemming from possible shortfalls in donor support and domestic/regional market access. Compared to the previous debt sustainability analysis (DSA), domestic debt has increased in the absence of donor budget support and amid higher financing needs, yet the public debt-to-GDP ratio remains below the relevant threshold. While solvency indicators for external debt are also below thresholds, liquidity indicators for external debt (debt service-to-exports and debt service-to-revenue) exhibit breaches for 5 years starting in 2023, largely on account of obligations to the Fund becoming due. The balance of payments' projections includes a financing gap of about 3.5-4.5 percent of GDP per year. It is assumed that the authorities would be able to mobilize sufficient financing from IFIs, including the Fund, and/or from the regional market. The projected financing gap is significantly lower than the historic average of budget support of 6 percent of GDP on account of a significant revenue-based adjustment.

8. The baseline is subject to exceptionally high downside risks. Pressures points include:

- Failure to solve fuel shortages by moving toward a sustainable price-adjustment mechanism or to realize revenue mobilization plans will weigh on economic growth and revenues.
- Inability to mobilize concessional donor support in the amounts sufficient to cover the balance of payments gap.
- A deterioration in security could disrupt economic activity and cause significant revenue and donors' financing shortfalls.
- A stronger-than-expected tightening of regional and global financial conditions would limit the government's capacity to borrow locally.
- The above adverse shocks—given CAR's extremely fragile situation—could easily tip the country into a deep crisis with the government unable to provide basic services or pay wages. In this situation, both domestic and external arrears could emerge.

Authorities' Views

9. The authorities broadly agreed with the outlook and risks, and they are committed to pursue peace and diplomatic efforts and abide by fiscal prudence. They acknowledged the fragile debt dynamics and the dire consequences of a lack of budget support. In light of the risks, they agreed to maintain a prudent fiscal policy stance while redoubling efforts to secure higher domestic revenue and reinforce fiscal transparency. They will continue discussions with donors to unlock much-needed budget support. They agreed with the staff's recommendation to implement policy reforms, including revenue mobilization, governance, expenditure management, and the business climate improvements. The authorities indicated that a transition to a new ECF arrangement is a welcome development which will allow them benefit from financing in support for transformational reforms and the Fund's catalytic role.

POLICY DISCUSSIONS FOR ARTICLE IV

A. Fiscal Policy: Walking Down a Narrow Path

10. The fiscal stance would be further tightened in 2023. The 2023 budget provides for a reduction of the domestic primary deficit by 0.9 percent of GDP, consistent with limited financing options. Domestic revenue is projected to increase to 7.9 percent of GDP (CFAF 131.7 billion) from 7.8 percent (CFAF 119.0) in 2022, owing to a rebound in economic activity and a package of revenue measures to be implemented in 2023. The budget targets a domestic primary spending adjustment of 0.7 percentage of GDP (from 12.2 percent of GDP in 2022 to 11.5 percent), with goods and services and domestically-financed capital spending bearing the brunt. The authorities committed to prioritize domestic primary spending to limit hardship on the vulnerable and preserve essential government functions, including security.

11. The fiscal adjustment in 2023 is revenue-led. The authorities have adopted tax policy measures—mainly in the telecommunication and tobacco industries—and revenue administration measures, which are expected to generate about CFAF 18.5 billion (1.1 percent of GDP). Following the January adjustment in fuel prices, which led to a modest increase in revenues, the authorities are planning further price adjustments, including to discourage black-market imports. This is expected to generate around CFAF 15 billion (0.9 percent of GDP; see section C). In the absence of these measures, domestic revenues would have collapsed to 5.9 percent of GDP in 2023 in the baseline.

Text Table 1. Central African Republic: Revenues Measures Adopted in the 2023 Budget and Fuel Price Adjustment

Measure	Expected collection (CFA Francs Billions)	Expected collection (Percent of GDP)
Panel A: New taxes or rate adjustment		
Telecommunication taxation	6.0	0.36
Tobacco taxation	4.0	0.24
Streamlining tax exemptions	1.0	0.06
Application of the Common External Tax set by the CEMAC	0.33	0.02
Panel B: Tax Administration and Compliance		
Bringing small revenues collected by Ministries to the TSA	4.0	0.24
Other revenue administration and compliance	3.2	0.19
Panel C: Fuel Price Adjustment		
Petroleum taxes	15.0	0.90
Total	**33.5**	**2.0**

Source: IMF staff estimates and projections.

12. Financing options remain limited. The World Bank is pushing ahead with an operation of about US$50 million to guarantee the delivery of social services, of which US$28 million is expected to be disbursed in 2023, whereas the European Union continues to withhold its budget support for 2023 and the medium term. The new ECF arrangement would catalyze budget support from the AfDB of around US$14 million in 2023. The authorities are planning to raise on the domestic and regional market CFAF 38.2 billion (2.3 percent of GDP) in net terms. Finally, the new ECF is expected to cover the financing gap equivalent to US$38.5 million in 2023. However, should the planned external financing fail to materialize—the authorities intend to cover the gap by raising additional domestic borrowing but at a significant interest cost.

13. The medium-term fiscal outlook hinges on significant revenue-based adjustment and securing sufficient financing. The medium-term fiscal strategy focuses on improving revenue mobilization, PFM reforms, and spending efficiency. The fiscal domestic primary deficit is expected to decline gradually to reach around 1.4 percent of GDP in 2027 from 3.6 percent in 2023 and public debt to decline to 43.2 percent of GDP. Domestic revenues are assumed to follow a gradual upward trend, increasing by around 0.9 percent of GDP annually. The improvement of domestic revenue collection is attributed to the implementation of fiscal structural reforms, including reforming taxation of natural resources, rationalizing parafiscal charges, limiting tax and customs exemptions, and strengthening the tax and customs administration with continued Fund Capacity Development (CD).

14. In addition, the resumption of the budget support requires improvements to fiscal governance and transparency. Measures to help unlock donors' financing include but are not limited to: providing detailed information about budget execution, committing that sanctioned entities will not be financed from the budget or other public sources, reinstating monthly Treasury Committee meetings with donors, and/or publishing the result of the ongoing PEFA assessment.

15. The fiscal risks are substantial, but the authorities are prepared to introduce contingency measures. Should financing conditions worsen, the authorities would adjust the domestic primary deficit in equivalent proportion up to 0.75 percent of GDP—composed of 0.55 percent on domestic revenues and 0.2 percent on domestic primary spending—to be implemented in the revised budget in July. On the revenue side, the plan includes higher excises on select products, expediting some aspects of the reform aiming at transferring revenues collected by various ministries and agencies to the TSA, administrative measures, such as the enforcement of the VAT exemption regime and of tax liabilities. The authorities continue working toward identifying other avenues on revenues measures to be implemented in the revised budget. On the spending side, the plan includes cutting on mission travel expenses and other non-priority domestically financed investment, though there is little space under the budget. A possible upside could come from the BEAC dividend distribution which would be known by 2023Q2. Should the World Bank financing fall short in the medium term, the authorities have indicated their commitment to introduce further adjustment to the non-priority spending and increase domestic revenue. In addition, the authorities continue their efforts to attract bilateral donor support, including through measures to uproot corruption and promote transparency similar to the recent personal change at the Ministry of Finance and Customs.

Authorities' Views

16. The authorities recognize that ensuring short- and medium-term fiscal sustainability requires fiscal reforms and diplomatic efforts. To this end, they adopted a package of revenue measures in the 2023 budget and are committed to implementing other fiscal measures going forward. They committed to continuing the discussions with the main donors in the expectation to reach agreement to unblock their financing. The authorities recognize that fiscal risks are significant, including accumulation of domestic and external arrears. They prepared a contingency plan to be implemented in the revised budget in July, should the financing falls short in the first semester. They committed to prioritize domestic primary spending to limit hardship on the vulnerable and preserve essential government functions, including security. Given the high risk of debt distress and the considerable uncertainty surrounding the economic outlook, the authorities agreed to follow a prudent approach to contracting new external debt, prioritizing grant financing with some limited room for concessional financing.

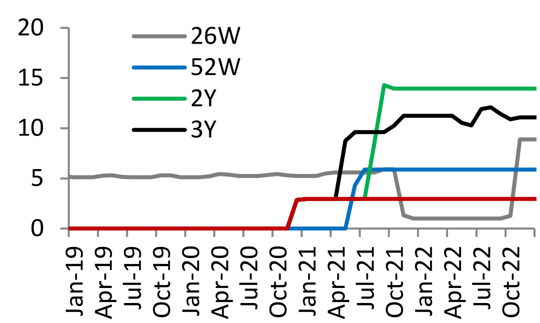
B. Monetary and Financial Context: Tight Financing Conditions

17. BEAC's tightening stance to continue (see IMF Country Report No. 23/1). After raising its policy rate in 2022Q1 and 2022Q4, BEAC hiked it further by 50 bp to 5 percent in March 2023. It also tightened banks' refinancing conditions, steadily scaling back weekly liquidity injections at its monetary operations window—going from CFAF 250 billion in June 2021 to zero in March 2023. Further policy rate increases and tightening liquidity are likely in case of rising regional inflation, deviations from the targeted regional reserve path, or fiscal slippages in the region.

18. Yields on government securities are expected to remain high. CAR's sovereign yields are the highest in the region for idiosyncratic reasons and not due to the BEAC's monetary policy stance. CAR's yields soared in 2021—when the authorities started being active in the regional market—and have remained high across the yield curve.

19. Increased reliance on domestic financing hinges on ramping up investor relations. CAR's active participation in the regional government securities market is recent. As such, there is room to build investor relations and expand the set of primary dealers (PD)—though the authorities managed to increase PDs to ten in January 2023 compared to five in 2022 who participate in CAR's primary auctions against for example a maximum of 23 for Gabon's. The outstanding stock of securities stood at CFAF 90.4 billion (5.9 percent of GDP) at

Text Figure 4. Yields on Government Securities
(Percent)

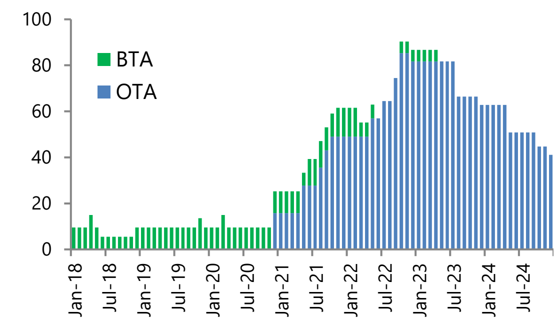


Source: BEAC

end-October 2022, with an average maturity of 4 years at end-2022 and a bunching of Treasury bonds maturing in 2026. The government plans to frontload its domestic issuance with the view of improving predictability of the budget execution.

Text Figure 5. Outstanding Stock of Government Securities at end-October 2022

(Monthly - CFAF billion)



Source: BEAC.

20. Though financial soundness indicators remain broadly adequate, the banking sector still faces some challenges. The NPLs remain high at 12.4 percent as of the end of December 2022. Given that one privately owned bank's NPL ratio is above 20 percent and high level of NPLs in the entire banking system, swift enforcement of asset recovery measures is needed. In addition, other measures, such an action plan on nonperforming loans—as adopted in other CEMAC countries to complement the actions being taken by the regional supervisor—are warranted.

Authorities' Views

21. The authorities noted that they are facing high costs of borrowing due to some idiosyncratic reasons. They also recognized that there is a need to expand the investor base to increase access to domestic financing. The government agrees that there is a need to frontload its domestic issuance with the view of improving predictability of the budget execution. Finally, they agreed that asset recovery measures are needed to bring down the NPL ratio of the concerned bank.

C. Structural Policies

Fuel Pricing Mechanism and Subsidies

22. Addressing fuel shortages is macro-critical. Since June 2022, fuel shortages have slowed down economic activity, collapsed government revenues—oil-related revenue contracted by 95 percent—disrupted humanitarian assistance, and weakened security in some parts of the country. In the second half of 2022, supply to the official market dried up as the government lacked resources to compensate fuel importers for the widening price differential with the international prices. The authorities resisted hiking domestic prices though some leniency allowed importers to supply parallel markets at twice the official price.

23. Following the initial prices increases in January 2023, a reform of the fuel pricing mechanism is essential. On January 3, 2023, the authorities increased the price of all fuel products with no mitigation measures for lack of funding—prices of diesel, gasoline, and kerosene were increased by 70 percent (to CFAF1,450), 50 percent (to CFAF1,300), and 78 percent (to CFAF1,150), respectively. However, this only led to a modest increase in revenues, due to the continued competition from the black-market which offers lower prices. The reform should address existing shortcomings in the price and market structures while balancing three objectives, namely: (i) safeguarding the country's oil revenues; (ii) guaranteeing the availability of good quality fuel for the entire population; and (iii) protecting the most vulnerable population.

24. The success of the reform hinges on lifting supply barriers and better communication. To guarantee the success of the reform, it will be necessary to (i) involve all stakeholders; (ii) develop a communication campaign; (iii) develop mitigation measures; and (iv) guarantee continuity in the fuel supply. To avoid fuel shortages in the first half of 2023, the authorities need to address trade disruptions along the Douala-Bangui corridor and to engage neighboring countries on removing exports barriers.

Authorities' Views

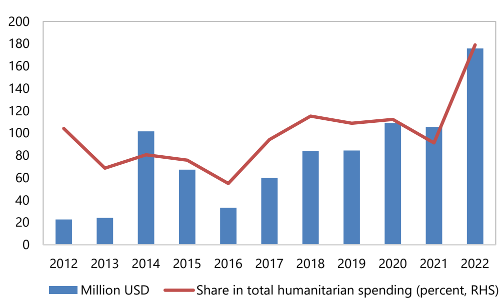
25. The authorities recognized the need for a reform of the fuel market. The authorities agreed that fuel shortages have undesirable economic consequences, such as lower growth and lower oil and non-oil revenues, among others, and that high official prices encourage the informal market by making it more lucrative. Finally, the authorities broadly agree on most of the Fund's technical assistance recommendations to design a sustainable and efficient fuel market, while protecting the most vulnerable.

Social Safeguard: Mitigating Fragility by Improving Food Security

26. The recent food and fuel price shocks have triggered a new wave of food shortages in the CAR, exacerbating pre-existing structural causes of food insecurity (Selected Issues). From April to August 2022, around 2.4 million people experienced "acute" food insecurity, 27 percent of which in an "emergency" situation. The number is expected to rise to 2.7 million between September 2022 and March 2023 and may reach 3 million between April and August 2023. The deterioration follows rising transportation costs, increasing fuel shortages, and higher food prices. As global fuel prices increased during 2022, fuel shortages began to emerge in CAR, negatively impacting humanitarian agencies' transportation costs and relief efforts. The recent deterioration comes on top of pre-existing structural causes of food insecurity that include internally displaced people amid protracted conflict, and low agricultural productivity and recurrent climate shocks.

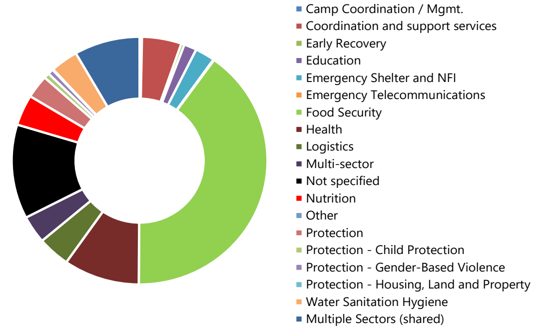
Text Figure 6. Food Security Spending and Humanitarian Assistance, by Sector

Food Security Spending from International Partners



Source: UNOCHA

Humanitarian Funding by Sector



Source: UNOCHA

27. Absent a social protection system, in the near term, food assistance relies heavily on humanitarian aid, while longer-term programs depend on donor project funding. The World Food Program (WFP) is a major player with regards to short-term aid, mainly through its unconditional food assistance program, which includes food distribution and cash-based transfers. The program accounts for almost two-thirds of all WFP's aid operations, estimated at around US$90 million per year on average in 2019-2021. Another program is the World Bank's PACAD[1] (US$16 million) approved in 2021, which has provided targeted mobile money transfers to internally displaced households and those impacted by the pandemic and floods. In addition, AfDB approved a US$5.4 million grant in July 2022 to boost production and help avert potential food shortages. Longer-term programs include an Agricultural Recovery project (US$25 million for 2019-24) by the World Bank, and the Emergency Food Crisis Response project (US$50 million for 2021-24) implemented in coordination with the WFP and the Food and Agriculture Organization of the United Nations (FAO).

28. Protecting old-age pensioners and vulnerable students can help mitigate the impact of food insecurity, complementing the focus of humanitarian aid organizations on other groups. Despite lacking a social protection system, the CAR allocates some budget resources to vulnerable groups such as old-age pensioners and vulnerable university students. There is room to support the government through additional direct budget support that would help free more resources to these groups. They typically are not targeted by humanitarian agencies. Pensioners are among the most vulnerable groups in the CAR given the extremely low value of the monthly payment and the lack of alternative occupation at old age. The poverty rate among the old is likely to be high considering that over 70 percent of the population lives below the international poverty line. On the other hand, students have been negatively impacted by stipend arrears since 2020. If unaddressed, this could increase the dropout rate, resulting in foregone human capital. It would also result in wasted budgetary resources allocated to stipends in the past.

29. Improving food security in CAR calls for near-term emergency interventions. In the short term, the authorities should continue to appeal for humanitarian assistance and budget support. Humanitarian aid partners already have a very strong field presence in the CAR and can deploy quickly to expand their assistance. Budget support can be quickly deployed to help increase space to protect groups impacted by the global food price crisis, including old-age pensioners and vulnerable students. Pension and education allowances currently account for 0.7 percent and 0.1 percent of GDP, respectively. Both were highly negatively impacted by higher fuel and food price inflation (see SIP).

Authorities' Views

30. The authorities agreed that food security is a transversal issue and highlighted that international assistance and budget support remain critical. They indicated that the potential option to use the budget support to finance food aid managed by other humanitarian agencies

[1] PACAD—Support to Communities Affected by Displacement—is a program fully funded by the World Bank in partnership with the government. It has been implemented since May 2021 and it is expected to end in June 2023.

would need to consider the operational costs of such an arrangement. They also noted that such an arrangement would also fall short of creating capacity within the government to manage related projects in the future. In this context, they expressed preference for direct budget support aimed at protecting vulnerable groups that are otherwise not targeted by humanitarian agencies, such as old-age pensioners and vulnerable students. They noted that the Fiduciary Management Unit within the Ministry of Finance could help ensure a sound and transparent use of budget support.

Fiscal Structural Reforms

31. PFM reforms and initiatives are advancing well:

- The fiscal situation tables for the first, second, and third quarter of 2022[2] have been published online. They have been prepared in the format proposed by IMF staff, which allows for a more detailed and consistent analysis of the fiscal situation.

- The consolidation of the Treasury Single Account (TSA) is advancing at a good pace, thanks to the technical support provided by IMF staff. The draft agreement between BEAC and the Treasury for the management of the TSA is well-advanced. However, some important annexes, related to the architecture of the TSA, the list of sub-accounts, and the scope of the TSA must be finalized before the signing of the agreement. The agreement is expected to be signed in the first half of 2023.

- In response to the requirement by the World Bank, the government began an audit process of the payroll databases of the ministries of health and education. Once the audit is completed, the necessary actions will be taken to solve the anomalies found.

- As part of the authorities' intention to strengthen transparency, in November 2022, technical and financial partners were invited to three of the monthly treasury committee meetings, which facilitated closer monitoring of budget execution. The authorities committed to convening at least one treasury committee meeting per month going forward and to inviting the technical and financial partners to all the meetings.

- Following the recommendations from the audit of the three SOEs (ENERCA, SODECA, and SOCATEL), the arrears' clearance plan has been elaborated but its implementation is still problematic because of the treasury cash flow issue faced by the government.

Authorities' Views

32. The authorities recognize the importance and the need to promote all reforms in public financial management. They agree that good practices in the management of public finances are essential for the success and stability of the country. Public financial management

[2] Available here, here and here

reforms will help improve transparency and reduce the risk of corruption and mismanagement of resources, which will lead to promoting economic growth and development.

33. Improving and Securing Domestic Revenues

- To increase tax collection, the authorities have developed a plan that will allow the government to recover an additional CFAF 2.7 billion in taxes. The plan includes: (i) the implementation of the ministerial decree that orders the systematic use of the electronic declaration system for all the big companies; (ii) the penalty of 10 percent (on the value of imports) and a minimum of CFAF 1 million in payment of duties to importers not registered in the taxpayer register of the tax department; (iii) recovery of the money owed by all importers and beneficiaries of public contracts that are not up to date with their tax obligations, and (iv) a joint mission between the tax department, customs department, and the department of commerce in the districts of the city of Bangui.

- The customs department started to implement the following measures in 2023: (i) application of the CEMAC common external tariff; (ii) application of the tax rates corresponding to the activities of codes 800 and 200 of the customs legislation, previously exempted; and (iii) the creation of code 900 for management of exemptions in the mining sector.

- An agreement was signed with the EU to adopt the new customs system ASYCUDA world. This new system will allow secure exchange of information between the systems used by customs and the tax department, thus facilitating the use of a single tax identification number (TIN). The authorities plan to transition to this system in the second half of 2023.

Authorities' Views

34. The authorities concur with the need to increase their revenue collection. Given the current context, the authorities agree on the importance of increasing revenue collection to ensure sustainable financing of the country most pressing spending needs and debt sustainability. They also recognize the importance that any reform to increase revenue collection should be implemented in a transparent and accountable manner, to ensure that additional revenue is used effectively and efficiently.

35. Strengthening the institutional framework for the business climate.

- The draft anti-corruption law—that is consistent with IMF staff recommendations and the requirements of the United Nations Convention against Corruption (UNCAC)—was submitted to the National Assembly on February 4th, 2022. However, the law is not yet voted by Parliament.

- The authorities are still reviewing the mining code and incorporating the recommendations of technical and financial partners. The new mining code aims to fully comply with the recommendations of the technical partners, including with respect to AML/CFT standards and CEMAC foreign exchange regulations.

Authorities' Views

36. The authorities agree on the importance of enhancing the anti-corruption institutional framework for the business climate. They work toward the adoption and subsequent application of the anti-corruption law early next year to combat corruption and promote good governance. They agree that the new mining code should promote transparency and ensure that the allocation and use of natural resources is done fairly and responsibly. The mining code is a vehicle to attract foreign investment, create jobs and stimulate economic growth. The drafting of the new code should be completed this year with the technical assistance from the World Bank.

Leveraging Digitization for Economic Development and Financial Inclusion

37. The April 2022 legislation granting legal tender status to crypto assets and guaranteed convertibility has raised multiple risks and legal challenges. It has violated the BEAC's exclusive right to issue the legal tender in the monetary union, and has given rise to a host of risks ranging from significant macro-fiscal, financial stability, and financial integrity risks. Unless the CAR legal framework on crypto assets is fully harmonized with that of the CEMAC, financial institutions in CAR would face a conflict of law, that could lead to supervisory actions from the regional bank supervisory body "Commission Bancaire de l'Afrique Centrale" (COBAC) and pose significant risks to their business and more broadly to the financial system. Fiscal risks would arise from potential contingent liabilities from any state-endorsed 'convertibility' mechanism between crypto assets and the existing legal tender, as well as from the volatility in government revenue if tax payment obligations as discharged in crypto assets. Cryptoization also poses the risk of weakening the effectiveness of foreign exchange regulations in the monetary union.

38. CAR also launched the digital Sango coin as part of the broader project Sango. In July 2022, CAR unveiled project Sango, which aims to reshape the country's economy through cryptoization, while starting sales of its "national" crypto asset Sango coin[3] (see SIP). Since CAR's Constitutional Court has declared illegal the use of the government-backed crypto asset Sango coin to purchase citizenship, e-residence, land, and natural resources, the implementation of the project has stalled. So far less than US$2 million worth of Sango coin is estimated to have been sold (0.2 percent of total planned issuance, far behind schedule). The coin is also not yet traded, as holdings are locked for one year, and other elements of the project have not yet been implemented.

39. The authorities' vision that the Sango blockchain could promote tokenization[4] of the country's abundant natural resources and attract international investors, poses multifaceted challenges that are yet to be addressed. While building a blockchain infrastructure can bring financial opportunities and innovation, the potential benefits from tokenizing assets depend on the technological and governance design choices and on a robust regulatory framework. Meanwhile,

[3] The Sango coin is a crypto asset issued on the blockchain, backed by Bitcoin and promoted by the CAR government, which aims to be at the center of the Sango project ecosystem.

[4] Tokenization is the representation of existing or new assets in a decentralized ledger (DL) that record the ownership and transfer of ownership of these assets.

project Sango poses multifaceted challenges, including to financial integrity, governance, and consumer protection among others. The authorities need to create the adequate prerequisites in terms of infrastructure, institutions, the legal and regulatory framework, capacity development, and others, which demands time and resources. Moreover, the project faces major bottlenecks to quickly leverage such technological advances, including the fact that only 10 percent of the population has access to electricity and internet, and only 40 percent have a mobile phone. These infrastructure challenges are compounded by inadequate legal frameworks, weak public institutions, and substantial policy uncertainty.

Authorities' Views

40. The authorities believe in leveraging the blockchain technology to attract much-needed investment to the country. The Sango blockchain would allow the tokenization of the country's abundant natural resources to attract international investors. They agree however that the legal tender and guaranteed convertibility are not necessary for achieving their goals. They have indicated their intentions to work together with BEAC to harmonize the crypto law with UMAC regulations, through amending the legal framework for crypto assets. On January 20, 2023, authorities instituted a governmental task force in order to elaborate a more complete legal framework on the utilization of crypto assets and tokenization in the CAR. Authorities recognize the financial integrity risks associated with crypto assets and are mindful of the continued need to mitigate AML/CFT risks.

CAPACITY DEVELOPMENT AND DATA REPORTING FOR SURVEILLANCE

41. IMF capacity development (CD) has been critical to implementing the reform agenda. This encompassed customs integrity, the establishment of a treasury single account, macroeconomic statistics, and governance. ICD CD to strengthen macroeconomic policymaking has complemented the African Department's efforts to integrate CD and surveillance. The Fund provided technical assistance to support the structural reforms envisaged in the previous ECFs, and the recent SMP. Notably, the drafting of the anti-corruption law, and the drafting of the agreement between BEAC and the treasury for the management of the TSA.

42. The IMF will continue to support the CAR through extensive capacity building on priorities that are aligned with the needs of the country. The technical assistance that the Fund will provide in the coming years will focus on: (i) spending policy, especially in the design of the fuel subsidy reform; (ii) tax policy and revenue administration; (iii) public financial management, governance, and the fight against corruption; (iv) programming and macroeconomic statistics; and (v) debt management capacity. Staff will continue to discuss with the authorities the prioritization and sequencing of technical assistance to ensure it is closely aligned with the country's needs. The authorities also agreed that should pressing needs for additional technical assistance arise, staff would undertake to ensure that these needs can be met promptly.

43. Despite some shortcomings, data provision is broadly adequate for surveillance. The country team receives fiscal and inflation on a regular basis. However, national accounts, balance of payments and monetary data are submitted with some delays. Issues with source data and compilation affect most data sets. However, the ongoing capacity development strategy aiming at producing more accurate statistics on prices, national accounts, government finance statistics, and the external sector, is expected to solve the issue.

NEW ECF ARRANGEMENT: OBJECTIVES AND POLICIES

The authorities have requested a 38-month ECF arrangement (2023-26) which aims at addressing the protracted balance of payments need and achieving significant progress in stabilizing the macroeconomic situation and reducing poverty through critical governance reforms, increased domestic revenue mobilization, and enhanced focus on social programs, including food security. The program will support critical reforms and policies with the view of (i) improving resilience to volatile terms-of-trade and financing shocks, (ii) supporting the most vulnerable, and (iii) unlocking additional donor support. More generally, the program will mitigate the risk of a major humanitarian crisis and facilitate a resumption of a gradual exit from acute fragility after recent setbacks. The proposed fiscal consolidation of 2 percent of GDP over the program period is mainly revenue-based. Key governance reforms include the finalization and application of the anti-corruption legislation, adoption of new mining legislation (in collaboration with the World Bank), and PFM reforms focusing on controls and accountability.

44. Following the Article IV and during program request discussions, the authorities agreed to implement the following reform priorities detailed in the MEFP:

- **Improving the anti-corruption framework, fiscal governance, and transparency.** Progress in this area will be critical to unlocking donor support. Key priorities under the program include upgrading the anti-corruption legal framework, which includes passing the anti-corruption law (MEFP, ¶37) and subsequent implementation, strengthening the operational and financial independence of institutions in charge of public oversight (MEFP, ¶31), adopting a mining code in line with international standards (MEFP, ¶37),[5] improving fiscal reporting (MEFP, ¶28 and ¶30), leveraging digitalization to improve transparency in the management of public resources, reinstating monthly Treasury Committee meetings with donors (MEFP, ¶28), and publishing the result of the ongoing Public Expenditure and Financial Accountability (PEFA) assessment (MEFP, ¶28). The government is committed to the implementation of the accounting reform which aims to improve the accuracy, transparency, and accountability of financial reporting and management within government agencies and departments (MEFP, ¶34).

- **Improving domestic revenue mobilization.** Progress in this area will be critical to improving resilience to volatile aid flows. It targets an adjustment of the primary balance of 2 percent of GDP over three years through a combination of base-broadening reforms and tax policy

[5] The World Bank provides technical support on the Mining code, and it is included in World Bank conditionality.

measures (text Table 1). The program will leverage digitalization to foster efficiency and transparency in the administration of government revenues, while addressing potential sources of leakages (MEFP, ¶26). Moreover, the authorities are advancing in the preparatory work to transfer to the TSA all the funds collected directly by the ministries in exchange for services provided to users (MEFP, ¶26). The authorities are in the process of preparing a Medium-Term Revenue Strategy, (potentially) with help from IMF technical assistance. The authorities, in collaboration with technical and financial partners, will carry out a tax expenditure study, with particular emphasis on exemptions (MEFP, ¶26).

- **Addressing fuel shortages.** Progress in this area will be critical to stabilizing government finances and to avoid economic, humanitarian, and security activities being disrupted. Moreover, solving fuel shortages is also critical for revenue mobilization. Reforms in this area involve establishing a transparent and efficient oil pricing mechanism during the period of the program, by (i) simplifying the price structure formula, rationalizing all the para-fiscals and quasi-taxes and accompanying the collection of said quasi-taxes by an investment plan; (ii) collecting all the taxes and quasi-taxes at customs; (iii) publishing the monthly price structure; (iv) conducting an audit of the import cost (margins and fees); and (v) revising the pump prices every six months until the automatic price adjustment is implemented. A first step in this process is to apply the tax rates and quasi-taxes as stipulated in the tax code, finance law, and CEMAC directives to ensure revenue collection. Furthermore, to reduce the incentive to informality, and protect the most vulnerable, the official fuel pump prices will be reduced according to the IMF technical assistance recommendations (MEFP, ¶27).

- **Maintaining social programs.** Progress in this area will be critical to protect the most vulnerable. The only government-sponsored social assistance program, PACAD, which currently covers 30,000 households is jointly administered by the government and UNOPS with financing from the World Bank. It is expected to be interrupted between June 2023 and June 2024 due to lack of funding. The authorities should step in to avoid discontinuity for the beneficiaries, including by maintaining a minimum budget contribution (IT, Table 1 in MEFP). More generally, to avoid building further social vulnerabilities, the government should also avoid arrear accumulation on wages, pensions, and student allowances.

- **Strengthening public debt management**. Progress in this area will be critical as the government increases its reliance on domestic financing to smooth out other financing shocks. Active debt management should reduce liquidity risks. The authorities continue to build capacity in this area with Fund TA, including in designing and executing annual borrowing plans, and the design of a public debt coordination and management framework (MEFP, ¶21). The authorities should increase outreach to investors in domestic securities with the aim of increasing the number of primary dealers. Preparation and publication of annual dept reports should continue (MEFP, ¶20). Measures to avoid the accumulation of new domestic arrears are also needed (MEFP, ¶23). Finally, non-concessional borrowing (NCB) will be limited to safeguard debt sustainability.

PROGRAM MODALITIES

45. Type of arrangement and access. The authorities requested a 38-month arrangement under the ECF with access of 127.18 percent of quota (SDR 141.68 million; US$189.5 million). The disbursements will help close the protracted balance of payment gap emerging from large humanitarian needs, global food and fuel shocks, and servicing obligations to the Fund and will be entirely used for budget support. Ninety percent of the proposed access would be paid directly to CAR's SDR account with the SDR Department to cover obligations due to the Fund between 2023 and 2026, which are exceptionally burdensome as they divert resources away from basic human needs. The remaining 10 percent of proposed access would be paid, beginning with the first program review, into the existing BEAC IMF account which will be used by the authorities to replenish a BEAC escrow account. Funds in the escrow account will be used to supplement a World Bank's operation to guarantee the delivery of social services.

46. Establishing a track record. CAR built a track record toward UCT-quality under the recent SMP, except for granting legal tender to crypto assets—which is inconsistent with their CEMAC membership. The SMP was largely on track until the second review, and recent corrective actions and commitments helped improve policy credibility. A 9-month SMP and its first review—were approved in December 2021 and in April 2022, respectively. All the quantitative benchmarks at end-December 2021 and end-March 2022 under the SMP (Table 8a) were met. In addition, the authorities implemented all three end-December 2021 structural benchmarks and four of the five end-February 2022 structural benchmarks (Table 8a). The proposed program is addressing the protracted balance of payments need created by the terms-of-trade shocks from Russia's war in Ukraine and the shortfall in financing from the suspension of official financing.

47. Prior actions: (i) repeal of the relevant provisions in the cryptocurrency legislation (n°22.004 of April 22, 2022) which provide for the legal tender status and convertibility of crypto assets; (ii) establishment of an escrow account at BEAC to supplement a World Bank's operation to guarantee the delivery of social services or social protection program which can be replenished by the existing BEAC IMF account where ECF disbursements will be made; and (iii) promulgate the decree transposing CEMAC Directive No. 01/20-UEAC-CM-35 of September 8, 2020, relating to stock and fixed assets accounting into domestic law, which should help improve the accuracy, exhaustivity, and transparency of public accounts. Given the role of fiscal governance and transparency for unlocking donors' support, the upfront implementation of these three measures is critical for successful implementation of the program. All three prior actions have been met.

48. Financing. While a borderline case, the program is expected to be fully financed, with firm commitments from World Bank and AfDB for the next 12 months and good prospects thereafter. Despite the high Fund exposure, net exposure would only increase by 10 percent of quota at the end of the program.

49. Program monitoring. Program performance will be monitored through semi-annual quantitative performance criteria (QPCs), indicative targets (ITs), and structural benchmarks (SBs).

The authorities implemented three prior actions as discussed above. QPCs, ITs and SBs are in Tables 7b and 8b. While many important reforms will be tracked under the program, SBs have been used parsimoniously—given that CAR is a fragile and conflict-affected state (FCS)—and phased in line with capacity constraints:

- Operationalize key functions of the new IT system for domestic revenues, including online registration, online declaration, and electronic payments.
- Address fuel shortages and stabilize government revenues by: (i) calculating the hydrocarbon price structure while respecting the tax rates[6] and quasi-taxes[7] defined in the tax code, the finance law, and the CEMAC directives; and (ii) signing an inter-ministerial decree with the new hydrocarbon prices in line with IMF technical assistance recommendations on fuel prices (¶26).
- Transfer to the TSA all the funds collected directly by the ministries in exchange for services provided to users.
- Put in place a public debt coordination and management framework with IMF technical assistance.
- Submit to the Cabinet a draft new organic law that regulates the statute and functions of the Court of Audit, in accordance with the IMF recommendations that it ensures its financial and operational independence.
- Adopt the anti-corruption law submitted to parliament on February 4, 2022 (¶35).

50. Capacity to repay the Fund. Capacity to repay is weak and subject to substantial downside risks, and it would become adequate only under a baseline which includes success of the program and prompt implementation of contingency plans (if needed).

- CAR's exposure to multilateral creditors, in particular the IMF and the World Bank, is exceptionally high. At end-2021, the share of CAR's multilateral debt was 60 percent of its total external public debt, with IMF debt representing 60 percent of total multilateral debt and the World Bank another 28 percent. Pre-HIPC arrears represent 25 percent of the total stock of external debt. CAR's outstanding credit to the IMF and total fund obligations are significantly higher than the PRGT comparator group for all the key metrics, including on liquidity indicators, due to rising debt service to the Fund over the next six years.
- With the proposed ECF program, total Fund credit outstanding will remain largely constant as a share of external debt for the duration of the program, while it will gradually decline as a share of GDP. Debt service to the Fund out of total external debt service would slightly increase, as

[6] Those rates include VAT, Import duty, CEMAC Community Tax, Community Contribution for ECCAS Integration, and Tax on Petroleum Products.

[7] Those quasi-taxes include Finance IT equipment fee (REIF), Storage capacity extension financing, Control and fight against fraud, Road usage fee (RUR).

repayments to the Fund are projected to rise over the medium term, peaking in 2026 at around SDR 37 million (about 12 percent of exports of goods and services, and around 19 percent of revenue excluding grants, see Figure 3). These elevated levels of scheduled debt service to the Fund may pose risks to capacity to repay over the medium term.

- However, these risks are mitigated by the following factors: the program is designed to lead to a significant fiscal consolidation of 2 percent of GDP over the program period which will result in a downward public debt trajectory and reduce debt vulnerabilities; program design is based on close collaboration with other IFIs with the aim to catalyzing additional financing; close policy dialogue with CAR and CEMAC regional authorities at the highest political level; the authorities' strong commitment to the program; the relatively low level of access; and access to BEAC reserves (provided domestic market access is preserved). However, the residual program risks (see above) and debt sustainability risks (including weak debt carrying capacity) weigh on the capacity to repay.

51. Risks to the program. The program is facing exceptionally high risks, mainly of noneconomic nature. The program has a risk mitigation strategy and contingency plans in case of unforeseen economic developments or temporary slippages. Extensive CD would mitigate the implementation risk. However, the residual geo-political and security risks cannot be mitigated and will have to be accepted by the membership against the risk of Fund inaction that could trigger a humanitarian crisis.

52. Safeguards. To mitigate risks to the Fund's reputation and to the capacity to repay, the authorities' voluntary committed to deposit to CAR's SDR account 90 percent of the proposed access, whereby each disbursement is meant to pre-fund 100 percent of the obligations to the Fund for the upcoming 6 months; except for the last disbursement which pre-funds obligations to the Fund until end-2026. The authorities have strong incentives to abide by this commitment, which is essential to ensure timely payments of obligations to the Fund. The remaining 10 percent of proposed access will normally be split into equal parts over the seven disbursements under the program, except that the first part which will be added to the second disbursement (first program review) to match the start of the World Bank's operation it seeks to supplement, using the same safeguards. The World Bank will use its ongoing portfolio to finance certain non-discretionary fiscal expenditures in critical service delivery areas, underpinned by verification processes and disbursement arrangements designed to limit the risk of ineligible expenditures.

53. An updated safeguards assessment of BEAC was completed in April 2022. Findings indicated that the BEAC maintained strong governance arrangements and transitioned successfully to International Financial Reporting Standards. Recommendations included the need to strengthen the internal audit and risk management functions, as well as the cyber resilience and business continuity framework. Since then, BEAC is making progress towards implementing most safeguards recommendations. BEAC is strengthening the internal audit practice through capacity reinforcement and an envisaged external quality assessment, and steps are also being taken to evaluate its cyber resilience. Staff is continuing to engage with the authorities on other recommendations.

54. Regional policy assurances. The program will continue to be supported by the policies implemented by the regional institutions. Regional policy assurances have been provided in the letters of policy support for the recovery and reform programs undertaken by the CEMAC member countries signed by the BEAC governor. The assessment of regional policies made in January 2023 remains valid and a new assessment is expected to be discussed by the Executive Board in June/July 2023.

55. CAR has accumulated arrears that pre-date the Completion Point of the HIPC initiative with some non-Paris Club creditors. Authorities are in contact with the creditors (Argentina, Equatorial Guinea, Iraq, Libya, and Taiwan, Province of China) to find a path towards the resolution of these arrears. Except for Libya, all official creditors to which there are outstanding external arrears have consented to Fund financing notwithstanding these arrears. The country remains current on its remaining external debt service obligations, including vis-à-vis private sector creditors. Staff assess that despite CAR's arrears to Libya the three criteria under which Fund lending is permissible are met (see Annex IV).

STAFF APPRAISAL

56. Despite incremental progress since the 2013 civil war, successive domestic and external crises risk causing a major backsliding. Supported by the 2015 peaceful transition of power, several reforms helped steer the country onto a relatively sustainable path to recovery until 2019. The COVID-19 crisis, domestic insecurity, and Russia's war in Ukraine have significantly dimmed this prospect. The poor endure significant hardship brought up by socio-economic instability. The United Nations anticipated that 56 percent of the population will need humanitarian assistance and protection in 2023, an increase of 10 percent compared to 2022.

57. The country has not overcome bottlenecks to a robust economic recovery and sustainable development. Despite progress, especially in urban areas, the security situation remains volatile in most of the country. The level of human and physical capital is still extremely low with major infrastructure constraints, including weak road network, unreliable electricity supply, poor telecommunication penetration, and important governance challenges.

58. Policy implementation has been constrained by shocks, uneven ownership, and capacity constraints. A program of economic policies and reforms implemented under a three-year ECF-arrangement from 2016-2019 was largely completed. A successor ECF-agreement (2019) went off track following major slippages of fiscal policy and structural reforms, and eventually expired last July. To build the track record, the authorities continued to implement reforms under an SMP, which was instrumental in paving the way to requesting the new 38-month ECF arrangement.

59. There are significant uncertainties regarding the outlook with sizeable downside risks. The country needs to accelerate reforms and secure budget support to stabilize public finances and address the immediate pressing humanitarian challenges. Immediate priorities include stabilizing the fuel market, addressing food insecurity, and mobilizing domestic revenues. A gradual increase in medium-term growth rates and progress in poverty reduction would crucially depend on further reform progress with capacity development support and sufficient concessional financing. The inter-related risks of insecurity, reform slippages, and insufficient financing weigh heavily on the country's short- and medium-term prospects, with a major humanitarian crisis a real possibility.

60. The fiscal stance is appropriate, but the authorities should refine their contingency plans if financing conditions worsen. Staff commend the authorities' readiness to deploy contingency measures should domestic financing conditions worsen. However, given that expenditure rationalization has reached its limits, the authorities should give more emphasis on a new revenue package rather than relying on expenditure adjustment. Moreover, the government should adopt specific measures to follow through on its commitment to prioritize domestic primary spending and ensure continuity of the functioning of the state. Enhancing investor relations and improving debt management are needed to improve the government's capacity to raise financing in the regional government securities market.

61. The review of fuel prices and a better protection of vulnerable groups are of paramount importance. The reform of fuel subsidies should aim to guarantee the availability of good quality fuels for the entire population, an adequate level of tax revenue, and the protection of the most vulnerable population. In January the government increased fuel pump prices by more than 50 percent and it halved the demand in the formal sector, reducing the expected oil revenue. A first step to increase revenue from the sale of fuel products will be to reduce the prices, and to apply the current tax regulation. The increase in the demand in the formal market will overcompensate the revenue losses due to the reduction in prices. An effort should be made to reduce barriers to trade in fuel products.

62. Timely payment of public spending targeted at vulnerable groups should contribute to fighting food insecurity. Given the lack of a social protection system, CAR can only rely on humanitarian assistance to address food insecurity. Meanwhile, some vulnerable groups have recently been particularly impacted by rising price of foodstuffs but are not necessarily covered by humanitarian assistance—including old-age pensioners and vulnerable students. Transfers to such groups should be part of priority spending.

63. Removing legal tender and guaranteed convertibility for crypto assets was needed to ensure consistency with CEMAC's monetary framework and start de-risking the project Sango. To this end, the regulatory frameworks for digital assets should be coordinated at the regional level, to ensure monetary and financial stability, mitigate risks, ensure consumer protection, and foster compliance with AML/CFT standards. In particular, the tokenization of natural resources would require a strong legal framework consistent with the FATF standards to address the associated ML/TF risks.

64. Public financial management reforms should continue to improve government efficiency. This includes strengthening the treasury single account and ensuring that all non-tax revenues are effectively collected in the TSA. In this context, the staff encourages the authorities to accelerate the signature of the agreement between BEAC and the Treasury for the management of the TSA. Finally, the authorities need to accelerate the audit and cleaning of the payroll system, a pre-requisite for the World Bank's operation to guarantee the delivery of social services.

65. The banking sector needs to be strengthened. Given high level of NPLs, asset recovery measures are needed to reduce the NPLs ratio. In addition, other measures such an action plan on nonperforming loans—as adopted in other CEMAC countries to complement the actions being taken by the regional supervisor—are warranted.

66. Business climate and anti-corruption reforms need to be stepped up. The adoption and implementation of the anti-corruption law is an important step in improving transparency, accountability, and good governance. Similarly, the new mining code will contribute to the development of the sector, encourage investment, and increase revenue collection from the sector. Moreover, publication of asset declarations would be critical to improving transparency and accountability in line with recommendations from the 2018 Article IV consultation.

67. Though data provision is broadly adequate for surveillance, it needs to be enhanced. The country team receives some data with delays. Issues with source data and compilation affect most data sets. Ongoing capacity development strategy will help produce more accurate and timely statistics. Finally, CAR has not recently introduced any exchange restrictions and MCPs.

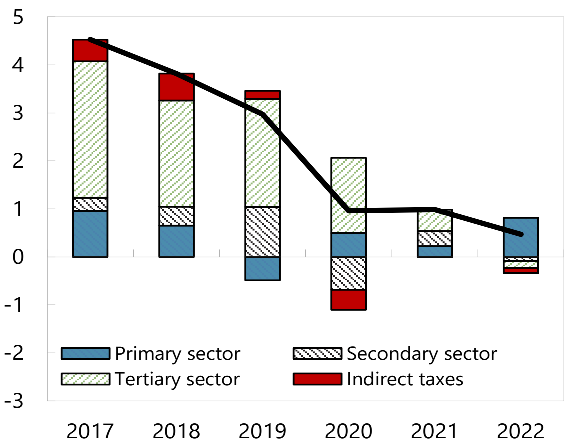
68. In view of CAR's protracted balance of payments financing needs and the authorities' strong program of economic policies and reforms, staff supports the authorities' request for an extended arrangement under the ECF in the amount equivalent to SDR 141.68 million (127.18 percent of quota). Despite the ECF being a borderline case for the Fund's financing assurances and DSA policies, the program is expected to be fully financed and has a risk mitigation strategy and contingency plans in case of unforeseen economic developments or temporary slippages. Nevertheless, there are significant geopolitical and security risks.

69. It is proposed that the next Article IV consultations take place within 24 months in accordance with the Decision on Article IV Consultation Cycles Decision No. 14747-10/96.

Figure 1. Recent Economic Developments

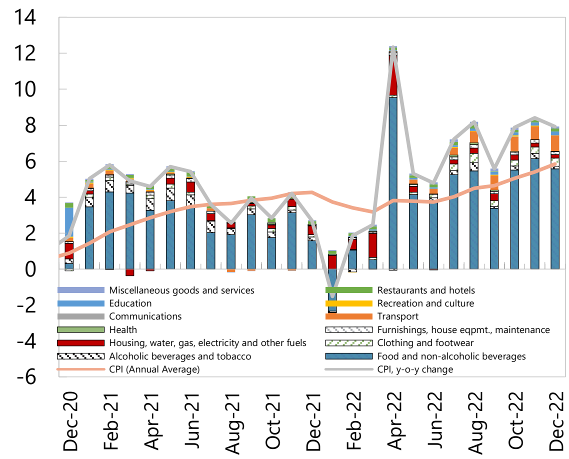
Given the fuel market shortfalls, growth is expected to turn negative in 2022.

Contribution to Growth
(Percent)



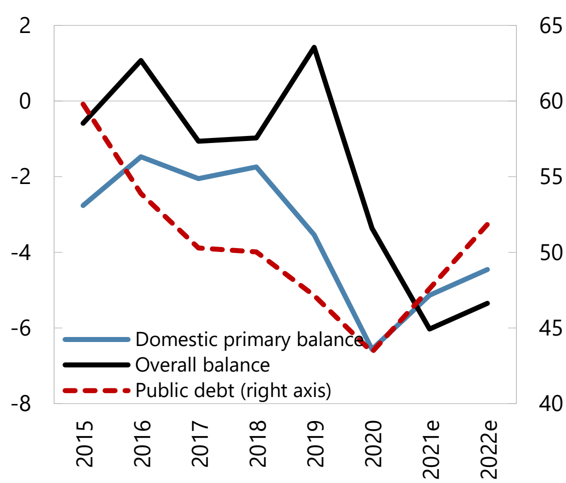
Triggered by Russia's war in Ukraine, inflation rose sharply in the second half of 2022 on the back of a strong increase in food and fuel prices.

Contribution to Inflation
(Percent)



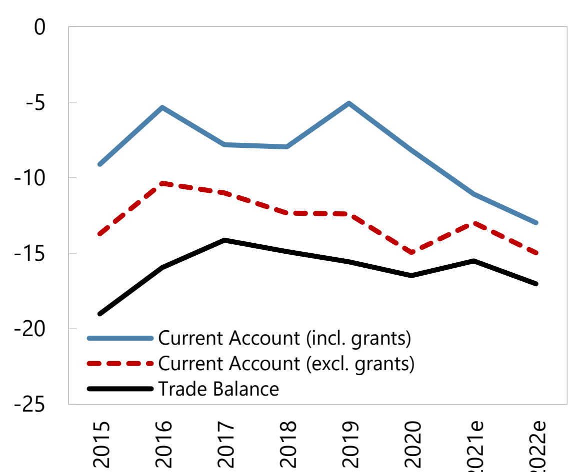
Public debt increased, reflecting depreciation of CFAF against USD and a shift to domestic financing given budget shortfalls.

Debt and Fiscal Deficit
(Percent of GDP)



The current account deficit deteriorated on account of large terms of trade shock and continued lack of budget support.

External Sector
(Percent of GDP)

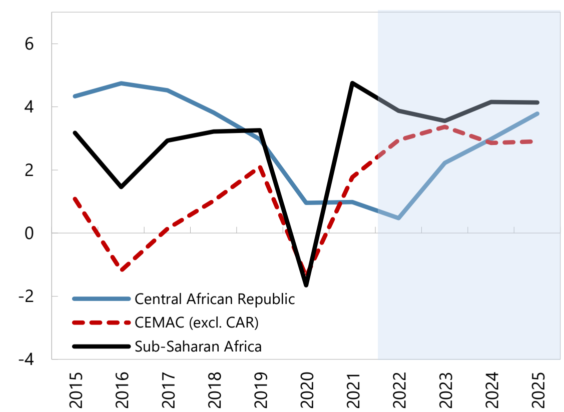


Sources: CAR authorities and IMF staff estimates

Figure 2. Medium-Term Economic Prospects, 2015-25

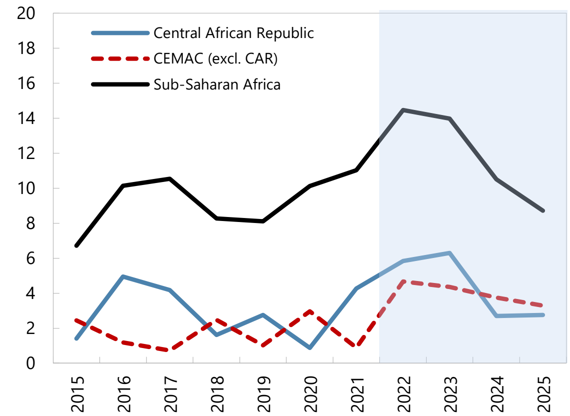
Growth is expected to rebound in 2023 given implementation of policy measures to address the fuel shortage.

Real GDP
(Percent change)



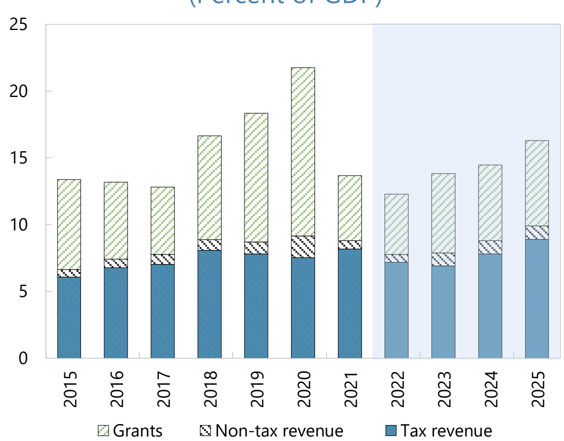
After rising sharply in 2022, y-o-y inflation is expected to gradually moderate but remain above the monetary union target of 3 percent until 2023.

CPI Average
(Percent change)



Total revenues and grants are not expected to increase significantly over the medium term as the increase in domestic revenue may be offset by gradual decline in grant financing...

Government Revenue
(Percent of GDP)



...limiting the space to increase spending.

Government Expenditure
(Percent of GDP)

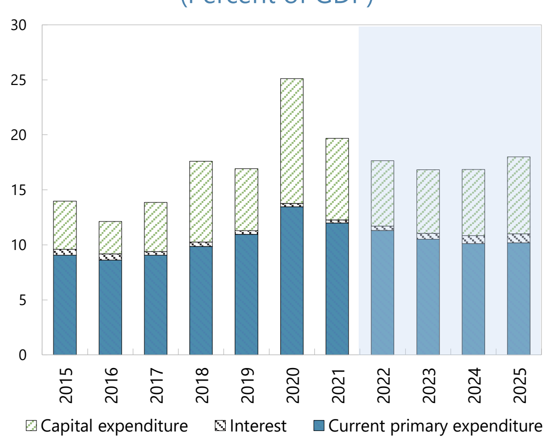
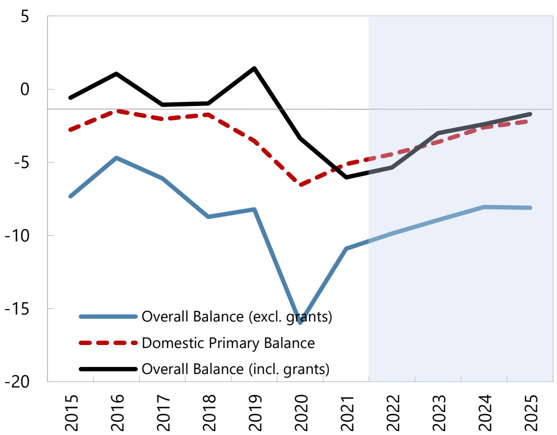


Figure 2. Medium-Term Economic Prospects, 2015-25 (concluded)

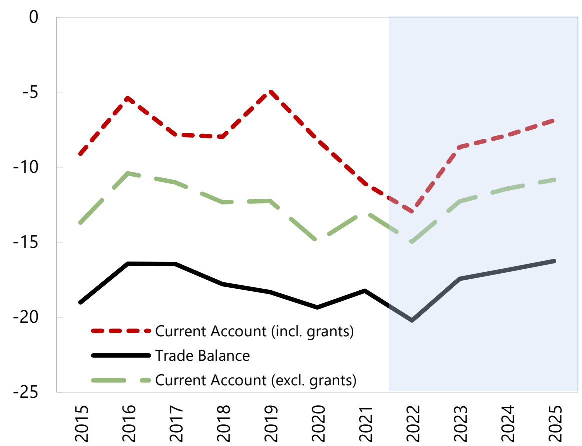
Following a sharp drop in 2020, the domestic primary balance is expected to improve over the medium term as a result of a fiscal consolidation efforts.

The current account balance is also to improve over the medium term on account of trade balance improvement.

Fiscal Position
(Percent of GDP)



External Position
(Percent of GDP)



Sources: CAR authorities and IMF staff estimates

Figure 3. Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

(In percent of the indicated variable)

Source: IMF Staff Calculations.

1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2010 and 2020.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2020-2027

	2020	2021	2022	2023	2024	2025	2026	2027
	Est.	Est.	Projections					
	(Annual percentage change; unless otherwise indicated)							
National income and prices								
GDP at constant prices	1.0	1.0	0.5	2.2	3.0	3.8	3.8	3.7
GDP per capita at constant prices	-0.8	-1.0	-1.5	0.2	1.0	1.9	1.6	1.5
GDP at current prices	2.8	4.3	6.9	9.1	7.2	6.4	6.3	6.2
GDP deflator	1.9	3.3	6.4	6.7	4.1	2.5	2.4	2.4
CPI (annual average) [1]	0.9	4.3	5.8	6.3	2.7	2.8	2.5	2.5
CPI (end-of-period)	1.8	2.7	7.9	4.4	2.5	2.9	2.4	2.5
Money and credit								
Broad money	11.5	14.6	2.5	3.6	4.0	5.6	3.2	6.4
Credit to the economy	8.5	-2.2	0.6	8.0	11.9	9.6	9.5	7.2
External sector								
Export volume of goods	9.4	-5.3	2.6	9.0	5.2	9.0	5.4	8.9
Import volume of goods	7.3	-11.5	-5.6	6.7	8.5	10.1	4.8	9.2
Terms of trade	-16.2	1.8	-9.4	12.4	10.3	7.8	2.8	10.2
	(Percent of GDP; unless otherwise indicated)							
Gross national savings	10.7	4.6	1.9	6.7	8.2	10.6	12.5	13.9
Of which: current official transfers	5.1	0.0	0.0	1.6	1.5	1.9	3.0	3.0
Gross domestic savings	-0.5	-2.5	-5.4	-2.1	-0.8	1.3	2.1	3.5
Government	-4.5	-3.4	-3.8	-3.1	-1.9	-1.0	-0.3	0.0
Private sector	4.0	0.9	-1.5	1.0	1.1	2.3	2.4	3.5
Consumption	100.5	102.5	105.4	102.1	100.8	98.7	97.9	96.5
Government	9.6	9.1	8.3	7.9	7.5	7.3	7.1	7.0
Private sector	90.9	93.4	97.0	94.2	93.3	91.4	90.8	89.4
Gross investment	18.9	15.7	14.9	15.3	16.0	17.5	17.8	18.5
Government	11.3	7.4	5.9	5.8	6.0	7.0	6.7	6.9
Private sector	7.5	8.3	8.9	9.5	10.0	10.5	11.1	11.6
								-4.4
External current account balance								
with grants	-8.2	-11.1	-13.0	-8.7	-7.9	-6.9	-5.3	-4.5
without grants	-14.9	-13.0	-15.0	-12.3	-11.4	-10.8	-10.3	-9.6
Overall balance of payments	-0.9	0.0	-8.0	-2.9	-2.3	-1.0	0.6	2.7
Central government finance								
Total revenue (including grants)	21.8	13.7	12.3	13.8	14.5	16.3	17.7	17.6
of which: domestic revenue	9.2	8.8	7.8	7.9	8.8	9.9	10.5	10.7
Total expenditure [2]	25.1	19.7	17.6	16.8	16.9	18.0	17.6	17.6
of which: capital spending	11.3	7.4	5.9	5.8	6.0	7.0	6.7	6.9
Overall balance								
Excluding grants	-16.0	-10.9	-9.9	-8.9	-8.1	-8.1	-7.1	-6.9
Including grants	-3.4	-6.0	-5.3	-3.0	-2.4	-1.7	0.1	0.0
Domestic primary balance [3]	-6.6	-5.1	-4.5	-3.6	-2.6	-2.2	-1.6	-1.4
Public sector debt [4]	43.4	47.6	51.9	50.5	49.6	48.5	45.8	43.3
Of which: domestic debt [5]	9.4	13.2	17.6	18.4	18.8	18.6	17.0	15.6
Of which: external debt	34.0	34.4	34.2	32.0	30.8	29.9	28.9	27.7
Memorandum items:								
GDP per capita (US dollars)	495	525	490	534	557	578	599	619
Nominal GDP (CFAF billions)	1,373	1,432	1,532	1,671	1,791	1,906	2,025	2,151

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

[1] Revision of CPI weights and transition to COICOP was performed starting from 2020. Therefore, there is a structural break in the series for 2019.

[2] Expenditure is on a cash basis.

[3] Excludes grants, interest payments, and externally-financed capital expenditures.

[4] The changes in domestic debt estimates reflect a correction of the estimates reported in the RCF' staff report tables, which had not been updated. This did not affect the debt sustainability analysis.

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

Table 2a. Central African Republic: Central Government Financial Operations, 2020-2027
(CFAF Billions)

	2020	2021	2022	2023	2024	2025	2026	2027
	Est.	Est.	Projections					
Revenue	298.6	195.7	188.2	230.8	259.1	310.7	357.7	378.1
Domestic revenue	125.7	125.9	118.9	131.7	157.7	188.7	212.4	229.2
Tax revenue	103.3	117.0	110.1	115.3	139.8	169.5	192.0	207.5
Income and property tax	28.0	33.1	30.9	31.4	40.4	47.3	53.5	57.8
Taxes on goods and services	48.5	53.0	49.1	53.2	63.8	78.1	88.2	95.3
Of which : VAT	21.1	24.5	23.0	25.6	30.6	37.9	43.0	46.5
Taxes on international trade	26.8	30.9	30.1	30.7	35.6	44.2	50.3	54.4
Non-tax revenue	22.4	8.9	8.8	16.4	17.9	19.2	20.4	21.7
Grants	172.9	69.8	69.3	99.1	101.3	122.0	145.3	148.9
Program	70.1	0.0	0.0	26.5	27.1	36.6	60.0	65.0
Project	102.8	69.8	69.3	72.5	74.2	85.4	85.3	83.9
Expenditure [1]	344.7	281.9	270.1	281.1	302.0	343.2	355.9	378.6
Current primary expenditure	184.8	171.6	173.1	175.5	181.2	194.1	202.6	213.5
Wages and salaries	80.1	81.2	86.9	92.7	90.7	90.4	91.2	96.2
Transfers and subsidies	53.0	40.7	45.2	43.0	47.1	55.0	58.6	62.5
Goods and services	51.7	49.7	40.9	39.8	43.5	48.7	52.8	54.8
Interest	4.2	4.0	6.2	9.1	13.1	15.5	17.3	17.4
External	1.7	1.4	1.4	1.2	1.7	1.7	1.8	2.1
Domestic	2.6	2.6	4.8	7.9	11.4	13.8	15.5	15.3
Capital expenditure	155.7	106.3	90.8	96.5	107.7	133.6	136.0	147.7
Domestically financed	31.0	27.7	14.0	16.4	23.4	36.4	42.1	45.6
Externally financed	124.7	78.6	76.8	80.0	84.2	97.2	93.9	102.1
Overall balance								
Excluding grants	-219.1	-156.0	-151.2	-149.3	-144.3	-154.5	-143.5	-149.4
Of which: domestic primary balance [2]	-90.1	-73.4	-68.2	-60.2	-46.9	-41.8	-32.3	-29.9
Including grants	-46.1	-86.2	-81.9	-50.3	-42.9	-32.5	1.8	-0.5
Primary balance	-41.9	-82.2	-75.7	-41.2	-29.8	-17.0	19.1	16.9
Net change in arrears ((-) = reduction)	-14.4	-11.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-14.4	-11.4	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-1.5	-0.9	-7.3	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-62.0	-98.5	-89.2	-50.3	-42.9	-32.5	1.8	-0.5
Identified financing	62.0	98.5	89.2	50.2	42.9	32.5	-1.8	0.5
External, net	18.6	5.3	0.6	3.6	5.1	6.3	16.8	41.1
Project loans	21.9	8.8	7.5	7.5	10.0	11.8	8.6	18.2
Program loans [3]	0.0	0.0	0.0	0.0	0.0	0.0	15.0	30.0
Amortization	-5.4	-5.6	-6.2	-2.8	-3.8	-5.1	-6.4	-6.6
Exceptional financing (DSSI)	2.1	2.2	-0.7	-1.1	-1.1	-0.4	-0.4	-0.4
Domestic, net	43.4	93.2	88.7	46.6	37.8	26.2	-18.6	-40.6
Banking system	38.7	87.9	84.7	46.6	33.8	24.2	-21.4	-39.4
BEAC	41.8	60.9	53.0	8.5	9.8	4.5	-9.1	-33.7
Loans	-1.7	0.4	0.0	0.0	0.0	-2.2	-2.2	-2.2
Use of SDR allocation	0.0	35.0	50.5	0.0	0.0	0.0	0.0	0.0
Counterpart to IMF credits (BEAC)	27.0	14.2	-1.7	12.3	9.2	9.5	-4.4	-29.7
Deposit withdrawals	16.5	11.3	4.3	-3.8	0.6	-2.8	-2.5	-1.8
Commercial banks	-3.1	27.0	31.7	38.2	24.0	19.7	-12.3	-5.7
Nonbank	0.0	0.0	0.0	0.0	4.0	2.0	2.8	-1.2
Exceptional financing (CCRT) [4]	4.7	3.5	2.2	0.0	0.0	0.0	0.0	0.0
Privatization receipts and others	0.0	1.8	1.8	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
Memorandum items:								
Primary Spending	215.8	199.3	187.1	191.9	204.6	230.5	244.7	259.1
Total government debt	596.2	681.9	794.1	843.2	888.0	925.3	928.3	930.7
Government domestic currency debt [5]	129.3	189.6	269.7	307.9	335.9	355.5	343.8	334.7
Nominal GDP	1,373	1,432	1,532	1,671	1,791	1,906	2,025	2,151

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

[1] Expenditure is on a cash basis.

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

[3] Budget support loans to be identified from 2024 onward.

[4] This covers debt service relief covering all payments falling due to the IMF from April 14, 2020 to April 13, 2022 under the Catastrophe Containment and Relief Trust (CCRT)

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

Table 2b. Central African Republic: Central Government Financial Operations, 2020-2027

(Percent GDP)

	2020	2021	2022	2023	2024	2025	2026	2027
	Est.	Est.	Projections					
Revenues	21.8	13.7	12.3	13.8	14.5	16.3	17.7	17.6
Domestic revenue	9.2	8.8	7.8	7.9	8.8	9.9	10.5	10.7
Tax revenue	7.5	8.2	7.2	6.9	7.8	8.9	9.5	9.6
Income and property tax	2.0	2.3	2.0	1.9	2.3	2.5	2.6	2.7
Taxes on goods and services	3.5	3.7	3.2	3.2	3.6	4.1	4.4	4.4
Of which: VAT	1.5	1.7	1.5	1.5	1.7	2.0	2.1	2.2
Taxes on international trade	2.0	2.2	2.0	1.8	2.0	2.3	2.5	2.5
Non-tax revenue	1.6	0.6	0.6	1.0	1.0	1.0	1.0	1.0
Grants	12.6	4.9	4.5	5.9	5.7	6.4	7.2	6.9
Program	5.1	0.0	0.0	1.6	1.5	1.9	3.0	3.0
Project	7.5	4.9	4.5	4.3	4.1	4.5	4.2	3.9
Expenditure [1]	25.1	19.7	17.6	16.8	16.9	18.0	17.6	17.6
Current primary expenditure	13.5	12.0	11.3	10.5	10.1	10.2	10.0	9.9
Wages and salaries	5.8	5.7	5.7	5.5	5.1	4.7	4.5	4.5
Transfers and subsidies	3.9	2.8	3.0	2.6	2.6	2.9	2.9	2.9
Goods and services	3.8	3.5	2.7	2.4	2.4	2.6	2.6	2.5
Interest	0.3	0.3	0.4	0.5	0.7	0.8	0.9	0.8
External	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Domestic	0.2	0.2	0.3	0.5	0.6	0.7	0.8	0.7
Capital expenditure	11.3	7.4	5.9	5.8	6.0	7.0	6.7	6.9
Domestically financed	2.3	1.9	0.9	1.0	1.3	1.9	2.1	2.1
Externally financed	9.1	5.5	5.0	4.8	4.7	5.1	4.6	4.7
Overall balance								
Excluding grants	-16.0	-10.9	-9.9	-8.9	-8.1	-8.1	-7.1	-6.9
Of which: domestic primary balance [2]	-6.6	-5.1	-4.5	-3.6	-2.6	-2.2	-1.6	-1.4
Including grants	-3.4	-6.0	-5.3	-3.0	-2.4	-1.7	0.1	0.0
Net change in arrears ((-) = reduction)	-1.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-1.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.1	-0.1	-0.5	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-4.5	-6.9	-5.8	-3.0	-2.4	-1.7	0.1	0.0
								0.8
Identified financing	4.5	6.9	5.8	3.0	2.4	1.7	-0.1	0.0
External, net	1.4	0.4	0.0	0.2	0.3	0.3	0.8	1.9
Project loans	1.6	0.6	0.5	0.4	0.6	0.6	0.4	0.8
Program loans [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.4
Amortization	-0.4	-0.4	-0.4	-0.2	-0.2	-0.3	-0.3	-0.3
Exceptional financing (DSSI)	0.1	0.2	0.0	-0.1	-0.1	0.0	0.0	0.0
Domestic, net	3.2	6.5	5.8	2.8	2.1	1.4	-0.9	-1.9
Banking system	2.8	6.1	5.5	2.8	1.9	1.3	-1.1	-1.8
BEAC	3.0	4.3	3.5	0.5	0.5	0.2	-0.4	-1.6
Loans	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
Use of SDR allocation	0.0	2.4	3.3	0.0	0.0	0.0	0.0	0.0
Counterpart to IMF credits (BEAC)	2.0	1.0	-0.1	0.7	0.5	0.5	-0.2	-1.4
Deposit withdrawals	1.2	0.8	0.3	-0.2	0.0	-0.1	-0.1	-0.1
Commercial banks	-0.2	1.9	2.1	2.3	1.3	1.0	-0.6	-0.3
Nonbank	0.0	0.0	0.0	0.0	0.2	0.1	0.1	-0.1
Exceptional financing (CCRT) [4]	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Privatization receipts and Others	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Primary Spending	15.7	13.9	12.2	11.5	11.4	12.1	12.1	12.0
Total government debt	43.4	47.6	51.9	50.5	49.6	48.5	45.8	43.3
Government domestic debt [5]	9.4	13.2	17.6	18.4	18.8	18.6	17.0	15.6

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

[1] Expenditure is on a cash basis.

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

[3] Budget support loans to be identifed from 2024 onward

[4] This covers debt service relief covering all payments falling due to the IMF from April 14, 2020 to April 13, 2022 under the Catastrophe Containment and Relief Trust (CCRT)

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

Table 3. Central African Republic: Monetary Survey, 2020-2027

	2020	2021	2022	2023				2024	2025	2026	2027
				Q1	Q2	Q3	Q4				
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Projections			
	(CFAF billions, unless otherwise indicated)										
Net foreign assets	88.7	72.0	-22.7	-27.4	-41.2	-47.8	-65.0	-100.6	-113.3	-93.9	-29.5
Bank of Central African States (BEAC)	49.2	-11.1	-108.9	-115.5	-131.4	-139.9	-159.0	-201.4	-220.6	-207.9	-150.6
Foreign Assets	242.5	291.9	196.6	186.9	176.0	164.4	158.8	125.6	116.0	124.3	151.9
Foreign Liabilities	193.3	303.0	305.5	302.4	307.4	304.3	317.8	327.0	336.5	332.1	302.4
SDR allocation	41.4	130.0	137.9	137.9	137.9	137.9	137.9	137.9	137.9	137.9	130.8
Use of IMF credit	150.2	170.6	168.8	165.8	170.7	167.6	181.1	190.3	199.8	195.4	165.7
Other foreign liabilities	1.7	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Commercial banks	39.5	83.0	86.2	88.2	90.1	92.1	94.0	100.8	107.3	114.0	121.1
Net domestic assets	327.7	405.1	511.7	524.1	546.4	556.2	571.4	627.4	669.5	667.6	639.9
Domestic credit	436.5	522.9	608.7	620.8	653.7	658.7	669.2	725.3	769.7	770.0	748.7
Credit to the public sector	260.7	351.0	435.7	433.3	436.0	450.3	482.3	516.1	540.4	519.0	479.6
Credit to central government (net)	260.7	351.0	435.7	433.3	436.0	450.3	482.3	516.1	540.4	519.0	479.6
BEAC	252.9	313.5	366.5	355.5	336.8	351.1	375.0	384.7	389.2	380.2	346.4
Loans	114.7	115.0	115.0	115.0	115.0	115.0	115.0	115.0	112.8	110.7	108.5
Use of SDR allocation	0.0	35.0	85.5	85.5	85.5	85.5	85.5	85.5	85.5	85.5	85.5
IMF credit (net)	150.2	170.6	168.8	165.8	170.7	167.6	181.1	190.3	199.8	195.4	165.7
Deposits	-12.0	-7.1	-2.8	-10.8	-34.4	-16.9	-6.6	-6.1	-8.9	-11.4	-13.2
Commercial banks	7.8	37.5	69.2	77.9	99.2	99.2	107.4	131.4	151.1	138.8	133.1
Credit to the economy	175.8	171.9	173.0	187.5	217.8	208.4	186.9	209.2	229.3	251.1	269.1
Public enterprises	8.5	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Private sector	167.3	160.1	161.2	175.6	205.9	196.5	175.1	197.3	217.4	239.2	257.3
Other items (net)	-108.8	-117.9	-97.0	-96.7	-107.3	-102.6	-97.8	-97.9	-100.2	-102.4	-108.8
Money and quasi-money	416.4	477.1	488.9	496.7	505.2	508.4	506.4	526.8	556.2	573.7	610.4
Currency	210.5	239.1	254.8	258.8	257.0	262.1	263.0	271.9	299.4	304.2	317.0
Deposits	205.9	238.0	234.1	237.9	248.2	246.3	243.4	254.9	256.8	269.6	293.4
Demand deposits	137.9	163.3	158.8	160.9	169.5	165.8	161.2	166.8	181.5	182.9	194.2
Term and savings deposits	67.9	74.7	75.3	77.1	78.8	80.5	82.2	88.1	75.3	86.7	99.2
	(Annual percentage change)										
Net foreign assets	-0.9	-18.9	-131.6	20.4	81.3	110.1	185.8	54.8	12.6	-17.1	-68.6
Net domestic assets	15.4	23.6	26.3	2.4	6.8	8.7	11.7	9.8	6.7	-0.3	-4.1
Monetary base	20.7	2.5	6.9	20.5	19.7	19.3	9.1	7.2	6.4	6.3	6.2
Credit to the economy	8.5	-2.2	0.6	8.3	25.9	20.4	8.0	11.9	9.6	9.5	7.2
Public enterprises	93.8	39.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	6.1	-4.3	0.7	9.0	27.8	22.0	8.6	12.7	10.2	10.0	7.5
Memorandum items:											
NDA of the central bank (CFAF billions)	225.5	292.6	409.9	430.2	452.9	464.8	487.4	553.4	595.2	605.9	573.2
Monetary base (CFAF billions)	274.7	281.5	301.0	314.7	321.5	324.9	328.3	352.0	374.6	398.0	422.7
Nominal GDP (CFAF billions)	1373	1432	1532	…	…	…	1671	1791	1906	2025	2151
Velocity (GDP/broad money)											
End of period	3.3	3.0	3.1	…	…	…	3.3	3.4	3.4	3.5	3.5

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

Table 4a. Central African Republic: Balance of Payments, 2020-2027
(CFAF Billions)

	2020	2021	2022	2023	2024	2025	2026	2027
	Est.	Est.			Projections			
Current account	-112.1	-158.9	-198.6	-144.7	-141.2	-131.3	-107.5	-97.7
Balance on goods	-226.3	-222.1	-260.6	-245.1	-246.3	-254.1	-268.6	-266.6
Exports, f.o.b.	82.7	91.4	104.9	120.4	134.1	153.2	171.2	199.1
of which: Diamonds	3.8	6.9	9.6	13.8	19.7	26.0	31.4	35.9
of which: Wood products	50.6	48.3	47.8	54.6	58.6	66.6	73.2	91.6
Imports, f.o.b.	-309.0	-313.5	-365.5	-365.6	-380.3	-407.3	-439.8	-465.7
of which: Petroleum products	-66.3	-88.0	-107.3	-89.8	-90.5	-91.2	-92.8	-96.1
Services (net)	-39.3	-39.2	-49.0	-46.5	-55.9	-56.0	-49.0	-54.4
Credit	108.9	104.7	105.2	118.1	119.9	142.7	154.1	162.9
Debit	-148.2	-143.9	-154.2	-164.6	-175.7	-198.7	-203.1	-217.2
Income (net)	-1.6	-1.2	-1.9	-4.5	-6.1	-5.3	-5.3	-5.3
Credit	13.1	13.2	13.3	13.5	13.9	14.7	15.3	15.8
Debit	-14.7	-14.4	-15.2	-18.0	-20.0	-20.0	-20.6	-21.1
Transfers (net)	155.2	103.6	113.0	151.3	166.9	184.1	215.4	228.5
Private	62.0	76.8	82.3	90.9	103.4	108.7	114.3	120.2
Official	93.1	26.9	30.7	60.5	63.6	75.4	101.1	108.4
of which: Program	70.1	0.0	0.0	26.5	27.1	36.6	60.0	65.0
Capital account	102.8	69.8	69.3	72.5	74.2	85.4	84.4	83.9
Project grants	102.8	69.8	69.3	72.5	74.2	85.4	84.4	83.9
Other transfers (debt forgiveness)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-2.5	89.7	6.3	23.2	25.7	27.2	36.2	71.5
Direct investment	1.0	3.0	15.0	23.5	24.5	25.5	28.9	35.0
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	-3.5	86.7	-8.7	-0.3	1.2	1.7	7.2	36.6
Public sector (net)	16.5	91.7	1.3	4.7	6.2	6.7	17.2	41.6
Project disbursement	21.9	8.8	7.5	7.5	10.0	11.8	8.6	18.2
Program disbursement	0.0	0.0	0.0	0.0	0.0	0.0	15.0	30.0
Scheduled amortization	-5.4	-5.6	-6.2	-2.8	-3.8	-5.1	-6.4	-6.6
Monetary authorities (SDR allocation)	0.0	88.5	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term flows	-20.0	-5.0	-10.0	-5.0	-5.0	-5.0	-10.0	-5.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-11.8	0.6	-123.0	-49.0	-41.3	-18.7	13.1	57.7
Identified financing	11.7	-89.1	123.1	49.0	41.2	18.7	-14.0	-57.7
Net IMF credit	27.0	14.2	-1.7	12.3	9.2	9.5	-4.4	-29.7
IMF purchase	-31.9	-18.8	0.0	-23.5	-30.5	-37.0	-26.5	0.0
IMF repurchase	4.9	4.6	1.7	11.2	21.3	27.5	30.9	29.7
Other reserves (increase = -)	-22.0	-109.1	123.3	37.8	33.2	9.6	-8.3	-27.6
Exceptional financing	6.7	5.7	1.5	-1.1	-1.1	-0.4	-1.3	-0.4
Debt rescheduling (DSSI)	2.1	2.2	-0.7	-1.1	-1.1	-0.4	-0.4	-0.4
Other exceptional financing (CCRT) [1]	4.7	3.5	2.2	0.0	0.0	0.0	0.0	0.0
Debt payment arrears (reduction=-)	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
Memorandum items:								
Terms of trade (percent change)	-16.2	1.8	-9.4	12.4	10.3	7.8	2.8	10.2
Unit price of exports	-19.6	16.7	11.9	5.3	5.8	4.9	6.0	6.8
Unit price of imports	-4.1	14.7	23.6	-6.3	-4.1	-2.7	3.1	-3.1
Current account (percent of GDP)	-8.2	-11.1	-13.0	-8.7	-7.9	-6.9	-5.3	-4.5
Capital account (percent of GDP)	7.5	4.9	4.5	4.3	4.1	4.5	4.2	3.9
Nominal GDP (CFAF billions)	1,373	1,432	1,532	1,671	1,791	1,906	2,025	2,151

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

[1] This covers debt service relief covering all payments falling due to the IMF from April 14, 2020 to April 13, 2022 under the Catastrophe Containment and Relief Trust (CCRT)

Table 4b. Central African Republic: Balance of Payments, 2020-2027
(Percent GDP)

	2020	2021	2022	2023	2024	2025	2026	2027
	Est.	Est.	Projections					
Current account	-8.2	-11.1	-13.0	-8.7	-7.9	-6.9	-5.3	-4.5
Balance on goods	-16.5	-15.5	-17.0	-14.7	-13.7	-13.3	-13.3	-12.4
Exports, f.o.b.	6.0	6.4	6.9	7.2	7.5	8.0	8.5	9.3
of which: Diamonds	0.3	0.5	0.6	0.8	1.1	1.4	1.6	1.7
of which: Wood products	3.7	3.4	3.1	3.3	3.3	3.5	3.6	4.3
Imports, f.o.b.	-22.5	-21.9	-23.9	-21.9	-21.2	-21.4	-21.7	-21.7
of which: Petroleum products	-4.8	-6.1	-7.0	-5.4	-5.1	-4.8	-4.6	-4.5
Services (net)	-2.9	-2.7	-3.2	-2.8	-3.1	-2.9	-2.4	-2.5
Credit	7.9	7.3	6.9	7.1	6.7	7.5	7.6	7.6
Debit	-10.8	-10.0	-10.1	-9.8	-9.8	-10.4	-10.0	-10.1
Income (net)	-0.1	-0.1	-0.1	-0.3	-0.3	-0.3	-0.3	-0.2
Credit	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.7
Debit	-1.1	-1.0	-1.0	-1.1	-1.1	-1.0	-1.0	-1.0
Transfers (net)	11.3	7.2	7.4	9.1	9.3	9.7	10.6	10.6
Private	4.5	5.4	5.4	5.4	5.8	5.7	5.6	5.6
Official	6.8	1.9	2.0	3.6	3.5	4.0	5.0	5.0
of which: Program	5.1	0.0	0.0	1.6	1.5	1.9	3.0	3.0
Capital account	7.5	4.9	4.5	4.3	4.1	4.5	4.2	3.9
Project grants	7.5	4.9	4.5	4.3	4.1	4.5	4.2	3.9
Other transfers (debt forgiveness)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.2	6.3	0.4	1.4	1.4	1.4	1.8	3.3
Direct investment	0.1	0.2	1.0	1.4	1.4	1.3	1.4	1.6
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	-0.3	6.1	-0.6	0.0	0.1	0.1	0.4	1.7
Public sector (net)	1.2	6.4	0.1	0.3	0.3	0.4	0.9	1.9
Project disbursement	1.6	0.6	0.5	0.4	0.6	0.6	0.4	0.8
Program disbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.4
Scheduled amortization	-0.4	-0.4	-0.4	-0.2	-0.2	-0.3	-0.3	-0.3
Other short-term flows	-1.5	-0.3	-0.7	-0.3	-0.3	-0.3	-0.5	-0.2
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.9	0.0	-8.0	-2.9	-2.3	-1.0	0.6	2.7
Identified financing	0.9	-6.2	8.0	2.9	2.3	1.0	-0.7	-2.7
Net IMF credit	2.0	1.0	-0.1	0.7	0.5	0.5	-0.2	-1.4
IMF purchase	-2.3	-1.3	0.0	-1.4	-1.7	-1.9	-1.3	0.0
IMF repurchase	0.4	0.3	0.1	0.7	1.2	1.4	1.5	1.4
Other reserves (increase = -)	-1.6	-7.6	8.0	2.3	1.9	0.5	-0.4	-1.3
Exceptional financing	0.5	0.4	0.1	-0.1	-0.1	0.0	-0.1	0.0
Debt rescheduling (DSSI)	0.1	0.2	0.0	-0.1	-0.1	0.0	0.0	0.0
Other exceptional financing (CCRT) [1]	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Debt payment arrears (reduction=-)	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
Memorandum items:								
Terms of trade (percent change)	-16.2	1.8	-9.4	12.4	10.3	7.8	2.8	10.2
Unit price of exports	-1.4	1.2	0.8	0.3	0.3	0.3	0.3	0.3
Unit price of imports	-0.3	1.0	1.5	-0.4	-0.2	-0.1	0.2	-0.1
Nominal GDP (CFAF billions)	1,373	1,432	1,532	1,671	1,791	1,906	2,025	2,151

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

[1] This covers debt service relief covering all payments falling due to the IMF from April 14, 2020 to April 13, 2022 under the Catastrophe Containment and Relief Trust (CCRT)

Table 5. Central African Republic: External Financing Requirements, 2020-2027
(CFAF Billions)

	2020	2021	2022	2023	2024	2025	2026	2027
				Projections				
1. Total financing requirements	214.5	278.2	83.3	147.5	160.3	190.8	213.0	226.6
Current account deficit (excl. budget support)	182.2	158.9	198.6	171.3	168.3	167.9	167.5	162.7
Debt amortization	5.4	5.6	6.2	2.8	3.8	5.1	6.4	6.6
Repayment to the Fund	4.9	4.6	1.7	11.2	21.3	27.5	30.9	29.7
Change in other reserves	22.0	109.1	-123.3	-37.8	-33.2	-9.6	8.3	27.6
2. Total available financing	105.7	165.2	81.8	98.5	103.7	117.7	113.0	133.1
Capital transfers	102.8	69.8	69.3	72.5	74.2	85.4	84.4	83.9
Foreign direct investment (net)	1.0	3.0	15.0	23.5	24.5	25.5	28.9	35.0
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0
Debt financing	21.9	8.8	7.5	7.5	10.0	11.8	8.6	18.2
Public Sector	21.9	8.8	7.5	7.5	10.0	11.8	8.6	18.2
SDR allocation	0.0	88.5	0.0	0.0	0.0	0.0	0.0	0.0
Other net capital inflows	-20.0	-5.0	-10.0	-5.0	-5.0	-5.0	-10.0	-5.0
3. Financing gap	108.8	113.1	1.5	48.9	56.5	73.1	100.1	93.6
4. Expected sources of financing	70.1	0.0	0.0	26.5	27.1	36.6	75.0	95.0
of which: Budget support (grants)[1]	70.1	0.0	0.0	26.5	27.1	36.6	60.0	65.0
of which: Budget support (loans)[2]	0.0	0.0	0.0	0.0	0.0	0.0	15.0	30.0
5. Residual financing gap	38.6	113.1	1.5	22.4	29.4	36.5	25.1	-1.4
ECF arrangement	9.6	18.8	0.0	23.5	30.5	37.0	26.5	0.0
RCF	22.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT[3]	4.7	3.5	2.2	0.0	0.0	0.0	0.0	0.0
G20 DSSI[4]	2.1	2.2	-0.7	-1.1	-1.1	-0.4	-0.4	-0.4
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: IMF staff projections.

[1] Good prospects for the world bank financing exist for the remainder of the program period provided that CAR demonstrate satisfactory performance under IMF and WB operations, that reforms are progressing, and the country addresses concerns about the use of budgetary resources for security arrangements that led to stopping budget support.

[2] Budget support loans to be identified.

[3] This covers debt service relief covering all payments falling due to the IMF from April 14, 2020 to April 13, 2022 under the Catastrophe Containment and Relief Trust (CCRT)

[4] Under the G20 Debt Service Suspension Initiative (DSSI), debt service payments to G20 creditors due from May-December 2021 are postponed to 2022-28.

Table 6. Central African Republic: Financial Soundness Indicators, 2015-2022
(Percent)

Concept	2015	2016	20217	2018	2019	2020	2021	2022
Capital Adequacy								
Total bank regulatory capital to risk-weighted assets	38.7	32.0	34.3	28.5	30.3	23.9	21.0	23.5
Total capital (net worth) to assets	18.1	16.1	17.7	15.1	15.9	13.8	13.9	13.2
Asset Quality								
Non-performing loans to total loans	31.3	26.2	25.1	17.6	16.1	17.5	13.9	12.4
Non-performing loans net of provision to capital	40.1	24.2	8.2	6.2	14.6	12.9	10.7	12.8
Earnings and Profitability								
Net income to average assets (ROA)	-1.1	0.2	0.7	1.7	1.7	0.0	0.6	1.1
Net income to average capital (ROE)	-6.4	0.3	3.0	6.9	7.6	0.1	4.3	8.2
Non interest expense to gross income	77.8	81.3	85.2	90.5	78.9	71.5	82.2	....
Liquidity								
Liquid assets to total assets	40.0	31.9	30.7	29.9	26.3	32.2	26.9	26.4
Liquid assets to short-term liabilities	276.1	219.6	227.4	198.6	165.8	202.0	162.2	151.8

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

Table 7. Central African Republic: Quantitative Performance Under the SMP, 2021 and 2022

(CFAF Billions; cumulative from beginning of the year)

	End-December 2021			End-March 2022		
	PC	Actual	Status	PC	Actual	Status
Quantitative benchmarks						
Net domestic government financing (ceiling, cumulative flows for the year)	79.6	75.1	Met	18.0	10.4	Met
Domestic revenue (floor, cumulative for the year) [1]	124.0	125.9	Met	32.0	34.1	Met
Domestic primary fiscal balance (floor, cumulative for the year)[2]	-77.0	-74.0	Met	-14.0	-7.3	Met
Continuous benchmarks						
Contracting or guaranteeing of new external non concessional debt (ceiling, cumulative from October 1, 2021) [3,4]	0.0	0.0	Met	0.0	0.0	Met
Disbursement of external non concessional debt (ceiling, cumulative from October 1, 2021) [3,4]	0.0	0.0	Met	0.0	0.0	Met
Non accumulation of external payments arrears (ceiling, cumulative for the year)[3,4]	0.0	0.0	Met	0.0	0.0	Met
Indicative targets						
Social spending (floor, cumulative for the year)[5]	24.0	40.0	Met	5.0	TDT	---
Spending through extraordinary procedures (ceiling, cumulative for the year)	6.7	7.4	Not met	1.7	TDT	---
Reduction in domestic payments arrears (floor, cumulative for the year)	12.0	10.5	Not met	0.0	0.0	Met
New concessional/external debt contracted or guaranteed by the government (ceiling, cumulative for the year)	25.0	0.0	Met	15.0	0.0	Met
Memorandum items:						
Budget support	0.0	0.0		0.0	0.0	
Privatization receipts	3.6	1.8		1.8	0.0	

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

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

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

[3] These objectives will be monitored continuously.

[4] Contracted or guaranteed by the government.

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

Table 8. Central African Republic: SMP Structural Benchmarks for End-February 2022

Measures	Target	Macroeconomic Rationale	Status
Submission to the National Assembly of a draft 2022 budget law consistent with the SMP's objectives	End-December 2021	Ensure macroeconomic stability, fiscal responsibility, and transparency	Met
Issuance of a ministerial order effective end-March 2022 suspending import activities by large importers who are not fully compliant with their tax obligations	End-December 2021	Improve revenue collection	Met
Issuance of a ministerial order making the systematic use of the electronic declaration system mandatory for large taxpayers by December 31, 2022	End-December 2021	Improve transparency and revenue collection	Met
Submission to the National Assembly of a new anti-corruption law that is consistent with IMF staff recommendations and the requirements of the United Nations Convention against Corruption (UNCAC)	End-January 2022	Improve governance	Met*
Adjustment of the ASYCUDA++ customs processing system to ensure that the values recommended by Webb Fontaine are automatically reflected in importers' customs declarations	End-February 2022	Reduce corruption and improve revenue collection	Met

Note: *The law was submitted to the Parliament with 4 days late.

Table 9. Central African Republic: Proposed Schedule of Disbursements, 2023-2026

Condition for Disbursement	Date	Amount of Disbursement	
		Millions of SDR	Percent of quota
First disbursement upon program approval	April 27, 2023	SDR 11.3 million	10.14
Second disbursement upon observance of the performance criteria for June 30, 2023 and the continuous performance criteria, and the completion of the first review.	October 30, 2023	SDR 17.31 million	15.54
Third disbursement upon observance of the performance criteria for December 31, 2023 and the continuous performance criteria, and the completion of the second review.	April 30, 2024	SDR 17.71 million	15.90
Fourth disbursement upon observance of the performance criteria for June 30, 2024 and the continuous performance criteria, and the completion of the third review.	October 30, 2024	SDR 19.19 million	17.23
Fifth disbursement upon observance of the performance criteria for December 31, 2024 and the continuous performance criteria, and the completion of the fourth review.	April 30, 2025	SDR 22.58 million	20.27
Sixth disbursement upon observance of the performance criteria for June 30, 2025 and the continuous performance criteria, and the completion of the fifth review.	October 30, 2025	SDR 21.79 million	19.56
Seventh disbursement upon observance of the performance criteria for December 31, 2025 and the continuous performance criteria, and the completion of the sixth review.	April 30, 2026	SDR 31.80 million	28.55
Total		SDR 141.68 million	127.18

CAR's quota is SDR 111.4 million

Table 10. Central African Republic: Indicators of the Capacity to repay the Fund, 2023-2033

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
IMF obligations based on existing credit											
(SDR millions)											
Principal	13.7	25.8	32.9	37.1	35.7	25.2	17.3	8.8	2.4	0.0	0.0
Charges and interest	4.1	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
IMF obligations based on existing and prospective credit											
(SDR millions)											
Principal	13.7	25.8	32.9	37.1	35.7	26.4	24.8	24.1	27.5	28.3	27.2
Charges and interest	4.1	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
IMF obligations based on existing and prospective credit											
(CFA billions)											
Principal	11.3	21.4	27.6	31.0	29.8	22.1	20.7	20.2	23.0	23.7	22.8
Charges and interest	2.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Outstanding IMF Credit											
SDR Millions	213.8	224.9	236.3	231.0	195.4	169.0	144.2	120.1	92.5	64.2	37.0
CFAF Billions	176.2	186.5	197.8	193.3	163.5	141.4	120.7	100.5	77.4	53.7	31.0
Percent of government revenue	133.8	118.3	104.8	91.0	71.3	57.8	45.9	35.0	24.8	16.0	8.5
Percent of exports of goods and services	73.9	73.4	66.8	59.4	45.2	36.4	29.0	22.8	16.0	10.6	5.9
Percent of debt service	727.0	473.8	407.6	351.5	301.7	315.3	282.2	240.8	178.0	105.6	56.8
Percent of GDP	10.5	10.4	10.4	9.5	7.6	6.2	5.0	3.9	2.9	1.9	1.0
Percent of quota	191.9	201.9	212.1	207.4	175.4	151.7	129.4	107.8	83.1	57.6	33.2
Net use of IMF credit (SDR millions)											
Disbursements	28.6	36.9	44.4	31.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	17.8	31.3	38.4	42.5	41.1	31.8	30.2	29.6	33.0	33.8	32.7
Memorandum items:											
Nominal GDP (billions of CFA francs)	1670.9	1791.0	1906.2	2025.5	2150.9	2277.6	2409.5	2549.0	2696.4	2852.5	3017.7
Exports of goods and services (billions of CFA francs)	238.5	254.0	295.8	325.2	362.0	388.8	416.6	439.9	483.1	508.1	524.1
Government revenue (billions of CFA francs)	131.7	157.7	188.7	212.4	229.2	244.7	263.1	287.0	312.1	335.3	362.4
Debt service (billions of CFA francs)	24.2	39.4	48.5	55.0	54.2	44.9	42.8	41.7	43.5	50.9	54.6
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

Source: IMF staff projections.

Table 11. Central African Republic: Summary on External Borrowing Program

PPG external debt contracted or guaranteed	Volume of new debt, US million 1/	Present value of new debt, US million 1/
Sources of debt financing	**50.8**	**33.4**
Concessional debt, of which 2/	12.3	7.3
Multilateral debt	3.3	2.7
Bilateral debt	9.0	4.6
Non-concessional debt, of which 2/	38.5	26.1
Semi-concessional debt 3/	38.5	26.1
Commercial terms 4/	0.0	0.0
Uses of debt financing	**50.8**	**62.0**
Infrastructure	12.3	44.0
Budget financing	38.5	18.0
Memorandum items		
Indicative projections		
Year 2	66.0	42.6
Year 3	78.5	53.5

[1] Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
[2] Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.
[3] Debt with a positive grant element which does not meet the minimum grant element.
[4] Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

Annex I. CAR-Status of Implementation of 2018 Article IV Mission Recommendations

Policy Objective	Recommended Policy	Status
Reinforcing Macroeconomic Stability		
Revenue Measures	• Increase export taxes on wood and diamond and increase the tax on rental income (0.1 percent of GDP); • Reinforce tax audits, transfer revenues from Douala customs office to the treasury, and fully operationalize the IT system (ASYCUDA) in the Beloko customs office (0.1 percent of GDP). • Reduce margins for middlemen in the price structure of petroleum products (0.2 percent of GDP).	• In progress. • The ASYCUDA system was operationalized in 2018.
Expenditure Measures	• Reduce non-priority current spending (0.5 percent of GDP)	• Implemented in the 2019 Budget in the context of the ECF program
Debt Sustainability	• Revise the medium-term domestic primary deficit path to at most 1.6, 1.3, and 1.0 percent of GDP over 2018–20.	• Not implemented due to lower revenues
Debt Management	• Assess progress to resolve post-HIPC arrears to India. • Review progress on debt service due and the utilization of Sygade. • Review debt limits under the program	• Implemented. • Agreement has been reached with India, and Sygade system is operational
Domestic Arrears	• Review the implementation of the domestic arrears clearance strategy and the implementation of safeguards.	• In progress. • Comprehensive and time bound action plan adopted in 2018, but arrears may be re-emerging.

Policy Objective	Recommended Policy	Status
Financial Stability	• Discuss the findings of the two recent COBAC supervisory missions and implementation of recommendations. • Assess slow credit growth in 2017 and the implementation of the strategy to improve financial intermediation.	• In progress. • Some recommendations on governance and prudential standards implemented, but there are delays in implementing AML and ID related recommendations.
Revenue Mobilization		
	• Strengthen tax and customs administration by cross-checking customs and tax data, better monitoring the imports of key goods, reducing the stop-filing rate, and stepping up tax controls and the collection of tax arrears. • Hire public accountants to parafiscal agencies. • Implement the action plan overhauling para-fiscal taxes and sector-specific taxation, and including para-fiscal revenue into the TSA.	• In progress.
Improve Governance and Transparency		
	• Recommend publishing the asset declarations on a website and sanction non-compliance. • Improve the legal framework to fight corruption by criminalizing a wider range of acts of corruption and removing impediments to extradition and mutual legal assistance. • Recommend publishing mining and forestry permits.	• In progress.

Policy Objective	Recommended Policy	Status
Promoting growth and strengthening competitiveness		
	• Improve the business climate by introducing targeted reforms to address the poor performing indicators, such as simplifying tax declaration and payment obligations and improving the judicial system. • Review the implementation of the national development strategy (RCPCA), including performance relative to RCPCA benchmarks, link to national processes, and policy intentions.	• Action plan and road map identified in 2018 MEFP.
Promoting Gender Equality		
	• Recommend regular reporting on women in government and parliament positions as well as gender-related spending to advance gradually towards gender budgeting. • Encourage further progress on collecting gender- and age-disaggregated data to better track national gender-equality commitments and assess gender-specific impacts of policies.	• In progress.

Annex II. Risk Assessment Matrix[1]

Risks	Relative Likelihood	Time Horizon	Expected Impact If Realized	Policies to Mitigate the Risks
Conjunctural Risks				
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High**	**Short term**	**High.** • Supply chain disruptions lead to higher prices for essential imports such as fuel and wheat.	• Application of the automatic fuel price adjustment mechanism to avoid expectations of a subsidy and to safeguard critical revenues Introduce targeted measures to mitigate the impact of the shock, e.g., by expanding the social safety net. Intensify cooperation with humanitarian agencies, including the WFP.
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing	**High**		**High** Increased cost of living as a result of increased inflation and supply chain disruption could provide a recipe for increased tension and social unrest.	• Continued cooperation with international organizations to support social programs. Attention should also be paid to the evolution of social sentiments and provide solutions ease tension.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation	**Medium**		**Medium** Global slow down could result in lower demand, slower remittances and constrain financial flows.	• Continued reforms in the fuel sector and improve revenue mobilization to enable investment in priority areas. Taking advantage of the regional market to increase trade and investment.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Relative Likelihood	Time Horizon	Expected Impact If Realized	Policies to Mitigate the Risks
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium**	**Short term**	**High.** • Higher energy prices would stoke inflation further and would also add to fiscal pressures, given the fixed pump prices	• Application of the automatic fuel price adjustment mechanism to avoid expectations of a subsidy and to safeguard critical revenues Introduce targeted measures to mitigate the impact of the shock, e.g., by expanding the social safety net. • Intensify cooperation with humanitarian agencies, including the WFP.
Deepening geo-economic fragmentation and geopolitical tensions. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions., technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	**High**	**Short to Medium Term**	**High**	• Active engagement with development partners on development financing, including budget support.
Regional and Domestic Risks				
Increased insecurity and political instability.	**High**	**High**	**High.** • Domestic and external political factors could lead to f escalation of insecurity	• Maintain dialogue with relevant stakeholders. • Prepare a budget contingency plan.
Setback in fiscal and structural reform momentum (via social discontent, political instability, and/or capacity constraints)			**Medium/High.** • Delays in revenue and PFM reforms could set back fiscal adjustment, increase debt, and lower external financing/grants.	• Accelerate structural reforms and continue to ensure prudent budgetary management. Put in place social programs to address potential adverse impacts on the most vulnerable groups.

Annex III. External Sector Assessment

Overall Assessment: *The external position of the Central African Republic in 2021 was substantially weaker than the level implied by fundamentals and desirable policies. The current account worsened in 2021 on account of higher oil prices and the delay in official donor support. It is expected to further worsen in 2022, due to the cumulative effect of a large negative terms of trade shock (related to fuel and food prices), and the continued absence of budget support from the traditional partners. Debt vulnerabilities have increased in the absence of donor budget support and increased financing needs and the country remains at high risk of external debt distress given by the increasing debt service burden. Important structural factors such as insecurity, lack of infrastructure, high transport costs, and a weak business climate, continue to weigh on competitiveness.*

Potential Policy Responses: *CAR's external resilience would benefit from actions to foster security, improve the business environment, diversify the economy, and strengthen resilience. Efforts at improving revenue collection and PFM, as well as at regaining donor budget support are important to maintain the current account balance at a sustainable level.*

Foreign Assets and Liabilities: Position and Trajectory

Background. After being on a gradually declining trend until 2020, CAR's public and publicly guaranteed debt has been recently increasing, largely driven by the pick-up in domestic debt, on account of a conjunction of negative shocks: the security crisis, the COVID-19 pandemic, and the pause in donor-financing. Most of the increase in debt has been driven by higher domestic borrowing, which reached 13.2 percent of GDP in 2021. To make up for the short-fall in budget support, commercial bank borrowing on the regional market of the CEMAC picked up significantly in 2021 and the country has drawn down its entire 2021 SDR allocation.

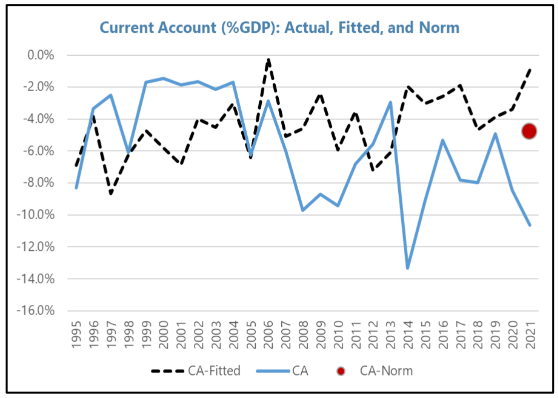
As concerns external debt, it has remained relatively stable at 35 percent of GDP. The country has benefited from several rounds of pandemic debt relief from bilateral creditors (G20 DSSI) and the IMF (CCRT). Debt owed to multilateral creditors and pre-HIPC arrears continue to account for the bulk of the external debt.

Assessment. While solvency indicators for both external debt and total debt are below their respective benchmarks, liquidity indicators for external debt breach their thresholds between 2023-2027, largely on account of large repayments to the Fund. CAR remains at high risk of external debt distress and overall high risk of debt distress, with significant downside risks linked to the high uncertainty regarding external financing and a more difficult external environment.

Current Account

Background. The current account deficit widened in 2021 to 11.1 percent of GDP, mainly driven by more expensive imports for petroleum products and the non-disbursement of the 2021 budget support. Trade is concentrated in diamonds and timber, which represent 69 percent of CAR's total exports, as well as oil which represents 27 percent of imports. Consistent with a rise in economic activity, oil and non-oil imports exerted pressure on the current account balance. Transfers (mostly grants) and incomes positively contributed to the current account.

In 2022, the current account is expected to further worse to about 13.0 percent of GDP, on account of a large negative terms of trade shock (both fuel and food prices), compounded by the continued delays in donor support, keeping transfers at low levels (by about 5 percent of GDP, compared to 2020). Over the medium term, the current account deficit is projected to gradually decline towards 6 percent of GDP, reflecting a rise in exports, which would more than offset the anticipated decline in official transfers.



Assessment. The assessment of CAR's 2021 current account suggests a substantially weaker external position than the level implied by fundamentals and desirable policies. The EBA-Lite Current Account (CA) model suggests a CA norm of -4.8 percent of GDP against a cyclically adjusted CA of -11.0 percent of GDP (Text Table 1). This implies a CA gap of -6.2 percent of GDP under current policies. The total policy gap is assessed at 4.2 percent of GDP, driven by looser fiscal policy (-0.4 percent), lower public health spending (+0.8 percent), higher growth in reserves (+4.9 percent), similar private credit (+0.0 percent), slower credit growth (+0.1 percent) and lower capital controls (-1.3 percent) compared to peers.[1]

Text Table 1. Central African Republic: EBA-lite Model Results, 2021

	CA Model 1/	**REER Model** 1/
		(In percent of GDP)
CA-Actual	**-10.6**	
Cyclical contributions (from model) (-)	0.0	
COVID-19 adjustor (-) 2/	0.0	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	0.5	
Adjusted CA	**-11.0**	
CA Norm (from model) 3/	**-4.8**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-4.8**	
CA Gap	**-6.2**	**12.7**
o/w Relative policy gap	4.2	
Elasticity	-0.15	
REER Gap (in percent)	**41.2**	**-83.5**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. CAR's REER based on the Consumer Price Index has appreciated by 3.4 percent in 2020 relative to the previous year, largely reflecting the nominal appreciation of the Euro and CFAF vis-à-vis the USD. The REER remained broadly unchanged in 2021 and started depreciating in 2022, largely driven by the currency depreciation. Since the early 2000s, the REER has been on an appreciating trend of around 2.5 percent per year, gradually eroding CAR's weak competitiveness. Negative terms of trade shocks in 2020-22 further highlight the need for economic diversification.

Assessment. The EBA-Lite Real Effective Exchange Rate (REER) model indicates a CA gap of 12.7 percent of GDP (corresponding to a REER gap of -83.5 percent). Given CAR's persistent CA deficit, staff considers the results from the REER approach less reliable and estimates the CA gap based on the CA model. As a result, CAR's external position is assessed to be substantially weaker than warranted by fundamentals and desirable policy settings and the REER is overvalued, with an exchange rate gap of 41.2 percent.

Reserves Levels and Current Account

CAR is a currency union member where reserves are pooled at the CEMAC level. More broadly, policies such as foreign exchange intervention, monetary operations as well as capital account openness are decided at the union level. Pooled reserves in the CEMAC region at end-2021 (3.0 months of GNFs) was less than half the level of adequacy for a resource rich monetary union that is subject to substantial volatility of commodity prices. Reserves coverage is however expected to increase by end-2022 (3.5 months of GNFS). CAR's contribution to the CEMAC reserves is relatively small because of its weak external position and the draw dawn of its SDR allocation.

CEMAC region's CAB has improved in recent years but has remained negative reflecting weak trade balances, structural fiscal deficits, low levels of public health expenditure among others. The CA in 2021 in the CEMAC region has been assessed to be weaker than what is implied by fundamentals. CAR contributes to this weak external position with a CA of about -11 percent in 2021. More than half of this deficit was financed by drawing down reserves. At the regional level, promoting free trade would help strengthen the CA.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2021, net capital inflows increased markedly, driven by the SDR allocation (6.4 percent of GDP). FDI remained very weak at 0.2 percent of GDP, given the increased uncertainty. The capital account at about 5 percent of GDP continued to be driven by project grants.

Assessment. Private capital flows are expected to remain depressed in 2022, given the confluence of multiple shocks: commodity prices (as CAR is a net fuel and food importer), a looming fiscal cliff and debt sustainability risks, amid heightened policy uncertainty. Going forward, gradual fiscal consolidation combined with steadfast implementation of the reform agenda to improve the business environment will help attract durable foreign capital inflows, with FDI inflows projected to reach about 1.5 percent of GDP in the medium-term.

[1] The model estimates are based on the following desirable policy levels: (i) cyclically adjusted overall fiscal balance at -1.0 percent of GDP; (ii) public health expenditure at 2 percent of GDP; (iii) change in reserves at 0 percent of GDP; (iv) private credit level at 12 percent of GDP; (v) change in private credit at 1 percent of GDP; (vi) capital control index at 0.37; (vii) real interest rate at 1 percent.

Annex IV. Lending into Arrears to Official Bilateral Creditors

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

- **Prompt financial support from the Fund is considered essential and the member is pursuing appropriate policies.** CAR continues to face significant macroeconomic challenges, which have been accentuated by the legacies of the pandemic, Russia's war in Ukraine, and deep-seated structural rigidities hindering growth. Financial support from the Fund is considered essential to allow for orderly adjustment by covering the protracted balance of payment need, catalyzing external support, and supporting the successful implementation of CAR's program. CAR's policies in the context of the negotiated ECF-supported program are aiming at strengthening macroeconomic stability and external viability through fiscal and structural reforms, notably by enhancing domestic revenue mobilization, public financial management and spending efficiency, restoring and building basic infrastructure and utilities, and improving governance and the business environment while also catalyzing additional financial support from other IFIs.

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

    - In terms of process, the CAR authorities have contacted the Libyan authorities bilaterally through letters (most recently March 2023) offering to pursue a collaborative process toward resolving the outstanding arrears. Relevant information has been shared with the Libyan authorities on a timely basis. The CAR authorities are committed to continue making their good faith efforts until all the remaining arrears are resolved.

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

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

Appendix I. Letter of Intent

Bangui, April 18, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Madam Managing Director:

1. As a result of successive global shocks since 2020 and the suspension of budget support in 2021, the Central African Republic (CAR) is facing its biggest threat to macroeconomic stability since the end of the 2013 civil war. Amid high commodity prices and recurrent fuel shortages, our population is increasingly becoming vulnerable, its livelihoods are eroding, and its access to food and basic services is drastically impaired. It is expected that the number of people needing humanitarian assistance and protection will increase by 10 percent this year to reach 3.4 million.

2. We have responded by implementing prudent fiscal policies, including adjusting spending, streamlining fuel subsidies, postponing the repayment of domestic arrears, and raising domestic borrowing. Going forward, we want to embark on a structural reform drive to improve resilience of public finances to volatility while preserving the provision of basic government services. To support us in implementing these reforms and to help us meet our external financing needs, we are formally requesting an extended arrangement under the Extended-Credit Facility (ECF) for a period of 38 months, in the amount of SDR 141.68 million (equivalent to around US$189.5 million, or 127.18 percent of CAR's quota). We also will seek to secure additional support from our multilateral development partners and other bilateral partners.

3. We intend the IMF financing to be used as follows (i) ninety percent of the proposed access would be paid directly to CAR's SDR account with the SDR Department to cover obligations to the Fund between 2023 and 2026, which are exceptionally burdensome as they divert resources away from more basic human needs; and (ii) the remaining 10 percent of proposed access would be paid into the existing BEAC IMF account which will be used by the authorities to replenish a BEAC escrow account. Funds in the escrow account will be used to safeguard essential public services—by supplementing the World Bank's operation.

4. This new arrangement will aim at supporting a robust macroeconomic framework for the economic policies and reforms that we plan to undertake over the next three years, and which are spelled out in the Memorandum of Economic and Financial Policies (MEFP). We see these reforms as critical to meeting our objectives of restoring a sustained inclusive growth and reducing poverty. To begin the implementation of our program, we have implemented three prior actions, as described in

Table 2 of the MEFP. The disbursements under the new arrangement will be subject to compliance with the performance criteria and structural benchmarks shown in tables 1 and 2 of the attached MEFP.

5. We are convinced that the measures and policies set forth in the MEFP are appropriate for meeting the objectives of the ECF-supported program but stand ready to take any additional measures that might be necessary to achieve these objectives. The government plans to consult with the IMF in advance of any revisions to the policies contained in the MEFP, in accordance with the rules on such consultation. Moreover, we will provide Fund staff with all data and information necessary to assess the policies and measures presented in the Technical Memorandum of Understanding (TMU).

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

Very truly yours,

/s/	/s/
Hervé Ndoba	Félix Moloua
Minister of Finance and Budget	Prime Minister

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

Attachment I. Memorandum of Economic and Financial Policies

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

A. Background

1. The Central African Republic has been struck by successive shocks over the last three years. The CAR has been hit by the Covid-19 crisis in 2020, an intensification of the domestic armed conflict in early 2021 which culminated in an extended closure of the trade corridor with Cameroon, the suspension of budget support by some donors and, recently, the war in Ukraine. All of the above have had substantial economic impacts. They have jeopardized macroeconomic stability and exacerbated food insecurity. In September 2022, the World Food Program (WFP) estimated that 2.4 million individuals were experiencing acute food insecurity.

2. Despite some difficulties encountered in implementing our economic program, we have continued our engagement with the IMF. The Extended Credit Facility (ECF), approved in 2019, expired in mid-2022. The delays in implementing some policies and the suspension of the budget support from donors prevented a rapid resumption of the program. A Staff Monitored Program (SMP) provided a framework for sound policy implementation in the first half of 2022, but it was impossible to complete the second review due to the uncertainties generated by granting legal tender status to cryptoassets.

3. Support from the international community remains essential in order to achieve our objectives, deal with shocks and support our population. Even though our intention is to continue our efforts to mobilize domestic revenue, the CAR's financing needs remain considerable. To achieve this, discussions are continuing with our development partners for the total resumption of budget supports. In this context, we are sparing no effort to strengthen fiscal transparency by swift, robust and concrete actions. Finally, as part of our new program supported by the ECF, we intend to forge ahead with the economic policies and structural reforms that are necessary to sustainably promote and entrench inclusive growth in the Central African Republic.

B. Recent Macroeconomic Developments

4. Economic activity was stagnant in 2022, mainly due to the suspension of budget support and the impact of the terms of trade shock caused by the war in Ukraine. After real GDP growth of 1.0 percent in 2021 thanks to the improvement in the security situation and the securing of the Douala-Bangui trade corridor, economic activity slowed down in 2022 due to various shocks. We estimate that economic activity was nearly stagnant with an estimated growth rate of 0.5 percent in 2022. The fuel shortages have had an adverse impact on the transport and the manufacturing sectors. Nonetheless, some sectors, such as forestry, mining, hospitality, and telecommunications performed well.

5. **Higher food prices were the source of inflationary pressures**. In December 2022, year-on-year inflation rose to 7.9 percent and the annual average was 5.8 percent. This high inflation is for the most part driven by higher food prices, which reached 10 percent at end-December 2022. The inflationary pressures continued in the first few months of the year 2023 following an increase of the fuel pump prices.

6. **The balance of payments is estimated to have deteriorated in 2022 due to major terms of trade shock and the lack of budget support**. From a small surplus in 2021, the balance of payments is estimated to have deteriorate in 2022 with a deficit of about 8.0 percent of GDP. The current account balance deteriorated as well by roughly 2.0 percentage points of GDP (from 11.1 percent of GDP to 13.1 percent) compared to last year. This was caused mainly by a significant drop of 9.4 percent in the terms of trade (due to shocks in fuel prices and basic food items). Imports were down by about 5.6 percent in real terms, while exports were also much lower than projected, with an increase of 2.6 percent due to the fuel crisis that affected activity. Official transfers remained at 2.0 percent of GDP, i.e., about 4 percent less than in 2020 due to the suspension of budget support from some donors.

7. **The primary budget deficit rose in 2022 because of revenue shortfalls**. Tax revenue amounted to CFAF 119 billion at the end-December 2022 as it recorded a monthly shortfall of CFAF 3 billion in the second half of the year, largely due to the drop in petroleum revenues. However, primary domestic expenditures were contained and amounted to CFAF 187.1 billion, lower than the revised budget (CFAF 191 billion), reflecting in part the low level of domestically financed investment, as well as our resolve to execute essential spending as a priority in a difficult economic situation. At the same time, we had to increase wages and salaries, mainly by hiring in the security area in order to bolster our ability to ensure peace and security throughout the entire CAR. Although we were able to control primary spending, the revenue shortfall caused the domestic primary balance to decline. We successfully financed the domestic primary balance by drawing on the remaining 2021 SDR allocation and by issuing government securities in the regional market.

8. **Reflecting the issuances of government securities and the use of SDRs, the public debt rose in 2022, yet it remained below the CEMAC convergence criteria**. Debt stock reached 51.9 percent of GDP versus 47.6 percent of GDP in 2021 due to the increase in domestic debt. To offset the tax revenue shortfall and the non-disbursement of budget support from the development partners, we raised CFAF 46 billion in government securities and we used CFAF 50.5 billion of the SDR allocation in 2022. The external public debt remained almost unchanged at 34.2 percent of GDP.

9. **We are continuing our efforts to preserve the soundness of the banking system**. Capital adequacy ratio remained sound at 23.5 percent as of end-December 2022, well above the 10.5 percent regulatory minimum. The short-term liquidity ratio was 151.8 percent, above the 100 percent regulatory minimum. Private sector loans slightly increased by 0.6 percent year-on-year in December 2022, while the non-performing loans (NPLs) remained contained at 12.4 percent in December 2022, thanks in part to the prudential easing measures implemented by COBAC in response to the pandemic. The NPLs are indeed well provisioned at 97 percent. However, the significant gaps in

terms of liquidity and concentration of NPLs among the financial institutions require heightened attention.

C. Economic Outlook and Risks

10. The short- and medium-term outlooks are highly uncertain. The baseline scenario is based on a partial resumption of budget support and a significant strengthening of economic policies in line with the new program supported by the ECF. Real GDP growth is projected to increase by 2.2 percent in 2023, driven in part by an adjustment of the price of fuel at the pump, which will generate an improvement in fuel supply. Average inflation is projected to reach 6.3 percent in 2023, above the CEMAC 3 percent target. Average growth would rise to 3 percent in 2024 and increase gradually to reach 3.8 percent in the medium term. Inflation is projected to come below the regional target and converge to about 2.5 percent from 2026 onward.

11. The success of our program supported by the ECF is subject to both upward and downward risks. The substantial deterioration of the international environment exacerbates the risks of macroeconomic vulnerabilities, which are already considerable. The deterioration of the security situation, the ongoing war in Ukraine, the spike in international prices for petroleum products and commodities on which we are highly dependent, the volatility of international financial conditions, and the potential slowdown in external demand and international value chains are major risks. In contrast, a more favorable economic dynamic for the CAR could observed from speedier implementation of the structural reforms, a faster return to peace throughout the country, significant gains in our efforts to raise tax revenue and containing government spending.

D. Program Objectives and Economic and Financial Policies

Our economic program, supported by the ECF, aims to support the reforms that are meant to improve resilience in the face of volatility in the terms of trade due to the war in Ukraine and the shocks from the lack of budget support, while preserving the provision of basic government services that are essential for the government's legitimacy. The program will concentrate on actions that have an immediate impact on the financing situation, including by catalyzing private investment while creating conditions favorable for continuing the essential structural reform programs with strong support to build capacity. More generally, we are counting on the program to mitigate the risk of a major humanitarian crisis and facilitate the recovery in order to gradually end the acute tenuous situation after the recent setbacks.

Short and Medium-Term Fiscal Policy

Fiscal Policy in 2023

12. We continue to implement prudent fiscal policy in 2023. In December 2022, Parliament voted the 2023 Finance Law, which provides for lowering the domestic primary deficit by 0.9 of GDP (from 4.5 percent of GDP to 3.6 percent), in line with our very limited financing. Domestic revenue is projected to be 7.9 percent of GDP (CFAF 131.7 billion) versus 7.8 percent (CFAF 119.0 billion) in

2022, thanks to a rebound in economic activity and a set of measures to mobilize revenue that we intend to implement in 2023. A downward adjustment of primary spending is projected to be 0.7 percent of GDP (from 12.2 percent of GDP in 2022 to 11.5 percent).

13. Regarding revenue: In the 2023 Budget Law, we adopted tax policy measures, mainly in the telecommunications and tobacco sectors, and tax administration measures, which should generate about CFAF 18.5 billion (1.1 percent of GDP). In addition, the adjustment of fuel prices at the pump should generate about CFAF 15 billion (0.9 percent of GDP). Without these measures, domestic revenue would have collapsed to 5.9 percent of GDP in 2023. More details are found in Section III C on structural reforms.

14. Regarding spending: we kept the envelope of primary spending at CFAF 191 billion—at the same level as the 2022 revised budget. We plan to make adjustments in goods and services and domestically financed investment spending. We are also committed to prioritizing domestic primary spending in order to limit hardship to vulnerable persons and to preserve essential government functions, including security.

15. We are ready to readjust the budget if necessary as it is embedded in our contingency plan. If financing in the securities market turns to be problematic, we prepared a contingency plan to be adopted and implemented in a revised budget law in mid-year with the aim to further adjust non-priority primary spending and raise additional revenues. The plan provides 0.75 percent of GDP (CFAF12.5 billion) of adjustment on domestic primary deficit composed of 0.55 percent on domestic revenues and 0.2 percent on domestic primary spending. On the revenue side, the plan includes higher excises on selected products, the acceleration of the implementation of bringing revenues collected by different ministries and agencies to the TSA, streamlining VAT exemptions and administrative measures such as the enforcement of tax liabilities. We are committed to continue working toward identifying other avenues on revenues measures to be implemented in the revised budget. On the spending side, the plan includes cutting on non-priority spending such as mission travel expenses and other non-priority domestically financed investment. We are confident that given the combination of this additional adjustment and the catalytic effect provided by the new ECF arrangement, the domestic/regional markets will be able to provide at least the same amount of gross domestic financing (CFAF 45 billion) as last year. Moreover, we are committed to strengthening efforts in the management of government finances in order to avoid any future accumulation of domestic arrears and "outstanding payments/reste a payer," which constrain private sector financing and could create risks to our banking system. On this basis, we are confident that all the quarterly quantitative and indicative targets in our new ECF program will be met.

Medium-term Fiscal Policy

16. Our medium-term fiscal policy focuses on improving revenue mobilization, reforms in managing government finances and effective spending. This policy will be guided by the objective of gradually lowering public debt, from 50.4 percent of GDP as of end-2023 to less than 43.2 percent as of end- 2027. To do so, we are committed to bringing the domestic primary balance back down to below 2.0 percent of GDP in the medium term. This strategy will go hand-in-hand with a policy of raising more domestic revenue, about 0.5 percent of GDP per year, streamlining non-priority expenditures and improving the efficiency of government spending. In order to avoid jeopardizing debt sustainability, we will resort to concessional loans only to finance our investments and we will do so within the limits established in the program supported by the ECF.

17. We are continuing our efforts to facilitate the disbursement of budget support from the development partners. Given the importance of the contribution from our development partners for financing our country's financing needs and supporting our people, we will continue the dialogue with donors. We will spare no effort to strengthen fiscal transparency with rapid, strong and concrete actions, and we stand ready to explore alternative fiscal arrangements in order to reassure donors and ensure ongoing support for our population.

Financing and Public Debt Management Policy

Financing for the 2023 Budget

18. Sustainable financing for the 2023 budget is essential. We intend to raise the amount of CFAF 80 billion on the regional securities market in order to complement the mobilization of domestic revenue. In addition, we are working with the World Bank (WB) to meet the requirements for its financing requirements of seven social ministerial departments and this work is advancing well. The disbursement under the ECF will also cover a portion of the residual financing requirement. However, if the expected external financing does not materialize, we will meet the residual financing need by issuing more government securities in the regional market.

19. One of the government's priorities is to improve communication with securities market stakeholders. Since most of our financing needs will be covered by issuing government securities, we will strengthen our relations with investors to expand the number of primary dealers and their active involvement in issuing securities.

Public Debt Management Strategy

20. We continue our efforts to improve public debt management. We have taken necessary measures so that the Public Debt Directorate has all the information it needs in order to comprehensively monitor our commitments. We are also working to renew the license for the Debt Management and Financial Analysis System (DMFAS) program with support from our partners. We will continue to prepare the debt management report on an annual basis and publish it on the Ministry of Finance website. We will continue to negotiate in good faith with the creditors to whom we owe pre-HIPC arrears and with whom we have yet to complete debt relief agreements.

21. By end-September 2023, we will put in place a framework to strengthen the coordination of public debt management and coordination with fiscal policy (*structural benchmark*). The framework will be put in place with technical assistance from the International Monetary Fund. The General Directorate of the Budget (DGB), the Cooperation Directorate, the Central Treasury Accounting Agency (ACCT), the Economic and Financial Reforms Monitoring Unit

(CSREF), the Debt and Government Portfolio Directorate and other departments intervening in managing the public debt, would be involved. The functioning of this framework will be set forth by a regulatory text.

22. There will be a specific strategy for the sizable repayments of government securities in May and August 2023 in order to avoid payment default. The government will reach out to the holders of these securities explaining sustainability of its policies in the context of the ECF-supported program and offer to rollover them and/or to buy back some of them, or to place resources in the escrow account with the BEAC in order to make repayments when they are due

23. Better preventive management of domestic arrears is necessary to lower budgetary risks and limit the negative effects on the private sector. We will conduct a survey of all domestic arrears and prepare a plan to clear them. We will begin a thought process on the securitization of arrears that have already been audited. Likewise, we will propose a strategy to stop the accumulation of new arrears as soon as possible. The strategy will include as a minimum: (i) a detailed timeline; (ii) the criteria that will be used to liquidate arrears in order to minimize the possibility of favoritism and corruption in the selection of beneficiaries; and (iii) to improve the cash flow plan and synchronize it with the consolidated accounts, the commitment plan and the government securities issuance plan.

24. The control of the domestic debt to state owned enterprises is an important objective of our policy. The audit of the arrears of the three state owned enterprises (ENERCA, SODECA and SOCATEL) has been completed. We prepared a plan to clear those arrears, however, we have been unable to implement said payment plan. We will audit the arrears acquired starting in 2019. We are committed to duly recording all new arrears in the debt books by June 2023. In addition, we are committed to updating the arrears payment plan to include the new arrears no later than November 2023. Furthermore, we will monitor the strict enforcement of the provisions of Law 20/004, which requires that all government entities obtain written authorization from the Ministry of Finance and Budget before any loan agreement is signed.

25. Given the high risk of debt distress, we will continue resorting to grants and not enter into any non-concessional loan agreements. The use of concessional loans will be limited to the priority investment projects for which it will not be possible to obtain grants, and within the limits agreed upon with the IMF. In order to not further increase the already high ratios of debt service with respect to export and revenue in the medium term, these loans will have to have long grace periods and/or repayment schedules.

Structural Reforms

This section reports on the actions we have taken and will take in order to increase revenue mobilization, improve the business environment and ensure social protection and transparency in fiscal management.

Improve and Strengthen Domestic Revenue

26. We will implement a series of measures to strengthen our ability to collect and strengthen tax revenue. In particular:

- In September 2022, we set up a committee to monitor the income received directly by the ministries in exchange for services provided to users. The purpose of this committee is to propose specific measures to incorporate this revenue into the Treasury Single Account (TSA) ***(structural benchmark)***. Based on this committee's guidelines, we performed an inventory of the income received directly by the ministries. The final objective of this measure is to transfer all the funds that are collected by the ministries to the Treasury Single Account.

- To increase tax collection, we prepared a plan that will enable us to recover CFAF 2.7 billion in additional taxes. The plan consists of: (i) implementing the ministerial order making the systematic use of the e-filling system mandatory fit large taxpayers ; (ii) levying a 10 percent penalty (on the value of the imports) and a minimum of CFAF 1 million in payment of duties to importers that are not registered in the tax administration's taxpayer registry; (iii) collecting all amounts owed by all importers and beneficiaries of government that are behind on their tax obligations ; and (iv) a joint mission between the Tax Administration, the Customs Administration and the Trade Administration in the districts of the city of Bangui.

- Customs began to implement the following measures in 2023: (i) applying the CEMAC HS2022 Common External Tariff; (ii) applying tax rates for operations that are subject to codes 800 and 200 that are currently exempt; and (iii) creating the code 900 in ASYCUDA to manage mining sector exemptions.

- With the TFPs technical assistance, including the IMF, we will conduct a study of tax expenditures (tax exemptions) that significantly affect the tax revenue collection. The results of this study, and the recommendations of studies already conducted by our technical and financial partners (AfDB and the WB), will be used to prepare a workplan to better manage tax exemptions. This plan should include a review of the relevance of exemptions given the CAR's economic and social priorities and a detailed list of measures that aim to improve transparency in the use of tax exemptions.

- We are progressing toward implementing the e-filling system. Even though we have experienced delays in implementing the system, we are committed to having all large enterprises use the e-filing system by end-December 2023. We will gradually expand the use of the e-filing system to medium-sized enterprises beginning in Q4-2023, and we will make it mandatory for all large enterprises starting in January 2024. With the help of the European Union, we are developing and putting into operation the computer system that will allow the implementation of the e-declaration and e-payment for all companies, this system should be fully operational in the third quarter of 2023 (***structural benchmark***).

- With support from the European Union, we migrated from ASYCUDA ++ to ASYCUDA World. We plan to gradually deploy the system to the entire country. This will facilitate information sharing between the systems of the Tax Administration and the Customs Administration. We expect to finalize the system deployment by end-June 2023.

Reform the Hydrocarbons Sector

27. We are determined to reform the hydrocarbons sector. In order to discourage the informal market, protect the most vulnerable people, address fuel shortages and ensure revenue collection, we are committed to: (i) calculating the price of hydrocarbons applying the tax[1] and quasi-taxes[2] rates following the provisions in the tax code, the budget law and the CEMAC directives, and (ii) signing an inter-ministerial decree with the new hydrocarbon prices i.e., lowering the official after-tax pump prices in line with IMF recommendations on fuel prices (***structural benchmark***). The official price will be set at CFAF 1,100 per liter of gasoline, CFAF 1,350 for diesel and CFAF 850 for kerosene We will explore the implementation of the recommendations from the IMF technical assistance mission, and in particular we will: (i) conduct an audit and a review of supply cost components (margins and expenses); (ii) Unification of the price formula by import route; (iii) streamline parafiscality and oil taxes into one single contribution, and one single tax respectively; (iv) implement a call for tenders for public imports of hydrocarbons for the authorized market; and (v) introduce an automatic price adjustment mechanism that is appropriate in the context of the CAR.

Strengthen Fiscal Management

28. As part of the ongoing discussions with donors on budget support, we are strengthening fiscal transparency significantly:

- We will continue to invite technical and financial partners to the monthly treasury committee meetings.

- In November 2022, we began the process of the PEFA (Public Expenditure and Financial Accountability) assessment for the years 2018—2020. Once finalized, we will send the draft report to all our technical and financial partners no later than April 2023, and the results of the assessment will be published as soon as the final report becomes available.

- In order to maximize transparency in the management of budget support and to assure our development partners that the funds that are disbursed will not be used for other purposes, we created an escrow account at the BEAC to deposit 10 percent of IMF disbursements to supplement the World Bank's operation to guarantee the delivery of social services (***Prior action***).

[1] VAT, Customs Tax, CEMAC Community Tax, ECCAS Integration Community Contribution, and the Single Petroleum Products Tax (TUPP).

[2] IT Equipment Fee (REI), Financing Extension of Storage, Control and Fraud Control Capacities and the Highway Usage Fee (RUR).

- We prepared and published online the quarterly fiscal reporting table in 2022.[3] They were prepared using the format proposed by IMF staff, and they can be used to perform a more detailed and coherent analysis of the budgetary situation. We will continue to publish said tables in 2023, no later than 45 days after the quarter ends.

29. We are making progress in consolidating the Treasury Single Account (TSA) and in computerizing fiscal management. The draft agreement between the BEAC and the Treasury for managing the TSA has advanced considerably. However, some important annexes related to the architecture of the TSA, the list of subaccounts and the scope of the TSA must be finalized before the agreement is signed. We expect to sign the agreement before April 15, 2023. Even though we experienced some technical constraints, the interconnection of the Sygma-Systac software and the SimBa software, which will enable us to better monitor budget execution, is operational. Also, we will execute the budget with this system. Since January 2022, we are using the new digital application to manage pension arrears, which put an end to the accumulation of arrears for new retirees, this application takes in charge of pensions for new retirees immediately after they retire.

30. We will produce quarterly fiscal tables based on the Government Finance Statistics Manual 2014 methodology. The fiscal tables will enable us to better: (i) plan and monitor expenditures; (ii) assess the performance of the various ministries and governmental entities and; (iii) coordinate interministerial arrangements by providing an overview of the use of government funds. We will use the relay tables provided by TA from the Committee Technical Secretariat Fund (STC)-TOFE and submit the results to the IMF (Central AFRITAC).

31. Ensuring transparency, financial accountability, preventing corruption and properly managing government finances are among our priorities. Given the important role that the Court of Audits plays to ensure transparency in government finances and prevent corruption and fraud, we are committed to reviewing the organic law that governs it to ensure that it is operational and financially independent. We will submit the revised law to the council of ministers no later than February 2024 (***structural benchmark***). With the support of the European Union, a draft law was prepared and submitted to the Ministry of Justice for review. A copy of this draft will be sent to all our technical and financial partners to collect their comments in order to ensure that the law is consistent with CAR legislation and good international practices.

32. We will not hesitate to take all action necessary to reassure our financial and development partners as to transparency in resource use. In response to the World Bank requirement for disbursing to guarantee the delivery of social services, the government audited the balance of the seven ministries selected, including the ministries of health and education. We are committed to taking all measures necessary to complete the audit of the software used to manage the payroll and to take all necessary measures to correct all issues that may be found, before end-June 2023.

[3] Available here, here, here and here

33. We are pursuing our efforts to strengthen transparency in government procurement. We published the names of the companies that have benefit from transfers intended to help them cope with the Covid-19 pandemic and the criteria for selecting them until such contracts took place. Thus, we will continue to publish all detailed information on all public contracts above the threshold of CFAF 10 million, including the names of the beneficial owner, a measure that has been in effect since August 2021.[4] We will continue to provide all information that the August 4, 2021, ministerial order requires.

34. We will accelerate the implementation of the action plan with prompt results agreed upon with the Fiscal Affairs Department, Central AFRITAC and the UNDP. This initiative is part of for the transition to program budgeting and accrual basis accounting. To this end, we commit to implement multiyear scheduling of investments and fiscal decentralization by 2025. We will continue preparing the transition to accrual basis accounting by speeding up the work to audit the aggregates balance of government accounts and by adopting the government accounting standards and regulation on the implementation of the stock and fixed assets regulation. As a first step of the accounting reform, we promulgated the decree transposing CEMAC Directive No. 01/20-UEAC-CM-35 of September 8, 2020 relating to stock and fixed assets accounting into domestic law ***(Prior action).*** This will help improve the sincerity, exhaustivity and transparency of public accounts and demonstrate our commitment to transparency in the eyes of our partners.

Strengthen the Institutional Framework of the Business Environment and Social Protection

35. Strengthening the social safety net to protect the most vulnerable is part of our reform agenda. The WB allocation for the PACAD program (Support to Communities Affected by Displacement) will end in June 2023. Given the importance of the program, we are committed to financing it using own funds within the limit of budgetary resources provided for by the 2023 Budget Law.

36. Despite fiscal consolidation efforts, we are committed to keeping social expenditures at an adequate level in accordance with our quantitative targets in the program. Our ECF program consists of a quantitative target for executing budgetary expenditures for the social sectors, including health, education, social protection and humanitarian activities. This achievement criterion is currently limited to executing expenditures from own funds for which the government has greater control. However, in the program, we will explore the possibility of expanding the scope of the achievement criterion to the key social projects funded by donors in order to ensure that all the programs are properly executed to serve the people.

37. We are continuing our efforts to improve the business environment:

- We will ensure that all comments from the technical and financial partners on the mining code are taken into account before being voted upon by the National Assembly. Hence, we will ensure that the mining code is consistent with the FATF recommendations in terms of the fight against

[4] Available here.

money laundering and the financing of terrorism, and with the CEMAC directives respecting foreign exchange regulation. With World Bank support, we are committed to submit and adopt the new mining code (World Bank conditionality), as well as the mining convention model, and the regulatory texts that will govern the mining fund and the new public agencies in accordance with good international practices

- The anti-corruption draft law, which is consistent with IMF staff recommendations and the requirements of the United Nations Convention against Corruption (UNCAC), was submitted to the National Assembly on February 4, 2022. However, Parliament has yet to vote on this law. We will follow up on this with the National Assembly and ensure that this law is adopted no later than March 2024 (**structural benchmark**).

- We are making progress in implementing the recommendations of the National Economic and Financial Committee (CNEF). Thus, we have: (i) sent the draft statutes to the Central African Banking Commission (COBAC), as they will be the operating framework for the arbitration and mediation center and the arbitration unit in the commercial court in charge of banking and financial disputes; and (ii) the CNEF, adopted the articles of association of the company in charge of collecting delinquent bank claims. The first constituent general meeting will be convened no later than end-December 2023.

- Due to the inconsistencies in the law respecting crypto assets with the regulatory framework of the subregion, in collaboration with CEMAC staff, we repealed the relevant provision in the cryptocurrency legislation which provide legal tender status and convertibility of crypto assets. We will also mitigate the risks for fiscal and macrofinancial stability. More specifically, articles 1, 4, 5, 7, 10, 11, 12, 20, 22, 23, and 24 of the legislation cryptocurrency legislation have been amended (***Prior action***).

- Regarding the Sango project and projects related to crypto-assets, we will continue to cooperate with the regional institutions to ensure consistencies with the CEMAC legal framework with the view of safeguarding macro-financial stability and fiscal sustainability.

Capacity Building

38. Technical assistance and training provided by the IMF and the other partners will be essential in the coming years to strengthen our institutional capacity and ensure the success of implementing this new program supported by the ECF. We receive ongoing technical assistance with the support of the Fund, the World Bank Group, the European Union, the AfDB and other development partners in the following areas: (i) improve revenue administration; (ii) strengthen fiscal management, improve fiscal governance and anti-corruption mechanisms; (iii) build economic programming and debt management; and (iv) upgrade the quality of economic and financial statistics.

Program Monitoring

39. The program will be monitored using quantitative performance criteria, indicative targets and structural benchmarks as defined in the technical memorandum of understanding (Attachment II). Quantitative performance criteria were set for end-June and end-December 2023, and the indicative targets were set for end-March 2023, end-September 2023 and end-March 2024 (Table 1). Structural benchmarks have been put in place up to February 2024 (Table 2). The first review of performance under the ECF arrangement will take place on or after October 30, 2023. The second performance review will take place on or after April 30, 2024. We will continue to provide IMF staff with the data and statistical information identified in the attached technical memorandum of understanding, as well as any other information they may deem necessary or that IMF staff may request for monitoring purposes.

Table 1. Central African Republic: Quantitative Performance Criteria and Indicative Targets, 2023-24

(CFAF Billions; cumulative from beginning of the year, unless otherwise specified)

	End-March 2023	End-June 2023	End-September 2023	End-December 2023	End-March 2024
	IT	PC	IT	PC	IT
Quantitative performance criteria					
Net domestic government financing (ceiling, cumulative flows for the year)	19.0	11.0	28.0	37.0	13.0
Domestic revenue (floor, cumulative for the year) [1]	30.0	62.0	96.0	130.0	37.0
Domestic primary fiscal balance (floor, cumulative for the year)[2]	-12.0	-24.0	-35.0	-64.0	-15.0
Continuous performance criteria					
Contracting or guaranteeing of new external non concessional debt (ceiling, cumulative from January 1, 2023) [3,4]	0.0	0.0	0.0	0.0	0.0
Disbursement of external non concessional debt (ceiling, cumulative from January 1, 2023) [3,4]	0.0	0.0	0.0	0.0	0.0
Non accumulation of external payments arrears (ceiling, cumulative for the year)[3,4]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Social spending (floor, cumulative for the year)[5,6]	2.5	8.0	17.0	22.0	4.0
Spending through extraordinary procedures (ceiling, cumulative for the year)	1.5	2.5	4.0	5.0	2.0
New concessional/external debt contracted or guaranteed by the government (ceiling, cumulative for the year)	20.0	20.0	20.0	20.0	20.0
Memorandum items:					
Budget support	0.0	18.0	18.0	26.6	0.0
Privatization receipts	0.0	0.0	0.0	0.0	0.0

Sources: CAR authorities and IMF staff estimates.

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

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

[3] These objectives will be monitored continuously.

[4] Contracted or guaranteed by the government.

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

[6] Social spending include also the allocation of CFAF 500 million to PACAD project.

Table 2. Central African Republic: Prior Actions and Proposed Structural Benchmarks

Program Objectives	Proposed Structural Benchmarks	Macroeconomic Rationale	Timeline
Prior actions	Repeal the relevant provisions in the cryptocurrency legislation (no. 22.004 of April 22, 2022) which provide for the legal tender status and convertibility of crypto assets.	Safeguard macrofinancial stability	Five days before the board date
	Establish an escrow account at BEAC to supplement a World Bank cost recovery or any other social protection program which will be replenished by the existing BEAC-IMF account where the ECF disbursements will be deposited.	Improve accountability and expenditure management	
	Promulgate the decree transposing CEMAC Directive No. 01/20-UEAC-CM-35 of September 8, 2020, relating to stock and fixed assets accounting into domestic law, which should help improve the sincerity, exhaustivity and transparency of public accounts	Improve transparency and accountability (building block towards an accounting reform)	
Improve revenue collection	Operationalize key functions of the new IT system for domestic revenues, including online registration, online declaration and electronic payments.	Improve revenue collection	SB **first** review (October 2023)
	Address fuel shortages and stabilize government revenues by: (i) calculating the hydrocarbon price structure while respecting the tax rates* and quasi-taxes** defined in the tax code, the finance law, and the CEMAC directives; and (ii) signing an inter-ministerial decree with the new hydrocarbon prices in line with IMF TA recommendations on fuel prices.	Improve transparency and revenue collection	SB **first** review (October 2023)
	Transfer to the TSA all the funds collected directly by the ministries in exchange for services provided to users	Improve revenue collection	SB **second** review (April 2024)
Improving transparency and governance	Establish a public debt coordination and management framework with IMF TA support.	Improve transparency and manage debt-related risks	SB **first** review (October 2023)
	Adopt the anti-corruption law submitted to parliament on February 4, 2022	Improve transparency and revenue collection	SB **second** review (April 2024)
	Submit to the Cabinet a draft new organic law that regulates the statute and functions of the Court of Audit, in accordance with the IMF recommendations that it ensures its financial and operational independence	Improve accountability and governace	SB **second** review (April 2024)

Note: * VAT, Import duty, CEMAC Community Tax, Community Contribution for ECCAS Integration, and Tax on Petroleum Products
** Finance IT equipment fee (REIF), Storage capacity extension financing, Control and fight against fraud, Road usage fee (RUR)

Attachment II. Technical Memorandum of Understanding

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

A. Definitions

2. **Unless otherwise specified, the government is defined as the central government of the CAR** and does not include any local governments, the central bank, or any public entity with separate legal personality (i.e., enterprises wholly or partially owned by the government) that are not included in the government financial operations table (TOFE).

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

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

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

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

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

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

(c) **External debt** and **domestic debt** are defined on the basis of the residency of the subscriber, with the exception of: (i) Treasury bills and bonds and other securitized debt issued by the government on the CEMAC regional financial market and not held by the local banking system, which are considered part of the domestic debt; and (ii) any Bank of Central African States (BEAC) credit to the government, including the use of the SDR allocation, which is considered part of the domestic debt.

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

5. **Concessional debt. Concessional debt is defined as debt with a grant element of at least 35 percent.** The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value. The present value of the debt on the date on which it is contracted is calculated by discounting the debt service payments on the date on which the debt is contracted. The discount rate used for this purpose is 5 percent.

6. **Total government revenue** is tax and nontax revenue, or other revenue recorded on a cash basis. Proceeds from the sale of financial assets, revenue from privatizations or from the granting or renewal of licenses, and investment proceeds on government assets and grants are not considered government revenue for the purposes of the program.

7. **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees, goods and services, transfers (including subsidies, grants, social benefits, and other expenses), interest payments and investment expenditure, recorded on a settlement basis, unless otherwise stated. Total government expenditure also includes expenditures executed before payment authorization and not yet regularized.

8. **Wages and salaries** correspond to the compensation of government employees as described in paragraphs 6.8–6.18 of *GFSM 2014*, namely, all employees (permanent and temporary), including members of the armed and security forces. Compensation is defined as the sum of wages and salaries, allowances, bonuses, pension fund contributions, and any other form of monetary or non-monetary payment.

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

10. Domestic payment arrears are the sum of: (i) payment arrears on expenditures; and (ii) payment arrears on domestic debt.

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

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

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

B. Quantitative Targets

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

Quantitative Performance Criteria

Ceiling on Net Domestic Financing of the Government

- **Net domestic financing of the government** is defined as the sum of (i) net bank credit to the government, defined below; and (ii) non-bank financing of the government, including proceeds from the sale of financial assets, proceeds from privatizations or the granting of licenses, Treasury bills and bonds and other securitized debt issued by the government in the CEMAC regional financial market, denominated in CFA francs and not held by the local banking system, and any Bank of Central African States (BEAC) credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDRs).

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

Floor on Domestic Government Revenue

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

Floor on the Domestic Primary Fiscal Balance

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

Ceilings on New Non-Concessional External Debt Contracted or Guaranteed by the Government

- The government undertakes not to contract or guarantee **non-concessional debt**. This continuous quantitative benchmark is assessed on a cumulative basis from January 1, 2023. This continuous performance criterion will be monitored continuously by the authorities and any non-observance will be immediately report to the Fund.

Non-accumulation of New External Payment Arrears by the Government

- **The government undertakes not to accumulate external payments arrears** on an external debt contracted or guaranteed by the government, with the exception of arrears relating to debt that is the subject of renegotiation or rescheduling. This quantitative benchmark is applied on a continuous basis. This continuous performance criterion will be monitored continuously by the authorities and any non-observance will be immediately report to the Fund.

Non-Disbursement of External Non-Concessional Debt

The government undertakes not to disburse **external non-concessional debt**. This continuous quantitative benchmark is assessed on a cumulative basis from January 1, 2023. This continuous performance criterion will be monitored continuously by the authorities and any non-observance will be immediately report to the Fund.

Indicative Targets

Floor for Social Spending

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

Ceiling on Spending using Extraordinary Procedures

- This ceiling is set at 5 percent of total non-wage spending, debt service (principal and interest) and externally financed spending.

Ceiling on New External Concessional Debt Contracted or Guaranteed by the Government

- This ceiling is set at CFAF 25 billion in 2023 and CFAF 15 billion in the first quarter of 2024.

13. In addition to the specific QPCs listed in paragraph 12, as for any Fund arrangement, continuous QPCs also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) nonintroduction or modification of multiple currency practices; (iii) non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) non-imposition or intensification of import restrictions for balance of payments reasons. These continuous QPCs, given their non-quantitative nature, are not listed in the QPC table annexed to the MEFP

C. Adjusters of Quantitative Performance Criteria

14. To take into account factors or changes that are essentially outside the government's control, **various quantitative performance criteria** will be adjusted as follows:

- If total revenue from privatizations, sales of financial assets or renewals of telecommunications licenses or forestry or oil licenses is greater than the amount programmed, the following adjustments will be made:

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

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

- If total budgetary support exceeds the amount programmed, the ceiling on net domestic financing of the government will be adjusted downward by an amount equivalent to 100 percent of the difference between the programmed and actual disbursements.

- If total budgetary support is less than the amount programmed, the ceiling on net domestic financing of the government will be adjusted upward by an amount equivalent to 100 percent of the difference between the programmed and actual disbursements.

D. Prior Actions

15. These measures must be implemented at least five days before the IMF Executive Board meeting.

- Repeal of the relevant provisions in the cryptocurrency legislation (n°22.004 of April 22, 2022) which provide for the legal tender status and convertibility of crypto assets.

- Establishment of an escrow account at BEAC to supplement a World Bank's operation to guarantee the delivery of social services or social protection program which can be replenished by the existing BEAC IMF account where ECF disbursements will be made.

- Promulgate the decree transposing CEMAC Directive No. 01/20-UEAC-CM-35 of September 8, 2020, relating to stock and fixed assets accounting into domestic law, which should help improve the sincerity, exhaustivity and transparency of public accounts.

E. Structural Benchmarks

16. The following structural benchmarks should be implemented for the first and second review of the ECF arrangement:

- Operationalize key functions of the new IT system for domestic revenues, including online registration, online declaration, and electronic payments.

- Address fuel shortages and stabilize government revenues by: (i) calculating the hydrocarbon price structure while respecting the tax rates[1] and quasi-taxes[2] defined in the tax code, the finance law, and the CEMAC directives; and (ii) signing an inter-ministerial decree with the new hydrocarbon prices in line with IMF recommendations on fuel prices.

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[1] Those rates include VAT, Import duty, CEMAC Community Tax, Community Contribution for ECCAS Integration, and Tax on Petroleum Products.

[2] Those quasi-taxes include Finance IT equipment fee (REIF), Storage capacity extension financing, Control and fight against fraud, Road usage fee (RUR).

- Transfer to the TSA all the funds collected directly by the ministries in exchange for services provided to users

- Submit to the Cabinet a draft new organic law that regulates the statute and functions of the Court of Audit, in accordance with the IMF recommendations that it ensures its financial and operational independence. This organic law will be submitted to the cabinet no later than February 2024.

- Adopt the anti-corruption law submitted to parliament on February 4, 2022. This new anti-corruption law should comply with IMF staff recommendations as well as the requirements of the United Nations Convention against Corruption and the Financial Action Task Force and be adopted by the National Assembly by the end of March 2024.

- Put in place a public debt coordination and management framework with the technical assistance of the IMF. The functioning of this framework will be defined by a regulatory text which will be put in place before the end of September 2023.

F. Reporting of Data to the IMF

17. Quantitative data on the government's indicative targets will be reported to IMF staff according to the frequency set out in Table below. Moreover, all data revisions will be promptly reported. 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 achieved.

Table 1. Central African Republic: Reporting of Data to the IMF under the Extended Credit Facility

Description of data to be provided in Excel format	Deadline
Semi-annual evaluation report on qualitative indicators and structural measures (Tables 1 and 2 in the MEFP), accompanied by supporting documents.	Within four weeks of the end of each quarter
Monetary survey, monthly central bank and commercial bank accounts	Within four weeks of the end of each month
Table of the government's monthly cash flow operations, reconciled with the BEAC	Within 10 days of the end of each month
Government financial operations table (TOFE)	Within four weeks of the end of each month
Total monthly amount of domestic payments arrears on goods and services and on wages, including unpaid pensions and bonuses	Within four weeks of the end of each month
End-of-period stock of external debt	Within four weeks of the end of each month
Breakdown of expenditures included in the TOFE (goods, services, wages, interest, etc.)	Within four weeks of the end of each month
Summary table of actual expenditure in priority sectors, such as health, education, and security	Within four weeks of the end of each quarter
Breakdown of current and capital expenditure, whether domestically or externally funded	Within four weeks of the end of each quarter
Breakdown of revenues by institution and economic classification	Within four weeks of the end of each quarter
Revenue and expenditures netted out without a cash settlement (by expenditure and revenue type)	Within four weeks of the end of each quarter
Breakdown of debt service and external arrears, by principal and interest and by main creditors	Within four weeks of the end of each month
Amount of new non-concessional and concessional external debt contracted by the government	Within four weeks of the end of each month
Actual disbursements for projects and programs receiving foreign financial assistance and external debt relief granted by external creditors (including the date, amount, and creditor)	Within four weeks of the end of each month

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

April 18, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR 38-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

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

CONTENTS

RELATIONS WITH THE FUND

(As of December 31, 2022)

Membership Status: Joined: July 10, 1963.

General Resources Account	SDR Million	%Quota
Quota	111.40	100.00
IMF's Holdings of Currency (Holdings Rate)	110.89	99.55
Reserve Tranche Position	0.52	0.46

SDR Department	SDR Million	%Allocation
Net cumulative allocation	160.14	100.00
Holdings	0.76	0.48

Outstanding Purchases and Loans:	SDR Million	%Quota
RCF Loans	38.15	34.25
ECF Arrangements	164.48	147.65

Latest Financial Commitments

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Dec 20, 2019	Jul 11, 2022	83.55	35.81
ECF	Jul 20, 2016	Jul 10, 2019	133.68	133.68
ECF	Jun 25, 2012	May 01, 2014	41.78	6.96

Outright Loans[1]

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Apr 20, 2020	Apr 22, 2020	27.85	27.85
RCF	Sep 14, 2015	Sep 24, 2015	8.36	8.36
RCF	Mar 18, 2015	Mar 26, 2015	5.57	5.57

[1] Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e. Board approval date.

Overdue Obligations and Projected Payments to Fund (SDR Million; based on existing use of resources and present holdings of SDRs)[2]

	Forthcoming				
	2023	**2024**	**2025**	**2026**	**2027**
Principal	17.49	25.79	32.94	37.08	35.65
Charges/ Interest	4.60	4.65	4.65	4.65	4.65
Total	22.09	30.44	37.59	41.73	40.30

Implementation of HIPC Initiative

Commitment of HIPC assistance	**Enhanced Framework**	
Decision point date	Sep 2007	
Assistance committed		
by all creditors (US$ Million) [3]		578.00
Of which: IMF assistance (US$ million)		26.77
(SDR equivalent in millions)		17.19
Completion point date		Jun 2009
Disbursement of IMF assistance (SDR Million)		
Assistance disbursed to the member		17.19
Interim assistance		6.59
Completion point balance		10.60
Additional disbursement of interest income [4]		0.90
Total disbursements	18.09	

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

[3] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[4] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI)

MDRI-eligible debt (SDR Million)[5]	4.02
Financed by: MDRI Trust	1.90
Remaining HIPC resources	2.13

Debt Relief by Facility (SDR Million)

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

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR Million)	Amount Disbursed (SDR Million)
N/A	Apr 13, 2020	2.96	2.96
N/A	Oct 02, 2020	2.92	2.92
N/A	Apr 01, 2021	2.92	2.92
N/A	Oct 06, 2021	1.53	1.53
N/A	Dec 15, 2021	2.65	2.65

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments

[5] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). Under the IMF safeguards policy and in line with the four-year cycle for safeguards assessments of regional central banks, an update safeguards assessment was completed in 2022. The assessment found that the BEAC maintained strong governance arrangements following the comprehensive 2017 legal reforms that strengthened both governance and autonomy arrangements, and completed the supplementary work on secondary legal instruments in 2019. The BEAC accomplished an important milestone and strengthened its financial reporting practices with the implementation of International Financial Reporting Standards. The external audit arrangements continue to be robust with joint audits conducted by experienced firms. Nevertheless, the internal audit function faces capacity constraints and has not yet achieved full alignment with international practices, and efforts are needed to develop the risk management function, cyber resilience, and business continuity and disaster recovery plans. The BEAC has initiated the efforts toward implementing the safeguards recommendations.

Exchange Rate Arrangement

The de jure exchange rate of the Central African Monetary Union (CAMU) is a conventional peg. CAR participates in the CAMU and has no separate legal tender. CAR's currency is the CFA Franc which, since January 1, 1999, is pegged to the euro at the rate of EUR 1 = CFAF 655.957. CAR maintains an exchange system that is free from restrictions and multiple currency practices on payments and transfers for current international transactions.

Article IV Consultations

The CAR is currently on the standard 24-month cycle for Article IV consultations for program countries. The last Article IV consultation was concluded on December 19, 2018.

Resident Representative

Samba Mbaye since October 2022

Table 1. Central African Republic: Fund Technical Assistance

Date	Department	Purpose
Jan. 2019	FAD	Revenue administration
Jan. 2019	AFRITAC	Public debt management
Jan. 2019	FAD	Revenue administration
Jan.2019	AFRITAC	Public finance management
Feb. 2019	AFRITAC	National accounts - Regional seminar
Mar. 2019	STA	Balance of payments statistics
May. 2019	AFRITAC	National accounts - Regional seminar
Jun. 2019	FAD	Revenue administration
Jun.2019	AFRITAC	Macro-framework
Jul. 2019	FAD	Tax policy
Aug. 2019	FAD	Gouvernance diagnostic
Aug. 2019	AFRITAC	Public finance management
Aug. 2019	AFRITAC	National accounts
Sep. 2019	AFRITAC	Tax policy
Oct. 2019	AFRITAC	Public finance management
Nov. 2019	FAD	Revenue administration
Nov. 2019	AFRITAC/FAD	Public finance management
Jan. 2020	FAD	Revenue administration
Jan. 2020	STA	Public sector debt statistics
Feb. 2020	AFRITAC	Customs administration
Mar. 2020	FAD	Revenue administration
Mar. 2020	STA	External sector statistics
Jun. 2020	AFRITAC	Macro-framework
Jun. 2020	AFRITAC	Government finance statistics
Sep. 2020	AFRITAC	Public finance management - Regional webinar
Oct. 2020	FAD	Public finance management
Nov. 2020	AFRITAC	Tax policy
Mar. 2021	FAD	Public finance management
Apr. 2021	FAD	Public finance management
May 2021	AFRITAC	Macro-framework
May 2021	STA	National accounts
Jul. 2021	AFRITAC	Macro-framework
Jul. 2021	AFRITAC	Tax policy

Table 1. Central African Republic: Fund Technical Assistance (concluded)

Date	Department	Purpose
Jul. 2021	AFRITAC	Government finance statistics
Sep. 2021	AFRITAC	Macro-framework
Nov. 2021	STA	Public sector debt statistics
Dec. 2021	FAD	Public finance management
Dec. 2021	FAD	Customs administration
Jan. 2022	FAD	Public finance management
Jan. 2022	AFRITAC	Public finance management
Feb. 2022	AFRITAC	Macro-framework
Mar. 2022	AFRITAC/FAD	Public finance management
Apr. 2022	FAD	Public finance management
Apr. 2022	AFRITAC/FAD	Customs administration
Apr. 2022	STA	Balance of payments statistics
May 2022	AFRITAC	National accounts
May. 2022	STA	Balance of payments statistics
Jun. 2022	AFRITAC	Government finance statistics
Jun. 2022	AFRITAC	Debt management
Jun. 2022	AFRITAC	Balance of payment - Regional webinar
Jul. 2022	AFRITAC/FAD	Tax policy
Sep. 2022	AFRITAC	Customs administration
Oct. 2022	AFRITAC/FAD	Public finance management
Oct. 2022	AFRITAC	Fiscal statistiques - Regional webinar
Oct. 2022	AFRITAC	Debt management
Dec. 2022	FAD	Public finance management

Source: IMF staff

WORK PROGRAM WITH PARTNER INSTITUTIONS

1. **The Fund and partner institutions collaborate closely.** Staff from the World Bank and other development institutions regularly participate in IMF missions. The World Bank's analysis and advice on structural reforms and reducing poverty informs the Fund's recommendations. The Fund coordinates its capacity building and technical assistance with development partners and there are regular meetings in Bangui. The World Bank and the Fund participate in monthly meetings of the treasury committee.

2. The World Bank work program can be found on the following website: http://www.worldbank.org/en/country/centralafricanrepublic

3. The African Development Bank work program can be found on the following website: https://www.afdb.org/en/countries/central-africa/central-african-republic/

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings but is broadly adequate for surveillance. Issues with source data and compilation affect most data sets. The ongoing capacity development strategy aims to produce more accurate statistics on prices, national accounts, government finance statistics, and the external sector.

National Accounts: *Annual national accounts estimates are available until 2019. The series currently available are compiled with an outdated base year (2005) and follow the recommendations of the System of National Accounts 1993 (1993 SNA). STA and AFRITAC Central provide technical assistance to produce national accounts data, but progress is hampered by low capacity, staff turnover, and a weak statistical system. A GDP rebasing exercise following the recommendations of the 2008 SNA and using 2019 as the new base year is underway to determine the new structure of the economy and updated GDP level estimates*.

Price statistics: *The CPI covers both urban and rural areas, with weights based on the 2019 Harmonized Survey on Household Living Conditions. The basket includes more than 700 items. Index compilation methods are harmonized with other CEMAC countries. A producer price index is not compiled*.

Government finance statistics: Data provision is broadly satisfactory for surveillance purposes, although coverage is not complete. Budget accounting and Treasury procedures, and domestic debt statistics, continue to suffer from serious shortcomings, delays and omissions. General government statistics are not available. AFRITAC Central is working to achieve progress on these issues in the short-term as well as assisting the authorities to move toward the harmonized CEMAC TOFE based on *GFSM 20014* in the medium and long term.

Monetary statistics: Data provision is broadly satisfactory for surveillance purposes. Monetary statistics for the central bank and other depository corporations are compiled monthly in the format of standardized report forms (SRFs) and reported to STA by the BEAC with significant delays. However, the authorities report regularly monetary data to the country with some delays of around one month. Central African Republic has not reported data to the Financial Access Survey (FAS) since 2018. Until 2018, the country reported some indicators of the FAS, including mobile money data and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals.

Financial sector surveillance: In March 2016, Central African Republic began reporting financial soundness indicators for deposit taking institutions to STA. COBAC currently reports the FSIs to STA with delays of more than six months.

External sector statistics: Central African Republic does not report external sector statistics to STA for publication in the Balance of Payments and International Investment Position Statistics Yearbook (BOPSY) and International Financial Statistics (IFS)due to a lack of capacity. The external sector statistics mission conducted in April 2022 noted issues with data consistency and coverage with respect to trade in goods, and the financial accounts, particularly direct investment and external debt

II. Data Standards and Quality

The Central African Republic participates in the IMF Enhanced General Data Dissemination System (e-GDDS), the first tier in the IMF Data Standards Initiatives aimed at promoting data transparency, but the country does not yet disseminate the economic data recommended under the e-GDDS through a National Summary Data Page. There is no Data ROSC.

Central African Republic: Table of Common Indicators Required for Surveillance (As of February 2023)					
	Date of latest observation	**Date received**	**Frequency of Data[7]**	**Frequency of Reporting[7]**	**Frequency of Publication[7]**
Exchange Rates	**Current**	**Current**	**D**	**D**	**M**
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	September 2022	December 2022	M	M	M
Reserve/Base Money	September 2022	December 2022	M	M	M
Broad Money	September 2022	December 2022	M	M	M
Central Bank Balance Sheet	September 2022	December 2022	M	M	M
Consolidated Balance Sheet of the Banking System	September 2022	December 2022	M	M	M
Interest Rates[2]	September 2022	December 2022	M	M	M
Consumer Price Index	January 2023	February 2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	December 2022	February 2023	M	I	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	December 2022	February 2023	M	I	M
External Current Account Balance	2021	December 2022	A	A	A
Exports and Imports of Goods and Services	2022	February 2023	A	A	A
GDP/GNP	2021	December 2022	A	A	A
Gross External Debt	2022	February 2023	A	I	A
International Investment Position[6]	N/A	N/A	N/A	N/A	N/A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR A 38-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

April 18, 2023

Approved By
Vitaliy Kramarenko and Kenneth Kang (IMF), and Manuela Francisco and Abebe Adugna (IDA)

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

Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgement	No

The Central African Republic (CAR) remains at high risk of external debt distress and overall high risk of debt distress. Public debt is projected to be sustainable, though there exist substantial liquidity risks, as shown by relevant debt indicators, stemming from possible shortfalls in donor support and domestic/regional market access. Following the expiration of the staff monitored program (SMP) in end-September 2022, the CAR has faced an increasingly difficult external environment, high uncertainty regarding financing amidst geopolitical tension and increased risks due to the uncertainties created by the introduction of the cryptocurrency law, which represented a major policy setback under the SMP, compounded by rising international food and fuel prices. Compared to the previous DSA,[1] *domestic debt has increased in the absence of donor budget support. While solvency indicators for external debt are below thresholds, liquidity indicators for external debt (debt service-to-exports and debt service-to-revenue) exhibit breaches for 5 years starting in 2023, largely on account of obligations to the Fund falling due. Sensitivity of debt indicators to standard stress tests, increased macroeconomic and financing uncertainty, and sizeable contingent liabilities are all considerations supporting the high-risk assessment. This assessment is predicated on the authorities' continued prioritization of and the ability to secure grant financing for essential current spending and developmental projects.*[2]

[1] The current DSA follows the revised Debt Sustainability Framework (DSF) for LICs and Guidance Note (2017) in effect as of July 1, 2018. The previous DSA, is available here.

[2] CAR's CI score based on the October 2022 World Economic Outlook (WEO) and the 2021 World Bank Country Policy Institutional Assessment (CPIA) data is 2.25, corresponding to a weak debt-carrying capacity (Text Table 3).

PUBLIC DEBT COVERAGE

1. **The coverage of public sector debt includes external and domestic contractual obligations of the central government, unchanged from the previous DSA.** State and local governments do not borrow, there are no social security funds guaranteed by the public sector, and the government has not guaranteed other debt (Text Table 1). The coverage of public sector debt exhibits some gaps, notably non-guaranteed SOE debt and supplier arrears.

2. **The implementation of the new legal framework governing SOEs would improve their financial oversight, which, along with other steps, should lead to better debt coverage going forward.** Under the World Bank Sustainable Development Financing Policy (SDFP), the government has completed and published in 2021 the audits of the three largest state-owned enterprises operating in the energy, telecommunications, and water sectors (ENERCA, SODECA, SOCATEL). The objective of the audit was to assess their financial viability, increase the transparency in contingent liabilities reporting, and clarify the status of unaudited domestic arrears.[3] The government prepared and approved a cross-debt settlement plan for these SOEs based on these recent audits.[4]

3. **The DSA includes a combined contingent liabilities stress test, which assumes a tailored shock at 15 percent of GDP aimed at capturing the public sector exposure to arrears, SOEs, and financial market shock.** This amount reflects the uncertainty about non-guaranteed SOE debt and arrears, potential additional domestic arrears, and financial market risks (Text Table 1), although CAR has started publishing detailed debt reports since the last DSA and the lastest one records CFAF 48.6 billion as debt of SOEs and CFAF 147.9 billion as arrears, by the second half of 2021. The contingent liabilities shock from SOE debt is set at 5 percent of GDP (instead of 2 percent for its default value) to reflect heightened risks associated with non-guaranteed SOE debt and potential expenditure arrears. The shock from domestic arrears is set at 5 percent of GDP to incorporate past and persisting shortcomings in the country's public expenditure management systems. The financial market risk shock has been calibrated and is kept at the default value of 5 percent of GDP, given the small size and depth of the financial sector in CAR.

[3] As per the SDFP FY23 PPA#1, the authorities plan to prepare and publish an annual report on the financial performance and fiscal risks associated with these three SOEs in order to avoid further fiscal outlays associated with weak financial performance of SOEs and improve debt management and transparency. This first annual report is expected to cover the period January-December 2021, and would provide critical information on corporate governance, internal control, and the sustainability of the companies and disclose consolidated financial, governance operational information to the public. The report is also intended to prevent recurrence of further potential arrears.

[4] The plan which covers a period from 2023 to 2025 is on hold due to significant treasury pressures with the absence of budget support from development partners owing to the lack of transparency on security expenses.

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

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

The country's coverage of public debt	The central, state, and local governments plus social security, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
Other elements of the general government not captured in 1.	0 percent of GDP	5.0	Possible domestic payment arrears not included in debt stock
SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	5.0	Limited information on SOE's financial position
PPP	35 percent of PPP stock	0.0	
Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)		15.0	

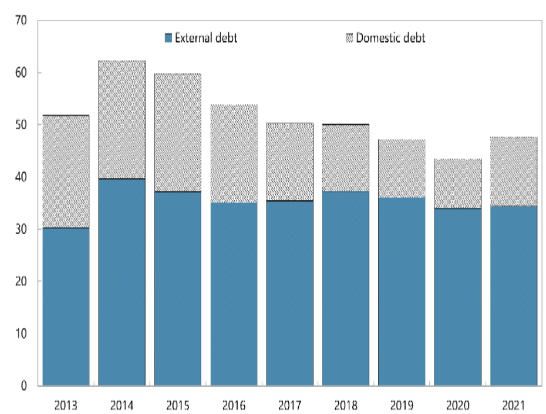
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed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

Source: IMF staff estimates and country authorities

BACKGROUND ON DEBT

4. **CAR's public and publicly guaranteed (PPG) debt increased in 2021, largely driven by the pick-up in domestic debt.** After being on a gradually declining trend until 2020, public sector debt increased to 47.6 percent by the end of 2021, from 43.4 percent in 2020, on account of a conjunction of negative shocks: the security crisis, the COVID-19 pandemic, and the pause in donor-financing owing to fiscal transparency concerns (Text Figure 1). It is estimated to have reached 51.9 percent of GDP by the end of 2022, out of which one-third is domestic debt.

Text Figure 1. Evolution of Public Sector Debt, 2013–21
(Percent of GDP)



Sources: IMF staff estimates and country authorities

5. **Most of the increase in public debt has been driven by higher domestic borrowing.** The domestic debt consisting of statutory and exceptional advances from the Bank of Central African States (BEAC) have been consolidated into one loan. In 2021, BEAC restructured the CFAF 80.5 billion debt via an extension of the grace period to 2025 (instead of 2022) and of the maturity to 20 years (from 10 years). To make up for the shortfall in budget support and to cover funding needs pending the use the SDR allocation, commercial bank borrowing on the regional market of the CEMAC picked up significantly in 2021 (CFAF 27 billion net issuances of government securities). Domestic debt reached 13.2 percent of GDP in

2021. Given additional issuance of domestic securities and use of SDR allocation in 2022, domestic debt is estimated to have reached 17.6 percent of GDP.

6. By May 2022, CAR had drawn down its entire 2021 SDR allocation in three tranches to support the budget. In December 2021, as donor support was further delayed, CAR made a first draw-down of the 2021 SDR allocation of CFAF 35 billion (SDR 44.5 million), which was used to cover some recurrent expenditures (civil servant wages) and to repay part of domestic arrears. In 2022, as budget support remained undisbursed and faced with a sharp terms of trade deterioration, the CAR authorities made one more drawing in March for CFAF 20 billion (SDR 25 million) and the final one in May for the remainder of CFAF 30.5 billion (SDR 37.3 million). The SDR use in 2021 and 2022 is recorded as domestic debt and adjusted to be on present value terms.

7. External debt is estimated to have reached 34.2 percent of GDP at the end of 2022, driven mainly by the depreciation of the CFAF. The authorities have refrained from contracting or disbursing any new external non-concessional debt with the support by the World Bank's SDFP in line with Fund advice and SMP commitments for the authorities' commitment to zero non-concessional borrowing.[5] In particular, they have not made any drawings on the non-concessional project finance loan with the regional development bank (BDEAC) for CFAF 15 billion, signed in September 2021. In line with previous disbursement schedules, they drew a CFAF 1.22 billion tranche of a 2015 concessional project loan financed by the Saudi Development Fund. In line with these developments, the most significant adverse driver of external debt developments has been the exchange rate effect.

8. Debt owed to multilateral creditors and pre-HIPC arrears continue to account for the bulk of external debt (See Text Table 2). Multilateral creditors, mainly the IMF and the World Bank, hold close to 60 percent of external debt. CAR has a large stock of officially recognized pre-HIPC arrears amounting to 9 percent of GDP, that pre-date the Completion Point of the HIPC initiative with non-Paris Club creditors (Argentina, Equatorial Guinea, Iraq, Libya, and Taiwan, Province of China). Bilateral debt amounts to around 6 percent of GDP, with India, China, Saudi Arabia, Kuwait, and Congo being the main creditors. Debt to private creditors is negligible. This debt is included in the baseline.

9. CAR benefited from several rounds of debt relief from both bilateral creditors and the IMF. In 2020, the CAR benefited from a debt cancellation operation granted by China for about 0.8 percent of GDP and a 90-percent principal reduction and rescheduling of the debt owed to Energoprojekt (Serbia) for about 1.7 percent of GDP. During the pandemic, under the G20's COVID-19 Debt Service Suspension Initiative (DSSI) (May 2020-December

[5] The PPA#2 of the SDFP for FY23 is as follows: To improve debt sustainability, the Government will not enter into any contractual obligations for new external public and publicly guaranteed (PPG) non-concessional debt in FY23, except if the non-concessional debt limit is adjusted by the World Bank to a) reflect any material change of circumstances or b) in coordination with the IMF, in particular in line with adjustments in the IMF Debt Limit Policy (DLP).

2021), an amount of US$7 million was rescheduled.[6] The CAR also received assistance in respect of debt service covering all payments falling due to the IMF from April 14, 2020, to April 13, 2022, under the Catastrophe Containment and Relief Trust (CCRT), for a total amount of US$18.4 million.

10. The authorities have remained current on their external debt obligations, save for small temporary technical arrears. Some small external arrears amounting to US$0.15 million were accumulated with the International Fund for Agricultura Development (IFAD) starting in December 2020 but were cleared in March 2021. This was caused by coordination challenges between the Debt Directorate and the Treasury but also by delays in fully setting up the new BEAC's software for international wires—which are now addressed thanks to the technical assistance provided by BEAC regarding the use of its new software.

Text Table 2. Central African Republic: Composition of Public Sector Debt, 2021-2023[1]
(Percent of GDP)

	Debt Stock (end of period) 2021			Debt Service 2021	2022	2023	2021	2022	2023
	(mil US$)	*(Percent total debt)*	*(Percent GDP)*	*(mil US$)*			*(Percent GDP)*		
Total	1175.1	100.0	47.6						
External	848.4	72.2	34.4	14.7	17.3	13.0	0.6	0.7	0.5
Multilateral creditors[2,3]	503.6	42.9	20.4	6.8	7.4	8.8	0.3	0.3	0.3
IMF	297.7	25.3	12.1	1.7	2.6	3.4	0.1	0.1	0.1
World Bank	139.4	11.9	5.6	1.7	2.6	3.4	0.1	0.1	0.1
ADB/AfDB/IADB	16.5	1.4	0.7	0.1	0.1	0.1	0.0	0.0	0.0
Other Multilaterals	50.0	4.3	2.0	3.3	2.2	1.8	0.0	0.0	0.0
o/w: FIDA	19.0	16.0	15.4	1.1	1.1	1.1	0.1	0.0	0.0
o/w: BDEAC	12.3	10.8	11.0	1.3	0.4	0.0	0.0	0.0	0.0
o/w: BADEA	10.6	8.7	8.2	0.8	0.7	0.8	0.3	0.4	0.2
Bilateral Creditors[2]	341.7	29.1	13.8	7.9	9.9	4.2	0.3	0.4	0.2
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors									
list of additional large creditors									
Non-Paris Club	341.7	29.1	13.8	7.9	9.9	4.2	0.3	0.4	0.2
o/w: pre-HIPC arrears	212.2	18.1	8.6	0.0	0.0	0.0	0.0	0.0	0.0
o/w: India	45.0	3.8	1.8	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Saudi Arabia	32.0	2.7	1.3	0.0	0.9	1.1	0.0	0.0	0.0
o/w: Kuwait	20.8	1.8	0.8	0.0	0.1	0.1	0.0	0.0	0.0
o/w: China	17.9	1.5	0.7	0.0	2.0	2.0	0.0	0.1	0.1
o/w: Congo	9.4	0.8	0.4	6.9	6.0	0.0	0.3	0.2	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0						
list of additional large creditors									
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors									
list of additional large creditors									
Domestic	326.7	27.8	13.2	21.3	25.7	47.6	0.9	1.0	1.7
Held by residents, total	326.7	27.8	13.2	21.3	25.7	47.6	0.9	1.0	1.7
Held by non-residents, total	.....	.....	.....	.....	.....	.....	.....	.....	.....
T-Bills	12.9	1.1	0.5	17.1	12.0	8.2	0.7	0.5	0.3
Bonds	84.6	7.2	3.4	0.0	3.3	29.2	0.0	0.1	1.1
Loans	229.2	19.5	9.3	4.2	10.3	10.2	0.2	0.4	0.4
Memo items:									
Nominal GDP	2468						2468	2472	2723

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except for missing entities

2/ Some public debt is not shown in the table due to confidentiality clauses/capacity constraints.

3/ Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

Source: IMF Staff calculations and country authorities

UNDERLYING MACROECONOMIC ASSUMPTIONS

11. Compared to the previous DSA, near-term risks have increased substantially due to the confluence of adverse shocks (security, health, financing, food, and terms of trade) and the passage of the crypto law. Donors have been withholding budget support

[6] India, China, and Saudi Arabia participated in the G20 Debt Service Suspension Initiative to CAR, along with Kuwait.

since 2021 due to transparency concerns related to security spending.[7] The continued standstill in budgetary support weighed on the resumption of IMF financing under the ECF arrangement and future financing owing to the lack of financing assurances and the risks of accumulating external arrears. The April 2022 crypto law— granting legal tender status to crypto assets and guaranteed convertibility— has elicited broad criticism from regional financial authorities (the central bank BEAC and the financial sector regulator COBAC), as the law ran against the rules governing the CEMAC monetary union and posed serious macroeconomic risks for both CAR and the region. The unilateral adoption of bitcoin and potentially other crypto assets as legal tender represented a major policy reversal relative to commitments under the SMP and delayed and prevented its successful completion, in addition to further damage CAR's prospects for budget support. However, as one of the prior actions for the new ECF arrangement, the law has been amended in March 2023 to repeal legal tender and convertibility status of bitcoin.

12. Against this background, CAR has increasingly faced difficulties covering its financing needs since 2021. While the SDR allocation and commercial bank borrowing have so far helped compensate for the lacking budget support, the financing outlook in the coming months has darkened as the authorities run out of fiscal buffers after exhausting the 2021 SDR allocation and with limited domestic bonds market access. Without anticipated financial support, acute financing needs are expected to emerge, likely prompting a very steep spending adjustment across the board. Such a disorderly adjustment will inflict significant hardship on the population.

13. Compared to the previous DSA, both the near-, medium-, and long-term macroeconomic projections have been revised to account for lower growth.

Growth

- Real GDP growth is estimated to have stagnated at 1.0 percent in 2021 following the combination of the COVID-19 pandemic and renewed insecurity amid post-election disputes. The economy is estimated to have slightly increased by 0.5 percent in 2022 driven by mining and forestry, but it was adversely affected by fuel shortages. In 2023, real GDP growth is projected at 2.2 percent on account of better fuel supplies and the base effect of slow growth in 2022. The downside risks to the outlook are significant. For example, a deterioration in security could disrupt economic activity and cause significant revenue and donors' financing shortfalls.

- The medium-term growth projection (2024-27) has been revised downward to 3.6 percent against 5.0 percent in the previous DSA. This downward revision reflects the lower growth

[7] Donors have stipulated four conditions for budget support to resume, including: detailed information about security expenditures, a commitment that sanctioned entities will not be financed from the budget or other public sources, improved mechanisms for budget transparency, and conducive security and governance conditions.

momentum owing to the non-disbursement of budget support, and the related stronger fiscal consolidation.

- Long-term growth (2028-42) is projected at 3.2 percent, supported by the assumed normalization of relations with the international community, progressive restoration of security with the peace agreement, gradual redeployment of public services to the provinces, domestic arrears clearance, increase in public and private investments, and improvement in human capital and productivity thanks to steadfast implementation of reforms and ongoing investment projects.[8] The long-run growth rate has been downgraded from 4.3 percent in the previous DSA due to a realignment of the growth trajectory with the post-2013 crisis estimate of potential growth – around 2.9 percent annually. The long-term growth is assessed to be realistic given the low average per capita growth of 1.2 percent, the deterioration of the global outlook and recalibration of the long-term growth potential of CAR to more realistically anchor it in the historical performance over the past thirty years (a period over which CAR experienced negative per capita growth). The ongoing structural security crisis, with its detrimental long-term impact on productivity and growth, has been documented in the last Country Economic Memorandum published in 2022.[9]

Inflation

- Average inflation reached 5.8 percent in 2022, in line with the recent uptick in fuel and commodity prices, due to the impact of Russia's war in Ukraine and CAR's high dependency on commodity imports. Inflation is projected to remain relatively high in 2023 and decline gradually afterward and fall below the regional ceiling of 3 percent in 2024 as commodity import prices gradually decline.

Public Finances

- For 2021 and 2022, overlapping crises and the continued standstill in budgetary support resulted in a difficult budget situation. Most of the financing needs for 2022 are estimated to have been covered by the use of the SDR allocation, with the residual being met by the borrowing from domestic and regional markets. In 2023, the financing gap would be covered by IFIs, namely by the World Bank and the African Development Bank and the

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[8] For instance, the World Bank approved in June 2022, a $138 million grant to improve access to electricity, strengthen the sector and promote the provision of off-grid solar systems for schools, hospitals, administrative centers, and agricultural purposes and $70 million in financing to strengthen and improve the quality of health care to more than 40 percent of the CAR population. Several projects have also been approved over the past years to boost agricultural productivity, support agribusiness, private sector development, digital governance, and the quality of education. The World Bank will use its ongoing portfolio to finance certain non-discretionary government expenditures, including wages and salaries, in critical service delivery areas.

[9] World Bank (2022) Central African Republic: Country Economic Memorandum From Fragility to Accelerated and Inclusive Growth (https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099950105022238641/p17499601c00dd03208b990cb1b523b9018).

remaining financing needs are expected to be covered by borrowing from commercial banks.[10]

- In the medium term (2024-2027), budget support grants are expected to gradually increase to 3.0 percent in 2027, on the assumption that the government will reach agreement with the main donors to unblock their financing.[11] The fiscal primary deficit is expected to decrease relative to the previous DSA (to 0.5 percent of GDP from 0.9 percent). Between one-third and half of the financing needs is assumed to be covered by foreign concessional borrowing and the remaining two-thirds and half by domestic borrowing.

- In the long term (2028-42), domestic revenues (government revenues excluding grants) are assumed to follow a gradual upward trend, reaching 13.8 percent of GDP at the end of the projection period. The improvement of projections on domestic revenue collection is attributed to the implementation of fiscal structural reforms and technical assistance in the area of data collection and standards. The current revenue reforms to be implemented include to i) make the functions of the DGID's IT systems operational, including online registration, remote filing and remote payments; ii) review the hydrocarbon pricing formula incorporating all taxes required by law; and iii) incorporate all fees and expenses of services (minor revenue) collected by the various ministries in the Treasury Single Account (TSA). Budget support grants are assumed to decline to 0.6 percent of GDP, to account for the fact that IDA regular credit terms should be applied in the projection horizon for which World Bank grant financing has not already been committed. The primary fiscal deficit is expected to decline gradually

Text Table 3. Central African Republic: Macroeconomic Assumption

	DSA-ECF arrangement (1st and 2nd Reviews)		The current DSA-2022 AIV and ECF request	
Percent of GDP, unless otherwise indicated	2021-26 average	2027-41 average	2023-28 average	2029-42 average
GDP growth (percent)	3.9	4.3	3.3	3.2
GDP deflator (percent)	2.4	2.5	3.4	2.5
Non-interest current account balance	-6.0	-3.4	-5.3	-6.4
Exports of goods and services	14.7	15.5	15.7	16.6
Primary balance	-0.9	-1.0	-0.5	-1.1
Revenues and grants	18.5	16.6	16.2	14.8

Source: IMF staff projections.

[10] As a structural benchmark under the new ECF arrangement, authorities will set up a framework to coordinate domestic issuance and other debt management issues.

[11] The agreement would assume an adequate macro-framework, the presence of an IMF program, conducive security and governance conditions are in place.

to 0.7 percent of GDP over the long run, reflecting fiscal consolidation and the implementation of other fiscal reforms. One half of the financing needs is assumed to be covered through external concessional borrowing—with a gradually decreasing degree of concessionality—and another half through domestic borrowing.

External

- The current account balance is expected to have deteriorated in 2021 to a 11.1 percent of GDP deficit, due mainly to the non-disbursement of donors' budget support, the security crisis, and higher import prices. In 2022, the current account is expected to have worsen further to -13.1 percent of GDP, driven mainly by a 9.4 percent drop in terms of trade (due to both fuel and food price shocks) causing imports to decline by less than the export growth weakening. Over the medium term, the current account is expected to converge to a 4.5 percent of GDP deficit, owing to the expected increase in exports as a result of reforms geared toward improving economic diversification and adding value to existing exports.

- The SDR allocation helped generate a small balance of payment surplus in 2021. The nearly 6 percent of GDP in SDR allocation compensated for the decline in official public transfers. However, the lack of donor financing in 2022, coupled with the exhaustion of the SDR allocation and the large trade deficit, led to a balance of payments deficit of about 8.1 percent of GDP in 2022.

- In the medium term, official current transfers are expected to resume, while FDI inflows are projected to increase moderately to about 1.5 percent of GDP. Overall, the balance of payments is projected to reach a moderate surplus of around 2.6 percent of GDP in the medium-term.

REALISM OF THE BASELINE ASSUMPTIONS

14. The drivers of debt dynamics tool show a broadly unchanged trajectory for external PPG debt and a deterioration of public debt compared with the previous DSA. The projected evolution of external debt is somewhat improved compared with the previous DSA in the medium term, but slightly more deteriorated in the outer years. The decompositions of past and projected debt creating flows for external debt are similar, while the unexpected changes in external debt over the past 5 years are close to the median relative to the distribution across LICs. While public debt is on a higher path relative to the previous DSA, this can be explained mainly by a higher contribution of unexpected primary deficits to debt accumulation compared to the past. In terms of the contribution of past forecast errors, they are above the median compared with other LICs.

15. Realism tools flag risks around the baseline scenario stemming from the growth projection, the projected fiscal consolidation, as well as the long-term private

investment outlook (Figure 4). The envisaged fiscal path in terms of the projected 3-year primary balance adjustment is in the top quartile relative to the comparison group, thus appearing relatively ambitious when compared with the experience in other LIC countries. The pick-up in growth in 2022 and 2023 appears strong given the fiscal consolidation for standard values of the fiscal multipliers. This is explained by the fact that growth is mostly driven by the private sector rebound after the fuel shock shortage is resolved, in particular driven by the primary sector (agriculture, mineral extraction). The growth/investment tool shows that in both the current and the past DSA, over time, there is a switch from public to private investment as a driver of growth, consistent with the pattern observed in countries at the same stage of development. This is consistent with the chart on the contributions to growth, which also shows that in comparison with its historical contribution, public investment is expected to play a declining role in explaining future growth, with other sources of growth more than offsetting this decline.

COUNTRY CLASSIFICATION AND STRESS TESTS

16. **CAR' s debt carrying capacity is assessed as weak, unchanged from the last DSA in December 2020.** The country's composite indicator (CI) is 2.25 based on the October 2022 World Economic data and 2021 CPI scores (text table 4). Under weak debt carrying capacity, the thresholds applicable to the public and publicly guaranteed external debt are 30 percent for the PV of debt-to-GDP ratio, 140 percent for the PV of debt-to-exports ratio, 10 percent for

Text Table 4. Central African Republic: Calculation of Composite Indicator and Thresholds

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.571	0.99	44%
Real growth rate (in percent)	2.719	2.909	0.08	4%
Import coverage of reserves (in percent)	4.052	25.972	1.05	47%
Import coverage of reserves^2 (in percent)	-3.990	6.745	-0.27	-12%
Remittances (in percent)	2.022	0.075	0.00	0%
World economic growth (in percent)	13.520	2.898	0.39	17%
CI Score			2.25	100%
CI rating			Weak	

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

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

Sources: IMF staff estimates, Word Bank *Country Policy and Institutional Assessment*, and country authorities the debt service-to-exports ratio, and 14 percent for the debt service-to-revenue ratio. The benchmark for the PV of total public debt is 35 percent of GDP.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

17. **Relative to the previous DSAs, external debt solvency indicators have improved (Figure 1).** The present value of the external debt-to-GDP ratio is declining on a lower path than in the previous DSA and remains well below the threshold under the baseline scenario. However, it comes close to breaching the threshold for the most extreme standardized stress test (a combination of a shock to growth, the primary balance, exports, other non-debt creating flows, and exchange rate depreciation). The present value of the debt-to-exports ratios declines from close to the 140 percent threshold to well below it in the medium term. These favorable developments are due to a combination of factors: lack of the disbursements of IMF financing due to the ECF Arrangement going off-track, the bilateral and multilateral debt relief during the pandemic, as well as to the fact that some previously unidentified concessional financing has been replaced with the SDR allocation (counted as domestic debt), which have more than outweighed the impact of the CFAF depreciation. Setting key variables to their historical average would result in a clear upward trend of both debt ratios, mainly because of the large shocks and conflicts that occurred in the past (such as the 2013 crisis).

18. **While liquidity indicators of the external PPG debt breach their thresholds for 4-5 years from 2023 under the baseline scenario, there are mitigating factors**. The external debt service-to-exports and the debt-to-revenue ratios breach their respective threshold for 4 and 5 years, respectively starting in 2024 and 2023, respectively, driven by a significant uptick in debt service, primarily related to an increase in repayments to the Fund in that period (Figure 1). Breaches in both indicators after 2028 have also increased compared to the previous DSA, owing mainly to the projected disbursements under the proposed new ECF arrangement. CAR is part of CEMAC and has access to its pool of reserves (provided it has budgetary resources to purchase them), and also has access to CEMAC domestic debt market. Subject to successful ECF-supported program implementation, large repayments to the Fund, which cause high liquidity ratios, are feasible based on program financing assumptions. As expected, more significant and persistent breaches of the external debt service-to-exports ratio and the external debt service-to-revenue ratio would happen under the historical scenario and the most extreme standardized stress test (standardized shocks to exports and to growth, respectively).

B. Public Debt Sustainability Analysis

19. **Driven by the surge in domestic debt, the total public debt indicators have increased compared to the previous DSA but remain below the relevant threshold (Figure 2).** The present value of the debt-to-GDP ratio is on a higher path than in the previous

DSA, yet gradually declining until 2027 and broadly stabilizing thereafter. However, this forecast is predicated on conservative financing assumptions that financing gaps are to be covered by domestic debt, while renewed donor support would result in substantially more favorable dynamics. The PV of the debt-to-revenue ratio is declining until 2027, when it is set to slightly rise. The debt-service-to-revenue and grants ratio will increase to 40 percent by 2025 and remain elevated, reflecting higher external debt service payments. A standardized shock to growth would trigger a breach of the threshold for the PV of the debt-to-GDP ratio and lead to a significant increase of the PV of the debt-to-revenue ratio.[12] The worsening of the macroeconomic outlook (e.g., if donor budget support does not resume in the medium term) would exacerbate domestic arrear accumulation and aggravate risks from vulnerable SOEs. Their contingent liabilities will severely affect the budget and, ultimately debt risks.

RISK RATING AND VULNERABILITIES

20. CAR remains at high risk of external debt distress and overall high risk of debt distress, but debt is assessed to be sustainable. The rating is driven by the persistent breaches in the medium term of the thresholds for both the external debt service-to-export and external debt service-to-revenue ratios under the baseline scenario. This points to potential liquidity problems, which have been accentuated since the last DSA by the continued standstill in budget support, the confluence of adverse shocks (security, health, terms of trade) and their impact on the macroframework, as well as the more recent fiscal revenue decline linked to fuel shortages. Compared to the previous DSA, the cumulative impact of these factors has been a more elevated path for total public debt, yet the PV of total public debt remains below the relevant threshold.

21. A few other considerations support the high-risk assessment. Macroeconomic projections are particularly uncertain in the near term, as the country is buffeted by overlapping crises and the full resumption of donor support continues to be delayed. Significant fiscal adjustment is required in 2023 amid limited external financing options. The recently passed crypto law—which provides crypto assets with a legal status alongside the official CFA franc— has elicited broad criticism from regional financial authorities and further damaged the country's reputation and prospects for immediate budget support. While the country has been increasingly tapping domestic CEMAC markets in 2021-22, where liquidity remains ample, large financing needs in 2023 can exacerbate rollover risks. Further delays in the resumption of budget support and return to a UCT-arrangement would raise the risk of disorderly fiscal adjustments, weighing on growth, potentially triggering a total loss of access to the regional market, with debt sustainability repercussions.

22. Public debt is projected to be sustainable, though there exist substantial liquidity risks, as shown by relevant debt indicators, in the absence of sufficient donor support

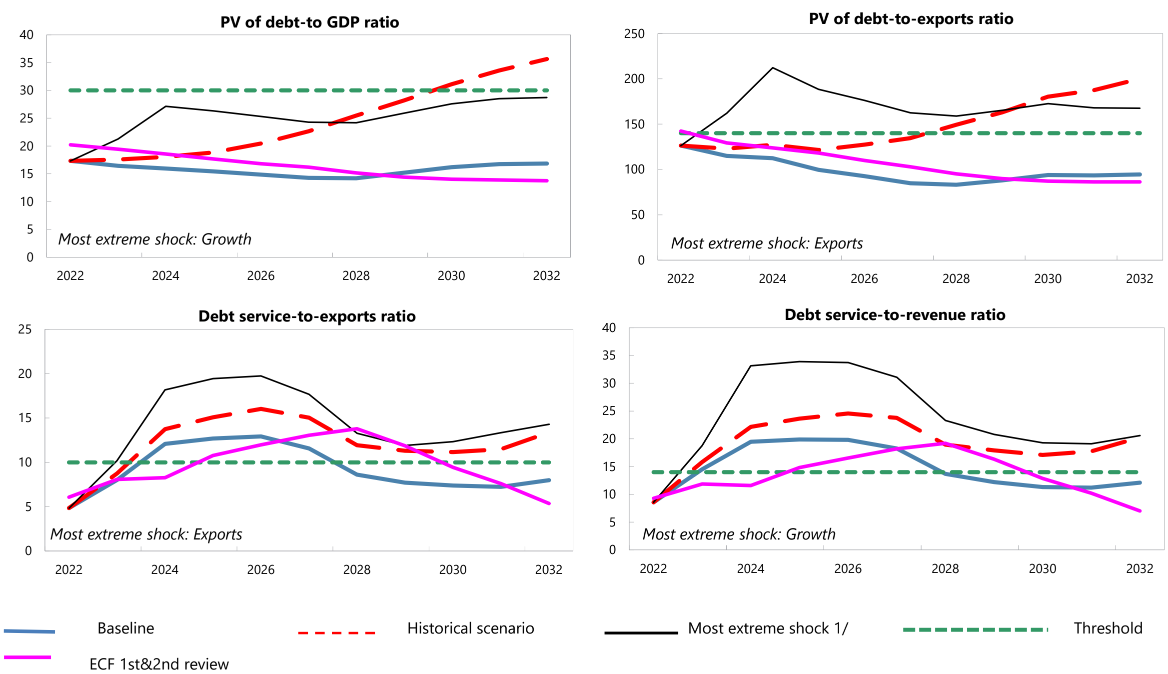
[12] The shock assumes real GDP growth of one standard deviation below its historical average in the second and third year of the projection period.

and domestic/regional market access. The DSA underscores the urgency of fiscal measures to strengthen revenue and renewed efforts to restore relations with donors to ensure sustainability. In the short term, strong primary deficit adjustment and measures to stem revenue loss from the fuel price mechanism, support from the World Bank and the African Development Bank, as well as a disbursement under the ECF, are expected to close the 2023 financing gap. The authorities have also prepared a contingency plan for 0.75 percent of GDP (CFAF12.5 billion) of adjustment on domestic primary deficit to be implemented in the revised budget in July, should financing conditions worsen. The country still enjoys access to the liquid domestic CEMAC market, so additional domestic borrowing could be used to cover any additional gaps and the ample pool of regional foreign exchange reserves mitigates repayment risks. However, ensuring medium-term debt sustainability requires that the country reaches agreement with donors to unlock budget support and to allow the return to a UCT (Upper Credit Tranche) program. Disbursing the highly non-concessional BDEAC loan signed in 2021 would worsen external debt sustainability indicators and staff continue to advise against it.

AUTHORITIES' VIEW

23. The authorities broadly agreed with this assessment. They concur on the need to re-engage with donors to unlock budget support and return to a UCT program, while in the meantime pursuing fiscal consolidation and revenue enhancing reforms. They are also committed to strengthening their debt management capacities and they also share staff views that CAR should rely on grant financing, and seek maximum concessionality in its external financing, to ensure debt sustainability.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2022-2032



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

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

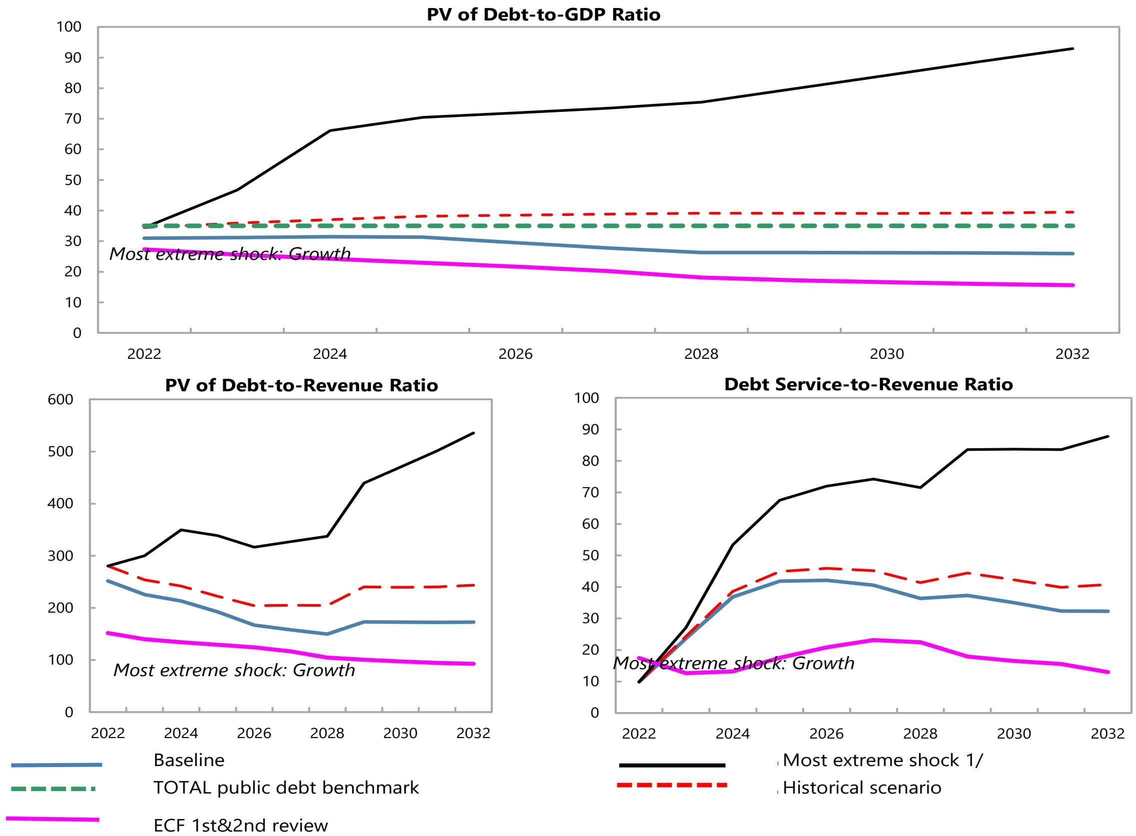
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	6	6

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Indicators of Public Debt under Alternatives Scenarios, 2022-2032



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	40%	60%
Domestic medium and long-term	60%	14%
Domestic short-term	0%	26%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.8%
Avg. maturity (incl. grace period)	25	30
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.8%	5.4%
Avg. maturity (incl. grace period)	5	2
Avg. grace period	2	1
Domestic short-term debt		
Avg. real interest rate	0.0%	2.0%

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

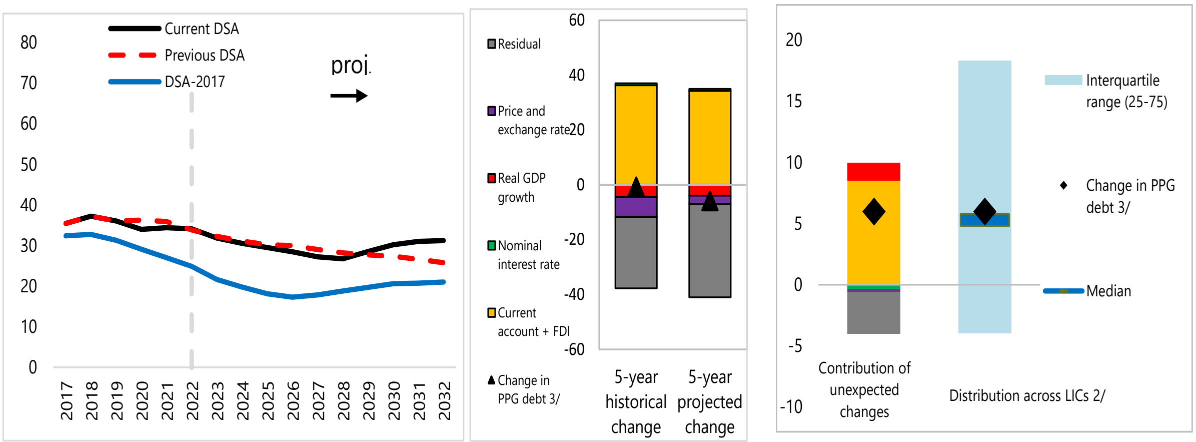
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Drivers of Debt Dynamics Baseline Scenario

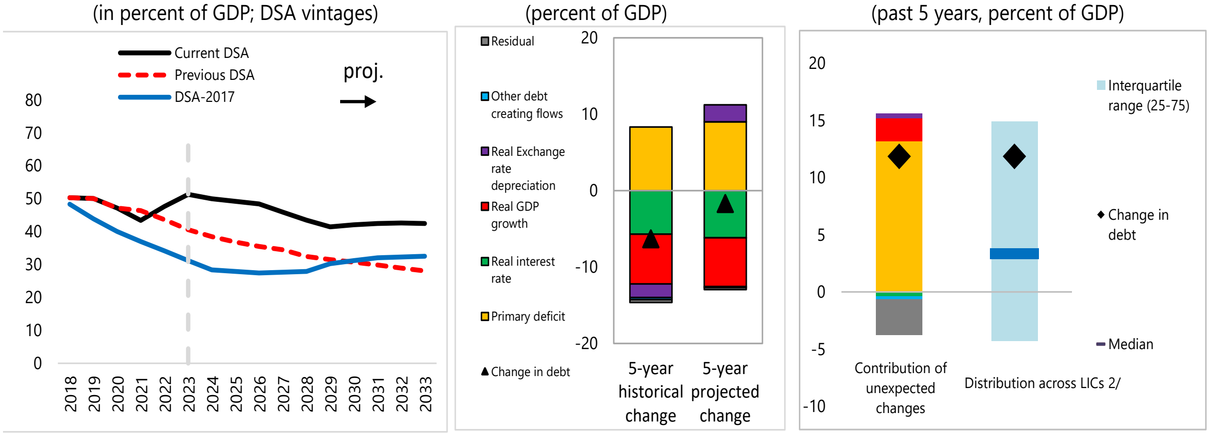
External Debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public Debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



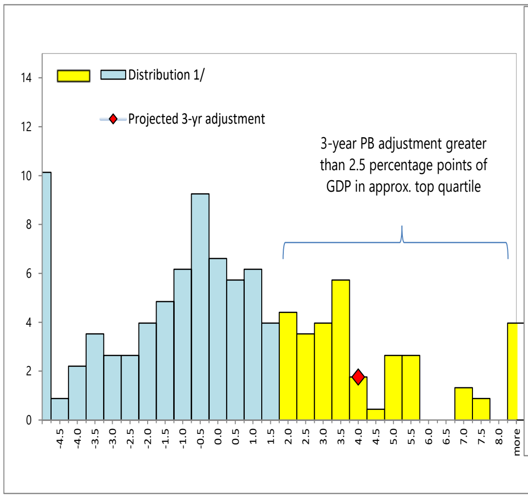
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

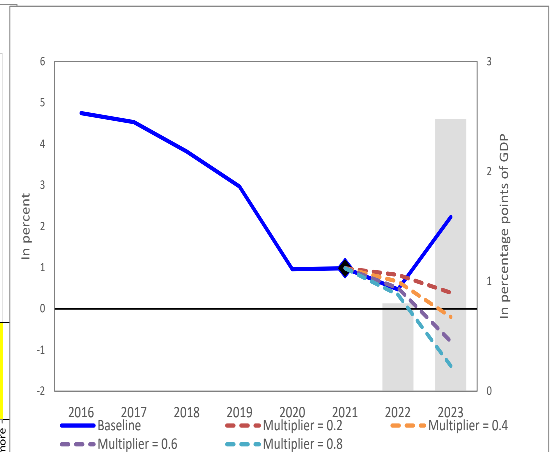
Figure 4. Realism Tools

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



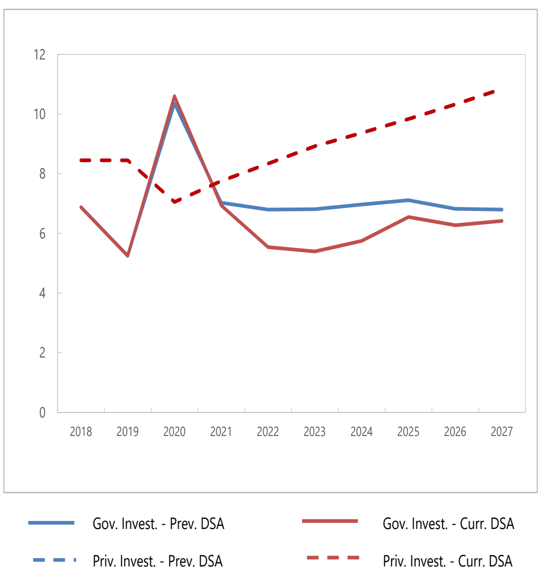
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

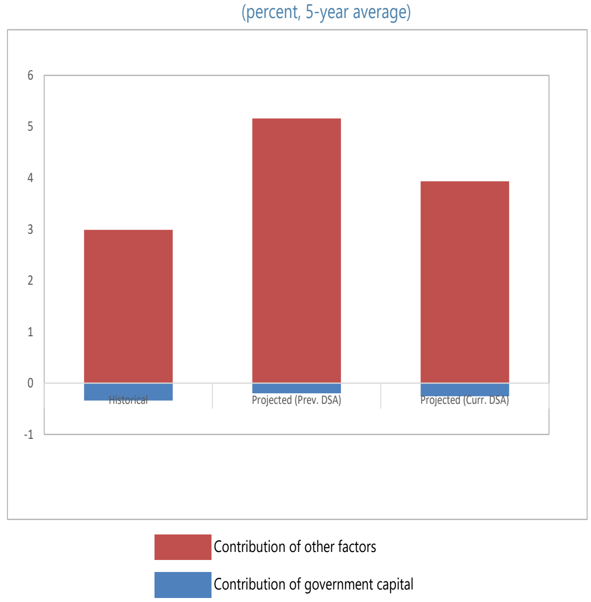


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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



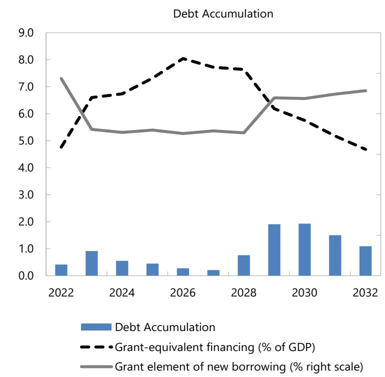
Source: IMF staff projections

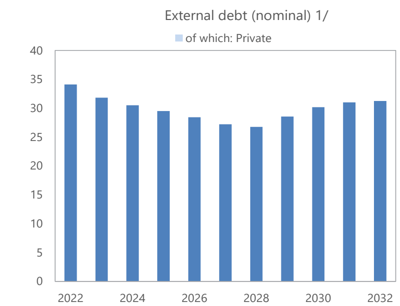
Table 1. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2019-2042

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	**36.1**	**34.0**	**34.4**	**34.1**	**31.8**	**30.5**	**29.5**	**28.4**	**27.2**	**31.3**	**29.1**	**33.9**	**29.9**
of which: public and publicly guaranteed (PPG)	**36.1**	**34.0**	**34.4**	**34.1**	**31.8**	**30.5**	**29.5**	**28.4**	**27.2**	**31.3**	**29.1**	**33.9**	**29.9**
Change in external debt	-1.2	-2.1	0.4	-0.2	-2.3	-1.3	-1.0	-1.1	-1.2	0.2	-3.5		
Identified net debt-creating flows	**3.8**	**6.4**	**8.3**	**11.8**	**6.6**	**5.4**	**4.5**	**2.8**	**1.9**	**3.8**	**3.8**	**6.4**	**4.6**
Non-interest current account deficit	**4.8**	**8.0**	**11.0**	**12.8**	**8.5**	**7.5**	**6.7**	**5.2**	**4.4**	**6.5**	**6.8**	**7.5**	**6.9**
Deficit in balance of goods and services	18.3	19.3	18.2	20.2	17.5	16.9	16.3	15.7	14.9	15.0	12.4	**16.4**	**16.0**
Exports	15.7	14.0	13.7	13.7	14.3	14.2	15.5	16.1	16.8	17.8	15.5		
Imports	34.1	33.3	31.9	33.9	31.7	31.1	31.8	31.7	31.8	32.8	27.9		
Net current transfers (negative = inflow)	-13.6	-11.3	-7.2	-7.4	-9.1	-9.6	-9.7	-10.6	-10.6	-8.4	-5.2	**-9.0**	**-9.2**
of which: official	-7.3	-6.8	-1.9	-2.0	-3.6	-3.8	-4.0	-5.0	-5.0	-2.7	-1.4		
Other current account flows (negative = net inflow)	0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.1	0.1	-0.1	-0.4	**0.0**	**0.0**
Net FDI (negative = inflow)	**-1.1**	**-0.1**	**-0.2**	**-1.0**	**-1.4**	**-1.4**	**-1.3**	**-1.4**	**-1.6**	**-2.0**	**-2.4**	**-0.9**	**-1.6**
Endogenous debt dynamics 2/	**0.2**	**-1.5**	**-2.5**	**0.0**	**-0.6**	**-0.7**	**-0.9**	**-0.9**	**-0.8**	**-0.6**	**-0.6**		
Contribution from nominal interest rate	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.4		
Contribution from real GDP growth	-1.1	-0.3	-0.3	-0.2	-0.7	-0.9	-1.1	-1.1	-1.0	-0.9	-1.0		
Contribution from price and exchange rate changes	1.1	-1.3	-2.3	...	...	...	...	...	...	...	...		
Residual 3/	**-5.0**	**-8.5**	**-7.9**	**-12.1**	**-8.9**	**-6.7**	**-5.5**	**-3.9**	**-3.1**	**-3.6**	**-7.3**	**-3.8**	**-4.9**
of which: exceptional financing	0.0	-0.5	-0.4	-0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**16.1**	**17.3**	**16.4**	**15.9**	**15.5**	**14.9**	**14.3**	**16.9**	**19.4**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**117.5**	**126.3**	**115.1**	**112.5**	**99.6**	**92.6**	**84.8**	**94.6**	**125.3**		
PPG debt service-to-exports ratio	**3.7**	**3.7**	**3.5**	**4.8**	**8.0**	**12.1**	**12.7**	**12.9**	**11.6**	**8.0**	**6.7**		
PPG debt service-to-revenue ratio	**6.6**	**5.6**	**5.5**	**8.5**	**14.5**	**19.5**	**19.9**	**19.8**	**18.2**	**12.1**	**7.6**		
Gross external financing need (Million of U.S. dollars)	96.3	202.7	291.4	308.2	226.0	229.0	227.8	189.9	162.5	268.4	439.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.0	1.0	1.0	0.5	2.2	3.0	3.8	3.8	3.7	3.2	3.2	**-0.9**	**3.0**
GDP deflator in US dollar terms (change in percent)	-2.9	3.8	7.2	-5.2	8.6	3.4	2.2	2.0	1.9	2.5	2.5	**2.7**	**2.3**
Effective interest rate (percent) 4/	0.4	0.4	0.3	0.3	0.4	0.5	0.5	0.5	0.6	1.0	1.2	**0.7**	**0.7**
Growth of exports of G&S (US dollar terms, in percent)	-1.3	-7.1	6.1	-4.6	15.5	5.8	16.1	9.5	10.7	5.2	5.5	**2.4**	**8.0**
Growth of imports of G&S (US dollar terms, in percent)	0.9	2.5	3.7	1.2	3.8	4.4	8.4	5.7	5.7	6.0	4.1	**6.8**	**5.6**
Grant element of new public sector borrowing (in percent)	...	...	...	48.7	36.2	35.4	36.0	35.1	35.8	45.7	41.4	**...**	**40.1**
Government revenues (excluding grants, in percent of GDP)	8.7	9.2	8.8	7.8	7.9	8.8	9.9	10.5	10.7	11.8	13.8	**7.7**	**10.2**
Aid flows (in Million of US dollars) 5/	235.9	339.0	141.9	121.8	172.7	183.3	212.9	241.2	246.2	240.3	173.1		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.8	6.6	6.7	7.3	8.0	7.7	4.7	2.0	**...**	**6.4**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	95.0	84.8	82.2	81.7	83.3	84.3	73.8	57.1	**...**	**80.3**
Nominal GDP (Million of US dollars)	2278.4	2388.5	2584.6	2460.6	2732.9	2910.2	3087.0	3267.5	3451.8	4577.7	8040.7		
Nominal dollar GDP growth	0.0	4.8	8.2	-4.8	11.1	6.5	6.1	5.8	5.6	5.8	5.8	**1.6**	**5.4**
Memorandum items:													
PV of external debt 7/	...	...	16.1	17.3	16.4	15.9	15.5	14.9	14.3	16.9	19.4		
In percent of exports	...	...	117.5	126.3	115.1	112.5	99.6	92.6	84.8	94.6	125.3		
Total external debt service-to-exports ratio	3.7	3.7	3.5	4.8	8.0	12.1	12.7	12.9	11.6	8.0	6.7		
PV of PPG external debt (in Million of US dollars)			415.8	426.5	448.9	464.1	477.1	485.7	492.5	771.6	1561.0		
(PVt-PVt-1)/GDPt-1 (in percent)				0.4	0.9	0.6	0.4	0.3	0.2	1.1	1.4		
Non-interest current account deficit that stabilizes debt ratio	5.9	10.1	10.6	13.1	10.8	8.8	7.8	6.2	5.6	6.2	10.3		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

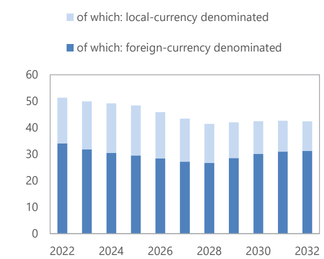
Table 2. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019-2042

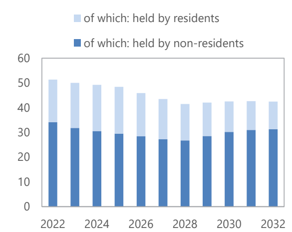
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	**47.1**	**43.4**	**47.6**	**51.4**	**50.0**	**49.2**	**48.4**	**45.9**	**43.5**	**42.5**	**30.3**	**49.8**	**45.4**
of which: external debt	**36.1**	**34.0**	**34.4**	**34.1**	**31.8**	**30.5**	**29.5**	**28.4**	**27.2**	**31.3**	**29.1**	**33.9**	**29.9**
Change in public sector debt	-2.9	-3.7	4.2	3.8	-1.4	-0.8	-0.8	-2.5	-2.4	-0.2	-4.5		
Identified debt-creating flows	**-3.2**	**-1.0**	**6.4**	**2.1**	**-1.2**	**-0.8**	**-1.0**	**-2.7**	**-2.5**	**-0.1**	**-0.9**	**1.1**	**-0.6**
Primary deficit	**-1.8**	**3.1**	**5.7**	**4.9**	**2.5**	**1.7**	**0.9**	**-0.9**	**-0.8**	**1.4**	**0.7**	**1.4**	**1.4**
Revenue and grants	18.3	21.8	13.7	12.3	13.8	14.7	16.3	17.7	17.6	15.0	14.8	**14.6**	**15.5**
of which: grants	9.6	12.6	4.9	4.5	5.9	5.9	6.4	7.2	6.9	3.3	0.9		
Primary (noninterest) expenditure	16.6	24.8	19.4	17.2	16.3	16.4	17.2	16.7	16.8	16.4	15.4	**16.1**	**16.9**
Automatic debt dynamics	**-1.4**	**-4.0**	**0.9**	**-2.7**	**-3.7**	**-2.5**	**-1.9**	**-1.8**	**-1.7**	**-1.5**	**-1.5**		
Contribution from interest rate/growth differential	-2.3	-1.0	-1.6	-2.7	-3.7	-2.5	-1.9	-1.8	-1.7	-1.5	-1.5		
of which: contribution from average real interest rate	-0.8	-0.5	-1.2	-2.4	-2.6	-1.0	-0.1	0.0	-0.1	-0.2	-0.5		
of which: contribution from real GDP growth	-1.4	-0.4	-0.4	-0.2	-1.1	-1.4	-1.8	-1.8	-1.6	-1.3	-1.1		
Contribution from real exchange rate depreciation	0.9	-3.1	2.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**-0.2**	**-0.1**	**0.0**	**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 contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**0.3**	**-2.7**	**-2.2**	**1.6**	**-0.1**	**0.1**	**0.2**	**0.2**	**0.0**	**-0.1**	**-3.6**	**1.7**	**0.2**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**28.4**	**30.9**	**31.2**	**31.5**	**31.3**	**29.5**	**27.8**	**26.0**	**19.4**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**208.1**	**251.7**	**225.8**	**213.5**	**192.3**	**167.0**	**158.0**	**172.7**	**131.4**		
Debt service-to-revenue and grants ratio 3/	**17.1**	**9.1**	**10.4**	**9.9**	**23.7**	**36.8**	**41.8**	**42.1**	**40.5**	**32.3**	**7.9**		
Gross financing need 4/	1.4	5.0	6.9	6.1	5.7	7.0	7.7	6.5	6.3	6.2	1.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.0	1.0	1.0	0.5	2.2	3.0	3.8	3.8	3.7	3.2	3.2	**-0.9**	**3.0**
Average nominal interest rate on external debt (in percent)	0.4	0.4	0.3	0.4	0.4	0.5	0.5	0.5	0.6	1.0	1.2	**0.7**	**0.7**
Average real interest rate on domestic debt (in percent)	-0.7	-0.1	-1.7	-3.7	-3.7	0.2	2.5	2.9	2.6	2.1	-1.8	**-2.3**	**1.0**
Real exchange rate depreciation (in percent, + indicates depreciation)	2.4	-8.7	7.7	...	...	...	...	...	...	...	...	**1.6**	**...**
Inflation rate (GDP deflator, in percent)	2.4	1.9	3.3	6.4	6.7	4.1	2.5	2.4	2.4	2.5	2.5	**4.2**	**3.4**
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.9	51.2	-21.0	-10.8	-3.4	3.8	8.7	0.9	4.2	0.5	4.2	**5.7**	**1.6**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.1	6.8	1.6	1.2	3.8	2.4	1.7	1.6	1.6	1.6	5.2	**3.2**	**1.8**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

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

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

Table 3. Central African Republic: Sensitivity Analysis for Key Indicators of Publicly Guaranteed External Debt, 2022-2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	17	16	16	15	15	14	14	15	16	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	17	18	18	19	20	23	25	28	**31**	**34**	**36**
B. Bound Tests											
B1. Real GDP growth	17	21	27	26	25	24	24	26	28	29	29
B2. Primary balance	17	17	18	18	18	17	17	18	19	20	20
B3. Exports	17	18	21	20	19	19	19	20	21	21	21
B4. Other flows 3/	17	19	21	21	20	20	19	20	21	21	21
B5. Depreciation	17	20	16	15	14	14	14	15	16	17	18
B6. Combination of B1-B5	17	25	27	26	25	24	24	26	27	27	27
C. Tailored Tests											
C1. Combined contingent liabilities	17	22	23	24	23	23	23	24	25	25	25
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	126	115	112	100	93	85	83	88	94	93	95
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	126	123	127	121	127	135	**149**	**163**	**180**	**187**	**200**
B. Bound Tests											
B1. Real GDP growth	126	115	112	100	93	85	83	88	94	93	95
B2. Primary balance	126	122	129	118	112	104	102	107	113	111	112
B3. Exports	126	**162**	**212**	**189**	**176**	**162**	**159**	**165**	**173**	**168**	**167**
B4. Other flows 3/	126	134	**151**	134	126	116	114	118	122	119	118
B5. Depreciation	126	115	89	79	73	66	65	70	76	78	80
B6. Combination of B1-B5	126	**169**	132	**154**	**143**	132	129	135	**141**	138	138
C. Tailored Tests											
C1. Combined contingent liabilities	126	**155**	**162**	**152**	**145**	136	134	138	**143**	**141**	**141**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	5	8	**12**	**13**	**13**	**12**	9	8	7	7	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	5	9	**14**	**15**	**16**	**15**	**12**	**11**	**11**	**11**	**13**
B. Bound Tests											
B1. Real GDP growth	5	8	**12**	**13**	**13**	**12**	9	8	7	7	8
B2. Primary balance	5	8	**12**	**13**	**13**	**12**	9	8	8	8	9
B3. Exports	5	**10**	**18**	**19**	**20**	**18**	**13**	**12**	**12**	**13**	**14**
B4. Other flows 3/	5	8	**12**	**13**	**13**	**12**	9	8	9	9	**10**
B5. Depreciation	5	8	**12**	**12**	**13**	**11**	8	7	7	6	7
B6. Combination of B1-B5	5	10	**16**	**17**	**17**	**15**	**12**	**10**	**12**	**11**	**12**
C. Tailored Tests											
C1. Combined contingent liabilities	5	8	**13**	**14**	**14**	**13**	10	9	9	8	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	9	**15**	**19**	**20**	**20**	**18**	14	12	11	11	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	9	**16**	**22**	**24**	**25**	**24**	**19**	**18**	**17**	**18**	**20**
B. Bound Tests											
B1. Real GDP growth	9	**19**	**33**	**34**	**34**	**31**	**23**	**21**	**19**	**19**	**21**
B2. Primary balance	9	**14**	**20**	**21**	**20**	**19**	**14**	13	12	13	14
B3. Exports	9	**15**	**20**	**21**	**21**	**19**	**15**	13	13	**14**	**15**
B4. Other flows 3/	9	**15**	**20**	**21**	**21**	**19**	**14**	13	13	**15**	**15**
B5. Depreciation	9	**18**	**24**	**24**	**24**	**22**	**16**	**15**	14	11	13
B6. Combination of B1-B5	9	**18**	**29**	**29**	**29**	**27**	**20**	**18**	**20**	**19**	**20**
C. Tailored Tests											
C1. Combined contingent liabilities	9	**14**	**21**	**22**	**22**	**20**	**16**	**14**	13	13	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Central African Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2022-2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
					PV of Debt-to-GDP Ratio						
Baseline	31	31	31	31	29	28	26	26	26	26	26
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	34	**36**	**37**	**38**	**39**	**39**	**39**	**39**	**39**	**39**	**39**
B. Bound Tests											
B1. Real GDP growth	34	**47**	**66**	**70**	**72**	**73**	**75**	**80**	**84**	**89**	**93**
B2. Primary balance	34	**37**	**39**	**38**	**36**	34	32	32	32	31	31
B3. Exports	31	33	**36**	**36**	34	32	30	30	30	30	29
B4. Other flows 3/	31	34	**37**	**37**	35	33	31	31	31	31	30
B5. Depreciation	34	**38**	**37**	**35**	33	30	27	26	25	23	22
B6. Combination of B1-B5	34	**38**	**42**	**42**	**41**	**39**	**37**	**37**	**37**	**37**	**36**
C. Tailored Tests											
C1. Combined contingent liabilities	34	**46**	**45**	**44**	**42**	**40**	**38**	**37**	**37**	**37**	**36**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
					PV of Debt-to-Revenue Ratio						
Baseline	252	226	214	192	167	158	150	173	173	172	173
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	281	254	242	223	204	205	205	240	240	240	244
B. Bound Tests											
B1. Real GDP growth	281	300	350	339	317	327	337	439	470	501	536
B2. Primary balance	281	267	263	234	203	193	183	210	209	207	206
B3. Exports	252	239	243	219	191	182	173	200	199	196	195
B4. Other flows 3/	252	245	251	226	197	188	179	207	205	202	200
B5. Depreciation	281	285	259	225	190	175	161	175	166	157	151
B6. Combination of B1-B5	281	268	265	244	215	206	198	232	232	232	233
C. Tailored Tests											
C1. Combined contingent liabilities	281	336	308	272	237	225	215	247	244	242	241
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	10	24	37	42	42	41	36	37	35	32	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	10	24	39	45	46	45	41	44	42	40	41
B. Bound Tests											
B1. Real GDP growth	10	27	53	68	72	74	72	84	84	84	88
B2. Primary balance	10	24	42	50	47	44	38	39	37	34	34
B3. Exports	10	24	37	42	43	41	37	38	36	34	34
B4. Other flows 3/	10	24	37	42	43	41	37	38	36	35	35
B5. Depreciation	10	24	40	45	45	43	38	39	36	34	34
B6. Combination of B1-B5	10	24	40	48	50	50	46	49	47	45	45
C. Tailored Tests											
C1. Combined contingent liabilities	10	24	65	62	52	47	41	41	38	35	35
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

April 25, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR A 38-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—SUPPLEMENTARY INFORMATION

Prepared By | The African Department

1. **This supplement reports on new information regarding external arrears from the Central African Republic to official creditors that have become known since the issuance of the Staff report.** The new information does not change the thrust of the staff appraisal.

2. **The Central African Republic (CAR) has accumulated arrears that pre-date the Completion Point of the HIPC initiative with some non-Paris Club creditors.**

- The Central African Republic (CAR) has arrears to Argentina, Equatorial Guinea, Iraq, Libya, and Taiwan, Province of China. The authorities are in contact with the creditors to find a path towards the resolution of these arrears.

- Since the issuance of the Staff Report, staff has received new information on Libya's consent to the Fund's lending to the Central African Republic (CAR). Libya has now consented to the Fund providing financing to the Central African Republic (CAR) under the Extended Credit Facility despite these arrears. Consistent with the Fund's lending-into-official-arrears (LIOA) policy, all creditors have now consented to the Fund lending to the Central African Republic (CAR) despite the arrears. The thrust of the staff appraisal remains unchanged.

Statement by Mr. Sylla, Executive Director, Mr. N'Sonde, Alternate Executive Director, and Mr. Touna Mama, Central African Republic Mission Chief on the Central African Republic
April 27, 2023

INTRODUCTION

1. On behalf of the Central African Republic (CAR) authorities, we would like to thank Management and Executive Directors for the Fund' steadfast support to CAR, including in the form of technical assistance, and in building the capacity to design and implement upper credit tranche-quality policies. We would also like to express our appreciation to staff for the constructive engagement with the authorities during discussions held in Bangui and in Washington, and for the comprehensive set of reports. The authorities are in broad agreement with the staff's assessment of the daunting challenges facing the country and the policy priorities going forward.

2. Since the 2013 sectarian violence, the democratically elected government of the Central African Republic has continued to experience recurring episodes of conflict and struggled to regain control of its entire territory and to deliver essential administrative functions to parts of the country. A significant share of the population is still internally displaced and access to basic utilities such as water and electricity is lacking.

3. In addition to domestic challenges and being a landlock country, CAR is affected by the ongoing global economic crisis. Most notably, supply chain disruptions related to the Covid-19 pandemic and the repercussions of the war in Ukraine have led to food and basic commodities price spikes, fuel shortages, additional balance of payment needs, and greater forgone revenues. According to the Integrated Food Security Phases Classification, three million people representing 49 percent of the total population are projected to be acutely food-insecure between April 2023 and September 2023, with internally displaced persons, returnees, and refugees being the most impacted.

4. Furthermore, the global tightening of macroeconomic policies combined with the lack of budget support generates significant funding pressures. In this context of significantly narrow financing space, the authorities are stepping up efforts to increase revenue mobilization while continuing to implement measures to preserve macroeconomic stability--sometimes at great costs—and pressing ahead structural reforms to foster stronger and more inclusive growth.

5. To support their policy and reform agenda, the authorities are requesting a new arrangement under the IMF's Extended Credit Facility (ECF) in the amount equivalent to SDR 141.68 million (127.18% of quota), building on the reform gains achieved through the past ECF programs and the last Staff Monitored Program (SMP) . The disbursements under the new ECF arrangement, if approved, will go towards covering obligations falling due to the Fund between 2023 and 2026, and for social protection in close coordination with the World Bank. Being current with its obligations to the Fund will enable CAR to remain engaged with the institution.

Moreover, the ECF disbursements will help free much needed fiscal space for essential public services.

The IMF program design incorporates strong safeguard features and should be catalytic in securing additional budget support from financial partners.

RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

6. Following a subdued recovery post-Covid in 2021, real GDP was nearly stagnant (0.5 percent growth) last year on account of the multiple shocks to the economy, notably the fuel shortages and the suspension of budget support. Inflation rose to 5.8 percent on an annual average from 4.3 percent, mainly driven by higher food prices. The external sector position weakened, with the balance of payment deteriorating by 8 percent in 2022 from a surplus in the previous year.

7. Economic growth is anticipated to recover in 2023, at 2.2 percent, as fuel shortages ease, and exceed 3 percent over the medium term. Inflation is expected to increase further to 6.3 percent, reflecting continued elevated fuel prices before reverting below the regional monetary zone CEMAC's target threshold of 3 percent next year.

8. This outlook is highly uncertain and hinges on resumption of budget support, access to regional financing market, and strong policy implementation. In addition, downside risks remain exceptionally elevated and relate to security developments in CAR and the region, the resumption of donors' support, and regional and global financial conditions. The materialization of those risks could push the country into a severe crisis, with significant repercussions on social stability and regional spillovers. However, the cost of not engaging with CAR at this critical juncture would exceed these risks.

NEAR AND MEDIUM-TERM POLICIES AND REQUEST FOR A NEW ECF ARRANGEMENT

9. The new ECF-supported arrangement will anchor the authorities' efforts towards: (i) improving economic resilience; (ii) supporting the most vulnerable; and iii) catalyzing additional budget support. The authorities have met all three bold prior actions, notably the repeal of the problematic and controversial provisions in the cryptocurrency legislation, the establishment of an escrow account at the central bank BEAC to guarantee the delivery of social services, and the promulgation of a decree transposing CEMAC directive on the stock and fixed assets accounting into domestic law, with the aim of improving the accuracy and transparency of public accounts.

10. The authorities stand ready to take contingent measures, in consultation with Fund staff, to ensure that the program objectives remain within reach and that capacity to repay the Fund strengthens. They also count on scaled up provision of capacity development assistance from the IMF, World bank and other technical partners to enhance their implementation capacity while mitigating risks to the program.

Fiscal Policy

11. The authorities are committed to raising the domestic revenues required to ensure essential public services, and to strengthening the economy's resilience to shocks amid increasing difficulties to secure sufficient concessional financing.

12. The authorities' fiscal program is anchored on fiscal consolidation of about 1% of GDP annually. To achieve this goal, they plan to scale up domestic resource mobilization, including through reforms to the petroleum pricing mechanism, additional tax policy measures, administrative reforms, and increased compliance enforcement. They will prioritize spending towards the sectors most impactful for growth and the protection of vulnerable households, while improving spending efficiency.

13. The authorities are also committed to strengthening public financial management, with support from IMF technical assistance. Amongst the measures envisioned are the implementation of the treasury single account reform, the enhancement of procurement policies, and progress towards the implementation of program budgeting and regional public financial management policies.

14. Efforts to better target social spending towards the most vulnerable households, and to shore up the social safety net will be stepped up. In addition to better targeting fuel price subsidies, the authorities are resolved to protect social spending, notably for vulnerable retirees, and communities affected by displacement as the World Bank's PACAD program is due to end in June 2023.

15. The authorities are also determined to intensify efforts to mobilize additional budget support. The monthly treasury committee meetings will be regularly held with the participation of the IMF and donor representatives. By opening their books to the IMF and donor representatives, the CAR authorities would like to, not only give additional assurances that they are making good use of the resources, but as importantly, they would like to benefit from their partners' advice and expertise.

16. The authorities are committed to anchoring fiscal and debt sustainability by adhering to the fiscal consolidation path, and by resorting to borrowing only on concessional terms. They are seeking to reduce their domestic borrowing costs by expanding their domestic investor base, and through liabilities management operations. The authorities are also committed to strengthening their debt management capabilities with support from the IMF.

17. Pre-HIPC initiative legacy arrears represent 25 percent of CAR's stock of external indebtedness. In this regard, the authorities will pursue normalization of relations with creditors and are engaging in good faith efforts to address the arrears.

Monetary and Financial Sector Policies

18. Monetary policy which is conducted at the regional level by the BEAC has been tightening. The CAR authorities understand that, in view of continued inflationary pressures at the regional level, the monetary policy stance is expected to stay the course to anchor inflation expectations.

19. Vigilance is warranted to ensure financial stability. The financial sector indicators remained sound with banks adequately capitalized and registering ample liquidity ratios. The non-performing loans are relatively high but adequately provisioned. Nevertheless, the authorities continue to monitor closely individual banks to ensure continued soundness.

20. Regarding financial digitalization, the authorities are committed to advancing their financial inclusion goals in closer partnership with regional institutions. Through the Sango

Project, they sought to leverage the emerging developments in Fintech and digitalization to promote an ambitious multipronged development agenda. They have taken good note of staff's advice, notably on the fiscal risks and the risks to the financial sector, including for AML/CFT. To address these risks, they have already revised the legal framework to withdraw crypto assets as legal tender and to better align their laws with the regional regulatory framework. They look forward to continuing to benefit from staff's advice and technical assistance to successfully promote financial inclusion.

21. **The safeguards assessment** conducted in 2022 found that the regional central bank, BEAC, maintained strong safeguards following reforms to strengthen its governance framework and the implementation of *International Financial Reporting Standards*. The assessment also noted BEAC's strong external controls. Complying with the recommendations of the 2022 safeguard assessment, the regional central bank is taking steps to strengthen its internal audit capacity and its risk management framework, including by developing business continuity and disaster recovery plans in line with international best practice.

Structural Reforms

22. The authorities structural reform priorities aim at strengthening the economy's competitiveness and resilience, while laying the foundations for inclusive economic growth in the medium-term.

23. The authorities plan to maintain the momentum of the fuel market's reform with the objective of ensuring that the country's fuel supply is secured, and government revenues are preserved, while protecting vulnerable households. Building on IMF's technical assistance , they plan to adopt and implement a streamlined pricing formula and address fraudulent fuel imports in this critical market.

24. Also, sound mining sector policies will help CAR make the most of its abundant natural resources. In this respect, the authorities are planning to revise the mining code to align it with international best standards. The code will incorporate enhancements suggested by the IMF and the World Bank's technical assistance.

25. The authorities are committed to strengthening governance and transparency. Amongst other actions, they will follow up with the National Assembly to ensure that the pending draft anti-corruption law reflecting the Fund's advice is adopted. Furthermore, the role of the supreme audit institution, the Court of Accounts, will be strengthened with the adoption of a new organic law and provisions to ensure that it is operational and financially autonomous.

CONCLUSION

26. Considering the authorities' commitment to sound policies going forward and building on their track record of program implementation under the previous ECF-supported program, SMP, and the prior actions implemented, we call on Executive Directors to support our CAR authorities' request for a new ECF arrangement. We would also appreciate the conclusion of the 2022 Article IV consultations.

27. Furthermore, the Executive Board's continued support and advocacy to help unlock additional budget assistance will be highly needed. This is critical to meet CAR's urgent

humanitarian needs as the country is facing acute food insecurity while key social programs such as the World Bank's PACAD program are coming to an end.