INTERNATIONAL MONETARY FUND

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CENTRAL AFRICAN REPUBLIC

2016 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE CENTRAL AFRICAN REPUBLIC

August 2016

In the context of the 2016 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its July 20, 2016 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 20, 2016, following discussions that ended on May 27, 2016, 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 July 8, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the Central African Republic.

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

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

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July 21, 2016

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IMF Executive Board Approves Three-Year US$115.8 Million Arrangement Under the ECF for the Central African Republic

On July 20, the Executive Board of the International Monetary Fund (IMF) approved a three-year SDR 83.55 million (about US$115.8 million, 75 percent of quota) arrangement under the Extended Credit Facility (ECF) for the Central African Republic. The approval enables the immediate disbursement of SDR 12.525 million (about US$17.4 million), while the remaining amount will be phased over the duration of the arrangement, subject to program reviews.

The authorities' ECF-supported program aims to entrench macroeconomic stability and create the conditions for sustained and inclusive growth, through structural reforms.

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

"The return to democratic institutions in April 2016 offers the Central African Republic a unique opportunity to consolidate peace, foster inclusive economic growth, and rebuild national cohesion to exit the current state of fragility. Going forward, and building upon progress made during the transition, economic reforms and consolidation of peace should ensure lasting improvements in security conditions and economic development of the country.

"The new three-year program supported by the Extended Credit Facility seeks to restore macroeconomic stability through lowering the domestic primary deficit in order to restore debt sustainability, while ramping up poverty-reducing spending and critical capital investment. Donor support ensures the full financing of the first year of the program, and there are good prospects for financing the remainder of the program.

“The program’s structural reform agenda focuses on raising domestic revenue to bring it to the pre-crisis level through a review of tax policy, strengthening tax administration, and streamlining tax exemptions. Raising domestic resource mobilization to the country’s potential over the medium term will be key to allow the government to scale up pro-poor and investment spending. Structural reforms also focus on strengthening public financial management, improving the efficiency of spending, and restoring control and transparency in the execution of the budget. Better control of the wage bill would allow new hiring in the priority health and education sectors. In addition, the authorities’ structural reform agenda also comprises measures to increase banking intermediation, improve the business environment, and build institutional capacity. Technical assistance to strengthen capacity development is a critical element of the program and the authorities have agreed to participate in the pilot IMF Capacity Building Framework.”

Annex

Recent Economic Developments

The 2013 crises and a protracted political transition in 2014–15 provide the context for recent economic developments. The economy contracted by an estimated 36.7 percent in 2013, and economic growth remained anemic in the subsequent years, due to structural rigidities, poor infrastructure and limited energy supply. Inflation reached 11.6 percent in 2014, and receded to 4.5 percent in 2015 thanks to improved supply conditions and a fall in the prices of basic imports. During this period, the fiscal deficit widened on the back of declining domestic revenue, which collapsed to below 5 percent of GDP in 2014. Corrective measures implemented in 2015 allowed revenue to reach 7.1 percent. However, domestic revenue remains insufficient to cover salary payments and critical expenditure. The current account deficit has doubled to 9 percent of GDP, mainly reflecting a collapse in exports of diamonds and forestry products.

Program Summary

The government program, supported by the ECF, aims at restoring macroeconomic stability, economic growth, job creation and poverty reduction. The program focuses on enhancing revenue mobilization and improving expenditure efficiency to lower the primary fiscal deficit and scale-up social and infrastructure spending. Measures to improve the business environment and access to credit should support private sector activity. Technical assistance and training will be critical to support the implementation of key reforms that will underpin an economic recovery.

Additional Background

The Central African Republic, which became a member of the IMF on July 10, 1963, has an IMF quota of SDR 111.4 million. For additional background information on the IMF and the Central African Republic, see: http://www.imf.org/external/country/CAF/index.htm.

Executive Directors commended the authorities for the progress achieved under their economic program supported by the Rapid Credit Facility, which has helped stabilize the economy, rebuild core administrative capacity and improve the management of public resources. While the country faces significant challenges, including a high dependency on external assistance and deep-rooted structural rigidities that hinder economic growth, the return to the democratization process has opened opportunities for the government to embark on a comprehensive reform strategy.

Directors supported the authorities' medium-term priorities that would create the conditions for sustainable and inclusive growth and a progressive exit from fragility. These priorities include securing peace and stability, improving competitiveness, enhancing institutional capacity, and lifting growth prospects to create jobs, combat poverty, and maintain social cohesion. Directors stressed the importance of rebuilding domestic institutional capacity to carry out the reform program, supported by technical assistance from the Fund and other partners.

Directors supported the government's medium-term fiscal strategy, and emphasized the need to increase revenue mobilization, improve expenditure control, and restore debt sustainability. They called for timely implementation of the revenue plan which covers tax policy, revenue administration, and tax and customs exemptions. Directors underscored the importance of improving public financial management and the efficiency of public spending, and welcomed plans for a strengthened treasury single account, an effective return to normal budget procedures, improved project execution, and enhanced transparency.

Directors urged the adoption of a revised budget for 2016, consistent with the medium-term fiscal framework, with an emphasis on additional revenue measures, scaled up social spending and infrastructure investment, as well as the inclusion of appropriate fiscal buffers to better manage volatility.

Directors emphasized that broad social ownership of the structural reform agenda, and continued support from development partners, will be key to boost economic activity. They encouraged the authorities to press ahead with efforts to improve the business environment and strengthen competitiveness, deepen financial intermediation, and improve the legal and institutional frameworks.

Directors welcomed the continued engagement of development partners, together with Fund financial assistance, in meeting the country's financing needs in 2016 and in the years ahead. They emphasized the importance of continued strong donor coordination and the timely disbursement of pledged financial support and provision of technical assistance. Directors encouraged the authorities to strengthen their institutional framework to better coordinate such assistance, and welcomed their intention to take part in the pilot Capacity Building Framework.

Directors welcomed the recent progress in compiling and providing basic macroeconomic data and emphasized the need for continued improvements to the quality and timeliness of economic data to strengthen economic management. In this regard, technical assistance, including from the IMF, would be helpful.

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2012–21

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est.	Prel.			Proj.			
	(Annual percentage change; unless otherwise indicated)									
National income and prices										
GDP at constant prices	4.1	-36.7	1.0	4.8	5.2	5.5	5.8	5.8	5.8	5.8
GDP at current prices	6.9	-32.3	12.2	11.3	11.3	11.1	10.9	10.9	10.8	9.3
GDP deflator	2.7	7.0	11.1	6.2	5.8	5.3	4.8	4.7	4.7	3.3
CPI (annual average)	5.9	6.6	11.6	4.5	4.0	3.5	3.0	3.0	3.0	3.0
CPI (end-of-period)	5.9	5.9	9.7	4.8	4.0	3.5	3.0	3.0	3.0	3.0
Money and credit										
Broad money	1.6	5.6	14.6	5.3	11.8	12.8	10.9	10.9	10.8	9.3
Credit to the economy	30.2	-16.3	4.0	-3.0	10.3	10.8	10.7	10.6	10.6	9.2
External sector										
Export volume of goods	11.3	-50.8	-28.1	4.9	32.4	21.6	7.3	21.9	8.9	21.6
Import volume of goods	22.1	-29.6	77.5	18.8	12.6	2.4	5.8	12.7	1.2	7.1
Terms of trade	2.8	19.4	8.2	26.6	5.8	-7.9	0.6	-2.7	0.7	0.0
	(Percent of GDP; unless otherwise indicated)									
Gross national savings	10.4	5.7	4.6	4.9	6.7	7.3	8.6	9.8	12.2	14.3
Of which: current official transfers	1.0	1.3	8.7	3.3	0.5	0.0	0.0	0.0	0.0	0.0
Gross domestic savings	3.6	-1.9	-14.3	-8.0	-2.5	-1.0	0.7	2.2	5.0	7.4
Government	1.4	-7.3	-5.3	-2.8	-2.4	-0.9	-0.3	0.6	1.4	2.4
Private sector	2.2	5.4	-9.0	-5.2	-0.1	-0.1	1.0	1.6	3.6	5.1
Consumption	96.4	101.9	114.3	108.0	102.5	101.0	99.3	97.8	95.0	92.6
Government	7.4	10.2	8.2	7.7	7.5	7.1	7.1	6.9	7.4	7.4
Private sector	89.0	91.6	106.1	100.4	95.0	94.0	92.2	90.9	87.6	85.1
Gross investment	15.0	8.7	10.2	13.9	16.9	17.2	17.9	19.0	19.9	21.0
Government	6.2	1.7	2.1	4.7	6.2	6.0	6.2	6.7	7.0	7.4
Private sector	8.8	7.0	8.1	9.3	10.6	11.2	11.7	12.3	12.9	13.6
External current account balance	-4.6	-3.0	-5.6	-9.0	-10.1	-9.9	-9.3	-9.2	-7.7	-6.7
Overall balance of payments	3.0	2.8	-2.6	-2.2	-4.4	-2.2	-2.0	-2.1	-1.0	-0.6
Central government finance										
Total revenue (including grants)	16.4	8.4	15.7	14.3	13.0	13.2	13.7	14.3	15.5	16.5
of which: domestic revenue	11.5	5.6	4.9	7.1	8.1	8.9	9.5	10.1	11.6	12.6
Total expenditure [2]	16.4	14.9	12.7	14.9	17.1	16.0	16.0	16.4	17.5	17.7
of which: capital spending	6.2	1.7	2.1	4.7	6.2	6.0	6.2	6.7	7.0	7.4
Overall balance [1]										
Excluding grants	-4.9	-9.3	-7.8	-7.8	-9.0	-7.2	-6.6	-6.3	-5.8	-5.1
Including grants	0.0	-6.5	3.0	-0.6	-4.1	-2.8	-2.3	-2.1	-1.9	-1.2
Domestic primary balance [2]	0.5	-7.0	-5.1	-3.0	-3.3	-1.8	-1.4	-0.9	-0.5	0.0
Public sector debt	23.5	38.5	51.1	48.5	47.2	41.2	35.8	31.2	27.7	24.7
Of which: domestic debt [3]	13.8	24.0	36.3	34.0	30.3	26.2	22.5	18.9	16.0	13.4
Gross official foreign reserves (US$ millions, end-of-period)	175.6	205.8	258.7	199.4	207.6	248.5	288.8	319.2	364.1	406.3
(months of imports, f.o.b.)	5.6	3.7	5.1	4.2	4.0	4.5	4.7	5.0	5.2	5.5
Nominal GDP (CFAF billions)	1108	750	842	937	1042	1158	1285	1424	1578	1726

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

[1] Expenditure is on a cash basis in 2014 and 2015 in the context of the Rapid Credit Facility.

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

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

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

July 8, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Background: The Central African Republic (C.A.R.) is at a turning point, with the return to democratic institutions since April 1, 2016 offering prospects of ending the cycle of violent conflicts and political instability that has beleaguered the country since end-2012 and also engineering a turnaround to rebuild its economy, reduce poverty, and exit progressively from fragility. Three disbursements under the Rapid Credit Facility (RCF) helped to address urgent balance of payments needs and restore macroeconomic stability during the protracted political transition that lasted from January 2014 to March 2016. The newly elected government is focusing on reforms for a progressive exit from fragility, including improving security, consolidating the peace and the reconciliation process, rebuilding government institutions, and strengthening economic management.

Article IV Discussions: Discussions focused on strategies to improve revenue mobilization, strengthen public financial management, promote competitiveness and debt sustainability, and rebuild capacity to support pro-poor inclusive growth and social stability.

The Proposed Program: The program focuses on:

- Lowering the primary fiscal deficit while ramping up poverty-reduction spending.
- Expanding the electricity supply and improving access to credit for crowding in private sector investment.
- Improving administrative capacity, budget transparency, and project management.

Request for an ECF Arrangement: The C.A.R. Authorities request a three-year arrangement under the ECF in an amount equivalent to SDR 83.55 million (75 percent of quota) in support of their medium-term economic reform program.

Risks: risks to the program include an absence of political agreement with armed groups, limited experience of the new government, and delayed provision of financial assistance from the international community that would jeopardize critical reforms, including those of the security sector.

Approved By
M. Atingi Ego (AFR) and B. Traa (SPR)

A staff team consisting of Mr. Jahjah (head), Mr. Bessaha, Mr. Davies, and Mmes Shi and Farahbaksh (all AFR) visited Bangui during May 17-27. The mission met with President Touadera, Prime Minister Sarandji, Finance and Budget Minister Dondra, Minister of Plan and International Cooperation Moloua, several other ministers, the head of Parliament, the national Director of BEAC, and senior economic and financial officials. Mr. Kibassim (OED) participated in the discussions. Representatives of the World Bank, the European Union, the African Development Bank, and France participated in the meetings. The mission met with representatives of the diplomatic community and the private sector. The staff team coordinated closely with a large mission from the World Bank, as well as the visiting Deputy Managing Director of the Development Bank for Central African States.

CONTENTS

BOXES

FIGURES

TABLES

ANNEX

APPENDICES

CONTEXT: POST-CONFLICT PEACEBUILDING AND RECONSTRUCTION

The return to democratic institutions provides a new window of opportunity for C.A.R. to engage on the path of national reconciliation, good governance, and better economic management.

1. **The peaceful elections in early 2016 brought to an end a protracted political transition and the return to democratic institutions.** This enhances the prospects of ending the political instability in the country that erupted in 2013 when armed rebels overthrew the democratically elected government, leading to violent fighting along religious lines. State institutions collapsed, economic activity ceased, civilians fled to internal camps or abroad, and a humanitarian crisis ensued. With help from the international community, a transitional government was eventually set up in January 2014. The United Nations put in place a peace keeping mission mandated to restore security, protect civilians, support the transition to democracy, and restore the rule of law. Following several delays for financial, security or logistical reasons, presidential and legislative elections were held in early 2016, leading to the election of President Touadera and a new parliament. The elections were generally acclaimed as free and the results widely accepted and President Touadera formed a coalition government composed of representatives from a wide array of political parties, but excluding some minority groups.

2. **The new government is turning its attention to development challenges, with a focus on peace, governance, and economic management**. It has announced that its long-term objectives are to reduce widespread poverty by reinforcing security, fostering national reconciliation and social peace, strengthening human and administrative capacity, and undertaking economic reforms. Consistent with these challenges, the authorities intend to: (i) undertake a comprehensive reform of the security services (RSS); (ii) further mobilize revenue collection and rein in non-priority public spending, while ramping up pro-poor spending; (iii) strengthen the government institutional capacity; and (iv) improve competitiveness.

3. **The RSS will be a key element of the government's medium-term strategy.** This comprehensive security reform plan is being worked out between the authorities and stakeholders. The key issues relate to the departure of many old and untrained officers, the place of the ex-combatants in the society, and the role of a new army, with most of the donors favoring a shift to a civil security format, with small specialized forces to ensure security. The reform will require significant financial support from development partners and is not expected to impact the public finances. It is expected to be submitted to the donor community in November 2016.

CENTRAL AFRICAN REPUBLIC AND THE IMF

The IMF provided significant support during the 2014-2015 political transition through three disbursements under the RCF. Performance by the authorities under their program created favorable conditions for longer term engagement.

4. **The IMF and the international community supported the transition's government emergency program with significant financial assistance and targeted technical assistance**. The transition authorities improved treasury management, streamlined the civil service roster to contain a ballooning wage bill, and put in place a collaborative institutional framework. Donors provided significant budgetary aid, humanitarian assistance, and project support. The three successive disbursements under the RCF provided SDR 22.28 million (20 percent of new quota).

5. **In the 2011 Article IV consultation, the authorities were encouraged to maintain macroeconomic stability while substantially increasing investment to address structural gap.** Directors called for measures to ensure budget execution in line with the priorities approved by Parliament. They also recommended putting in place a mechanism for adjusting domestic petroleum products on a monthly basis. Directors stressed the need to strengthen public debt management, contract new debt on concessional terms to preserve debt sustainability, and clear arrears. They identified improving financial intermediation, removing structural rigidities, including expanding access to electricity, and improving the business environment as key structural reforms to uplift growth prospects. Notwithstanding the political and security crisis that prevailed, most of these reforms are underway, including those aimed at enhancing the contribution of the banking sector to growth and expand electricity supply.

6. **Performance under three successive RCF disbursements set the stage for an upper credit tranche program and staff sees merit in longer-term engagement.** The authorities have rebuilt basic state functions and core capacity, and delivered on macroeconomic management objectives and structural reforms—even under difficult political and security conditions. The new authorities have requested an ECF arrangement to meet protracted balance of payments needs. The latter would persist beyond the medium term because of a slow take off of their export earnings capacity due to the lingering impact of the partial embargo on diamond exports,[1] low timber prices, and rising imports to meet the country's food needs and reconstruction and investment requirements. The ECF-supported program aims to provide a macroeconomic framework to that will strengthen substantially and in a sustainable manner its balance of payments position consistent with strong and durable poverty reduction and growth. In line with this objective, the ECF will help mobilize revenue, improve efficiency of spending, scale-up social and infrastructure investment, anchor priority structural reforms, and mobilize and coordinate support from development partners.

[1] The Kimberly Process Certification Scheme (KCPS) lifted the embargo on the sale of diamonds produced in the green zone (South west part of the country) in June 2015. A partial embargo remains on the diamonds produced in the North East regions, where the most important mines are located.

RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

Despite the progress achieved in the context of the emergency program, economic growth remained elusive, and fiscal revenue insufficient to cover current primary spending. The return to democratic institutions and the restoration of a peace –albeit fragile- provides a historic window of opportunity for C.A.R. to focus on longer term issues.

7. **The crises during 2013 followed by a protracted political transition in 2014–15 provide the context for recent economic developments.** Following a 4.1 percent rise in 2012, real GDP growth contracted by an estimated 36.7 percent in 2013. During the transition, economic activity remained weak, reaching 1 percent in 2014, before rising to 4.8 in 2015, driven by an uptick of subsistence agricultural activity, construction, transportation and trade. Inflation peaked at 11.6 percent in 2014 and receded to 4.5 percent in 2015 thanks to improved supply conditions resulting from enhanced security along the Douala-Bangui transport corridor, a fall in the prices of some basic imports, and improved distribution networks (Table 1 and MEFP, ¶5). Per capita growth, which stagnated throughout the pre-crisis, collapsed in 2012 and did not recover during the transition. Furthermore, the crisis led to a deterioration of all social indicators, as suggested by the 2015 Human Development Report which ranked C.A.R. at 187 out of 188 countries, with a Human Development Index significantly lower than the average sub-Saharan Africa (Box 1).

8. **Fiscal and current account deficits widened**. The primary fiscal position shifted from a small surplus in 2012 to a deficit of 3 percent of GDP in 2015 (Tables 2 and 3). This was attributable to a collapse in domestic revenue to 4.9 percent of GDP in 2014 (from 11.5 percent of GDP in 2012) before rebounding to 7.1 percent of GDP in 2015 thanks to corrective measures taken during the last year of transition. At the same time, current primary spending remained at about 9.7 percent of GDP, of which 6 percent representing the wage bill. Domestically-financed capital spending fell to 0.4 percent of GDP in 2015, from 1.5 percent in 2012. The current account deficit doubled since 2012 to 9 percent of GDP, mainly reflecting a collapse in exports of diamonds and forestry products.

9. **The treasury situation remained tight during the first half of 2016 despite strong revenue performance and strict expenditure control (Table 6a)**. During the first quarter, domestic revenue, together with the financial reserves accumulated at end-December 2015, helped cover salaries, pensions, and debt service obligations, including vis-a-vis the IMF. For the second quarter, the authorities faced a treasury gap of CFAF 10 billion which prompted donors to provide bridge emergency support as they were reassured by the discussions on a new ECF-supported program.

10. **The crisis led the country to be assessed at high risk of external debt distress.** Public debt rose from 23.5 percent of GDP in 2012 to 48.5 percent of GDP in 2015, as a result of the significant fall in GDP and increases in domestic payment arrears. During the emergency period, C.A.R. received significant support in the form of grants, with limited new debt financing. The first

Box 1. Central African Republic: Exiting the Fragility Trap

Despite its abundant natural resources, C.A.R. has been trapped in persistent fragility since independence in 1960. C.A.R.'s main sources of fragility include: (i) a lack of common vision; (ii) weak governance; (iii) lack of education and employment opportunities; and (iv) lasting political conflicts. These sources reinforce each other and keep CAR in a persistent "fragility trap". Protracted political crises led to a deficit of institutions and the disintegration of the state, and undermined efforts to develop the country's rich and diverse endowment and sustainable development path. This fragility trap has kept the country in extreme poverty with the lowest rankings of social and economic indicators in the world.

The experiences of seven Sub-Saharan African countries that have managed to exit fragility point to the key drivers for building resilience. Using the World Bank's Country Policy and Institutional Assessment (CPIA) ratings and incidents of conflicts to define fragility, seven countries have been identified as "becoming resilient" since 1990s: Cameroon, Ethiopia, Mozambique, Niger, Nigeria, Rwanda and Uganda. A panel regression model of the seven countries is used to regress the CPIA index of the seven countries on the following independent variables: development aid, tax revenue and current expenditure, education and health expenditures (all in percent of GDP). Three variables - inflation, growth of real GDP per capita, and terms of trade - are used as control variables. The sample period covers 14 years from the most fragile year for each country. The estimation results suggest that maintaining macroeconomic and political stability, building strong fiscal institutions and collecting efficiently domestic revenue, scaling up development aid and social spending can help the countries in building resilience towards exiting fragility.

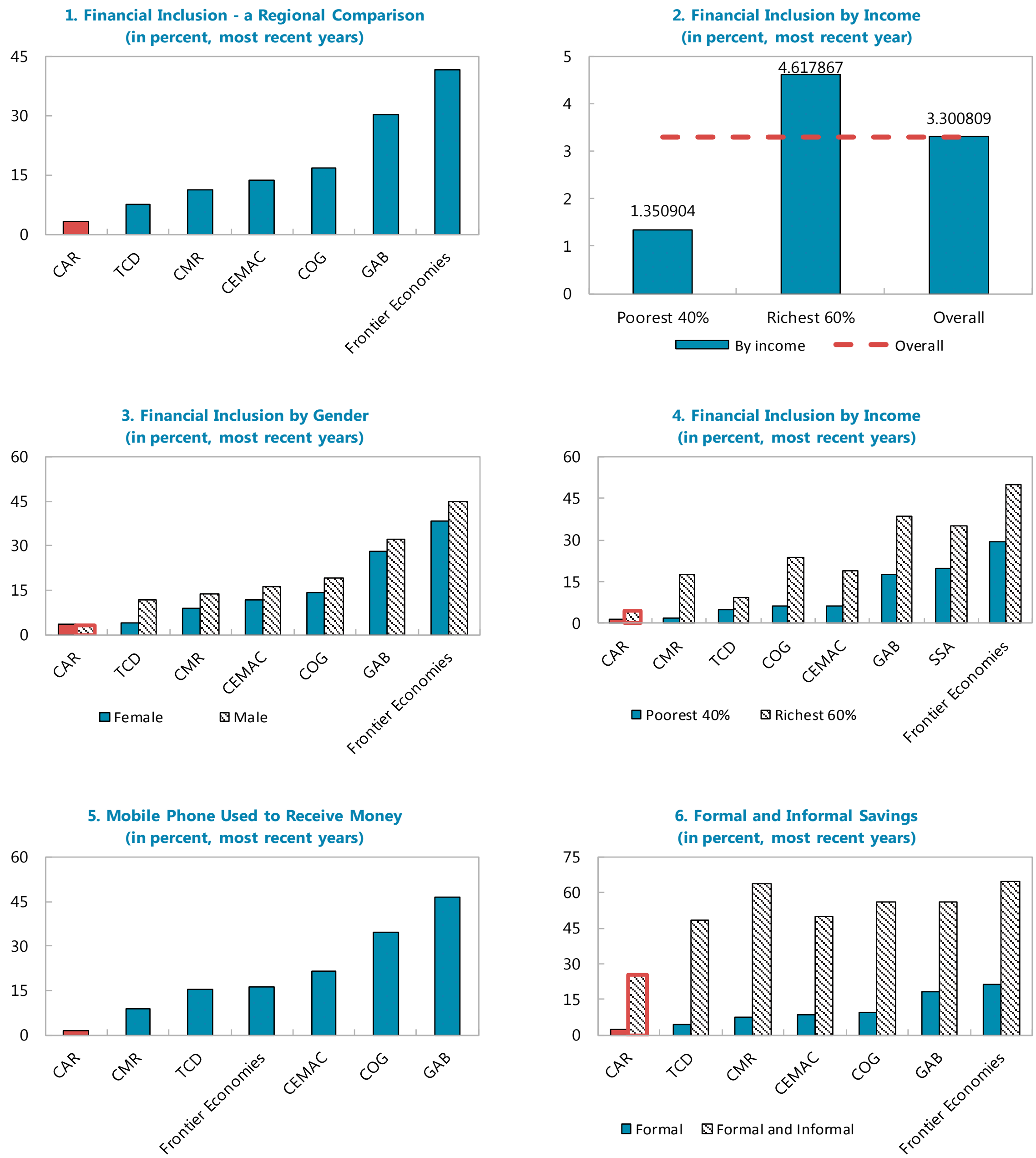
The key elements of a strategy that can help C.A.R. build resilience to exit fragility include fostering long-lasting domestic security, maintaining political stability, and improving macroeconomic performance and creating conditions that are conducive to economic recovery. Public expenditure should be oriented to priority spending such as health, education and security and public investment that are essential for engineering inclusive growth and maintaining political stability. At the same time, it is critical for the government to build strong fiscal institutions and funding to finance those essential government services above. Efforts and resources should first focus on "low hanging fruits" such as strengthening cash management, VAT and petroleum taxation and strengthening the treasury single account. In addition, scaling up external budget assistance and technical support in capacity building can help CAR address its daunting challenges of overcoming persistent fragility through security and economic reforms. This requires strong coordination between the United Nations, development partners, and security partners.

major loan was signed in December 2015 by the Transition Government with Saudi Arabia for CFAF 45 billion (5 percent of GDP) to finance investment in infrastructure and social sectors. The loan is concessional with a grant element of 49 percent.

11. **The financial sector, the smallest in CEMAC, is largely underdeveloped and plays a limited role in supporting the economy**. Only about 1 percent of the population holds a bank account and 0.5 percent has access to credit. Access to mobile banking remains low, dampening the potential expansion of access to financial services (Figure 1). The fragile security, together with the absence of appropriate guarantee instruments, the lack of long-term resources, and a poor judicial system capable of supporting debt collection are impediments to a sound credit expansion to the private sector, beyond a small core of clients that have adequate accounting practices. Demand for credit was at the same time weak reflecting the fragile security environment and the loss of investors' assets during the crisis. Financial sector indicators show that while the overall liquidity has increased in 2015, banks' asset quality remains precarious (Table 9 and MEFP, ¶8 and ¶9). Non-performing loans represent close to one third of all loans, mostly due to the large stock of outstanding government payment arrears (about 50 percent of

the sector's NPLs), and government arrears to its suppliers. Banks have recently increased provisioning of NPLs to about 70 percent (compared with about 50 percent in March 2015), reducing banks' capital, which remains broadly adequate, and profitability. Bank lending activities tend to be concentrated in short-term loans to the public sector, leaving banks exposed to sovereign risk.

Figure 1. Central African Republic: Financial Inclusion Statistics



Source: World Bank Global Findex database.
Note: CAR = Central African Republic, CMR = Cameroon, CEMAC = Central African Monetary and Economic Community, TCD = Chad, COG = Republic of Congo, GAB = Gabon.
SSA frontier economies refer to the following countries: Ghana, Kenya, Mauritius, Nigeria, Senegal, South Africa, Tanzania, Uganda, and Zambia.

MEDIUM-TERM CHALLENGES AND POLICIES: INCLUSIVE GROWTH AND DEBT SUSTAINABILITY

Article IV consultation discussions focused on policies to restore macroeconomic stability by enhancing domestic revenue mobilization and improving public financial management; strengthening competitiveness and restoring debt sustainability; and strengthening the capacity building framework (CBF) needed to support this range of reforms.

A. Main challenges to the recovery and sustained and inclusive growth

12. **The authorities stressed their commitment to address the following challenges facing the country, in their efforts to boost growth**:

- **Consolidating peace and security, and re-establishing state authority throughout the country*:*** Security has been improving with the help of the UN peacekeeping mission and the French military contingent, SANGARIS. Nevertheless, security conditions remain volatile in, Bangui, the capital city and in some other parts of the country, including the North-East diamond-producing regions, which remain under the full control of armed groups, hindering the restoration of state authority.[2] The return and resettlement of refugees and internally displaced persons (IDPs) are a major political, economic and social priority. The disarmament, demobilization, reintegration, and reinsertion of ex-combatants into civilian life are crucial to reduce security risks and boost economic activity. The security policy is being reshaped, with a view to scale up, in a context of a civil security format, specialized forces (police and gendarmerie), with adequate training and equipment needs. The needs for the latter are significant to enable the security forces to maintain state authority across the country. At the same time, a concerted reconciliation campaign is needed, as the fighting has divided the population along religious lines. The authorities are designing, in concertation with their partners, a security reform that will redefine the respective roles of the army, gendarmerie and police, that will be complemented with training and capacity building.

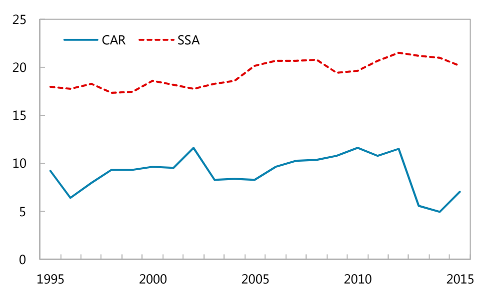
- **Restoring and building basic infrastructure and utilities*:*** Even before the 2013 crisis, the supply of electricity and access to safe drinking water were poor and mainly limited to Bangui. Large parts of the country were inaccessible due to the poor road conditions which deteriorated further during the crisis. Private economic infrastructure has been destroyed, from factories in the forestry sector to service providers, including in the oil sector where there are only 8 gasoline stations for the whole country. The authorities are already implementing, with their development partners, an investment plan in the energy sector (that is expected to double power generation over the next three years) and road transportation.

[2] A wave of violence erupted in the middle of June 2016 in Bangui and also in the Northern part of the country. MINUSCA's intervention helped restore a fragile security.

- **Mobilizing domestic revenues and returning to normal budget procedures:** In the face of such daunting challenges, domestic resources are scarce and insufficient to meet wage payments, key social outlays and external debt service. This has led to a significant dependence on external aid which reached 27 percent of GDP in 2015 after a plateau of 43 percent of GDP in 2014 (Figure 2 Text Table 1). Rebuilding and modernizing the revenue administration, improving tax policy, and restoring normal budget processes are the cornerstone for the return to fiscal sustainability and to ensure that expenditures are well managed. The authorities have adopted actions plans to address these challenges. On the revenue side, they intend to review the tax policy and the management of their natural resources. On the expenditure side, the authorities intend to move ahead with the second phase of the wage bill reform, including human resource management.

Figure 2. Central African Republic: Total Revenue (excluding grants), 1995-2015

Percent of GDP



Text Table 1. Central African Republic: External Support, 2014–19

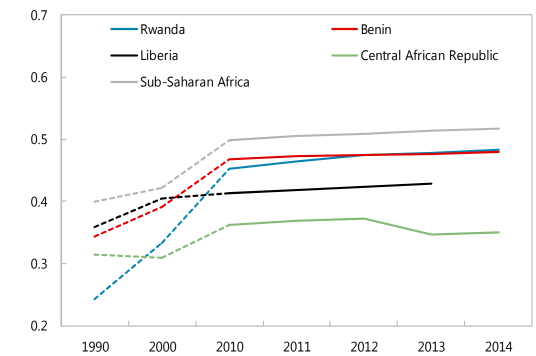
Percent of GDP

Type of Support	2014	2015	2016	2017	2018	2019	2020	2021
	Act.	Act.			Projections			
Humanitarian aid	32.0	17.7	...	...	...	...	...	...
Project aid	2.1	4.3	4.9	4.8	4.7	4.9	4.9	4.9
Grants	2.1	3.9	4.4	4.3	4.3	4.2	3.9	3.9
Loans	-	0.4	0.6	0.5	0.5	0.7	1.0	1.0
Budget support	8.8	5.3	4.8	3.9	3.4	2.8	2.2	1.7
Total	42.8	27.4	9.7	8.7	8.1	7.7	7.1	6.6
Memorandum Items:								
Domestic Revenue	4.9	7.1	7.9	8.7	9.2	9.9	11.4	12.3

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

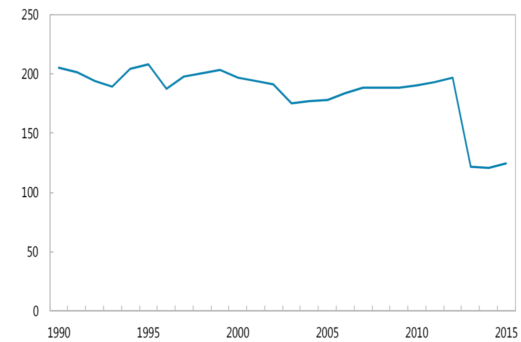
- **Improving social conditions*:*** Social and economic conditions are among the lowest in the world, as reflected in C.A.R.'s rank of 187 out of 188 countries on the *UNDP 2015 Human Development Index* (Figure 3). Raising income levels – which stagnated before collapsing in 2012 (Figure 4) – and improving access to health, education, and safe drinking water, are therefore critical to reduce widespread poverty and promote human development. The authorities will redeploy social service in the country and undertake significant investments in health and education.

Figure 3. Central African Republic: HDI trends for selected Sub-Saharan African countries, 1990–2014



Source: 2015 Human Development Index, UNDP.

Figure 4. Central African Republic: Real GDP per capita, 1990–2015
(CFAF thousands)



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

- **Improving competitiveness.** C.A.R. ranked 185th out of 189 countries on the World Bank Doing Business Index for 2016. It ranked bottom on four of the ten components of the index: paying taxes, trading across borders, enforcing contracts, and resolving insolvency; and close to bottom on the remaining six components. The Heritage Foundation's Index of Economic Freedom shows weaknesses in property rights, corruption, and business freedom. C.A.R. ranked 145th out of 167 countries on Transparency International's 2015 corruption perceptions index. The authorities have started an inclusive dialogue with the private sector and they are taking steps are reducing red tapes, corruption and improving financial sector intermediation.

13. **Staff argued that the real effective exchange rate (REER) has appreciated sharply**. Following a long period of stability, the REER appreciated by almost 63 percent from 2013 to 2015, mainly reflecting the sharp increase in inflation observed during the crisis. This highlights the substantially weaker external position for C.A.R (see attached technical note on the external sector assessment). The authorities agreed with staff assessment of the external sector. They noted that inflationary pressures are receding and they are ready to take further actions to bring the consumer price inflation in line with the regional convergence rate. C.A.R. participates in a currency union and the exchange system common to all members operates without restrictions on the making of payments and transfers for current transactions (see informational annex).

14. **The loss of competitiveness would be best addressed by the removal of structural bottlenecks to growth**. Enhancing C.A.R. non-price competitiveness requires substantial structural reforms to improve: (i) the challenging business environment (especially the cumbersome business, regulatory, and trade regulations for starting a business, getting

electricity and accessing credit); and (ii) the institutional and governance environment (especially the labor and competition policies, as well as the quality of public administration). The authorities agreed with staff's assessment and are committed to move forward with such reforms (simplified investment code and updated mining code and telecommunications regulations) that would generate, over time, tangible productivity gains, mainly by bolstering private sector investment and expansion as well as public sector efficiency (including through more effective policy making and use of development assistance).

B. Restoring macroeconomic stability through fiscal reforms

15. **Maintaining macroeconomic stability is a prerequisite for growth.** Staff and the authorities agreed that macroeconomic stability and structural reforms should help lift growth prospects and attract investors**.** On the fiscal side, with external budget support expected to steadily decline over the medium term, the emphasis will be on efforts to mobilize domestic resources and control spending through key structural reforms. The authorities have readied medium-term action plans to that effect. They noted, however, that low capacity, the continued presence of armed groups, the poor state of the revenue administration, deep-rooted rigidities, and the high expectations of the populations require careful prioritization of reforms, continued external support, and further technical assistance. Taking into account these constraints, staff and the authorities agreed on a set of medium-term macroeconomic policies and reforms that would pave the way for a return to macroeconomic stability and sustainable growth (MEFP, ¶11).

Enhancing revenue mobilization

16. **Staff and the authorities concurred to further increase domestic revenues through the implementation of the medium-term action plan prepared in 2015 and updated in March 2016 together with an FAD TA mission**. With a view to raise domestic revenue from 7.1 percent of GDP in 2015 to 10.1 percent of GDP by 2019, the plan aims at: (i) broadening the tax base and simplifying tax procedures, including improving management of the VAT system and the base for assessing export taxes; (ii) strengthening tax and customs administration, including introducing pre-completed tax returns for real estate; revision of fiscal exemptions agreements; (iii) harmonization of the General Investment Code by implementing the CEMAC directives on VAT and duties; and (iv) streamlining and enhancing management of tax exemptions (MEFP, ¶17).

Improving public financial management and the efficiency of spending

17. **Staff and the authorities concurred on the need to keep the wage bill in check.** Efforts will continue to bring the wage bill down from 6 percent of GDP in 2015 to 4.5 percent of GDP in 2019 (MEFP, ¶15). In this context, the authorities are planning to continue streamlining the public sector work force through: (i) the continued cleaning of the civil service roster; (ii) the timely retirements of eligible civil servants (CFAF 150 millions); (iii) the gradual elimination of non-regular civil servants (CFAF 150 millions); and (iv) the repatriation of diplomats whose assignments have ended in 2016 or before (CFAF 60 millions). The expected savings for the period 2016-19 will help scale up poverty spending and domestically-financed investment

spending, and clear more domestic payments arrears. Staff will assess, with the authorities, the budgetary impact of the reforms in the security sector, once finalized, ahead of an international donor conference scheduled in November 2016.

18. **Staff and the authorities agreed that the cash constraint is the fundamental anchor of the program.** Accordingly, they will pursue strict treasury management and widen the coverage of treasury operations**.** This will help: (i) ensure that more efforts will be made at revenue mobilization; (ii) calibrate available resources with priority spending; and (iii) avoid accumulating domestic payments arrears. In this regard, the authorities have prepared a monthly treasury plan for 2016 and 2017 (Tables 6a & 6b) whose execution will be monitored by the Treasury committee through monthly review meetings chaired by the Minister of Finance and Budget.

19. **Staff and the authorities agreed to strengthen the fiscal policy framework to improve public financial management (PFM) and the efficiency of public spending**. The authorities prepared, with the support of the Fund and other partners, an action plan aimed at improving and modernizing public financial management (MEFP, ¶18-19). The objectives of the plan are to: (i) secure and strengthen treasury management by widening the coverage of treasury operations to all government operations and identifying all government accounts in commercial banks and move towards a reinforced single Treasury account; (ii) strengthen the recently established Central Accounting and Treasury Agency (ACCT), including launching a sensitization campaign to explain the role of this new unit; (iii) normalize the expenditure process (commitment, settlement, authorization, payment) and limit emergency spending procedures (budget and cash payment orders) to 5 percent of non-wage and debt-service expenditures; (iv) re-establish proper accounting practices for all government operations, for the general budget and budget annexes, including reinforcing the public management information system to produce monthly accounting balances; and (v) re-establish the credibility of the state by fighting corruption and fraud and by re-gaining creditor confidence. In this context, the government will rigorously enforce the law requiring ministers to declare their assets within 60 days of appointment. Furthermore, it is considering creating a committee of wise persons to pave the way for implementing a coherent anti-corruption framework, following international best practices. At the same time, a plan is under discussion to improve the public investment framework to enhance project execution.

C. Restoring debt sustainability through a strengthening of public debt management and implementation of a prudent borrowing policy

20. **Staff and the authorities concurred on the need to strengthen external debt management.** The Debt Sustainability Analysis (DSA) puts C.A.R. at high risk of debt distress, compared with a moderate risk of debt distress in the last Article IV consultation in 2012 (MEFP, ¶22). The current rating reflects the collapse in GDP, tax revenues and exports—rather than an increase in external debt. At end-May 2016, C.A.R. owes close to US$93.7 million of pre-HIPC Initiative arrears to Argentina, Equatorial Guinea, Iraq, Libya, and Montenegro. C.A.R. also has arrears to the French export guarantee institute, COFACE. Argentina and France have

consented to IMF financing in the context of a new ECF arrangement notwithstanding these arrears. The remaining creditors have requested more time to consider consenting to IMF financing. C.A.R. arrears to the Saudi Development Fund amount to US$1.26 million, which arose during the emergency period. The government has contacted the authorities of Saudi Arabia to inform them of their intention to resolve these arrears. An update will be circulated to the Executive Board not later than a week prior to the scheduled Board consideration. C.A.R. is also in arrears to two French private entities, and is continuing to make good faith efforts to finalize/and reach a collaborative agreement with them. Large accumulation of domestic arrears also contributed to an increase in total public debt. In view of the high risk of debt distress, staff and the authorities agreed that grants should be the main source of external financing. Concessional financing, with a grant element of at least 50 percent could be pursued after consultation with staff (Text table 2). At the same time, the revised finance law for 2016 will explicitly confer the authority to contract public debt, including government-guaranteed debt, exclusively to the Minister in charge of Finance and Budget.

D. Improving the capacity building framework

21. **Staff and the authorities concurred on the need to further build capacity to support and undertake major reforms.** During the emergency phase, the authorities put in place an institutional framework to rebuild capacity, coordinate technical assistance, and monitor reforms undertaken in the context of the RCF. This framework will be strengthened to enhance donor coordination and leverage capacity building and technical assistance (TA) resources to maximize synergies and increase effectiveness. The authorities agreed to be part of the Capacity Building Framework (CBF) pilot project (Box 2), which they consider as a powerful tool to mobilize and coordinate timely TA and use it efficiently to ensure the success of their program (MEFP, ¶30).

Text Table 2. Central African Republic: Summary Table of Projected External Borrowing Program, 2016

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)		PV of new debt in 2016 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**10.3**	**100**	**5.2**	**100**	**5.2**	**100**
Concessional debt, of which	**10.3**	**100**	**5.2**	**100**	**5.2**	**100**
Multilateral debt	10.3	100	5.2	100	5.2	100
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	**10.3**	**100**	**5.2**	**100**	**5.2**	**100**
Multilateral	10.3	100	5.2	100	5.2	100
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**10.3**	**100**	**5.2**	**100**	**5.2**	**100**
Infrastructure	10.3	100	5.2	100	5.2	100
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0	0.0	0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items						
Indicative projections						
Year 2	**10.3**		**5.2**		**5.2**	
Year 3	**0.0**		**0.0**		**0.0**	

E. Social policy

22. **Social policy is a critical component of the authorities' strategy to exit fragility and rebuild national cohesion (MEFP, ¶28).** The overarching goals of the government are: (i) assisting the IDPs and refugees return to their lands and assets; (ii) reorganizing and redeploying public administration throughout the country; (iii) improving access to drinking water, sanitation, and hygiene; (iv) rehabilitating educational facilities to ensure full coverage and quality education at all levels to children of both sexes, across the country; and (v) revitalizing the health system, including strengthening the fight against HIV/AIDS.

Box 2. Proposed Capacity Building Framework

Challenges and lessons from recent technical assistance (TA) provision: During the political transition period from January 2014 to March 2016, the donor community offered technical assistance (TA) in the areas of treasury management, public financial management (connecting the key modules of the public finance management system), and macro fiscal capacity. In addition, a bilateral donor posted several long term experts covering budget, customs, the wage bill, and aid management. Delivery of Fund TA was hampered by the suspension of TA missions due to the deterioration of the security conditions.

Forward-looking macro challenges and policy priorities: Looking ahead, TA will be needed to help the authorities: (i) improve VAT collection; (ii) rationalize tax and customs exemptions; (iii) reform the tax and customs administration; and (iv) reform the diamond, telecom and forestry taxation. **On public financial management**, the focus will be on improving the accounting framework and the reporting system while building some macro fiscal capacity. **Regarding the wage bill**, the focus will be on completing the cleaning of the roster, securing the final register, simplifying hiring procedures, implementing management and training tools for human resource managers and assessing performance. **On public debt management**, TA will be needed to: (i) modernize the institutional and regulatory framework for public debt management; (ii) improve debt management strategy; (iii) strengthen analytical and operational capabilities of debt managers; and (iv) strengthen the capacity to record and monitor public debt. Lastly, TA will aim at improving macro fiscal capacity and statistics, including national accounts, consumer prices, and balance of payments.

Fund TA: In the context of a new ECF arrangement, TA priorities that will be covered by Fund are: (i) macro fiscal capacity; (ii) tax policy; (iii) revenue administration; (iv) macroeconomic statistics; and (v) public debt management.

Main results expected from TA during 2016–19: The timely provision of TA will help the authorities achieve the following measurable targets: (i) improve domestic revenue from 7.1 percent of GDP in 2015 to 10.1 percent in 2019; (ii) reduce the wage bill from 6 percent of GDP in 2015 to 4.5 of GDP in 2018, including hiring new staff to meet the needs in the social sectors; (iii) produce the treasury balances on a quarterly basis, starting in 2016.

Milestones in terms of outcomes: They are as follows: (i) link annual budget preparations and the medium-term macroeconomic framework underpinning the authorities 'growth and poverty reduction strategy; (ii) improve revenue from the downstream oil sector, forestry and mining sectors; (iii) streamline tax exemptions: (iv) streamline and modernize processes for large taxpayers/importers, secure revenue collection through commercial banks network, and prevent and fight against VAT fraud; (v) improve compilation in national accounts, and immediate review CPI compilation for 2013 to eliminate methodological errors and ensure consistency with the series in 2014 and 2015; and (vi) review the institutional and regulatory framework for public debt management and improve debt management strategy in 2016.

Authorities' absorptive constraints: Domestic administrative capacity—already low before the crisis—has further weakened in 2013 due to losses in terms of staffing, equipment and infrastructures. The Ministry of Finance and Budget, the Institute of Statistics and Prices, and the Ministry of Planning and International Cooperation, the three government units involved in economic and financial affairs are understaffed, poorly equipped, and work under difficult conditions, including a lack of sufficient energy to power computers and office equipment. As part of their CBF pilot, the new authorities are committed to improve capacity and make the best use of the TA that will be provided by the development partners and the Fund. They are also committing to train staff in place and hire young qualified staff if possible.

Risks: The first risk relates to security which remains volatile despite recent progress. Other risks include delayed support from the development partners, and the lack of local qualified experts. This could limit the effectiveness of the new TA on improving capacity. To mitigate the security risk, the authorities are planning to send staff to outside locations for training. To offset the lack of specialized local staff, they plan to hire young college graduates and train them in the specialty identified as crucial to improve capacity.

F. Data for surveillance

23. **Data provided by the authorities are broadly adequate to monitor key economic and financial developments, albeit with some delays**. However, national accounts, consumer inflation, and external trade data are weak. The authorities agreed with staff on the need to eliminate delays and improve the frequency and quality of the data. They have reached out to the IMF Statistics Department for technical assistance to address these issues over the next few months.

A NEW ECF ARRANGEMENT: BUILDING RESILIENCE AND HARNESSING PEACE DIVIDENDS

In line with medium-term challenges identified in the Article IV discussions, the new program seeks to entrench macroeconomic stability and create the conditions for sustained and inclusive growth, through structural reforms.

A. Entrenching macroeconomic stability in a context of risks

24. **The macroeconomic framework of the ECF-supported program is built upon achievable growth rates (MEFP, ¶11).** With improved security conditions, real GDP growth is projected at 5.2 percent in 2016, and should remain around an average of 5.5 percent in the medium term, reflecting a rebound in agriculture following the return of the remaining IDPs and refugees, a continued pick up in trade and transportation, and a boost in construction with the implementation of major public investment projects in energy and social sectors. Inflation is projected to return to the regional convergence rate of 3 percent, associated with the increase in agricultural output and better supply conditions. The current account deficit is projected to remain at about 9.7 percent of GDP given the sizable imported reconstruction material needs. Gross official foreign reserves are projected to rise steadily from 4 months of imports in 2016 to 5 months of imports in 2019, a level that helps the country smooth consumption and face external shocks. Financing needs, which are covered, are expected to decline from 4.8 percent of GDP in 2016 to 3.2 percent of GDP in 2019.

25. **The risks to the program are tilted to the downside.** They include: (i) a resumption of violent conflict which could prevent implementation of the program, lead to a return to, or escalation of the use of emergency spending procedures, and undermine the economic recovery that the program seeks to achieve; (ii) delayed disbursements in donor funding for both the economic and security reforms, including the disarmament, demobilization, and reintegration of ex-combatants; and (iii) the inexperience of the new government. The materialization of these risks (see the Risk Assessment Matrix Table 11) could complicate policy implementation and hinder growth prospects (Box 3 and text table 3).

Box 3: Risks and Alternative Policy Responses

Staff and the authorities discussed the scenario of protracted lower growth and agreed on possible policy responses to meet the program target. Continued volatile security conditions associated with delays in security reforms and slow recovery of the agriculture, mining and forestry can lead to lower growth and higher inflation. This would result in a higher domestic primary deficit, higher financing gap, and higher public debt compared to the program target. Lower exports and wider current account deficits would lead to a slower increase in international reserves. In this context, the financing gaps will be covered through a mix of additional adjustment averaging 1 percent of GDP (authorities are committed to reduce domestically-financed capital spending, delay new hiring, and restrain other non-priority current spending) and a less-ambitious arrears clearance strategy.

Text Table 3. Central African Republic: Selected Economic Indicators, Low Growth Scenario, 2015–21

	2015	2016	2017	2018	2019	2020	2021
Real GDP growth (percent change)	4.8	2.5	2.5	2.5	2.5	2.5	2.5
Inflation (percent change)	4.5	5.2	5.5	5.1	4.9	4.7	4.3
Domestic Primary Balance (percent of GDP)	-3.0	-3.9	-2.7	-2.4	-2.3	-2.1	-1.3
Reserve Coverage (months of imports)	4.1	4.0	3.9	3.8	3.8	3.8	3.7
Public debt (percent of GDP)	48.5	49.8	46.7	43.7	40.9	38.7	36.3
Financing Gap		58.0	57.8	54.3	53.0	52.9	40.8

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

B. Taking a gradual fiscal adjustment path and building fiscal buffers

26. **Staff and the authorities agreed on a medium-term fiscal strategy that strikes a balance between the speed of restoring fiscal sustainability and supporting social spending and economic growth.** It will entail: (i) bringing down the domestic primary deficit through steady implementation of reforms to improve revenue collection (Text table 3) and keep spending under control, notably the wage bill, while ramping up social and infrastructure outlays; (ii) managing the outstanding stock of domestic payment arrears to restore confidence in the state and boost private economic activity; (iii) building fiscal buffers to weather volatility; and (iv) reforming the public investment program framework to ensure efficient execution of the public investment program. In line with this strategy, staff and the authorities have agreed on a revised budget for 2016 that will contain the domestic primary balance to 3.3 percent of GDP (MEFP, ¶13 and ¶15).

Text Table 4. Central African Republic: Projected Yields of Fiscal Measures, 2016–18
(CFAF billions)

	2016			2017			2018		
	Tax	Custom	Total	Tax	Custom	Total	Tax	Custom	Total
Domestic revenue									
Tax base	0.4	1.5	1.9	0.5	1.3	1.8	0.6	1.0	1.6
Simplification of the base	0.1	…	0.1	0.1	…	0.1	0.1	…	0.1
Other revenue administration actions	2.4	0.7	3.1	2.4	0.6	3.0	3.9	0.5	4.4
Rationalization of exemptions	0.1	0.4	0.5	0.1	0.3	0.4	…	0.2	0.2
Total	3.0	2.6	5.6	3.1	2.2	5.3	4.6	1.7	6.3

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

27. **Staff and the authorities reached understandings on a reduction in the domestic primary deficit, the fiscal anchor of the program, to 0.9 percent of GDP in 2019, from 3.0 percent in 2015**. This will be achieved through reforms that will lead to a rise in domestic revenue from 7.1 percent in 2015 to 10.1 percent of GDP in 2019. Higher revenue will result from measures to improve the tax base, simplify procedures, modernize revenue administration, and reduce exemptions (Text table 4). On the spending side, the program targets a rise of 1.5 percentage points of GDP to 16.4 percent during the same period, as the decline in the wage bill (1.5 percentage points of GDP) (Box 4) will be offset by higher goods and services, transfers and subsidies (including pensions) and domestically-financed capital spending which would cumulatively increase from 4.1 percent of GDP in 2015 to 6.4 percent in 2019.

28. **Higher revenue mobilization will be a central element of the economic program.** While the 2016 budget contains a set of revenue measures amounting to CFAF 5.6 billion,[3] staff and the new government identified low hanging fruits that are expected to be included in a revised budget to be sent to Parliament by August 2016. These measures include a modification of the petroleum products price structure to base it on Platts international prices, a revised valuation base for the exports of forestry products, and a more rigorous application of the existing convention with banks on revenue collection to enhance traceability (MEFP, ¶13). These measures are projected to increase revenue by CFAF 2.2 billion (0.2 percent of GDP) in the last quarter of 2016.

29. **To safeguard downstream oil revenue in the future, staff and the authorities discussed introducing in 2017 a new pricing mechanism allowing for a full pass-through of international prices to domestic prices**. The new pricing mechanism would enhance efficiency in the marketing and consumption of petroleum products, while obviating the need to use scarce budgetary resources to subsidize petroleum products in the event of higher international oil prices. The authorities intend to request technical assistance to shift to this new pricing

[3] The reforms envisaged in the context of the initial budget for 2016 included: (i) extending the tax base for income tax; (ii) increasing the VAT rate to 5 percent for previously exempted staples; (iii) modifying the payment procedures for the property tax through an auto-filled return; (iv) strengthening tax and customs controls, including on oil, mining, and forestry activities; (v) improving VAT collection: (vi) introducing special taxes on tobaccos and transport activities: (vii) implementing an integrated computerized system connecting the customs offices in Doula and Bangui; and (viii) strengthening controls on tax and customs exemptions.

mechanism and simplify the tax components (which presently comprises a range of earmarked taxes). The introduction of the new pricing mechanism would be accompanied by a social safety net program which would be part of a wider social protection program for vulnerable groups. Most importantly, it will be part of the government's plan to also increase the number of gasoline stations to improve service to consumers.

30. **Built-in fiscal buffers will be crucial to face the impact of volatility.** In the absence of short term debt instruments, staff and the government concurred on the need to build deposits of about 0.5 percent of GDP by end-2016, and 1.5 percent by 2019 to hedge against volatile aid disbursements, and enable it to regularly pay for wages, pensions and priority spending. These buffers should cover about 2 months of wages, pensions and external debt service (MEFP, ¶12).

31. **The program will also focus on the orderly clearance of the large outstanding stock of domestic arrears.** This is central to the authorities' efforts to rehabilitate public financial management and support the economy (MEFP, ¶21). The recent agreement with BEAC, the regional central bank, to consolidate government liabilities totaling CFAF 55 billion is one element of the strategy.[4] The ongoing EU-funded audit of government debt with commercial banks and other contractors (CFAF 30 billion) should lead to the adoption of an action plan to clear them in early 2017, including through securitization. Audits for the other payments arrears, including debt, suppliers, and cross-debts are expected to be launched in the next few months, with a view to adopt by July 2017 an overall plan to settle all arrears. In this context, cutting suppliers arrears is expected to be the top priority.

32. **Staff also urged the authorities to strengthen the project management framework.** This will help restructure the current public investment program and facilitate project execution. In this context, the upgrade will cover all the stages of project management, including identification of projects, preparation and evaluation, inclusion in the national budget, on site and financial execution, and regular reporting. The authorities agreed that the current framework is weak and needs to be reformed, but noted that they will need significant technical assistance from donors to undertake this crucial task.

C. Improving the business environment

33. **Structural reforms will focus on modernizing and updating the legal framework in the major economic sectors.** The authorities have initiated discussions on such reforms in the context of the recently established mixed framework for improving business (CMAA). Two bills aimed at boosting telecommunications activities are under preparation and are expected to be submitted to parliament early next year. The authorities are also updating the investment charter, the mining code, and forestry regulation. Furthermore, steps are taken to establish a one-stop shop for administrative procedures for investors (MEFP, ¶26).

[4] Data at end-April 2016 after the consolidation agreement signed with the BEAC.

34. **Staff and the authorities agreed on the need to address the shortcomings in the banking sector, increase lending to private sector and better support economic growth (MEFP, ¶24) through increased financial intermediation**. In addition to strengthening the judicial system to help settle disputes between bank borrowers and lenders the authorities will also: (i) monitor risk management and lending practices to address prudential risks; and (ii) implement an action plan to set up commercial and land registries. Furthermore, they plan to authorize more banks to conduct mobile banking and hold in 2016 a number of training seminars to educate the banks, enterprises, and the public on provision of transparent financial accounts, savings instruments, micro-financing, and collateralized assets. The authorities are requesting technical assistance in undertaking these reforms, including setting up a credit bureau. In addition, the authorities are exploring the option to assessing, with financial support from development partners, the feasibility of setting up a guarantee fund to promote financing for small and medium enterprises.

D. Program modalities and access

35. **It is proposed that C.A.R.'s program be supported by an arrangement under the Fund's Extended Credit Facility (ECF) over three years**. The financing gap is projected to decline from 4.8 percent of GDP in 2016 to 3.2 percent of GDP in 2019. With a cumulative gap of CFAF 190 billion, the proposed access of 75 percent of quota (SDR 83.55 million or equivalent to about CFAF 68 billion) is sufficient to close about 36 percent of the gap. Access would be below the norm. Staff proposes a slightly frontloaded disbursement schedule for the first year of the program (Table 10), that would help C.A.R. cover the large financing need in 2016, and the heavy repayment schedule to the Fund. For 2016, the World Bank, the African Development Bank, the European Union, and France have committed resources amounting to CFAF 30 billion which together with Fund support will help cover the CFAF 50 billion gap (Table 7). For the first half of 2017, financing needs are projected at CFAF24 billion. They will be covered by drawings on the financial reserves accumulated at end-December 2016, disbursements from donors who have tentatively committed at this stage CFAF 10.2 billion, and IMF support.[5] For the remainder program period there are good prospects that any residual gaps will be filled. The first test dates would be end-August and end-December 2016. C.A.R. has a good track record of financial relations with the Fund and an adequate capacity to repay (Table 8). Fund support is essential for the successful implementation of C.A.R.'s economic program, and its catalytic role in the mobilization of budget support from multilateral and bilateral partners will help ensure that the program is fully financed. Looking forward, additional support for the outer years is expected to be discussed at a donors' conference in October, including the World Bank turnaround facility.

[5] In early May, The BEAC Board of Governors agreed to extend the C.A.R. authorities an exceptional advance for an amount of CFAF 9.24 billion. Staff and the government agreed to use this advance only as a bridge loan in case a disbursement is delayed. Once the latter takes place, the amount disbursed will be repaid. The government will consult with staff each time such case arises.

Box 4. Central African Republic: The Wage Bill

A rising wage bill. During 2014–15, the transition government, with technical and financial support from the World Bank and UNDP, cleaned the civil service roster with a view to bringing the wage bill to CFAF 50.8 billion, its 2012 level, the year before the major political and security conflict of 2013. This implied the reduction of 2,500 civil servants for a saving of CFAF 4.8 billion. However, by end of 2015, the number of civil servants was reduced by only 1,261 and the savings amounted to CFAF 2.8 billion. By end-2015, the wage bill reached CFAF 56.4 billion (6 percent of GDP). The sharp rise of the wage bill reflects a set of factors, including: (i) the difficult context against which the reform was conducted; (ii) weak administrative hiring practices; (iii) the rapid expansion of the number of high level posts ("hors statut" carrying salary premiums; (iv) delays in repatriating diplomats whose appointment ended; (v) delays in the retirement process; (vi) higher cash allowances and benefits; and (vii) poor human resource management, compounded by a weak public administration.

CEMAC: Wage Bill Development and Projections, 2012-15
in percentage of GDP, unless indicated otherwise

	2012	2013	2014	2015
Cameroon	5.2	5.4	5.5	5.4
Central African Republic	**4.6**	**7.2**	**6.5**	**6.0**
Chad	4.5	5.2	4.9	5.7
Republic of Congo	3.6	4.1	4.8	6.7
Equatorial Guinea	1.1	1.3	1.5	2.3
Gabon	5.9	6.4	7.7	8.5
Memorandum Item: Population (millions)				
Cameroon	21.5	22.0	22.5	23.1
Central African Republic	**4.5**	**4.6**	**4.7**	**4.8**
Chad	10.7	11.0	11.3	11.6
Republic of Congo	4.1	4.2	4.3	4.4
Equatorial Guinea	0.7	0.8	0.8	0.8
Gabon	1.7	1.8	1.8	1.9

New measures to reduce the wage bill. The new government continues to work closely with the World Bank and the UNDP to clean up the civil service roster and reduce the wage bill. Measures to that effect in the context of the third phase of the reform of the wage bill will include: (i) continue the cleaning of the civil service roster through a reduction in the number of "ghost workers and the holders of high level posts, the repatriation of the diplomats who ended their assignment (structural benchmark at end-December 2016), and the timely retirement of thee eligible staff ; (ii) secure the final register; (iii) clarify the recruitment procedures; (iv) implement management and training tools for human resource managers using computer applications adapted to CAR; (v) assess performance. At the same time, the military roster will be cleaned, including accelerating the removal of 700 retirees from the roaster. Uncertainty remains on the size of the army, police and gendarmerie.

New recruitment. As the government proceeds with the administration redeployment and implements its strategy to improve social services and improve security, there will be staffing needs to meet. The authorities are currently assessing those needs and their costs in preparation for the donors' conference that will take place before end-year in Brussels. The cost of hiring new staff in the priority social sectors will be offset to a certain extent by gains made through the continued cleaning of the civil services roster.

Components of the Wage Bill, 2015
in percentage

	2015 Share
Base Salary	70
Benefits and bonuses	22
Family allowances	6
Retroactive adjustments	1
Other allowances	1
Total	100

Size of the Public Administration, 2014-15

	2014	2015	2015 Wage Bill (billions of CFA franc)
Civilians	21,483	20,222	43.5
of which: high level posts	376	778	3.3
Military	8,382	8,366	12.9
Total	30,865	28,588	56.4
Memorandum Item:			
Population (millions)	4.2	4.2	4.2

Sources: C.A.R. Authorities; WETA database; and IMF staff estimates and projections.

36. **Performance will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks** (MEFP ¶31). Quantitative performance criteria will include: (i) a ceiling on net credit to the government; (ii) a floor on domestic revenues; (iii) a ceiling on the domestic primary deficit; and (iv) a floor on repayment of domestic payment arrears. Continuous performance criteria will include zero ceilings on: (i) non-concessional public and publicly guaranteed debt; and (ii) the accumulation of public sector external payment arrears. An indicative floor will be set for social expenditures. Structural conditionality will focus on supporting domestic revenue, PFM, debt management, and governance. Structural conditionality for the second half of 2017 and 2018 will be proposed at the time of the first review, drawing on significant TA projected in the near time.

37. **The authorities attach the highest importance to the success of their program (MEFP, ¶32)**. In this context, it will be monitored at the highest levels of the government, including the staffs of the Office of the Presidency, the Prime Minister, the Ministry of Finance and Budget, and the BEAC. Technically, the program will be implemented by the Economic Reform Monitoring Committee (CS-REF), a unit under the authority of the Minister of Finance and Budget that includes representatives of the various ministries and agencies involved in economic and financial affairs.

E. Other considerations

38. **Staff noted progress in the implementation of the BEAC's safeguards recommendations.** The implementation of safeguards recommendations is currently reviewed annually and is a pre-condition for granting new IMF financial support to, and reviewing existing IMF financial arrangements with CEMAC countries. The 2016 safeguards monitoring visit found that two priority recommendations remain outstanding. However, in early May 2016, the BEAC Board mandated the institution to initiate work on improving governance and transitioning to International Financial Reporting Standards (IFRS). This is an important initial step toward successful completion of safeguards reform. The authorities should maintain the momentum on the implementation of the reforms to restore credibility on the BEAC's ability to safeguard IMF financial resources.

STAFF APPRAISAL

39. **C.A.R. is exiting slowly from a multifaceted crisis.** C.A.R. plunged into another political, security, and humanitarian crisis in 2013 that erased all gains achieved during the period 2002–12. This latest crisis led to the collapse of the economy and the disintegration of state institutions. The transition government in place during 2014–15 implemented an emergency program that helped improve treasury management, reduce the wage bill, rebuild core administrative capacity, and put in place a participative institutional framework to manage public resources in a transparent way. Despite commendable efforts under difficult circumstances, economic growth remained anemic and domestic resources insufficient to cover current primary spending. The economy remains highly dependent on external assistance, and deep-rooted

structural rigidities hinder economic growth. The return to democratic institutions in early April 2016 offers an opportunity for the new authorities to embark on a comprehensive reform strategy that will create conditions for sustainable and inclusive growth and a progressive exit from fragility with support from development partners.

40. **Raising C.A.R.'s growth rate requires bold reforms to secure peace and stability, improve competitiveness and enhance the institutional capacity.** The cumulative growth rate of less than 6 percent achieved during the past two years has been insufficient to offset the significant loss of output caused by the 2013 crisis. It is crucial for C.A.R. to lift its growth rates (5-5.5 percent) to create jobs, combat poverty, and maintain social cohesion. This will require a sustainable fiscal environment but also comprehensive structural reforms, including simplifying procedures to create businesses, expanding the electricity supply, facilitating access to credit, and building road infrastructures. Sustainable growth will also require developing the domestic institutional capacity to carry out project execution and implementing in a timely fashion the comprehensive reform program. The current framework is an adequate base on which to further strengthen capacity.

41. **A steady implementation of fiscal reforms will be key to restoring fiscal sustainability and supporting growth.** The authorities have appropriately focused on an adjustment strategy that is based on both revenue mobilization and expenditure control. Staff welcomes the recent updating with support from technical assistance of the Fund the authorities' medium-term revenue reform plans covering tax policy, revenue administration and tax and customs exemptions. Equally important is the adoption with assistance from the development partners and the Fund of a medium term plan to enhance expenditure management. Staff urges the authorities to implement these plans to rein in the domestic primary deficit, free resources to ramp up spending in social sectors and enable a timely return to fiscal sustainability in support of sustainable growth.

42. **PFM reforms should continue to focus on enhancing spending quality.** This will include a strengthened treasury single account, together with the effective return to normal budget procedures, improved project execution, and enhanced transparency. In this context, staff urges the authorities to resist using exceptional spending procedures under warranted by exceptional circumstances, strengthen the efficiency of the public financial management information system, improve accounting procedures and fiscal reporting, and reform the public investment. These are crucial steps to normal budget execution. Last but not least, increasing the effectiveness of the public investment framework will help improve project execution, reduce costs, boost domestic supply of social and economic goods, and sustain inclusive growth.

43. **The new ECF-supported program seeks to entrench macroeconomic stability, address vulnerabilities, and create the conditions for sustained and inclusive growth.** This will require full ownership from the authorities to carry out a comprehensive reform agenda in a steady fashion to correct the imbalances identified in the Article IV discussions and ensure timely reimbursement of its obligations to the Fund. The new authorities are rightly focused on further building capacity to implement such a program.

44. **The ECF-supported program will aim at restoring fiscal sustainability while ramping up poverty-reducing spending**. In this context, staff welcomes the authorities' decision to pass a revised budget for 2016 to further enhance revenue mobilization and build buffers. The domestic primary deficit of about less than 1 percent of GDP is in line with the return to fiscal sustainability and its achievement is rightly encapsulated in a fiscal adjustment strategy that covers both the revenue and the spending sides. At the same time, it provides for appropriate fiscal buffers which will help the country weather volatile conditions.

45. **The structural reform agenda is targeted to unlock the growth potential of the key sectors of the economy**. Staff welcomes the launching of a mixed framework for improving the business framework which bodes well for the design and prioritization of reforms. In this context, the overhaul of the investment charter, combined with the reform of the mining code and the forestry sector regulations, together with a streamlining of tax exemptions, are right steps to boost activity in these key areas. Together with current efforts with support from the World Bank and the African Development Bank to immediately increase the electricity supply will create the conditions for a recovery in the agricultural sector, which is the centerpiece of the government economic growth plan, but also a welcome improvement in the business climate. Lastly, staff is encouraged by the measures envisaged by the new authorities to tackle the banking sector weaknesses and enhance its contribution to economic growth.

46. **Staff sees merit in longer-term engagement with C.A.R. under the proposed ECF arrangement and supports the authorities' request for Fund assistance in an amount equivalent to 75 percent of quota.** The authorities consider the ECF arrangement as crucial to breaking with past practices, rebuilding the country, and mobilizing much support from their development partners. The ECF will also contribute to maintaining an appropriate level of international reserves. The envisaged fiscal adjustment and the authorities' determination bode well for a restoration of CAR macroeconomic stability and addressing vulnerabilities.

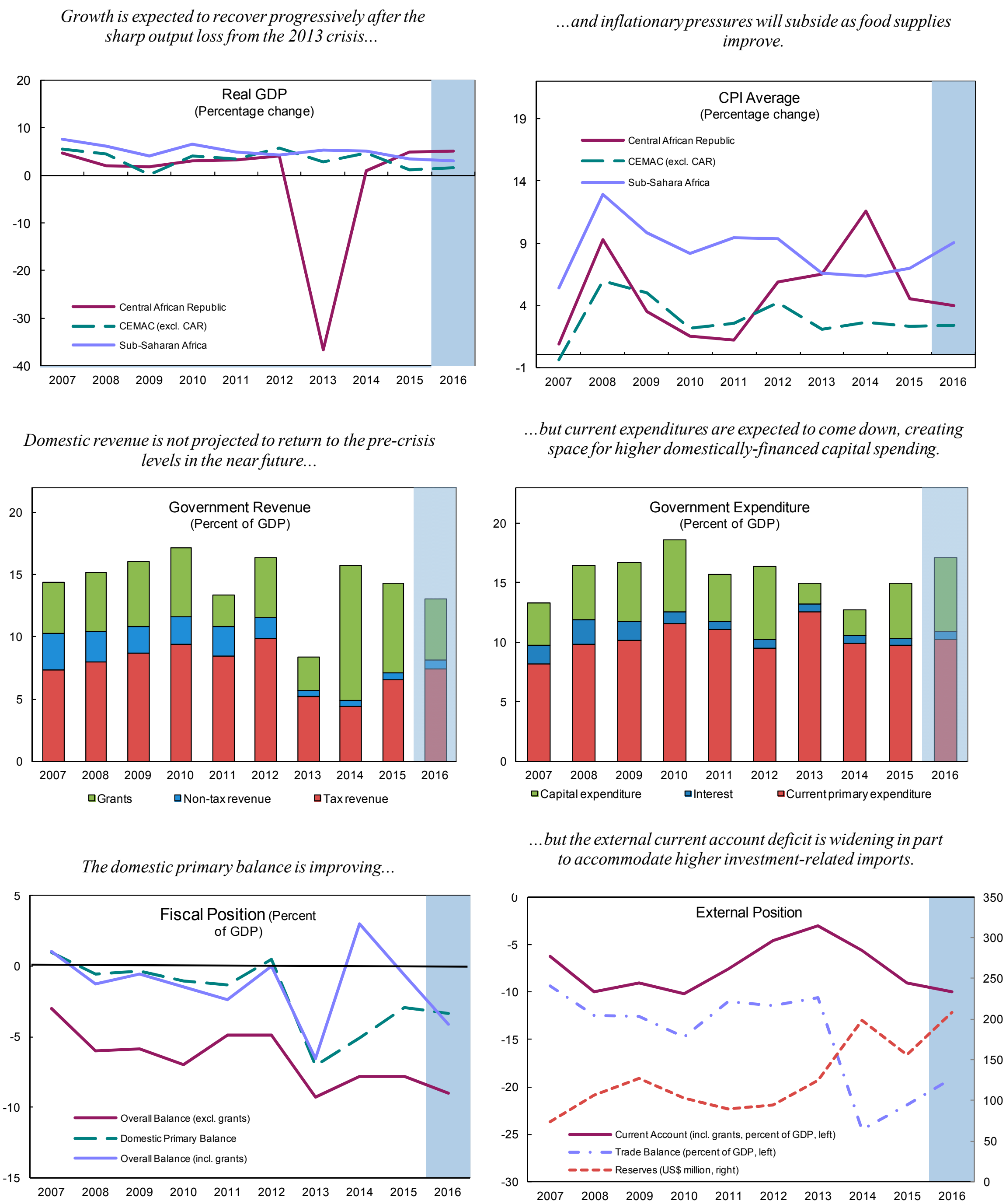
47. **Support from the international community primarily in the form of grants is crucial.** With domestic resources expected to rise slowly and significant financing requirements to rebuild the infrastructure and meet basic social needs, C.A.R. will continue to rely on substantial amounts of external assistance. Against the back of a high level of debt distress, as highlighted by the debt sustainability analysis and upcoming external obligations, including vis-ā-vis the Fund, staff recommends that C.A.R. rely on grants and to a certain extent on concessional financing with a grant element of at least 50 percent. While development partners played a key role during the transition in providing extensive financial support and technical assistance, their continued commitment in the months ahead during this post-emergency phase is more important than ever, especially as the country embarks on a comprehensive reform program that could be supported by an arrangement under the ECF. Staff encourages the new authorities to strengthen their institutional framework to better coordinate such assistance, and welcomes their intention to be included in the pilot CBF.

48. **Improving the quality and timeliness of economic data is crucial to improve economic management.** Staff welcomes progress made in compiling and providing basic macroeconomic data over the past two years. With the move to a more comprehensive reform

program, the authorities were well advised to request IMF assistance as well as that of other development partners to improve the frequency and quality of their economic data.

49. **It is proposed that the next Article IV consultation with C.A.R. take place on the 24-month cycle, subject to the decision on consultation cycles**

Figure 5. Central African Republic: Macroeconomic Performance and Prospects, 2007–16



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

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2012–21

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est.	Prel.			Proj.			
				(Annual percentage change; unless otherwise indicated)						
National income and prices										
GDP at constant prices	4.1	-36.7	1.0	4.8	5.2	5.5	5.8	5.8	5.8	5.8
GDP at current prices	6.9	-32.3	12.2	11.3	11.3	11.1	10.9	10.9	10.8	9.3
GDP deflator	2.7	7.0	11.1	6.2	5.8	5.3	4.8	4.7	4.7	3.3
CPI (annual average)	5.9	6.6	11.6	4.5	4.0	3.5	3.0	3.0	3.0	3.0
CPI (end-of-period)	5.9	5.9	9.7	4.8	4.0	3.5	3.0	3.0	3.0	3.0
Money and credit										
Broad money	1.6	5.6	14.6	5.3	11.8	12.8	10.9	10.9	10.8	9.3
Credit to the economy	30.2	-16.3	4.0	-3.0	10.3	10.8	10.7	10.6	10.6	9.2
External sector										
Export volume of goods	11.3	-50.8	-28.1	4.9	32.4	21.6	7.3	21.9	8.9	21.6
Import volume of goods	22.1	-29.6	77.5	18.8	12.6	2.4	5.8	12.7	1.2	7.1
Terms of trade	2.8	19.4	8.2	26.6	5.8	-7.9	0.6	-2.7	0.7	0.0
				(Percent of GDP; unless otherwise indicated)						
Gross national savings	10.4	5.7	4.6	4.9	6.7	7.3	8.6	9.8	12.2	14.3
Of which: current official transfers	1.0	1.3	8.7	3.3	0.5	0.0	0.0	0.0	0.0	0.0
Gross domestic savings	3.6	-1.9	-14.3	-8.0	-2.5	-1.0	0.7	2.2	5.0	7.4
Government	1.4	-7.3	-5.3	-2.8	-2.4	-0.9	-0.3	0.6	1.4	2.4
Private sector	2.2	5.4	-9.0	-5.2	-0.1	-0.1	1.0	1.6	3.6	5.1
Consumption	96.4	101.9	114.3	108.0	102.5	101.0	99.3	97.8	95.0	92.6
Government	7.4	10.2	8.2	7.7	7.5	7.1	7.1	6.9	7.4	7.4
Private sector	89.0	91.6	106.1	100.4	95.0	94.0	92.2	90.9	87.6	85.1
Gross investment	15.0	8.7	10.2	13.9	16.9	17.2	17.9	19.0	19.9	21.0
Government	6.2	1.7	2.1	4.7	6.2	6.0	6.2	6.7	7.0	7.4
Private sector	8.8	7.0	8.1	9.3	10.6	11.2	11.7	12.3	12.9	13.6
External current account balance	-4.6	-3.0	-5.6	-9.0	-10.1	-9.9	-9.3	-9.2	-7.7	-6.7
Overall balance of payments	3.0	2.8	-2.6	-2.2	-4.4	-2.2	-2.0	-2.1	-1.0	-0.6
Central government finance										
Total revenue (including grants)	16.4	8.4	15.7	14.3	13.0	13.2	13.7	14.3	15.5	16.5
of which: domestic revenue	11.5	5.6	4.9	7.1	8.1	8.9	9.5	10.1	11.6	12.6
Total expenditure [2]	16.4	14.9	12.7	14.9	17.1	16.0	16.0	16.4	17.5	17.7
of which: capital spending	6.2	1.7	2.1	4.7	6.2	6.0	6.2	6.7	7.0	7.4
Overall balance [1]										
Excluding grants	-4.9	-9.3	-7.8	-7.8	-9.0	-7.2	-6.6	-6.3	-5.8	-5.1
Including grants	0.0	-6.5	3.0	-0.6	-4.1	-2.8	-2.3	-2.1	-1.9	-1.2
Domestic primary balance [2]	0.5	-7.0	-5.1	-3.0	-3.3	-1.8	-1.4	-0.9	-0.5	0.0
Public sector debt	23.5	38.5	51.1	48.5	47.2	41.2	35.8	31.2	27.7	24.7
Of which: domestic debt [3]	13.8	24.0	36.3	34.0	30.3	26.2	22.5	18.9	16.0	13.4
Gross official foreign reserves										
(US$ millions, end-of-period)	175.6	205.8	258.7	199.4	207.6	248.5	288.8	319.2	364.1	406.3
(months of imports, f.o.b.)	5.6	3.7	5.1	4.2	4.0	4.5	4.7	5.0	5.2	5.5
Nominal GDP (CFAF billions)	1108	750	842	937	1042	1158	1285	1424	1578	1726

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

[1] Expenditure is on a cash basis in 2014 and 2015 in the context of the Rapid Credit Facility.

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

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

Table 2. Central African Republic: Central Government Financial Operations, 2012–21
(CFAF billions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est.	Prel.			Proj.			
Revenue	181.3	62.9	132.2	134.1	135.4	153.0	176.6	203.8	245.4	284.7
Domestic revenue	127.3	42.2	41.3	66.5	84.7	103.0	121.5	143.8	183.9	217.3
Tax revenue	109.3	38.8	37.1	60.9	76.8	94.2	111.8	132.0	171.3	203.5
Taxes on profits and property	21.1	7.0	8.1	13.1	15.2	18.4	21.6	27.6	37.3	50.2
Taxes on goods and services	88.2	31.8	29.0	47.8	61.6	75.8	90.2	104.4	134.0	153.3
Of which : international trade	30.5	8.5	9.2	15.3	19.9	24.7	29.5	32.4	43.8	49.3
Non-tax revenue	18.0	3.4	4.2	5.6	7.9	8.8	9.7	11.8	12.6	13.8
Grants	54.0	20.7	90.9	67.6	50.7	50.0	55.0	60.0	61.5	67.4
Program	11.0	9.7	73.6	31.0	5.2	0.0	0.0	0.0	0.0	0.0
Project	42.9	11.0	17.3	36.6	45.5	50.0	55.0	60.0	61.5	67.4
Expenditure [1]	181.3	111.9	107.3	140.0	178.4	185.8	206.1	233.5	276.0	305.3
Primary Spending	121.8	94.9	84.4	94.2	119.4	124.0	139.0	156.7	191.4	217.4
Current primary expenditure	105.1	94.3	83.6	90.9	106.2	110.0	121.0	131.7	158.6	173.4
Wages and salaries	50.8	53.7	54.9	56.4	55.6	57.9	64.2	64.2	71.0	77.7
Transfers and subsidies	23.1	17.5	14.5	19.0	27.5	28.0	30.0	33.4	41.4	45.3
Goods and services	31.2	23.1	14.2	15.5	23.0	24.1	26.7	34.2	46.1	50.4
Interest due	8.0	5.0	5.5	5.4	7.6	5.8	6.1	6.8	7.3	3.3
External	1.4	2.6	3.2	3.2	3.6	2.0	2.3	3.2	3.8	0.1
Domestic	6.6	2.4	2.3	2.2	4.0	3.8	3.7	3.6	3.5	3.2
Capital expenditure	68.2	12.7	18.1	43.7	64.7	70.0	79.0	94.9	110.1	128.5
Domestically financed	16.7	0.6	0.8	3.3	13.2	14.0	18.0	25.0	32.9	43.9
Externally financed	51.4	12.1	17.3	40.4	51.5	56.0	61.0	69.9	77.3	84.6
Overall balance										
Excluding grants	-54.0	-69.7	-65.9	-73.5	-93.7	-82.8	-84.6	-89.6	-92.1	-88.0
Of which: domestic primary balance [2]	5.5	-52.7	-43.1	-27.7	-34.7	-21.0	-17.5	-12.9	-7.6	-0.1
Including grants	0.0	-49.0	25.0	-5.9	-43.0	-32.8	-29.5	-29.6	-30.7	-20.6
Net change in arrears ((-) = reduction)	-5.4	17.4	-13.9	-10.1	-5.6	-8.5	-11.3	-18.9	-16.7	-21.5
Domestic	-4.0	17.4	-12.1	-10.1	-5.6	-8.5	-11.3	-18.9	-16.7	-21.5
External	-1.4	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.4	1.2	-15.3	-12.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-5.0	-30.4	-4.2	-28.9	-48.6	-41.3	-40.8	-48.6	-47.3	-42.1
Identified financing	5.0	30.4	4.2	29.0	-1.4	-6.7	-6.2	3.6	9.2	10.7
External, net	0.4	20.5	0.9	6.1	-4.5	-2.4	-2.5	3.6	9.2	10.7
Project loans	8.5	1.1	0.0	3.8	6.0	6.0	6.0	9.9	15.8	17.3
Program loans	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-8.1	-5.6	-5.8	-6.8	-10.5	-8.4	-8.5	-6.4	-6.5	-6.6
Exceptional financing	0.0	0.0	6.7	9.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	4.6	9.9	3.3	22.9	3.1	-4.3	-3.7	0.0	0.0	0.0
Banking system	-3.6	8.8	3.3	22.9	3.1	-5.3	-4.7	0.0	0.0	0.0
BEAC	2.1	4.5	-6.6	17.2	1.0	-9.3	-18.7	-17.2	-16.9	-13.9
of which: Counterpart to IMF resources (BEAC)	11.7	1.1	3.6	4.3	-11.3	-11.0	-11.0	-15.1	-14.6	-11.7
Commercial banks	-5.7	4.3	10.0	5.6	2.1	4.0	14.0	17.2	16.9	13.9
Nonbank [3]	8.2	1.2	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	50.0	48.0	47.0	45.0	38.1	31.4
From the donors					30.1	*28.7*				
From IMF					19.9	19.3				
Memorandum items:										
Total government debt	260.5	289.1	430.6	454.3	492.3	477.1	459.6	444.3	436.8	426.0
Government domestic debt[4]	152.7	179.9	305.4	318.8	316.3	303.5	288.5	269.6	252.9	231.4
Nominal GDP	1108	750	842	937	1042	1158	1285	1424	1578	1726

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

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

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

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

[4] Including arrears.

Table 3. Central African Republic: Central Government Financial Operations, 2012–21
(In percent of GDP)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est.	Prel.			Proj.			
					(In percent of GDP)					
Revenue	16.4	8.4	15.7	14.3	13.0	13.2	13.7	14.3	15.5	16.5
Domestic revenue	11.5	5.6	4.9	7.1	8.1	8.9	9.5	10.1	11.6	12.6
Tax revenue	9.9	5.2	4.4	6.5	7.4	8.1	8.7	9.3	10.9	11.8
Taxes on profits and property	1.9	0.9	1.0	1.4	1.5	1.6	1.7	1.9	2.4	2.9
Taxes on goods and services	8.0	4.2	3.4	5.1	5.9	6.6	7.0	7.3	8.5	8.9
Of which : international trade	2.8	1.1	1.1	1.6	1.9	2.1	2.3	2.3	2.8	2.9
Non-tax revenue	1.6	0.5	0.5	0.6	0.8	0.8	0.8	0.8	0.8	0.8
Grants	4.9	2.8	10.8	7.2	4.9	4.3	4.3	4.2	3.9	3.9
Program	1.0	1.3	8.7	3.3	0.5	0.0	0.0	0.0	0.0	0.0
Project	3.9	1.5	2.1	3.9	4.4	4.3	4.3	4.2	3.9	3.9
Expenditure [1]	16.4	14.9	12.7	14.9	17.1	16.0	16.0	16.4	17.5	17.7
Primary Spending	11.0	12.6	10.0	10.1	11.5	10.7	10.8	11.0	12.1	12.6
Current primary expenditure	9.5	12.6	9.9	9.7	10.2	9.5	9.4	9.2	10.0	10.1
Wages and salaries	4.6	7.2	6.5	6.0	5.3	5.0	5.0	4.5	4.5	4.5
Transfers and subsidies	2.1	2.3	1.7	2.0	2.6	2.4	2.3	2.3	2.6	2.6
Goods and services	2.8	3.1	1.7	1.7	2.2	2.1	2.1	2.4	2.9	2.9
Interest due	0.7	0.7	0.7	0.6	0.7	0.5	0.5	0.5	0.5	0.2
External	0.1	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.0
Domestic	0.6	0.3	0.3	0.2	0.4	0.3	0.3	0.3	0.2	0.2
Capital expenditure	6.2	1.7	2.1	4.7	6.2	6.0	6.2	6.7	7.0	7.4
Domestically financed	1.5	0.1	0.1	0.4	1.3	1.2	1.4	1.8	2.1	2.5
Externally financed	4.6	1.6	2.1	4.3	4.9	4.8	4.7	4.9	4.9	4.9
Overall balance										
Excluding grants	-4.9	-9.3	-7.8	-7.8	-9.0	-7.2	-6.6	-6.3	-5.8	-5.1
Of which: domestic primary balance [2]	0.5	-7.0	-5.1	-3.0	-3.3	-1.8	-1.4	-0.9	-0.5	0.0
Including grants	0.0	-6.5	3.0	-0.6	-4.1	-2.8	-2.3	-2.1	-1.9	-1.2
Net change in arrears ((-) = reduction)	-0.5	2.3	-1.7	-1.1	-0.5	-0.7	-0.9	-1.3	-1.1	-1.2
Domestic	-0.4	2.3	-1.4	-1.1	-0.5	-0.7	-0.9	-1.3	-1.1	-1.2
External	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.2	-1.8	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-0.5	-4.1	-0.5	-3.1	-4.7	-3.6	-3.2	-3.4	-3.0	-2.4
Identified financing	0.5	4.1	0.5	3.1	-0.1	-0.6	-0.5	0.3	0.6	0.6
External, net	0.0	2.7	0.1	0.7	-0.4	-0.2	-0.2	0.3	0.6	0.6
Project loans	0.8	0.1	0.0	0.4	0.6	0.5	0.5	0.7	1.0	1.0
Program loans	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-0.7	-0.7	-0.7	-0.7	-1.0	-0.7	-0.7	-0.4	-0.4	-0.4
Exceptional financing	0.0	0.0	0.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	0.4	1.3	0.4	2.4	0.3	-0.4	-0.3	0.0	0.0	0.0
Banking system	-0.3	1.2	0.4	2.4	0.3	-0.5	-0.4	0.0	0.0	0.0
BEAC	0.2	0.6	-0.8	1.8	0.1	-0.8	-1.5	-1.2	-1.1	-0.8
of which: Counterpart to IMF resources (BEAC)	1.1	0.1	0.4	0.5	-1.1	-0.9	-0.9	-1.1	-0.9	-0.7
Commercial banks	-0.5	0.6	1.2	0.6	0.2	0.3	1.1	1.2	1.1	0.8
Nonbank [3]	0.7	0.2	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	4.8	4.1	3.7	3.2	2.4	1.8
From the donors					2.9	*2.5*				
From IMF					1.9	1.7				
Memorandum items:										
Total government debt	23.5	38.5	51.1	48.5	47.2	41.2	35.8	31.2	27.7	24.7
Government domestic debt [4]	13.8	24.0	36.3	34.0	30.3	26.2	22.5	18.9	16.0	13.4

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

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

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

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

[4] Including arrears.

Table 4. Central African Republic: Monetary Survey, 2012–21

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est.	Prel.			Proj.			
				(CFAF billions; end of period)						
Net foreign assets	-11.4	8.6	51.7	42.2	47.7	69.7	91.0	106.0	128.1	149.0
Bank of Central African States (BEAC)	-7.2	8.4	47.6	27.0	30.7	52.7	74.1	89.1	111.2	132.0
Commercial banks	-4.2	0.2	4.1	15.3	17.0	17.0	17.0	17.0	17.0	17.0
Net domestic assets	278.3	268.3	253.6	272.2	289.8	296.2	307.1	324.3	343.2	361.4
Domestic credit	292.8	278.5	286.5	305.7	321.1	330.1	341.0	358.2	377.1	395.2
Credit to the public sector	151.1	159.8	163.2	186.0	189.2	183.9	179.2	179.2	179.2	179.2
Credit to central government (net)	151.1	159.8	163.2	186.0	189.2	183.9	179.2	179.2	179.2	179.2
BEAC	146.0	150.5	143.8	161.1	162.1	152.8	134.1	116.9	100.0	86.1
Treasury account	62.5	65.1	67.0	67.7	80.7	80.7	80.7	80.7	80.7	80.7
Consolidated loans	44.9	43.1	45.9	48.1	43.1	51.1	51.1	51.1	51.1	51.1
IMF (net, SDR allocation in NFA)	50.2	47.0	50.6	54.9	43.6	32.6	21.6	6.5	-8.1	-19.8
Deposits	-11.5	-4.7	-19.7	-9.7	-5.3	-11.6	-19.3	-21.4	-23.7	-25.9
Commercial banks	5.1	9.4	19.3	25.0	27.1	31.1	45.1	62.2	79.1	93.0
Credit to other public agencies (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy	141.8	118.6	123.4	119.7	132.0	146.2	161.8	179.0	198.0	216.1
Public enterprises	3.1	3.4	2.9	3.2	3.6	3.6	3.6	3.6	3.6	3.6
Private sector	138.7	115.2	120.5	116.4	128.3	142.5	158.2	175.4	194.3	212.4
Other items (net)	-14.6	-10.2	-33.0	-33.5	-31.3	-33.9	-33.9	-33.9	-33.9	-33.9
Money and quasi-money	202.3	213.7	244.8	257.8	288.1	325.1	360.7	399.9	443.1	484.5
Currency	105.1	120.2	138.2	134.7	159.2	176.9	196.2	217.6	241.1	263.6
Deposits	97.2	93.5	106.6	123.0	128.9	148.2	164.4	182.3	202.0	220.9
Demand deposits	57.7	49.4	58.9	64.9	69.2	76.8	85.2	94.5	104.7	114.5
Term and savings deposits	39.5	44.0	47.7	58.2	59.7	71.4	79.2	87.8	97.3	106.4
Other liabilities excluded from broad money	64.6	63.3	60.5	60.1	49.4	34.4	20.2	-4.1	-25.2	-45.7
				(Annual change, percent of beginning period broad money)						
Net foreign assets	-12.4	9.9	20.2	-3.9	2.1	7.7	6.6	4.2	5.5	4.7
Net domestic assets	16.6	-4.9	-6.9	7.6	6.8	2.2	3.4	4.8	4.7	4.1
Net domestic credit	14.7	-7.1	3.8	7.8	6.0	3.1	3.4	4.8	4.7	4.1
Net credit to central government	-1.8	4.3	1.5	9.3	1.2	-1.8	-1.4	0.0	0.0	0.0
Credit to the economy	16.5	-11.5	2.2	-1.5	4.8	4.9	4.8	4.8	4.7	4.1
Money and quasi–money	1.6	5.6	14.6	5.3	11.8	12.8	10.9	10.9	10.8	9.3
				(Annual percentage change)						
Net foreign assets	-185.6	-175.5	500.4	-18.4	12.9	46.2	30.6	16.5	20.8	16.3
Net domestic assets	13.5	-3.6	-5.5	7.4	6.5	2.2	3.7	5.6	5.8	5.3
Monetary base	-2.4	16.4	23.6	-1.8	11.3	11.1	10.9	10.9	10.8	9.3
Credit to the economy	30.2	-16.3	4.0	-3.0	10.3	10.8	10.7	10.6	10.6	9.2
Public enterprises	10.6	9.9	-15.8	11.5	13.0	0.0	0.0	0.0	0.0	0.0
Private sector	30.7	-16.9	4.6	-3.4	10.2	11.1	10.9	10.9	10.8	9.3
Memorandum items:										
Gross official foreign reserves (CFAF billions)	87.8	98.5	137.7	117.1	120.8	142.8	164.2	179.2	201.3	222.1
NDA of the central bank (CFAF billions)	121.6	124.7	117.0	134.6	149.1	147.0	147.6	156.7	161.1	165.7
Monetary base (CFAF billions)	114.4	133.1	164.6	161.6	179.8	199.8	221.6	245.7	272.3	297.7
Nominal GDP (CFAF billions)	1108	750	842	937	1042	1158	1285	1424	1578	1726
Velocity (GDP/broad money)										
End of period	5.5	3.5	3.4	3.6	3.6	3.6	3.6	3.6	3.6	3.6

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

Table 5. Central African Republic: Balance of Payments, 2012–21

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est.	Prel.	Proj.					
	(Billions of CFA francs)									
Current account	-51.1	-22.8	-46.9	-84.7	-105.7	-114.6	-119.1	-130.5	-121.6	-116.0
Balance on goods	-68.4	-55.1	-155.7	-153.3	-147.6	-155.3	-162.9	-180.0	-174.5	-171.7
Exports, f.o.b.	97.5	53.0	42.6	48.5	63.1	75.6	81.7	97.6	107.2	130.8
Imports, f.o.b.	-165.8	-108.1	-198.4	-201.8	-210.6	-230.9	-244.6	-277.6	-281.7	-302.5
Services (net)	-58.0	-24.0	-50.8	-52.5	-54.2	-56.1	-57.3	-58.9	-60.8	-63.2
Credit	41.0	55.4	67.1	69.6	72.5	75.8	80.2	84.9	89.8	95.0
Debit	-99.0	-79.4	-117.9	-122.1	-126.8	-131.9	-137.5	-143.8	-150.6	-158.2
Income (net)	5.7	2.8	3.5	4.1	1.2	3.0	3.0	5.6	5.9	6.3
Credit	8.8	9.4	10.0	10.5	11.0	11.6	12.3	13.0	13.8	14.6
Debit	-3.1	-6.6	-6.5	-6.4	-9.9	-8.6	-9.3	-7.4	-7.8	-8.3
Transfers (net)	69.5	53.6	156.1	117.0	94.9	93.8	98.1	102.7	107.8	112.6
Private	34	18.5	61.3	62.3	63.4	64.5	65.6	66.7	67.8	68.9
Official	35.5	35.1	94.8	54.6	31.5	29.3	32.5	36.1	40.0	43.8
of which: Program	11.0	9.7	73.6	31.0	5.2	0	0	0	0	0
Capital account	42.9	11.0	17.3	36.6	45.5	50.0	55.0	60.0	61.5	67.4
Project grants	42.9	11.0	17.3	36.6	45.5	50.0	55.0	60.0	61.5	67.4
Other transfers (debt forgiveness)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	41.6	32.7	7.4	27.5	13.9	38.7	38.4	40.5	44.1	38.0
Direct investment	35.7	0.9	1.1	3.2	18.5	41.1	40.9	37.0	34.8	27.3
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	5.9	31.8	6.3	24.3	-4.5	-2.4	-2.5	3.6	9.2	10.7
Public sector (net) [1]	0.4	20.5	-5.8	-3.0	-4.5	-2.4	-2.5	3.6	9.2	10.7
Project disbursement	8.5	1.1	0.0	3.8	6.0	6.0	6.0	9.9	15.8	17.3
Program disbursement	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-8.1	-5.6	-5.8	-6.8	-10.5	-8.4	-8.5	-6.4	-6.5	-6.6
Monetary authorities (SDR allocation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term flows	5.5	11.3	12.1	27.3	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-35.8	-5.3	54.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (excl. errors and omissions)	33.5	20.9	-22.2	-20.6	-46.3	-26.0	-25.7	-30.0	-16.0	-10.6
Identified financing	2.4	-15.6	-32.5	20.6	-3.7	-22.0	-21.3	-15.0	-22.1	-20.8
Net official reserves movements	2.4	-15.6	-39.2	20.6	-3.7	-22.0	-21.3	-15.0	-22.1	-20.8
Net IMF credit	11.7	1.1	3.6	4.3	-11.3	-11.0	-11.0	-15.1	-14.6	-11.7
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other reserves (increase = -)	-9.3	-16.7	-42.8	16.3	7.6	-11.1	-10.3	0.1	-7.5	-9.1
Exceptional financing	0.0	0.0	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	0.0	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing [1]	0.0	0.0	0.0	0.0	0.0	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	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	50.0	48.0	47.0	45.0	38.1	31.4
Memorandum items:										
Terms of trade	2.8	19.4	8.2	26.6	5.8	-7.9	0.6	-2.7	0.7	0.0
Unit price of exports	-11.7	10.5	11.9	8.5	-1.9	-1.4	0.7	-2.0	0.9	0.3
Unit price of imports	-14.1	-7.4	3.4	-14.3	-7.3	7.1	0.1	0.7	0.2	0.2
Gross official foreign reserves										
(CFAF billions, end-of-period)	87.8	98.5	137.7	117.1	120.8	142.8	164.2	179.2	201.3	222.1
(Months of imports, f.o.b.)	5.6	3.7	5.1	4.2	4.0	4.5	4.7	5.0	5.2	5.5
Current account (percent of GDP)	-4.6	-3.0	-5.6	-9.0	-10.1	-9.9	-9.3	-9.2	-7.7	-6.7
Capital account (percent of GDP)	3.9	1.5	2.1	3.9	4.4	4.3	4.3	4.2	3.9	3.9
Nominal GDP (CFAF billions)	1108	750	842	937	1042	1158	1285	1424	1578	1726

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

[1] Includes HIPC debt relief from multilateral creditors. For 2010 onward, reflects full delivery of HIPC and MDRI relief on a flow basis.

Table 6a. Central African Republic: Treasury Cash Management Plan, 2016

(In millions of CFA francs)

	Actual					Projections							Total 2016
	January	February	March	April	May	June	July	August	September	October	November	December	
Balance from previous month (I)	**11,402**	**13,251**	**7,829**	**6,990**	**3,932**	**7,847**	**7,132**	**9,345**	**4,818**	**3,909**	**4,721**	**11,377**	**11,402**
Gross cash inflows (II)	**9,058**	**7,020**	**8,251**	**6,164**	**18,345**	**12,247**	**17,053**	**6,927**	**14,186**	**17,002**	**18,180**	**14,706**	**149,139**
Primary revenue	5,166	7,020	8,251	6,164	7,598	7,000	7,100	6,500	7,200	7,800	7,800	7,101	84,700
Other revenue	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing	3,892	0	0	0	10,747	5,247	9,953	427	6,986	9,202	10,380	7,605	64,439
Treasury securities	3,892	0	0	0	5,500	0		427	427	427	427	0	11,100
Other budget support	0	0	0	0	5,247	5,247	9,953	0	6,559	8,775	9,953	7,605	53,339
World Bank	0	0	0	0	0	0	0	0	0	8,775	0	0	8,775
African Development Bank	0	0	0	0	0	0	0	0	0	0	0	7,605	7,605
IMF Disbursements	0	0	0	0	0	0	9,953	0	0		9,953	0	19,906
European Union	0	0	0	0	5,247	0	0	0	6,559	0	0	0	11,806
France	0	0	0	0	0	5,247	0	0	0	0	0	0	5,247
BEAC	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits from other banks	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross cash outflows (III)	**7,209**	**12,442**	**9,090**	**9,222**	**14,430**	**12,962**	**14,841**	**11,454**	**15,095**	**16,190**	**11,525**	**16,428**	**150,886**
Primary expenditure	930	11,032	6,323	6,120	5,812	8,232	11,000	10,200	11,300	11,550	10,250	11,850	104,599
Wages	3	8,296	4,081	4128	4075	4080	4000	4000	4000	4000	4000	4000	55,600
add f.i. salary charges		1,173	592	526	582	584	580	580	580	580	580	580	
Transfers	120	1,553	1,026	551	676	1702	2700	1900	2700	2700	1300	2700	19,628
of which: pensions	73	18	47	12			1700		1700	1700		1700	6,950
Goods and services	807	1,101	1,210	1335	1056	1600	2800	2800	2600	2600	2600	2600	23,109
of which: banking fees	102	95	95	99	103	150	100	100	150	150	150	100	1,394
Capital	0	82	6	106	5	850	1500	1500	2000	2250	2350	2550	13,199
Amortizations	5,824	1,207	287	2,636	6,538	3,644	2,755	168	2,709	3,554	189	3,492	33,003
of which: IMF repayments	2,605	931			254	2,184	2,605	7	709	254	7	2,226	11,782
Domestic	2,760	190	287	342	6,043	150	150	150	150	150	150	150	10,672
of which: treasury securities	2,500				5,500								8,000
External	459	86		2,294	241	1,310	0	11	1,850	3,150	32	1,116	10,549
Interest Due						1,086	1,086	1,086	1,086	1,086	1,086	1,086	7,600
Arrears payments	455	180	2,475	466	2080	0	0	0	0	0	0	0	5,656
Withdrawals correspondents		23	5										28
Net cash flow (=II-III)	**1,849**	**-5,422**	**-839**	**-3,058**	**3,915**	**-715**	**2,212**	**-4,527**	**-909**	**812**	**6,655**	**-1,722**	**-1,747**
Balance at end of month (=I+(II-III))	**13,251**	**7,829**	**6,990**	**3,932**	**7,847**	**7,132**	**9,345**	**4,818**	**3,909**	**4,721**	**11,377**	**9,655**	**9,655**
check	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: Data provided by the Authorities.

Table 6b. Central African Republic: Treasury Cash Management Plan, 2017
(In millions of CFA francs)

	Projetions												Total 2017
	January	February	March	April	May	June	July	August	September	October	November	December	
Balance from previous month (I)	**9,655**	**6,905**	**4,155**	**14,237**	**12,287**	**10,337**	**15,347**	**12,597**	**14,767**	**19,929**	**21,429**	**18,677**	**9,655**
Gross cash inflows (II)	**8,583**	**8,583**	**24,384**	**8,583**	**8,583**	**19,312**	**8,583**	**13,503**	**19,464**	**12,833**	**8,583**	**14,914**	**155,908**
Primary revenue	8583	8583	8583	8583	8583	8583	8583	8583	8583	8583	8583	8583	102,996
Other revenue	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing	0	0	15,801	0	0	10,729	0	4,920	10,881	4,250	0	6,331	52,912
Treasury securities	0	0	1,231	0	0	1,231	0	0	1,231	0	0	1,231	4,924
Other budget support	0	0	14,570	0	0	9,498	0	4,920	9,650	4,250	0	5,100	47,988
World Bank	0	0	0	0	0	4,250	0	0	0	4,250	0	0	8,500
African Development Bank	0	0	0	0	0	0	0	0	0	0	0	5,100	5,100
IMF Disbursements	0	0	9,650	0	0	0	0	0	9,650	0	0	0	19,300
European Union	0	0	4,920	0	0	0	0	4,920	0	0	0	0	9,840
France	0	0	0	0	0	5,248	0	0	0	0	0	0	5,248
BEAC	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits from other banks	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross cash outflows (III)	**11,333**	**11,333**	**14,302**	**10,533**	**10,533**	**14,302**	**11,333**	**11,333**	**14,302**	**11,333**	**11,335**	**14,304**	**152,076**
Primary expenditure	9,900	9,900	11,638	9,100	9,100	11,638	9,900	9,900	11,638	9,900	9,900	11,638	124,152
Wages	4,825	4,825	4,825	4,825	4,825	4,825	4,825	4,825	4,825	4,825	4,825	4,825	
add f.i. salary charges	580	580	580	580	580	580	580	580	580	580	580	580	57,900
Transfers	1,900	1,900	3,638	1,100	1,100	3,638	1,900	1,900	3,638	1,900	1,900	3,638	28,152
of which: pensions	0	0	1,738	0	0	1,738	0	0	1,738	0	0	1,738	6,952
Goods and services	2,008	2,008	2,008	2,008	2,008	2,008	2,008	2,008	2,008	2,008	2,008	2,012	24,100
of which: banking fees	483	483	483	483	483	483	483	483	483	483	483	487	5,800
Capital	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,163	14,000
Amortizations	700	700	1,931	700	700	1,931	700	700	1,931	700	700	1,931	13,324
of which: IMF repayments	2,611	6	734	245	5	2,121	1,142	5	710	253	5	2,121	9,957
Domestic	0	0	1,231	0	0	1,231	0	0	1,231	0	0	1,231	4,924
of which: treasury securities	0	0	1,231	0	0	1,231	0	0	1,231	0	0	1,231	4,924
External	700	700	700	700	700	700	700	700	700	700	700	700	8,400
Interest Due	483	483	483	483	483	483	483	483	483	483	483	483	5,800
Arrears payments	708	708	708	708	708	708	708	708	708	708	710	710	8,500
Withdrawals correspondents	25	25	25	25	25	25	25	25	25	25	25	25	300
Net cash flow (=II-III)	**-2,750**	**-2,750**	**10,082**	**-1,950**	**-1,950**	**5,010**	**-2,750**	**2,170**	**5,162**	**1,500**	**-2,752**	**610**	**3,832**
Balance at end of month (=I+(II-III))	**6,905**	**4,155**	**14,237**	**12,287**	**10,337**	**15,347**	**12,597**	**14,767**	**19,929**	**21,429**	**18,677**	**19,287**	**13,487**
check	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: Data provided by the Authorities.

Table 7. Central African Republic: Disbursements of External Support, 2016

	Commitments for 2016		Commitments for 2017		Purpose
		CFA francs, bn		CFA francs, bn	
IMF	SDR 25.05 million	19.9	SDR 23.6 million	19.3	Balance of payments support
World Bank	US$ 15 million	8.5	US$ 10 million	5.9	Budget support
African Development Bank	US$ 11.5 million	6.4	US$ 13 million	7.8	Budget support
European Union	€ 15 million	9.8	€ 15 million	9.8	Budget support
France	€ 8 million	5.3	€ 8 million	5.3	Budget support
Total		50.0		48.0	
Memorandum item:	*Financing gap (CFAF, billion)*	50.0		48.0	
	Remaining financing needs	0.0		0.0	

Table 8. Central African Republic: Indicators of Capacity to Repay the IMF, 2016–26

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
IMF obligations based on existing credit											
(SDR millions)											
Principal	13.92	12.16	10.31	9.10	5.35	5.85	5.85	4.46	3.62	2.23	0.00
Charges and interest	0.01	0.03	0.03	0.05	0.04	0.03	0.03	0.03	0.03	0.03	0.03
IMF obligations based on existing and prospective credit											
(SDR millions)											
Principal	13.92	12.16	10.31	9.10	5.35	5.85	12.03	15.32	19.16	18.94	16.71
Charges and interest	0.01	0.03	0.03	0.25	0.25	0.24	0.23	0.21	0.18	0.13	0.09
IMF obligations based on existing and prospective credit											
(CFA billions)											
Principal	11.36	9.84	8.25	7.22	4.19	4.50	9.25	11.78	14.74	14.57	12.85
Charges and interest	0.01	0.02	0.02	0.20	0.20	0.18	0.18	0.16	0.14	0.10	0.07
Outstanding IMF Credit											
SDR Millions	83.98	95.22	108.31	110.91	105.55	99.70	87.67	72.36	53.20	34.26	17.55
CFAF Billions	68.51	77.06	86.66	87.98	82.72	76.68	67.43	55.66	40.92	26.35	13.50
Percent of government revenue	80.89	74.79	71.30	61.17	44.99	35.29	28.56	21.62	14.57	8.60	4.04
Percent of exports of goods and services	50.53	50.91	53.52	48.22	41.99	33.96	25.73	17.57	10.39	6.11	2.85
Percent of debt services	232.82	306.01	338.66	311.01	291.24	356.07	233.06	213.66	197.88	146.79	76.59
Percent of GDP	6.57	6.66	6.75	6.18	5.24	4.44	3.65	2.84	1.96	1.19	0.57
Percent of quota	75.39	85.48	97.23	99.56	94.75	89.50	78.70	64.96	47.76	30.75	15.75
Net use of IMF credit (SDR millions)											
Disbursements	25.1	23.4	23.4	11.7	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Repayments and repurchases	13.93	12.19	10.34	9.35	5.61	6.09	12.26	15.53	19.34	19.07	16.80
Memorandum items:											
Nominal GDP (billions of CFA francs)	1042.2	1157.9	1284.7	1424.4	1578.3	1725.6	1847.5	1962.9	2085.7	2216.3	2355.4
Exports of goods and services (billions of CFA frai	135.6	151.4	161.9	182.4	197.0	225.8	262.1	316.8	394.0	431.5	474.3
Government revenue (billions of CFA francs)	84.7	103.0	121.5	143.8	183.9	217.3	236.1	257.5	280.8	306.4	334.4
Debt service (billions of CFA francs)	29.4	25.2	25.6	28.3	28.4	21.5	28.9	26.0	20.7	18.0	17.6
IMF Quota	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4

Source: IMF staff projections.

Table 9. Central African Republic: Financial Soundness Indicators, Dec. 2010–Feb. 2015

(Percent, end of period)

Concept	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec. 15	Apr. 16
Capital Adequacy							
Total bank regulatory capital to risk-weighted assets	16.5	25.6	22.7	39.1	42.2	37.4	36.3
Total capital (net worth) to assets	15.9	21.3	21.4	18.3	18.1	23.2	22.8
Asset Quality							
Non-performing loans to total gross loans	12.6	12.0	9.6	28.5	27.7	26.0	25.6
Non-performing loans net of provision to capital	1.5	3.3	1.6	50.0	44.4	34.6	30.4
Earnings and Profitability							
Net income to average assets (ROA)	3.6	4.8	4.3	-1.1	0.8	-0.3	…
Net income to average capital (ROE)	24.4	24.4	20.7	-5.4	3.8	-1.4	…
Non interest expense to gross income	65.9	59.9	64.0	79.5	…	…	…
Liquidity							
Liquid assets to total assets	26.1	23.2	16.1	14.9	22.7	39.9	39.4
Liquid assets to short-term liabilities	132.6	160.7	114.5	149.1	203.1	276.1	278.3
Loan/deposits	…	…	…	…	…	…	…
Sensitivity to market/FX risk							
Foreign exchange liabilities/total liabilities	…	…	…	…	…	…	…
Foreign currency deposits/official reserves	…	…	…	…	…	…	…

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

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

Disbursements Conditions	Date	Amount of Purchase: Millions of SDR	Amount of Purchase: Percent of Quota
First disbursement upon approval by the Executive Board of the request for an arrangement under the ECF	July 15, 2016	SDR 12.525 million	11.24
Second disbursement upon observance of the performance criteria for August 31, 2016 and completion of the first review	November 13, 2016	SDR 12.525 million	11.24
Third disbursement upon observance of the performance criteria for December 31, 2016 completion of the second review	March 22, 2017	SDR 11.70 million	10.5
Fourth disbursement upon observance of the performance criteria for June 30, 2017 completion of the third review	October 23, 2017	SDR 11.70 million	10.5
Fifth disbursement upon observance of the performance criteria for December 31, 2017 completion of the fourth review	March 21, 2018	SDR 11.70 million	10.5
Sixth disbursement upon observance of the performance criteria for June 30, 2018 completion of the fifth review	October 22, 2018	SDR 11.70 million	10.5
Seventh disbursement upon observance of the performance criteria for December 31, 2018 completion of the sixth review	March 20, 2019	SDR 11.70 million	10.5

Table 11. Central African Republic: Risk Assessment Matrix (RAM) [1]			
Sources of Risks	**Relative Likelihood**	**Impact If Realized**	**Policy Response if Materialized**
Deterioration of security conditions	**High**	**High** This would bring to a halt any momentum for the economic recovery.	Refocus reform on areas less sensitive to socio-political environment. Aim to maintain fiscal control with a view to maintain basic spending and keep social cohesion.
Structurally weak growth in key advanced and emerging economies	**High** (AEs) **Medium** (EMEs)	**High** Exports recovery would likely be delayed, lowering medium-term growth prospects.	Intensify structural reform and efforts to improve the business climate to promote investment.
Initial inertia of a new government that lacks experience in confronting significant challenges under very difficult circumstances.	**High**	**High** Program implementation could weaken, and adoption of key structural reforms could be postponed, lowering growth prospects.	Gradual back load of reforms to create traction from all key stakeholders. Intensify key structural reform. Fiscal policy to focus on revenue mobilization, and efficient delivery of public services.
Limited administrative capacity	**High**	**High** Program implementation could weaken, and adoption of key structural reforms could be postponed.	Increase effectiveness of CD to strengthen institutional capacity.
Delayed delivery of external financial assistance	**Medium**	**Medium** Investment and growth would be negatively affected and poverty would risk increasing. Macroeconomic stability would be at risk.	Increased efforts aimed at domestic resource mobilization and expenditure efficiency.

Table 12. Central African Republic: Millennium Development Goals, 1990–2014

	1990	1995	2000	2005	2010	2014
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%) (modeled ILO estimate)	73	73	73	73	73	73
Employment to population ratio, ages 15-24, total (%) (modeled ILO estimate)	57	57	57	57	56	55
GDP per person employed (constant 2011 PPP $)	1,842	1,751	1,674	1,666	2,074	1,312
Income share held by lowest 20%	..	..	..	..	..	..
Prevalence of underweight, weight for age (% of children under 5)	..	20	22	28	24	..
Poverty gap at $1.90 a day (2011 PPP) (%)	..	..	..	..	..	..
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)	..	..	..	..	..	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..	..
Goal 2: Achieve universal primary education						
Youth literacy rate, population 15-24 years, female (%)	..	..	49	..	27	..
Youth literacy rate, population 15-24 years, male (%)	..	..	73	..	49	..
Survival rate to the last grade of primary education, both sexes (%)	36	..	..	..	46	..
Primary completion rate, both sexes (%)	30	..	..	26	40	..
Adjusted net enrolment rate, primary, both sexes (%)	57	..	..	48	70	..
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	4	..	7	11	10	..
Gross enrolment ratio, primary, gender parity index (GPI)	1	..	1	1	1	..
Gross enrolment ratio, secondary, gender parity index (GPI)	0	..	1	..	1	..
Gross enrolment ratio, tertiary, gender parity index (GPI)	0	..	0	0	0	..
Share of women in wage employment in the nonagricultural sector (% of total nonagricultural employment)	..	..	..	..	..	..
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	82	46	36	62	53	49
Mortality rate, infant (per 1,000 live births)	115	115	114	109	102	94
Mortality rate, under-5 (per 1,000)	177	177	175	166	150	134
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15-19)	149	138	127	113	102	93
Births attended by skilled health staff (% of total)	..	46	44	53	54	..
Contraceptive prevalence, any methods (% of women ages 15-49)	..	15	28	19	15	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,290	1,300	1,200	1,060	909	872
Pregnant women receiving prenatal care (%)	..	67	62	69	68	..
Unmet need for contraception (% of married women ages 15-49)	..	19	..	..	27	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	69	57	34	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	7	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	864	1,201	1,073	687	431	375
Prevalence of HIV, female (% ages 15-24)	3.4	6.1	4.5	2.4	2	2
Prevalence of HIV, male (% ages 15-24)	1.8	3.1	2.3	1.3	1.3	1.4
Prevalence of HIV, total (% of population ages 15-49)	4.4	9.1	9.6	7	5.2	4.3
Tuberculosis case detection rate (%, all forms)	8	8	7	12	35	57
Goal 7: Ensure environmental sustainability						
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	0	..
CO2 emissions (metric tons per capita)	0	0	0	0	0	..
Forest area (% of land area)	36.2	36.1	36	35.8	35.7	35.6
Improved sanitation facilities (% of population with access)	15	16	17	19	21	22
Improved water source (% of population with access)	59	60	63	65	67	68
Marine protected areas (% of territorial waters)	0	..	0	..	..	0
Goal 8: Develop a global partnership for development						
Net ODA received per capita (current US$)	85	50	20	22	59	127
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	12	12	21	20	5	12
Internet users (per 100 people)	0	0	0.1	0.3	2	4
Mobile cellular subscriptions (per 100 people)	0	0	0	3	23	25
Fixed telephone subscriptions (per 100 people)	0	0	0	0	0	0
Fertility rate, total (births per woman)	5.8	5.6	5.4	5.1	4.6	4.3

Source: World Development Indicators database, 2016.

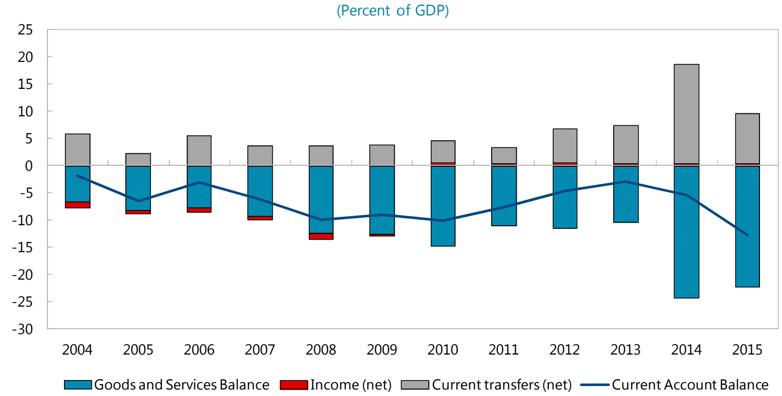
Annex I. Central African Republic: External Stability Assessment

C.A.R.'s external position is weak according to the three "EBA-lite" approaches.[1] The analysis of broader non-price indicators also underscores significant competitiveness weaknesses. C.A.R.'s exports base is very narrow, dominated by a few commodities (i.e., timber and diamond) and are still subject to partial export ban. This highlights the urgent need for continued external support while C.A.R. undertakes bold structural reforms to broaden the economic base and strengthen the country's resilience.

A. Balance of Payment and Exchange Rate Developments

1. **C.A.R.'s external current account has deteriorated since the 2013 political and security crisis.** During 2004-2012, reflecting policies supported by the IMF in the context of the ECF, the current account deficit was about 6.5 percent of GDP on average (Figure 1.). This deficit widened in 2013 at the height of the political and security crisis, further growing to 12.7 percent of GDP in 2015. This deficit was mainly driven by a significant decline of C.A.R.'s main exports (diamond and timber) caused by the presence of armed groups in the production regions and the resultant sanctions. Net current transfers (mostly grants) significantly increased during the transition period—contributing to large increase of non-food aid-related imports. Following the completion point of the HIPC debt relief in 2009, net income turned slight positive.

Figure 1. Central African Republic: Current Account Balance Components, 2004-2015
(Percent of GDP)

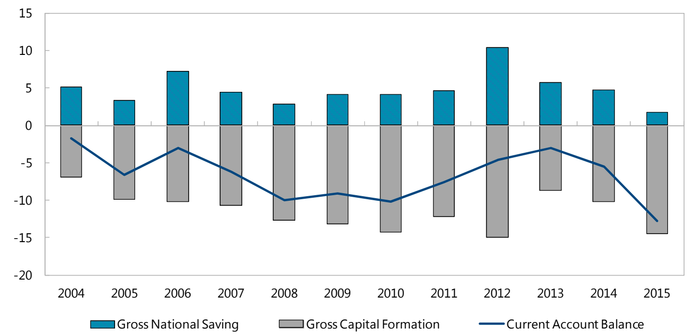


Source: C.A.R. authorities and IMF staff estimates.

[1] See http://intranetapps.imf.org/fundwide/ke/Topics/External-Sector-Assessment/Pages/Home.aspxMethodologies; "Methodological Note on EBA-LITE".

2. **C.A.R.'s narrow exports base has been further squeezed by a decline in timber and diamond exports.** In 2012, timber and diamond accounted for about 75 percent of the country's total exports (Table 1). Timber exports declined by 38 percent in 2013, before recovering in 2015, but still remaining far below their pre-crisis level. The suspension of CAR from the Kimberly process in 2013 led to complete collapse of official exports of diamonds in 2014 and 2015. Despite partial re-certification by the Kimberley Process Certification Scheme in mid-June of 2015, the exports of diamond stocks (85,000 carats with an estimated value of US$7 million) failed to resume so far. Diamonds produced in the Central-Eastern region, which accounts for about half of the national diamond output, remain under an export ban under the Kimberly process of certification.

Fignure 2. Central African Republic: National Accounts Components, 2004-2015
(Percent of GDP)



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

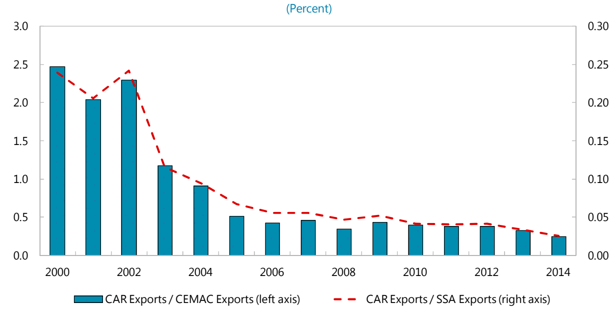
Table 1. Central African Republic: Main Exports, 2010-15

	2010	2011	2012	2013	2014	2015
			(Billions of CFA)			
Exports	76.7	99.1	97.5	53.0	42.6	48.5
Diamonds	25.9	29.7	33.2	10.5	0.0	0.0
Timber	30.6	42.9	39.7	24.7	23.2	29.5
Coffee	0.8	1.4	1.5	0.1	2.6	1.6
Cotton	2.8	7.1	7.0	1.7	0.4	0.3
			(In percent of total exports)			
Diamonds	33.8	29.9	34.1	19.9	0.0	0.0
Timber	39.9	43.3	40.7	46.6	54.3	60.8
Coffee	1.0	1.4	1.5	0.1	6.0	3.3
Cotton	3.6	7.2	7.2	3.3	0.9	0.6
Total	78.4	81.8	83.5	69.8	61.3	64.7

3. **The current account deficit is expected to narrow to about 10 percent of GDP during 2016–20.** The deficit of the goods and services balance is also expected to improve, shrinking to 17.3 percent in 2016–20, down from a deficit of 22.3 percent of GDP in 2015, assuming improved security conditions along the main Douala-Bangui corridor and the full lift of the diamond export ban. The current account deficit would be primarily financed by external grants.

4. **C.A.R's exports, as a share of CEMAC and SSA exports, declined significantly since 2003**[2] (Figure 3). Since 2003, C.A.R.'s share of CEMAC exports dropped to the bottom of the currency union and continues to decrease. Similarly, its share of the SSA exports also declined rapidly and C.A.R. has moved to the bottom fourth position among 45 countries of SSA in 2014, remaining ahead of Burundi, Comoros and São Tomé & Príncipe only.

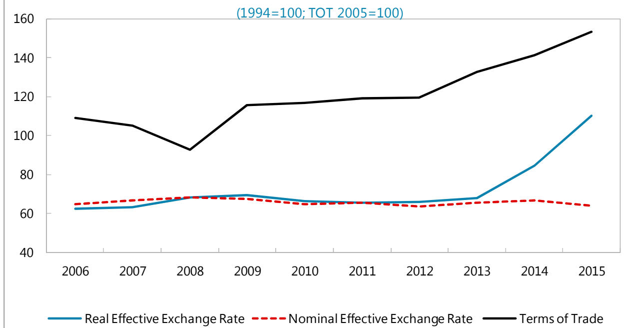
Figure 3. Central African Republic: Market Share in CEMAC and SSA, 2000-14
(Percent)



Note: SSA excludes Botswana, Eritrea, Lesotho, Namibia, South Sudan, and Swaziland as they do not report trade. Data for South Africa only starts in 1998.
Source: IMF Direction of Trade Statistics (DOTS).

5. **C.A.R.'s real effective exchange rate (REER) appreciated significantly after 2013, despite a slight depreciation of its nominal effective exchange rate (NEER)** (Figure 4). Following a long period of stability, the REER appreciated by almost 63 percent from 2013 to 2015, mainly reflecting the sharp increase in inflation observed during the crisis and the transition period.

Figure 4. Central African Republic: Effective Rates and Terms of Trade, 2006-2015
(1994=100; TOT 2005=100)



Source: IMF's Information Notice System (INS); World Economic Outlook (WEO); and IMF staff estimates.

B. Model-Based Real Exchange Rate Assessments

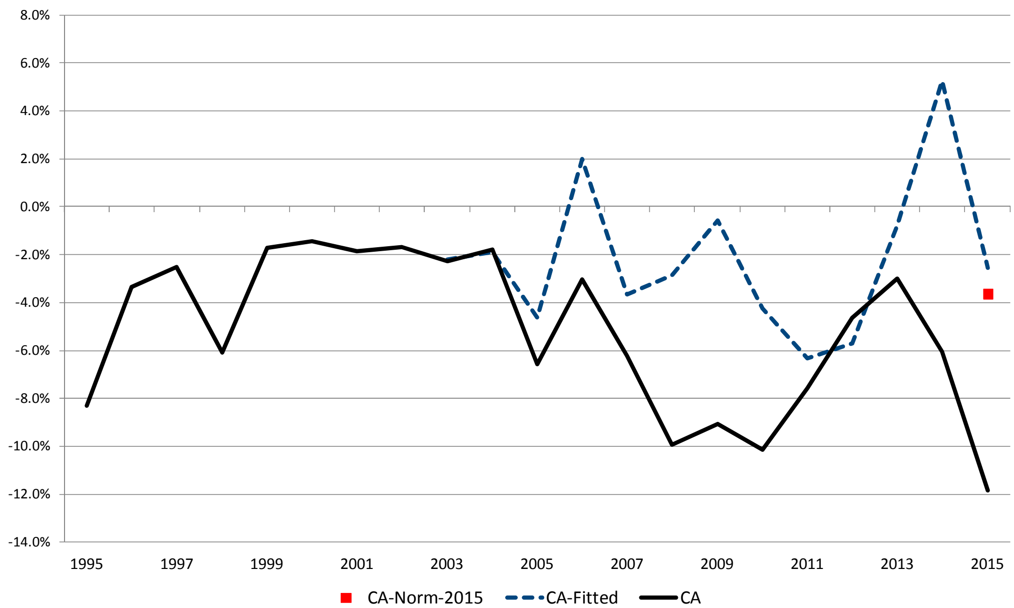
6. **The REER is assessed using the three EBA-lite approaches, namely, the current account (CA), the real effective exchange rate index (IREER), and the external sustainability (ES) approaches**. Annual data for 150 countries for 1995–2015 are used, along with projections for C.A.R. that reflect the macroeconomic framework. Both EBA include two regression-based models of current account and real exchange rate and one external sustainability approach. EBA makes a distinction between positive analysis of current account and real exchange rate and normative assessments, and emphasizes the roles of policies and policy distortions. EBA models include a broader set of fundamentals to have a better positive (descriptive) understanding of current account and real exchange rate; and differentiate policy variables from non-policy fundamentals to explicitly include policy gaps in normative assessments.

7. **Results from the CA approach suggest that the external position is substantially weaker in 2015**. The current account model is based on one panel regressions of current account and provides estimated current account "norms," which are values consistent with

[2] A political crisis erupted in 2003 after after François Bozizé seized power. This quickly escalated into major fighting during 2004 which continued through a peace agreement reached in 2007 Further negotiations resulted in an agreement in 2008 for reconciliation, a unity government, and local elections in 2009 and parliamentary and presidential elections in 2010.

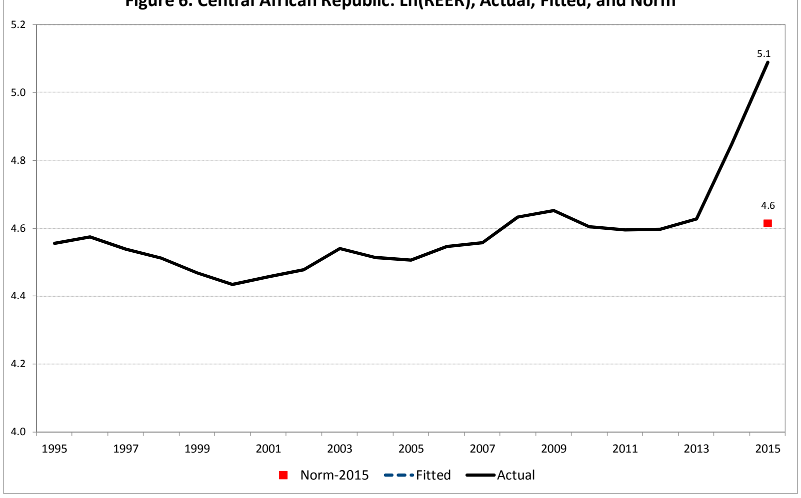
fundamentals and desirable policies. The estimated current account norm points to a deficit of 3.6 percent, while the underlying current account deficit is about 11.8 percent. Accordingly, and depending on the current account elasticity we used (-0.1), the CA approach suggests that the real exchange rate gap is 137.4 percent. The elasticity of current account (trade balance) to REER is very small, suggesting that the impact of price factors may be small.

Figure 5. Central African Republic: Current account: Actual, Fitted, and Norm



8. **The IREER approach also suggests that the external position is substantially weaker in 2015.** The exchange rate model is based on one panel regressions of exchange rate and provides estimated exchange rate "norms," which are values consistent with fundamentals and desirable policies. The REER is estimated to appreciate by 4.6 percent, while the underlying REER appreciated by 5.1 percent (Figure 6). Therefore, in order to restore real exchange rate equilibrium, the IREER approach suggests that the REER would need to depreciate by 47 percent.

Figure 6. Central African Republic: Ln(REER), Actual, Fitted, and Norm



9. **Similarly, the ES approach also suggests that the external position is weaker in 2015.** The external sustainability approach calculates a current account norm that would stabilize the net foreign asset (NFA) position at some benchmark level. The current account stabilizing net foreign assets represents a deficit of 1.5 percent of GDP, compared to a 6.6 percent underlying current account deficit (Table 2). The ES approach therefore suggests that the REER gap is 19.9 percent for scenario 1, i.e., to stabilize net IIP at -4.8 percent of GDP. REER gap would be 1.9 percent for scenario 2, i.e., to stabilize net IIP at -60 percent of GDP. The ES results are based on the key assumptions listed in the table. Elasticity of current account (trade balance) to REER is only -0.26.

Table 2. Central African Rebulic: ES Approach Results and Key Assumptions

				CA norm (% of GDP)	Underlying CA (% of GDP)	CA gap	REER gap
Scenario 1: Stabilizing net IIP at	-4.8 % of GDP			-1.5	-6.6	-5.1	19.9
Scenario 2: Stabilizing net IIP at	-60.0 % of GDP			-6.2	-6.6	-0.5	1.8
Scenario 3: Reaching net IIP at	-60.0 % of GDP	in	2034	-7.1	-6.6	0.5	-1.9

Calculation of Current account (trade balance) elasticity to REER:				
Elasticity of exports of goods and services to REER	-0.71	Exports of goods and services/GDP	43.1	% of GDP
Elasticity of imports of goods and services to REER	0.92	Imports of goods and services/GDP	59.8	% of GDP
Elasticity of current account (trade balance) to REER:	-0.26			

Sources: IMF staff calculations.

10. **Taken together, the assessment of C.A.R's REER indicates a substantially weaker external position for C.A.R.** Depending on the different approach used, the range of gap in the REER is wide as it is between 19.9 to 147 percent in 2015. It is important to note, however, that the above results reflect sensitivity to the macroeconomic assumptions on which the baseline scenario is built upon, but also to the assumptions each approach uses, including the level of elasticity of the current account to the real exchange rate. In addition, the political and security situation in 2013 caused an important adverse shock to the economy with many ramifications to the baseline macroeconomic assumptions.

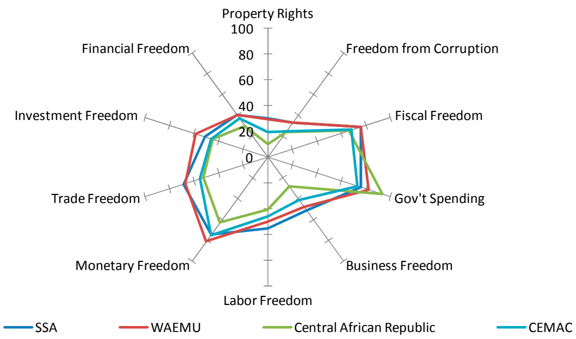
C. Assessment of Structural Competitiveness

11. **C.A.R.'s weak institutional indicators point to considerable weakness in structural competitiveness.** Competitiveness is defined as the set of institutions and factors that determine the level of productivity of a country. C.A.R.'s low ranking suggests a weak structural competitiveness and would imply a weak external position. The institutional indicators considered in this section include: the Heritage Foundation indicators of economic freedom; the World Bank's Doing Business indicators; and the World Bank's Country Policy and Institutional Assessment (CPIA).

12. **According to the Heritage Foundation, C.A.R. continued to score at the lowest quartile of the world in 2016**. Overall, C.A.R.'s ranking slipped in the Foundation's rankings from 145th in 2012 to 168^{th,} in 2016. C.A.R.'s total score index worsened from 50 in 2012 to 45.2 in 2016. At 45.2, C.A.R.'s index qualifies the economy as "repressed" and is below the

average of SSA's 120th rank and the West African Economic and Monetary Union's (WAEMU) 117th rank, and the CEMAC's 154th rank. In nine of the ten Heritage Foundation indicators of economic freedom, C.A.R.'s scores are lower than the averages for SSA, WAEMU and CEMAC (Figure 7). The only indicator for which C.A.R. score is ahead of the average for the SSA, WAEMU and CEMAC is government spending.

Figure 7. Central African Republic: Comparison of Index of Economic Freedom, 2016
(0=worst, 100=best)



Source: The Heritage Foundation and IMF Staff calculations.

13. **C.A.R.'s business climate, as measured by the 2016 World Bank Doing Business indicators, has always ranked among the bottom 10 countries in the world and deteriorated further since 2012 (Table 3).** Registering property and business dropped 35 and 29 places, respectively while getting credit dropped 35 places. On the positive side, regarding trading across borders and resolving insolvency, C.A.R. moved up by 38 and 34 places in 2016, respectively. Overall, C.A.R. ranked the bottom fifth country on ease of doing business indicator, only ahead of Venezuela, South Sudan, Libya and Eritrea. Areas in need for most improvement include: (i) starting a business; (ii) getting electricity; and (iii) paying taxes.

Table 3. Central African Republic: Doing Business Indicators, 2012–16

	Central African Republic		CEMAC	WAEMU	SSA
	2012	2016		2016	
Ease of doing business rank	182	185	176	153	143
Starting a business	160	189	170	118	128
Dealing with construction permits	136	155	148	145	130
Getting electricity	162	186	158	161	149
Registering property	132	167	165	148	132
Getting credit	98	133	120	133	118
Protecting minority investors	133	150	148	156	125
Paying taxes	177	185	178	164	131
Trading across borders	182	144	169	124	136
Enforcing contracts	173	177	155	148	132
Resolving insolvency	183	149	140	111	128

Source: Doing Business Indicators, World Bank, 2012 and 2016.

14. **C.A.R.'s Country Policy and Institutional Assessment (CPIA) score in 2014 is below the average of CEMAC, WAEMU and SSA in almost all aspects (Table 4)**. Of all the indicators, C.A.R. was only slightly above the CEMAC average on transparency, accountability and corruption in public sector but still below the average for WAEMU and SSA. Compared with 2012, most of the indicators deteriorated. Areas that are lagging behind most are property rights and rule-based governance, business regulatory environment, equity of public resource use, social protection and labor, policies and institutions for environment sustainability, and quality of public administration.

Table 4. Central African Republic: Country and Policy Institutional Assessment, 2015

(1=low, 6= high)

	Central African Republic		CEMAC[1]	WAEMU	SSA
	2012	2014		2014	
Economic Management	**3.3**	**2.8**	3.3	**3.6**	**3.3**
Macroeconomic Management	3.5	3.0	3.4	3.9	3.5
Fiscal Policy	3.5	2.5	3.0	3.3	3.2
Debt Policy	3.0	3.0	3.5	3.6	3.3
Structural Policies	**2.5**	**2.5**	2.8	**3.4**	**3.2**
Trade	3.0	3.0	3.3	4.1	3.7
Financial Sector	2.5	2.5	2.8	2.9	2.9
Business Regulatory Environment	2.0	2.0	2.5	3.3	3.1
Policies for Social Inclusion and Equity	**2.6**	**2.2**	2.7	**3.2**	**3.2**
Gender equality	2.5	2.5	2.8	3.1	3.2
Equity of Public Resource Use	3.0	2.0	2.6	3.3	3.3
Building Human Resources	2.5	2.5	2.9	3.4	3.5
Social Protection and Labor	2.0	2.0	2.5	2.8	2.9
Policies and Institutions for Environment Sustainability	3.0	2.0	2.6	3.4	3.2
Public Sector Management and Institutions	**2.4**	**2.2**	2.6	**3.1**	**3.0**
Property Rights and Rule-Based Governance	1.5	1.5	2.3	2.8	2.7
Quality of Budgetary and Financial Management	2.5	2.5	2.8	3.2	3.1
Efficiency of Revenue Mobilization	3.0	2.5	2.9	3.4	3.4
Quality of Public Administration	2.5	2.0	2.5	2.9	2.8
Transparency, Accountability and Corruption in Public Sect	2.5	2.5	2.4	3.0	2.7
Overall CPIA Score	**2.7**	**2.4**	2.8	**3.3**	**3.2**

Source: World Bank, Country Policy and Institutional Assessment 2015.

[1] CEMAC excludes Gabon and Equatorial Guinea because of data unavailabity.

15. **Enhancing C.A.R. non-price competitiveness requires substantial structural reforms.** Based on the survey-based business and governance indicators reviewed above, priority structural areas for improvement include: (i) the challenging business environment (especially the business, regulatory, and trade environment in terms of starting a business, getting electricity and paying taxes); and (ii) the institutional and governance environment (especially property rights and rule-based governance, business regulatory environment, equity of public resource use, social protection and labor, policies and institutions for environment sustainability, and quality of public administration). Over time, such reforms would generate tangible productivity gains, mainly by bolstering private sector investment and expansion as well as public sector efficiency (including through more effective policy making and use of development assistance). At the same time, C.A.R. has the urgent need for continued external support while it undertakes the above structural reforms.

Appendix I. Letter of Intent

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Bangui, July 7, 2016

Dear Madame Lagarde:

1. **The presidential and legislative elections took place in a peaceful environment and resulted in the election of President Touadera, marking the end of the political transition that began in the Central African Republic (C.A.R.) in January 2014**. Our new government is committed to promoting national reconciliation, demobilizing armed groups and reintegrating them into economic and social life, and transforming the economy to create jobs for young people and reduce poverty, which affects a large proportion of the population. To this end, we intend to implement a macroeconomic and structural reform program with the help of our development partners and the International Monetary Fund (IMF).

2. **The attached Memorandum of Economic and Financial Policies (MEFP) describes the recent economic and financial developments and the structural reforms implemented in 2015 and the first quarter of 2016 in the context of the third disbursement under the Rapid Credit Facility**. We would like to report that we have met the quantitative objectives that we set at end-December 2015. Moreover, we have to some extent restored our administrative capacity to define and implement medium-term economic and financial policies.

3. **This MEFP also presents the key aspects of our medium-term strategy.** To achieve its short- and medium-term growth and poverty reduction goals, the government of the C.A.R. is seeking approval for a three-year arrangement (mid-2016 to mid-2019) under the Extended Credit Facility (ECF) in an amount equivalent to SDR 83.55 million (or 75 percent of our quota). The ECF-supported program is expected to provide a macroeconomic framework that will strengthen substantially and in a sustainable manner the country's balance of payments position consistent with strong and durable poverty reduction and growth. The disbursements will be contingent on the achievement of the performance criteria and structural benchmarks shown in Tables 1 and 2 of the attached memorandum and the conclusion of program reviews, the first of which will be based on the results through end-August 2016. The financial assistance under the

ECF will not only help to anchor the government's macroeconomic policies but also serve to mobilize other financial support from our development partners.

4. **We believe that the policies and measures set forth in the attached MEFP are appropriate for attaining our program objectives and gradually reducing our balance of payments financing needs going forward**. We are prepared to take any additional measures that may subsequently be required for that purpose. The government will consult with the Fund on the adoption of such measures, and in advance of revisions to the policies contained in the MEFP in accordance with Fund's policies on such consultations. We will provide IMF staff with all of the information indicated in the attached Technical Memorandum of Understanding (TMU) regarding progress with the program supported by the ECF.

5. **We intend to publish the IMF staff report, including this letter and the attached MEFP and TMU**. We therefore authorize the IMF staff to post these documents on the IMF's external website once the Executive Board approves the new arrangement under the ECF.

Sincerely yours,

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

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

Attachment I. Memorandum of Economic and Financial Policies for 2016–19

1. **This Memorandum of Economic and Financial Policies (MEFP) sets out the economic and financial policies that the government of the Central African Republic (C.A.R.) is implementing for the remainder of 2016 and plans to implement in the medium term**. These policies are in line with the country's strategic priorities.

GENERAL CONTEXT

2. **The return to democratically elected institutions augurs well for the C.A.R.'s future.** The country is gradually emerging from the political and security crisis unleashed in 2013, which led to a humanitarian crisis and the collapse of the economy. The support of the international community has been key in helping the C.A.R. to recover. The new institutions that have resulted from the democratic elections provide an opportunity to undertake an ambitious medium-term reform program. Given the significant challenges facing us, our priorities for economic recovery and poverty reduction will be to consolidate the security situation, promote national reconciliation and social peace, build human and administrative capacities, and continue the economic reforms. The latter will be based on: (i) fiscal consolidation, including strengthening tax revenue collection and control of public expenditure while ensuring increased spending on the priority sectors and restoring external sustainability; (ii) strengthening of the country's administrative capacities and the redeployment of the government through structural measures; and (iii) improving the C.A.R.'s competitiveness.

3. **Security conditions are improving but remain volatile.** With the support of international forces, including MINUSCA and the French SANGARIS contingencies, the army and the gendarmerie have restored security over much of the country, which facilitated the organization of peaceful elections. However, the fact that ex-combatants have not yet been demobilized and reintegrated, particularly in the diamond mining regions in the northeast, is a source of risk and an obstacle to a strong economic recovery. In this context, work is underway with participation of development partners, on a reform of the security sector. As part of this work, key issues will be addressed, including the departure of many old and untrained officers, the place of ex combatants in society, and the role and size of a new army, if any, including the shift to a civil security format, with small specialized forces to ensure security.

4. **The C.A.R. is facing significant challenges and is caught in a fragility trap.** During each period of calm and return to peace, the country faces human and financial resource constraints, with the result that achieving social cohesion and a national consensus around the necessary reforms becomes difficult and excessively slow. In addition, security problems prevent the redeployment of the government throughout the national territory, limiting the supply of basic social services. Moreover, our country faces:

- A slow economic recovery, with cumulative real growth of 5.8 percent in 2014–15, which is quite insufficient to offset the 36.7 percent contraction in real GDP in 2013.

- Heavy reliance on external aid. At end-2015, domestic revenues covered only 73 percent of primary expenditure, making recourse to external assistance for the payment of wages and pensions and debt service unavoidable.

- Deeply rooted structural rigidities that are an obstacle to economic expansion and impede private investment by local and foreign entrepreneurs. Some examples of these many constraints are the lack of electricity, inadequate infrastructure, a weak education system, a 3 percent bank penetration rate, very high transportation costs and a chronic shortage of means of telecommunications.

- Weak human development, with severe consequences for extreme poverty in the various segments of the population across the entire country.

RECENT ECONOMIC DEVELOPMENTS

5. **The data available at end-2015 indicate:**

- An estimated GDP growth of 4.8 percent supported by the recovery of agriculture, construction, trade and services, despite a wave of violence during the third quarter.

- A decline in average inflation at end-December to 4.5 percent, against 11.6 percent in 2014, explained in part by better supply of goods owing to the security improvements of the Douala-Bangui corridor, lower import prices for some staples, and improvements in the distribution channels.

- A decline in the primary deficit to 3 percent of GDP, reflecting an increase in domestic revenues to 7.1 percent of GDP, explained by improvements in revenue collection, and better control over primary expenditure, which remained largely unchanged at 10.1 percent of GDP.

- A widening of the balance of payments current account deficit by 3.4 percentage points to 9 percent of GDP.

- A high level of public debt, at 48.5 percent of GDP, as compared to 51 percent in 2014. The Transition Government signed a new loan for CFAF 45 billion (5 percent of GDP) with Saudi Arabia to launch infrastructure and social sector investment projects. The borrowing conditions are concessional, with a grant element of 49 percent.

6. **The disbursement of budgetary support in 2015 was in line with projections, with the exception of CFAF 5 billion carried forward to 2016.** These resources, combined with control over non-priority spending and a slowing of domestically financed capital expenditure,

enabled the Transition Government to pay wages, service the debt, clear CFAF 10.1 billion in arrears, and build up CFAF 10 billion (1 percent of GDP) in financial reserves.

7. **To improve public finance management and the mobilization of domestic revenues, the Transition Government has implemented significant reforms during its emergency economic program supported by disbursements under the RCF.**

- Increased tax and customs controls, including for the VAT on oil products, and better tracking of exemptions have led to a significant improvement in revenues. However, some measures envisaged in 2015 in the context of the third disbursement under the Rapid Credit Facility have not yet been implemented, in particular: (i) the adoption of the decree for the revision of the oil price structure in order to base it on Platts international prices; (ii) the reduction in exemptions on telephone user fees, particularly those granted to employees of the United Nations agencies, the Agency for Air Navigation Safety in Africa and Madagascar (ASECNA), the BEAC, and diplomatic missions; (iii) the revision of reference prices in the forestry sector to reflect international prices and ensure adequate valuation of commercial transactions; (iv) improvements in the collection of the logging and reforestation taxes; (v) overhaul of taxation of the diamond mining sector, better control over the distribution system, reduction of fraud, and improvement of the certification process; and (vi) revision of the banking agreements to ensure better revenue collection by the government, end automated debiting and the offsetting of claims (under penalty of sanctions), and enable daily transfers to the Treasury.

- On the expenditure side, the following measures were taken: (i) the first phase of the civil service reform has been completed with assistance from the World Bank and the UNDP and allowed to streamline the civil service, gendarmerie and police roster. However, despite a significant reduction in the number of civil servants included on the roster, the expected financial gains did not fully materialize owing to delays in the implementation of some measures (repatriation of diplomats at the end of their missions), the appointment of more diplomatic personnel than necessary, excessive employment of ineligible civil servants with special status, and the reintegration by a court decision of civil servants who had been removed from the roster; (ii) the operationalization of the Central Treasury Agency (ACCT), a fundamental step in the fiscal reform toward greater transparency in public finance management; (iii) the interconnection of the GESCO-budget and GESCO-accounting modules, which made it possible to establish the conditions for restoring the expenditure cycle, although the connection between the budget and accounting modules remains problematic, limiting the scope of this measure; and (iv) the adoption of regulatory provisions to strictly limit recourse to exceptional procedures to a maximum of 5 percent of expenditure (excluding wages and pensions and debt service) and the execution only of expenditures included in the budget are an initial step toward better alignment of budget execution with the budget adopted by the National Assembly.

8. **The banking sector is playing a limited role in the economic recovery.** The expansion of bank credit to the private sector remains hampered by a number of constraints related to the security volatility, the lack of appropriate guarantee instruments, the lack of long-term resources, information asymmetry and a judicial system that does not facilitate debt collection. Banks are finding it difficult to extend credit beyond a limited group of customers with adequate accounting practices.

9. **Financial sector indicators show an increase in the overall liquidity of the banks in 2015 and a decline in asset quality.** Almost one third of the loans are nonperforming, primarily owing to the sizable stock of government arrears to banks and to domestic suppliers, who in turn cannot repay debts contracted with the commercial banks. Banks have increased their loan loss provisioning to almost 70 percent (compared with50 percent in March 2015), leading to a reduction in their capital and profitability.

MACROECONOMIC OBJECTIVES AND MEDIUM-TERM POLICIES

10. **Given these significant economic challenges and the population's high hopes, in the context of a gradual emergence from fragility, our strategic priorities for economic recovery and a substantial reduction in poverty are to:** (i) restore fiscal and external debt sustainability; (ii) improve competitiveness and expand the base of economic activity to create the conditions for sustainable and inclusive growth; (iii) lay the foundation for good governance; and (iv) enhance the institutional framework and administrative capacity. For this purpose, we request the support of the IMF in the form of a new arrangement under the Extended Credit Facility (ECF). The ECF-supported program will provide a macroeconomic framework that will strengthen substantially and in a sustainable manner our balance of payments position consistent with strong and durable poverty reduction and growth.

A. Macroeconomic framework for 2016–2019

11. **The medium-term outlook should improve as the security situation is restored, the embargo on diamond exports is gradually lifted, and adequate macroeconomic policies are introduced.** Against the back of a comprehensive reform of the security sector that will create the conditions for an economic recovery, the main macroeconomic objectives are:

- Projected economic real growth of 5.2 percent in 2016, driven by recovery across all sectors, and the resumption of public and private investment in infrastructure and social sectors. Average inflation will be contained to 4 percent based on the solid performance of the food crop sector, continued improvement of the distribution channels, and the expected decline in the prices of oil products at the pump. During the period 2016–19, economic growth is projected to average 5.5 percent, with inflation in line with the CAEMC target of 3 percent by 2018 owing in part to an increase in agricultural output.

- An external current account deficit of 11.1 percent of GDP in 2016, up from 9 percent of GDP in 2015, reflecting a slower uptick in exports and a reduction in transfers. The financing of the current account will decline in comparison with 2015 owing to an increase in debt repayments. During the period 2016–19, the current account deficit is projected to be at around 9.7 percent of GDP given the sizable reconstruction needs. Financing needs are projected to decline during the period from 4.8 percent of GDP in 2016 to 3.2 percent in 2019.

- The domestic primary deficit, which will be the anchor for the fiscal policy, should decline from 3.3 percent of GDP in 2016 to 0.9 percent of GDP in 2019, making it possible to reduce the public debt to 31.2 percent of GDP in 2019. The new target for 2016 will be included in a revised budget for 2016 that the new authorities plan to adopt by end-August. The achievement of this objective involves an increase in revenues, which is projected at 8.1 percent of GDP, or 1 percentage point more than in 2015.[1] Public spending is expected to increase by 2.2 percentage points of GDP owing to an increase in capital and social spending and despite a reduction in the wage bill from 6 percent of GDP in 2015 to 5.3 percent of GDP in 2016.

- The financing gap will essentially be covered by external sources, particularly in the form of budgetary assistance from the EU, the World Bank, France and the African Development Bank totaling CFAF 50 billion.[2]

- This ECF-supported program takes into account factors or changes that are outside the government's influence. Therefore, various quantitative targets will be adjusted for shortfalls in privatization and renewal of telecommunications licenses or forestry fees. This will ensure that the fiscal and debt sustainability objectives are met in the event of a change in the expected external financing.

B. Economic and financial policies for 2016–19

12. **We commit to conduct a sustainable fiscal policy while accumulating buffers to protect us against potential shocks.** It is essential that we restore the macroeconomic stability that will lead to economic recovery by releasing financial resources for the private sector and at the same time allocating more resources to the priority social sectors and to the restoration of a lasting peace. The country is vulnerable to a number of shocks, including possible delays in the disbursement of external assistance and an increase in international oil prices, which make it necessary to accumulate reserves in the form of government deposits with the banking sector as

[1] The reforms envisaged in the context of the initial budget for 2016 included: (i) extending the tax base for income tax; (ii) increasing the VAT rate to 5 percent for previously exempted staples; (iii) modifying the payment procedures for the property tax through an auto-filled return; (iv) strengthening tax and customs controls, including on oil, mining, and forestry activities; (v) improving VAT collection: (vi) introducing special taxes on tobaccos and transport activities: (vii) implementing an integrated computerized system connecting the customs offices in Doula and Bangui; and (viii) strengthening controls on tax and customs exemptions.

[2] In this context, we will use the exceptional advance from BEAC (CFAF 9.24 billion) only as a bridge loan to offset delays in disbursement of budget support. Also, the Saudi loan will be used to finance social projects. It will not fill a residual financing gap.

an insurance against such risks. Notwithstanding this safeguard mechanism, we are prepared to take additional measures (on the revenue and expenditure sides) in the event of shocks and insufficient levels of reserves.

13. **The revised budget for 2016 is in line with the medium-term strategy of restoring fiscal sustainability.** Consequently, the domestic primary deficit is projected at 3.3 percent of GDP. We will adopt a supplementary budget (***structural benchmark for end-August 2016***), which will contain a series of additional measures to increase revenues by the equivalent of 0.2 percent of GDP and accumulate government deposits equivalent to 0.5 percent of GDP. The latter should reach 1.5 percent of GDP by 2019. These measures include: (i) a new price structure for oil products based on Platts international prices (***structural benchmark for end-July 2016***),[3] yielding CFAF 1.5 billion over the last three months of 2016; (ii) transition to a list of reference prices for exported forest species based on global price trends and enhanced control over transportation cost structures to ensure adequate domestic valuation and effective collection of taxes and concession fees (expected to yield CFAF0.3 billion); and (iii) strict application of the banking agreement on revenue collection to ensure traceability, with an absolute prohibition on automated debiting and offsetting and the requirement for immediate payment into the government's current account with the central bank (CFAF 0.4 billion).

14. **The prices of petroleum products will be regularly revised to safeguard the revenue objectives.** January 1, 2017, we will implement a pass-through policy of international prices to domestic prices at the pump in order to safeguard projected fiscal revenues. Moreover, we plan to request technical assistance to continue the work on simplifying this new price structure, including eliminating the many earmarked revenues. This policy will be accompanied by social programs under preparation to protect the vulnerable segments of the population, including subsidized prices for households using cooking and heating oil, and vouchers for transportation for workers earning small wages.

15. **Total spending should be kept below a ceiling of 17.1 percent of GDP.** In this context, the wage bill is projected to be at 5.3 of GDP, or 0.7 percentage point lower than in 2015. For 2016, the cost of new recruitments in the social and priority sectors (CFAF 1.2 billion) is expected to be offset by the gains achieved through the ongoing cleaning up of the roster (CFAF roster (CFAF 100 million) the timely retirement of eligible civil servants (CFAF 150 million), the gradual elimination of non-regular civil servants (CFAF 150 million), and the repatriation of diplomats whose missions are ending in 2016 (CFAF 60 million) through the provision of airline tickets **(*structural benchmark for end-December 2016*).** These net gains, combined with improvements in revenue collection, will make it possible to increase priority spending on goods and services, transfers and subsidies (to 4.7 percent of GDP) and domestically-financed capital spending (to 1.8 percent of GDP). The revised budget slightly increases the settlement of

[3] Platts is an important source of reference price valuations for the major commodity markets (energy, metals, agriculture and petrochemicals).

domestic payments arrears (0.5 percent of GDP), the financing of which will be covered by the additional revenues generated by the new measures.

16. **To manage the government's cash flow and make it more secure and to gradually expand the scope of the Treasury, we will continue to implement strict cash flow management** in order to align available resources with priority spending, ensure sound execution of the cash flow management plan, and avoid the accumulation of payments arrears. In this context, we have prepared a monthly cash flow plan for 2016 and 2017 to reflect the domestic primary balance objective. Its implementation will be tracked by the Treasury Committee, which will continue to meet monthly under the chairmanship of the Minister of Finance and Budget.

17. **We will continue to improve revenue mobilization in the medium term.** With fiscal revenues standing at just 7.1 percent of GDP in 2015, we are aware that the public finance situation is not sustainable since revenues remain insufficient to cover our primary spending and debt service needs. The government will therefore implement the measures included in the action plan that was prepared in early 2016 with the help of the IMF and validated by the government, with the aim of increasing domestic revenues to 8.1 percent of GDP in 2016 and 10.1 percent of GDP in 2019. These reforms focus on:

- **Expansion of the tax base and simplification of procedures.** The measures will focus on better management of the VAT, prohibition on offsetting unpaid VAT credits against other taxes owing, an improvement in the bases for the valuation of exports, a strengthening of controls and monitoring, particularly of the wood and diamond sectors, simplification of procedures and a reduction in para-fiscal levies.

- **Improvement of tax and customs administration**. In this area, the key elements of the reform will focus on the introduction of the auto-filled return for the property tax, the revision of agreements that include tax concessions, the harmonization of the General Tax Code through the implementation of the CAEMC directives on the VAT and excise duties, stricter monitoring of the IGU, enhanced management of the tax operations of large taxpayers, the introduction of corporate citizen status, the collection of arrears, and closer relations between taxpayers and the government. In addition to these efforts, we will begin integrated computerization of the customs and tax networks, beginning with the Beloko customs bureau and establish the IT connection between the Douala and Bangui offices.

- **Streamlining and better management of exemptions**. This involves strict application of the laws and regulations in effect, the establishment of criteria for the granting of exemptions, and a review of all existing agreements.

18. **There are numerous challenges associated with improving public finance management.** We are committed to: (i) fiscal discipline; (ii) the restoration and normalization of the expenditure cycle; (iii) continued efforts to control the wage bill; and (iv) the implementation

of the accounting function. The government plans to improve fiscal governance through a return to normal budgetary procedures. To respond to these challenges, the government has begun implementing the action plan that was prepared in early 2016 with the help of the IMF and validated by the government to re-launch the public finance management system and establish the bases for a simple robust management of the government's resources and loans. In this context, preparatory measures have been taken, including assumption of commitments in the 2016 budget, restoration of the interconnections in the integrated budget and accounting management system (GESCO), and development of the draft nomenclature for the supporting documentation governing interactions between the payment authorization officers and the accountants, which has been submitted to the Minister of Finance and Budget for validation.

19. **The government intends to continue and accelerate the implementation of this plan with technical assistance from the IMF and other partners.** The plan includes several measures, some of which are very short term, to improve and modernize public finance management. The measures, covering the period 2016-18, are organized around four priority objectives: (i) to manage the government's cash flow and safeguard it so as to gradually extend the scope of the Treasury; (ii) to restore and normalize budgetary management in order to gradually decrease the use of exceptional spending procedures to 5 percent of expenditures; (iii) to restore the accuracy of the entire general budget and the specific budgets; and (iv) to restore the credibility of the government by combating fraud and restoring creditor confidence. More specifically, these measures are as follows:

- Implement the medium-term action plans on revenue during 2016-2018;
- Strengthen revenue administration and tax policy during 2016-2018 with support from the Fund;
- Improve treasury management in 2016 through the strengthening of the central accounting and treasury agency in 2016;
- Extend the scope of the Treasury to strengthen the treasury single account while preserving the stability of the banking system during 2016;
- Improve the execution of the treasury plan to cover priority funding and avoid accumulation of new arrears during 2016;
- Implement normal budget procedures in 2016;
- Take the administrative steps to ensure that the 2017 budget is prepared in a timely fashion in 2016;
- Adhere to the 5 percent limit regarding exceptional spending;

- Complete during the current year the 2015 accounts and regularize the 2016 accounting operations conducted so far;

- Extend the accounting operations to produce in 2017 a central government balance for the general budget for 2017 and budget annexes in 2018;

- Enhance throughout the program period government transparency and ensure that the "comité des sages" acts in lieu of the national committee against corruption which is inactive;

- Strengthen budget control institutions starting in 2016 through measures to improve the efficiency of the unit in charge of finance inspection;

- Reform before the end of the program the legal framework to fight against corruption

20. **The following are the main actions in this program of action:**

- **To restore accounting accuracy**, the government plans to complete the posting of accounting entries under way in the GESCO system for purposes of producing the 2015 financial statements, as well as the entries for the first four months of 2016, by July 31, 2016. The government commits to systematically post entries starting on June 1, 2016. As of this date, the GESCO account balances and the trial balances will be produced every month and shared with the IMF staff. The government intends to adopt the nomenclature for the supporting documentation and the procedures manual for revenue and expenditure execution by July 15, 2016.

- **In the medium term, the government plans to:** (i) improve cash flow management and make it more secure by expanding its coverage to include all government operations and bank accounts in commercial banks; (ii) restore the expenditure cycle; (iii) respect the strict limits on recourse to exceptional procedures (budgetary payment orders and cash payment orders) to a maximum of 5 percent of total expenditure excluding wages and debt service; and (iv) restore normal budget expenditure procedures (*commitment / validation / payment authorization / payment*).

- Upon completion of the comprehensive survey (under way) of government accounts opened with commercial banks, we plan to adopt a ministerial decision identifying all government accounts and their contents (***structural benchmark for end-August 2016)*** as it will facilitate the establishment of a consolidated Single Treasury Account. This involves a restructuring of the government's bank accounts. Opening of new government bank accounts will therefore be suspended, with the exception of project accounts (***structural benchmark for end-July 2016***). We also plan to close all government bank accounts with the commercial banks that are managed outside the government's centralized cash flow management system, with the exception of project accounts (***structural benchmark for end-March 2017***). In the medium term, after an impact study on the transfer of the main government accounts opened with the commercial banks, we plan to gradually continue the consolidation of these accounts in the Single Treasury Account at the central bank.

- The ACCT will undertake an information campaign to explain this reform to government accountants and payment authorization officers. It will produce a monthly report on all identified breaches of the prohibition on automated debiting by banks from the revenue accounts. Moreover, it will have guaranteed access to information and statements on all Treasury accounts with the commercial banks.

C. Management of Domestic Payments Arrears

21. **The clearance of domestic payments arrears is key to our fiscal consolidation program and the restoration of creditor confidence.** The outstanding stock at end-May 2016 is CFAF 157 billion. It comprises: (i) arrears to the BEAC for an amount of CFAF 22.4 billion following the April 2016 agreement on the consolidation of liabilities and unpaid loans and arrears; (ii) claims of commercial banks on the government (estimated at CFAF 2.6 billion). The audit of these claims is under way (financed by the European Union) and will make it possible to establish a strategy for clearing those arrears starting in 2017. In cooperation with IMF staff, we plan to explore the possibility of securitization of these bank claims. The other components of the domestic arrears include commercial, social and cross-debts for a cumulative amount of CFAF 132 billion. We also plan to complete the audit of these debts by end-June 2017. Once these audits have been completed and the claims validated, we will define transparent criteria and terms and conditions for their clearance. We will adopt a plan for the settlement of validated domestic payments arrears by July 2017 at the latest (***structural benchmark for end-June 2017***). We also plan to review the VAT credits in order to prepare a payment plan and eliminate all recourse to offsetting. In the immediate future, priority will be given to commercial and wage and pension arrears dating back to 2013–14 (amounting to CFAF 13.2 billion),[4] and which will be cleared in 2016 and 2017, respectively.

D. External Debt management and Sustainability

22. **We will consolidate debt management.** The external debt sustainability analysis classifies C.A.R. as a country at high risk of debt distress. This classification is based on the collapse of GDP, tax revenues and exports and, to a lesser extent, on the increase in external borrowing. Furthermore, as a result of the crisis, we have accumulated external payment arrears vis-a-vis bilateral non Paris Club creditors in the context of the 2009 non-representative Paris Club agreement. At end-May 2016, C.A.R. owes US$ 100.9 million to Argentina, Equatorial Guinea, India, Iraq, Libya, and Montenegro. We also accumulated in arrears vis-a-vis some French private entities and we are continuing to make good faith efforts to reach a collaborative agreement with them. Moreover, the accumulation of domestic payments arrears has contributed to a rise in the level of domestic debt. Given this situation, the government will seek

[4] Salary arrears include the months of November and December 2013. Pension arrears cover the second and third quarters of 2015.

to mobilize financing primarily in the form of grants and, in consultation with Fund staff, new highly concessional loans with a grant element of 50 percent.

23. **We will continue our efforts to improve public debt management.** We will install a new debt management and analysis software, SYGADE 6.0. We will also be stricter in ensuring that all new financing results exclusively from a decision of the Minister of Finance. This provision will be included in the supplementary budget for 2016.

E. Banking and Financial Sector Reforms

24. **The banking sector should better contribute to the economic recovery through increased financial intermediation.** We will aim to reduce the banking system weaknesses so that it plays its proper role in supporting economic growth. On the basis of the recommendations of a seminar organized in June 2015, the National Credit Council approved a series of measures in March 2016 that intend to remedy the weaknesses of the banking sector. Based on these recommendations, we will: (i) explain the government's medium-term strategy to enhance the country's economic profile, which will help economic agents; (ii) organize training seminars to increase banks', businesses' and the general public's knowledge of the financial sector, including the various savings, credit and micro financing instruments; (iii) protect the integrity of the banking system and monitor risk management and lending practices in order to deal with potential risks; in this context, we will ask COBAC to send a banking supervision mission given that the most recent mission dates back to 2012; (iv) create an action plan for the establishment of commercial and property registries; and (v) authorize more banks to engage in mobile banking activities. To improve credit supply, in accordance with community procedures, actions will focus on examining ways to establish a credit bureau to reduce the information asymmetry and support small and medium-sized enterprises and commercial banks. The authorities are requesting technical assistance in this area. Finally, with the help of donors, we will examine the conditions for and feasibility of creating a Guarantee Fund to encourage the financing of small and medium-sized enterprises.

F. Development Strategy and Structural Reforms

25. **The C.A.R.'s main challenge is to create the conditions for sustainable and inclusive growth in order to reduce poverty.** This challenge first involves restoring peace and security throughout the national territory, and then creating the environment necessary for expanding the private sector, particularly in agriculture, which will be the cornerstone of our recovery strategy. To this end, we must overcome the major constraints related to the shortage of energy and basic infrastructure, the high cost of transportation owing to the C.A.R.'s landlocked status, and the limited access to credit. Overall, our medium-term strategy focuses on the following activity sectors:

- Developing food, cash and export crops.
- Promoting agro-forestry and downstream operations to create value added and jobs.

- Developing mining activities in a formalized context to make these activities more attractive to large operators.
- Repairing and restoring highways, rural roads, dry ports and provincial airports.
- Expanding transportation and telecommunications infrastructure.
- Developing energy capacities.

26. **We will undertake structural and institutional reforms to promote the development of the private sector.** These reforms, which are aimed at improving the business climate, will focus on the modernizing and updating the legal framework in key economic sectors. To this end, the government intends to implement the Joint Business Improvement Framework (CMAA) to promote and enhance the government-private sector dialogue. Two laws are in preparation to revitalize telecommunications activities. In the same spirit, we will update the investment charter, the mining code, the telecommunications code and the regulations in effect in the forestry sector. A one-stop shop will be established to facilitate administrative procedures for investors.

27. **We are determined to enhance good governance and to ensure better use of public resources.** In this context, the government will strictly apply the law requiring any individual appointed to the position of minister to submit an asset disclosure within 60 days of taking office (***structural benchmark for end-July 2016***). The government will consider extending the asset disclosure to the immediate family members, however this will require legislative changes. Moreover, we intend to create a special commission (*comité des sages*) to establish the conditions for the implementation of a coherent anticorruption framework in line with existing international practices.

G. Social Policy

28. **Our social policy is aimed at enhancing the resilience of the population. It is based on an improvement in civil protection, the restoration and reorganization of the government throughout the national territory and the re-launching of activities in the essential social sectors.** Specific objective of this policy are:

- Assistance to internally displaced persons and refugees to ensure the effective resumption of socioeconomic activities throughout the national territory.
- The restoration of social cohesion and reduction of tensions in the community to support the local economic recovery and the creation of temporary jobs, primarily for young people.
- The reorganization and redeployment of the government throughout the national territory to support the economic recovery.
- Access to safe drinking water, sanitation and hygiene.

- The rehabilitation of the education sector to ensure full education coverage and complete high-quality education, including access to all levels for all children of both genders, regardless of where they live.

- New impetus to the health care system, including the strengthening of the fight against HIV/AIDS.

29. **The international partners have an important role to play in the achievement of our economic recovery and development strategy.** The institutional framework in place implies full participation of the donors. We plan to continue coordination in this context to strengthen ownership of our program and improve financial governance.

CAPACITY BUILDING AND TECHNICAL ASSISTANCE

30. **Technical assistance (TA) and training will be vital in the coming years to build our institutional capacities.** To ensure the successful implementation of the program, we would like to receive technical assistance that focuses on the collection of domestic revenues (VAT, management of exemptions, better performance of the tax and customs administration, reform of taxation in the key sectors of forestry, mining and telecommunications), improved cash flow management and enhancement of the operation of the public finance management system (manage the government's cash flow and make it more secure, restore and normalize fiscal management, restore accounting accuracy and the government's credit), improve public debt management, produce macroeconomic statistics, reform the civil service by means of qualitative management of staff, and rebuild administrative and macro-fiscal capacities. To implement this TA, we plan to conclude a memorandum of understanding with the IMF with a view to involving the IMF's pilot Capacity Development Framework. [5]In this context, we commit to improve capacity and make the best use of the TA that will be provided by development partners and the Fund. We are also committing to train staff in place and hire young qualified staff if possible.

PROGRAM MONITORING

31. **Performance under the program will be monitored using quantitative performance indicators, indicative benchmarks and structural benchmarks.** Performance criteria have been established for end-August 2016, end-December 2016 and end-June 2017, along with structural benchmarks for end-March 2017 (Table 1). The structural benchmarks are described in Table 2. The first program review will be completed by end-November 2016 and will cover the results through end-August 2016. The second program review should be concluded by March 2017 and cover the results through end-December 2016.

32. **Program execution will be subject to regular monitoring.** At the political level, the program will be monitored by the staff of the Office of the President of the Republic, the Prime Minister, the Ministry of Finance and Budget, and the BEAC. Technically, the program will be

[5] The MoU will be signed once the details of the IMF pilot project are finalized.

implemented by the Economic Reform Monitoring Committee (CS-REF), a unit under the authority of the Minister of Finance and Budget that includes representatives of the various ministries involved in economic and financial affairs.

33. **Throughout the duration of the program, the government commits to not introduce or intensify restrictions on payments and transfers related to current international transactions, nor to introduce multiple exchange rate practices, engage in bilateral agreements not consistent with the Article VIII of the Articles of Agreement, impose or broaden imports restrictions to influence the balance of payments.** In addition, the government commits to adopt, in consultation with Fund staff, any new measures, financial or structural, that may prove necessary to ensure the success of the program.

Table 1. Central African Republic: Performance Criteria (PC) and Indicative Targets, 2015–17

(CFAF billion; cumulative from beginning of the year)

	End-December 2015	August 31, 2016	End-December 2016	End-March 2017	End-June 2017
	Stock	PC	PC	Indicative targets	PC
Quantitative performance criteria					
Domestic government financing (ceiling, cumulative flows for the year)	186.0	4.5	3.2	-1.7	-2.5
Domestic revenue (floor, cumulative for the year) [1]		51.0	84.7	25.0	50.1
Domestic primary deficit (ceiling, cumulative for the year)[2]		-19.9	-34.7	-7.2	-13.7
Reduction in domestic payments arrears (floor, cumulative for the year)[3]		-3.7	-5.6	-2.0	-4.0
Continuous performance criteria					
Contracting or guaranteeing of new external non concessional debt (ceiling) [3, 4]		0	0	0	0
Non accumulation of external payments arrears (ceiling, cumulative for the year)[4]		0	0	0	0
Indicative targets					
Social spending (floor, cumulative for the year)		3.3	5.0	1.5	3.0
Memorandum item:					
New concessional/external debt contracted or guaranteed by the government		6.0	6.0	3.0	6.0

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

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

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

[3] These objectives will be monitored continuously.

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

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

Measures	Timeline	Macroeconomic Rationale	Status
Adoption of ministerial decision to cease the creation of new government bank accounts.	End July 2016	Improve public financial management.	
Presentation to parliament by the government of a revised budget for 2016 consistent with the program.	End August 2016	Improve accountability	
Adoption of a ministerial decision identifying all government accounts and their contents.	End August 2016	Improve public financial management	
Adoption of an inter-ministerial decision basing the price structure for domestic petroleum products on Platts international prices.	End July 2016	Improve revenue collection	
Require assets disclosures by cabinet members in compliance with existing legal requirements.	End July 2016	Improve governance.	
Provision by the Ministry of Foreign Affairs of airline transportation tickets to all diplomats when assignments have ended to facilitate their repatriation.	End-December 2016	Rationalize the wage bill.	
Consolidate the TSA by closing non-donors and non essential government's accounts opened in Commercial Banks.	End March 2017	Improve public financial management	
Adoption by the minister of finance of a domestic payment arrears clearance plan.	End June 2017	Improve public financial management and debt management	

Attachment II.
2016 Technical Memorandum of Understanding

INTRODUCTION

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

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

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

Program Assumptions

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

CFAF/US$: 585
CFAF/euro: 656
CFAF/SDR: 815

Definitions

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

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

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

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

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

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

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

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

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

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

7. **Concessional debt.** A debt is considered concessional if its grant element is at least 50 percent. The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value. The present value of the debt at

the date on which it is contracted is calculated by discounting the debt service payments at the time of the contracting of the debt. The discount rate used for this purpose is 5 percent.

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

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

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

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

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

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

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

Quantitative Targets

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

- Ceiling on domestic budgetary financing to the government.

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

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

Floor for total domestic government revenue.

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

Floor for government social spending.

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

Ceiling on domestic primary deficit.

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

Floor on reduction of domestic payments arrears.

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

Non-Accumulation of External Debt Contracted or Guaranteed by the Government.

- **The government undertakes not to contract or guarantee non-concessional debt**. Loans for financing projects must not exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staff of the World Bank and the IMF.

Non-Accumulation of New External Payment Arrears by the Government.

- **External payment arrears** are defined in paragraph 12.

- **The government undertakes not to accumulate external payment arrears,** with the exception of arrears relating to debt that is the subject of renegotiation or rescheduling. This quantitative performance criterion applies on a continuous basis.

Non-Accumulation of New Domestic Payment Arrears by the Government.

- **Domestic payment arrears** are defined in paragraph 13.

- **The government undertakes not to accumulate domestic payment arrears.** This quantitative performance criterion applies on a continuous basis.

Adjusters of Quantitative Targets

- To take into account the factors or changes that are essentially outside the government's performance, various quantitative targets for 2016 will be adjusted as follows:

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

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

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

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

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

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

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

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

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

Structural Benchmarks

15. **Adoption of a decision ending the practice of opening new bank accounts in commercial banks on behalf of the government, except accounts for projects covered by an agreement with donors.**

- A decision will have to be reached to end the practice of opening new bank accounts in commercial banks on behalf of the government, except accounts for projects covered by an agreement with donors. This decision will strengthen and consolidate public finances.

Submission of a 2016 Supplementary Budget to the National Assembly.

- The 2016 supplementary budget will have to be submitted to the National Assembly. This will help return public financial management to normal.

Adoption of a Decision by the Ministry of Finance Identifying all Government accounts and their Contents.

- A decision will have to be reached to identify all government accounts and their contents in commercial banks in order to secure and enhance management of the Treasury Single Account.

Adoption of a decree basing the price structure for national petroleum products on international Platts prices.

- A decision will have to be reached to base the price structure for national petroleum products on international Platts prices to increase transparency in the price structure and boost domestic revenue.

Reporting of assets by ministers in accordance with the legal provisions in force.

- The implementation of these legal provisions aims to increase transparency and good governance.

Repatriation of diplomats at the end of their mission.

- Diplomats will have to be repatriated to C.A.R. upon the conclusion of their mission abroad to limit public spending.

Consolidation of the Treasury Single Account by closing accounts that do not belong to donors and non-essential government accounts open in commercial banks.

- A decision will have to be made to close government bank accounts open in commercial banks and managed outside the government's centralized cash flow management system, with the exception of accounts for projects, and to consolidate the Treasury Single Account.

Adoption by the Minister of Finance of a Domestic Arrears Clearance Plan

- A domestic arrears clearance plan will have to be adopted to rebuild the government's credibility by restoring creditor confidence.

Reporting to the IMF

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

Table III: Central African Republic: Reporting to the IMF as part of financing under the ECF arrangement

Description of data	Deadline
Bi-annual report evaluating quantitative indicators and structural measures (tables 11 and 12 of MEFP), with supporting documents	Within four weeks of the end of each quarter.
Monetary position, monthly central bank and commercial bank accounts	Within four weeks of the end of each month.
Monthly cash flow operations table	Within ten days of the end of each month.
Government financial operations table	Within four weeks of the end of each month.
Total monthly amount of domestic payment arrears on goods and services and on wages, including unpaid pensions and bonuses	Within four weeks of the end of each month.
External debt stock at end of period	Within four weeks of the end of each month.
Breakdown of expenditures listed in TOFE (goods and services, wages, interest, etc.)	Within four weeks of the end of each month.
Summary table of actual expenditures in priority areas, such as health, education, and security	Within four weeks of the end of each quarter.
Breakdown of current expenditure and capital disbursements, financed with own and external resources	Within four weeks of the end of each quarter.
Breakdown of revenues by institution and economic classification	Within four weeks of the end of each quarter.
Revenues and expenditures recognized against one another without a cash settlement (by expenditure and revenue type)	Within four weeks of the end of each quarter.
Breakdown of debt service and external arrears, particularly by interest and principal, and by main creditor	Within four weeks of the end of each month.
Amount of new non-concessional and concessional external debt contracted by the government	Within four weeks of the end of each month.
Actual disbursements for projects and programs receiving foreign financial assistance and relief of external debt granted by external creditors (including the date, amount, and creditor)	Within four weeks of the end of each month.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

July 8, 2016

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

CONTENTS

RELATIONS WITH THE FUND

(As of May 31, 2016)

Membership Status: Joined: 07/10/1963. C.A.R. is an Article VIII member of the Fund.

General Resources Account:	SDR million	% Quota
Quota	111.40	100.00
IMF's Holdings of Currency (Holdings Rate)	111.01	99.65
Reserve Tranche Position	0.41	0.36

SDR Department:	SDR million	% Allocation
Net cumulative allocation	53.37	100.00
Holdings	0.08	0.15

Outstanding Purchases and Loans:	SDR million	% Quota
RCF Loans	22.28	20.00
ECF Arrangements	46.21	41.48

Latest Financial Arrangements:

Type	Arrangement Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
ECF	Jun. 25, 2012	May 01, 2014	41.78	6.96
ECF (formerly PRGF)	Dec. 22, 2006	Sep. 02, 2010	69.62	69.62
ECF (formerly PRGF)	Jul. 20, 1998	Jan. 19, 2002	49.44	24.48

Overdue Obligations and Projected Payments to Fund:[13]

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	9.56	12.16	10.31	9.10	5.35
Charges/Interest	0.01	0.03	0.03	0.05	0.04
Total	9.58	12.19	10.34	9.15	5.39

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

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC Assistance	
Decision point date	September 2007
Assistance committed by all creditors (US$ million)[14]	578.00
Of which: IMF Assistance (US$ million)	26.77
(SDR equivalent in millions)	17.19
Completion point date	June 2009
II. Disbursement of IMF Assistance (SDR million)	
Assistance disbursed to the member	17.19
Interim assistance	6.59
Completion point balance	10.60
Additional disbursement of interest income[15]	0.90
Total disbursements	18.09

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[16]	4.02
Financed by: MDRI Trust	1.90
Remaining HIPC resources	2.13

II. Debt Relief by Facility (SDR Million)

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

Implementation of Catastrophe Containment and Relief (CCR): Not applicable

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

Safeguards Assessments

The Bank of the Central African State (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). Regional central banks are normally

[14] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.
[15] 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.
[16] 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.

subject to a safeguards assessment every four years. For the BEAC, governance challenges and control failures that emerged in 2009 led to close engagement subsequently through annual IMF monitoring of safeguards “rolling measures.” A safeguards staff visit to the BEAC conducted in April 2016 found that although the BEAC’s own Reform and Modernization Plan was nearing completion, the Fund’s two priority recommendations on governance-focused law reform and the transition to an internationally recognized financial reporting framework (IFRS) were outstanding. However, following the April visit, the BEAC Board mandated that the institution take steps to initiate work on the priority recommendations. Staff has now revised the road map for implementation with an envisaged conclusion of the law reform in early 2017 and adoption of IFRS beginning with the financial statements for 2018. Staff will maintain close engagement with the BEAC to monitor the implementation of the remaining safeguards measures going forward, and progress on the latter will remain a condition for new program requests and reviews for CEMAC member countries

Exchange Rate Arrangement

The C.A.R. participates in a currency union with five other members of the CEMAC and has no separate legal tender. The de facto exchange rate arrangement is a conventional peg; the CFA franc is officially pegged to the euro, the intervention currency, at a fixed rate of CFAF 655.957 per €1. On December 31, 2015, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 813.4. C.A.R. does not maintain any restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations

The C.A.R. is currently on the standard 24-month cycle for Article IV consultations for program countries. The last Article IV consultation was concluded on January 13, 2013.

Resident Representative

The Fund’s office in Bangui reopened in October 2007 (after being closed in September 2003). The Resident Representative, until end-February 2013, was Michel Bua. A new Resident Representative was recently appointed and expected to take his position in September 2016.

Table 1. Central African Republic: Fund Technical Assistance

Date	Department	Purpose
Sept. 09/Feb. 2010	AFRITAC	Assessment of customs administration/reform.
Nov. 2010	FAD/AFRITAC	Assessment of public financial management.
Jan. 2010	AFRITAC	National account statistics.
Feb. 2010	FAD	Tax administration reform strategy.
Feb./Oct. 2010	AFRITAC	Customs management and reform.
March 2010	AFRITAC	Debt management and arrears.
June 2010	STA	Balance of payments and IIP statistics.
June/July/Oct. 2010	AFRITAC	National account statistics.
Aug. 2010	AFRITAC	Follow-up on public financial management.
Nov. 2010	FAD	Revenue administration.
December 2010	AFRITAC/STA	Consumer price index.
Dec. 2011	FAD	Tax policy and fiscal reform.
Jan./July 2011	AFRITAC	Public accounting plan.
Feb. 2011	AFRITAC	Tax administration.
March 2011	AFRITAC/STA	Balance of payments statistics.
March/June/Oct. 2011	AFRITAC	National account statistics.
April 2011	AFRITAC	Customs administration and information system.
June 2011	AFRITAC	Treasury management and unified treasury account.
September 2011	AFRITAC/STA	Assist with implementation.
October 2011	AFRITAC	Customs management and reform.
January – March 2012	AFRITAC/FAD	Tax administration.
February – March 2012	AFRITAC/FAD	Support to the elaboration/stocktaking mission.
March 2012	AFRITAC/STA	National account statistics.
April 2012	AFRITAC/FAD	Tax administration.
May – June 2012	AFRITAC/FAD	Public financial management.
May – June 2012	AFRITAC/STA	National accounts.
June 2012	AFRITAC/FAD	Improving VAT operations/customs diagnostic mission.
July – August 2012	AFRITAC/FAD	Public financial management.
September 2012	AFRITAC/STA	National accounts.
October 2012	AFRITAC/FAD	Tax administration.
October 2012	FAD	Overall tax policy regime.
October 2012	FAD	Training strategy.
October – Nov. 2012	FAD	Customs STX visit 1 of 3.
December 2012	AFRITAC/STA	Summary of national accounts.
November 2014	AFRITAC/FAD	Public financial management.
January 2015	FAD	Strengthening fiscal & customs.
March 2015	AFRITAC/STA	National accounts statistics.
August – Sep. 2015	AFRITAC/MCM	Public debt management and liability management.
March 2016	AFRITAC/FAD	Tax administration.
March 2016	FAD	Capacity development.
March - April 2016	STA	National Accounts

JOINT BANK-FUND WORK PROGRAM

1. **The Fund and the World Bank C.A.R. teams worked closely during their recent visits to Bangui in May 2016.** At that time, both teams identified critical structural reforms in order to coordinate the two teams' work programs for the 2016–17.

2. **The newly elected government is focusing on addressing the key challenges facing the country**. This will include improving security, consolidating the peace and the reconciliation process, further rebuilding government institutions, strengthening economic management, and implementing reforms for a progressive exit from fragility.

3. **As a consequence of the 2013 crisis, the country is now assessed at high risk of external debt, compared with a moderate risk of debt distress in the last Article IV consultation in 2012**. This reflects the collapse in GDP, tax revenues and exports—rather than an increase in external debt. Large accumulation of domestic arrears also contributed to an increase in total public debt. Accordingly, the country's recourse if for grants only as the main source of external financing.

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

5. **The C.A.R. authorities requested a three-year arrangement under the ECF**. This will help them support of their medium-term economic reform program to cover the period 2016–18.

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

- **Domestic resources are scarce and insufficient to meet wage payments, key social outlays and external debt service**. This has led to a significant dependence on external aid which reached 27 percent of GDP in 2015 after a plateau of 43 percent of GDP in 2014. Rebuilding and modernizing the revenue administration, improving tax policy, and restoring normal budget processes are the cornerstone for the return to fiscal sustainability and to ensure that expenditures are well managed.

- **Improve public financial management (PFM) and the efficiency of public spending.** In this context, it will be essential to: (i) secure and strengthen treasury management by widening the coverage of treasury operations to all government operations and identifying all government accounts in commercial banks and move towards a reinforced single Treasury account; (ii) strengthen the recently established Central Accounting and Treasury Agency (ACCT; (iii) normalize the expenditure process and limit emergency spending procedures (budget and cash payment orders) to 5 percent of non-wage and debt-service expenditures; (iv) re-establish proper accounting practices for all government operations, including the general budget and budget annexes; and (v) re-establish the credibility of the state by fighting corruption and fraud and by re-gaining creditor confidence. At the same time, steps will be taken to improve the public investment framework to enhance project execution.

- **Social policies:** The overarching goals of the government are: (i) assisting the IDPs and refugees return to their lands and assets; (ii) reorganizing and redeploying public administration throughout the country; (iii) improving access to drinking water, sanitation, and hygiene; (iv) rehabilitating educational facilities to ensure full coverage and quality education at all levels to children of both sexes, across the country; and (v) revitalizing the health system, including strengthening the fight against HIV/AIDS.

- **Investment climate reform**: Structural reforms will focus on modernizing and updating the legal framework in the major economic sectors. Two bills aimed at boosting telecommunications activities are under preparation and are expected to be submitted to parliament early next year. The authorities are also updating the investment charter, the mining code, and forestry regulation. Furthermore, steps are taken to establish a one-stop shop for administrative procedures for investors Progress in strengthening the banking sector and in developing market instruments should contribute to more effective financial intermediation.

- **Infrastructure investment.** The lack of infrastructure and deficient public utilities, including electricity, water, and telecommunications, are a major drag on investment, growth, and development. Enhanced financial resource availability from domestic and external sources, on adequately concessional terms will be key to scaling up public investment.

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

- **Financial resource mobilization**: The Fund leads in providing technical assistance (TA) and recommendations for increased mobilization of domestic resources. The Bank and the Fund will continue to support comprehensive reforms of revenue administration. Increased revenue can also result from improved regulation of artisanal gold and diamond mining and new exploration permits.

- **PFM**: The Bank leads and is planning to further support the government with policy notes and policy dialogue in several areas, focusing, inter alia, on (i) monitoring socioeconomic developments, , conducting review and analytical works on inclusive growth and strengthening dialogue; and (ii) the governance agenda by taking an active role in the platform on PFM, and supporting implementation of key reforms in public procurement. The Fund (FAD and AFRITAC-Centre) is providing TA on progress with the implementation of the government's reform agenda, as outlined by the action plan prepared by FAD in March 2016 and which was globally endorsed by donors. In close collaboration, the Bank and the Fund support the implementation of this agenda, including also cash management, by continuously providing TA in various forms. The Bank is focusing its TA on programming, accounting, and oversight. The Bank will try to access Trust Funds to continue supporting PFM reforms. The efforts of our two institutions will be leveraged by the EU, the African Development Bank (AfDB), and France.

- **Social sector spending**: The Bank leads in monitoring the authorities' intervention in the social sectors and pro-poor policies. It will update data on poverty and better define social spending as the basis for monitoring the relevant benchmark of the Fund-supported ECF program.
- **Investment climate reform**: The World Bank Group, is assisting C.A.R. with private sector development and investment climate issues that affect private sector growth and access to finance. The focus will be to: (i) strengthen the investment climate by suggesting reforms aimed at facilitating investment and assisting the C.A.R. authorities in the design and implementation of those reforms; (ii) coordinate the work of development partners and local stakeholders to help improve the country's business environment; (iii) stimulate the private sector and improve the country's investment prospects by building institutional capacity in regulatory and trade bodies; and (iv) provide support to local financial intermediaries to help them develop products that respond to the needs of small and medium-size enterprises (SMEs). The AfDB is also putting emphasis on this area in its upcoming 2016–17 budgetary support operation and stands ready to step-up its involvement.
- **Infrastructure investment.** The Bank assists the authorities in project preparation and improving project implementation capacity. It also leads in advising the authorities in formulating realistic public investment programs and budgets, consistent with implementation constraints, domestic financing, and available donor assistance. **Debt management**: The Bank will assess, together with the AfDB, specific, well-defined infrastructure projects that cannot be financed on concessional, should they come up, and propose to the Fund, at the time of future program reviews, a possible course of action, consistent with safeguarding long-term debt sustainability. The Fund will monitor repayments of domestic payment arrears reduction. The debt department will continue to receive TA from the Fund, the Bank, and the AfDB. Bank and Fund staff have jointly prepared a full debt sustainability analysis (DSA). The Fund and the Bank will assist in strengthening debt management.

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

- The **Fund team** requests to be kept informed by the Bank of progress in the above macrocritical structural and sectoral reform areas and of major strategic decisions and programs on the macroeconomic and sectoral level. *Timing*: when milestones are reached (and at least semi-annually).
- The **Bank team** requests to be kept informed of the Fund's assessments of macroeconomic policies and prospects. *Timing*: in the context of program reviews, Article IV consultations, and other missions (and at least semi-annually).

- **Dissemination of technical assistance reports**: The authorities have committed to sharing technical assistance reports with relevant partners in the donor coordination framework (*CGAR-PRGF*).

The attached table lists the teams' separate and joint work programs during the period of July 2016–June 2017.

Table 1. Central African Republic: Joint Bank-Fund Work Program, 2016–17

Title	Products	Provisional timing of missions	Actual or Expected delivery date
	A. Mutual information on relevant work programs		
World Bank work program in the next 12 months	• **Implementation of the Health sector support Project** to increase use and improve the quality of health services in rural areas with special emphasis on maternal and child health.		June 2017
	• **Technical assistance on Operationalization of Fragility Assessment**		June 2017
	• **Supervision of the EFA/FTI Catalytic Fund Grant (FY09)**		March 2017
	• **Technical assistance on Mining sector**. Technical Assistance to develop the sector strategy in the mining sector.		June 2017
	• **Supervision of the Emergency Power Response Project**		October 2017
	• **Central African Republic REDD+ Readiness**		June 2017
	• **Supervision of the Agro-Pastoral Recovery Project (ERL)**		September 2017
	• **Emergency Food Crisis Response and Agriculture Relaunch Project** to protect and rebuild livelihoods, human capital, particularly of children, and to re-launch the productivity of the agriculture sector		March 2017
	• **Study on Agriculture and Agribusiness Sector Assessment** to start re-building knowledge in the agricultural sector of CAR through an assessment of the agricultural and agribusiness sector		January 2017
	• **Implementation of the Emergency Public Services Response Project** to re-establish an operational government payroll and related financial management systems.		December 2017
	• **Development Policy Loan**		June 2017
	• **Social Protection Assessment**		June 2017
	• **Supervision of the Emergency Urban Infrastructure Rehabilitation & Maintenance** to support the Government of Central African Republic (Go C.A.R.) to increase access to infrastructure and urban services in Bangui, the capital city.		September 2017
	• **Implementation of the LONDO Project** to provide temporary employment to vulnerable people throughout the entire territory of the country.		June 2017

Table 1. Central African Republic: Joint Bank-Fund Work Program, 2016–17 (continued)

Title	Products	Provisional timing of missions	Actual or Expected delivery date
	A. Mutual information on relevant work programs		
	• **Technical Assistance to Disarmament, Demobilization and Reintegration (DDR) Program in** C.A.R. to provide technical assistance to the Government and UN Multidimensional Integrated Stabilization Mission in C.A.R. in the design of community reintegration activities as part of the national Disarmament, Demobilization and Reintegration (DDR) program.		May 2017
	• **Technical Assistance on Urban Infrastructure**		June 2017
	• **Operation of Transport/Agriculture**		June 2017
	• **Technical Assistance on ICT Reforms**		June 2017
	• **Technical Assistance on Water Dialogue**		June 2017
IMF work program in the next 12 months	**Macroeconomic policy analysis and advice**		
	• 2016 Article IV consultation.	May 2016	July 2016
	• Negotiation new ECF arrangement.	March 2016	July 2016
	• First ECF review.	October 2016	November 2016
	Technical assistance programs (FAD, STA, AFRITAC-Center)		
	• Tax reform and revenue mobilization.	ongoing	ongoing
	• Public financial management.	ongoing	ongoing
	• Customs reform.		to be determined
	• National account statistics.	ongoing	ongoing
	• Consumer price indices.	ongoing	ongoing

Table 1. Central African Republic: Joint Bank-Fund Work Program, 2016–17 (concluded)

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

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

1. **Cooperation between the African Development Bank (the Bank) and the C.A.R. is described in the Interim Assistance Paper for the Transition 2014-2016, which defines the framework for approval of all the Bank's operations or activities in this country.** The general objective of this interim assistance from the Bank, approved by the Boards of Directors in conjunction with the operations portfolio restructuring in June 2014, was part of the international community's collective drive to support the political transition process in the C.A.R. The Bank's interim assistance revolves around two (2) intervention pillars: (i) *the rehabilitation of socio-economic and public service infrastructures* to improve the delivery of basic services to the population, particularly vulnerable groups in rural areas most affected by the conflict; and (ii) *the restoration of institutional capacities and promotion of good governance* with the specific short-term objective of helping to relaunch/redeploy the services of central and decentralized government so as to ensure the provision of essential basic services. The C.A.R. also benefits from the Bank's support in the area of regional integration as described in the Regional Integration Strategy Paper (RISP) for Central Africa, which revolves around two pillars: (a) *the development of regional infrastructures*; and (b) *institutional and human capacity building at the regional level.* The validity date for this latter strategy has just been extended to December 31, 2017.

2. **In the context of interim assistance to the transition in the C.A.R., portfolio restructuring first made it possible to maintain a portfolio of relevant projects valued at US$65.4 million**. Then, new funds amounting to US$73.3 million were made available to finance new operations. This new financing effectively facilitated the approval of two emergency budgetary support operations in 2014 (US$21 million) and 2015 (US$10.3 million), as well as two investment operations: (1) the support program for reconstruction of grassroots communities (PARCB) in 2015, the initial phase of which involves US$21 million; and (2) the water and sanitation sector sub-program for Bangui and four prefectures (GEF grant) in the amount of US$7.13 million. The intervention program in 2016 plans to grant budgetary support of US$14 million and supplemental financing for rural areas amounting to 4.5 million euros for the first water and sanitation sub-program that is now being implemented.

3. **In total, the Bank's portfolio of current operations in the C.A.R. now consists of nine projects, for a total commitment of about US$150 million** and an overall portfolio disbursement rate of 39.98%, primarily in the infrastructure sector (transportation, energy, water and sanitation) representing 70% of current commitments. With the normalization of the security and political situation, the Bank will intensify efforts to closely monitor the implementation of its operations with a view to improving the disbursement rate in particular.

4. **The Bank anticipates that the validity period for its interim assistance to the C.A.R will be extended to December 31, 2017, upon the conclusion of which a new four- to five-year cooperation framework will be proposed with the C.A.R. through a new Country Strategy Paper (2018–23).**

Table 1. Central African Republic: AfDB's Portfolio

(As of December 2015)

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

STATISTICAL ISSUES

(As of June 17, 2016)

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, particularly in the real sector.

National Accounts: There is a high degree of uncertainty attached to estimates of the level and growth rate of real GDP, including because estimates for informal sector activity are still based on a 1982 survey. Furthermore, developments in the subsistence agriculture sector, accounting for an estimated 30 percent of the economy, are not tracked well and would benefit from the development of source data through surveys. STA/AFC is providing technical assistance in national accounts to rebase series, but progress is hampered by low capacity and a weak statistical system.

Price statistics: The measurement of inflation is also subject to a high degree of uncertainty since the CPI is based on expenditure weights that are thirty years old. The index is highly skewed toward food items (70 percent), in particular basic foodstuff, and covers only a limited number of modern and service items. STA is providing technical assistance to update and rebalance the index. Price data collection is occasionally suspended for lack of resources at the national statistics institute.

Government finance statistics: Data provision is broadly satisfactory for surveillance purposes, although coverage is not complete. The main shortcomings relate to (i) expenditures financed by line ministries' and government agencies' own resources, which are estimated on the basis of respective revenue estimates, (ii) foreign-financed investment expenditures reported bi-annually by the Ministry of Planning, and (iii) domestic arrears accumulation. Budget accounting and Treasury procedures, and domestic debt statistics, continue to suffer from serious shortcomings, delays and omissions in reporting, which are addressed through various reforms. General government statistics are not available. The new GFS resident advisor in AFRITAC Central will focus on addressing these issues in the short-term as well as assisting the authorities to move toward the harmonized CEMAC TOFE based on *GFSM 2001* in the medium and long-terms.

Monetary statistics: Data provision is broadly satisfactory for surveillance purposes. Monetary statistics for the central bank and other depository corporations are compiled on a monthly basis in the format of standardized report forms (SRFs) and reported to STA by the BEAC with an average time lag of three months.

Financial sector surveillance: In March 2016, Central African Republic began reporting financial soundness indicators for deposit taking institutions to STA.

External sector statistics: A 2010 balance of payments statistics mission assisted the authorities in completing the standardized reporting forms used for reporting to STA.

A three-year Japan Administered Account for Selected Activities (JSA) funded Project designed to assist French-speaking African countries in strengthening the development and dissemination of external sector statistics according to international standards established in the *sixth edition of Balance of Payments and International Investment Position Manual (BPM6)* is scheduled to begin during FY 2017.
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)*. The country does not provide IIP data, due to a lack of capacity.

II. Data Standards and Quality

The country participates in Enhanced General Data Dissemination Standard (e-GDDS). However, most of its metadata, with the exception of the real sector and socio-demographic metadata, have not been updated since 2004. There are no Data ROSC.

Table 1. Central African Republic: Common Indicators Required for Surveillance

(As of June 17, 2016)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological soundness[9]	Data Quality – Accuracy and reliability[10]
Exchange Rates	Current	Current	D	D	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	April 2016	June 2016	M	M	M		
Reserve/Base Money	April 2016	June 2016	M	M	M		
Broad Money	April 2016	June 2016	M	M	M		
Central Bank Balance Sheet	April 2016	June 2016	M	M	M		
Consolidated Balance Sheet of the Banking System	April 2016	June 2016	M	M	M		
Interest Rates[2]	May 2016	May 2016	M	M	M		
Consumer Price Index	May 2016	June 2016	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	May 2016	June 2016	M	I	A		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	May 2016	June 2016	M	I	M		
External Current Account Balance	2015	May 2016	A	A	A		
Exports and Imports of Goods and Services	2015	May 2016	A	A	A		
GDP/GNP	2015	May 2016	A	A	A		
Gross External Debt	2015		A	I	A		
International Investment Position[6]	N/A	N/A	N/A	N/A	N/A		

Table 1. Central African Republic: Common Indicators Required for Surveillance (concluded)

(As of June 17, 2016)

[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).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] This reflects the assessment provided in the data ROSC or the Substantive Update (published on …, and based on the findings of the mission that took place during…) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

CENTRAL AFRICAN REPUBLIC

June 8, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By Michael Atingi-Ego (AFR) and Bob Traa (SPR) and John Panzer (IDA)

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

This debt sustainability analysis (DSA), conducted in the context of the joint IMF/IDA DSA debt sustainability framework for low-income countries, confirms that Central African Republic (C.A.R) continues to be assessed at high risk of external debt distress. Under the baseline scenarios, several external debt indicators at end-2015 breached the policy-related thresholds, mainly due to the slow recovery of exports and revenues resulting from continued insecurity. Large accumulation of domestic arrears has contributed to an increase in total public debt. The payment of domestic arrears will be informed by the ongoing audit of commercial, social, and cross-debt arrears. Public debt indicators under the baseline scenario have worsened compared with previous DSAs. The PV of debt-to-revenue ratio and the debt service to revenue ratio are projected to be much higher than the previous DSA, essentially driven by a collapse in domestic revenue and GDP. *In addition, this analysis shows that C.A.R.'s overall risk of debt distress is high because of significant vulnerabilities related to domestic debt. The country also has significant vulnerabilities to adverse shocks to GDP growth, exports, exchange rate and FDI flow which could breach the policy-related thresholds for all external debt indicators. Against this background, it remains critical for C.A.R. to broaden its growth base by consolidating domestic security, pursuing prudent fiscal and debt policies, including only highly concessional debt financing, and implementing structural policies to improve budget execution and creating conditions for private investment.*

BACKGROUND AND RECENT DEVELOPMENTS

1. **Following the 2012/2013 security and political conflict, the Central African Republic (C.A.R.) is confronted with lots of economic challenges.** With a significantly low level of domestic resource mobilization (6 percent of GDP, against 12 percent of GDP before the conflict), the economy is highly

dependent on external assistance and remains saddled with structural weaknesses that constrain an economic rebound which is crucial to tackle pervasive poverty and rebuild social cohesion.

2. **The exports recovery is slow.** In the first three quarters of 2015, economic recovery started gaining momentum due to the successful implementation of the economic emergency program by the transitional government and improved security. However, the renewed violence in late September 2015 put a halt on the recovery. Real GDP grew by 4.8 percent in 2015, against an initial target of 5.5 percent. The deterioration of security further squeezed C.A.R.'s main exports (diamond and timber). The Kimberley Process Certification Scheme (KPCS) still put an export ban on diamond exports, pending further progress in security and state control in that region. KCPS is conducting another mission to assess the situation and advise on the next steps in late 2016. Timber exports, are recovering slowly from a 38 percent decline in 2013, and remain far below their pre-crisis level.

3. **C.A.R is a weak policy performer for the purpose of determining the debt burden thresholds under the Debt Sustainability Framework.** C.A.R.'s average rating in the World Bank's Country Policy and Institutional Assessment (CPIA) during 2012-2014 is 2.55 on a scale of 1 to 6.

STRUCTURE OF DEBT[17]

4. **In 2015, C.A.R.'s total public debt to GDP ratio declined slightly from 2014, driven by the increase in nominal GDP (11.3 percent) in 2015.** At end-2015, C.A.R.'s public and publicly-guaranteed debt (PPG) stood at CFAF 454.3 billion (48.5 percent of GDP). The PPG-to-GDP ratio declined by 2.6 percentage points from 51.1 percent at end-2014. External debt amounted to 14.5 percent of GDP.

5. **C.A.R.'s external public debt remained stable in 2015.** At end-2015, C.A.R.'s public and publicly-guaranteed external (PPGE) debt stood at CFAF 135.5 billion (Text Table 1).[18] About 62.3 percent of C.A.R.'s outstanding PPGE debt is debt owed to bilateral creditors, with multilateral creditors accounting for the remainder. External debt was 29.8 percent of total debt. The ratio of PPGE debt to GDP is mainly driven by changes in GDP, rising to 14.5 percent in 2015, from 9.7 percent in 2012.

6. **External public borrowing has been limited in recent years.** Most of the increases in external public borrowing represent concessional/emergency loans from multilateral creditors such as the World Bank and the African Development Bank. External bilateral debt in percent of GDP fell to 9 percent in 2015 from 10.5 percent in 2014.as C.A.R. was not able to borrow due to its large technical arrears with bilateral creditors. The technical arrears are all pre-HIPC and Non-Paris Club debt arrears, (except for a small commercial amount owed to French companies). Under the Paris Club agreements, C.A.R. has committed to negotiate the Non-Paris Club debt under the same conditions granted by the Paris Club (a 100 percent write off of any existing debt). The government has been negotiating those terms with the Non-Paris Club creditors but the political crisis delayed these discussions. Since 2014, the government signed only one

[17] The debt (both external and public) covers only gross central government debt. Debt to IMF is included in the government's domestic debt as C.A.R. is part of the currency union.

[18] The authorities revised up the debt stock debt from 2009 (the year of HIPC initiative) based on more complete debt data. Since 2011, the stock of debt began to increase gradually due to disbursements on new agreements signed after the initiative. The rapid increase in stock between 2013 and 2014 is due to the rise in domestic arrears.

bilateral loan agreement with Saudi Arabia for CFAF 45 billion (denominated in Saudi riyad) in December 2015 with an interest of 1 percent per year, a maturity of 30 years and a grace period of 10 years. The loan will finance infrastructure projects and rehabilitation of schools and health facility.

7. **Domestic debt increased significantly since 2014, mainly due to rising arrears.** Domestic debt accounts for 70 percent of the total debt in 2015, of which more than half is domestic payments arrears. The end-2015 stock of outstanding arrears stands at CFAF 172 billion, of which CFAF 39 billion to BEAC[19], CFAF 30.3 billion in commercial debts, CFAF 80 billion in social debts, and CFAF 22 billion in cross-debt and other debts. The settlement of the audited arrears will be part of the medium-term strategy to reduce domestic debt.

Text Table 1. Central African Republic: Total Debt Stock, Central Government, 2012–15

	2012	2013	2014	2015	2015	2012	2013	2014	2015
	(CFAF billions)				(Percent of total)	(Percent of GDP)			
Total	260.5	289.1	430.6	454.3	100.0	23.5	38.5	51.1	48.5
External debt	107.8	109.2	125.2	135.5	29.8	9.7	14.6	14.9	14.5
Multilateral	24.7	24.9	36.9	51.1	11.2	2.2	3.3	4.4	5.5
Bilateral	83.1	84.3	88.3	84.4	18.6	7.5	11.2	10.5	9.0
Domestic debt [1]	152.7	179.9	305.4	318.8	70.2	13.8	24.0	36.3	34.0
Stock	131.0	156.8	136.0	146.9	32.3	11.8	20.9	16.2	15.7
Arrear	21.7	23.0	169.4	171.8	37.8	2.0	3.1	20.1	18.3

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

UNDERLYING DSA ASSUMPTIONS

8. **The baseline macroeconomic assumptions for this DSA have been updated based on developments in 2015, consistent with the macroeconomic framework underlying the proposed ECF arrangement.** In the short- to medium-term, the baseline scenario is anchored on two main assumptions, including improved political and security conditions and continued donor support. In this context, staff is projecting growth rates averaging 5.5 percent for the medium term as the rebound is expected to be progressive as the economic fabric has deteriorated over the years. Growth will be mainly driven by agriculture, trade, transportation and public investment. Nevertheless, this will only partly offset the sharp contraction in 2013. In the long run, growth rates are projected to remain around an average of 3.4 percent, about the same as in the previous DSA, reflecting the same assumptions on economic activities as previous DSA. In the fiscal area, the primary fiscal balance recorded a deficit of 3.4 percent of GDP in 2015, compared with a deficit of 3.0 percent of GDP projected in the 2015 DSA (Box 1). The main changes to the macroeconomic projections compared with the previous DSA in 2015 are an upward revision in the

[19] In 2016, the debt to BEAC was further consolidated to reach CFAF 55 bn.

external debt-to-GDP ratio, and a downward revision in both the primary fiscal deficit and overall fiscal balance. Also, the non-interest current account deficit is now lower than in the 2015 DSA (Text Table 2).

Box 1. Central African Republic: Macroeconomic Assumptions for 2016–35

Real GDP growth is expected to average 5.5 percent during 2016–18, Growth will be mainly driven by a rebound in agriculture, livestock, construction, and trade as well as the gradual resumption of mining (following the re-certification by the Kimberley Process Certification Scheme) and forestry activities. The lack of a significant rebound in economic activity that could be expected from a low base is attributable to the gradual weakening of the country's economic structure and the lack of infrastructure and energy. Therefore, CAR is projected to partially catch up from the contraction recorded during the 2013 crisis. The long-term growth rates are kept at 3.5 percent, similar to the previous DSA.

Average inflation is expected to stabilize over the medium term, with convergence to 3 percent in the long run, in line with CEMAC convergence criteria.

The primary fiscal balance is expected to steadily improve to reach an average of around 2 percent of GDP in the medium term, and then shift to about 1 percent of GDP over the long run (2035). Government revenue (including grants) is projected to reach 20.8 percent of GDP in the long run, and primary expenditures are expected to reach 21.8 percent of GDP in 2036, mainly on account of higher domestically-financed capital spending.

The non-interest current account deficit is projected to decline to 10.6 percent of GDP in 2016, and to decline gradually in the medium to long term. Exports are expected to pick up, resulting from the planned recovery of mining and forestry activities, both boosted by improved security conditions and the expected full lifting of the diamond export ban in the medium term. Nevertheless, exports in percent of GDP will remain broadly unchanged from their pre-conflict level due to the narrow export base. The relatively higher non-interest current deficit (compared with before-crisis years) during 2016–19 is partly due to the increase of investment-related imports.

External assistance: Grant-equivalent financing is about 4.9 percent of GDP in 2016 and is assumed at about 3.9 percent of GDP in the long run.

Text Table 2. Central African Republic: Changes in Macroeconomic Projections, 2015 and 2016 DSA

	May-16		Sep-15	
	2016	Aver. 2017-20	2016	Aver. 2017-20
	(Percent of GDP; unless otherwise indicated)			
GDP growth (percent)	5.2	5.7	5.7	5.3
CPI (annual average)	4.0	3.1	4.9	3.5
CPI (end of period)	4.0	3.1	2.5	3.4
Non-interest current account balance	10.1	9.0	9.6	7.0
Overall fiscal balance (excl. grants)	-9.0	-6.5	-8.1	-3.9
Overall fiscal balance (incl. grants)	-4.1	-2.3	-3.4	-1.5
Primary deficit	3.3	1.1	1.4	0.4
External debt	16.9	13.1	41.1	51.4

EXTERNAL DEBT SUSTAINABILITY RESULTS

9. **Under the baseline scenario, several external debt indicators breach the threshold.** The present value (PV) of debt-to-exports ratio is projected to stay above the policy threshold from 2020. The debt service-to-export ratio and the debt service-to-revenue ratio breaches the threshold in 2015. As was the case in the 2015 DSA, these outcomes reflect essentially C.A.R.'s narrow export base and the slow recovery of exports and government revenues. In contrast, the PV of debt-to-GDP ratio lies below the threshold in 2015 and is expected to maintain this position throughout the projection period (Figure 1 and Text Table 3). These results are broadly similar to those of the 2015 DSA. However, considering C.A.R. as a post-HIPC debt relief country and in view of its current fragile post-conflict situation, this DSA assumes that the authorities will strengthen their debt management capacities and continue to seek highly concessional financing. This, together with improved macroeconomic management, will lead to improvements in the debt service-to-exports, debt-service-to-revenues, and PV of debt-to revenue ratios in the long run.

10. **The current DSA results reaffirm the findings of the 2015 DSA, namely that C.A.R.'s risk of external debt distress is high**. In the most extreme scenario, all indicators breach the threshold. In particular, the PV of debt-to-exports ratio remains above the policy threshold under the extreme scenario for a significant period. And the PV of debt-to-revenue ratio stays above the policy threshold under the extreme scenario till 2025.

11. **Alternative scenarios and stress tests highlight the vulnerabilities already contained in this DSA.** The historical scenario includes the crisis years and the 2009 HIPC debt relief that reduced C.A.R.'s external debt vulnerability. Therefore, the historical scenario could not adequately reflect the baseline prospects for C.A.R. in the near future and long run. Under a scenario of combined adverse shocks on GDP growth, exports, exchange rate and FDI flow, three indicators worsen compared with the baseline scenario: (i) the PV of debt-to-GDP ratio worsens and breaches the threshold starting in

2016; (ii) the PV of debt-to-exports ratio breaches the threshold until 2036; and (iii) the PV of debt-to-revenue will also deteriorate and breach the threshold in the medium term and only decline in the long run. These results underscore the need to: (i) foster a sound macroeconomic environment that would promote growth, domestic revenue mobilization, facilitate an export recovery, and enable FDI inflows; (ii) continue the reform agenda in order to avoid the return to unsustainable debt levels observed before 2009; (iii) continue improving security.

12. **The bound test results suggest that C.A.R.'s slow recovery in exports is the most significant factor that contributes to its vulnerability of debt sustainability**. If export value growth is at historical average minus one standard deviation in 2016-17, the debt-to-exports ratio rises to above 100 in 2017 and stays significantly above the policy threshold for the entire test period.

Text Table 3. Central African Republic: Policy-Based Thresholds and External Debt Burden Indicators

		Baseline Scenario Ratios	
	Thresholds 1/	2015	2016-36 Peak
PV of PPG external debt in percent of			
GDP	30	12	14
Exports	100	95	100
Revenue	200	169	135
PPG external debt service in percent of			
Exports	15	24	10
Revenue	18	43	15

Sources: C.A.R. authorities; and IMF and World Bank estimates.
1/ Policy-based thresholds as defined in the LIC DSA framework for a weak policy performer based on the 3-year average CPIA score.

PUBLIC DEBT SUSTAINABILITY RESULTS

13. **Compared to the previous DSA, public debt indicators under the baseline scenario worsened.** In contrast to the previous DSA, the PV of public debt-to-GDP ratios are now projected to remain above the 38 percent benchmark throughout 2016–19, but is on a declining trend as macroeconomic conditions improve. The PV of public debt-to-GDP ratio and PV of debt-to-revenue ratio are projected to be much higher than the previous DSA in the medium term, reflecting a slower-than-projected recovery of government revenues (see Text Table 4). This reflected a lower-than-expected economic activity, associated with the continued insecurity, two inoperative regional tax and customs directorates, and imports consisting mainly of food products subject to low customs duties in 2015. In addition, the rapid accumulation of domestic arrears (16.3 percent of GDP from 2012 to 2015) increased vulnerabilities of the domestic debt. However, all indicators are going to improve in the medium term and long run in line with the improved security and macroeconomic situation.

Text Table 4. Central African Republic: Comparative Debt Ratios, 2015–19
(Percent)

	2015	2016	2017	2018	2019
			Proj.		
PV of debt to GDP ratio					
2015 DSA	42.8	37.5	45.1	43.2	42.1
New DSA	46.0	41.3	37.9	34.6	31.3
PV of debt to revenue ratio					
2015 DSA	337.9	267.8	260.8	268.9	221.3
New DSA	321.4	318.3	286.9	251.8	218.7
Debt service to revenue ratio					
2015 DSA	26.9	25.0	19.6	21.9	25.2
New DSA	25.8	15.2	10.3	11.3	11.3
Revenue and grants (in percent of GDP)					
2015 DSA	11.5	12.3	11.8	10.7	12.3
New DSA	14.3	13.0	13.2	13.7	14.3

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

14. **The alternative scenarios suggest that the baseline is very sensitive to the growth assumptions.** The most extreme shock—a one-standard deviation drop in the growth rate for 2016 and 2017—will substantially increase the public debt and keep C.A.R.'s PV of debt-to-GDP ratio above the benchmark throughout the entire period (Figure 2 and Table 2). The PV of debt-to-revenue ratio is also projected to rise under the most extreme shock, and debt service-to-revenue ratio will also increase significantly in the medium term.

15. **The public DSA analysis shows that C.A.R.'s overall risk of debt distress is high because of significant vulnerabilities related to domestic debt.** Public debt level is high mainly due to the presence of domestic arrears as a result of the GDP collapse from the 2013 crisis. The country continues to have significant vulnerabilities to adverse shocks to GDP growth. Staff and the authorities agree that maintaining domestic security is a priority to reduce the potential adverse shocks to growth and exports and therefore debt distress. Meanwhile, reforms should focus on enhancing revenue administration and public financial administration efforts and structural reforms to increase potential economic growth.

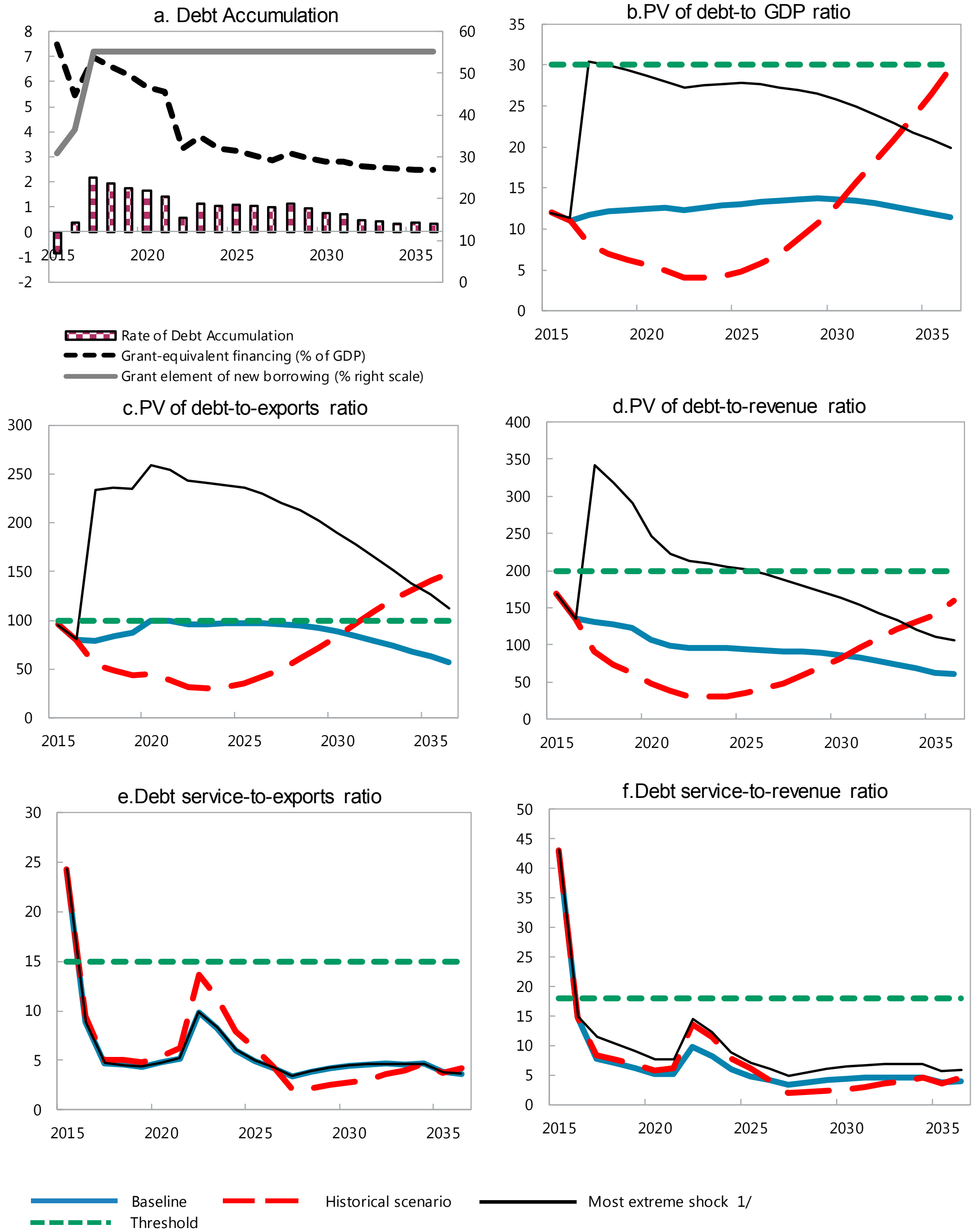
CONCLUSION

16. **As in the previous DSA, C.A.R.'s debt remains at high risk of distress.** The debt sustainability indicators have worsened. Although external debt-to-GDP ratio stays below the benchmark, almost all the external and public debt indicators deteriorate. In particular, the PV of external debt-to-exports ratio remains for a significant period well above the policy threshold under the extreme scenario.

17. **C.A.R. needs to consolidate the basis for growth by fostering domestic security, maintaining macroeconomic and political stability, and developing the country's institutional and administrative capacity.** As the public debt is highly vulnerable to slower GDP growth, structural policies that improve the business climate, boost productivity and diversify the export base would contribute to improving the debt rating.

18. **C.A.R. should pursue a debt strategy limited to grant and highly concessional financing.** The high-risk classification and the vulnerabilities evidenced by the alternative and stress test scenarios underline the importance of increasing exports from the traditional forestry and diamond sectors, while taking steps to widen the export base. At the same time, it is essential for C.A.R. to steadfastly strengthen macroeconomic stability and pursue fiscal reforms and through sound policies, step up domestic revenue mobilization, and restrain non priority expenditures. Meanwhile, it is critical for the authorities to intensify their efforts to substantially improve public debt management, with assistance from the Regional Technical Assistance Center for Central Africa, and push for funding and putting in place Version 6.0 of the Debt Management and Financial Analysis System (DMFAS) software. Also, more stringent procedures should be put in place to ensure that new financial commitments are undertaken only with the approval and signature of the minister of finance. Finally, to the maximum extent possible, C.A.R. should rely on grant financing, considering its fragile post-conflict situation. Beyond that, staff encourages the authorities to continue to seek maximum concessionality in their external financing.

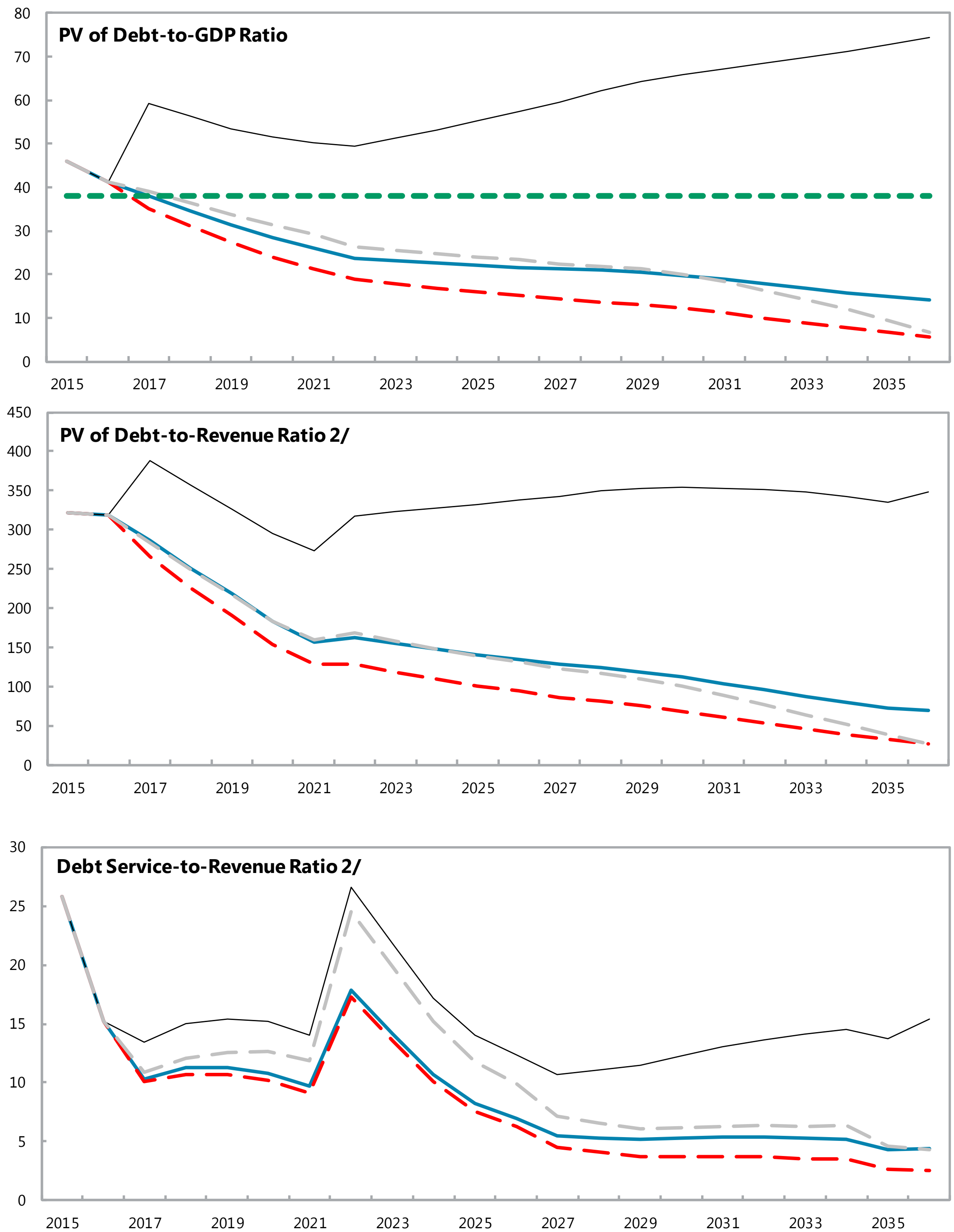
Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–36 [1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Growth shock and in figure f. to a Growth shock

Figure 2. Central African Republic: Indicators of Public Debt Under Alternative Scenarios, 2016–36 1/



1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

Table 1. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2012–36 1/

(Percent of GDP, unless otherwise indicated)

	Actual				Historical 6/	Standard 6/	Projections									
					Average	Deviation							2016-2021			2022-2036
	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Average	2025	2036	Average
External debt (nominal) 1/	**9.7**	**14.6**	**14.9**	**14.5**			**14.5**	**16.8**	**18.4**	**19.5**	**20.2**	**20.8**		**24.2**	**20.3**	
of which: public and publicly guaranteed (PPG)	9.7	14.6	14.9	14.5			14.5	16.8	18.4	19.5	20.2	20.8		24.2	20.3	
Change in external debt	1.2	4.8	0.3	-0.4			0.1	2.2	1.7	1.0	0.7	0.6		0.5	-0.7	
Identified net debt-creating flows	1.5	7.1	3.8	11.8			8.9	8.0	7.6	6.2	5.9	5.5		2.5	-2.9	
Non-interest current account deficit	**4.5**	**2.7**	**5.2**	**12.5**	**6.7**	**3.1**	**10.6**	**10.8**	**10.2**	**8.8**	**8.6**	**8.1**	**9.5**	**4.9**	**-0.4**	3.1
Deficit in balance of goods and services	11.4	10.5	24.5	22.4			19.8	18.8	18.1	16.5	15.9	15.1		11.2	4.0	
Exports	12.5	14.4	13.0	12.6			13.7	14.8	14.5	14.3	12.6	12.6		13.5	20.1	
Imports	23.9	25.0	37.6	35.0			33.5	33.7	32.6	30.8	28.5	27.6		24.7	24.1	
Net current transfers (negative = inflow)	-6.3	-7.1	-18.5	-9.2	-6.1	4.6	-8.6	-8.2	-7.7	-7.3	-6.9	-6.5	-7.5	-5.9	-4.0	-5.3
of which: official	-3.2	-4.7	-11.3	-2.5			-2.5	-2.6	-2.6	-2.6	-2.6	-2.5		-2.5	-1.9	
Other current account flows (negative = net inflow)	-0.7	-0.7	-0.8	-0.8			-0.6	0.1	-0.1	-0.4	-0.4	-0.4		-0.4	-0.4	
Net FDI (negative = inflow)	**-3.2**	**-0.1**	**-0.1**	**-0.3**	**-2.2**	**1.7**	**-1.6**	**-1.8**	**-1.8**	**-1.7**	**-1.7**	**-1.7**	**-1.7**	**-1.8**	**-2.0**	-2.1
Endogenous debt dynamics 2/	**0.2**	**4.5**	**-1.3**	**-0.4**			**-0.2**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-1.0**		**-0.6**	**-0.5**	
Contribution from nominal interest rate	0.1	0.3	0.3	0.4			0.5	-0.2	0.0	0.0	0.1	0.1		0.1	0.2	
Contribution from real GDP growth	-0.4	5.1	-0.1	-0.8			-0.7	-0.7	-0.9	-1.0	-1.0	-1.1		-0.7	-0.7	
Contribution from price and exchange rate changes	0.5	-0.9	-1.5	1.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-0.3**	**-2.3**	**-3.5**	**-12.2**			**-8.8**	**-5.8**	**-5.9**	**-5.1**	**-5.2**	**-4.9**		**-2.0**	**2.1**	
of which: exceptional financing	0.0	0.0	-0.8	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.0	12.0			11.0	11.7	12.1	12.4	12.5	12.6		13.1	11.5	
In percent of exports	...	...	99.9	95.3			80.3	79.0	83.8	86.7	98.8	99.9		97.1	57.0	
PV of PPG external debt	**...**	**...**	**13.0**	**12.0**			**11.0**	**11.7**	**12.1**	**12.4**	**12.5**	**12.6**		**13.1**	**11.5**	
In percent of exports	**...**	**...**	**99.9**	**95.3**			**80.3**	**79.0**	**83.8**	**86.7**	**98.8**	**99.9**		**97.1**	**57.0**	
In percent of government revenues	**...**	**...**	**265.1**	**168.8**			**135.3**	**131.5**	**128.3**	**122.5**	**107.0**	**99.8**		**94.6**	**61.6**	
Debt service-to-exports ratio (in percent)	**25.0**	**21.6**	**20.4**	**24.3**			**8.8**	**4.7**	**4.6**	**4.4**	**4.8**	**5.2**		**4.9**	**3.7**	
PPG debt service-to-exports ratio (in percent)	**25.0**	**21.6**	**20.4**	**24.3**			**8.8**	**4.7**	**4.6**	**4.4**	**4.8**	**5.2**		**4.9**	**3.7**	
PPG debt service-to-revenue ratio (in percent)	**27.2**	**55.4**	**54.0**	**43.1**			**14.9**	**7.8**	**7.0**	**6.2**	**5.1**	**5.2**		**4.8**	**4.0**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.1	0.1	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.2	-0.1	
Non-interest current account deficit that stabilizes debt ratio	3.3	-2.1	4.9	12.9			10.5	8.5	8.6	7.8	7.9	7.5		4.5	0.3	
Key macroeconomic assumptions																
Real GDP growth (in percent)	4.1	-36.7	1.0	4.8	-0.4	12.1	5.2	5.5	5.8	5.8	5.8	5.8	5.7	3.3	3.4	3.4
GDP deflator in US dollar terms (change in percent)	-5.0	10.5	11.2	-10.9	3.8	8.1	6.3	6.6	6.0	5.9	6.3	5.2	6.1	2.8	2.9	2.9
Effective interest rate (percent) 5/	1.7	2.5	2.7	2.3	1.8	0.8	4.0	-1.6	0.1	0.2	0.4	0.5	0.6	0.6	1.1	1.0
Growth of exports of G&S (US dollar terms, in percent)	-8.1	-19.1	1.3	-9.9	2.2	14.3	21.7	21.7	9.7	10.4	-0.5	10.9	12.3	8.2	13.7	9.8
Growth of imports of G&S (US dollar terms, in percent)	-3.2	-26.8	68.8	-13.0	9.6	24.4	7.0	13.0	8.6	6.1	4.1	7.9	7.8	3.8	7.3	5.4
Grant element of new public sector borrowing (in percent)	...	...	...	30.9	...	...	36.5	55.3	55.3	55.3	55.3	55.3	52.1	55.3	55.3	55.3
Government revenues (excluding grants, in percent of GDP)	11.5	5.6	4.9	7.1			8.1	8.9	9.5	10.1	11.6	12.6		13.8	18.6	15.6
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.2	0.1			0.1	0.2	0.2	0.2	0.2	0.2		0.2	0.2	
of which: Grants	0.1	0.0	0.2	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.0	0.0	0.0	0.0			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	7.5			5.4	7.0	6.6	6.2	5.8	5.6		3.2	2.5	2.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	93.1			84.6	76.5	78.0	79.1	79.1	80.3		74.9	84.0	78.2
Memorandum items:																
Nominal GDP (Billions of US dollars)	2.2	1.5	1.7	1.6			1.8	2.0	2.2	2.5	2.8	3.2		4.1	8.0	
Nominal dollar GDP growth	-1.1	-30.0	12.3	-6.6			11.8	12.4	12.2	12.1	12.5	11.3	12.1	6.3	6.4	6.4
PV of PPG external debt (in Billions of US dollars)			0.2	0.2			0.2	0.2	0.3	0.3	0.4	0.4		0.5	0.9	
(PVt-PVt-1)/GDPt-1 (in percent)				-0.9			0.4	2.2	1.9	1.8	1.7	1.4	1.6	1.1	0.3	0.7
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.1	12.0			11.0	11.7	12.2	12.4	12.5	12.6		13.1	11.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	103.1	98.2			82.5	80.9	85.8	88.6	101.1	102.1		98.8	57.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	21.0	25.1			9.1	4.8	4.7	4.5	4.9	5.3		5.0	3.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes central government external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes. The large residuals reflect the narrow coverage of the debt and the exclusion of the large technical arrears with non-Paris club creditors.

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

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

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

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

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

Table 2. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36

(Percent)

	Projections						
	2016	2017	2018	2019	2020	2035	2036
PV of debt-to GDP ratio							
Baseline	11	12	12	12	12	12	11
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2015-2035 1/	11	8	7	6	6	26	30
A2. New public sector loans on less favorable terms in 2015-2035 2	11	13	15	16	17	22	21
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	11	17	18	18	19	18	17
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	11	17	17	17	17	13	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	11	14	14	15	15	14	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	11	20	19	19	19	14	14
B5. Combination of B1-B4 using one-half standard deviation shocks	11	30	30	29	29	21	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	11	16	17	17	17	17	16
PV of debt-to-exports ratio							
Baseline	80	79	84	87	99	63	57
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2015-2035 1/	80	55	48	44	45	141	147
A2. New public sector loans on less favorable terms in 2015-2035 2	80	91	103	113	134	116	106
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	80	79	84	87	99	63	57
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	80	213	219	221	246	133	120
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	80	79	84	87	99	63	57
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	80	132	134	134	148	75	67
B5. Combination of B1-B4 using one-half standard deviation shocks	80	234	236	235	259	126	113
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	80	79	84	87	99	63	57
PV of debt-to-revenue ratio							
Baseline	135	131	128	122	107	63	62
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2015-2035 1/	135	91	73	62	48	140	159
A2. New public sector loans on less favorable terms in 2015-2035 2	135	151	158	159	145	115	115
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	135	196	192	183	160	93	92
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	135	189	178	166	142	71	69
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	135	154	151	144	126	73	72
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	135	219	205	189	161	75	73
B5. Combination of B1-B4 using one-half standard deviation shocks	135	342	317	292	246	110	107
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	135	184	180	172	150	87	86

Table 2. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36 (concluded)

(Percent)

Debt service-to-exports ratio							
Baseline	9	5	5	4	5	4	4
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2015-2035 1/	9	5	5	5	5	4	4
A2. New public sector loans on less favorable terms in 2015-2035 2	9	5	5	5	6	7	6
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	9	5	5	4	5	4	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	9	9	10	9	10	9	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	9	5	5	4	5	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	9	5	5	5	6	5	5
B5. Combination of B1-B4 using one-half standard deviation shocks	9	8	9	9	9	8	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	9	5	5	4	5	4	4
Debt service-to-revenue ratio							
Baseline	15	8	7	6	5	4	4
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2015-2035 1/	15	8	8	7	6	4	5
A2. New public sector loans on less favorable terms in 2015-2035 2	15	8	8	8	7	7	7
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	15	12	10	9	8	6	6
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	15	8	8	7	6	5	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	15	9	8	7	6	4	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	15	9	8	7	6	5	5
B5. Combination of B1-B4 using one-half standard deviation shocks	15	12	12	11	9	7	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	15	11	10	9	7	5	6
Memorandum item:							
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	51	51	51	51	51	51	51

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–36

(In percent of GDP, unless otherwise indicated)

	Actual				Average 5/	Standard Deviation 5/	Projections									
	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-21 Average	2025	2036	2022-36 Average
Public sector debt 1/	23.5	38.5	51.1	48.5			44.9	43.0	40.9	38.4	36.2	34.2		33.3	23.1	
of which: foreign-currency denominated	9.7	14.6	14.9	14.5			14.5	16.8	18.4	19.5	20.2	20.8		24.2	20.3	
Change in public sector debt	1.7	15.0	12.6	-2.6			-3.6	-1.9	-2.1	-2.5	-2.2	-2.0		-0.3	-1.1	
Identified debt-creating flows	-1.4	13.8	-6.7	-4.1			-0.9	-1.8	-2.1	-1.9	-1.9	-1.9		-0.5	0.1	
Primary deficit	-0.7	5.9	-3.6	0.1	-0.6	4.1	3.2	2.7	2.0	1.8	1.6	0.9	2.0	1.1	1.4	1.0
Revenue and grants	16.4	8.4	15.7	14.3			13.0	13.2	13.7	14.3	15.5	16.5		15.7	20.5	
of which: grants	4.9	2.8	10.8	7.2			4.9	4.3	4.3	4.2	3.9	3.9		1.9	1.9	
Primary (noninterest) expenditure	15.6	14.2	12.1	14.4			16.2	15.9	15.7	16.1	17.2	17.4		16.8	21.8	
Automatic debt dynamics	-0.8	11.3	-2.1	-3.2			-4.1	-4.5	-4.1	-3.9	-3.7	-3.0		-1.3	-1.0	
Contribution from interest rate/growth differential	-0.7	11.9	-3.6	-4.6			-4.0	-4.4	-3.9	-3.7	-3.5	-2.8		-1.3	-1.0	
of which: contribution from average real interest rate	0.2	-1.7	-3.2	-2.3			-1.6	-2.0	-1.6	-1.5	-1.3	-0.8		-0.2	-0.2	
of which: contribution from real GDP growth	-0.9	13.6	-0.4	-2.3			-2.4	-2.3	-2.4	-2.3	-2.1	-2.0		-1.1	-0.8	
Contribution from real exchange rate depreciation	-0.1	-0.6	1.5	1.4			-0.1	-0.2	-0.2	-0.2	-0.3	-0.2		...	...	
Other identified debt-creating flows	0.1	-3.3	-1.0	-1.0			0.0	0.0	0.0	0.2	0.2	0.2		-0.3	-0.3	
Privatization receipts (negative)	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.1	-3.3	-1.0	-1.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.3	0.0	0.0	0.0			0.0	0.0	0.0	0.2	0.2	0.2		-0.3	-0.3	
Residual, including asset changes	3.1	1.2	19.3	1.5			-2.7	-0.1	0.0	-0.6	-0.3	-0.1		0.2	-1.2	
Other Sustainability Indicators																
PV of public sector debt	...	...	49.3	46.0			41.3	37.9	34.6	31.3	28.5	26.0		22.1	14.2	
of which: foreign-currency denominated	...	...	13.0	12.0			11.0	11.7	12.1	12.4	12.5	12.6		13.1	11.5	
of which: external	...	...	13.0	12.0			11.0	11.7	12.1	12.4	12.5	12.6		13.1	11.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.5	9.8	-0.2	3.8			5.2	4.1	3.5	3.4	3.3	2.5		2.4	2.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	313.8	321.4			318.3	286.9	251.8	218.7	183.3	157.5		141.0	69.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	1003.9	648.1			508.7	426.1	365.7	309.9	244.6	206.3		160.1	76.6	
of which: external 3/	...	...	265.1	168.8			135.3	131.5	128.3	122.5	107.0	99.8		94.6	61.6	
Debt service-to-revenue and grants ratio (in percent) 4/	26.2	46.8	21.3	25.8			15.2	10.3	11.3	11.3	10.7	9.7		8.3	4.4	
Debt service-to-revenue ratio (in percent) 4/	37.3	69.7	68.1	52.1			24.2	15.4	16.4	15.9	14.3	12.7		9.4	4.9	
Primary deficit that stabilizes the debt-to-GDP ratio	-2.4	-9.2	-16.2	2.7			6.8	4.6	4.1	4.3	3.8	2.9		1.4	2.5	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	4.1	-36.7	1.0	4.8	-0.4	12.1	5.2	5.5	5.8	5.8	5.8	5.8	4.9	3.3	3.4	3.4
Average nominal interest rate on forex debt (in percent)	1.7	2.5	2.7	2.3	1.8	0.8	4.0	-1.6	0.1	0.2	0.4	0.5	0.6	0.6	1.1	1.0
Average real interest rate on domestic debt (in percent)	2.1	-5.0	-8.9	-5.1	1.4	6.6	-4.3	-3.9	-3.4	-3.3	-3.3	-2.0	-3.4	3.1	5.2	3.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.4	-4.3	11.2	10.3	2.2	8.8	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.7	7.0	11.1	6.2	4.6	2.9	5.8	5.3	4.8	4.7	4.7	3.3	4.2	2.8	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	7.9	-42.3	-13.9	24.2	-2.2	16.1	18.7	3.6	4.6	8.3	12.9	7.2	9.2	4.6	2.7	5.0
Grant element of new external borrowing (in percent)	...	...	...	30.9	...	...	36.5	55.3	55.3	55.3	55.3	55.3	53.2	55.3	55.3	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes gross debt of the central government.

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

3/ Revenues excluding grants.

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

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

Table 4. Central African Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2016–36

	Projections						
	2016	2017	2018	2019	2020	2025	2036
PV of Debt-to-GDP Ratio							
Baseline	41	38	35	31	28	22	
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	41	39	37	34	31	24	
A2. Primary balance is unchanged from 2015	41	35	31	27	24	16	
A3. Permanently lower GDP growth 1/	41	40	38	36	34	38	
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	41	59	56	53	52	55	
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	42	39	35	32	29	23	
B3. Combination of B1-B2 using one half standard deviation shocks	41	47	44	41	39	39	
B4. One-time 30 percent real depreciation in 2016	41	41	36	32	28	19	
B5. 10 percent of GDP increase in other debt-creating flows in 2016	41	42	39	35	32	25	
PV of Debt-to-Revenue Ratio 2/							
Baseline	318	287	252	219	183	141	
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	318	284	250	217	184	140	
A2. Primary balance is unchanged from 2015	318	266	227	191	155	102	
A3. Permanently lower GDP growth 1/	318	300	271	243	214	236	3
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	318	388	357	327	295	333	3
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	318	291	256	222	186	144	
B3. Combination of B1-B2 using one half standard deviation shocks	318	323	294	265	235	242	2
B4. One-time 30 percent real depreciation in 2016	318	307	262	222	181	123	
B5. 10 percent of GDP increase in other debt-creating flows in 2016	318	321	282	244	204	160	
Debt Service-to-Revenue Ratio 2/							
Baseline	15	10	11	11	11	8	
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	15	11	12	13	13	12	
A2. Primary balance is unchanged from 2015	15	10	11	11	10	8	
A3. Permanently lower GDP growth 1/	15	11	12	12	12	11	
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	15	13	15	15	15	14	
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	15	10	11	11	11	8	
B3. Combination of B1-B2 using one half standard deviation shocks	15	12	13	13	13	12	
B4. One-time 30 percent real depreciation in 2016	15	13	13	13	12	10	
B5. 10 percent of GDP increase in other debt-creating flows in 2016	15	11	12	12	11	9	

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

CENTRAL AFRICAN REPUBLIC

July 15, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—SUPPLEMENTARY INFORMATION

Prepared By | The African Department

1. **This supplement reports on information that has become available since the Staff Report was circulated to the Executive Board on July 11.** It does not alter staff's broad assessment of policy issues and recommendations contained in the report.

2. **The authorities of Equatorial Guinea, Iraq, Libya, and Montenegro have consented to Fund financing in the context of a new ECF arrangement notwithstanding C.A.R.'s pre-HIPC Initiative arrears.**

3. **C.A.R. also has post-HIPC Initiative arrears to India (amounting to US$ 7.3 million), China (amounting to US$ 12 million), and France, which arrears arose during the emergency period.** The authorities have contacted the authorities of India and China, and the French export guarantee institute to inform them of their intention to resolve these arrears.

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

July 20, 2016

My Central African Authorities are thankful to the Executive Board, Management and staff for their continued support which has been invaluable in the efforts to improve the economy following the major crisis that the country experienced in the recent past. Indeed, under three Rapid Credit Facility (RCF) the CAR was able to meet urgent balance of payments needs, restore macroeconomic stability and rebuild to a certain extend administrative capacity.

I. RECENT DEVELOPMENTS

Real GDP growth has progressed from 1 percent in 2014 to 4.8 percent in 2015, supported by agriculture, trade, services and construction sector. In the short term, economic prospects are favorable and growth is projected at 5.2 percent in 2016. Inflation decreased to 4.5 percent in 2015 following a peak at 11.6 percent in 2014, after the main access to sea (the Bangui- Douala corridor) has been made secure and supply conditions improved. Following the collapse in domestic revenue (from 11.5 percent of GDP in 2012 to 4.5 percent in 2014) and in exports of diamonds and forestry products, respectively, the fiscal and current accounts deficits widened.

External financial support enabled the authorities to meet the most urgent financial needs such as wages and the clearance of some arrears. At the same time, the authorities implemented important reform measures in the fiscal sector which have helped to mobilize revenue and control expenditure.

Democratic elections were held in early 2016 and led to the inauguration of a new government which is committed to the promotion of national reconciliation, the transformation of the economy, and the creation of employment opportunities. The authorities are also committed to good governance and better economic management, and wish to build on the progress achieved under the RCF. In this regard, they have developed an ambitious economic program with the assistance of development partners and the IMF staff, and for which they are requesting Fund’s support under a three-year arrangement under the Extended Credit Facility(ECF).

The Medium Term Program, 2016-2019

The authorities recognize the critical importance of political and social stability as a basis for economic development. They are, therefore, working diligently with all stakeholders to consolidate the security situation, promote national reconciliation and social peace and build human and administrative capacities. The program also aims at restoring and building basic infrastructure and utilities. Improving social conditions with better access to health and education is also critical to reduce widespread poverty and promote human development.

Real GDP is projected to grow at an average of 5.5 percent over the medium term, helped by improved security situation and recovery in all the sectors of the economy, and the resumption of public and private investment. Average inflation is projected to be about 3 percent. The domestic primary deficit should decline from 3.3 percent of GDP in 2016 to 0.9 percent in 2019. Despite the reduction in the wage bill from 6 percent of GDP in 2015 to 5.3 percent in 2016, public spending is expected to increase by 2.2 percentage points of GDP owing to an increase in capital and social spending. The current account deficit is projected to increase due to sizable reconstructions needs.

Economic and financial policies for 2016-19:

The authorities will pursue policies aimed at ensuring fiscal sustainability while accumulating buffers. The government's strategy is focused on revenue mobilization and addressing challenges associated with improving public financial management.

Measures to increase revenues in 2016 include:

i) a new price structure for oil products based on international prices

ii) tightening inspection and control on exported forestry products and;

iii) strict application of the banking agreement on revenue collection to ensure traceability

With the view to raise domestic revenue from 7.1 percent of GDP in 2015 to 10.1 percent in GDP by 2019, the authorities will implement a medium term action plan prepared in collaboration with a FAD TA mission and that aims at:

i) broadening the tax base and simplifying tax procedures, including improving management of the VAT system and the base for assessing export taxes;
ii) strengthening tax and customs administration, including introducing pre-completed tax returns for real estate; revision of fiscal exemptions agreements;
iii) harmonization of the General Investment Code by implementing the CEMAC directives on VAT and duties; and; (iv)streamlining and enhancing management of tax exemptions.

The authorities will also keep a firm control over spending. Measures are being taken to control the wage bill and to clean the roster of the civil service, and ensure timely retirement of eligible civil servants. On the other hand, the authorities expect that the fiscal measures they are taking will enable them to increase spending on goods and services and domestically financed capital spending.

Measures are also being undertaken to enhance public financial management. They include pursuing strict treasury management and strengthening the fiscal policy framework through a comprehensive action plan prepared with support from the Fund and other partners.

Management of domestic payments arrears:

To achieve fiscal consolidation and restore creditors' confidence, the authorities are committed to clear domestic payments arrears including commercial arrears and cross-debts, and creditors of which BEAC and commercial banks. In this process the government plan to complete an audit and have the claims validated by end-June 2017.The settlement of validated domestic payments arrears is planned for July 2017. Commercial, wages and pension arrears dating back to 2013–14 will be resolved in 2016 and 2017 respectively.

Debt management

The authorities will also take steps to strengthen public debt management and implement a prudent borrowing policy. To that end, authorities agree that grants should be the main source of external financing. Regarding external arrears, authorities have undertaken discussions with creditors with view to find an agreeable solution.

Capacity building framework

Authorities concur that the success of their program depends also on a timely coordinated Technical Assistance and an efficient use of it. They have put in place an institutional framework to rebuild capacity, coordinate TA and monitor reforms.

II. Structural Reforms

Banking and financial sector reforms:

The contribution of the financial sector to CAR economy is low due to the banking system weaknesses. To reverse this trend, a series of measures approved by the National Credit Council are underway and whose objectives are to:

- i) Explain the government's medium-term strategy to enhance the country's economic profile
- ii) Organize training seminars to increase banks', businesses' and the general public's knowledge of the financial sector
- iii) Protect the integrity of the banking system and monitor risk management and lending practices in order to deal with potential risks (in this context, COBAC is requested to send a banking supervision mission)
- iv) Create an action plan for the establishment of commercial and property registries; and
- v) Authorize more banks to engage in mobile banking activities.

The authorities plan to improve credit supply by establishing a credit bureau to reduce the information asymmetry and support small and medium-sized enterprises and commercial banks. They are also examining the feasibility of creating a guarantee fund for financing these small and medium-size enterprises.

Development strategy and structural reforms:

To implement a successful development strategy, the authorities are committed to establish a favorable environment for private sector by initiating structural and institutional reforms to promote its development. In this regard a Joint Business Improvement Framework (CMAA) to promote and enhance the government-private sector dialogue will be implemented as well as a one-stop shop to facilitate administrative procedures for investors. In addition, two laws to revitalize telecommunications activities are in preparation and the government intend to update the investment charter, the mining code, the telecommunications code and enhance the regulation of the forestry sector.

Over the medium-term, the government strategy will be focused on:

- Developing food, cash and exports crops.
- Promoting agro-forestry and downstream operations to create value added and jobs.
- Developing mining activities in a formalized context to make these activities more attractive to large operators.
- Repairing and restoring highways, rural roads, dry ports and provincial airports.
- Expanding transportation and telecommunications infrastructure.
- Developing energy capacities.

Social policy:

The disruption of the social fabric resulting from the crises calls for appropriate measures to enhance the resilience of the population. A successful Disarmament-Demobilization-Reintegration (DDR) process combined with the return of refugees and displaced persons is a major step in this sense. Furthermore, the country's social policy is centered on re-launching of activities in essential social sectors, improving civil protection, restoring and reorganizing the public administration throughout the national territory. The specific objectives of this policy are:

i) The restoration of social cohesion and reduction of tensions in the community to support the local economic recovery and the creation of temporary jobs, primarily for young people.
ii) Access to safe drinking water, sanitation and hygiene.
iii) The rehabilitation of the education sector to ensure full education coverage and complete high-quality education, including access to all levels for all children.
iv) New impetus to the health care system, including the strengthening of the fight against HIV/AIDS.

CONCLUSION:

Our Central African authorities would like to express their good appreciation of the relation with the Fund and welcomed Staff's recommendations. They are strongly committed to pursue reforms with Fund's assistance and would appreciate the support of Directors to their request for a Three-Year Arrangement Under the Extended Credit Facility (ECF) in support of their medium-term economic reform program.