INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/164

CENTRAL AFRICAN REPUBLIC

June 2014

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND CANCELLATION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CENTRAL AFRICAN REPUBLIC

Following consultations with Central African Republic in the context of the authorities' request for an arrangement under the Rapid Credit Facility and the cancellation of the Extended Credit Facility arrangement, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 14, 2014, following discussions that ended on April 2, 2014, with the officials of Central African Republic on economic developments and policies underpinning the IMF arrangement. Based on information available at the time of these discussions, the staff report was completed on May 1, 2014.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** including a statement by the Chair of the Executive Board
- A **Statement by the Executive Director** for Central African Republic

The following documents have been or will be separately released.

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

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

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Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

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CENTRAL AFRICAN REPUBLIC

May 1, 2014

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND CANCELLATION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context: The March 24, 2013, seizing of power by a coalition of rebels (Séléka) triggered a political and security crisis that resulted in a sharp contraction of economic activity, budgetary pressures, widespread destruction of administrative and economic infrastructures, a paralysis of the public administration, intercommunity conflicts, and a major humanitarian crisis. The new transitional government in place since the beginning of 2014 is facing significant challenges, including restoring security, reviving economic activity, and rebuilding the democratic process. As donors reengage, the economy is expected to recover slightly in 2014, subject to improvement in security conditions that would allow a resumption of agriculture activities and trade.

Program issues: The authorities wish to inform the International Monetary Fund (IMF) of their decision to cancel with immediate effect the Extended Credit Facility (ECF) arrangement that was approved on June 25, 2012. They are requesting a disbursement of SDR 8.355 million (15 percent of quota, or about US$12.9 million) under the Rapid Credit Facility (RCF) to help meet their urgent balance of payments needs and support their economic program for 2014 and their reengagement with development partners. A successor RCF could follow before the end of the year, conditional upon the continued presence of urgent balance of payments needs and satisfactory performance under this RCF. Timely provision of pledged financial and technical assistance is crucial to sustain the momentum and exit from the emergency situation.

Main policy recommendations:

- **Prepare the ground for the return of a normal budgetary process**. Limit spending executed under emergency procedures, and reconnect the budget and accounting systems.
- **Ensure transparency and accountability in the use of public resources.** Establish effective functioning of a Treasury Committee and a multi-partner Committee to monitor and manage public finances to reduce fiduciary risks.
- **Implement a prudent fiscal policy and restore fiscal discipline.** Strengthen revenue mobilization, better prioritize spending, improve cash flow management, and gradually clear domestic arrears.
- **In the medium term, foster inclusive growth and create employment opportunities**. Develop inclusive processes for conflict resolution, create fiscal space for social and other priority spending, and improve the business environment.

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

The staff team, which visited Yaoundé during February 20–27, 2014, and Douala during March 24–April 2, 2014, comprised Ekué Kpodar (head), Etienne Yèhoué, Abdelrahmi Bessaha, Gustavo Ramirez, and Michel Bua (resident representative) (all AFR). Staff had discussions with the Minister of Finance Rémy Yakoro and his technical team and worked closely with representatives of the World Bank, the African Development Bank, the European Union, and France. Abdoulaye Tall (OED) participated in the policy discussions during both missions.

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Glossary

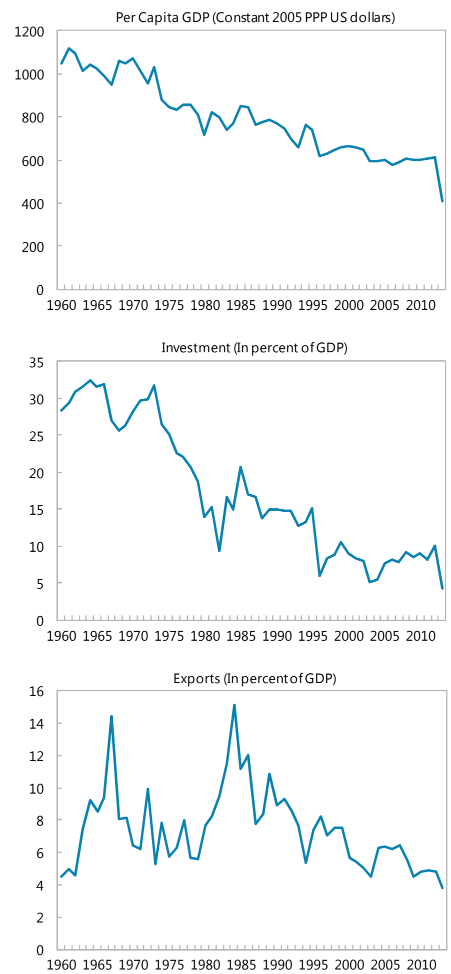
AfDB	African Development Bank
ACCT	Agence Comptable Centrale du Trésor (Central Treasury Agency)
ANLC	Agence nationale de lutte contre la corruption (National Authority for Combating Corruption)
AU	African Union
BEAC	Banque des Etats de l'Afrique centrale (Bank of Central African States)
C.A.R.	Central African Republic
CEMAC	Communauté Economique et Monétaire de l'Afrique Centrale (Economic and Monetary Community of Central Africa)
CIPREF	Inter-ministerial Steering Committee on Economic and Financial Reforms
COFACE	French Foreign Trade Insurance Agency
CSGFP	Comite de suivi et de gestion des finances publiques (Public Financial management and oversight Committee)
CS-REF	(Economic and Financial Reform Monitoring Unit
CT	Comité de trésorerie (Treasury Commitee)
DDR	Disarmament, Demobilization and Reintegration
DDRRR	Disarmament, Demobilization, Resettlement, Reintegration and Repatriation
DGDDI	Direction générale des douanes et des droits indirects
DGID	Direction Générale des Impôts et des Domaines
DSA	Debt Sustainability Analysis
DSRP	Document de Stratégie de Réduction de la Pauvreté (Poverty Reduction Strategy Paper)
ECCAS	Economic Community of Central African States
ECF	Extended Credit Facility
EU	European Union
GESCO	Government Financial Management Information System
ICG	International contact group
IPD	Inclusive Political Dialogue
LOI	Letter of Intent
MEFP	Memorandum of Economic and Financial Policies
MISCA	African-led International Support Mission to the CAR
MINUSCA	Mission multidimensionnelle intégrée des Nations Unies pour la stabilisation en République centrafricaine
NTC	National Transition Council
PFM	Public Financial Management
PRSP	Poverty Reduction Strategy Paper
PURD	Programme d'Urgence pour le relèvement durable
RCF	Rapid Credit Facility

SB	Structural Benchmark
TA	Technical assistance
TMU	Technical Memorandum of Understanding
TSA	Treasury Single Account
TUPP	Taxe Unitaire sur Produits Pétroliers
UNDP	United Nation development programme
VAT	Value-Added Tax

BACKGROUND, RECENT DEVELOPMENTS, AND PERFORMANCE UNDER THE EXTENDED CREDIT FACILITY

1. **Economic growth in Central African Republic (C.A.R.) over the past decades has been insufficient to provide economic stability, employment opportunities, and social development.** As a result, poverty remained pervasive and social indicators were weak even before the unfolding of the 2013 crisis, which plunged the country into chaos, significantly contracting the economy, and further cutting into the meager living standards of the population. The already fragile economic and social context was exacerbated by the recent crisis (Figure 1).

Figure 1. Central African Republic: Long Term Economic Trends



Sources: Penn World Tables; and staff estimates.

2. **The 2012–13 political and security crisis in C.A.R. has evolved into a humanitarian catastrophe and the collapse of the economy**. A rampage of looting, destruction of infrastructures, and lawless conditions prevailed throughout the past year as the leaders of the coalition of rebels (Séléka) were unable to stop abuses on the population, provide security, and restart economic activity.[1] By the end of 2013, ¼ of the population (1 million persons) was displaced. Against the back of a humanitarian crisis unfolding, heavy international pressures resulted in the Seleka-led government to relinquish power in January 2014, opening the way to a new and more inclusive transitional government (Box 1).

[1] Currently more than 8,000 troops are deployed in the country; this level is planned to grow to nearly 20,000.

Box 1. Central African Republic: The Unfolding Crisis and its Attempted Resolution

In mid-December 2012, a coalition of rebel groups (Séléka) moved close to Bangui after seizing several cities in the north and north east and threatened to take the capital. Under the auspices of the heads of States of Economic Community of Central African States (ECCAS), the Séléka, the political opposition, the presidential majority, and representatives of the civil society signed a peace agreement in Libreville on January 11, 2013.1 On January 17, 2013, President Bozizé appointed Mr. Tiangaye, a lawyer from the political opposition, as Prime Minister. A national unity government, formed according to the Libreville agreement, gradually took steps to consolidate peace. Tensions, however, continued to emerge among the various factions awaiting the Disarmament, Demobilization, and Reintegration (DDR) program.2 Difficulties to fully implement the Libreville agreement prompted the Séléka to resume its operations. The Séléka launched attacks on government forces, and seized the capital Bangui on March 24, 2013, overthrowing President Bozizé. The former rebel leader, Michel Djotodia, proclaimed himself President and maintained Mr. Tiangaye as Prime Minister. The Djotodia/Tiangaye administration was, however, unable to restore peace and security. The ensuing chaos triggered widespread human rights violations, violence against the civil population, and a collapse of the economy and public service delivery.

In May 2013, an International Contact Group on C.A.R. was created to help mobilize the support of the international community to the transition and to monitor the implementation of the agreed roadmap, which will lead to democratic elections by early 2015. A more inclusive government of national unity and the expansion of the membership of the National Transitional Council (NTC) (quasi-parliament) were implemented, but the situation remained fragile and volatile. As a result of progress made in implementing the roadmap, Mr. Djotodia was sworn in as a President on August 18, 2013 but his recognition by the international community was ambivalent as the country remained under African Union (AU) sanctions. However, the collapse of the state machinery and the weakening of the security and defense forces had led to a security vacuum, which resulted in anarchy, escalation of violence, looting, continued abuses of human rights, and humanitarian crisis.

Under renewed international pressure, President Djotodia resigned in early January 2014.
Ms. Catherine Samba-Panza, a prominent business woman and former mayor of Bangui, was elected by the NTC and was sworn in as president of the transition in C.A.R. on January 23, 2014, Mr. André Nzapayeké was subsequently appointed as prime minister and a new cabinet formed. This was well received by the international community which, at the January 20, 2014, meeting in Brussels, made pledges amounting to about US$500 million in assistance to C.A.R. The security situation is improving, but remains volatile, following the deployment of troops in early December to support the peacekeeping African forces of the International Mission to Support C.A.R. (MISCA). The total number of troops provided by MISCA, France, the UN Security Council, and the EU is expected to grow to about 20,000 persons.

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[1] The Libreville agreement called for (i) President Bozizé to complete his term through 2016; (ii) implementation of a ceasefire; (iii) the formation of a national unity government headed by a prime minister from the democratic opposition; (iv) the removal of the authority of President Bozizé to dismiss the prime minister or other members of the government; and (v) the dismissal of the National Assembly and the organization of new elections within a year.

[2] A major element of the peace building effort in C.A.R. consists of the demobilization, disarmament and reintegration (DDR) of combatants. Its objectives are to settle rebels in defined areas to conduct DDR operations and to provide appropriate trainings to facilitate their reinsertion into productive activities and the society.

3. The crisis had a deep impact on an already fragile country and led to enormous fiscal challenges and budgetary pressures. Real GDP contracted by 36 percent and exports and imports fell by 44 percent and 27 percent in dollar terms, respectively, implying a sharp loss in income. Reflecting a 15 percent drop in grants, the current account deficit widened to over 10 percent of GDP in 2013 from nearly 6 percent a year before. The consumer price index rose by 6.6 percent, twice the level of inflation recorded during the past 4 years before the conflict. Most importantly, the domestic primary deficit significantly widened to reach almost 7 percent of GDP in 2013, compared with a surplus of 0.5 percent in 2012, as fiscal revenue dropped by 63 percent while domestic primary spending fell by 22 percent. With the sharp deterioration of the fiscal accounts, the government accumulated net domestic payments arrears equivalent to 2.3 percent of GDP, including 5 months of wages and salaries through end-February 2014.[2] The worsening macroeconomic conditions were accompanied by the destruction of a large number of infrastructures and enterprises, and the paralysis of the administration, including the public financial management framework.[3] The crisis also affected the balance sheets and the liquidity of the banking system as the government accumulated arrears and the private sector defaulted on loans.

4. The IMF has provided significant assistance to C.A.R. in the past. During 1998 and 2012, three IMF-supported programs were approved to help C.A.R. transition out of fragility through sustained implementation of sensible macroeconomic and structural policies, catalyze donor resources from a very low level, and enhance coordination for TA delivery and capacity building. Total amount committed was SDR 160.8 million, while disbursements amounted to SDR 101.1 million, with the 2006 ECF arrangement fully drawn by 2010 and the partial disbursement of the 2012 ECF arrangement, which was cancelled at the request of the authorities on account of the 2012–13 conflict.

5. The 2012 ECF arrangement veered irretrievably off-track before the completion of the first review. The objectives of the three-year ECF arrangement approved by the IMF Executive Board on June 25, 2012 for an amount of SDR 41.78 million aimed at restoring and maintaining macroeconomic stability, sustaining growth and reducing poverty, improving public financial management and mobilizing domestic revenues. The ECF-supported program was broadly on track during the first half of 2012, as most quantitative targets were met and some progress was made in implementing structural reforms. However, the first review could not be completed in December 2012 because the sharp deterioration in the political and security situations, which culminated with the seizing of power by the Séléka in March 2013, derailed the program.

[2] Grants from CEMAC countries and a loan from the Republic of Congo for a total amount close to CFAF 35 billion helped the authorities pay some wages and other spending in 2013. In addition, with financial assistance from CEMAC countries, the new transitional government paid 2 months of salaries and 3 months of pensions in March/April 2014.

[3] Restoring confidence with economic operators through a dialogue is one of the major authorities' goals to help resume economic activities. To that end, the transitional authorities plan to conduct a joint evaluation of the damages sustained by private enterprises and put in place several measures to improve the business climate (MEFP, paragraph 20).

6. **The new transitional government adopted an emergency plan to address the significant post-conflict challenges**. This plan is expected to set the basis for a long-lasting stability based on the roadmap adopted by the international community and monitored by the International Contact Group (ICG) for C.A.R. It seeks to: (i) restore security; (ii) improve humanitarian assistance; and (iii) return to democracy. In line with this roadmap, transparent and credible presidential elections are expected in the first half of 2015 to lay the basis for the consolidation of democratic institutions (MEFP, paragraph 3).

7. **The authorities are requesting financial assistance under the IMF's RCF**. In the attached Letter of Intent (LOI), they informed the IMF of their decision to cancel the ECF arrangement with immediate effect and request the disbursement of SDR 8.355 million under the RCF (equivalent to 15 percent of quota, or US$12.9 million), to meet the urgent balance of payments needs in 2014 that cannot be resolved through the implementation of an upper credit tranche-quality economic program due to its currently limited policy implementation capacity. A second RCF of SDR 5.570 million (10 percent of quota or US$ 8.5 million) could follow before the end of the year conditional upon the presence of continued urgent balance of payments needs and satisfactory performance under this RCF.[4] The authorities are also seeking grants and concessional financing from multilateral and bilateral partners and neighboring countries to cover the remaining financing needs (paragraph 12).

POLICY DISCUSSION

A. Macroeconomic outlook and risks

8. **Improved security, donor support, and normalizing salary payments will be crucial to start a recovery in 2014**. On this basis, the main objectives for 2014 are to: (i) reach a real GDP growth rate of 1.5 percent, as agriculture activities and trade resume; (ii) bring down inflation to about 4.4 percent, from 6.6 percent in 2013, reflecting further international food aid, improvement in the supply chain and a restoration of the distribution networks; (iii) containing the domestic primary deficit to 7.6 percent, against 6.8 percent last year; and (iv) maintaining the current account deficit at 14.1 percent of GDP.

9. **Macroeconomic conditions are expected to improve further in 2015**. Staff and the authorities agreed that a further improvement in security conditions that could follow the deployment of the UN peacekeepers would provide some "peace dividends" which combined with an expected lifting of the diamond export ban under the Kimberly process will help improve the

[4] In order to avail of a successor RCF, C.A.R. will need to meet the conditions for repeat use set out in the PRGT Instrument, i.e., the IMF is satisfied that: (i) the member's balance of payments need was caused primarily by a sudden and exogenous shock, or (ii) the member has established a track record of adequate macroeconomic policies for a period of normally about six-months prior to the request; provided that a member may not in any case receive more than two disbursements under the RCF during any 12-month period.

economic outlook for 2015. Against this background, macroeconomic objectives for 2015 are to: (i) reach a real GDP growth rate of 5.3 percent, resulting from the distribution of seeds and humanitarian aid, the normalization of public service operations and the launching of some reconstruction efforts; (ii) reduce inflation to around 4 percent as agricultural activities would fully resume and supply conditions improve; (iii) contain the external current account deficit at about 13 percent of GDP, reflecting a resumption in imports to sustain the economic revival; and (iv) contain the domestic primary deficit at around 3 percent of GDP, through better revenue intake and spending rationalization efforts. Additional financing support will be needed to close the fiscal gap, requiring sustained support from the donor's community in the form of grants and concessional loans.

10. The macroeconomic outlook is subject to uncertainty and risks. On the downside, security conditions, while improving, remain difficult and unpredictable and constitute one of the major risks that could weaken the rebuilding of state functions, further slow the reconstruction and the much-needed economic recovery, and undermine the revenue collection efforts. The upcoming presidential elections expected in the first half of 2015 could also create tensions that would weigh heavily on economic conditions and deter possible investors and donors. Finally, the still weak implementation capacity and possible delay in the provision of technical assistance (TA) could have severe consequences on the projected outlook. A delay in providing pledged financing would also hamper appropriate implementation of the agreed framework. On the upside, the recent approval by the United Nations of the deployment of 12,000 peacekeepers to protect civilians and facilitate humanitarian access in the war-torn country is a welcome step toward improving security.

IMPLEMENTING A FISCAL POLICY AIMED AT RESTORING MACROECONOMIC STABILITY AND REVIVING ECONOMIC GROWTH

11. The transitional authorities are committed to restoring basic budgetary functions and undertaking the urgent task of near-term stabilization. In the context of the RCF-supported program, the authorities seek to (i) prepare the ground for the return of a normal budgetary process; (ii) restore revenue mobilization capacity and rationalize and enhance the monitoring of cash flow management, while conducting an immediate cleanup of the database of civil servants payroll (with support from the World Bank and UNDP); (iii) clear domestic arrears; (iv) ensure transparency regarding the use of public resources; and (v) revisit as soon as possible taxation from oil, gold, diamonds, telecommunications, and forestry activities with TA from the IMF and development partners to raise revenue prospects and ensure near-term stabilization. Such a program is also expected to help consolidate peace and political stability and accelerate the return of refugees, which are some of the main priorities of the transitional authorities.

A. Fiscal policy and reforms

12. **Fiscal policy will aim at containing the domestic primary deficit through stepped-up revenue efforts and better prioritization and control of spending**. In the attached LOI, the authorities indicate that they are committed to strengthening revenue collection and containing non-priority spending to free resources for social spending. The budget targets an increase in revenue by 0.7 percentage point of GDP. With the wage bill kept constant at 7.1 percent of GDP through a staff rationalization plan supported by the World Bank and the UNDP MEFP, paragraph 12), the budget targets a 1 percentage point of GDP increase in transfers and subsidies to address the urgent needs of the population. Accordingly, current primary spending is projected to rise to 13.3 percent of GDP, up from 12.4 percent of GDP the previous year. Domestically-financed capital spending will remain low at 0.7 percent of GDP. Reflecting these developments, the domestic primary deficit is projected at 7.6 percent of GDP, against 6.8 percent in 2013. A financing gap projected at CFAF 81 billion or 10 percent of GDP, would be covered by grants from the World Bank (CFAF 12.8 billion), African Development Bank (CFAF 9.4 billion), EU (CFAF 19.7 billion), France (CFAF 7.9 billion), Angola (CFAF 4.7 billion), CEMAC countries (CFAF 20 billion), and IMF financing. Total external support from development partners, including assistance pledged in Brussels in the beginning of the year, is summarized in Box 2.

Box 2. Central African Republic: External Support

Support is under way. Immediately after the transition government was formed, donors signaled their intention to reengage in C.A.R. Total support pledged during the Brussels Conference and support from countries belonging to the ECCAS (Text Table 1) amounted to US$572 million. This included humanitarian aid (US$203 million), development aid (US$192 million), and budget support for 2014 for an amount of US$177 million. Disbursement of budgetary aid through end-April 2014 amounted to about US$44 million, including Angola (US$10 million grant) and ECCAS for an amount equivalent to US$34 million. These resources were used mainly to pay 2 months of salaries and 3 months of pensions. In addition, a loan agreement on concessional terms was signed with Angola for an amount of US$20 million to fundsecurity-related spending.

Transparent framework for the use of resources. As part of their efforts to build accountability in the use of these resources, the transitional authorities have put together two committees for cash management purposes and to monitor in transparent way public finances in general (paragraph 14).

Text Table 1. Pledges and Commitments by Donors at the Brussels and ECCAS Conference

(After January 20, 2014; US dollars, millions)

Type	Pledges	Disbursements
Humanitarian Aid	203.0	
Development Aid	192.0	
Budget Support In 2014	177.0	43.7
Total	572.0	43.7

13. Measures to achieve the deficit target will focus on enhancing revenue collection and better prioritize and control spending. With TA already in place and reaping the dividends of the gradual return of peace, the authorities intend to increase tax revenue collection through thorough reviews of taxpayer statements, enhanced controls of VAT, and limits on tax and customs exemptions to those allowed by law (MEFP, paragraph 9). They have initiated the process to: (i) take control of the customs chain along the main import corridor with support from international forces; (ii) keep in operation the Douala (Cameroon) one-stop customs shop for imported goods; and (iii) strengthen customs controls. At the same time, they are working, with support from the World Bank and UNDP, to rationalize the civil service roster to eliminate "ghost civil servants". The authorities will also clear all outstanding external arrears,[5] which will help restore donor confidence, and settle domestic payments arrears for an equivalent of 2 percent of GDP in an effort to boost demand, spur economic activity, and help in the rebuilding of basic government functions. As a result, priority will be given to the settlement of salary arrears, then pensions, and lastly commercial suppliers.

14. The authorities recognize the need to enhance transparency in the use of public resources and donor assistance and improve cash management. Improving revenue collection and treasury cash management is crucial. Measures this year to that effect seek to : (i) enhancing the traceability of the tax revenue that flow from commercial banks— in charge of collecting those revenues since the 2010 reform—to the Treasury Single Account (TSA), including ceasing signing new debt conventions that would reduce the government intake, enforcing strictly those in place, closely monitoring tax statements from tax payers through the posting of tax agents in the banks, and reconciling on a regular basis banks' statements and entry operations in the TSA. These measures will be complemented by: (i) limiting to 7 percent the volume of spending executed under the emergency mode, and reconnecting the integrated budget and accounting softwares (gestion et suivi budgétaire et comptable (GESCO-Budget and GESCO-Comptabilité); (ii) the implementation of a cash management plan to better allocate available resources; and (iii) the establishment of an institutional framework (MEFP, paragraphs 9, 10, and 11) to ensure transparency and efficient use of public resources. This framework includes; (i) the Treasury Committee (under the chairmanship of the Minister of Finance) to design and manage treasury plan on a weekly basis; (ii) the Multi-Partners Committee (under the authority of the Prime Minister) that will conduct, together with donors, quarterly reviews of public resource spending; and (iii) the central treasury agency ACCT to improve treasury operations and ensure traceability of resources and spending. Appropriate TA is already underway to help the authorities complete the above-mentioned measures (paragraph 16 and Box 3).

[5] Additional interest arrears with non-Paris Club creditors were accumulated during 2013 to Saudi Arabia (CFAF 270 million) and Kuwait (CFAF 28 million). The stock of non-Paris Club arrears under re-negotiation by the government under the HIPC Initiative amounted to CFAF 63 billion at end 2013. Arrears to multilateral institutions for CFAF 176.1 million were cleared in early May with donor's assistance.

B. External debt situation

15. The debt situation has deteriorated significantly on account mainly of the collapse of output and exports. Bank and IMF staffs have prepared a new debt sustainability analysis (DSA) in light of the multifaceted crisis. The analysis finds that the debt situation has significantly deteriorated, mainly as a result of the political crisis which significantly impacted economic growth and the external and fiscal accounts. The risk of debt distress was changed from moderate to high. This underscores the importance of implementing the grant-financed emergency program to revive the economy and boost exports that would help improve the debt outlook in the medium-term, and the need for continued external assistance on concessional terms.

C. Technical assistance needs and donor coordination

16. Sizable TA is crucial to rebuild basic state functions in the short term and lay the ground for the reconstruction of the country in the medium-term. The authorities' immediate priorities are to restore tax and customs administration, public finance management, and treasury management. TA providers will include the IMF, World Bank, African Development Bank, EU, and France. Close coordination of TA is instrumental in ensuring efficient delivery. In this context, staff and the donor community are planning to work closely in this area and make regular assessments of TA delivery (Box 3).

PROGRAM MONITORING AND CAPACITY TO REPAY

17. Access under this RCF is limited to 15 percent of quota equivalent to SDR 8.355 million. This will help cover urgent balance of payment needs during the current very delicate situation. Given the complexity of the emergency phase, progress under the RCF will be monitored through quarterly indicators and key structural benchmarks.[6] Staff and the authorities reached understandings on a set of quantitative indicative targets for end-June, end-September and end-December 2014 (MEFP, Table I.1) and limited number of structural benchmarks aiming at rebuilding core public financial management (MEFP, Table II.2). A second RCF that could amount to 10 percent would follow within six to eight months conditional upon the presence of a continued urgent balance of payments need and a satisfactory performance under this RCF.

18. C.A.R.'s capacity to repay the IMF remains adequate (Table 6). Nevertheless, there are risks to program implementation, including security and political risks, weak implementation capacity, and possible delay in TA provision and financial assistance (paragraph 10).

[6] These structural benchmarks are included to help build a track record of policy performance to support a follow-up RCF.

Box 3. Donor Coordination

The IMF has a history of engagement in C.A.R., and during the past decade, there were three arrangements supported by the ECF or the predecessors' facilities. These programs provided a framework for economic stabilization and reforms to achieve higher growth, improve standards of living, and reduce poverty. The international community is also involved in C.A.R. through provision of significant financial and TA. As C.A.R. implements its post-conflict emergency program, cooperation and coordination among donors is critical to (i) ensure timely disbursement of aid and TA provision; (ii) use resources efficiently and avoid cross conditionality and overlapping; (iii) tailor the reforms to fit existing capacity; and (iv) create the conditions for a successful implementation of the program. Coordination is crucial in three key areas: policy advice, external support, and TA provision.

- **On policy advice and program design**, the discussion of the program under the RCF was conducted in the context of a tripartite framework, involving the authorities, staff, and development partners. This was instrumental in moving speedily on the policy front and designing the program.

- **On external support,** there is more than ever a need for strengthened coordination to help the country implement its emergency program and lay the ground for the medium-term reconstruction, in view of (i) the various forms of budget support provided to C.A.R., including line item support and unrestricted support; (ii) most importantly, the different budget cycles and constraints of donors; and (iii) the vast needs of C.A.R. in the period ahead. There are various forms of coordination to be explored, including putting in place multi-donors' funds and use of the country budgetary channels.

- **On technical assistance,** the needs are significant and urgently required to support a revival of revenue administration, treasury management and accounting procedures, and core public expenditure management (budget formulation and execution). In response to the authorities' request, the IMF has taken the lead in coordinating TA needs and provision. In this context, the World Bank will provide TA on tax administration, customs, and together with the UNDP on the rationalization of the civil service. The EU will assign two resident experts in the treasury department, notably in the newly created central unit (ACCT) and at the budget directorate. The recruitment of the two experts is under way. The African Development Bank will hire experts that will provide support to the unit in charge of reform coordination. The IMF will restart its own TA activities, as soon as security conditions permit, notably in the areas of revenue administration and public financial management. Alternatively, if security conditions do not improve soon, C.A.R. officials could meet with IMF experts from the regional center in Libreville (AFRITAC-Center).

Looking forward, IMF staff and donors will work on a TA matrix that would involve all donors and the authorities, programmatic procedures for the government to avail itself of this TA, and well defined priorities.

19. Safeguards assessments. Consistent with the safeguards policy requirement for regional central banks, the BEAC was subject to a quadrennial assessment in 2013. This assessment occurs against the backdrop of measures initiated to address governance challenges and control failures at the BEAC that emerged in 2009. Since that time, a series of safeguards "rolling measures" were agreed between the BEAC and the IMF, as a basis to move forward with new requests for IMF assistance or completion of program reviews by BEAC members. The 2013 assessment found that risks remain elevated and that annual IMF staff visits to monitor priority recommendations and progress on the BEAC's reform plan would continue as part of the safeguards "rolling measures" approach. As such, a safeguards staff visit to the BEAC was conducted from April 1–9, 2014. Staff concluded that the BEAC has made good progress in implementing recommendations from the 2013 assessment and is advancing its reform plan to strengthen controls at the bank. That said, the

BEAC continues to face challenges on institutional autonomy and broader governance reforms remain paramount in the medium-term.

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20. The transitional government is facing daunting challenges. Reversing the policy paralysis of 2013, restoring security in the country, rebuilding basic state functions, engineering an economic revival, and preparing the 2015 presidential elections are among the key objectives of the government emergency plan. At the same time, the government is facing an acute shortage of resources to implement this plan. Further, the slow restoration of security—which is poised to improve after the arrival in September of the international peacekeepers—could delay the return of refugees and internationally displaced persons to resume their normal activities. This, together with the destruction of economic infrastructures, would slow economic recovery and growth. At the same time, the rebuilding of basic state functions is also expected to proceed slowly as expertise and equipments will likely be available only in the second half of the year.

21. The 2014 budget strikes a balance between the need for emergency services and the need to address the country basic social and infrastructure gaps. In a context of uncertainty, the challenge is to secure resources and use them appropriately for basic services. There is scope for improving revenue collection but this remains challenging, as state functions are expected to be rebuilt progressively in the tax and customs areas. The spending plans cover immediate security needs and social demands as well as clearing domestic arrears in order to help boost demand and economic activity. It is also important that the government adhere to the spending objectives and be ready to adjust them to available resources, if needed. As financing will come mainly from external support in form of grants and concessional loans, staff views the fiscal stance reflected in the first budget of C.A.R. post-conflict situation as appropriate and should lay the ground for macroeconomic stability.

22. Actions to enhancing revenue collection need to take immediate priority. The authorities are appropriately focusing on rebuilding basic revenue administration systems and enhancing revenue collection. Better controls and limited exemptions are crucial in this phase. Staff also welcomes the assurances of the authorities to better coordinate with the banks that collect taxes and put in place other revenue-enhancing measures. In this vein, staff urges the authorities to move fast with the reactivation of the budget and accounting softwares.

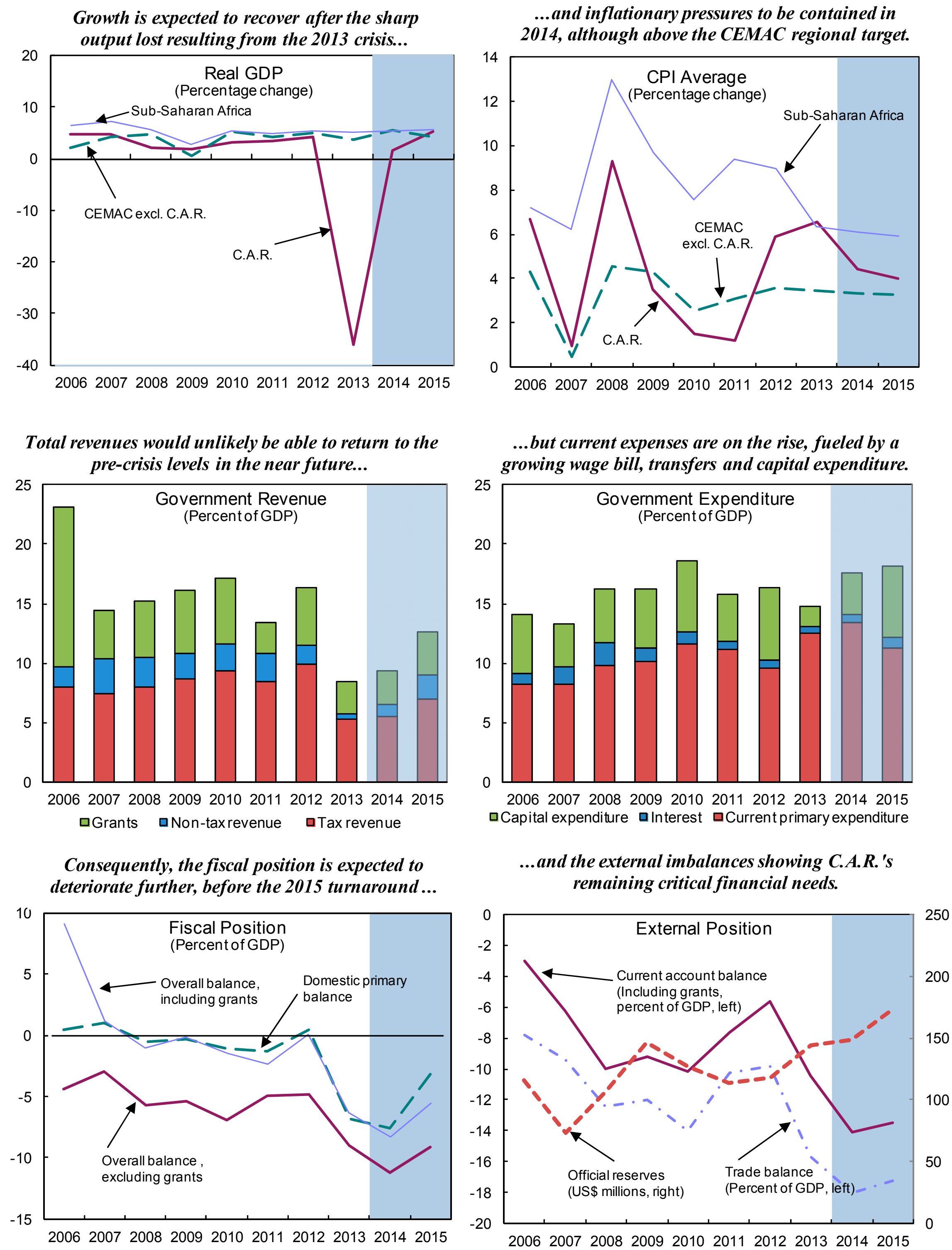
23. Reconstructing PFM is crucial. Staff welcomes measures to establish swiftly treasury and cash management capacity. Steps under way to make operational in the second half of the year, with the help of development partners, the recently created central treasury agency bode well for this objective. This will help provide a framework for better cash management as well as adequate accounting operations. Staff urges the authorities to work closely with the donor community to complete this operation in a timely fashion.

24. The role of development partners is critical. Financing needs will remain large in the years ahead to revive the economy and rebuild basic state functions. Development partners are reengaging and are looking forward for a comprehensive macroeconomic framework and a productive use of their support. In this vein, the authorities were right to establish a joint committee to monitor the overall use of public resources. Staff urges the authorities to make this committee operational by early May. The IMF remains available to help catalyze much needed support.

25. The risks to the program are significant. On the downside, the slow restoration of security and delays in TA provision could weaken the rebuilding of state functions and further slow the reconstruction and the economic revival. On the upside, the upcoming international force bodes well for better security and delivery of humanitarian aid. In addition, the strong resolve of the new government to face the significant challenges of rebuilding quickly basic state functions, including restoring PFM and transparency in the use of public resources, is welcome.

26. Staff supports the authorities' request for assistance under the RCF in view of their currently limited capacity to implement policies of an upper credit tranche-quality economic program, the large and urgent balance of payments needs, and the catalytic effect of IMF support on other external assistance. The program, if implemented successfully, could be used as stepping stone for a future arrangement that could assist the authorities address medium-term challenges.

Figure 2. Central African Republic: Macroeconomic Prospects, 2006–15



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

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2009–15

	2009	2010	2011	2012	2013 Prel.	2014 Proj.	2015 Proj.
	(Annual percentage change; unless otherwise indicated)						
National income and prices							
GDP at constant prices	1.7	3.0	3.3	4.1	-36.0	1.5	5.3
GDP at current prices	5.3	5.1	5.3	6.9	-31.4	6.4	9.9
GDP deflator	3.5	2.0	2.0	2.7	7.4	4.9	4.4
CPI (annual average)	3.5	1.5	1.2	5.9	6.6	4.4	4.0
CPI (end-of-period)	-1.2	2.3	4.3	5.9	5.9	3.8	1.9
Central government finance							
Total revenue and grants	11.5	12.3	-18.2	31.3	-64.8	17.9	48.7
Total expenditure	5.4	20.7	-6.5	6.0	-38.2	27.1	13.4
Money and credit							
Net domestic assets [1]	6.1	23.6	17.1	14.8	-39.9	0.6	9.1
Domestic credit [1]	9.5	29.1	17.0	17.3	-22.1	1.6	5.7
Broad money	13.7	25.9	4.3	4.2	-32.9	10.9	15.3
Velocity of broad money (end-of-period)	6.0	5.0	5.0	5.2	5.2	5.2	5.2
External sector							
Exports, f.o.b. (US$ basis)	-17.6	13.7	35.8	-2.6	-44.0	4.7	14.8
Export volume of goods	-21.9	9.7	7.7	14.7	-45.6	14.6	9.0
Imports, f.o.b. (US$ basis)	-9.7	12.6	0.0	-4.4	-24.7	28.9	12.8
Import volume of goods	13.0	8.6	-19.5	16.2	-31.3	14.5	9.2
Terms of trade	32.0	0.0	1.5	3.3	-6.1	-18.9	2.0
Nominal effective exchange rate	-0.8	-4.2	0.8	-3.0	...	...	...
Real effective exchange rate	2.0	-4.7	-1.0	0.2	...	...	...
	(Percent of GDP; unless otherwise indicated)						
Gross national savings	4.0	4.1	4.6	9.4	-1.7	-2.5	1.8
Of which: current official transfers	1.7	1.4	0.0	1.0	1.3	0.0	0.0
Gross domestic savings	1.1	0.3	1.9	5.1	-7.0	-6.4	-2.0
Government	0.0	-0.7	-1.5	1.4	-7.0	-7.3	-2.8
Private sector	1.2	1.0	3.4	3.7	0.1	0.9	0.8
Consumption	98.9	99.7	98.1	94.9	107.0	106.4	102.0
Government	7.5	8.2	7.9	7.4	10.1	10.0	8.6
Private sector	91.4	91.5	90.2	87.5	96.8	96.4	93.5
Gross investment	13.2	14.3	12.2	15.0	8.7	11.6	15.2
Government	4.9	6.0	4.0	6.2	1.7	3.6	6.0
Private sector	8.2	8.2	8.2	8.8	7.0	8.1	9.3
Current transfers and factor income (net)	2.8	3.8	2.7	4.2	5.2	3.9	3.8
External current account balance	-9.2	-10.2	-7.6	-5.6	-10.4	-14.1	-13.4
Overall balance of payments	2.1	-3.6	-2.2	2.1	-4.7	-9.9	-5.7
Central government finance							
Total revenue	16.1	17.2	13.3	16.4	8.4	9.3	12.6
Total expenditure [2]	-16.2	-22.0	-16.5	-16.3	-14.7	-17.6	-18.1
Overall balance [2]							
Excluding grants	-5.4	-7.0	-4.9	-4.9	-9.0	-11.2	-9.2
Including grants	-0.1	-1.4	-2.4	0.0	-6.3	-8.3	-5.5
Domestic primary balance [3]	-0.3	-1.0	-1.3	0.4	-6.8	-7.6	-3.2
Net present value of external public and guaranteed debt	7.5	13.3	16.1	15.3	15.1	14.7	14.0
Public sector debt	36.8	32.3	32.6	30.5	50.8	56.0	56.5
Of which: domestic debt [4]	23.5	24.4	24.4	22.5	34.0	31.1	27.6
Gross official foreign reserves							
(US$ millions, end-of-period)	146.5	126.5	113.9	117.9	144.6	148.3	174.0
(months of imports, f.o.b.)	3.3	3.2	2.9	3.8	3.9	3.7	4.0
Nominal GDP (CFAF billions)	936	984	1,036	1,108	760	808	889
Exchange rate (average; CFAF per US$)	472.2	495.3	471.9	510.0	493.9	…	…

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

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

[2] Expenditure is on a cash basis for current period expenditure.

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

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

Table 2. Central African Republic: Central Government Financial Operations, 2009–15

(CFAF billions)

	2009	2010	2011	2012	2013 Prel.	2014 Proj.	2015 Proj.
Revenue	150.3	168.7	138.1	181.3	63.8	75.3	111.9
Domestic revenue	100.8	114.2	111.8	127.3	43.2	51.9	79.6
Tax revenue	81.1	91.9	87.1	109.3	39.8	43.9	61.7
Taxes on profits and property	18.4	17.8	18.8	21.1	7.2	9.2	12.4
Taxes on goods and services	62.7	74.2	68.3	88.2	32.6	34.6	49.3
Of which: international trade	18.2	26.9	32.4	30.5	8.8	11.4	16.5
Non-tax revenue	19.8	22.3	24.7	18.0	3.4	8.0	17.9
Grants	49.4	54.5	26.3	54.0	20.7	23.4	32.3
Program	16.6	13.8	0.0	11.0	9.7	0.0	0.0
Project	32.8	40.7	26.3	42.9	11.0	23.4	32.3
Expenditure [1]	151.4	182.7	162.7	181.0	111.8	142.1	161.1
Current primary expenditure	94.5	113.3	114.6	105.1	94.3	107.8	99.9
Wages and salaries	42.1	43.3	46.0	50.8	53.7	57.3	53.7
Transfers and subsidies [2]	24.7	32.3	32.5	23.1	17.5	26.9	23.9
Goods and services	27.7	37.6	36.1	31.2	23.1	23.6	22.3
Interest due	10.5	9.9	7.0	7.8	4.9	5.4	8.0
External	4.1	2.0	2.7	1.3	2.5	2.1	3.0
Domestic	6.4	7.9	4.3	6.5	2.4	3.3	5.0
Capital expenditure	46.3	59.5	41.1	68.2	12.7	28.9	53.2
Domestically financed	9.2	11.1	10.7	16.7	0.6	5.5	8.0
Externally financed	37.0	48.4	30.3	51.4	12.1	23.4	45.2
Overall balance							
Excluding grants	-50.5	-68.5	-50.9	-53.8	-68.7	-90.2	-81.5
Of which: domestic primary balance [3]	-3.0	-10.2	-13.6	5.5	-51.7	-61.4	-28.3
Including grants	-1.1	-14.0	-24.6	0.2	-48.0	-66.8	-49.2
Net change in arrears ((-) = reduction)	-4.5	-6.2	1.7	-5.4	17.4	-16.5	-5.0
Domestic	-4.5	-7.5	-4.0	-4.0	17.4	-16.5	-5.0
External	0.0	1.3	5.7	-1.4	0.0	0.0	0.0
Errors and omissions	0.3	-10.7	1.4	0.0	0.0	0.0	0.0
Overall balance, cash basis	-5.3	-30.8	-21.4	-5.1	-30.6	-83.3	-54.2
Identified financing	5.3	30.8	21.5	5.2	30.6	2.4	-2.7
External, net	3.7	6.4	-3.9	1.1	20.8	-5.4	7.7
Project loans	4.2	7.7	4.0	8.5	1.1	0.0	12.9
Program loans	0.0	0.0	0.0	0.0	25.0	0.0	0.0
Amortization due	-6.6	-1.3	-7.9	-7.4	-5.3	-5.4	-5.2
Exceptional financing	6.1	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club [4]	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other [5]	5.6	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	1.6	24.4	25.4	4.0	9.9	7.8	-10.3
Banking system	11.1	24.1	25.8	3.2	9.7	7.8	-8.3
Counterpart to IMF resources (BEAC)	6.5	6.6	1.1	10.9	-1.2	-2.8	-3.8
Central Bank	16.7	12.8	13.6	-3.1	10.1	10.0	-2.5
Commercial banks	-12.1	4.7	11.1	-4.6	0.8	0.6	-2.0
Nonbank [6]	-9.6	0.4	-0.4	0.8	0.1	0.0	-2.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	80.9	56.9
Memorandum items:							
Total government debt	344.3	317.8	337.9	337.7	385.7	452.5	501.7
Government domestic debt	193.7	122.9	92.0	79.7	108.1	183.0	228.3
Spending for DDR	0.4	1.9	2.6	…	…	…	…
Nominal GDP	936	984	1,036	1,108	760	808	889

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

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

[2] In 2009 and beyond, includes outlays for the disarmament, demobilization and reintegration(DDR) process.

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

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

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

[6] Includes repayments to CEMAC commercial banks and domestic suppliers for oil subsidies and on expected future bond issues.

Table 3. Central African Republic: Central Government Financial Operations, 2009–15

(percent of GDP)

	2009	2010	2011	2012	2013 Prel.	2014 Proj.	2015 Proj.
Revenue	16.1	17.2	13.3	16.4	8.4	9.3	12.6
Domestic revenue	10.8	11.6	10.8	11.5	5.7	6.4	9.0
Tax revenue	8.7	9.3	8.4	9.9	5.2	5.4	6.9
Taxes on profits and property	2.0	1.8	1.8	1.9	0.9	1.1	1.4
Taxes on goods and services	6.7	7.5	6.6	8.0	4.3	4.3	5.5
Of which: taxes on international trade	1.9	2.7	3.1	2.8	1.2	1.4	1.9
Non-tax revenue	2.1	2.3	2.4	1.6	0.4	1.0	2.0
Grants	5.3	5.5	2.5	4.9	2.7	2.9	3.6
Program	1.8	1.4	0.0	1.0	1.3	0.0	0.0
Project	3.5	4.1	2.5	3.9	1.4	2.9	3.6
Expenditure [1]	16.2	18.6	15.7	16.3	14.7	17.6	18.1
Current primary expenditure	10.1	11.5	11.1	9.5	12.4	13.3	11.2
Wages and salaries	4.5	4.4	4.4	4.6	7.1	7.1	6.0
Transfers and subsidies [2]	2.6	3.3	3.1	2.1	2.3	3.3	2.7
Goods and services	3.0	3.8	3.5	2.8	3.0	2.9	2.5
Interest due	1.1	1.0	0.7	0.7	0.6	0.7	0.9
External	0.4	0.2	0.3	0.1	0.3	0.3	0.3
Domestic	0.7	0.8	0.4	0.6	0.3	0.4	0.6
Capital expenditure	4.9	6.0	4.0	6.2	1.7	3.6	6.0
Domestically financed	1.0	1.1	1.0	1.5	0.1	0.7	0.9
Externally financed	4.0	4.9	2.9	4.6	1.6	2.9	5.1
Overall balance							
Excluding grants	-5.4	-7.0	-4.9	-4.9	-9.0	-11.2	-9.2
Of which: domestic primary balance [3]	-0.3	-1.0	-1.3	0.5	-6.8	-7.6	-3.2
Including grants	-0.1	-1.4	-2.4	0.0	-6.3	-8.3	-5.5
Net change in arrears ((-) = reduction)	-0.5	-0.6	0.2	-0.5	2.3	-2.0	-0.6
Domestic	-0.5	-0.8	-0.4	-0.4	2.3	-2.0	-0.6
External	0.0	0.1	0.6	-0.1	0.0	0.0	0.0
Errors and omissions	0.0	-1.1	0.1	0.0	0.0	0.0	0.0
Overall balance, cash basis	-0.6	-3.1	-2.1	-0.5	-4.0	-10.3	-6.1
Identified financing	0.6	3.1	2.1	0.5	4.0	0.3	-0.3
External, net	0.4	0.7	-0.4	0.1	2.7	-0.7	0.9
Project loans	0.5	0.8	0.4	0.8	0.1	0.0	1.5
Program loans	0.0	0.0	0.0	0.0	3.3	0.0	0.0
Amortization due	-0.7	-0.1	-0.8	-0.7	-0.7	-0.7	-0.6
Exceptional financing	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club [4]	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other [5]	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	0.2	2.5	2.5	0.4	1.3	1.0	-1.2
Banking system	1.2	2.4	2.5	0.3	1.3	1.0	-0.9
Counterpart to IMF resources (BEAC)	0.7	0.7	0.1	1.0	-0.2	-0.3	-0.4
Central Bank	1.8	1.3	1.3	-0.3	1.3	1.2	-0.3
Commercial banks	-1.3	0.5	1.1	-0.4	0.1	0.1	-0.2
Nonbank [6]	-1.0	0.0	0.0	0.1	0.0	0.0	-0.2
Residual financing need	0.0	0.0	0.0	0.0	0.0	10.0	6.4
Memorandum items:							
Total government debt	35.2	32.3	32.6	30.5	50.8	56.0	56.5
Government domestic debt	20.4	21.2	8.9	7.2	14.2	22.6	10.7
Spending for DDR	0.0	0.2	0.3	…	…	…	…

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] In 2009 and beyond, includes outlays for the disarmament, demobilization and reintegration (DDR) process.

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

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

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

[6] Includes repayments to CEMAC commercial banks and domestic suppliers for oil subsidies and on expected future bond issues.

Table 4. Central African Republic: Monetary Survey, 2009–15

	2009	2010	2011	2012	2013 Prel.	2014 Proj.	2015 Proj.
	(CFAF billions, end of period)						
Net foreign assets	35.0	10.3	13.3	-11.4	2.7	9.7	25.5
Bank of Central African States (BEAC)	21.4	-0.2	-4.8	-7.2	3.3	2.1	12.9
Commercial banks	13.6	10.5	18.2	-4.2	-0.6	7.6	12.6
Net domestic assets	164.6	206.4	245.5	284.1	290.7	301.7	297.6
Domestic credit	173.0	218.6	252.1	284.6	238.2	248.3	249.1
Credit to the public sector	109.8	130.0	146.9	144.5	149.4	156.2	148.3
Credit to central government (net)	111.8	138.2	158.8	155.7	156.7	164.5	156.3
BEAC	105.2	126.9	141.7	143.0	143.3	150.5	144.3
Treasury account	21.5	22.4	23.3	15.2	20.0	20.6	20.0
Consolidated loans	72.8	76.1	78.1	88.0	76.5	86.1	85.4
IMF (net)	35.7	44.6	45.7	50.2	50.2	50.2	50.2
Deposits	-24.9	-16.2	-5.4	-10.4	-3.4	-6.4	-11.4
Commercial banks	6.6	11.3	17.2	12.6	13.4	14.0	11.9
Credit to other public agencies (net)	-2.0	-8.2	-11.9	-11.2	-7.3	-8.3	-8.0
Credit to the economy	63.2	88.7	105.2	140.1	88.7	92.0	100.9
Public enterprises	1.7	1.6	2.8	3.1	2.1	3.1	3.1
Private sector	61.5	87.0	102.4	137.0	86.6	88.9	97.7
Other items (net)	-8.4	-12.3	-6.6	-0.6	52.5	53.4	48.5
Money and quasi-money	157.0	197.6	206.1	214.8	144.1	159.8	184.3
Currency	78.0	103.2	105.4	112.4	76.2	81.4	89.9
Deposits	79.0	94.4	100.7	102.4	67.9	78.5	94.4
Demand deposits	51.3	64.6	61.7	60.7	40.8	47.5	57.1
Term and savings deposits	27.6	29.8	39.0	41.6	27.2	30.9	37.3
Memorandum items:							
NDA of the central bank (CFAF billions)	83.4	126.9	121.9	129.3	79.7	87.0	85.0
Monetary base	104.8	126.7	117.1	122.1	83.0	89.1	97.9
Nominal GDP	935.7	983.6	1,036.0	1,107.7	759.7	808.3	888.6
Velocity (GDP/broad money)							
Average (five quarters)	6.2						
End of period	6.0	5.0	5.0	5.2	5.2	5.2	5.2
	(Annual change, percent of beginning period broad money)						
Net foreign assets	7.6	-15.7	1.5	-12.0	6.6	4.9	9.9
Net domestic assets	11.4	26.6	19.8	18.7	3.1	7.6	-2.6
Net domestic credit	9.5	29.1	17.0	15.8	-21.6	7.0	0.5
Net credit to central government	7.7	16.8	10.5	-1.5	0.5	5.4	-5.2
Credit to the economy	-0.7	16.2	8.4	16.9	-23.9	2.3	5.5
Money and quasi–money	13.7	25.9	4.3	4.2	-32.9	10.9	15.3
	(Annual percentage change)						
Monetary base	26.8	20.9	-7.6	4.3	-32.0	7.4	9.8
Credit to the economy	-1.4	40.3	18.6	33.2	-36.7	3.7	9.6
Public enterprises	-20.0	-4.2	72.6	10.6	-32.0	47.0	0.0
Private sector	-0.8	41.5	17.6	33.8	-36.8	2.7	9.9
Memorandum items:							
Gross official foreign reserves (CFAF billions)	66.7	62.1	57.8	58.6	69.2	70.2	81.0
NDA of the central bank (CFAF billions)	83.4	126.9	121.9	129.3	79.7	87.0	85.0
Monetary base (CFAF billions)	104.8	126.7	117.1	122.1	83.0	89.1	97.9
Nominal GDP (CFAF billions)	936	984	1,036	1,108	760	808	889
Velocity (GDP/broad money)							
End of period	6.0	5.0	5.0	5.2	5.2	5.2	5.2

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

Table 5. Central African Republic: Balance of Payments, 2009–15

	2009	2010	2011	2012	2013 Prel.	2014 Proj.	2015 Proj.
				(CFAF billions)			
Current account	-86.0	-100.3	-78.7	-62.1	-78.9	-114.1	-119.5
Balance on goods	-69.5	-81.3	-53.7	-53.7	-56.9	-82.9	-91.0
Exports, f.o.b.	58.5	69.8	90.3	95.1	51.6	52.1	58.8
Diamonds	23.3	25.9	29.7	29.5	7.2	12.8	14.7
Wood products	24.7	29.6	40.2	44.7	28.6	23.6	27.6
Imports, f.o.b.	-128.0	-151.1	-144.0	-148.8	-108.5	-135.0	-149.9
Petroleum products	-30.9	-40.6	-40.2	-40.2	-30.3	-47.0	-54.9
Public investment program	-12.1	-18.1	-11.4	-17.1	-3.2	-7.3	-13.4
Services (net)	-43.0	-56.3	-52.9	-55.4	-61.8	-62.8	-62.3
Credit	30.6	34.4	34.8	35.2	16.9	16.1	16.8
Debit	-73.6	-90.7	-87.7	-90.6	-78.7	-78.9	-79.2
Income (net)	-10.0	-2.2	-2.4	-0.5	-0.5	-0.3	0.1
Credit	7.3	7.9	8.3	8.9	5.7	5.8	6.1
Debit	-17.3	-10.1	-10.7	-9.5	-6.3	-6.1	-6.0
Transfers (net)	36.5	39.6	30.3	47.4	40.3	31.9	33.8
Private	2.9	3.5	7.1	12.7	15.0	15.3	15.5
Official	33.6	36.1	23.2	34.7	25.3	16.6	18.3
Capital account	43.0	40.7	26.3	42.9	11.0	23.4	32.3
Project grants	32.8	40.7	26.3	42.9	11.0	23.4	32.3
Capital grants and transfers	10.2	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	62.8	24.3	29.5	42.8	32.2	102.2	107.1
Direct investment	19.9	30.4	17.4	36.2	0.2	4.2	19.4
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment[1]	42.9	-6.1	12.1	6.6	32.1	98.0	87.8
Errors and omissions	19.8	-5.9	12.1	-22.8	46.3	0.0	0.0
Overall balance	19.9	-35.3	-22.8	23.6	-35.7	-79.9	-46.1
Identified financing	-39.7	41.2	10.7	-0.9	-10.6	-1.0	-10.8
Net official reserves movements	-48.0	11.2	4.4	-0.9	-10.6	-1.0	-10.8
Net IMF credit	6.5	6.6	0.0	9.9	-1.2	-1.0	-3.8
SDR allocation	38.1	0.0	0.0	0.0	0.0	0.0	0.0
Other reserves (increase = -)	-54.5	4.6	4.4	-10.8	-9.4	0.0	-7.0
Exceptional financing	8.3	30.0	6.3	0.0	0.0	0.0	0.0
Debt rescheduling	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing [2]	7.8	30.0	6.3	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	80.9	56.9
Memorandum items:			(Annual percentage change; unless otherwise indicated)				
Terms of trade	32.0	0.0	1.5	3.3	-6.1	-18.9	2.0
Gross official foreign reserves							
(CFAF billions, end-of-period)	66.7	62.1	57.8	58.6	69.2	70.2	81.0
(Months of imports, f.o.b.)	3.3	3.2	2.9	3.8	3.9	3.7	4.0
Current account (percent of GDP)	-9.2	-10.2	-7.6	-5.6	-10.4	-14.1	-13.4
Capital account (percent of GDP)	4.6	4.1	2.5	3.9	1.4	2.9	3.6
NPV of external public and guaranteed debt (percent of GDP)	7.5	13.3	16.1	15.3	15.1	14.7	14.0
Nominal GDP (CFAF billions)	936	984	1,036	1,108	760	808	889

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

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

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

Table 6. Central African Republic: Indicators of Capacity to Repay the IMF, 2014–24

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
IMF obligations based on existing credit											
(SDR millions)											
Principal	3.2	10.1	13.9	12.2	10.3	8.3	3.1	1.4	1.4	0.0	0.0
Charges and interest	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
IMF obligations based on existing and prospective credit											
(SDR millions)											
Principal	3.2	10.1	13.9	12.2	10.3	9.1	4.8	3.1	3.1	1.7	0.8
Charges and interest	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit											
SDR millions	3.3	10.3	14.1	12.3	10.4	9.2	4.9	3.1	3.1	1.7	0.9
CFAF billions	2.6	8.1	11.1	9.7	8.2	7.2	3.8	2.5	2.5	1.4	0.7
Percent of government revenue	4.9	10.1	12.4	9.6	7.6	6.0	2.9	1.6	1.5	0.7	0.3
Percent of exports of goods and services	3.8	10.6	13.6	11.1	8.8	7.2	1.8	1.0	0.9	0.5	0.2
Percent of debt service [2]	5.8	18.8	26.5	48.5	47.3	45.7	24.1	15.5	16.0	9.3	5.0
Percent of GDP	0.3	0.9	1.1	0.9	0.7	0.6	0.3	0.2	0.2	0.1	0.0
Percent of quota	5.9	18.5	25.4	22.1	18.7	16.5	8.8	5.6	5.6	3.1	1.6
Outstanding IMF credit [2]											
SDR millions	69.0	58.9	45.0	32.8	22.5	13.4	8.6	5.6	2.5	0.8	0.0
CFAF billions	54.0	46.2	35.3	25.7	17.6	10.5	6.8	4.4	2.0	0.7	0.0
Percent of government revenue	104.2	58.0	39.5	25.6	16.3	8.7	5.0	2.9	1.2	0.3	0.0
Percent of exports of goods and services	79.2	61.0	43.3	29.6	18.9	10.5	3.1	1.8	0.8	0.2	0.0
Percent of debt service [2]	123.0	107.9	84.4	129.3	102.0	66.5	42.6	27.5	12.8	4.4	0.0
Percent of GDP	6.7	5.2	3.6	2.4	1.5	0.8	0.5	0.3	0.1	0.0	0.0
Percent of quota	123.8	105.8	80.8	58.9	40.4	24.1	15.5	10.0	4.5	1.5	0.0
Net use of IMF credit (SDR millions)	10.7	-10.1	-13.9	-13.7	-12.5	-16.9	-15.7	-12.2	-8.9	-6.9	-1.7
Disbursements	13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	3.2	10.1	13.9	13.7	12.5	16.9	15.7	12.2	8.9	6.9	1.7
Memorandum items: [3]											
Nominal GDP (billions of CFA francs)	808.3	888.6	967.9	1060.7	1157.9	1256.6	1365.6	1485.2	1616.5	1760.9	1920.0
Exports of goods and services (in billions of CFA francs)	68.2	75.7	81.4	86.8	93.3	100.2	215.8	236.4	259.9	287.1	318.7
Government revenue (in billions of CFA francs)	51.9	79.6	89.3	100.3	108.2	120.3	133.9	149.3	166.6	186.1	208.0
Debt service (in billions of CFA francs) [2]	43.9	42.8	41.8	19.9	17.3	15.8	15.9	15.9	15.3	14.7	14.0

Sources: IMF staff estimates and projections.

[1] Assumes disbursements of SDR 13.925 million (25 percent of quota) according to proposed schedule.

[2] Total debt service includes IMF repurchases and repayments.

[3] Long-term forecast assumptions are explained in detail in the DSA document.

Appendix I. Letter of Intent

Bangui, May 1, 2014

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

Madame Managing Director,

On June 25, 2012, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) in the amount of SDR 41.78 million in support of a reform program aimed at maintaining macroeconomic stability, laying a foundation for sustainable economic growth, and reducing poverty.

Since then, Central African Republic (C.A.R.) has faced many shocks. One such political shock emerged in December 2012 when a coalition of armed rebel groups (Seleka), headed by Mr. Djotodia, took control of a large part of the country. This led to the signing of the Libreville Agreements, but noncompliance with their terms resulted in the resumption of hostilities and the ousting of President Bozizé on March 24, 2013. Seleka's takeover sparked a security shock that plunged the country into a spiral of violence and intercommunity conflict. The widespread insecurity, looting, and destruction of administrative and economic infrastructures paralyzed the machinery of government and led to the mass displacement of 1 million people, a quarter of the population of C.A.R. This paved the way for an unprecedented humanitarian crisis.

Owing to these multiple shocks, slippages occurred under the ECF-supported program and our medium-term growth and poverty reduction strategy for 2011–15 became obsolete.

Confronted with these challenges, the new C.A.R. transitional government, which took over after Mr. Djotodia was forced out under international pressure, adopted a revised roadmap that was submitted to the Transitional National Council (Conseil National de Transition) after being approved by the implementing committee for the Libreville Agreements and the International Contact Group. On the basis of this roadmap, we refocused our priorities in the Emergency Program for Sustainable Recovery (Programme d'Urgence pour le Relèvement Durable – PURD) of C.A.R. In keeping with the roadmap and the PURD, we prepared a priority action plan.

In this context, we have decided to inform the IMF of our decision to cancel the ECF-supported program with immediate effect and to request a disbursement of SDR 8.355 million under the Rapid Credit Facility (RCF) upon Board approval to meet the urgent balance of payments need in 2014. A second RCF of SDR 5,570 million would be requested before the end of the year, conditional upon the presence of continued balance of payments needs and satisfactory implementation of the needs this RCF.

The attached Memorandum of Economic and Financial Policies (MEFP) describe the economic and financial situation in 2013. It also outlines the economic and financial policies C.A.R. transitional government plans to implement in 2014. The purpose is to address the people's urgent needs and to put in place a fiscal policy designed to restore stability and improve public financial management (PFM).

The transitional government believes that the measures and policies set forth in the attached MEFP are appropriate for attaining its program objectives, but is ready to take any additional measures that might be necessary. C.A.R. will consult with IMF staff on the adoption of such measures, and especially in advance of revisions to the policies contained in the attached MEFP, in accordance with the IMF's policies on such consultations. We will provide the IMF with such information as the IMF may request to be able to assess the progress made in implementing the economic and financial policies and achieving the objectives of the program. During the program period, we will not impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payment purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF Articles of Agreement.

In the event of a chronic deficit in the balance of payments, and driven by our determination to attain the program objectives under the MEFP, we plan to request additional assistance under the RCF, backed by new macroeconomic and PFM commitments. In so doing, we want to make it clear to our development partners that we are committed to continuing to implement sound policies until such time as the conditions for requesting financial support under the ECF have been met.

We intend to publish the IMF staff report, including this letter, the MEFP, the TMU, and the debt sustainability analysis document. We therefore authorize IMF staff to post these documents on the IMF's external website once the Executive Board approves the RCF.

Sincerely yours,

Minister of Finance and Budget	Prime Minister, Head of the Transitional Government
/s/	/s/
Remy Yakoro	André Nzapayeke

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum on Economic and Financial Policies, 2014

1. This memorandum describes the economic and financial policies supported by the Rapid Credit Facility (RCF) that the transitional government of Central African Republic (C.A.R.) plans to implement in 2014. These policies are in line with the emergency program established for the period 2014–16.

CONTEXT

2. The country is facing an exceptionally severe crisis with a profound, lasting economic impact. The crisis, which has gripped C.A.R. since December 2012 and more specifically as of March 24, 2013, and its worsening in December 2013, affects the country at all levels—political, security, social, humanitarian, and economic. The crisis has touched every corner of the nation and has led to thousands of deaths, both in Bangui and in the provinces. Nearly a quarter of C.A.R. population has been displaced, paralyzing the main sectors of the domestic economy. The agricultural sector, which accounts for close to half of GDP and employs up to 80 percent of the workforce, has suffered deep blows to its subsistence component, threatening to plunge a quarter of C.A.R. population into a food crisis in 2014.

3. Security risks remain pervasive. The French-led Operation Sangaris and a stronger MISCA (African-led International Support Mission in C.A.R.) contingent have thus far failed to restore peace and security to the country, even though a relative calm has descended on the region in recent months. The situation continues to be very fragile and unpredictable. Ongoing violence and insecurity are slowing the long-overdue end to the crisis.

4. An emergency economic program is in place to address the country's daunting challenges. The new Central African authorities (established in January 2014) adopted the Emergency Program for Sustainable Recovery of C.A.R. (Programme d'Urgence pour le Relèvement Durable – PURD-RCA) for the period 2014–16. This Program is in line with the Revised Transition Roadmap (Feuille de Route Révisée de la Transition) and aims to secure community protection and ensure the country's recovery during the transition phase. It is also aligned with the broad guidelines established for the transitional authorities by the Heads of State of the Economic Community of Central African States (ECCAS) to meet the urgent needs of the country's people, restore peace and security, achieve greater economic stability, and revive economic growth. It also provides for the involvement of new players in the process of disarmament, demobilization, resettlement, reintegration, and

repatriation (DDRRR), necessitated by the events that occurred in December 2013. In the lead-up to the elections slated for February 2015, restoring security during the remaining phase of the transition is a necessity and priority for the new authorities, critical to bringing back the nation's people and reinvigorating economic activity in C.A.R.

RECENT ECONOMIC AND FINANCIAL DEVELOPMENT AND PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

A. Recent Economic Developments

5. Deterioration in the security situation and the political and social unrest weighed heavily on the country's economic, financial, and administrative position in 2013. As a result, economic growth declined 36 percent in real terms, while exports slumped 44 percent in dollar terms. Imports were also down 27.1 percent in dollar terms. With grants falling 15 percent, the balance of payments current account deficit nearly doubled from 5.6 percent of GDP in 2012 to 10.4 percent of GDP in 2013. With respect to the budget, tax revenues dropped 63.5 percent, while current primary expenditure was down just 10 percent due in large part to higher security spending. Consequently, the domestic primary deficit was 6.8 percent of GDP compared to a surplus of 0.5 percent in 2012. Deteriorating public finances led to an accumulation of domestic payment arrears (2.3 percent of GDP), notably 5 months of wages and salaries at end February 2014. The consumer price index averaged 6.6 percent, twice the inflation rate over the four years preceding the conflict. The conflict led to the destruction of infrastructure and businesses and paralyzed the government and its operations, reducing the potential for economic growth. Public financial management (PFM) channels were also paralyzed and damaged.

B. Performance under the ECF-Supported Program

6. The ECF-supported program was derailed by the multifaceted crisis that gripped the country as of March 2013. Discussions and papers on the first review were finalized, but the Executive Board could not take the authorities' request into consideration given the events that shook the country. Continuation of the program was hampered by the worsening of the crisis, particularly in the latter part of 2013.

PROGRAM FOR 2014

A. Implementation of an Emergency Macroeconomic Framework

7. The economic outlook for 2014 is expected to remain subdued. The security situation is expected to improve and movement of goods should resume, particularly via the customs corridor, which is a pass-through for close to half of imports from Cameroon. That coupled with political stability and the gradual return of the displaced populations, some of which will resume their pastoral, agricultural, and commercial activities, could bring economic recovery. It is therefore expected that (i) economic growth will reach 1.5 percent in real terms, owing mainly to the opening of the cotton ginning plant in Bossangoa, the lifting of the embargo on diamond exports, and the return of government operations across the country; (ii) the consumer price index will increase by 4.4 percent on average, compared to 6.6 percent in 2013, due to improved distribution of international aid, a larger supply of local goods, and the re-opening of economic channels; (iii) the primary deficit is projected to reach 7.6 percent of GDP, compared to 6.8 percent in 2013; and (iv) the balance of payments current account deficit will be capped at 14.1 percent of GDP.

B. A Public Finance Program to Address the Most Pressing Concerns in 2014

8. Our first concern is to restore the government's key functions and secure public finances with support from the international community. In so doing, we can reassure partners that we are committed to promptly regaining our capability to cover our primary expenditure and ensure proper use of public resources. To that end, we have prepared an emergency public finance plan based on the following priorities: (i) improve tax revenue performance; (ii) secure revenues; (iii) enhance cash flow management and monitoring to ensure greater control over revenue and expenditure; and (iv) set up the Central Accounting Agency of the Treasury (Agence Comptable Centrale du Trésor – ACCT) as the key institution charged with managing cash flow and ensuring that resource flows and expenditures have an audit trail.

9. Improved revenue performance is a major challenge for the transitional government. With a tax revenue rate of 5.2 percent of GDP in 2013, C.A.R. ranked lowest in the world in 2013 in terms of tax revenue collection. This is partly due to the country's deteriorating security situation since March 2013, which resulted in: (i) looting and complete disruption of government revenue entities; (ii) the government's inability to normally perform its regulatory activities (loss of control over the clearance process and difficulty for the Directorate General of Taxation to monitor filing of returns

and oversee domestic taxation); and (iii) impact on economic operators (looting, destruction of tools of production, and drop in activity).

10. To rise to this challenge without compromising current and future revenue, the transitional government is committed to taking emergency measures with respect to the following central structures:

- Directorate General of Taxes and Government Property: (i) remove from the 2014 draft budget all references to post-conflict special investment incentives (mesures spéciales incitatives à l'investissement pendant la période post-conflit) pending an evaluation of this instrument by the IMF Fiscal Affairs Department; (ii) strengthen monitoring of the filing of returns by taxpayers; (iii) improve control over taxes on flows, particularly the VAT, by making it the focus of fiscal control operations; and (iv) limit exemptions strictly within the framework of the Law.

- Directorate General of Customs and Domestic Tariffs: (i) regain control of the customs clearance process with the support of international forces throughout the country; (ii) maintain, in the immediate future, the single customs clearance window (guichet unique) in Douala for goods transiting through Cameroon by regularly rotating staff; (iii) step up post-clearance audits and actions to combat fraud; and (iv) implement stricter monitoring of exemptions by increasing controls of destinations.

- Safeguarding of tax revenue addresses an old concern that has become more sharply felt in the context of the current crisis. The transitional government plans to improve the traceability of revenue paid back into the Treasury Single Account (TSA) through tax revenue repaid by the banks. In so doing, it will: (i) implement, in a timely manner, the recommendations issued in the two technical assistance reports on improved cash flow management, financed by the European Union; (ii) not sign any new agreements relating to debt, debt buybacks, or securitization with commercial banks; (iii) review all existing agreements binding the government and commercial banks (by identifying in its accounting entries all claims that have already been posted in the system); (iv) improve monitoring of taxes paid by taxpayers by placing personnel inside banks who would be responsible for tracking, in close detail and for each taxpayer, all taxes paid in order to reconcile them with the revenue paid back into the TSA pending the implementation of the GESCO taxation software; and (v) regularly monitor the status of reconciliations between agencies, commercial banks, and the Treasury.

11. Development and management of a monthly cash flow plan, as well as compliance with it, will improve financial resource allocation. The transitional government knows that more than two thirds of revenue required for execution of the 2014 budget (CFAF 80.9 billion out of a total of CFAF 107.8 billion in current primary expenditure) will come from external financing. Aware of the uniqueness of the situation and in the interest of transparency to reassure its partners, the transitional government created two committees: (i) the Treasury Committee (Comité de trésorerie – CT) entrusted with setting priorities and monitoring cash flow management on a monthly basis; and (ii) the PFM and Oversight Committee (Comité de suivi et de gestion des finances publiques – CSGFP) tasked with monitoring, on a quarterly or more frequent basis if necessary, the use of all public resources and the proper implementation of the cash flow plan. Adoption of legislation establishing the CT and the CSGFP and its effective implementation are prerequisites to submission of the IMF staff report to the IMF Executive Board. To facilitate the work of these two committees, a cash flow plan was developed by the transitional government and signed by the Minister of Finance for all of 2014, stating the monthly revenue and expenditure targets in order of priority. As the cash flow plan is implemented, it will track all the resources received and disbursements made on a cash basis. As a complement to this plan, the transitional government undertakes to provide detailed statements of income, expenditure, and all cash flow so that reconciliation with flows posted in the TSA at the BEAC can take place.

12. The creation of the ACCT will secure cash flow and strengthen accounting oversight. The ACCT was officially created on December 30, 2012, during a revision of the decree establishing the DGTCP, but has yet to be put in place. The purpose of this reform is to provide better coverage of and give greater autonomy to the two areas of responsibility currently held by the Director General of the Treasury: (i) cash flow, and (ii) government accountability. Integration of the ACCT within the DGTCP, an autonomous structure, the head of which would have senior accounting officer status, should rationalize the following operations within these two areas of responsibility: (i) management, safeguarding, centralization, and oversight of government cash flow; and (ii) monitoring and consolidation of accounting operations. To confirm its commitment to put in place the ACCT, the transitional government will recruit a Central Accounting Officer of the Treasury and his deputy by end September 2014 (**structural benchmark**). This will be one of the three structural benchmarks for monitoring the execution of the RCF.

13. The transitional government has undertaken to modernize government personnel and wage management and to further pursue the civil service reform, which has lagged behind since the adoption of the new civil service regulations in 2009. As part of the implementation of the urgent plan to restore public services supported by the World Bank, and with the assistance of the UNDP,

we will proceed with updating the government personnel roster and prepare a report to inform the IMF, including the defense and security forces, in order to streamline the civil servant payroll roster. At end-June 2014, an initial clean-up of the roster and a report to the IMF (**end-June structural benchmark**) will make it possible to make payments to civil servants in accordance with regulations. These employees will have first needed to produce a certificate of attendance, checked and certified by a joint committee comprising the relevant government staff in charge of this operation. Once the roster has been cleaned up, staff not in good standing will have the opportunity to justify their situation, and all contentious cases will be carefully examined by the appropriate civil service officials. The government intends to secure the databases and implement adequate procedures for managing civil servant positions and careers, from payroll to retirement. An interface will then be created to provide a link to the PFM system. The transitional government will, by end-2014 and with support from partners, ensures strict, prudent management of recruitment to fill positions in priority sectors using the salary scale in place. Moreover, authorities will need to clarify the situation of non-statutory staff (Hors Statuts). In keeping with this strict management, the authorities should attract talent with qualifications specific to C.A.R.'s situation, including from among the diaspora. Current recruitment and management of non statutory staff led to an all-out hiring effort, to such an extent that the increase in workforce is no longer consistent with the expenditure control sought by the authorities.

14. A technical assistance (TA) program will help the authorities complete the emergency plan. The authorities began soliciting partners to mobilize short-and medium-term TA so that the emergency plan could be completed in the various areas concerned. This assistance has for the most part already been identified and the dates set. Two long term TA providers will be made available during the second half of the year by the European Union for the ACCT and Directorate General of Budget, respectively, to support the implementation of the ACCT and the return to fiscal discipline. The World Bank intends to lend to the transitional authorities two TA providers for customs and tax revenue collection agencies, respectively, and will provide other technical support to the Directorate General of Civil Service. Lastly, a number of short-term TA missions are also planned by the World Bank, the European Union, the French development agency (Coopération française), and the AfDB, which agreed with the authorities on a restructuring of the institutional support project on public finances underway with a view to providing urgent assistance to financial administrations (Project to Build Economic and Financial Management Capacity (PARGEF in French). Monthly updates will be provided to assess the implementation of this TA and the progress made in achieving the set objectives.

C. 2015 Fiscal Program Milestones

15. In respect of the framework we are gradually putting in place to end the crisis, the 2015 budget year will be a transitional one as efforts to stabilize our public finances continue. The 2015 budget should bring us out of the crisis and into a normal state. In a context of enhancing security and restoring the government's basic functions, economic growth is expected to continue to edge up progressively to about at least 5 percent in real terms, and will likely continue to be driven by agriculture and services. Inflation is expected to be further contained at around 4 percent. As regards government finance, the budget outline being prepared shows an improvement in the collection of revenue, which is expected to reach 12.6 percent of GDP. This increase will likely be due primarily to the favorable performance of tax on revenue and international trade. Current primary expenditure is expected to drop to 11.2 percent of GDP owing to a lower payroll (clean-up of the civil servant and wage roster, and streamlined recruitment), transfers, and goods and services. This effort to control current expenditure should free up additional resources in order to raise domestically financed capital spending by 0.2 percentage point of GDP compared to 2014. Consequently, the domestic primary deficit is expected to decline from 7.6 percent of GDP in 2014 to 3.2 percent of GDP, generating a financing gap of CFAF 56.4 billion, equivalent to 6.4 percent of GDP.

D. Medium-term Reforms and a Return to Fiscal Discipline

16. The transitional government wants to reinstate normal budget procedures as soon as possible. The transitional government recognizes that exceptional procedures for executing expenditure charged to the treasury (cash payment orders and budgetary payment orders) are widely used for: (i) expenditure on goods and services, and (ii) transfers and subsidies. This situation, a departure from normal budget procedures for expenditure execution (commitment, validation, payment authorization, and payment), seriously limits the usefulness of the budget and prevents normal ex ante expenditure control as well as pre payment accounting control. This in turn greatly heightens fiduciary risk, alters the traceability of expenditure, and affects the capability of the authorizing officer and accountant to be able to report accordingly. The quality of the budget procedure is not responsible for the fact that the procedure is circumvented. Many expert reports show that the difficulties arise when expenditure is committed without reference to the fiscal framework. Accordingly, the transitional government will reinstate normal budget procedures by limiting to 7 percent the amount of expenditure executed by way of the exceptional procedure (budgetary payment order). Such spending includes missions, transportation, health-related evacuations, student travel, and repatriations of diplomats and mortal remains.

17. To help reinstate normal budget procedures, the transitional government will reconnect the GESCO-Budget and GESCO-comptabilité applications during the second half of the year. The break in the Budget/Treasury chain due to looting and the disconnection of the respective computer applications arising from it (GESCO-Budget/GESCO-comptabilité) prevents reconciliation of fiscal and accounting data from a technical standpoint. Noting that this problem interferes with proper budget execution, the transitional government wants to, first and foremost, reconnect GESCO-Budget/GESCO-comptabilité and undertakes, with support from partners, to have them back up by end-September 2014 (**structural benchmark**).

18. The transitional government recognizes that the conditions for collecting petroleum taxes will need to be redefined. The transitional government will seek support from partners to entrust an international audit firm with reconstructing all the cross-debt between the government and petroleum sector operators. TA will be available from the IMF so that the petroleum product price structure may be revised.

19. Collection of fiscal revenue must also be reviewed in relation to gold, diamonds, mobile telephony, and forestry products. The transitional government wants to improve monitoring of all revenue generated by these sectors. It undertook to produce, starting in January 2014, a monthly detailed statistical overview of all tax and nontax revenues received for these three sectors.

E. Social Component

20. As of 2014, social sectors are one of the top priorities for the authorities. The budget provides for CFAF 43 billion, including CFAF 6.5 billion in current expenditure. A total of CFAF 26 billion is slated for health, including CFAF 4 billion for current expenditure to combat malaria, strengthen the Expanded Program on Immunization (EPI), expand prevention of parent-to-child transmission (PPTCT), and provide overall services to people living with HIV (PLHIV) to mitigate the impact. Appropriations for current expenditure and capital with respect to education amount to CFAF 3.9 billion. Focus will be placed on capacity building in preschool education, basic education 1, basic education 2, secondary education, and technical and vocational training. The amount provided for water and sanitation spending is CFAF 12.9 billion, including CFAF 2 billion for current expenditure, to enhance national management and planning capabilities, and to build and rehabilitate drinking water supply and sanitation structures. Support to vulnerable groups, particularly women and children, for community development is also programmed.

F. Other Structural Reforms

21. The primary concern is to reassure and instill confidence in economic operators so that business can resume. In this context, the transitional authorities will conduct a joint evaluation of the damages sustained by public and private enterprises, and to put in place support measures for those that have been affected. Moreover, the transitional government will take steps in the short term to facilitate the return of displaced individuals, notably traders and farmers. In the same vein, it is crucial to inject renewed impetus into the joint committee responsible for improving the business climate and into the permanent framework for government-private sector cooperation. The reforms to be put in place in the medium term include: (i) lowering the cost of credit and providing access to financing; (ii) strengthening the judicial governance framework; (iii) revising the investment charter; and (iv) building the capacities of consular chambers.

22. Strengthening governance is also a key aspect of the structural reforms aimed at promoting private-sector activity. In this context, the authorities are considering issuing implementing decrees that would give legal standing to the National Authority for Combating Corruption (Autorité Nationale de Lutte contre la Corruption – ANLC). Together with donors, the authorities will mobilize the human and physical resources necessary to jumpstart the ANLC's operations by the end of the year.

G. Sustainable Debt Policy

23. The external debt sustainability (EDS) analysis recently conducted by IMF and World Bank staff found that the situation has deteriorated considerably. This deterioration is associated with the political crisis that led to the collapse of economic activity, a significant drop in exports, and slow economic recovery. Moreover, loans were contracted during the months of crisis to cover the payment of wages as well as fiscal and external financing needs.

24. The low levels of debt inherited from the 2009 debt relief created conditions favorable to better external debt management, but the political crisis has had an adverse effect. Thus, the worsening of the external debt-to-export and debt service to export ratios exposes the country to a high risk of debt distress, including in the baseline scenario. However, a turnaround is possible as soon as the country's economic growth, exports, and foreign direct investment resume. These two ratios would then return to sustainable levels.

25. In the meantime, the transitional government undertakes to conduct a prudent debt policy. We are committed to meeting the bulk of our financing needs through grants and the rest through concessional loans with a grant element of at least 35 percent (continuous benchmark, Table 1).

H. Program Monitoring

26. The program will be monitored using quantitative indicators and structural benchmarks. The indicators will be used to assess progress in economic and financial performance at June 30, September 30, and December 31, 2014 (Table I.1.). The structural benchmarks will lay a solid foundation for the macroeconomic policies and will be conducive to preparing for exit from the emergency phase. The indicators and benchmarks are defined in the Technical Memorandum of Understanding (TMU), which also sets out the nature and frequency of data to be provided for program monitoring.

27. An institutional framework adapted to the program's implementation is in place. The Interministerial Steering Committee on Economic and Financial Reforms (Comité Interministériel de Pilotage des Réformes Economiques et Financières – CIPREF), headed by the Prime Minister, is the political body in charge of reform strategy and direction. From a technical standpoint, program monitoring is overseen by the Minister of Budget, supported chiefly by the Economic and Financial Reform Monitoring Unit (Cellule de Suivi des Reformes Economiques et Financières – CS-REF) and the PRSP National Technical Secretariat (Secrétariat Technique National du DRSP) as far as monitoring of reform implementation is concerned.

Table I.1. Central African Republic: Indicative Targets under the RCF Arrangement, 2014

(CFAF billion; cumulative from beginning of the year)

	End-March 2014	End-June 2014	End-Sept. 2014	End-Dec. 2014
	Prel. Outcome	Indicative Targets	Indicative Targets	Indicative Targets
Indicative targets				
Floor on total domestic government revenue [1]	5.8	21.1	34.7	51.9
Floor on domestic primary fiscal balance [2]	-18.6	-34.2	-48.9	-61.4
New nonconcessional external debt contracted or guaranteed by the government [3, 4]	0.0	0.0	0.0	0.0
Accumulation of new external payments arrears [4]	0.0	0.0	0.0	0.0
Floor on the reduction in domestic payments arrears	0.0	5.4	10.9	16.5
Ceiling on accumulation of new domestic payment arrears	0.0	0.0	0.0	0.0

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

[1] Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, 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] Contracted or guaranteed by the government (see the TMU).

[4] These objectives will be monitored continuously.

Table I.2. Central African Republic: Prior Actions and Structural Benchmarks, 2014

Measures	Timeline	Macroeconomic Rationale	Status
Public Financial Management			
Signing of the decree creating the Treasury Committee (TC) and the effective initiation of its operation.[1,2]	**Prior action**	Improve treasury cash management.	Done
Signing of the decree creating the Committee to Monitor and Manage Public Finance (CSGFP) and the effective initiation of its operation.[1,2]	**Prior action**	Improve monitoring and management of public resources.	Done
Adoption of the 2014 budget by the Transition government and transmission to the National Transition Council (NTC).	**Prior action**	Rationalize public finance management.	Done
Completion of the first stage of the cleaning process of the civil service payment roster.	Structural benchmark (End-June 2014)	Rationalize the civil service roster and improve civil service efficiency.	
Reconnection of the computer softwares GESCO-Budget and GESCO-Accounting.	Structural benchmark (End-Sept. 2014)	Strengthen budgetary procedures and accounting traceability.	
Recruit the central treasury agent and the executive delegate.	Structural benchmark (End-Sept. 2014)	Improve treasury management and centralize accounting operations.	

[1] The minutes of the first meeting will be used to confirm the beginning of operations.

[2] These prior actions were critical to help reduce fiduciary risks and facilitate the disbursement of budget support for addressing the urgent balance of payments need of the country.

Attachment II. Technical Memorandum of Understanding, 2014

Introduction

1. This Technical Memorandum of Understanding (TMU) defines the indicators and benchmarks for the Rapid Credit Facility (RCF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring. Unless otherwise indicated, all indicative benchmarks will be assessed on the basis of cumulative flows from January 1, 2014.

Program Assumptions

2. Program exchange rates. For this TMU, the value of transactions denominated in foreign currencies will be converted into CFA francs (CFAF), the currency of Central African Republic (C.A.R.), on the basis of the program exchange rates. The key exchange rates are shown below.[1]

CFAF/US$	475.00
CFAF/euro	655.96
CFAF/SDR	732.43

3. **Oil price assumption**. The program assumes an average price per barrel of oil of US$104.17 for 2014.[1]

[1] March 4, 2014, WEO General Assumptions. Average price for 2014.

Definitions

4. Unless otherwise indicated, 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'Etat*—TOFE).

5. **Definition of debt**. The definition of debt is set out in point 9 of Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended on August 31, 2009 by decision No. 14416-(09/91) of the Executive Board:

(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 (FCAF).

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 35 percent, the net present value (NPV) of the debt being calculated with a 5 percent discount rate.

Indicative targets

Floor for total domestic revenue of the government

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

Floor for the domestic primary fiscal balance

9. **The domestic primary fiscal balance**, on a commitment basis, is defined as the difference between domestic revenue and expenditure of the government, excluding interest payments and externally-financed capital expenditure.

Ceiling on net domestic financing of the government

10. Net domestic financing of the government is defined as the sum of: (i) the net government position vis-à-vis the banking system as defined below; (ii) the amount of issues of government securities (net of redemptions) subscribed by individuals or legal entities outside the banking system or nonresident banks domiciled in the CEMAC; and (iii) privatization proceeds or exceptional revenue recorded "above the line."

11. The net government position is defined as the balance between the debts and claims of the government vis-à-vis the central bank and commercial banks. The scope of the net government position is that used by the Bank of Central African States (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 the TMU (paragraph 4) and includes local governments and some projects and administrative public entities. Government claims include the CFA franc cash balance, postal checking accounts, customs duty bills, and all deposits with the BEAC and commercial banks of public entities with the exception of industrial or commercial public entities (EPICs) and government corporations, which are excluded from the calculation. The government debt to the banking system includes all debts vis-à-vis these same financial institutions.

12. No non-concessional loans will be contracted or guaranteed by the government. During program reviews (after approval by the Executive Board of the IMF), changes may be made to the ceiling for specific investment projects, the financial viability and profitability of which have been evaluated and approved by the World Bank or the African Development Bank, and on condition that the loan does not significantly 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

13. External payment arrears are defined as payments in respect of the external debt of the government or guaranteed by the government that are due and not paid by the government at the maturity specified in the contract. The definitions of debt and external debt indicated in paragraph 5 and of government indicated in paragraph 4 apply here.

14. 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 performance criterion applies on a continuous basis.

Non-accumulation of new domestic payment arrears by the government

15. The government undertakes not to accumulate domestic payment arrears as defined in paragraph 17. This IT applies on a continuous basis.

Prior Action and Indicative Benchmarks

A. Prior Actions

Adoption of the decree establishing effectively the Treasury Committee (TC)

16. The government of transition will adopt the decree establishing the TC and communicate the minutes of the first meeting of the Committee, which should validate and approve the annual cash flow plan. The TC will also be responsible for monitoring the implementation of the annual cash flow plan, which should incorporate all monthly cash revenue and expenditure.

Signing of the decree establishing the Monitoring Committee and the Public Finance Management with an effective implementation of its works

17. The government of transition will adopt the decree establishing the Committee to Monitor and Manage Public Finance and communicate the minutes of the first meeting of the Committee to the staff. The aim of this committee is to plan and monitor the use of all public resources in coordination with technical and financial partners.

Adoption by the transitional government of the draft budget 2014 and its submission to the National Transitional Council

18. The transition government will finalize and adopt the draft 2014 budget in accordance with the commitments taken in the Letter of intent and the MEFP, and transmit it to the National Council transition for its approval.

B. Indicative benchmarks

Completion of the first stage of the payroll clearance for civil servants

19. The first step in the clearance of the payroll file is to identify civil servants in accordance with existing rules. The civil servants in possession of a certificate of attendance will be tested and certified by an ad hoc committee, including the relevant government departments in charge of the operation. Staffs that are not in good standing will have the opportunity to contest any unfavorable results. Contested cases will be carefully reviewed by the public services in charge.

Reconnection of the IT applications GESCO-budget and GESCO-accounting

20. The transition government is committed to reconnect the IT applications GESCO - Budget/GESCO - accounting to enable the reconciliation of budgetary and accounting information and limit the use of exceptional budgetary procedures (OP - Cash and OP - Budget). During the fiscal year, the use of exceptional budgetary procedures should not exceed 7 percent of total expenditure, excluding salaries and financial costs.

Recruitment of the Central Treasury Accountant and his deputy

21. The Central Accounting Agency of the Treasury is set up to centralize the treasury and ensure compliance with the rules and accounting procedures. The indicative benchmark will be considered complete when the recruitment process of the central treasury accountant and its deputy are finalized.

Data Reporting to the IMF

22. Quantitative data on the indicative targets will be reported to the IMF staff in accordance with the schedule set out in Table III.1. In addition, any changes to the data will be reported as soon as possible. The government undertakes to consult the IMF staff on any information or data not specifically discussed in this TMU that are relevant for the assessment and monitoring of the attainment of the program objectives.

Table III.1. Central African Republic—Data Reporting to the IMF under the RCF Financing

Description of Data	Deadline
Quarterly report assessing the quantitative indicators and structural measures (Table 1.2. of the MEFP), along with supporting documentation.	Within four weeks of the end of each quarter.
Monetary survey, monthly accounts of the central bank and commercial banks.	Within four weeks of the end of each month.
Table of monthly cash flow operations.	Within ten days of the end of each month.
Fiscal reporting table (TOFE).	Within four weeks of the end of each month.
Monthly total domestic payments arrears on goods and services and wages, including unpaid pensions and bonuses.	Within four weeks of the end of each month.
End-of-period stock of external debt.	Within four weeks of the end of each month.
Breakdown of expenditure included in the TOFE (goods and services, wages, interest, etc.).	Within four weeks of the end of each quarter.
Summary table of real expenditure in the priority sectors, specifically health, education, and security.	Within four weeks of the end of each quarter.
Breakdown of current and capital expenditure, both domestically- and externally-financed.	Within four weeks of the end of each quarter.
Breakdown of revenue by institution and economic classification.	Within four weeks of the end of each quarter.
Revenue and expenditure offset against each other without cash settlements (by type of expenditure and revenue).	Within four weeks of the end of each quarter.
Breakdown of debt service and external arrears, in particular by interest and principal and by main creditors.	Within four weeks of the end of each month.
Amount of new concessional and non-concessional external debt contracted or guaranteed by the government.	Within four weeks of the end of each month.
Actual disbursements for projects and programs benefiting from foreign financial aid and external debt relief granted by external creditors (including the date, amount, and creditor).	Within four weeks of the end of each quarter

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

REQUEST FOR DISBURSMENT UNDER THE RAPID CREDIT FACILITY AND CANCELLATION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

May 1, 2014

Approved By
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Prepared by the International Monetary Fund and the International Development Association

According to the debt sustainability analysis (DSA) conducted on the basis of the joint International Monetary Fund (IMF)-World Bank debt sustainability framework for low-income countries,[1] the rating of Central African Republic (C.A.R.) is revised from moderate to high risk of debt distress, with the baseline present value (PV) of external debt-to-exports ratio breaching the policy-related threshold during 2013–19 due to a sharp decline in exports in 2013 resulting from the protracted political and security crisis. The baseline debt service-to-exports ratio also breaches the threshold during 2014–16. Medium-and long-term prospects are expected to improve as security improves and the economy recovers from the crisis. Together with relatively moderate levels of highly concessional external debt, the collapse in output and exports are the main drivers of the revision in the assessment, compared with the DSA prepared before the crisis. The DSA shows that C.A.R. is highly vulnerable to terms-of-trade shocks. The analysis further shows that C.A.R. should maintain the minimum concessionality requirement for future borrowing, as this impacts the debt distress rating. Overall, the DSA results suggest that C.A.R. needs to pursue prudent fiscal policies over the medium term while the reconstruction and rebuilding of government institutions demand substantial financial resources, mostly provided by the international development partners.

[1] The LIC DSA compares the evolution over the projection period of debt-burden indicators against policy dependent indicative thresholds, using the three-year average of the World Bank's (WB) Country Policy and Institutional Assessment (CPIA). C.A.R.'s policies and institutions, as measured by the WB's (CPIA), are classified as a "weak performer" with an average rating of 2.74 in 2010–12.

BACKGROUND

1. **This analysis is based on the forward-looking debt sustainability framework for low-income countries (LIC DSA).**[2] The collapse of the economy resulting from the deterioration of the security conditions at end-2012 and the subsequent humanitarian catastrophe that affected C.A.R., defined the unfavorable macroeconomic conditions underlining the results presented in the baseline of this LIC DSA, as compared to the previous one.[3] The protracted political and security crisis had a devastating impact on the already fragile economy, with output loss estimated at about 36 percent, large current account deficits caused by the fall in exports and the significantly high fiscal financing needs that mark the first years of the DSA. In the medium-and long-run, a return to normalcy is expected to improve export performance; the resumption of international official transfers for budget and investment projects support will contribute to a return to a more sustainable debt path, assuming improved security and availability of highly concessional external financing. C.A.R. growth rate will remain below potential, constrained by weak domestic capacity and a slow recovery in demand. A sharp decline in GDP and exports in 2013 resulting from the crisis would bring the baseline PV of external debt-to-exports and debt service-to-exports ratios above the policy-related threshold from 2013 to 2019 and from 2013 to 2015, respectively. The discount rate has been revised up to 5 percent, and the financing needs of the transitional government are assumed to be covered by highly concessional loans and grants.

2. **The accumulation of additional external and domestic payments arrears in 2012 and 2013 constitute the biggest challenge for the sustainability of the public finances and debt in C.A.R.** External payments arrears continued accumulating even before the crisis, sometimes for purely technical reason. Most of them are with non-Paris Club creditors and in particular Taiwan Province of China, Libya and China. Most official external payments arrears are inherited from the pre-2009 Heavily Indebted Poor Countries and Multilateral Debt Relief Initiative (HIPC/MDRI) and the authorities 'efforts to reach an agreement with creditors on their settlement were disrupted by the crisis. The authorities signed agreements with most non-Paris Club creditors to negotiate the outstanding debt under conditions similar to the Paris Club, but the process is in the early stages and at least two countries have not responded to the authorities' request. Some additional payments arrears remained on the multilateral debt, in the form of unpaid interest and late interest to the International Fund for Agricultural Development (FIDA) and the European Investment Bank (EIB). On the domestic front, payments arrears were accumulated largely vis-à-vis civil servants and suppliers. The Bank for Central African States (BEAC) is the main domestic creditor.[4]The emergency situation led the government to contract some loans domestically (the Republic of Congo, for

[2] C.A.R. DSA was prepared by the IMF and WB staff in consultation with C.A.R. authorities. The analysis follows the Staff Guidance Note on the Application of the Joint Bank-IMF Debt Sustainability Framework for Low-Income Countries, WB, IMF, 2013.

[3] Updated DSA presented with the Request for a Three-Year Arrangement under the Extended Credit Facility (IMF Country Report No. 12/240).

[4] C.A.R. and Chad are the two CEMAC member countries with outstanding obligations to the BEAC under various facilities. C.A.R. is not servicing its debt to the BEAC.

CFAF 25 billion signed in June 2013)[5], and externally (Angola, US$ 20 million scheduled for the second half of 2014).

3. Total public debt, including domestic arrears, of C.A.R. is estimated at 45.1 percent of GDP as of end-September 2013.[6] External public and publicly-guaranteed debt as of September 2013 amounts to 27.2 percent of GDP, of which non-Paris Club bilateral creditors account for 85.8 percent.[7] Domestic public debt represents 18 percent of GDP. It consists of outstanding credits to the government from domestic commercial banks (6.7 percent), government debt with the BEAC (47.5 percent), and other creditors (45.8 percent).

4. Additional accumulation of domestic arrears in the last quarter of 2013 are estimated to bring the total public debt to 50.8 percent at end-2013. With no final information regarding the additional government arrears from end-September to end-December 2013, an estimation that includes wages, commercial banks, providers and others, would increase the stock of public debt by 5.7 percent of GDP. The estimation is based on the fiscal accounts reported by the government and the consistency checks performed by the Bank and IMF staffs.

Text Table 1. Central African Republic:
Stock of External and Domestic Public and Publicly Guaranteed Debt
(as of September 2013, CFA billions)

	Outstanding[1]	of which Arrears	Share of Outstanding
External Debt	206	126	100.0
Bilateral	177	121	85.8
Paris Club	1	0	0.3
Non-Paris Club	176	118	85.4
Multilateral	29	6	14.2
IDA	12	0	6.0
Other	17	6	8.3
Domestic Debt	136	...	100.0
BEAC	65	...	47.5
Commercial Banks	9	...	6.7
Other	63	...	45.8
Total Public Debt	343	...	

Source: C.A.R. authorities and IMF staff calculations
[1] As of September 2013.

[5] The loan from the Republic of Congo is considered domestic debt because the operation was made through the BEAC (See definition of domestic debt in the TMU).

[6] Public debt includes public and publicly-guaranteed external debt, domestic public debt, budgetary arrears of the central government (including arrears to BEAC), and external and domestic debt of state-owned enterprises.

[7] The main single bilateral creditor on a net present value basis after HIPC/MDRI debt relief is Taiwan Province of China (30 percent of the non-Paris Club debt).

UNDERLYING DSA ASSUMPTIONS

5. **The near-term macroeconomic outlook remains influenced by the political and security crisis and the prospects for a recovery with the support of the international community**. After significantly declining in 2013, exports, specifically diamonds and wood, are expected to recover and exceed historical levels. Strong donor's support and sustained external demand for wood products and diamonds are expected to help C.A.R. transit out of the crisis. GDP growth will also be sustained at higher than historical rates. Persistently high international oil prices constitute, however, a challenge for the export industries and for the fiscal accounts because the government did not fully implement the pricing mechanism for petroleum products.[8]

6. **Exports will slowly resume after the sharp decline in 2013 as international peacekeeping forces reach rural areas and the restrictions under the Kimberly process[9] are lifted**. After a significant decline of about 44 percent in dollar value, exports are expected to return to a sustained growth trajectory in 2014–15. The suspension of the Kimberly process is expected to be lifted sometime in late 2014 or early 2015. Exports of wood and cotton would need additional time to be fully restored. Some natural resource exports are expected to start after 2020 with a positive impact on FDI as well.

7. **Over the longer term, C.A.R. is expected to achieve steady-state growth of around 6 percent, supported by political stability and sustained public and private investment**. A sustained improvement in business confidence based on the return to democratic institutions and pending reforms of legislative, judicial, and administrative systems and, consequently, higher public and private investment should underpin this growth projection (Box 1). Growing exports of a diversified range of primary goods, including gold and cotton, are expected to lift real GDP growth to above 5 percent over the next few years. Consolidation of the political and macroeconomic conditions will drive growth rates to around 6 percent by 2033. Resumption of exports will help improve the external current account deficit over time to around 2½ percent of GDP, with financing initially provided by grants and highly concessional project loans, and the issuance of some government securities. In order to restore debt sustainability, fiscal policy would remain prudent. The authorities' fiscal anchor, the domestic primary balance—which excludes grants and foreign-financed capital spending—would require a significant effort from the government to achieve long-term balance. The primary balance including grants, which determines the debt trajectory more directly, would initially be negative (2014), but will turn to a small surplus in the years after the crisis, helping to stabilize the public debt-to-GDP ratio.

8. **There are latent risks to C.A.R.'s macroeconomic outlook**. Delays in resolving the domestic political uncertainty and security situation could potentially weigh on donor support and investor confidence. The transition government is tasked with in the return to democratic institutions and failing to

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[8] Before the crisis, the government had a mechanism to set petroleum product prices that did not fully pass-through international price adjustments, thus subsidies dragged on fiscal resources.

[9] C.A.R. diamond exports were certified by the Kimberly Process, a joint initiative of governments, industry and civil society that looks into the use of diamonds to finance rebel groups against legitimate governments.

do so would contribute to dim the expectations of a recovery in a post-conflict environment. Adequate investment in infrastructure and improving the business environment are needed to mitigate the damage resulting from the crisis, sustain economic growth and reduce poverty.

Box 1. Central African Republic: Baseline Macroeconomic Assumptions

Real GDP growth: Average annual real GDP growth for 2014–33 is projected at 5.9 percent. This takes into account the expected resolution of the political and security crisis, the return of the displaced people and the resumption of transfers from international donors. The baseline scenario does not take into account potentially higher growth from possible large scale exploitation of natural resources; the high degree of uncertainty surrounding the level of the reserves and the timeline for their exploitation, make it difficult to assess their real long term impact on C.A.R. economy. The relatively high GDP growth assumption is predicated on continued security and political stability and structural transformation of the economy. Sustained economic growth is driven by an increase in private investment, especially in forestry, agriculture, mining, and telecommunications. Public investment is also expected to increase throughout the projection period to reach about 8 percent of GDP per year in 2033, thus improving the infrastructure network that is crucial to boost the agriculture sector, the dominant economic activity. The reestablishment of democratic institutions and the rule of law should prepare the ground for sustained FDI inflows in these sectors. Reconstruction efforts are expected to bear fruit and will place the country in a better position to confront the challenges of inclusive growth in a post-conflict environment.

Inflation: After unusually high inflation in 2013 driven by the scarcity of food and other basic staples, the GDP deflator is projected at 2¼ percent on average for 2014–33; the average CPI inflation in 2014 is expected to reach 4.5 percent and then decline towards the assumed 2 percent rate. The projected inflation rate is in line with the Central African Economic and Monetary Community (CEMAC)'s convergence criterion for CPI inflation of 3 percent.

Current account balance: The current account deficit (including grants) is projected to average 6 percent of GDP for 2014–33. After a sharp decline in exports in 2013, the trade balance is expected to improve over time, driven by a range of factors, including the recovery of the tradable sectors, better competitiveness, and enhanced export performance resulting from structural reforms and the expansion of the infrastructure network to support export diversification; the deficits in the services balance would remain large. The current account deficits would be financed primarily by highly concessional official development assistance (project loans), and some foreign direct investment in natural resources, once the unfavorable environment for investment dissipates.

Government balance: The domestic primary fiscal balance would improve to a surplus of 0.3 percent of GDP by 2018 and then remain around balance in average between 2019 and 2033. The overall fiscal balance (including grants) would average about -¾ percent of GDP for 2014–33, with primary deficits initially lower than needed to stabilize the debt-to-GDP ratio. Domestic revenue is projected to rise from the pre-crisis level of about 11½ percent of GDP (2012), to 20 percent of GDP at end–2033, mainly as a result of steady tax and customs administration improvements and tax policy reform to bring C.A.R. in line with peer countries. Domestic primary expenditures are projected to rise from about 11 percent of GDP in 2012 to 21 percent of GDP in 2033, with most of the increases concentrated in capital spending.

External assistance: After substantial increase in donor's support in 2014 and 2015, grant-equivalent financing is assumed at about 5½ percent of GDP annually in the long run, accounting for 90 percent of total external assistance over the period 2016–33. The grant element of new external loans is expected to be at least 35 percent for the period. Negotiation with non-Paris Club creditors is expected to be concluded on similar terms as for the Paris Club creditors, resulting in the clearance of existing external payment arrears.

Domestic borrowing: In 2012, the government started accessing the securities markets with the issuance of treasury bills. As a result of the crisis, the issued bills have been rolled over with a substantial cost in interest payments. Servicing the emergency loan from the Republic of Congo is also carrying a steep cost in the first post-crisis years. Some rebalancing will be needed to make the burden of domestic debt more sustainable. In the long run, the average real interest rate on domestic currency debt should converge to about 3.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

9. **Under the baseline scenario, the PV of debt-to-exports and the debt service-to-exports ratios are above the thresholds in a protracted manner in the first years** (Text Table 2, Figure 1, and Table 1). The PV of debt-to-export ratio exceeds the threshold for the first four years, 2014 to 2019, and the debt service-to-exports ratio remained above the threshold from 2014 to 2017, mainly due to the sharp decline in exports in 2013 and its slow recovery under the baseline scenario. Most generally, the PV of debt ratios are affected in the medium term by the relatively large amount of outstanding debt with non-Paris club creditors. Similarly, debt service-to-revenue ratio starts above the threshold in 2014, but returns to sustainable levels, mostly as a result of the normalization of government operations and revenue mobilization in the post-conflict environment. All debt indicators show stable downward trends over the forecasted period.

Text Table 2. Central African Republic:
Policy-Based Thresholds and External Debt Burden Indicators

	Thresholds[1]	Baseline Scenario Ratios		
		2013	2014–33[2]	2014–33
			Proj.	Peak
PV of external debt in percent of:				
GDP	30.0	16.1	12.4	19.1
Exports	100.0	178.2	88.7	225.8
Revenue	200.0	282.9	65.2	296.9
External debt service in percent of:				
Exports	15.0	11.7	6.8	20.8
Revenue	18.0	18.5	4.6	18.5

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 (2.73 for 2010-2012).

[2] Simple average.

10. **Analysis of the impact of additional shocks corroborate the debt sustainability assessment for C.A.R.** Volatility in the dollar vis-à-vis the euro makes the country highly vulnerable to exchange rate fluctuations, and affects possible external demand for diamonds and wood. The suspension of the Kimberly certification process for diamonds and the stagnation in timber exploitation had a very damaging impact on the economy. Other non-traditional exports that have potential to initiate an economic diversification process (gold and cotton) have been also stopped due to security problems in the areas of explotation, making it harder for the country to generate foreign currency to service the external debt. A persistent negative shock to exports could exacerbate the risks of debt distress in the future.

11. **The vulnerabilities exposed in this DSA call for securing high levels of new concessional loans to finance the fiscal gap generated by the crisis**. The appropriate level of concessionality in C.A.R. outstanding external debt, shields the PV of debt-to-GDP ratio from a possible increase in the interest rates

on those loans. This situation can change if the emergency situation forces the government to access financing with high interest rates. The prioritization of government expenditure closely linked to available resources is important to guarantee financial soundness in the medium and long term.

12. **The historical scenario could not adequately reflect the baseline prospects for C.A.R. in the near future and the long run** (Figure 1 and Table 1.b). This scenario includes the years of high volatility and uncertainty resulting from the conflict, a period in which external financing was constrained by many of the same factors that limited growth. Also, the 2009 debt relief reduced substantially the vulnerabilities of the country vis-à-vis external creditors. The assumptions in the historical scenario are thus substantially different from those embodied in the baseline scenario.

13. **The bound tests stress potential risks under an exports shock, but low pre-crisis debt levels of external debt help move debt ratios towards sustainable levels**. The most extreme stress test scenario, which assumes either a depreciation of the exchange rate (Figures 1.b, 1.d, and 1.f), an exports shock (Figure 1.c, and 1.e), acts mostly by lowering export values, but does not result in an unsustainable path for the main external debt indicators in the forecasted period. Exports of goods and services have been highly volatile over a low base, and the crisis lowered exports even further. With exports representing only 9 percent of GDP in 2013, an additional shock of one standard deviation on 2014 and 2015 exports would lead to a large and protracted breaching of thresholds on PV of debt-to-exports ratio, but this scenario (Figures 1.c, and 1.e) is also highly unlikely as the baseline scenario already captured the severe impact of the crisis on exports.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

14. **Public debt indicators start at a high level in the first projection years as a result of the crisis, but reach sustainable levels once the country returns to normal conditions as depicted in the baseline scenario** (Figure 2 and Table 2a). Assuming lower program grants than in the recent past (1 percent of GDP over the long term) for the medium-and long-term and highly concessional financing, all domestic debt indicators are expected to decline gradually. It is further assumed that the government would restore its capacity to sustain prudent fiscal policy by reducing the primary deficit from the first years in the forecast, into a primary balance over the long term; mobilizing higher domestic revenues relative to GDP; and maximizing low-cost financing. Under these assumptions, the PV of public debt-to-GDP ratio could decline by more than 36 percentage points, from 46 percent of GDP in 2011, and stabilize at close to 9.8 percent of GDP in the long run. The PV of public debt-to-revenue (including grants) ratio could fall from 426 percent to 35 percent in the same period.

15. **An alternative scenario points to the risk of larger-than-anticipated primary deficits resulting from low revenue mobilization, with a negative impact for the sustainability of the domestic debt**. From the different alternative scenarios tested in the LIC DSA for C.A.R., a negative shock affecting government revenues would increase the primary deficits and the PV of public debt-to-GDP ratio, which will remain above the threshold for most of the forecast period (2014 to 2033). In any case, the alternative to maintain the primary balance at the 2013 level is highly unrealistic, as this is precisely the year

of the crisis. Adequate policies to support public finance management efforts and improve domestic revenue mobilization will help avoid the deterioration of debt ratios.

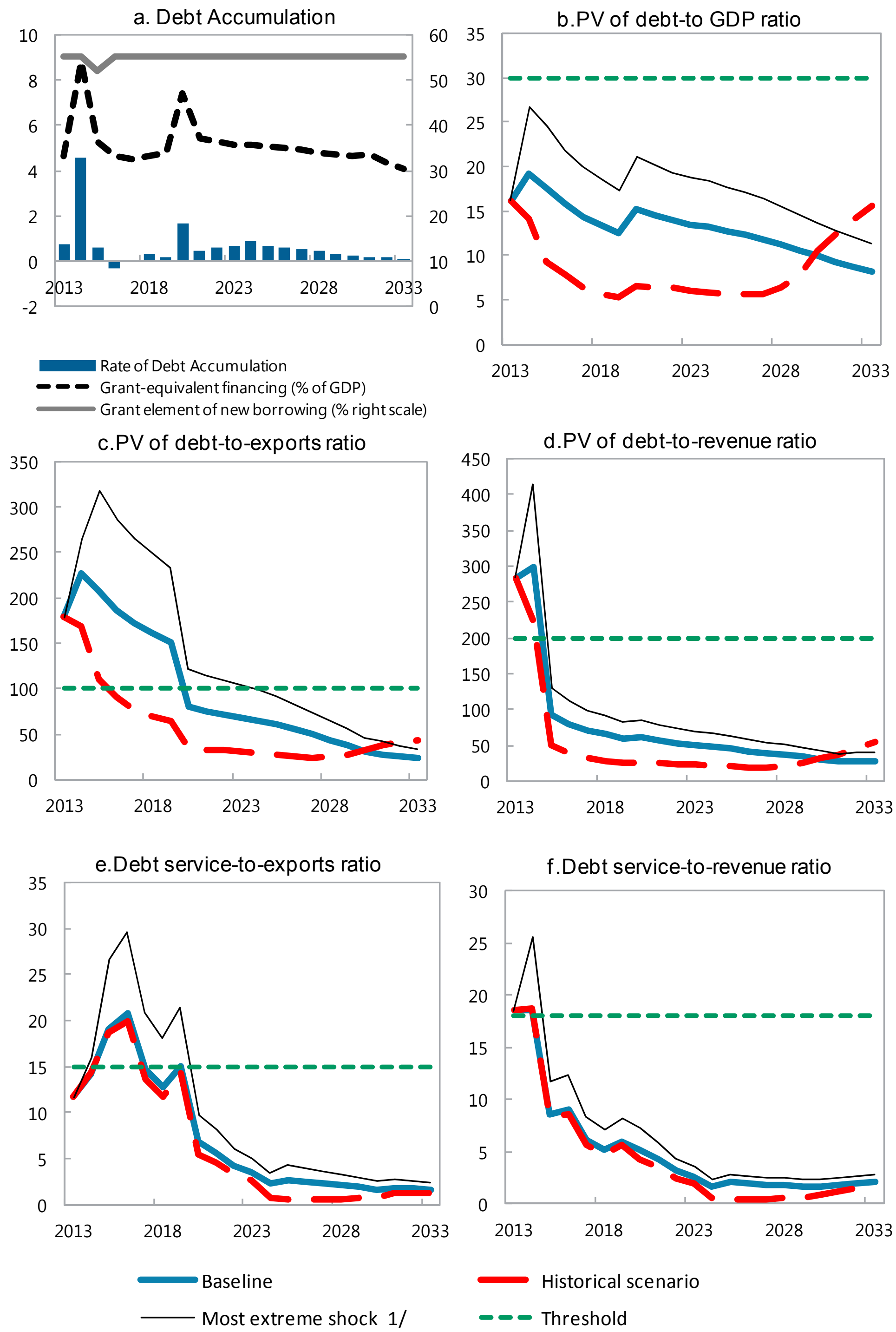
16. All debt indicators would deteriorate further if real GDP growth were to drop temporarily in two consecutive years (Figure 2 and Table 2b). A temporary growth decline—real GDP growth of 3.3 percentage points less than the 2015–16 growth in the baseline—represents the most extreme scenario.[10] In this case, the PV of the debt-to-GDP ratio will end up slightly above the baseline by 2033, the PV of the debt-to-revenue ratio will be 88 instead of 34 percent, and the debt service-to-revenue ratio would remain mostly unchanged. The results suggest that the baseline is very sensitive to the growth assumptions. However, the shocks may be somewhat extreme because the growth standard deviation is high, due to the inclusion of an outlier related to the civil war in 2003. Excluding this outlier would significantly increase the average historical growth and reduce its standard deviation.

DEBT DISTRESS QUALIFICATION AND CONCLUSIONS

17. C.A.R. has a high risk of debt distress, and high loan concessionality is required. The reversal of the substantial improvements achieved following the 2009 HIPC completion point and MDRI debt relief, highlight the vulnerability of the country facing large shocks in output and exports, as well as the associated collapse in fiscal revenues. Accumulation of large domestic payments arrears exposed the difficulties confronted by the government to cover their primary current expenses. The country's debt sustainability exercise points to the fact that C.A.R. is under high risk of debt distress. In addition to the efforts for revenue mobilization in the context of a broken down productive system, the country needs decisive support from development partners to: (i) fill the temporary financing needs of the transition government; and (ii) contribute additional resources to restore democratic institutions and finance a long-term strategy to sustain economic growth, investment and creation of employment and better living standards for the population. This needs to be done without harming debt sustainability, making the recourse to high degree of concessionality a priority for the medium-and long-run. The external debt indicators are particularly sensitive to export growth and terms-of-trade volatility. This suggests that policies to diversify and expand the export base, including improving the business climate for foreign direct investment, reducing transport costs, enhancing productivity, and prudent borrowing are essential for preserving external debt sustainability. The public debt is sensitive to slower GDP growth and an increase in debt-creating flows, confirming that C.A.R. needs to pursue prudent fiscal policies over the medium-term and to consolidate the basis for growth by fostering domestic security, establish the basis for adequate private and public investment, and improve the country's institutional and administrative capacity.

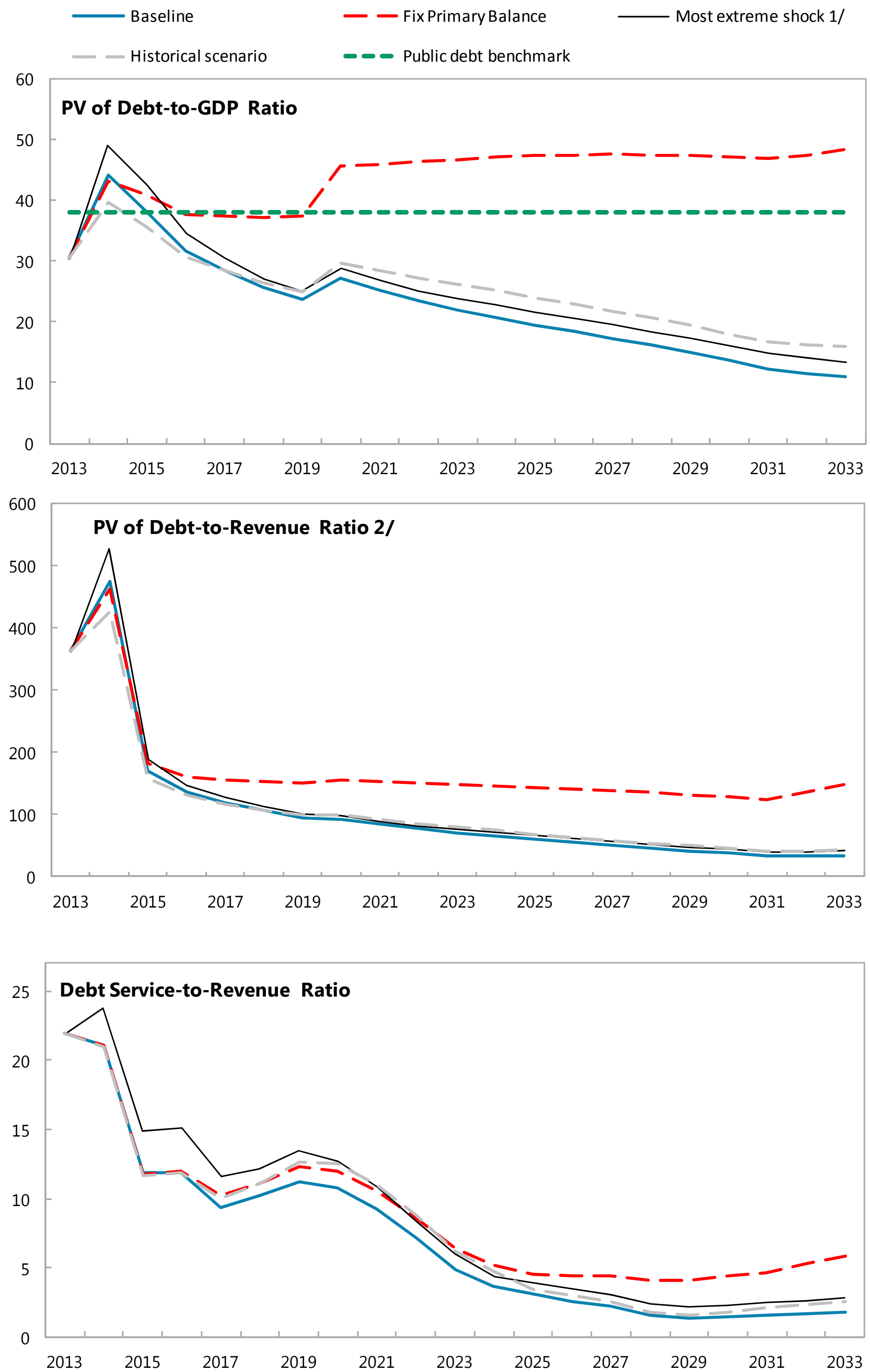
[10] The low growth shock is defined as the average of real GDP growth minus one standard deviation calculated over the 10 years before the 2013 crisis.

Figure 1. Central African Republic: Indicators of Public and Publicly–Guaranteed External Debt Under Alternatives Scenarios, 2013–33[1/]



Sources: C.A.R. Authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2023. In figures b. d. and f. it corresponds to a one-time depreciation shock, and; in c. and e. to a shock in exports.

Figure 2. Central African Republic: Indicators of Public Debt under Alternative Scenarios, 2013–33



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

1/ The most extreme stress test is the test that yields the highest ratio on or before 2023.

2/ Revenues are defined inclusive of grants.

Table 1a. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2010–33

(in percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**19.8**	**23.2**	**24.6**			**36.6**	**43.3**	**40.1**	**36.3**	**33.3**	**31.0**		**30.8**	**16.2**	
of which: public and publicly guaranteed (PPG)	19.8	23.2	24.6			36.6	43.3	40.1	36.3	33.3	31.0		30.8	16.2	
Change in external debt	3.7	3.4	1.3			12.0	6.8	-3.3	-3.8	-3.0	-2.3		-1.5	-1.1	
Identified net debt-creating flows	7.1	4.0	2.6			22.9	13.1	9.5	1.4	2.0	1.7		1.6	-2.3	
Non-interest current account deficit	**10.0**	**7.4**	**5.5**	**5.5**	**3.6**	**10.5**	**14.2**	**13.7**	**5.6**	**5.8**	**5.3**		**5.3**	**-0.1**	3.2
Deficit in balance of goods and services	14.0	10.3	9.8			15.6	18.0	17.5	9.3	9.5	8.9		12.1	0.9	
Exports	10.6	12.1	11.8			9.0	8.4	8.5	8.5	8.4	8.3		20.0	35.8	
Imports	24.6	22.4	21.6			24.6	26.5	26.0	17.8	17.8	17.2		32.1	36.7	
Net current transfers (negative = inflow)	-4.0	-2.9	-4.3	-3.0	1.8	-5.3	-3.9	-3.8	-3.7	-3.6	-3.5		-6.6	-4.9	-6.0
of which: official	-3.7	-2.2	-3.1			-3.3	-2.1	-2.1	-2.1	-2.1	-2.1		-5.9	-4.6	
Other current account flows (negative = net inflow)	0.0	0.0	-0.1			0.2	0.1	0.0	0.0	0.0	0.0		-0.2	3.9	
Net FDI (negative = inflow)	**-3.1**	**-1.7**	**-3.3**	**-2.4**	**1.7**	**0.0**	**-0.5**	**-2.2**	**-2.1**	**-2.0**	**-1.9**		**-2.0**	**-1.3**	-1.7
Endogenous debt dynamics 2/	**0.2**	**-1.7**	**0.4**			**12.4**	**-0.5**	**-2.1**	**-2.1**	**-1.9**	**-1.8**		**-1.7**	**-0.9**	
Contribution from nominal interest rate	0.2	0.2	0.1			-0.1	0.0	0.0	0.0	0.0	0.0		0.1	0.0	
Contribution from real GDP growth	-0.5	-0.6	-1.0			12.5	-0.5	-2.1	-2.1	-1.9	-1.8		-1.8	-1.0	
Contribution from price and exchange rate changes	0.5	-1.3	1.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.3**	**-0.6**	**-1.3**			**-10.9**	**-6.3**	**-12.7**	**-5.2**	**-5.0**	**-4.0**		**-3.1**	**1.3**	
of which: exceptional financing	-3.0	-0.6	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	10.8			16.1	19.1	17.6	15.7	14.4	13.4		13.5	8.2	
In percent of exports	...	...	91.7			179.0	226.6	207.3	185.9	172.0	161.4		67.3	23.0	
PV of PPG external debt	**...**	**...**	**10.8**			**16.1**	**19.1**	**17.6**	**15.7**	**14.4**	**13.4**		**13.5**	**8.2**	
In percent of exports	**...**	**...**	**91.7**			**179.0**	**226.6**	**207.3**	**185.9**	**172.0**	**161.4**		**67.3**	**23.0**	
In percent of government revenues	**...**	**...**	**93.9**			**284.1**	**297.9**	**93.3**	**80.1**	**71.1**	**65.6**		**49.8**	**28.7**	
Debt service-to-exports ratio (in percent)	**-3.3**	**-22.7**	**-22.1**			**11.7**	**14.1**	**19.0**	**20.8**	**14.7**	**12.7**		**3.5**	**1.6**	
PPG debt service-to-exports ratio (in percent)	**-3.3**	**-22.7**	**-22.1**			**11.7**	**14.1**	**19.0**	**20.8**	**14.7**	**12.7**		**3.5**	**1.6**	
PPG debt service-to-revenue ratio (in percent)	**-3.0**	**-25.4**	**-22.6**			**18.6**	**18.5**	**8.5**	**9.0**	**6.1**	**5.2**		**2.6**	**2.1**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.1	0.0			0.2	0.3	0.2	0.1	0.1	0.1		0.1	-0.1	
Non-interest current account deficit that stabilizes debt ratio	6.3	3.9	4.2			-1.5	7.4	17.0	9.4	8.8	7.6		6.8	0.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.0	3.3	4.1	2.2	3.3	-36.0	1.5	5.3	5.7	5.7	5.8	-2.0	6.1	5.9	6.3
GDP deflator in US dollar terms (change in percent)	-2.7	7.0	-5.0	6.5	8.8	10.7	8.7	6.4	4.1	3.8	3.7	6.2	2.2	1.5	1.2
Effective interest rate (percent) 5/	1.2	1.3	0.6	1.1	0.5	-0.3	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.4	0.1	0.1
Growth of exports of G&S (US dollar terms, in percent)	11.4	26.1	-3.6	6.8	15.5	-45.7	3.2	12.7	9.5	8.6	9.1	-0.4	10.4	11.4	20.4
Growth of imports of G&S (US dollar terms, in percent)	14.3	0.6	-4.4	8.2	12.1	-19.2	18.4	10.0	-24.8	10.1	5.9	0.1	10.5	7.7	14.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	55.3	55.3	52.2	55.3	55.3	55.3	54.8	55.3	55.3	55.3
Government revenues (excluding grants, in percent of GDP)	11.6	10.8	11.5			5.7	6.4	18.9	19.6	20.2	20.5		27.0	28.7	28.6
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.1			0.1	0.2	0.1	0.1	0.1	0.1		0.2	0.3	
of which: Grants	0.1	0.1	0.1			0.0	0.0	0.1	0.1	0.1	0.1		0.1	0.3	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.1	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.6	8.9	5.3	4.6	4.5	4.6		5.2	4.1	5.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			75.1	64.7	77.8	86.2	87.7	86.1		87.9	92.7	88.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	2.0	2.2	2.2			1.5	1.7	1.9	2.1	2.3	2.5		3.3	7.5	
Nominal dollar GDP growth	0.2	10.6	-1.1			-29.2	10.3	12.0	10.0	9.7	9.7	3.8	8.4	7.5	7.6
PV of PPG external debt (in Billions of US dollars)			0.2			0.3	0.3	0.3	0.3	0.3	0.3		0.4	0.6	
(PVt-PVt-1)/GDPt-1 (in percent)						0.7	4.6	0.6	-0.3	0.1	0.3	1.0	0.7	0.1	0.5
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.8			16.2	19.2	17.7	15.8	14.4	13.5		13.5	8.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	94.6			184.7	233.9	213.8	191.7	177.1	165.9		68.5	23.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	-22.8			12.1	14.5	19.6	21.5	15.1	13.1		3.6	1.7	

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

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 1b. Central African Republic: Sensitivity Analysis for Key indicators of Public and Publicly-Guaranteed External Debt, 2013–33

(percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	16	19	18	16	14	13	**13**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	16	14	9	8	6	6	**6**	16
A2. New public sector loans on less favorable terms in 2013-2033 2	16	22	22	20	19	18	**21**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	16	20	19	17	16	15	**15**	9
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	16	20	19	17	16	15	**15**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	16	21	21	19	18	16	**16**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	16	20	21	19	17	16	**16**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	16	21	24	21	20	18	**18**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	16	27	25	22	20	19	**19**	11
PV of debt-to-exports ratio								
Baseline	179	227	207	186	172	161	**67**	23
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	179	169	110	92	77	69	**30**	43
A2. New public sector loans on less favorable terms in 2013-2033 2	179	266	253	235	224	216	**106**	43
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	179	228	209	187	173	162	**68**	23
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	179	264	318	287	266	249	**103**	34
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	179	228	209	187	173	162	**68**	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	179	243	245	222	206	194	**80**	26
B5. Combination of B1-B4 using one-half standard deviation shocks	179	246	284	257	239	224	**93**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	179	228	209	187	173	162	**68**	23
PV of debt-to-revenue ratio								
Baseline	284	298	93	80	71	66	**50**	29
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	284	222	50	40	32	28	**22**	54
A2. New public sector loans on less favorable terms in 2013-2033 2	284	350	114	101	93	88	**78**	54
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	284	308	103	88	78	72	**55**	32
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	284	307	103	89	79	73	**55**	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	284	334	114	98	87	80	**61**	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	284	319	110	96	85	79	**59**	32
B5. Combination of B1-B4 using one-half standard deviation shocks	284	333	127	109	98	90	**68**	37
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	284	415	130	112	99	91	**69**	40

Table 1c. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2013-2033 *(concluded)*

(percent)

				Debt service-to-exports ratio				
Baseline	12	14	19	21	15	13	**3**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	12	14	19	20	14	12	**3**	1
A2. New public sector loans on less favorable terms in 2013-2033 2	12	14	21	23	17	16	**5**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	12	14	19	21	15	13	**3**	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	12	16	27	30	21	18	**5**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	12	14	19	21	15	13	**3**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	12	14	19	21	15	13	**4**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	12	15	23	25	18	16	**4**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	12	14	19	21	15	13	**3**	2
				Debt service-to-revenue ratio				
Baseline	19	19	9	9	6	5	**3**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	19	19	8	9	6	5	**2**	2
A2. New public sector loans on less favorable terms in 2013-2033 2	19	19	9	10	7	6	**4**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	19	19	9	10	7	6	**3**	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	19	19	9	9	6	5	**3**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	19	21	10	11	7	6	**3**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	19	19	9	9	6	5	**3**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	19	20	10	11	7	6	**3**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	19	26	12	12	8	7	**4**	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	52	52	52	52	52	52	**52**	52

Sources: C.A.R. 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 2a. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–33

(in percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	44.2	47.7	47.5			50.8	68.4	60.5	52.2	47.2	43.2		39.3	18.8	
of which: foreign-currency denominated	19.8	23.2	24.6			36.6	43.3	40.1	36.3	33.3	31.0		30.8	16.2	
Change in public sector debt	4.6	3.5	-0.2			3.3	17.6	-7.9	-8.3	-5.0	-4.1		-2.6	-1.3	
Identified debt-creating flows	0.8	1.3	-3.4			23.5	5.4	-8.3	-3.3	-3.0	-2.3		-2.9	-2.1	
Primary deficit	0.4	1.8	-0.7	-0.4	4.0	6.1	8.6	-1.9	-1.1	-0.6	-0.3	1.8	0.0	-0.3	0.1
Revenue and grants	17.2	13.3	16.4			8.4	9.3	22.5	23.3	23.9	24.2		31.3	32.4	
of which: grants	5.5	2.5	4.9			2.7	2.9	3.6	3.7	3.7	3.7		4.3	3.7	
Primary (noninterest) expenditure	17.6	15.1	15.6			14.5	17.9	20.6	22.2	23.4	23.9		31.4	32.1	
Automatic debt dynamics	0.3	-1.0	-2.8			20.6	-3.2	-6.4	-4.6	-3.7	-3.3		-2.8	-1.3	
Contribution from interest rate/growth differential	-0.9	-1.6	-2.4			22.0	-2.8	-5.7	-3.9	-3.1	-2.9		-2.8	-1.4	
of which: contribution from average real interest rate	0.2	-0.2	-0.5			-4.8	-2.1	-2.3	-0.7	-0.3	-0.3		-0.4	-0.3	
of which: contribution from real GDP growth	-1.2	-1.4	-1.9			26.8	-0.7	-3.4	-3.3	-2.8	-2.6		-2.4	-1.1	
Contribution from real exchange rate depreciation	1.2	0.6	-0.4			-1.3	-0.4	-0.7	-0.7	-0.6	-0.4		...	...	
Other identified debt-creating flows	0.1	0.6	0.1			-3.3	0.0	0.0	2.4	1.3	1.3		-0.1	-0.5	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.1	0.6	-0.1			-3.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.3			0.0	0.0	0.0	2.4	1.3	1.3		-0.1	-0.5	
Residual, including asset changes	3.8	2.1	3.2			-20.2	12.2	0.4	-5.1	-2.0	-1.7		0.3	0.9	
Other Sustainability Indicators															
PV of public sector debt	...	...	33.7			30.4	44.2	38.1	31.6	28.3	25.6		22.0	10.9	
of which: foreign-currency denominated	...	...	10.8			16.1	19.1	17.6	15.7	14.4	13.4		13.5	8.2	
of which: external	...	...	10.8			16.1	19.1	17.6	15.7	14.4	13.4		13.5	8.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	0.9	-0.5	-2.2			7.9	10.6	0.8	1.7	1.7	2.2		1.6	0.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	205.9			361.3	474.8	169.2	135.6	118.4	105.9		70.1	33.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	293.2			534.6	688.8	201.8	161.2	140.1	125.1		81.2	37.9	
of which: external 3/	...	...	93.9			284.1	297.9	93.3	80.1	71.1	65.6		49.8	28.7	
Debt service-to-revenue and grants ratio (in percent) 4/	2.7	-17.1	-8.8			22.0	21.1	11.9	11.9	9.4	10.2		4.9	1.8	
Debt service-to-revenue ratio (in percent) 4/	4.0	-21.1	-12.6			32.5	30.6	14.1	14.1	11.1	12.0		5.7	2.0	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.2	-1.7	-0.5			2.8	-9.0	6.0	7.2	4.4	3.8		2.6	1.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.0	3.3	4.1	2.2	3.3	-36.0	1.5	5.3	5.7	5.7	5.8	-2.0	6.1	5.9	6.3
Average nominal interest rate on forex debt (in percent)	1.2	1.3	0.6	1.1	0.5	-0.3	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.4	0.1	0.1
Average real interest rate on domestic debt (in percent)	1.6	-0.3	-0.1	-0.4	1.9	-5.9	-2.4	-1.8	0.9	2.4	2.5	-0.7	1.6	0.5	2.7
Real exchange rate depreciation (in percent, + indicates depreciation)	7.8	3.3	-1.9	-1.8	9.9	-3.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.0	2.0	2.7	3.0	1.8	7.2	4.9	4.6	2.2	1.9	2.2	3.9	2.2	1.5	1.1
Growth of real primary spending (deflated by GDP deflator, in percent)	20.5	-11.2	7.8	1.7	8.0	-40.6	25.4	21.0	14.0	11.1	8.2	6.5	8.9	-1.5	8.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	55.3	55.3	52.2	55.3	55.3	55.3	54.8	55.3	55.3	...

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

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

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

3/ Revenues excluding grants.

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

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

Table 2b. Central Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2013–33

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	30	44	38	32	28	26	22	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	30	40	36	31	28	26	26	16
A2. Primary balance is unchanged from 2013	30	43	41	38	37	37	47	48
A3. Permanently lower GDP growth 1/	30	45	39	33	30	27	28	29
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	30	45	43	36	34	31	32	28
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	30	42	38	32	29	26	22	11
B3. Combination of B1-B2 using one half standard deviation shocks	30	41	39	33	30	27	27	20
B4. One-time 30 percent real depreciation in 2014	30	48	41	34	30	26	20	10
B5. 10 percent of GDP increase in other debt-creating flows in 2014	30	49	43	35	30	27	24	13
PV of Debt-to-Revenue Ratio 2/								
Baseline	361	475	169	136	118	106	70	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	361	426	158	130	117	107	80	44
A2. Primary balance is unchanged from 2013	361	462	181	162	156	153	149	149
A3. Permanently lower GDP growth 1/	361	477	172	140	124	113	88	89
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	361	484	186	154	138	128	102	85
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	361	449	171	137	120	107	71	34
B3. Combination of B1-B2 using one half standard deviation shocks	361	441	170	138	123	112	84	63
B4. One-time 30 percent real depreciation in 2014	361	517	181	144	124	110	65	30
B5. 10 percent of GDP increase in other debt-creating flows in 2014	361	526	189	148	127	112	76	42
Debt Service-to-Revenue Ratio 2/								
Baseline	22	21	12	12	9	10	5	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	21	12	12	10	11	6	3
A2. Primary balance is unchanged from 2013	22	21	12	12	10	11	6	6
A3. Permanently lower GDP growth 1/	22	21	12	12	10	11	5	3
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	22	21	13	13	10	11	6	4
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	22	21	12	12	10	10	5	2
B3. Combination of B1-B2 using one half standard deviation shocks	22	21	12	12	10	11	5	3
B4. One-time 30 percent real depreciation in 2014	22	24	15	15	12	12	6	3
B5. 10 percent of GDP increase in other debt-creating flows in 2014	22	21	12	13	10	11	5	2

Sources: C.A.R. 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.

Press Release No. 14/226
FOR IMMEDIATE RELEASE
May 15, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$12.9 Million Disbursement Under the Rapid Credit Facility for the Central African Republic

The Executive Board of the International Monetary Fund (IMF) approved on May 14, 2014 financial assistance under the Rapid Credit Facility (RCF) in the amount equivalent to SDR 8.355 million (about US$12.9 million) for the Central African Republic (C.A.R.) in support of the authorities's emergency economic recovery program. The financial assistance from the IMF will help the Transitional Authorities of C.A.R. to implement a set of economic and structural policies and measures aimed at restoring progressively macroeconomic stability and strengthening the capacity of C.A.R. government. The Executive Board's approval of the RCF will also enable the authorities to engage in discussions with development partrners regarding further assistance. The Executive Board's approval enables the immediate disbursement of the full amount, which is equivalent to 15 percent of C.A.R.'s quota in the IMF.

The Executive Board noted the authorities' cancellation of the Extended Credit Facility (ECF) arrangement for C.A.R.that was approved on June 25, 2012 (Press Release No. 12/237). The Executive Board can consider renewal of financing under the RCF before the end of the year, provided C.A.R. meets the policy requirements for repeated use under the RCF, including the establishment of a track record of adequate macroeconomic policies for a period of normally six-months prior to a new request for financial assistance under the RCF. Timely provision of pledged financial and technical assistance is crucial to sustain the momentum for the recovery, strengthen the capacity of C.A.R. government and exit from the emergency situation.

The RCF provides rapid concessional financial assistance with limited conditionality to low-income countries with an urgent balance of payments need. In this context, the economic policies of a member receiving RCF financing are expected to address the underlying balance of payments difficulties and support policy objectives including macroeconomic stability and poverty reduction. Financing under the RCF carries zero interest, has a grace period of 5½ years, and a final maturity of 10 years. The IMF reviews the level of interest rates for all concessional facilities every two years.

Following the Executive Board's discussion of C.A.R.'s request for financial assistance under the RCF, Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"The political and security crisis that followed the seizing of power by a rebel coalition in March 2013 has produced large-scale economic dislocation in C.A.R. and exacerbated an already fragile situation. The new transition government is strongly committed to restoring security, mobilizing humanitarian assistance, reviving the economy, and rebuilding democratic institutions, but faces daunting challenges.

"With support under the IMF's Rapid Credit Facility, the transition authorities aim to implement macroeconomic policies and structural reforms to restore macroeconomic stability, rebuild basic state functions, improve domestic revenue mobilization, return to normal budgetary procedures, clear domestic arrears, and ensure regular payments of salaries and pensions to civil servants. Transparent management of public resources including external support, better prioritization of spending, and improving treasury management will be critical for the success of the program. Preserving debt sustainability will also be important.

"The IMF will continue to play a key role in coordinating international efforts in the provision of much needed financial support and technical assistance to rebuild key financial functions of the government."

STATEMENT BY KOSSI ASSIMAIDOU, EXECUTIVE DIRECTOR FOR CENTRAL AFRICAN REPUBLIC AND WOURY DIALLO, ALTERNATE EXECUTIVE DIRECTOR

May 14, 2014

On behalf of Central African Republic (C.A.R.) authorities, we would like to thank the Executive Board, Management and staff for the close engagement of the IMF in C.A.R., and the IMF's support to C.A.R.'s recovery efforts. The authorities are particularly thankful for staff's candid policy advice during program discussions, and hands-on technical assistance.

They thank staff for expeditiously bringing to the Board their request for a disbursement under the Rapid Credit Facility (RCF), which will be helpful in the implementation of their emergency recovery program, lay the foundation for a durable economic recovery post-crisis, and strengthen public finances. The RCF will also play a catalytic role in mobilizing external support following the donors' international conferences in Brussels and Washington, during which the confidence in the authorities' macroeconomic policies has been confirmed.

My authorities appreciate the support of the international community as they strive to restore security throughout the country, find a lasting solution to the conflict through inclusive institutions, and implement the economic recovery plan. They also welcome help in addressing the extensive humanitarian suffering and rebuilding physical infrastructure and institutional capacity. The authorities are also committed to make every effort to bring the situation back to normal. In this regard, as soon as elected by the provisional national assembly, President Catherine Samba-Panza took forceful steps to address the unfolding crisis and appease tensions, with the support of the international community. The Government adopted an emergency plan articulated around four priorities: i) restoring security; ii) addressing the humanitarian crisis; iii) restoring administrative capacity throughout the territory and holding elections and iv) economic recovery and sound public financial management (PFM).

Recent Economic Developments

After growing by 3.2 percent in 2011 and 2012, the economy contracted by 36 percent in 2013. Exports declined by 44 percent, leading to a doubling of the balance of payments deficit which reached 10.4 percent of GDP in 2013. Inflation doubled as well, reflecting disruptions of supplies and agricultural activities. PFM was severely impacted, with the destructions of government property and the difficult security environment in which tax and customs agents operated. As a result, revenues dropped sharply by 54 percent relative to their level in 2012. On spending, payment arrears were accumulated.

Request for Disbursement under the Rapid Credit Facility, and Policies Going Forward

The authorities are requesting a disbursement under the (RCF) in an amount equivalent to 8.3 million SDR (15 percent of quota). The RCF will support the implementation of the authorities' emergency economic program established for the period 2014–16, by helping meet urgent balance of payment needs, and play a catalytic role in mobilizing donors' support. Under the RCF, the government plans to address the most pressing needs of the population, restore stability, and lay the foundation for sound fiscal management framework and practices.

Fiscal Policy

Rebuilding the physical and human capacity needed to implement sound fiscal policies are an urgent priority for the authorities, as the conflict led to an extensive destruction of tax and customs agencies, treasury facilities, and the expenditure management system. The authorities are also requesting urgent technical assistance to help restore fiscal controls, and the capacity to design and implement well calibrated fiscal policies.

In light of the collapse of domestic sources of revenue, they are grateful for the scaling up of the international community's support, which now represents two thirds of the 2014 budget. They are committed to improving transparency in the management of public resources, normalizing budget processes, and strengthening fiscal controls, in order to make the best use of scare public resources while reassuring the donors' community that adequate safeguards are in place.

In this vein, the government adopted the draft 2014 budget along lines agreed upon with the IMF staff, and submitted it to the provisional parliament. Efforts are also being directed towards ensuring that the budget is executed as planned, with limited recourse to exceptional procedures. Hence, a Committee to Monitor and Manage Public finances, which is chaired by the Prime Minister, and includes representatives of the donors' community has been installed, and is vested with wide ranging powers to monitor and ensure that domestic resources and external assistance are well managed.

Sound public finances will also entail mobilizing and securing revenues, and strengthening cash flow management. On revenues, the authorities' immediate goal is to re-equip and resume the operations of tax and customs agencies as security permits, with a focus on the corridor Douala-Bangui. On spending, the authorities will ensure that salary payments are resumed and that priority spending is executed in a timely fashion. A treasury committee has been installed and is now operational with the view to improving cash management.

Provisions have been made towards addressing urgent social needs, notably in education, health services, water and sanitation.

Debt sustainability

The authorities are mindful of the increased debt vulnerability following the collapse of exports and the crisis-related decline in economic activity. Debt sustainability indicators are expected to improve as the economy recovers from the crisis, and after the lifting of the diamond export ban. Nonetheless, the authorities are committed to seeking financing in the form of grants preferably, and concessional financing. Furthermore, they are making good faith efforts to reach out to their creditors and seek forbearance and additional debt reduction or rescheduling. They are appreciative of Executive Directors support in facilitating this endeavor.

Structural Reforms

On structural reforms, the authorities will focus on rebuilding the confidence of the business community to help resume economic activity. They will conduct an assessment of the damage sustained by private and state owned enterprises, with the view to assisting them. They will also facilitate the return of the displaced population thus contributing to the resumption of commerce and farming activities. Efforts will also be made to improve the climate for business, including with the strengthening of the framework for government-private sector cooperation, and capacity building of the consular chambers.

Successor Program

The authorities are interested in a successor program with the IMF to support further economic stabilization and reconstruction efforts and catalyze donors' assistance. Although they plan to initially request another RCF to face urgent external financing needs, they envision continued engagement with the IMF in the form of an Extended Credit Facility as they build capacity and implement their medium term poverty reduction and growth agenda.

Conclusion

C.A.R.'s authorities are determined to maintain prudent macroeconomic policies as they respond to the sizable economic shock related to the civil conflict. They are taking proactive steps to address the risks to the program going forward, including security, food shortages, and capacity risks. A sustained and adequate support of the international community is needed for these efforts to be successful.

In light of the urgent needs, and the authorities' commitment to sound policies as evidenced by the implementation of all prior-actions agreed upon with staff, and in order to complement the efforts of the international community, we request Executive Directors' support for IMF's assistance to C.A.R. under the RCF and through technical assistance.