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CENTRAL AFRICAN REPUBLIC

July 2017

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE CENTRAL AFRICAN REPUBLIC

In the context of the Second Review under the Extended Credit Facility Arrangement, Financing Assurances Review, and Request for Augmentation of Access, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 17, 2017, following discussions that ended on June 2, 2017 with officials of the Central African Republic on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. The staff report was completed on June 29, 2017 based on information available at the time of the discussions.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Central African Republic.

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

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

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

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July 17, 2017

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IMF Executive Board Completes Second Review Under the ECF Arrangement for the Central African Republic, Approves US$16.3 Million Disbursement, and an Augmentation of US$15.5 Million

- The completion of the review enables a disbursement of US$16.3 million.
- Swift implementation of the National Plan for Recovery and Peace's investment program will boost economic prospects.
- Sustaining and accelerating efforts to mobilize domestic revenues and enhance budget transparency will create fiscal space for increasing social and capital spending.

On July 17, 2017, the Executive Board of the International Monetary Fund (IMF) completed the second review under the Extended Credit Facility (ECF)[1] arrangement for the Central African Republic. The completion of the review enables a disbursement of SDR 11.70 million (about US$16.3 million), which will bring total disbursements under the arrangement to SDR 36.75 million (about US$51.2 million).

The Executive Board also approved a request for augmentation of the ECF arrangement in the amount of SDR 11.14 million (about US$15.5 million), to be disbursed upon the completion of the third review. The augmentation is for additional balance of payments needs associated with the accelerated clearance of arrears to small and medium sized government suppliers which would support social cohesion and economic growth.

The ECF arrangement for the Central African Republic was approved by the Executive Board on July 20, 2016 (see Press Release No. 16/352) for SDR 83.55 million (about US$116.5 million, 75 percent of Central African Republic's quota at the IMF). The augmentation brings the total financing approved to SDR 94.69 million (about US$132 million, 85 percent of the country's IMF quota).

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

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

“Performance under the ECF-supported program has been satisfactory despite the challenging security environment. Along with ongoing efforts to promote dialogue and national reconciliation, sustained program implementation is critical to create fiscal space for development spending, improve the business environment, and foster higher and more inclusive growth.

“The authorities have adopted measures to streamline quasi-fiscal taxes, enhance budget transparency, and address revenue shortfalls. Moving forward, the fiscal strategy will remain anchored in the domestic primary balance objective. Sustaining and accelerating efforts to mobilize domestic revenues—particularly at customs—and enhance budget transparency will create fiscal space for increasing social and capital spending.

“The authorities should build on recent progress to improve public financial management, including by ensuring regular publication of budget execution reports, consolidating the treasury single account, and limiting the use of exceptional spending procedures. The reduction of domestic payment arrears to small and medium-sized enterprises will support growth and help restore the state’s credibility, thus contributing to social cohesion.

“Swift implementation of the National Plan for Recovery and Peace’s investment program will boost economic prospects. Given the country’s high risk of debt distress, continued reliance on grant financing, while limiting borrowing, even in highly concessional terms, is essential. Available assistance needs to be channeled effectively into priority projects to lift economic growth, create jobs, and reduce poverty.

“The success of the Central African Republic’s program will also depend on the implementation of supportive policies and reforms by the regional institutions.”

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

June 29, 2017

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, FINANCING ASSURANCES REVIEW, AND REQUEST FOR AUGMENTATION OF ACCESS

EXECUTIVE SUMMARY

Background: The three-year arrangement under the Extended Credit Facility (ECF) was approved on July 20, 2016 in an amount of SDR 83.55 million (75 percent of quota). The ECF arrangement provides balance of payments support for the government's reform agenda to restore macroeconomic stability, boost economic growth and job creation, reduce poverty, and build resilience towards exiting fragility. The first review was completed on December 21, 2016, bringing total disbursements under the arrangement to SDR 25.05 million (22.5 percent of quota).

Context: Security deteriorated in many parts of the country, resulting in hundreds of casualties and thousands of displaced people. All armed groups are formally participating in the disarmament, demobilization, reintegration, and repatriation process, however progress on the ground remains scant. Growth projections remain unchanged, driven by forestry and agriculture, and average inflation is projected to decline.

Policy challenges: The key challenges are to strengthen dialogue and define a broad-based and inclusive reform of the security sector, restore and sustain the strong reform momentum initiated under the ECF arrangement, address revenue shortfalls, and create fiscal space to deliver social services and critical infrastructure projects while preserving debt sustainability.

Program: Program implementation as of end-2016 has been broadly satisfactory despite the challenging security situation. All quantitative performance criteria were met while two structural benchmarks were missed. The authorities have adopted strong measures to address customs revenue shortfalls that took place during the first quarter of 2017 and to enhance budget transparency. All three prior actions for the second review were met. To cover additional balance of payments needs associated with the accelerated clearance of arrears to small and medium sized government suppliers, which would support social cohesion and economic growth, the authorities are requesting an

augmentation of SDR 11.14 million (10 percent of quota), to be disbursed upon the completion of the third review under the ECF arrangement.

Staff supports completion of the second review under the ECF arrangement and the authorities' request for augmentation of access. The Fund arrangement remains instrumental to catalyze donor support to address C.A.R.'s balance of payments needs. Completion of the second review will allow for the disbursement of an amount equivalent to SDR 11.7 million. Staff also recommends that the financing assurances review be completed.

Approved By
Michael Atingi Ego (AFR) and Zuzana Murgasova (SPR)

Discussions took place in Bangui (March 24–April 4 and May 26–June 2) and in Washington, D.C. (April 19–21). The staff team comprised Mr. Jahjah (head), Ms. Shi, Messrs. Keller, Stenzel, and Tarawalie (all AFR), and Messrs. Benon (Resident Representative) and Zoungarani (local economist). Staff met with President Touadéra, Prime Minister Sarandji, Finance and Budget Minister Dondra, Minister of Economy, Planning and International Cooperation Moloua, other ministers, members of Parliament, the National Director of BEAC, senior officials of the Ministry of Finance and BEAC, and representatives of the diplomatic community, civil society and the private sector. Representatives of the African Development Bank (ADB), the World Bank (WB), the European Union, and France participated in the meetings. Mr. Kibassim (Advisor, OED) participated in the discussions in Bangui and Washington, D.C.

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BACKGROUND, RECENT DEVELOPMENTS, AND OUTLOOK

1. **Security deteriorated in many parts of the country, while remaining stable in Bangui.** A string of violent provocations towards civilians and UN forces was reminiscent of the 2013 crisis. Attacks on civilians and violent confrontations resulted in loss of lives, localized destruction, and more internally displaced persons, at a scale unseen for many years. All 14 armed groups participated in the last consultative meeting of the disarmament, demobilization, reintegration, and repatriation (DDRR) process, with a view to accelerate the reconciliation process; however, progress on the ground is scant. The government is proceeding with the recruitment and training of 500 policemen and gendarmes, as well as the deployment of the gendarmerie in combat zones.

2. **A Special Criminal Court became operational recently to complement the work of the International Criminal Court.** The Special Criminal Court was established in 2015 to judge serious human rights violations committed in the Central African Republic (C.A.R.) from 2003 to the present. The appointment of a special prosecutor on May 26 is an important step to counter endemic impunity in the country.

3. **Economic developments in 2016 remained broadly unchanged from the first review.** Security risks disrupted trade, agriculture, and mining in the last quarter of 2016, pushing growth for 2016 down to 4.5 percent, lower than initially programmed. Formal diamond production and exports remained subdued, including from areas where the Kimberly Process embargo had already been lifted. Some sectors rebounded, however, like cotton, coffee, and forestry. Inflation is estimated at 4.6 percent in 2016, slightly below expectations (Figure 1).

4. **Domestic revenues, particularly custom revenues, were significantly below the target in the first four months of 2017.** Total custom revenue shortfall was CFAF 5 billion (0.5 percent of GDP), mainly due to widespread undervaluation of imports. The underutilization of ASYCUDA, administrative weaknesses, and the use of customs tariffs that are not fully aligned with the CEMAC common external tariff also contributed to poor performance. However, the domestic primary balance was in line with program target as the savings from non-wage primary expenditure (CFAF 4.7 billion) offset the revenue shortfall. The authorities reduced domestic arrears to pension and government suppliers by CFAF 4.1 billion, higher than programmed.

5. **The 2016 current account deficit is estimated at 9.1 percent of GDP, broadly unchanged from 2015.** This reflects improved terms of trade, lower investment spending, slightly larger exports of forestry, cotton and coffee products. Public external debt at end-2016 stood at CFAF 185.1 billion (17.7 percent of GDP).

PROGRAM PERFORMANCE

6. **Program implementation as of end-2016 was broadly satisfactory.** End-December and continuous quantitative performance criteria (PC) were met. The domestic revenues were on target. As a result of delayed disbursement of external budget support, the government faced a liquidity squeeze and reined in expenditure on goods and services, transfers, and investments. This also led to the indicative target on social spending to be missed by a small margin. Therefore, the domestic primary deficit in 2016 turned out at 1.1 percent of GDP, better than programmed. As reported in the staff report for the first review, the authorities accumulated external payments arrears in the last quarter of 2016.[1] These arrears have since been cleared or are being under consideration for debt cancellation (**MEFP**, Table 1).

7. **All indicative targets for end-March 2017 are met except for tax revenue and domestic government financing.** Cash expenditure was far below projections, limiting the domestic primary deficit to 0.1 percent of GDP—well within the program target, despite the revenue shortfall. Domestic government financing was higher than programmed to pay for additional arrears clearance. The authorities also stepped up commitments for social spending, reaching CFAF 3.3 billion, higher than the indicative target of CFAF 1.5 billion (**MEFP**, Table 1).

8. **Implementation of two structural benchmarks has been delayed.** The end-March 2017 structural benchmark of closing non-donor related government accounts in commercial banks has not been completed and is ongoing. The repatriation of diplomats whose assignments ended was delayed and many continued to receive their expatriation allowances up to April 2017; however, these payments are now eliminated (**prior action**). Two structural benchmarks were completed on time: (i) restricting exemptions solely on those provided by law and freezing new tax exemptions, by end-December 2016; and (ii) launching the audits of the social debt, debt to suppliers, and cross-debt, by end-February 2017 (**MEFP**, Table 2).

POLICY DISCUSSIONS

A. Outlook and Risks

9. **Economic growth is expected to pick up only mildly in 2017, owing to recent security developments and the delayed implementation of the investment program.** Real GDP growth in 2017 is forecast at 4.7 percent, instead of 5 percent projected in December 2016. Average inflation is projected to decline to 3.8 percent, supported by increased food supply.

10. **The medium-term outlook assumes improved security, higher public investment, and rising agriculture and mining production**. GDP growth is projected to average 5.3 percent in 2018–20. Growth will be mainly driven by a rebound in agriculture, livestock, trade, forestry

[1] At the time of the conclusion of the first review, it was reported that C.A.R. had not observed the PC on the non-accumulation of external arrears by accumulating external arrears of CFAF 1.6 billion in the period between the approval of the ECF arrangement and the completion of the first review. The Executive Board granted a waiver of the non-observance of this PC. Due to staff error, the actual deviation from the PC in this period was CFAF 0.5 billion lower than reported to the Board in December 2016. C.A.R. has not incurred any further external arrears since the completion of the first review.

and mining. The implementation of the government infrastructure program in water and electricity, elaborated in the National Plan for Recovery and Peace (NPRP), could push growth to even higher levels. Annual inflation should decline to 3 percent by 2019, due to an expected normalization in subsistence farming and investment in the road and transportation infrastructure. The current account deficit, excluding grants, is projected to decline gradually to below 10 percent of GDP. As highlighted by last year's external sector assessment,[2] C.A.R.'s external position remains vulnerable. The real effective exchange rate has appreciated significantly during the crisis and indicators for non-price competitiveness are weak. The medium-term outlook for the balance of payment was revised, with lower and more conservative diamond exports and higher oil imports (due to a higher base in 2016 and higher prices) contributing to lower reserves. However, the gradual fiscal adjustment, higher domestic revenue mobilization, continued external support, a consolidation of peace, and efforts to broaden the export base are expected to strengthen the external position in the medium and long term and the overall balance is expected to turn into a surplus from 2019.

11**.** **Implementation of the NPRP is underway**. Economic and financial partners pledged about US$2.2 billion in support of the national development plan during the November 2016 Brussels donor conference. The secretariat to oversee and coordinate the investment program is operational since May 2017. The secretariat's main priority is to translate the overall NPRP into prioritized and well-focused investment projects (**MEFP**, ¶9 and ¶10). The authorities plan to revise the legal framework for public private partnerships and will consult with development partners to take strict measures to limit associated fiscal risks (**MEFP**, ¶13).

12. **Downside risks to the outlook are significant, stemming from domestic uncertainties, as well as the global and regional economic environment** (Table 11). On the domestic side, absence of progress over the next few months in the implementation of a broad-based and inclusive reform of the security sector could set the country on a much lower growth path, possibly higher inflation, and lower revenue mobilization. Lack of political will and weak capacity to address the very low level of domestic resource mobilization and transparency of budget execution may undermine the authorities' development strategy and restrict economic growth. On the external side, an uncertain global environment could reduce global and regional policy collaboration with negative consequences for trade, capital and labor flows and growth, thus depress commodity prices (cotton, forestry, mining) and dampen investment in these sectors. Potential delays on delivery of external budget support and project grants could complicate program implementation. The regional balance of payments crisis and the expected significant collective fiscal adjustment efforts could have negative spillover effects. In the event that growth assumptions were to disappoint, the authorities are committed to some contingency measures that could be activated to keep the fiscal program on track (Box 1).

[2] IMF Country Report No. 16/269.

Box 1. Risks of Low-growth Scenario and Policy Responses

Staff discussed the scenario of protracted lower growth with the authorities and agreed on possible responses to meet the program targets. Continued volatile security conditions combined with slow progress in security reforms and slow recovery in agriculture, mining and forestry could lead to lower growth and higher inflation, lower domestic revenues and a higher domestic primary deficit. In this context, the authorities are committed to meeting the fiscal anchor of the program through a mix of additional adjustment measures including reducing non-priority current spending (CFAF 5–15 billion per year) and domestically-financed capital spending (CFAF 5–10 billion per year), and by adopting a less-ambitious arrears clearance strategy (CFAF 5–10 billion per year).

		2017	2018	2019	2020
Real GDP Growth	Baseline	4.7	5.0	5.2	5.5
	Low-growth	3.5	2.0	2.0	2.0
Domestic Revenues	Baseline	8.8	9.4	9.9	10.8
(percent of GDP)	Low-growth	8.5	8.5	8.5	8.5
Domestic Primary Balance	Baseline	-1.9	-1.5	-0.9	-0.2
(percent of GDP)	Low-growth (non-adjustment)	-2.3	-2.5	-2.6	-3.1
Funding Gap	Baseline	66.3	57.4	47.8	36.4
(CFAF billion)	Low-growth (non-adjustment)	71.0	78.6	75.4	60.0
Potential Adjustment Measures:					
Primary Spending cuts		4.7	10.0	11.0	15.0
Investment Spending			5.0	7.0	10.0
Domestic Arrears Clearance			7.0	10.0	5.0

Source: IMF Staff calculations.

B. Fiscal Outlook for 2017

13. **The 2017 budget is consistent with the program.** The program remains anchored on the domestic primary balance objective. The fiscal strategy aims at a higher coverage of domestic primary spending by domestic resources and control of the wage bill while ramping up poverty-reducing spending. The target for domestic revenue (about 8.8 percent of GDP), current primary spending of 9.6 percent of GDP, and domestically-financed capital expenditure of 1.2 percent of GDP are consistent with the domestic primary deficit target of 1.9 percent of GDP (**MEFP**, ¶14).

C. Regaining Momentum in Improving Fiscal Management

Enhancing revenue mobilization

14. **The authorities agreed to take additional measures to meet the domestic revenue target for 2017, with the total yields amounting to CFAF 5.6 billion (Text Table 1)**. To recover the shortfall, the authorities are taking the following steps: (i) application of minimal

valuation for good imports as determined by the pre-shipment inspection company; and (ii) audits of imports' valuation since January 2016 and retroactive payments for any undervaluation by importers (proposed new *structural benchmark, end-September 2017*). In addition, the authorities are committed to the following measures: (i) customs and treasury will streamline information sharing to limit the discrepancy between revenue reported by customs and recorded by the Treasury; (ii) strengthen controls of exemptions to ensure that both quality

Text Table 1. Central African Republic: Projected Yields from Corrective Measures on Customs, 2017

(Billions of CFAF)

Measures	Yields
Total	5.6
Application of minimal valuation for good imports as determined by the pre-shipment inspection company	0.8
Audits of imports' valuation since January 2016 and make retroactive payments for any undervaluation by importers	1.7
Correct erroneous entries in ASYCUDA of the CEMAC common external tariff and the discounted rates of VAT	0.1
Increase the number of convoys between Beloko and Bangui	0.4
Recover customs debts	0.4
Introduce new pre-payment procedures at the Douala Single Window	0.4
Step up of VAT and personal income tax	0.8
Continue recovery actions	1.0

Sources: C.A.R. authorities.

and quantity of exempted goods are as specified in the authorizations, and that all abuse and fraud are addressed; (iii) secure customs and transit operations from the port of Douala to destination, including the full utilization of ASYCUDA at the border station of Beloko *(*proposed new *structural benchmark, end-December 2017)*; (iv) improve compliance management through the systematic exchange of information between the tax and customs departments and cross-checks of customs and tax returns; (v) process all customs transactions through ASYCUDA; and (vi) immediately publish the ministerial decree that clarifies the responsibilities of the unit in charge of the IT systems at customs regarding the use of ASYCUDA. In addition, the authorities will apply the mechanism of deferred VAT payment for imports for significant investment projects and exports to prevent accumulation of VAT credits. The authorities initiated in 2016 a comprehensive outsourcing of customs operations to a private company which was not consistent with the program and could pose a significant burden on private sector operations, while jeopardizing revenue mobilization. The authorities informed staff that they have cancelled this contract (**prior action**) (**MEFP**, ¶17 and ¶18).

15. **The authorities continued to implement their tax administration reforms, with some success**. Since November 2016, they have intensified the identification of VAT stop filers

among large- and medium-sized businesses, launched an enforcement campaign to collect unpaid taxes, and intensified controls of payments for unsettled imports. The practice of offsetting unpaid VAT credits against other taxes between oil importers and the State, which continued in the first two months of 2017, was discontinued on March 1, 2017. Government agencies will now be required to budget and pay for their oil consumption (**MEFP**, ¶18).

16. **Streamlining the numerous quasi-fiscal taxes and excessive levies is underway, with the view to eliminate unjustified taxes and bring revenue to the single treasury account.** A January 2017 tax policy TA mission recommended simplifying the tax system and streamlining para-fiscal taxation. The authorities are taking stock of all existing para-fiscal taxes and fees and intend to adopt an action plan to eliminate those that are unjustified and transfer others to the TSA (proposed new *structural benchmarks, end-December 2017*). In the meantime, the creation of new para-fiscal taxes has been forbidden and a government ordonnance abolished a recently introduced tax on telecommunication (**MEFP**, ¶20).

Improving public financial management

17. **Implementation of the public financial management reform (PFM) agenda is moving ahead, albeit at a slow pace.** The action plan has been updated during FAD's March 2017 TA mission. In line with the conclusions of the audit of the financial relationships between the State and commercial banks, the authorities have begun consolidating the treasury single account (TSA), which will be completed by end-June 2017. They strictly limited the creation of new bank accounts, and have closed or frozen 256 bank accounts (**MEFP**, ¶21). The remaining 113 bank accounts will be closed by end-June 2017.

18. **The treasury management system (GESCO) is not used optimally, thus preventing the timely accounting of revenues and expenditures and constraining budgetary and treasury operations**. The authorities intend to deploy a new application by end of 2019 based on a functional and technical assessment supported by development partners. During the transition period, they will make the best use of GESCO to ensure a timely and consistent recording of all budget transactions (**MEFP**, ¶22).

19. **The authorities have taken actions to improve transparency in budget reporting.** The accounting balances for 2010–15 were established and are under review by the court of audit. They plan to finalize the budget execution report for 2016 (*structural benchmark, end-September 2017*) and are committed to quarterly production of budget execution reports within 30 days of the end of the quarter (proposed new *structural benchmark, quarterly, from end-September 2017*). They produced the budget execution report for the first quarter of 2017 (**prior action**) (**MEFP**, ¶23).

20. **The authorities intend to strictly adhere to the regulatory provisions on the use of exceptional payments procedures.** In 2016, the use of exceptional payment procedures declined in comparison to previous years. However, preliminary data at end-March 2017 indicates that the use of exceptional payments procedures increased to 19.5 percent of non-wage and non-debt spending. The authorities have reiterated their commitment to limit

extraordinary expenditure procedure to a quarterly average of 5 percent in 2018 *(*proposed new indicative target*, from end-March 2018*) (**MEFP**, ¶24).

21. **Civil service reform is progressing.** The cleaning and securitization of the civil service roster is underway. Retirement of personnel that have exceeded retirement age is complete except for the staff in the army and police forces. Payments of expatriation benefits to diplomats whose assignment ended have been eliminated (**prior action**) (**MEFP**, ¶25).

Reducing domestic payment arrears and request for augmentation

22. **The reduction of domestic payment arrears is a key component of the program to support growth and peace.** Arrears to commercial banks and almost all arrears to small- and medium-sized government contractors have been audited and reviewed (Text Table 2). Arrears to these companies have been revised downward from CFAF 14.2 billion in end 2016 to CFAF 9.4 billion in April 2017. Social arrears (on wages and pensions) amounted to CFAF 71.1 billion at the end of April 2017, of which wage arrears have been revised up to CFAF 67 billion. An external audit is expected before end-September. Arrears to commercial banks (CFAF 26 billion) will be securitized with the technical assistance of BEAC, and a comprehensive settlement plan is to be adopted (*structural benchmark, end-June 2017*) (**MEFP**, ¶26).

Text Table 2. Central African Republic: Domestic and External Debt
(Billions of CFAF)

Type of Creditor	Dec 16			Apr 17			Type of Creditor	Dec 16	
	Current	Arrears	Total	Current	Arrears	Total		Total	of which in arrears
Domestic							**External**		
Total	**68.1**	**140.2**	**208.3**	**68.1**	**134.3**	**202.4**	**Total**	**253.4**	**37.3**
BEAC[1]	56.0	22.5	78.5	56.0	22.5	78.5	Multilateral[3]	125.2	5.8
Commercial Banks	0.0	26.1	26.1	0.0	26.1	26.1	World Bank	34.9	
Private Suppliers[2]	0.0	14.2	14.2	0.0	9.4	9.4	IMF	68.3	
Social Arrears[2]	0.0	72.2	72.2	0.0	71.1	71.1	Other	22.0	
T-Bills	9.5	0.0	9.5	9.5	0.0	9.5	Bilateral/Private	128.2	31.5
Cross Debt and Other	2.6	5.2	7.8	2.6	5.2	7.8	Saudi Arabia	9.9	
							India	24.5	
							China	43.5	
							Congo	18.2	
							Kuwait	12.1	
							Private/Others	20.0	

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

[1] The April 2016 agreement consolidates all audited liabilities and unpaid loans (excluding exceptional and statutory advances which amount to CFAF 22.5 billion according to information provided by the C.A.R. Ministry of Finance).

[2] Audit and validation of social arrears is ongoing. The audit of CFAF 9 billion of arrears to pivate suppliers is almost complete.

[3] Arrears are overdue contributions to international organizations.

23. **The authorities have requested an augmentation of access to address the additional balance of payments needs related to the clearance of commercial arrears to SMEs.** The authorities plan to accelerate the repayments of arrears (CFAF 9 billion) to SMEs, which will help to lower NPLs in banks and relieve tight liquidity constraints on the SMEs and allow them to rebuild their production capacity and infrastructure, thus leading to additional balance of

payment needs. An augmentation of SDR 11.14 million (CFAF 9 billion, 10 percent of quota) to be disbursed at the time of the third review would support this additional balance of payment need. Additional payments need will arise as the authorities clear the social arrears, estimated at CFAF 71.1 billion (before auditing). The authorities may request another augmentation at the time of the third review. The request for augmentation, together with the fiscal adjustments and structural reforms under the ECF arrangement, will assist C.A.R. in addressing its imbalances and will contribute to redressing regional imbalances and rebuilding adequate buffers (Box 2).

Box 2. C.A.R. and the CEMAC Regional Strategy

In the context of a rapidly deteriorating outlook, member countries of the Central African Economic and Monetary Union (CEMAC) set out a strategy during a heads-of-state summit in December 2016. Recognizing the serious economic conditions, this meeting agreed on a strategy based on maintaining the current peg, combined with adjustment in each country, and supported by tightening of monetary policy at the regional level. Consistent with the regional approach (elaborated in the umbrella staff report and letter of policy commitment from the CEMAC authorities), each member state has elaborated a more detailed national plan. Fund support of country programs aims to balance financing and adjustment, reinvigorate growth, and protect pro-poor spending.

C.A.R. has, well before the December 2016 heads-of-state summit, started implementing an ambitious agenda of fiscal adjustment and structural reforms supported by an ECF arrangement. The reform strategy embedded in the ECF is fully in line with the priorities identified in the regional economic reform program for the CEMAC and, together with the other CEMAC countries' efforts, will contribute to redress regional imbalances and rebuild adequate buffers. C.A.R.'s economy represents only 2 percent of total CEMAC GDP and its impact on regional developments is therefore limited. Its imputed reserves stand at over 4 months of imports, the highest in the region.

While C.A.R.'s impact on the region is projected to be small, the regional policies to be pursued by the BEAC and the COBAC can impact C.A.R. and also support C.A.R.'s reform efforts. Regional policies include tightening of monetary policy, elimination of monetary financing of member countries, gradual elimination of statutory advances, modernization of the liquidity management framework, implementation of prudential regulations to restrict refinancing flows to members, and strengthening the banking supervision framework. Tighter monetary policy by BEAC is expected to have only a small impact as the transmission channel is not strong and the financial system under-developed. Repayments of the consolidated loan from BEAC will start in 2018 and the authorities will work with the BEAC to agree on the repayment of all outstanding statutory and exceptional advances by 2027. COBAC is stepping up the supervision of C.A.R.'s banking system with on-site missions to ensure better implementation of the existing supervisory framework. With the implementation of the regional policies, the "free-riding" and financing assurances at a broader CEMAC level will be addressed.

In line with CEMAC's regional strategy to maintain external stability, the C.A.R. authorities have requested an augmentation of access to meet the additional balance of payments need stemming from an accelerated domestic arrears clearance, while preserving their gross reserves import cover. A rapid clearance of domestic arrears will contribute to social peace and cohesion and support growth and the common currency.

Debt management

24. **All post-HIPC external payment arrears accumulated in 2016 have been cleared, except for China, and C.A.R. has remained current on its external debt service so far in 2017**. China has indicated its intention to cancel all outstanding debts and discussions are underway, and C.A.R. is negotiating a resolution with India for the post-HIPC arrears. A New York court ruled in January 2017 that an Export-Import Bank located in Taiwan Province of China, has claims against the C.A.R. stemming from loan agreements signed in 1991 and 1992. C.A.R. still has arrears to private creditors, and is continuing to make good-faith efforts to reach a collaborative agreement with them (**MEFP,** ¶30). Specifically, the authorities have reached out to their creditors on a timely basis, explained their economic problems and financial circumstances, and informed about the broad outlines of a viable economic program. As prompt Fund financial support is considered essential for the successful implementation of C.A.R.'s program and C.A.R. is pursuing appropriate policies, the Fund may provide financing to C.A.R. notwithstanding its external arrears to private creditors. The authorities are strengthening debt management with technical assistance and training from AFRITAC Central on portfolio analysis and reporting. The fiscal cash buffer remained, at end-March, at CFAF 19.1 billion (1.6 percent of GDP), sufficient to cover 2017 external debt service (**MEFP**, ¶29).

25. **The authorities continued their efforts to reach out to their creditors in resolving their pre-HIPC external arrears.** At end-December 2016, C.A.R. owed CFAF 123.6 billion of pre-HIPC payment arrears to Argentina, Equatorial Guinea, Iraq, Libya, Montenegro, and Export-Import Bank located in Taiwan Province of China. The authorities continue to reach out to these creditors with a view to settle these arrears. All official creditors have consented to Fund financing.[3]

26. **The updated Debt Sustainability Analysis (DSA) confirms C.A.R.'s high risk of debt distress.** This rating reflects the past collapse of GDP, tax revenues and exports. Alternative scenarios show that C.A.R.'s debt trajectory is vulnerable to GDP, export and revenue shocks and materializing contingent liabilities could further exacerbate sustainability concerns. The authorities share staff's view that C.A.R. should rely on grant financing with strict limits on highly concessional financing to critical projects for which grants could not be secured and project profitability is assured (Text Table 3) (**MEFP,** ¶31).

[3] In the case of Libya, consent to Fund financing notwithstanding the arrears has been deemed to be received.

Text Table 3. Central African Republic: Summary Table of Projected External Borrowing Program, 2017

PPG external debt	Volume of new debt in 2017[1]		PV of new debt in 2017 (program purposes)	
	CFAF billion	Percent	CFAF billion	Percent
By sources of debt financing	**8.8**	**100**	**3.5**	**100**
Concessional debt, of which	**8.8**	**100**	**3.5**	**100**
Multilateral debt	8.8	100	3.5	100
Bilateral debt	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**
Uses of debt financing	**8.8**	**100**	**3.5**	**100**
Infrastructure	0.0	0	0.0	0
Social Spending	0.0	0	0.0	0
Budget Financing	8.8	100	3.5	100
Other	0.0	0.0	0.0	0.0
Memo Items				
Indicative projections				
Year 2	**6.0**		**2.9**	
Year 3	**6.0**		**2.9**	

[1] Without IMF.

D. Improving Financial Supervision

27. **The authorities are taking steps to improve financial supervision.** Despite a challenging and difficult business environment, C.A.R.'s banking system remains broadly profitable and well capitalized. The bank's exposure is concentrated on a few large international companies operating in C.A.R., limiting risks and operating costs. On average, the banking system has a capital to asset ratio of almost 20 percent. COBAC conducted an in-depth inspection mission in June 2017, the first since 2012. It focused on two of the largest banks, assessing internal risk management, valuation practices, governance and profitability (**MEFP**, ¶33).

TECHNICAL ASSISTANCE AND THE CAPACITY BUILDING FRAMEWORK

28. **Staff and the authorities concurred on the need for significant capacity building.** From January 2017, under the IMF's Capacity Building Framework (CBF) pilot project, C.A.R. benefited from substantive IMF and AFRITAC Central TA on tax policy, domestic revenue collection, PFM, public debt management, and macroeconomic statistics (**Annex I**). The outcome is to strengthen the institutional framework in place that coordinates TA and training with a view

to increase revenue, enhance spending efficiency, restore budget discipline and transparency, strengthen debt management and create a core macro fiscal capacity. To this end, steps have been taken to restore the Economic and Financial Reform Monitoring Unit (CS-REF) in its role of coordinating technical assistance and training to increase revenues, improve the effectiveness of fiscal discipline, strengthen debt management and create a central macro-budgetary unit. The authorities intend to take full advantage of the additional technical assistance provided by the Fund in the areas of revenue mobilization, public finance management, national accounting, public debt management and external trade data (**MEFP**, ¶35).

PROGRAM MODALITIES AND FINANCING

29. **The program is monitored semi-annually.** Performance criteria for end-June 2017 and end-December 2017 have been maintained and indicative targets for end-March 2018 and performance criteria for end-June 2018 are proposed (**MEFP**, Table 1). Eliminating salaries and expatriation benefits to diplomats whose assignments ended, producing the 2017 Q1 budget implementation report, and canceling a contract to delegate customs management were **prior actions** (**MEFP**, Table 2). All these prior actions were met. The limit for concessional borrowing (memorandum item) is increased from CFAF 6 billion to CFAF 8.8 billion to accommodate a budget support loan from the African Development Bank (**MEFP**, ¶38). A new indicative target is proposed to limit the use of extraordinary expenditure procedures to a quarterly average of 5 percent in 2018.

30. **Additional structural benchmarks for 2017 will be adopted** (**MEFP**, Table 2). They include: (i) undertake audits of imports' valuation set from January 2016 to May 2017 based on the value set by the pre-inspection (*end-September 2017*) and make retroactive payments for any undervaluation by importers; (ii) quarterly production of budget execution reports within 30 days of the end of the quarter (quarterly, *from end-September 2017*); (iii) adoption of an action plan to eliminate unjustified para-fiscal taxes (*end-December 2017*); and (iv) utilization of ASYCUDA at Beloko (*end-December 2017)* (**MEFP**, ¶39).

31. **The program remains fully financed and C.A.R. has obtained firm commitments of financing for upcoming 12-month and that there are good prospects for financing for the remainder of the program period.** Pledges from key donors are consistent with the medium-term public investment program. For 2017 and 2018, financing needs are covered by annual disbursements from the World Bank (CFAF 8.8 billion), France (CFAF 6.6 billion), the European Union (CFAF 13.1 billion) and the African Development Bank (CFAF 8.8 billion), and programmed ECF disbursements will close the remaining balance of payments need (Text Table 4). In the event that the commitments from donors are not disbursed in a timely fashion, the authorities are committed to delaying spending until the funds are received.

32. **The authorities request an augmentation of access to Fund resources of 10 percent of quota (CFAF 9 billion).** Higher access to Fund resources would allow C.A.R. to cover

additional balance of payments needs linked to an accelerated payment of arrears to small- and medium-sized suppliers.

33. **C.A.R. has adequate capacity to repay the Fund.** Significant Fund repayments accrue in 2017 and 2018 (SDR 12.2 million and SDR 10.3 million, respectively). To safeguard these payments, the authorities are making regular deposits at the BEAC. Support from development partners and careful treasury management should contribute to timely debt service payments, including to the Fund (Table 8).

34. **Safeguards Assessment**. A full safeguards assessment under the periodic four-year cycle for regional central banks is in progress. The authorities concluded the governance-focused legal reforms in early June 2017, with a unanimous Board vote that completed the enactment of the end-March amendments to the BEAC Charter, marking a key milestone on long-standing efforts to strengthen governance at the central bank. The focus will now shift to implementation of the reforms in daily decision-making and secondary legal instruments. In addition, the transition plan to adopt International Financial Reporting Standards (IFRS) is proceeding well. The assessment also indicated that the BEAC will need to strengthen its capacity in internal audit, financial reporting and risk management. Staff will maintain close engagement with the BEAC, as it embarks on the implementation of the governance reform and adoption of IFRS.

Text Table 4. Central African Republic: Disbursements of External Support, 2017–19
(Billions of CFAF)

	2017	2018	2019
1. Funding gap	**66.3**	**57.4**	**47.8**
2. Budget support (grants)	**29.4**	**38.3**	**38.3**
World Bank	8.8	8.8	8.8
European Union	13.1	13.1	13.1
African Development Bank		8.8	8.8
France	6.6	6.6	6.6
Other (CEMAC and Timor-Leste)	0.9	1.0	1.0
3. Budget support (loans)	**8.8**	0.0	0.0
African Development Bank	8.8		
3. Residual financing gap (1-2-3)	**28.1**	**19.1**	**9.5**
4. IMF financing *(total 85 percent of quota, 22.5 percent disbursed in 2016)*	**28.1**	**19.1**	**9.5**
percent of quota	*31.0*	*21.0*	*10.5*

STAFF APPRAISAL

35. **Economic recovery, while ongoing, is at risk in light of the significant degradation of security outside of Bangui.** Resurging violence, if not addressed, can weaken growth prospects. Pursuance of the DDRR process to get a genuine and inclusive peace agreement with all armed groups will be critical in maintaining and consolidating peace and security. To this end, pushing forward economic reforms and improving the business environment are key to spur private investment and job opportunities—and lure youths away from armed groups. Channeling available assistance from development partners into priority projects should move at a faster pace. Payment of suppliers and social arrears will support the economy, improve social conditions, and entrench peace in the country.

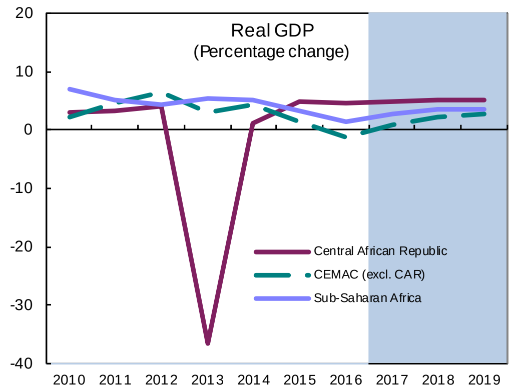
36. **Staff urges the authorities to maintain and step up the reform momentum in improving domestic revenue mobilization and expenditure management.** Revenue mobilization, particularly at customs, has been disappointing. Implementation of the envisaged measures will be critical in safeguarding the fiscal space for priority infrastructure and social spending. Expenditure tracking and accounting, including full utilization of the computerized PFM system should bolster spending efficiency and transparency. The recent increase of Fund TA on tax policy, revenue administration, and PFM provided relevant recommendations to the authorities. Staff encourages their swift implementation which would create space to ramp up priority social spending and public investment that are essential for engineering inclusive growth and maintaining political stability.

37. **Staff urges the authorities to limit borrowing, including of highly concessional loans, to safeguard debt sustainability.** Financing needs for security, infrastructure, and basic social needs are significant, as highlighted by the government's NPRP. However, given the high risk of debt distress, staff strongly recommends that all available sources of grant financing, including significant amounts of grant financing pledged at the Brussels donor conference, be used to their fullest extent. The government should restrain from borrowing, even when offered highly concessional loans. Staff also encourages donors to disburse budget support on time, as delays complicate treasury management and program implementation.

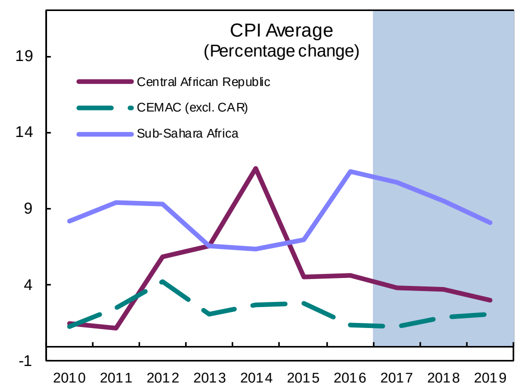
38. **Staff recommends completion of the second program ECF review based on C.A.R.'s performance under the program and the authorities' recent decisive actions to address the revenue shortfall.** Staff also supports the authorities' request for a 10 percent of quota augmentation of access. This recommendation takes into account the satisfactory program performance as of end-2016 and decisive corrective measures, particularly, in the areas of revenue mobilization, PFM, and debt management in 2017. The economic program remains appropriate, considering the challenging security environment and capacity constraints of the authorities. Staff also recommends that the financing assurances review be completed.

Figure 1. Central African Republic: Macroeconomic Performance and Prospects, 2010–19

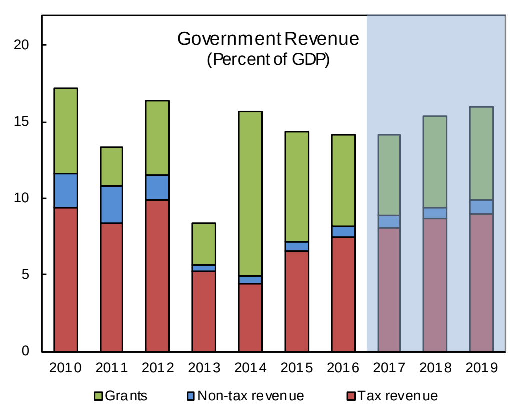
Growth is expected to recover gradually after the sharp output loss from the 2013 crisis...



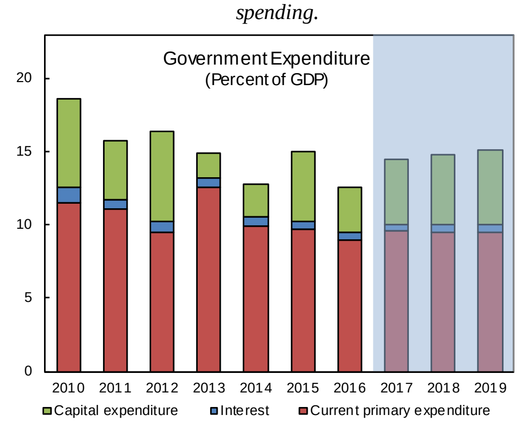
…and inflationary pressures will subside as food supplies improve.



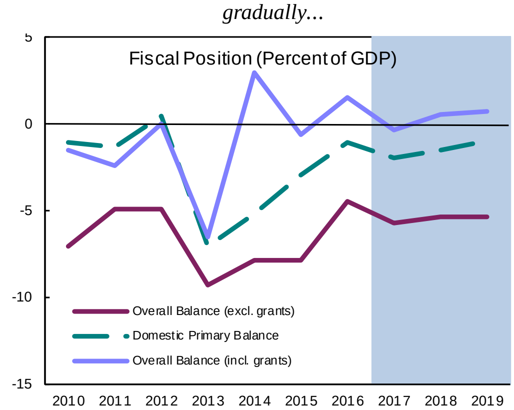
Domestic revenue is projected to increase but remains below pre-crisis levels in the near future...



…while current expenditures remain stable, creating some space for higher domestically-financed capital spending.



The domestic primary balance is expected to improve gradually...



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

…and the external current account deficit will shrink owing to an improving trade balance.

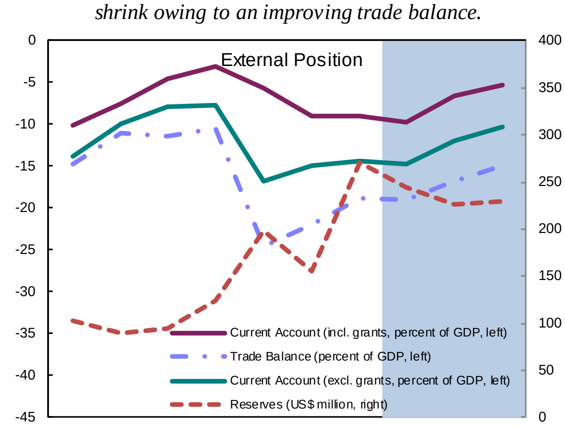


Table 1. Central African Republic: Selected Economic and Financial Indicators, 2014–22

	2014	2015	2016			2017	2018	2019	2020	2021	2022
			Program	1st Review	Est.			Proj.			
			(Annual percentage change; unless otherwise indicated)								
National income and prices											
GDP at constant prices	1.0	4.8	5.2	4.5	4.5	4.7	5.0	5.2	5.5	5.6	5.6
GDP per capita at constant prices	-0.9	2.8	3.2	2.5	2.5	2.7	3.0	3.2	3.4	3.6	3.6
GDP at current prices	12.2	11.3	11.3	11.7	11.2	10.6	10.8	10.5	10.5	10.2	9.9
GDP deflator	-0.9	2.8	5.8	6.9	2.5	2.7	3.0	3.2	3.4	3.6	3.6
CPI (annual average)	11.6	4.5	4.0	5.1	4.6	3.8	3.7	3.0	3.0	3.0	3.0
CPI (end-of-period)	9.7	4.8	4.0	5.9	4.7	3.6	3.6	3.0	3.0	3.0	3.0
Money and credit											
Broad money	14.6	5.3	11.8	12.2	5.8	8.7	10.8	10.5	10.5	10.2	9.9
Credit to the economy	4.0	-0.2	10.3	7.6	17.5	25.8	22.1	14.8	16.6	16.5	16.3
External sector											
Export volume of goods	-28.1	4.9	32.4	33.7	23.2	7.5	7.7	9.1	8.8	9.0	11.2
Import volume of goods	78.5	23.1	12.6	10.3	23.6	5.1	5.3	5.7	5.8	7.8	6.6
Terms of trade	8.9	31.2	5.8	6.4	24.2	-11.4	0.1	0.4	1.3	2.8	2.3
			(Percent of GDP; unless otherwise indicated)								
Gross national savings	4.6	4.9	6.7	7.1	4.6	5.6	9.5	11.3	12.0	12.4	13.3
Of which: current official transfers	8.7	3.3	0.5	0.9	3.7	2.6	3.0	2.7	2.3	1.8	1.6
Gross domestic savings	-14.3	-8.0	-2.5	-2.5	-5.1	-3.7	-0.7	1.8	3.4	4.7	6.2
Government	-5.3	-2.8	-2.4	-2.9	-1.0	-1.0	-0.4	0.1	0.9	2.1	2.8
Private sector	-9.0	-5.2	-0.1	0.4	-4.1	-2.7	-0.3	1.7	2.5	2.7	3.5
Consumption	114.3	108.0	102.5	102.5	105.1	103.7	100.7	98.2	96.6	95.3	93.8
Government	8.2	7.7	7.5	7.9	7.3	7.1	6.9	6.9	7.1	7.1	7.1
Private sector	106.1	100.4	95.0	94.6	97.8	96.6	93.8	91.4	89.5	88.2	86.7
Gross investment	10.2	13.9	16.9	16.3	13.7	15.4	16.0	16.7	17.2	17.7	18.3
Government	2.1	4.7	6.2	5.7	3.1	4.5	4.8	5.1	5.3	5.6	6.1
Private sector	8.1	9.3	10.6	10.6	10.6	10.9	11.2	11.5	11.9	12.1	12.2
External current account balance											
with grants	-5.6	-9.0	-10.1	-9.3	-9.1	-9.7	-6.5	-5.3	-5.2	-5.3	-5.1
without grants	-16.8	-14.9	-13.1	-12.7	-14.3	-14.7	-12.0	-10.4	-9.7	-9.2	-8.7
Overall balance of payments	-2.6	-3.7	-4.4	-4.4	-5.4	-1.3	-0.9	0.0	0.4	0.3	0.4
Central government finance											
Total revenue (including grants)	15.7	14.3	13.0	13.2	14.1	14.2	15.4	16.0	16.7	17.3	18.0
of which: domestic revenue	4.9	7.1	8.1	8.0	8.2	8.9	9.4	9.9	10.9	12.0	12.7
Total expenditure [1]	12.7	14.9	17.1	16.9	12.6	14.5	14.8	15.2	15.5	15.7	16.2
of which: capital spending	2.1	4.7	6.2	5.7	3.1	4.5	4.8	5.1	5.3	5.6	6.1
Overall balance											
Excluding grants	-7.8	-7.8	-9.0	-8.9	-4.4	-5.6	-5.4	-5.3	-4.7	-3.6	-3.5
Including grants	3.0	-0.6	-4.1	-3.7	1.6	-0.3	0.6	0.8	1.2	1.7	1.8
Domestic primary balance [2]	-5.1	-3.0	-3.3	-3.3	-1.1	-1.9	-1.4	-0.9	-0.2	0.6	0.9
Public sector debt	54.8	51.1	47.2	46.6	44.3	38.8	33.4	28.7	24.9	21.2	18.0
Of which: domestic debt [3]	31.7	31.0	30.3	29.8	26.6	21.8	18.2	15.1	12.7	10.2	8.0
Gross official foreign reserves											
(US$ millions, end-of-period)	277.1	231.6	207.6	207.5	270.1	243.4	224.9	228.5	244.5	255.9	267.9
(months of imports, f.o.b.)	5.5	5.0	4.0	4.0	5.1	4.4	3.8	3.7	3.6	3.5	3.6
Nominal GDP (CFAF billions)	842	937	1,042	1,046	1,041	1,152	1,276	1,410	1,557	1,716	1886

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

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

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

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

Table 2. Central African Republic: Central Government Financial Operations, 2014–22
(CFAF billions)

	2014	2015	2016			2017	2018	2019	2020	2021	2022
			Program	1st Review	Est.			Proj.			
Revenue	132.2	134.1	135.4	138.6	147.2	163.5	196.2	225.0	260.1	297.5	339.0
Domestic revenue	41.3	66.5	84.7	83.9	84.9	102.0	120.4	139.3	169.1	206.5	239.2
Tax revenue	37.1	60.9	76.8	76.0	78.0	93.2	110.7	127.5	156.5	192.7	221.2
Taxes on profits and property	8.1	13.1	15.2	15.2	19.2	22.9	27.1	30.2	36.5	50.7	52.6
Taxes on goods and services	29.0	47.8	61.6	60.8	58.8	70.3	83.6	97.3	120.0	142.0	168.6
Of which: VAT	11.2	19.4	24.1	24.1	22.8	27.5	32.9	40.8	43.8	51.0	65.7
Import Duties	9.2	15.3	19.9	19.9	19.5	23.6	28.3	31.0	40.3	46.9	60.4
Non-tax revenue	4.2	5.6	7.9	7.9	6.9	8.8	9.7	11.8	12.6	13.8	18.0
Grants	90.9	67.6	50.7	54.7	62.2	61.5	75.8	85.7	91.0	91.0	99.8
Program	73.6	31.0	5.2	9.2	38.4	29.4	38.3	38.3	36.4	31.0	29.8
Project	17.3	36.6	45.5	45.5	23.8	32.1	37.5	47.4	54.6	60.0	70.0
Expenditure [1]	107.3	140.0	178.4	177.3	130.9	166.8	188.8	213.7	241.6	268.9	304.6
Primary Spending	84.4	94.2	119.4	118.3	96.2	123.9	138.7	152.2	172.2	195.9	221.5
Current primary expenditure	83.6	90.9	106.2	110.3	93.3	110.2	120.8	133.1	150.2	165.6	182.0
Wages and salaries	54.9	56.4	55.6	55.6	55.9	57.9	61.0	64.2	71.0	78.3	86.1
Transfers and subsidies	14.5	19.0	27.5	27.6	17.6	28.2	33.0	36.5	40.3	44.4	48.8
Goods and services	14.2	15.5	23.0	27.1	19.8	24.1	26.8	32.4	38.9	42.9	47.1
Interest due	5.5	5.4	7.6	7.6	5.8	4.8	6.6	8.0	8.7	7.0	7.1
External	3.2	3.2	3.6	3.6	3.6	1.6	1.8	3.2	3.8	1.9	1.9
Domestic	2.3	2.2	4.0	4.0	2.2	3.2	4.8	4.8	4.9	5.1	5.2
Capital expenditure	18.1	43.7	64.7	59.4	31.8	51.8	61.4	72.5	82.6	96.3	115.5
Domestically financed	0.8	3.3	13.2	8.0	2.9	13.7	17.9	19.1	22.0	30.3	39.5
Externally financed	17.3	40.4	51.5	51.5	28.9	38.1	43.5	53.4	60.6	66.0	76.0
Overall balance											
Excluding grants	-65.9	-73.5	-93.7	-93.4	-46.0	-64.8	-68.4	-74.4	-72.4	-62.4	-65.4
Of which: domestic primary balance [2]	-43.1	-27.7	-34.7	-34.4	-11.3	-21.9	-18.2	-12.9	-3.1	10.6	17.7
Including grants	25.0	-5.9	-43.0	-38.7	16.3	-3.3	7.4	11.3	18.6	28.6	34.4
Fiscal Impulse	74.0	-30.9	-37.1	-32.8	22.2	-19.6	7.4	14.7	11.1	17.2	15.8
Net change in arrears ((-) = reduction)	-13.9	-10.1	-5.6	-9.8	-3.5	-21.6	-10.1	-10.9	-5.8	-14.0	-13.4
Domestic	-12.1	-10.1	-5.6	-9.8	-6.0	-19.1	-10.1	-10.9	-5.8	-14.0	-13.4
External	-1.8	0.0	0.0	0.0	2.5	-2.5	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-15.3	-12.9	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-4.2	-28.9	-48.6	-48.6	14.0	-24.9	-2.7	0.4	12.8	14.6	21.0
	4.2	29.1	-1.4	-1.5	-14.1	24.9	2.7	-0.4	-12.8	-14.6	-21.0
External, net	0.9	6.1	-4.5	-4.5	-0.4	10.4	-1.3	-1.6	-1.6	-1.6	-1.6
Project loans	0.0	3.8	6.0	6.0	5.1	6.0	6.0	6.0	6.0	6.0	6.0
Program loans	0.0	0.0	0.0	0.0	0.0	8.8	0.0	0.0	0.0	0.0	0.0
Amortization due	-5.8	-6.8	-10.5	-10.5	-8.7	-4.4	-7.3	-7.6	-7.6	-7.6	-7.6
Exceptional financing	6.7	9.1	0.0	0.0	3.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	3.3	23.0	3.1	3.0	-13.7	14.5	4.0	1.2	-11.2	-13.0	-19.4
Banking system	3.3	23.0	3.1	3.0	-13.7	14.5	4.0	1.2	-11.2	-13.0	-19.4
BEAC	-6.6	17.3	1.0	0.9	-7.2	14.5	4.0	1.2	-11.2	-13.0	-19.4
of which: Counterpart to IMF resources (BEAC)	3.6	4.3	-11.3	9.0	9.0	21.5	10.7	2.1	-4.0	-4.3	-8.0
Amortization of advances and consolidated	...	...	...	...	...	0.0	-8.7	-8.8	-9.0	-9.2	-9.3
Commercial banks	10.0	5.6	2.1	2.1	-6.4	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	-0.1	50.0	50.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Total government debt	461.2	478.4	492.3	488.0	461.7	446.3	426.2	404.9	388.5	363.7	339.4
Government domestic debt[4]	267.3	290.3	316.3	312.0	276.6	250.8	232.0	212.3	197.5	174.4	151.6
Nominal GDP	842	937	1042	1046	1041	1152	1276	1410	1557	1716	1886

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

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

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

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

[4] Including arrears.

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

(In percent of GDP)

	2014	2015	2016			2017	2018	2019	2020	2021	2022
			Program	1st Review	Est.	Proj.					
				(In percent of GDP)							
Revenue	15.7	14.3	13.0	13.2	14.1	14.2	15.4	16.0	16.7	17.3	18.0
Domestic revenue	4.9	7.1	8.1	8.0	8.2	8.9	9.4	9.9	10.9	12.0	12.7
Tax revenue	4.4	6.5	7.4	7.3	7.5	8.1	8.7	9.0	10.1	11.2	11.7
Taxes on profits and property	1.0	1.4	1.5	1.5	1.8	2.0	2.1	2.1	2.3	3.0	2.8
Taxes on goods and services	3.4	5.1	5.9	5.8	5.6	6.1	6.6	6.9	7.7	8.3	8.9
Of which: VAT	1.3	2.1	2.3	2.3	2.2	2.4	2.6	2.9	2.8	3.0	3.5
Import Duties	1.1	1.6	1.9	1.9	1.9	2.1	2.2	2.2	2.6	2.7	3.2
Non-tax revenue	0.5	0.6	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8	1.0
Grants	10.8	7.2	4.9	5.2	6.0	5.3	5.9	6.1	5.8	5.3	5.3
Program	8.7	3.3	0.5	0.9	3.7	2.6	3.0	2.7	2.3	1.8	1.6
Project	2.1	3.9	4.4	4.3	2.3	2.8	2.9	3.4	3.5	3.5	3.7
Expenditure [1]	12.7	14.9	17.1	16.9	12.6	14.5	14.8	15.2	15.5	15.7	16.2
Primary Spending	10.0	10.1	11.5	11.3	9.2	10.8	10.9	10.8	11.1	11.4	11.7
Current primary expenditure	9.9	9.7	10.2	10.5	9.0	9.6	9.5	9.4	9.6	9.6	9.6
Wages and salaries	6.5	6.0	5.3	5.3	5.4	5.0	4.8	4.6	4.6	4.6	4.6
Transfers and subsidies	1.7	2.0	2.6	2.6	1.7	2.5	2.6	2.6	2.6	2.6	2.6
Goods and services	1.7	1.7	2.2	2.6	1.9	2.1	2.1	2.3	2.5	2.5	2.5
Interest due	0.7	0.6	0.7	0.7	0.6	0.4	0.5	0.6	0.6	0.4	0.4
External	0.4	0.3	0.3	0.3	0.3	0.1	0.1	0.2	0.2	0.1	0.1
Domestic	0.3	0.2	0.4	0.4	0.2	0.3	0.4	0.3	0.3	0.3	0.3
Capital expenditure	2.1	4.7	6.2	5.7	3.1	4.5	4.8	5.1	5.3	5.6	6.1
Domestically financed	0.1	0.4	1.3	0.8	0.3	1.2	1.4	1.4	1.4	1.8	2.1
Externally financed	2.1	4.3	4.9	4.9	2.8	3.3	3.4	3.8	3.9	3.8	4.0
Overall balance											
Excluding grants	-7.8	-7.8	-9.0	-8.9	-4.4	-5.6	-5.4	-5.3	-4.7	-3.6	-3.5
Of which: domestic primary balance [2]	-5.1	-3.0	-3.3	-3.3	-1.1	-1.9	-1.4	-0.9	-0.2	0.6	0.9
Including grants	3.0	-0.6	-4.1	-3.7	1.6	-0.3	0.6	0.8	1.2	1.7	1.8
Fiscal impulse	9.5	-3.6	-3.5	-3.1	2.2	-1.9	0.9	0.2	0.4	0.5	0.2
Net change in arrears ((-) = reduction)	-1.7	-1.1	-0.5	-0.9	-0.3	-1.9	-0.8	-0.8	-0.4	-0.8	-0.7
Domestic	-1.4	-1.1	-0.5	-0.9	-0.6	-1.7	-0.8	-0.8	-0.4	-0.8	-0.7
External	-0.2	0.0	0.0	0.0	0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-1.8	-1.4	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-0.5	-3.1	-4.7	-4.6	1.3	-2.2	-0.2	0.0	0.8	0.9	1.1
Identified financing	0.5	3.1	-0.1	-0.1	-1.3	2.2	0.2	0.0	-0.8	-0.9	-1.1
External, net	0.1	0.7	-0.4	-0.4	0.0	0.9	-0.1	-0.1	-0.1	-0.1	-0.1
Project loans	0.0	0.4	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.3	0.3
Program loans	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Amortization	-0.7	-0.7	-1.0	-1.0	-0.8	-0.4	-0.6	-0.5	-0.5	-0.4	-0.4
Exceptional financing	0.8	1.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	0.4	2.5	0.3	0.3	-1.3	1.3	0.3	0.1	-0.7	-0.8	-1.0
Banking system	0.4	2.5	0.3	0.3	-1.3	1.3	0.3	0.1	-0.7	-0.8	-1.0
BEAC	-0.8	1.8	0.1	0.1	-0.7	1.3	0.3	0.1	-0.7	-0.8	-1.0
of which: Counterpart to IMF resources (BEAC	0.4	0.5	-1.1	0.9	0.9	1.9	0.8	0.1	-0.3	-0.3	-0.4
Commercial banks	1.2	0.6	0.2	0.2	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	4.8	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Total government debt	54.8	51.1	47.2	46.6	44.3	38.8	33.4	28.7	24.9	21.2	18.0
Government domestic debt[4]	31.7	31.0	30.3	29.8	26.6	21.8	18.2	15.1	12.7	10.2	8.0

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

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

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

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

[4] Including arrears.

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

	2014	2015	2016			2017				2018			2019	2020	2021	2022
			Program	1st Review	Est.	Q1	Q2	Q3	Q4	Q1	Q2	Q4				
						Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(CFAF billions; end of period)															
Net foreign assets	51.7	42.2	47.7	47.7	54.7	67.1	57.8	48.5	37.5	34.4	31.4	25.4	25.8	32.7	37.4	44.0
Bank of Central African States (BEAC)	47.6	27.0	30.7	30.6	38.7	42.6	35.5	28.5	21.5	18.4	15.4	9.4	9.8	16.7	21.4	28.0
Commercial banks	4.1	15.3	17.0	17.0	16.0	24.5	22.2	20.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Net domestic assets	193.1	215.6	240.4	241.6	218.0	215.8	229.6	243.5	259.0	269.5	280.7	303.1	337.2	368.3	404.4	441.5
Domestic credit	286.5	309.2	321.1	321.6	317.2	325.8	339.6	353.4	369.0	379.5	390.7	413.1	447.2	478.3	514.4	551.5
Credit to the public sector	163.2	186.1	189.2	189.2	172.5	182.9	175.3	175.5	187.0	202.5	192.5	191.0	192.2	181.0	168.0	148.6
Credit to central government (net)	163.2	186.1	189.2	189.2	172.5	182.9	175.3	175.5	187.0	202.5	192.5	191.0	192.2	181.0	168.0	148.6
BEAC	143.8	161.1	162.1	162.1	153.9	162.0	154.9	156.1	168.4	183.9	173.9	172.4	173.6	162.4	149.4	130.0
Treasury account	62.9	64.2	80.7	65.3	58.5	58.6	58.6	58.6	58.5	57.9	57.4	56.2	54.0	51.7	49.5	47.2
Consolidated loans	45.9	48.1	43.1	38.1	55.9	55.9	55.9	55.9	55.9	54.3	52.7	49.5	42.9	36.2	29.3	22.2
IMF (net)	54.0	60.8	43.6	63.9	70.3	66.5	65.6	77.3	91.8	88.2	96.3	102.4	104.5	100.6	96.3	88.3
Deposits	-18.9	-12.0	-5.3	-5.3	-30.7	-19.1	-25.3	-35.7	-37.7	-16.5	-32.4	-35.7	-27.8	-26.1	-25.6	-27.7
Commercial banks	19.3	25.0	27.1	27.1	18.5	20.9	20.4	19.4	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5
Credit to other public agencies (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy	123.4	123.1	132.0	132.5	144.7	142.9	164.4	177.9	182.0	177.0	198.2	222.2	255.0	297.3	346.4	402.9
Public enterprises	2.9	3.2	3.6	3.6	3.4	3.2	3.2	3.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Private sector	120.5	119.9	128.3	128.8	141.4	139.7	161.1	174.7	178.7	173.7	194.9	218.8	251.7	293.9	343.0	399.5
Other items (net)	-93.4	-93.6	-80.7	-80.0	-99.2	-110.0	-110.0	-110.0	-110.0	-110.0	-110.0	-110.0	-110.0	-110.0	-110.0	-110.0
Money and quasi-money	244.8	257.8	288.1	289.3	272.6	282.9	287.4	291.9	296.4	304.0	312.1	328.5	363.0	400.9	441.7	485.4
Currency	138.2	134.8	159.2	159.9	143.7	148.2	151.8	155.3	158.9	162.7	167.2	176.1	194.6	214.9	236.8	260.2
Deposits	106.6	123.0	128.9	129.4	128.9	134.6	135.6	136.6	137.5	141.3	145.0	152.4	168.4	186.0	205.0	225.2
Demand deposits	58.9	64.9	69.2	69.4	68.9	72.3	71.9	71.5	71.2	73.1	75.0	78.9	87.2	96.3	106.1	116.6
Term and savings deposits	47.7	58.2	59.7	60.0	60.0	62.4	63.7	65.0	66.4	68.1	69.9	73.5	81.2	89.7	98.9	108.7
	(Annual change, percent of beginning period broad money)															
Net foreign assets	20.2	-3.9	2.1	2.1	4.8				-6.3			-4.1	0.1	1.9	1.2	1.5
Net domestic assets	-35.2	9.2	6.8	5.7	0.9				15.0			14.9	10.4	8.6	9.0	8.4
Net domestic credit	3.8	9.3	6.0	4.8	3.1				19.0			14.9	10.4	8.6	9.0	8.4
Net credit to central government	1.5	9.4	1.2	1.2	-5.3				5.3			1.3	0.4	-3.1	-3.2	-4.4
Credit to the economy	2.2	-0.1	4.8	3.6	8.4				13.7			13.5	10.0	11.6	12.2	12.8
Money and quasi–money	14.6	5.3	11.8	12.2	5.8				8.7			10.8	10.5	10.5	10.2	9.9
	(Annual percentage change)															
Net foreign assets	500.4	-18.4	12.9	12.9	29.5				-31.5			-32.3	1.6	26.8	14.4	17.7
Net domestic assets	-28.0	11.7	6.5	5.4	1.1				18.8			17.0	11.2	9.2	9.8	9.2
Monetary base	23.6	-1.8	11.3	11.7	0.2				10.6			10.8	10.5	10.5	10.2	9.9
Credit to the economy	4.0	-0.2	10.3	7.6	17.5				25.8			22.1	14.8	16.6	16.5	16.3
Public enterprises	-15.8	11.5	13.0	13.0	4.2				0.0			0.0	0.0	0.0	0.0	0.0
Private sector	4.6	-0.5	10.2	7.5	17.9				26.4			22.5	15.0	16.8	16.7	16.5
Memorandum items:																
Gross official foreign reserves (CFAF billions)	147.5	135.9	120.8	120.7	157.2				140.0			127.9	128.3	135.2	139.9	146.5
NDA of the central bank (CFAF billions)	117.0	134.7	149.1	149.9	123.3				157.7			189.1	209.5	225.6	245.5	265.4
Monetary base (CFAF billions)	164.6	161.6	179.8	180.5	162.0				179.1			198.5	219.3	242.2	266.9	293.3
Nominal GDP (CFAF billions)	842	937	1042	1046.4	1041				1152			1276	1410	1557	1716	1886
Velocity (GDP/broad money)																
End of period	3.4	3.6	3.6	3.6	3.8				3.9			3.9	3.9	3.9	3.9	3.9

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

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

	2014	2015	2016			2017	2018	2019	2020	2021	2022
			Program	1st Review	Est.			Proj.			
					(Billions of CFA francs)						
Current account	-46.9	-84.7	-105.7	-96.8	-94.4	-112.1	-83.2	-75.4	-81.1	-90.7	-95.8
Balance on goods	-155.7	-153.3	-147.6	-142.3	-141.9	-171.5	-179.4	-186.5	-193.8	-202.9	-212.1
Exports, f.o.b.	42.6	48.5	63.1	64.0	60.2	63.4	68.5	74.9	82.4	91.2	104.9
Imports, f.o.b.	-198.4	-201.8	-210.6	-206.3	-202.1	-234.9	-248.0	-261.4	-276.3	-294.1	-316.9
Services (net)	-50.8	-52.5	-54.2	-54.7	-54.0	-48.0	-33.8	-23.2	-20.4	-19.8	-16.8
Credit	67.1	69.6	72.5	72.1	72.8	84.2	98.2	114.9	124.3	132.3	143.5
Debit	-117.9	-122.1	-126.8	-126.8	-126.8	-132.2	-132.0	-138.0	-144.7	-152.1	-160.3
Income (net)	3.5	4.1	1.2	1.1	-0.6	1.6	1.5	3.4	1.8	2.0	2.2
Credit	10.0	10.5	11.0	11.0	11.0	11.5	12.1	12.7	13.4	14.1	14.9
Debit	-6.5	-6.4	-9.9	-9.8	-11.6	-9.9	-10.5	-9.3	-11.6	-12.1	-12.7
Transfers (net)	156.1	117.0	94.9	99.1	102.2	105.7	128.5	130.9	131.4	130.1	130.8
Private	61.3	62.3	63.4	63.5	47.5	48.3	59.1	60.1	61.0	62.0	63.0
Official	94.8	54.6	31.5	35.6	54.7	57.4	69.4	70.8	70.4	68.0	67.8
of which: Program	73.6	31.0	5.2	9.2	38.4	29.4	38.3	38.3	36.4	31.0	29.8
Capital account	17.3	36.6	45.5	45.5	23.8	32.1	37.5	47.4	54.6	60.0	70.0
Project grants	17.3	36.6	45.5	45.5	23.8	32.1	37.5	47.4	54.6	60.0	70.0
Other transfers (debt forgiveness)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	7.4	13.2	13.9	5.0	14.8	65.3	33.7	28.4	33.4	35.4	32.4
Direct investment	1.1	3.2	18.5	9.2	4.4	24.9	25.0	25.0	30.0	32.0	34.0
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	6.3	10.0	-4.5	-4.2	10.4	40.4	8.7	3.4	3.4	3.4	-1.6
Public sector (net)	-5.8	-3.0	-4.5	-4.5	-3.6	10.4	-1.3	-1.6	-1.6	-1.6	-1.6
Project disbursement	0.0	3.8	6.0	6.0	5.1	6.0	6.0	6.0	6.0	6.0	6.0
Program disbursement	0.0	0.0	0.0	0.0	0.0	8.8	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-5.8	-6.8	-10.5	-10.5	-8.7	-4.4	-7.3	-7.6	-7.6	-7.6	-7.6
Monetary authorities (SDR allocation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term flows	12.1	13.0	0.0	0.3	14.0	30.0	10.0	5.0	5.0	5.0	0.0
Errors and omissions	54.8	14.3	0.0	0.0	65.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (excl. errors and omissions)	-22.2	-34.9	-46.3	-46.3	-55.8	-14.7	-12.1	0.4	6.9	4.7	6.6
Identified financing	-32.5	20.6	-3.7	16.6	-9.2	14.7	12.1	-0.4	-6.9	-4.7	-6.6
Net official reserves movements	-39.2	20.6	-3.7	16.6	-11.7	17.2	12.1	-0.4	-6.9	-4.7	-6.6
Net IMF credit	3.6	4.3	-11.3	9.0	9.0	21.5	10.7	2.1	-4.0	-4.3	-8.0
IMF purchase	-6.3	-11.3	0.0	-20.4	-20.4	-28.1	-19.1	-9.5	0.0	0.0	0.0
IMF repurchase	2.6	7.0	11.3	11.3	11.3	6.6	8.4	7.4	4.0	4.3	8.0
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other reserves (increase = -)	-42.8	16.3	7.6	7.6	-20.7	-4.3	1.4	-2.5	-2.9	-0.4	1.4
Exceptional financing	6.7	0.0	0.0	0.0	2.5	-2.5	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing	0.0	0.0	0.0	0.0	2.5	-2.5	0.0	0.0	0.0	0.0	0.0
Debt payment arrears (reduction=-	0.0	0.0	0.0	0.0	2.5	-2.5	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	-0.1	50.0	29.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Terms of trade	8.9	31.2	5.8	6.4	24.2	-11.4	0.1	0.4	1.3	2.8	2.3
Unit price of exports	11.9	8.5	-1.9	-1.3	0.7	-2.1	0.4	0.1	1.2	1.5	3.4
Unit price of imports	2.8	-17.3	-7.3	-7.3	-18.9	10.6	0.3	-0.3	-0.1	-1.3	1.1
Gross official foreign reserves											
(CFAF billions, end-of-period)	147.5	135.9	120.8	120.7	157.2	140.0	127.9	128.3	135.2	139.9	146.5
(Months of imports, f.o.b.)	5.5	5.0	4.0	4.0	5.1	4.4	3.8	3.7	3.6	3.5	3.6
Current account (percent of GDP)	-5.6	-9.0	-10.1	-9.3	-9.1	-9.7	-6.5	-5.3	-5.2	-5.3	-5.1
Capital account (percent of GDP)	2.1	3.9	4.4	4.3	2.3	2.8	2.9	3.4	3.5	3.5	3.7
Nominal GDP (CFAF billions)	842	937	1042	1046	1041	1152	1276	1410	1557	1716	1886

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

Table 6. Central African Republic: Treasury Cash Management Plan, 2017

(millions CFAF francs)

	Actual				Projections								Total 2017
	January	February	March	April	May	June	July	August	September	October	November	December	
Deposits beginning of month (I)[1]	**28,696**	**22,768**	**20,999**	**18,108**	**15,101**	**12,434**	**28,755**	**34,775**	**30,933**	**26,842**	**37,686**	**33,492**	**28,696**
Gross cash inflows (II)	**11,160**	**8,566**	**7,884**	**8,192**	**13,767**	**30,644**	**22,417**	**8,935**	**8,935**	**24,735**	**14,287**	**27,435**	**186,957**
Customs and Tax Revenue	5935	7740	7169	7478	7700	8000	8200	8200	8200	8200	8200	8200	93,222
Other revenue	144	246	135	134	130	140	140	150	150	150	150	150	1,819
Salary Tax	580	580	580	580	585	585	585	585	585	585	585	585	7,000
Financing	4,501	0	0	0	5,352	21,919	13,492	0	0	15,800	5,352	18,500	84,916
Treasury securities	3,892	0	0	0	5,352	0	3,892	0	0	0	5,352	0	18,488
Other budget support	609	0	0	0	0	21,919	9,600	0	0	15,800	0	18,500	66,428
World Bank	0	0	0	0	0	0	0	0	0	8,800	0	0	8,800
African Development Bank	0	0	0	0	0	8,800	0	0	0	0	0	0	8,800
IMF Disbursements	0	0	0	0	0	0	9,600	0	0	0	0	18,500	28,100
European Union	0	0	0	0	0	13,119	0	0	0	0	0	0	13,119
France	0	0	0	0	0	0	0	0	0	6,600	0	0	6,600
Timor Leste/Other	609	0	0	0	0	0	0	0	0	400	0	0	1,009
Gross cash outflows (III)	**17,088**	**10,335**	**10,775**	**11,199**	**16,434**	**14,323**	**16,397**	**12,777**	**13,026**	**13,891**	**18,481**	**25,258**	**179,984**
Primary expenditure	7,530	6,942	9,700	8,192	10,161	11,910	10,584	11,064	11,533	11,891	11,881	12,363	123,751
Wages	4,041	4,069	4,099	4,168	4,250	4,250	4,250	4,330	4,350	4,350	4,350	4,350	57,857
add f.i. salary charges	580	580	580	580	585	585	585	585	585	585	585	585	
Transfers	1,082	666	2,787	1,044	2,274	3,600	2,274	2,274	3,273	2,930	2,900	3,057	28,161
of which: pensions	0	0	1,743	0	0	1,686	0	0	1,686	0	0	1,686	6,801
Goods and services	1,827	1,038	1,506	2,229	1,877	2,300	2,300	2,400	1,850	2,351	2,371	2,011	24,060
Capital	0	589	728	171	1,175	1,175	1,175	1,475	1,475	1,675	1,675	2,360	13,673
Interest and Amortization	6,595	10	707	1,793	5,700	1,800	5,400	1,300	980	1,400	6,000	2,995	34,680
Domestic	6,595	7	707	253	5,700	900	5,100	400	750	500	6,000	1,800	28,712
of which: IMF repayments	2,595	0	707	253	0	700	700	0	300	0	0	1,300	6,555
of which: treasury securities	4,000	0	0	0	5,500	0	4,000	0	0	0	5,500	0	19,000
of which: Interest		7			200	200	400	400	450	500	500	500	3,157
External	0	3	0	1,540	0	900	300	900	230	900	0	1,195	5,968
of which: Interest	0	3		735			300		230			300	1,568
of which: Amortizations				805		900		900		900		895	4,400
Arrears payments	2,963	3,383	368	1,214	573	613	413	413	513	600	600	9,900	21,553
Net cash flow (=II-III)	**-5,928**	**-1,769**	**-2,891**	**-3,007**	**-2,667**	**16,321**	**6,020**	**-3,842**	**-4,091**	**10,844**	**-4,194**	**2,177**	**6,973**
Deposits at end of month (=I+(II-III))[1]	**22,768**	**20,999**	**18,108**	**15,101**	**12,434**	**28,755**	**34,775**	**30,933**	**26,842**	**37,686**	**33,492**	**35,669**	**35,669**

Source: Data provided by the authorities and staff calculations.

[1] Only freely usable deposits.

Table 7. Central African Republic: Disbursements of External Support 2016 and Commitments for 2017 and 2018

	Disbursements 2016		Commitments for 2017 (second review)		Commitments for 2018		Purpose
		CFA francs, bn		CFA francs, bn		CFA francs, bn	
IMF	SDR 25.05 million	20.4	SDR 34.5 million	28.1	SDR 23.4 million	19.1	Balance of payments support
World Bank	US$ 20 million	11.7	US$ 15 million	8.8	US$ 15 million	8.8	Budget support
African Development Bank			US$ 15 million	8.8	US$ 15 million	8.8	Budget support
European Union	€ 22 million	14.4	€ 20 million	13.1	€ 20 million	13.1	Budget support
France	€ 13 million	8.5	€ 10 million	6.6	€ 10 million	6.6	Budget support
Others (Congo, Cameroon, CEMAC, Timor-Leste)		3.6		0.9		1.0	
Total		58.7		66.3		57.4	
excluding IMF				**38.2**		**38.3**	

Table 8. Central African Republic: Indicators of Capacity to Repay the IMF, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
IMF obligations based on existing credit										
(SDR millions)										
Principal	8.11	10.31	9.10	5.35	5.85	10.86	9.47	8.63	7.24	5.01
Charges and interest	0.16	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
IMF obligations based on existing and prospective credit										
(SDR millions)										
Principal	8.11	10.31	9.10	5.35	5.85	10.86	17.54	21.39	21.17	18.94
Charges and interest	0.16	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
IMF obligations based on existing and prospective credit										
(CFA billions)										
Principal	6.30	7.90	6.91	4.00	4.30	7.97	12.88	15.71	15.54	13.91
Charges and interest	0.12	0.17	0.17	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Outstanding IMF Credit										
SDR Millions	106.36	119.45	122.05	116.69	110.84	99.98	82.44	61.05	39.89	20.95
CFAF Billions	82.62	91.58	92.66	87.29	81.39	73.41	60.53	44.83	29.29	15.38
Percent of government revenue	81.18	76.23	66.65	51.70	39.49	30.75	22.82	15.49	9.29	4.48
Percent of exports of goods and services	55.97	54.94	48.99	42.43	36.61	29.93	23.37	16.70	10.53	5.28
Percent of debt services	501.48	410.25	402.71	430.77	432.81	324.37	277.74	209.49	141.91	80.68
Percent of GDP	7.17	7.18	6.57	5.60	4.74	3.89	2.94	2.04	1.25	0.61
Percent of quota	95.48	107.23	109.56	104.75	99.50	89.75	74.00	54.80	35.81	18.81
Net use of IMF credit (SDR millions)										
Disbursements	34.5	23.4	11.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	8.27	10.53	9.32	5.58	6.07	11.08	17.76	21.61	21.39	19.16
Memorandum items:										
Nominal GDP (billions of CFA francs)	1151.6	1276.1	1410.0	1557.5	1716.0	1885.8	2058.5	2197.1	2345.3	2503.7
Exports of goods and services (billions of C	147.6	166.7	189.2	205.7	222.3	245.3	259.1	268.4	278.1	291.1
Government revenue (billions of CFA franc:	101.8	120.1	139.0	168.8	206.1	238.7	265.2	289.5	315.3	343.7
Debt service (billions of CFA francs)	16.5	22.3	23.0	20.3	18.8	22.6	21.8	21.4	20.6	19.1
IMF Quota (SDR millions)	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4	111.4

Source: IMF staff projections.

Table 9. Central African Republic: Financial Soundness Indicators, December 2010–March 2017

(Percent, end of period)

Concept	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Jun-16	Dec-16	Mar-17
Capital Adequacy									
Total bank regulatory capital to risk-weighted assets	16.5	25.6	22.7	39.1	42.2	37.4	36.8	32.0	32.7
Percentage of banks greater or equal to 10 percent									
Share of these banks/total banking system assets									
Percentage of banks below 10 and above 6 percent minimum									
Share of these banks/total banking system assets									
Percentage of banks below 6 percent minimum									
Total capital (net worth) to assets	15.9	21.3	21.4	18.3	18.1	23.2	17.2	21.7	18.7
Asset Quality									
Non-performing loans to total loans	12.6	12.0	9.6	28.5	27.7	26.0	22.8	21.3	25.0
Non-performing loans net of provision to capital	1.5	3.3	1.6	50.0	44.4	34.6	24.3	17.8	9.6
FX loans to total loans									
Earnings and Profitability									
Net income to average assets (ROA)	3.6	4.8	4.3	-1.1	0.8	-0.3	0.3	0.6	...
Net income to average capital (ROE)	24.4	24.4	20.7	-5.4	3.8	-1.4	1.5	2.6	...
Non interest expense to gross income	65.9	59.9	64.0	79.5	...	...	...	...	...
Personnel expense to gross income									
Non interest income to gross income									
Expenses/Income									
Liquidity									
Liquid assets to total assets	26.1	23.2	16.1	14.9	22.7	39.9	33.8	31.9	30.9
Liquid assets to short-term liabilities	132.6	160.7	114.5	149.1	203.1	276.1	246.8	219.6	227.6
Loan/deposits									
Liquid assets/total deposits									
Sensitivity to market/FX risk									
Foreign exchange liabilities/total liabilities									
Foreign currency deposits/official reserves									

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

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

Disbursements Conditions	Date	Amount of Purchase	
		Millions of SDR	Percent of Quota
First disbursement upon program approval.	July 20, 2016	SDR 12.525 million	11.24
Second disbursement upon observance of the performance criteria for August 31, 2016 and completion of the first review.	December 21, 2016	SDR 12.525 million	11.24
Third disbursement upon observance of the performance criteria for December 31, 2016 completion of the second review.	March 22, 2017	SDR 11.70 million	10.5
Fourth disbursement upon observance of the performance criteria for June 30, 2017 completion of the third review.[1]	October 23, 2017	SDR 22.84 million	20.5
Fifth disbursement upon observance of the performance criteria for December 31, 2017 completion of the fourth review.	March 21, 2018	SDR 11.70 million	10.5
Sixth disbursement upon observance of the performance criteria for June 30, 2018 completion of the fifth review.	October 22, 2018	SDR 11.70 million	10.5
Seventh disbursement upon observance of the performance criteria for December 31, 2018 completion of the sixth review.	March 20, 2019	SDR 11.70 million	10.5
Total		SDR 94.69 million	85.0

[1] The amount for this disbursement reflects the proposed augmentation. The originally phased amount was SDR 11.7 million

Table 11. Central African Republic: Risk Assessment Matrix (RAM)[1]

Sources of Risks	Relative Likelihood	Impact If Realized	Policy Response if Materialized
Deterioration of security conditions	**High**	**High** Paralyzing or blocking momentum for economic recovery.	Maintain fiscal stability and control to safeguard basic spending and keep social cohesion; preserve reform impetus; intensify DDRR efforts.
Limited administrative capacity	**High**	**High** Weak program implementation and delayed structural reforms. Lasting fragility.	Intensify capacity building efforts; focus on revenue mobilization; protect policy buffers.
Delayed delivery of external financial assistance	**Medium**	**Medium** Negative effects on investment, growth and employment, and poverty. Putting macroeconomic and stability and financial viability at risk.	Ascertain performance in program implementation; improve investment project design and implementation; tailor expenditure program to fit with available financing; and focus on priority sector spending; restore peace and security to restart exports of diamonds and other natural resources.
Inertia and relenting reform drive, and political and social opposition against reforms	**High**	**High** Weaker program implementation and delayed adoption of structural reform measure, and lower growth. Progress out of fragility in doubt.	Maintain flexible but firm structural reform implementation; focus on delivery of visible results; reach out to key stakeholders explaining reform efforts.
Retreat from cross-border integration; weaker growth in advanced and emerging economies, and weaker commodity prices	**High/Medium**	**High/Medium** Delayed recovery of export and customs revenue; depressed medium-term growth prospects.	Diversify export products and markets; improve business climate to promote private sector investment and domestic value added.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short-term" and "medium-term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex I. Capacity Building Framework Strategy

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

A. Policy Priorities

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

B. Assessment of past TA effectiveness

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

C. TA Priorities Going Forward

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

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

Public debt management (2016–18		
•	Objective:	Building debt management capacity and improving the debt management strategy.
•	Outcomes:	(i) modernize the institutional and regulatory framework for public debt management; (ii) improve debt management strategy; and (iii) strengthen analytical and operational capabilities of debt managers.
•	Milestones:	Review the institutional and regulatory framework for public debt management and improve debt management strategy (2017).
•	Input:	HQ-led TA mission on Public Debt Management; and follow up mission from headquarters in the debt management area (2016–18).
•	Assumption	Strong commitment toward strengthening debt management.
Statistics Issues on National Accounts, Government Finance Statistics, and External Sector (2016–18)		
•	Objective:	Produce more accurate statistics on prices, national accounts, government finance statistics, and external sector.
•	Outcomes:	Improve economic policy making and inform private sector decisions.
•	Milestones:	For national accounts, improve the compilation of the 2005-2015 annual national accounts in line with 1993 SNA and have it disseminated, and to improve the price collection and update the CPI. For external sector, improve the compilation and dissemination of balance of payments and to start producing the International Investment Position data. For government finance statistics, start producing the statement of government operations following the GFSM 2001/2014 and implementing the CEMAC TOFE directive based GFSM 2001.
•	Input:	For national accounts, visits by short term experts from AFRITAC Central to review national accounts and fix the CPI methodology. For the external sector, a three-year project funded by the Japan government has been launched this year. The project targets 17 beneficiary francophone countries, of which all the member states of the CEMAC. For government finance statistics, visits by long-term expert from AFRITAC Center to help them implement the TOFE directive.
•	Assumptions:	(i) Human and financial resources are available; (ii) there is a good collaboration between national agencies involved in statistics.

D. Risks and Mitigation Measures

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

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

E. Authorities' Commitments

The C.A.R authorities are committed to continue to rebuild capacity to ensure successful implementation of the ECF program. TA was delivered in 2016 by development partners to enhance customs revenue collection, improve treasury management, strengthen the interconnection between budget and accounting computerized modules to ensure work continuity of the Government Financial Management Information System (GESCO) and pursue the civil service reform. For 2017, the authorities have reached understandings with the Fund on a comprehensive capacity building strategy in the context of the Capacity Building Framework (CBF) pilot project. Within this framework, their priorities remain on domestic revenue collection, PFM, public debt management, macroeconomic statistics, civil service reform and macro fiscal capacity. The outcomes will be first to strengthen the institutional framework in place that coordinates TA and training with a view to increasing revenue, enhancing spending efficiency, restoring budget discipline, strengthening debt management and creating a core macro fiscal capacity. If security risk heightens, the authorities are planning to send staff to outside locations for training. They are also looking forward to take full advantage of additional TA that is expected to be provided by the Fund under the CBF pilot on tax policy, revenue administration, PFM, national accounts data compilation, and external trade data (Table 1). The authorities are committed to improve capacity and make the best use of the TA and training that will be provided by the development partners and the Fund. To offset the lack of specialized local staff, they plan to hire young college graduates and train them in the specialty identified as crucial to improve capacity. Modernization of equipment is also underway with donor support. These commitments are included in the MEFP of the second review of the ECF program.

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

Date	Department	Mission purpose
Jan-17	FAD	Tax policy
	FAD	AFC-Revenue administration
	MCM	Balance of payments statistics
Feb-17	FAD	Tax administration
	FAD	Customs administration
	FAD	AFC-Revenue administration
	MCM	AFC-Liability management
	STA	AFC-Government finance statistics
Mar-17	FAD	AFC-Revenue administration
	FAD	Public finance management
	FAD	AFC-Public finance management
	MCM	AFC-Liability management
	STA	AFC-National accounts
May-17	FAD	AFC-Revenue administration
	STA	AFC-National accounts
Jun-17	STA	AFC-Government finance statistics

Appendix I. Letter of Intent

Madame Christine Lagarde Bangui, June 28, 2017
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431

Dear Madame Lagarde:

1. On July 20, 2016, the Executive Board of the International Monetary Fund (IMF) approved an arrangement of SDR 83.55 million (75 percent of quota) for the C.A.R. under the Extended Credit Facility (ECF), in support of our policies and structural reforms designed to entrench macroeconomic stability and create the conditions for sustained and inclusive growth. The attached Memorandum of Economic and Financial Policies (MEFP) describes recent economic trends in the C.A.R. and progress that has been made in implementing our policies through end-December 2016.

2. We would like to inform you that we have met all end-December 2016 quantitative performance criteria. We have implemented all structural benchmarks, albeit with some delay, except for those relating to the repatriation of diplomats whose assignments had ended, and the consolidation of the Treasury Single Account. To date we have cleared all external arrears accumulated in 2016, except to China, which is considering canceling all outstanding debt. Lastly, all prior actions related to the conclusion of this second ECF program review have been completed. We suspended the payment of expatriation benefits to all diplomats whose mission have ended, terminated a subcontract for customs management, and published the budget execution report per end-March 31 2017.

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

4. This Memorandum also presents the economic and financial policies the C.A.R. government plans to implement for the remainder of 2017 and to pursue in 2018 to: (i) consolidate macroeconomic stability, through improved revenue collection and stronger public financial management; (ii) support the economic recovery; and (iii) make progress in achieving our poverty reduction objectives. To this end, we have adopted a 2017 budget law consistent with the ECF-supported program.

5. In light of our satisfactory performance to date, we request the disbursement of the third tranche of financing equivalent to SDR 11.70 million (10.5 percent of quota) under the ECF arrangement to cover our protracted balance of payments needs. In addition, we request an augmentation of access of SDR 11.14 million (10 percent of quota) to cover additional balance of payments needs linked to domestic payment arrears clearance to small and medium-size enterprises.

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

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

Sincerely yours,

/s/
Henri-Marie Dondra
Minister of Finance and Budget

/s/
Simplice Mathieu Sarandji
Prime Minister

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

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

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) provides updates on the implementation of the 2016–19 economic program supported by the International Monetary Fund (IMF) through an arrangement under the Extended Credit Facility (ECF)**. The economic and financial program of the C.A.R. aims at entrenching macroeconomic stability and creating the conditions for sustained, broad-based, and inclusive growth through structural reforms. These objectives are in line with the government's National Recovery and Peacebuilding Plan *(Stratégie de Relèvement et de Consolidation de la Paix en Centrafrique—RCPCA)*. This MEFP describes recent economic developments and takes stock of the implementation of the quantitative performance criteria and structural benchmarks at end-December 2016. It also lays out key policy objectives under the program through end-2017 and beyond.

2. **Security conditions have improved in Bangui despite new flare-ups of violence in the center, east and south of the country.** Attacks against civilians in the first few months of 2017, and violent confrontations in different parts of the country resulted in the loss of lives, further localized destruction, and more internally displaced persons. Despite these developments, we remain strongly committed to implementing our economic program, the success of which is key for our strategy to establish inclusive peace. The security sector reform aims at integrating ex-combatants, streamlining and rejuvenating the armed and police forces and their command structure, and safeguarding peace and security. We recently held a meeting of the Consultation and Monitoring Committee of the disarmament, demobilization, reintegration and repatriation (DDRR) process, which brought together the fourteen armed groups and launched the recruitment of five hundred police and *gendarmes*. We deployed our *gendarmerie* to the recent combat zones. A special criminal court is starting to prosecute individuals presumed to have committed war crimes and human rights violations.

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

3. **Economic growth in 2016 was slightly weaker than projected, and inflation was kept in check.** Economic growth of 4.5 percent was sustained by agricultural exports (coffee, cotton), forestry, small-scale processing, transportation, and trade. However, public investment program implementation was weaker than planned, negatively affecting economic activity. Production and official exports of diamonds remained subdued owing to the ongoing embargo. Average inflation reached 4.6 percent, driven by higher prices of staple food resulting from lower livestock production and additional demand from returning refugees and internally displaced persons.

4. **Fiscal objectives at end-December 2016 were achieved and even exceeded.** Revenue performance of CFAF 84.9 billion was in line with the program, while primary spending (CFAF 96.2 billion) was lower-than-projected, helping contain the domestic primary deficit at 1.1 percent of GDP, below the programmed 3.3 percent of GDP. Investment spending fell short of projections to reach CFAF 32 billion, reflecting limited planning and implementation capacity. As a result, government deposits reached CFAF 30.7 billion.

5. **External debt amounted to CFAF 185.1 billion at end-2016.** New disbursements amounting to CFAF 5.1 billion came from WB and Saudi Development Fund loans, which had been contracted prior to the ECF program.

6. **Program execution was broadly satisfactory**. All end-December 2016 quantitative performance criteria (PCs) were met. Implementation of the end-December 2016 and end-February 2017 structural benchmarks took longer than expected, particularly, with regard to: (i) the repatriation of diplomatic personnel whose assignments had ended; and (ii) the closure of non-essential accounts opened by public institutions in commercial banks.

7. **All indicative targets for end-March 2017 are met except for tax revenue and domestic government financing.** The revenue underperformance, mostly at customs, is explained by widespread undervaluation of imports. Expenditure was contained, limiting the domestic primary deficit to 0.1 percent of GDP well within the program target. Domestic government financing exceeded our target due the withdrawal of government deposits for higher than programmed arrears repayments.

8. **Additional efforts will be made to meet our social spending targets**. Achieving our non-wage social spending target is particularly important for the consolidation of social peace. In 2016, we could not meet the CFAF 5 billion indicative benchmark, due to liquidity constrains. However, in the first quarter of 2017, expenditure already authorized amounted to CFAF 3.3 billion, higher than the indicative target for end-March 2017.

THE NATIONAL DEVELOPMENT STRATEGY AND THE MEDIUM-TERM OUTLOOK

A. Pillars of the Strategy

9. **We have developed our 2017–21 national development program called the Recovery and Peacebuilding Plan for the C.A.R.** *(Stratégie de Relèvement et de Consolidation de la Paix en Centrafrique–RCPCA),* with strong support from the international community, which pledged US$2.2 billion at the November 17, 2016, donor conference in Brussels. This plan addresses the important economic challenges and pervasive poverty that are hindering peace and social progress. Four guiding principles underlie the RCPCA:

- **Regional growth zones are essential** to create the conditions necessary for a balanced development across the country to benefit the population at large.

- **Promoting economic integration and diversification by fostering inclusive and broad-based economic growth** aims at security and peace, agriculture, water and energy, transportation and telecommunications, and health and education as the sectors for sustainable growth.

- **Developing labor-intensive activities,** to absorb the large and growing unemployment and integrate youth into the labor force.

- **Strengthening social resilience of the population** to help accompany and strengthen economic development.

10. **The institutional framework for the implementation of the RCPCA is being put in place since May 2017**. At the same time, quick-yielding projects are being developed simultaneously, with support notably from the WB and the French Development Agency (AfD).

B. Medium-Term Outlook

11. **Medium-term development prospects remain favorable, assuming a restoration of peace and security, and the implementation of sound macroeconomic policies**, anchored on increased domestic revenues and improved public financial management and governance. Our macroeconomic objectives under the ECF-supported programs are as follows:

- Economic growth to average an annual 5 percent over the medium term, driven largely by an increase in agricultural output, including cotton and coffee, and a significant pick-up of activity in the forestry and mining sectors, with inflation coming down to the CEMAC convergence level of 3 percent by 2019;

- The domestic primary deficit to reach 0.9 percent in 2019, reflecting a steady rise in the domestic revenue-to-GDP ratio (owing to revenue enhancing reforms), and tighter control over current expenditure;

- The external current account deficit, excluding grants, to persist at a level of around 9 percent of GDP reflecting the sizable reconstruction needs and a gradual, sustained recovery in traditional exports; and

- Financing needs to reach about 5.8 percent of GDP in 2017, 4.5 percent in 2018, and 3.4 percent in 2019.

C. Investment Program and Business Climate

12. **The public investment management framework is weak and requires a comprehensive overhaul.** The financing and implementation of major investment projects

within the framework of the RCPCA will contribute to maintaining and strengthening economic stability and development objectives. To facilitate RCPCA implementation, and with the backing of our technical and financial partners, we are in the process of implementing a new institutional framework for public investment management. It aims at increasing public investment efficiency by reinforcing the management cycle from priority project selection to execution, including monitoring and control.

13. **In addition, we are determined to take significant steps to improve the business climate**. We will consult with our partners on a revised law for public/private partnerships (PPP). We are fully aware of the fiscal risks associated with PPPs, and we intend to take stringent measures to limit such risks. We will consult Fund staff on all PPP projects to assess their fiscal impact. This will be accompanied by actions to streamline the public investment portfolio so as to promote private sector investment and obtain a public investment program which combines small-scale projects to rehabilitate administrative structures, health units, and schools with the major infrastructure projects, which will underpin the regional growth hubs (*pôles de croissance régionaux*) and form the backbone of an integrated development approach for the country. We have drawn up a list of 71 projects, including 51—all financed by grants—to be included in the 2018 budget, and we are stepping up our efforts for their rapid implementation.

ECONOMIC AND FINANCIAL PROGRAM FOR 2017

A. Macroeconomic Framework for 2017

14. **The 2017 budget was adopted on time and is consistent with the objectives of the EFC-supported program.** The domestic primary deficit remains the anchor of this program. It is in line with our medium-term fiscal strategy, and we reiterate our commitment to the fiscal targets set under the program. In particular, we remain committed to implement all necessary measures to reach our fiscal revenue targets for 2017.

15. **The macroeconomic projections for our 2017 program are as follows**:

- Real GDP growth to reach 4.7 percent, underpinned by stepped-up investment project execution.

- Average annual inflation to be further consolidated to 3.8 percent in expectation of good harvests and contained food prices.

- The domestic primary deficit, the anchor of the fiscal program, is projected to be 1.9 percent of GDP. Public debt would decrease to 38.8 percent of GDP. Domestic revenue is expected to reach 8.9 percent of GDP, domestic primary spending 10.8 percent of GDP, and domestically-financed capital expenditure 1.2 percent of GDP. This would make it possible to increase social spending, which should reach at least CFAF 5 billion.

- Financing needs for 2017 are expected to be in the region of CFAF 66.3 billion (5.8 percent of GDP). They will be fully covered under the program by Fund disbursements totaling

CFAF 28.1 billion. The balance (CFAF 38.2 billion) will be covered by budgetary support from the European Union, the WB, the African Development Bank, and France.

B. Revenue Reforms

16. **We collected revenue amounting to CFAF 29 billion through April, below a projected CFAF 34 billion.** We noted with concern a significant decline in customs revenue caused mainly by an undervaluation of imported goods. Persisting administrative weakness and the underutilization of Asycuda also contributed to the shortfall. Measures introduced in the 2017 budget law (notably the introduction of an excise tax on telephone calls and the increase of VAT and excise duties on certain consumer goods) and the better control of the tax base contributed to the good tax revenue performance. Other tax revenue performed better than programmed.

17. **We are determined to keep our revenue target unchanged for the year and have adopted corrective measures to recover the shortfall.** At customs, we will use the values certified by the pre-inspection company as mandatory minimum assessment values. The estimated yield of this measure is CFAF 800 million for the rest of 2017. Furthermore, we will: (i) regularize valuation discrepancies observed between January 2016 and May 2017 (estimated at CFAF 1.7 billion) (proposed new *structural benchmark, end-September 2017*); (ii) correct erroneous entries in ASYCUDA of the CEMAC common external tariff and the discounted rates of VAT (estimated at CFAF 100 million); (iii) increase the number of convoys between Beloko and Bangui (CFAF 400 million); (iv) recover customs debts (about CFAF 335 million); and (v) introduce new pre-payment procedures at the Douala Single Window (CFAF 400 million). Additional tax measures include stepping up of VAT and personal income tax controls (CFAF 800 million) and continuing with recovery actions (CFAF 1 billion). Further actions to streamline the tax system and consolidate the tax base should yield additional revenue.

18. **We will continue to reform customs revenue administration.** We have terminated all contractual commitments taken with a private company (*prior action*) to instead focus on reforms supported by our partners. The implementation of our action plan—which we have just updated—is well underway. We intend to make better use of ASYCUDA by computerizing the Beloko office (proposed new *structural benchmark, end-December 2017*) and enabling all its features. We will ensure that all customs transactions are registered in the system and will take severe measures, including sanctions, against tampering with the system. We have also intensified payment controls to ensure deferred duties are effectively paid. The practice of offsetting unpaid VAT credits against other taxes between importers of oil and the State, which continued in the first two months of 2017, was discontinued on March 1, 2017. Government agencies will henceforth be required to budget and pay for their oil consumption. Based on recommendations from the December 2016 and January 2017 TA missions on customs revenue administration, we will:

- ***adopt a ministerial order clarifying the responsibilities*** of the unit in charge of IT systems (CSI) and customs administration in relation to the ASYCUDA system;

- ***strengthen controls of exemptions*** to ensure that both quality and quantity of exempted goods are as specified in the authorizations, and that leakages are deterred and effectively sanctioned;

- ***generalize, from January 1, 2018, deferred VAT payment*** for exporters and major investors to avoid the accumulation of VAT credits.

- ***secure customs and transit operations*** between the port of Douala and Bangui, including by utilizing our dedicated lot in Douala, connecting C.A.R.'s and Cameroon's customs departments with C.A.R.'s Single Window in Douala, and promoting the establishment of a commercial bank branch at Beloko;

- ***improve compliance management***, especially through the systematic exchange of information between the tax and customs departments and cross-checking of customs and tax returns;

- ***conclude performance contracts with customs inspectors,*** which would make it possible to hold them liable for all stages of customs import procedures; and

- ***ensure monthly publication of the results of customs inspections*** on amounts collected after litigation.

19. **Tax and customs exemptions are strictly limited to those provided for by law.** We have decided to focus the role of the inter-ministerial committee in charge of granting customs and tax exemptions to an advisory and coordination body for drafting texts containing clauses on exemptions and on monitoring the management of existing customs and tax exemptions. No new exemption has been granted since the start of the year. All existing tax and customs exemptions and their revenue impact will be reviewed and published (*structural benchmark, end-December 2017*).

20. **We will take decisive action to monitor and limit parafiscal taxation**. We will increase transparency and transfer all revenues, estimated between 2 to 3 percent of GDP, to the TSA. We are aware that the profusion of parafiscal taxation is a source of major distortions and significant losses for the public treasury. These taxes and fees are often levied in a non-transparent and ad hoc way, and for the most part, are not properly accounted for, nor transferred to the Treasury. An instruction will be issued by the Prime Minister to prohibit, with immediate effect, the introduction of any new tax or levy. The Council of Ministers will adopt a decree to repeal the tax on incoming telephone calls before end-June. We have started to conduct a complete inventory of parafiscal taxes and levies, revenue collected in this way and how it is used. We will adopt an action plan to eliminate unjustified parafiscal taxes and transfer the revenue from the rest to the TSA (proposed new *structural benchmark, end-December 2017*).

Public financial management reforms

21. **We remain committed to implement our public financial management reform agenda**. The action plan was updated as part of a March 2017 technical assistance mission. In 2016, we acted to consolidate the treasury single account (TSA) and strictly limit the creation of new bank accounts. We identified government accounts at commercial banks and closed many. However, we were unable to close several accounts and transfer their balances to meet the end-March 2017 structural benchmark. We will continue with our efforts to consolidate these accounts and transfer their balances to strengthen the TSA.

22. **We performed an audit of the government's financial management information system (Gesco).** Gesco does not meet anymore the needs of a modern public financial management system. We are therefore committed to deploying by December 2019 a new, high-quality application based on a functional and technical assessment. During the transition period, we will continue to make the best use of Gesco to enable the government to fulfill its statutory reporting commitments and produce regular accounts and financial statements.

23. **We are continuing to improve public accounting practices and budget execution monitoring.** We established the accounting balances for 2010–15, which are currently reviewed by the audit court. We will produce monthly balances in 2017 30 days after the end of the month in line with the recommendations of the technical assistance mission. We will also finalize the budget execution report for 2016 (*structural benchmark, end-September 2017*) and are committed to producing budget execution reports based on Gesco on a quarterly basis within 30 days of the end of the quarter (proposed new *structural benchmark, quarterly, from end-September 2017*). We have already produced the budget execution report as of March 31, 2017 (*prior action*).

24. **We will strictly adhere to regulatory provisions on the use of exceptional spending procedures.** In 2016, the use of exceptional payment procedures reached 12 percent of total expenditure (excluding wages and debt service), a significant improvement compared to previous years, yet still exceeding the objective of 5 percent. However, data for the first quarter of 2017 show an increase in the use of exceptional spending procedures, which reached 20 percent. We commit to limit their use to at most 5 percent from 2018 onwards (proposed new indicative target*, quarterly, from end-March 2018*).

25. Furthermore, during 2017, we intend to streamline expenditure management, most notably by:

- ***strengthening treasury management***: We continue to calibrate revenues and spending with a view to avoiding arrears accumulation. We are committed to continue conducting monthly treasury committee meetings and to invite the donor community to keep us regularly informed of their disbursements; and

- ***pursuing civil service reform***. We are making good progress in cleaning the civil service roster to eliminate ghost employees, securing the final register of civil servants and putting in place new hiring and management procedures. However, we are experiencing problems in integrating security personnel into a similarly rigorous system. We missed the end-December 2016 structural benchmark of issuing airline transportation tickets to all diplomats whose assignment had ended, as it proved difficult to establish their entitlements, including those of diplomats who had repatriated on their own. However, we have suspended expatriation benefits of those whose assignments ended.

- ***continue limiting expenditure.*** We maintain the freeze on salary advances and will keep allowances for official travel to below CFAF 600 million in 2017.

C. Domestic Arrears Payment Strategy

26. **The clearance of domestic payments arrears remains key to restoring creditor confidence, government credibility, supporting the economy, and social cohesion and peace.** Domestic payment arrears consist of social, commercial and commercial bank arrears as well as cross debt between the state and public enterprises and between public enterprises. We have provided a tentative list of all social and commercial arrears, including the amounts outstanding, the beneficiaries and the dates the debts were contracted.

- ***Social payments arrears***: The technical work to audit claims for wage and pensions arrears is underway. According to a preliminary evaluation the estimated amount is CFAF 72 billion at end-2016. Approved claims will be subject to an international audit and validation process, and a payment schedule will be drawn up.

- ***Commercial arrears***: Amounts of arrears accumulated to small and medium-sized enterprises through 2014, and not yet settled, stood at CFAF 16.2 billion; based on payments made and an audit, CFAF 9.3 billion remain outstanding. Arrears accumulated in 2015 and 2016 owing to delayed accounting registration and payment are still to be audited and validated. The remaining amount is estimated at CFAF 1.8 billion as of end-March 2017.

- ***Commercial banks arrears:*** The final amount at end-2016 of CFAF 26.1 billion has been approved by all banks and validated by the Ministry of Finance and Budget. Their securitization is underway under the supervision of BEAC and with the participation of the commercial banks. The terms and conditions of the operation will be discussed with the IMF.

27. **We will regularize our situation with the *BEAC* and implement our agreements with it while taking into account regional commitments.** The April 2016 agreement consolidated all liabilities and unpaid loans (excluding exceptional and statutory advances) to CFAF 55.9 billion at end-2016. Repayments will start in 2018. Exceptional and statutory advances amounted to CFAF 22.5 billion, and we will work with the BEAC to gradually repay these advances by 2027 at the latest in line with regional commitments.

28. **We will update, on a quarterly basis, the list of all arrears by type of creditor,** to better track the domestic and external arrears situation. we are committed to not accumulating any new domestic payment arrears. Specifically, the government will honor all bills for current consumption of goods and services of state-owned enterprises to avoid the accumulation of new cross debts.

D. External Debt Management and Sustainability

29. **We accumulated external payment arrears toward the end of 2016 due to the late disbursement of budgetary support.** We cleared all external payment arrears accumulated in 2016 to AfDB, BADEA, IFAD, India, the Saudi Development Fund, and COFACE for a total of CFAF 3.4 billion. China has expressed its intention to cancel all outstanding claims amounting to CFAF 43.5 billion. A New York court ruled in January that that an Export-Import Bank located in Taiwan Province of China, has claims against the C.A.R. stemming from loan agreements signed in 1991 and 1992. We are contacting the Chinese authorities to seek a resolution. We have taken steps to prevent the accumulation of new external payment arrears, consistent with the program, and will constitute a cash buffer to honor our commitments in the event of delays of donor funding.

30. **We maintain our efforts to resolve pre-HIPC arrears with creditors with which no agreement has yet been reached**. C.A.R. owes pre-HIPC arrears to Argentina, Equatorial Guinea, Iraq, Libya, and Montenegro. We have reached out again to these creditors with a view to resuming discussions and seek debt relief as part of its commitment to resolve these arrears. We also accumulated arrears in relation to certain private companies with whom we continue to work in good faith to finalize debt rescheduling agreements.

31. **We are aware of the critical situation with respect to the sustainability of our debt**. Consistent with the conclusions of the Debt Sustainability Analysis (DSA), we remain committed to secure grants and, within the borrowing limit of the ECF arrangement, highly concessional financing to finance investments and our economic development plan. We will abstain from contracting new loans, even on highly concessional terms, that do not comply with the limit set in the ECF. Recourse to highly concessional loans remains limited to critical projects for which grants could not be secured. For 2017, the limit for concessional loans is CFAF 8.8 billion from the African Development Bank. We are fully aware of the implications of the Fund's debt limits policy for our program supported by the ECF.

E. Other Structural Reforms

32. **The role of the private sector in our national economic development is key to accelerate growth.** In cooperation with the WB and the International Finance Corporation (IFC), we have developed a program of structural and institutional reforms to promote the development of the private sector. These reforms focus on modernizing and updating the legal framework in key economic sectors, in addition to reforms to facilitate customs declarations and fiscal revenue collection, we intend to streamline sectoral and parafiscal taxation and reduce red

tapes. To this end, the government has implemented the Joint Business Improvement Framework (CMC-AA) to promote and enhance government-private sector dialogue. In addition to the appointment of a Permanent Technical Secretary, the draft internal regulations, action plan and budget of the CMC-AA have been approved. In conjunction with the IFC, around 30 focal points organized into technical committees have been identified to work on some of the WB's ''Doing Business'' indicators. Lastly, a one-stop shop will be established to facilitate administrative procedures for investors.

F. Financial Intermediation and Supervision

33. **We recognize the need to safeguard the health of the financial system and enhance financial intermediation.** Our banking system remains stable in a challenging operational environment. Prudential indicators suggest that banks remain resilient. Three of the four major banks meet the prudential capital requirements; the remaining one is actively searching for a new shareholder. The regional banking supervisor, COBAC, conducted its first mission to C.A.R. since 2012. It is inspecting the internal risk management, valuation practices, governance and profitability of two major banks. In addition, we are implementing the work plan developed by the National Credit Council to develop our financial system and strengthen intermediation. Our priorities are to strengthen the judicial system and modernize banking services, including through mobile banking. We are also exploring options to enable the agricultural sector to access bank financing, including the feasibility of an agricultural bank, with the support of technical and financial partners.

CAPACITY BUILDING AND TECHNICAL ASSISTANCE

34. **We continue to rebuild our administrative and technical capacity to ensure successful implementation of the reform program.** We received TA from development partners to enhance customs revenue collection, improve treasury management, strengthen the interconnection between budget and accounting computerized modules and pursue civil service reform. With the implementation of the bold and varied reform program, in 2017 we will outline a strategy to rebuild our administrative and technical capacity in close collaboration with our technical partners to cover all priority areas.

35. **We have reached an understanding on a comprehensive capacity building strategy in the context of the Capacity Building Framework (CBF) pilot project.** Within this framework, our priorities are still domestic revenue collection, public financial management (PFM), public debt management, macroeconomic statistics, civil service reform, and macro-fiscal capacity. We have taken steps to reinstate the unit in charge of economic and financial reforms (CS-REF) in its role of coordinating TA and training with a view to increase revenue, enhance spending efficiency, restore budget discipline, strengthen debt management and create a core macro-fiscal capacity. We are also looking forward to taking full advantage of additional TA that is expected to be provided by the IMF on revenue administration, PFM, national accounts data compilation, public debt management and external trade data.

36. **We will consult other external partners regarding capacity development needs that will be included in our comprehensive strategy.** We will focus our efforts on developing our capacity in investment management development, youth employment, as well as agricultural and food security development. The CBF pilot project will provide an anchor.

37. **Our comprehensive capacity development strategy will help define an institutional framework to coordinate external support based on the priorities established by the government.** This will enable us to get the most out of the technical assistance and training courses provided by the IMF and our development partners. In return, we will establish objectives to be met. To make up for the lack of locally qualified staff, we will recruit young graduates and train them in the technical areas identified as an essential part of our capacity development efforts. We will also work with our partners to modernize the equipment we have available.

PROGRAM MONITORING

38. **Performance under the program will be monitored using quantitative performance criteria (PCs) and structural benchmarks (Table 2).** Performance criteria for end-June 2017 and end-December 2017 have been maintained and indicative targets for end-March 2018 and performance criteria for end-June 2018 are proposed. The suspension of expatriate benefits to diplomats who have completed their assignments, the publication of a budget execution report per end-March 2017, and the termination of a sub-contract for customs management were *prior actions* required for completion of the second ECF review. All these three prior actions were met. The end-June 2017 PCs will be assessed as part of the third review in September 2017, and the end-December 2017 PCs will be assessed as part of the fourth review in March 2018.

39. **We have adopted new structural benchmarks for 2017.** They include:

- Audits of all import transactions since January 1 2016 to assure correct customs procedures and application of the mandatory procedures (end-September 2017) to partially recover forgone revenues;
- Adoption of an action plan to eliminate unjustified para-fiscal taxes and transfer of other revenues to the Single Treasury Account (end-December 2017);
- The production of quarterly budget execution reports within 30 days of the end of the quarter (quarterly, from end-September 2017);
- The full utilization of ASYCUDA at customs in Beloko (end-December 2017);

40. **Exchange restrictions:** Throughout the duration of the program, we are committed to not introducing or intensifying restrictions on payments and transfers related to current international procedures, nor to introducing multiple exchange rate practices, engaging in bilateral agreements that do not comply with Article VIII of the Articles of Agreement, or imposing or widening restrictions to influence the balance of payments. In addition, the government is committed to adopting, in consultation with Fund staff, any new measures, financial or structural, that may prove necessary to ensure the success of the program.

Table 1. Central African Republic: Performance Criteria (PC) and Indicative Targets, 2016-2018

(CFAF billions; cumulative from beginning of the year)

	End-December 2016			End-March 2017			End-June 2017	End-September 2017	End-December 2017	End-March 2018	End-June 2018
	PC	Actual	Status	Indicative Target	Actual	Status	PC	Indicative Target	PC	Indicative Target	PC
Quantitative performance criteria											
Domestic government financing (ceiling, cumulative flows for the year)	3.2	-22.1	Met	-1.7	14.2	Not met	-2.5	-4.0	-5.3	12.0	2.0
Domestic revenue (floor, cumulative for the year) [1]	84.7	84.9	Met	25.0	23.2	Not met	50.1	74.7	102.0	25.4	57.5
Domestic primary deficit (ceiling, cumulative for the year) [2]	-34.7	-11.3	Met	-7.2	-1.1	Met	-13.7	-16.0	-21.9	-6.7	-10.0
Reduction in domestic payments arrears (floor, cumulative for the year)	-5.6	-6.0	Met	-2.0	-3.3	Met	-4.0	-6.0	-7.5	-0.5	-4.0
Continuous performance criteria											
Contracting or guaranteeing of new external non concessional debt (ceiling) [3,4]	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
Non accumulation of external payments arrears (ceiling, cumulative for the year) [3,4]	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
Indicative targets											
Social spending (floor, cumulative for the year)	5.0	3.8	Not met	1.5	3.3	Met	3.0	4.5	6.0	1.7	3.3
Spending through extraordinary procedures (ceiling, cumulative for the year)										1.0	1.9
Memorandum item:											
New concessional/external debt contracted or guaranteed by the government	6.0	0.0	Met	6.0	0.0	Met	8.8	8.8	8.8	6.0	6.0

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

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

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

[3] These objectives will be monitored continuously.

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

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

Measures	Timeline	Macroeconomic Rationale	Status
Provision by the Ministry of Foreign Affairs of airline transportation tickets to all diplomats when assignments have ended to facilitate their repatriation.	End-December 2016	Rationalize the wage bill	Not met
Restriction of exemptions solely on those provided by the law and a freeze on new tax exemptions (as part of the 2017 budget)	End December 2016	Improve transparency and revenue collection	Met
Launching of the audits of the social debt, supplier debt, and cross debts	End February 2017	Improve public financial management and debt management	Met
Consolidate the TSA by closing non-donors and non essential government accounts opened in Commercial Banks.	End March 2017	Improve public financial management	Not met
Renegotiation of the convention with banks	End June 2017	Improve public financial management	
Adoption by the minister of finance of a domestic payment arrears clearance plan.	End June 2017	Improve public financial management and debt management	
A complete inventory of para-fiscal taxes and an action plan to ensure their timely transfer to the TSA	End September 2017	Improve public financial management	
The production of the revenue and expenditure account for 2016	End September 2017	Improve accountability	
The publication of all existing tax exemptions	End December 2017	Improve transparency and accountability	
New measures			
Suspension of expatriation benefits to diplomats who have completed their assignments.	**Prior action**	Rationalize the wage bill	Met
Production of the budget execution report per March 31, 2017	**Prior action**	Improve transparency and accountability	Met
Termination of a sub-contract for customs management	**Prior action**	Improve transparency and revenue collection	Met
Retroactive control of applied import valuation for the period of January 1 2016 to May 31 2017 to assure correct customs procedures and application of the mandatory precedures	End September 2017	Improve transparency and revenue collection	
Quarterly publication of budget execution reports within 30 days from the end of the quarter	Quarterly, from end September	Improve transparency and accountability	
Adoption of an action plan to eliminate unjustified para-fiscal taxes and transfer of other revenues to the Single Treasury Account	End December 2017	Improve transparency and revenue collection	
Full utilization of ASYCUDA at customs in Beloko	End December 2017	Improve transparency and revenue collection	

Attachment II. Technical Memorandum of Understanding 2017

INTRODUCTION

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

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

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

A. Program Assumptions

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

CFAF/US$: 585

CFAF/Euro: 656

CFAF/SDR: 815

B. Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. **External payment arrears** are defined as arrears on external debt obligations. They are the difference between the amount required to be paid under the contract or legal document and the amount actually paid after the payment deadline specified in the pertinent contract. An obligation that has not been paid within 30 days after falling due is considered an external payments arrear.

C. Quantitative Targets

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

Ceiling on domestic financing of the State budget

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

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

Floor for total domestic government revenue

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

Floor for government social spending

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

Ceiling on domestic primary deficit

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

Floor on reduction of domestic payments arrears

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

Ceiling on contracting or guaranteeing of new external non concessional debt

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

Non-Accumulation of New External Payment Arrears by the Government

External payment arrears are defined in paragraph 13.

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

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

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

D. Adjusters of Quantitative Targets

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

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

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

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

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

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

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

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

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

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

E. Structural Benchmarks

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

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

The renegotiation of the convention with banks

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

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

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

A complete inventory of para-fiscal taxes and an action plan to ensure their timely transfer to the TSA

- An action plan will have to be developed to undertake a complete inventory of para-fiscal taxes, eliminate all unjustified ones, and ensure the timely transfer of those remaining to the TSA by end of September 2017. The aim is to improve public financial management and make it more transparent.

The production of the revenue and expenditure account for 2016

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

The publication of all existing tax exemptions

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

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

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

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

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

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

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

Full utilization of ASYCUDA at the Beloko customs post

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

Reporting to the IMF

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

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

CENTRAL AFRICAN REPUBLIC

June 29, 2017

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, FINANCING ASSURANCES REVIEW, AND REQUEST FOR AUGMENTATION OF ACCESS—DEBT SUSTAINABILITY ANALYSIS[6]

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

This debt sustainability analysis (DSA), conducted in the context of the joint Bank-Fund debt sustainability framework for low-income countries, confirms that Central African Republic (C.A.R.) continues to be assessed at high risk of external debt distress. Under the baseline scenario, one external debt indicator breaches the policy-related thresholds at end-2017. Alternative scenarios underline the vulnerabilities to slower GDP, revenue and export growth of both external and total public debt. The proposed augmentation of access (10 percent of quota) has a minimal impact on all indicators, leaving the analysis unchanged. Against this background, it remains critical for C.A.R. to increase domestic revenues and pursue prudent fiscal policy. To maintain debt sustainability, the government's investment program requires grant financing, highly concessional debt financing to be considered only in very few exceptional cases.

[6] C.A.R.'s average rating in the World Bank's Country Policy and Institutional Assessment (CPIA) during 2013–15 is 2.46. This corresponds to a weak policy performance under the Debt Sustainability Framework for Low-Income Countries.

BACKGROUND AND RECENT DEVELOPMENTS

1. **The C.A.R. is confronted with severe political and economic challenges.** While security has improved in Bangui, violence outside the capital took a severe toll on the population. So far the violence did have a limited impact on the economy, which has yet to recover from the 2012/2013 crisis. With low level of domestic resource mobilization (8 percent of GDP, against 12 percent of GDP before the conflict), the economy remains highly dependent on external assistance and is saddled with structural weaknesses that constrain a stronger economic rebound.

2. **GDP and export growth remain subdued.** The economy grew by 4.5 percent in 2016, below an initial projection of 5.2 percent. While continued insecurity weighs on transport, trade and mining, some sectors—especially, forestry, cotton, and coffee—have rebounded. Exports grew more than projected although formal diamond production has yet to recover as an international embargo continues to be partly in place.

STRUCTURE OF DEBT[7]

3. **In 2016, C.A.R.'s total public debt stood at 44.4 percent of GDP down from 50 percent at end-2015**. The decline is driven by an increase in nominal GDP, net clearance of domestic arrears, and slightly revised numbers (Text Table 1).[8]

4. **C.A.R.'s external public debt stands at 24.3 percent of GDP (CFAF 253.4 billion) in 2016.** No new external debt was contracted and disbursements were limited to balance of payments support from the IMF and project financing by Saudi Arabia, the World Bank, the African Development Bank and the International Fund for Agricultural Development.

5. **C.A.R. has a significant stock of external arrears.** C.A.R. owes CFAF 123.6 billion of pre-HIPC debt to Non-Paris Club Members. Under the Paris Club agreements, C.A.R. has committed to seek debt relief from its Non-Paris Club creditors with terms similar or better than those granted by the Paris Club. The government continues to reach out to the Non-Paris Club creditors to re-negotiate these obligations. During the political crisis years, C.A.R. accumulated arrears to private creditors and post-HIPC arrears to official creditors which it seeks to resolve. China has indicated its willingness to provide debt relief on all outstanding official debt.[9] A New York court ruled in January that that an Export-Import Bank located in Taiwan Province of China has claims against the C.A.R. stemming from loan agreements signed in 1991 and 1992.

6. **Domestic debt mainly consists of credit from BEAC and payment arrears.** In 2016, domestic debt accounts for 45.1 percent of the total debt, of which more than half is domestic payments arrears. The

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[7] The debt (both external and public) covers gross central government debt. Debt to the IMF is included in external debt.

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

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

end-2016 stock of arrears stands at CFAF 140.5 billion, of which CFAF 22.5 billion to BEAC, CFAF 14.2 billion in commercial debts, CFAF 72.2 billion in social debts, CFAF 26.1 billion to banks and CFAF 4.7 billion in cross-debt and other debts. The settlement of the audited arrears and gradual repayment of the consolidated loans from BEAC will be part of the medium-term strategy to reduce domestic debt and support the economy.

Text Table 1. Central African Republic: Total Debt Stock, Central Government, 2014–16

	2014	2015	2016		2014	2015	2016
	(CFAF billions)			(percent of total)	(Percent of GDP)		
Total	461.2	478.4	461.7	100.0	54.8	51.1	44.4
External debt	245.6	248.0	253.4	54.9	29.2	26.5	24.3
Multilateral	107.0	115.2	125.2	27.1	12.7	12.3	12.0
Bilateral and Private	138.6	132.8	128.2	27.8	16.5	14.2	12.3
Domestic debt	215.6	230.4	208.3	45.1	25.6	24.6	20.0
Stock	73.3	85.3	67.8	14.7	8.7	9.1	6.5
Arrear	142.3	145.1	140.5	30.4	16.9	15.5	13.5

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

Text Table 2. External Debt by Creditor 2016

	2016	
	(CFAF billions)	(Percent of GDP)
Multilateral	125.2	12.0
World Bank	34.9	3.4
IMF	68.3	6.6
Other	22.0	2.1
Bilateral	128.2	12.3
Saudi Arabia	9.9	1.0
India	24.5	2.4
China	43.5	4.2
Congo	18.2	1.7
Kuwait	12.1	1.2
Private/Others	20.0	1.9

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

UNDERLYING DSA ASSUMPTIONS

7. **The baseline macroeconomic assumptions for this DSA have been updated based on developments in 2016, consistent with the macroeconomic framework underlying the ECF arrangement (Box 1 and Text Table 2).** Staff is projecting a more gradual recovery than earlier projected due to a delay in public investments and supporting reforms. Medium-term growth is expected to average 5.3 percent. In the long run, growth is expected to register 3.5 percent, in line with previous DSAs. In the fiscal area, the domestic primary fiscal deficit is expected to improve gradually in line with the fiscal strategy under the ECF-supported arrangement. Based on an expected export recovery (forestry, cotton and diamonds), an incremental pick-up in investments, and continued strong donor support, the expectation for the medium-term non-interest current account deficit is 5.6 percent. In the long run, the non-interest current account deficit is expected to average around 3 percent, consistent with a gradually improving external position.

Box 1. Central African Republic: Macroeconomic Assumptions for 2017–36

Real GDP growth is expected to average 5.3 percent over 2018–21, Growth will be mainly driven by a rebound in agriculture, trade, forestry activities, and investment as well as the gradual resumption of mining. The lack of a significant rebound in economic activity that could be expected from a low base is attributable to the volatile security situation, the lasting damage from the conflict, and the lack of infrastructure and energy. The longer-term growth rate is maintained at 3.5 percent, as in the previous DSA.

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

The domestic primary deficit in 2017 is expected to be 1.9 percent of GDP, after an exceptionally low level in 2016 when liquidity constraints led to expenditure compression. From 2018 onwards, the projection for the domestic primary deficit will improve steadily. The long-run primary deficit, which includes budget grants and externally financed capital expenditure, will increase gradually to 2 percent. Domestic revenues are expected to remain at 12 percent of GDP, which is the current estimated potential, while grant financing as a share of GDP diminishes gradually. Primary expenditure is projected to average around 15 percent of GDP in the long run.

The non-interest current account deficit is projected to decline gradually in the medium to long term. Exports are expected to pick up resulting from the expected recovery of mining, forestry, and agricultural activities, boosted by improved security conditions and the expected full lifting of the diamond export ban in the medium term. Nevertheless, exports in percent of GDP will eventually decline due to the narrow export base and the increase in nominal GDP. Imports are projected to decline in percent of GDP as higher domestic production capacity will lessen the need for imports.

External assistance: Grant-equivalent financing is assumed to decline from an average of 6 percent of GDP in 2017–19 to about 2 percent of GDP in the long run.

8. **C.A.R. contracted one small new loan in 2017.** The African Development Bank will provide a highly concessional budget support loan of CFAF 8.8 billion with a grant element of 60.6 percent.

Text Table 3. Central African Republic: Macroeconomic Projections

	Jul-17	
	2017	Aver. 2018-21
	(Percent of GDP; unless otherwise indicated)	
GDP growth (percent)	4.7	5.3
Inflation (GDP deflator, percent)	5.6	4.9
Non-interest current account balance	-10.0	-5.6
Overall fiscal balance (excl. grants)	-5.7	-4.8
Overall fiscal balance (incl. grants)	-0.3	1.1
Domestic primary balance	-1.9	-0.5
External debt	24.4	19.0

EXTERNAL DEBT SUSTAINABILITY RESULTS

9. **Under the baseline scenario, one external debt indicator breaches the threshold.**[10] The present value (PV) of debt-to-exports ratio is projected to breach the policy threshold until 2019. This reflects C.A.R.'s narrow export base. The PV of debt-to-revenue ratio stands slightly below the policy threshold despite the low revenue level. The ratios for debt service-to-exports and debt service-to-revenue remain well below the thresholds due to the concessionality of outstanding debt and low debt service burdens.

10. **These results differ somewhat from the 2016 DSA.** This can be explained by an upward revision of the stock of the PV of external debt[11] and updated projections for debt service payments following information provided by the authorities. Together with improved macroeconomic management, this will lead to a decline and stabilization of the PV of debt-to-exports and of the PV of debt-to-revenue ratios in the medium-term.

11. **The current DSA confirms the finding that C.A.R.'s risk of external debt distress is high**. In the most extreme scenario, all indicators breach the threshold and the increase of external debt would be significant. The PV of debt-to-exports ratio remains above the policy threshold under the extreme scenario throughout the projection period. And the PV of debt-to-revenue ratio stays above the policy threshold under the extreme scenario till 2025.

12. **Alternative scenarios and stress tests highlight the vulnerabilities.** The historical scenario may not adequately reflect the baseline prospects for C.A.R. as the historical scenario captures the 2009 HIPC

[10] Negative residuals in the external debt sustainability framework (Table 1 on p. 11) are explained by project grants and other short-term flows, projected in the capital account of the balance of payments.

[11] Mainly due to a re-classification of IMF debt as external.

debt relief and the crises years. The results of the sensitivity analysis, however, underscore the vulnerabilities particularly to a combined shock or lower exports.

Text Table 4. Central African Republic: Policy-Based Thresholds and External Debt Burden Indicators

	Thresholds 1/	Baseline Scenario Rates 2017	Baseline Scenario Rates 2018-37 Peak
PV of PPG external debt in percent of			
GDP	30	15.6	14.5
Exports	100	121.6	110.7
Revenue	200	176.4	153.6
PPG external debt service in percent of			
Exports	15	6.8	10
Revenue	18	9.8	13.9

Sources: C.A.R. authorities; and IMF and World Bank estimates

1/ Policy-based thresholds as defined in the LIC DSA framework for a weak policy performer based on the 3-year average CPIA score.

PUBLIC DEBT SUSTAINABILITY RESULTS

13. **The PV of debt-to-GDP ratio is vulnerable to lower growth.** The current fiscal strategy envisages significant domestic arrears clearance under the ECF in the coming years. This together with nominal GDP growth will help to substantially reduce the total public debt level in the baseline scenario before the PV of public debt-to-GDP ratio stabilizes at a level below 20 percent (see Figure 2 and Text Table 5).

14. **The alternative scenarios suggest that permanently lower growth would significantly worsen the debt dynamics.** The most extreme shock—a one-standard deviation drop in the growth rate for 2018–19—would put C.A.R.'s PV of debt-to-GDP ratio above the benchmark and on an unsustainable trajectory (Figure 2 and Table 2).

Text Table 5. Central African Republic: Comparative Debt Ratios, 2016–20
(Percent)

	2016	2017	2018 Proj.	2019 Proj.	2020 Proj.
PV of debt to GDP ratio					
2016 DSA	41.3	37.9	34.6	31.3	28.5
New DSA	35.3	30.6	26.0	22.0	19.2
PV debt to revenue and grants ratio					
2016 DSA	318.3	286.9	251.8	218.7	183.3
New DSA	250.1	215.9	169.3	138.3	115.3
Debt service to revenue and grants ratio					
2016 DSA	15.2	10.3	11.3	11.3	10.7
New DSA	12.6	10.6	13.1	11.2	8.6
Revenue and Grants (in percent of GDP)					
2016 DSA	13.0	13.2	13.7	14.3	15.5
New DSA	14.1	14.2	15.4	15.9	16.7

Source: C.A.R. authorities; and IMF and World Bank staff estimates and projections.

15. **C.A.R.'s overall risk of debt distress is also considered elevated because of significant vulnerabilities related to total debt.** The public debt level increased significantly due to the accumulation of domestic arrears and the collapse in GDP after the 2013 crisis. The country continues to display significant vulnerabilities to shocks to GDP growth and exports. In addition, materializing contingent liabilities could undermine debt sustainability given weak administrative capacity, lack of coordination within the public sector, and fiscal risks from state-owned enterprises. Staff and the authorities agree that it is a priority to reduce potential adverse shocks to growth and exports to avoid debt distress. Meanwhile, reforms should focus on enhancing revenue administration and public financial management as well as improving the business environment to increase potential economic growth.

16. **The authorities concur with staff's assessment.** They recognize the critical situation with respect to debt sustainability. Consistent with the conclusions, they remain committed to secure grants to finance investments and contract highly concessional loans only in exceptional cases when grant financing could not be secured and within the limits of the ECF-arrangement.

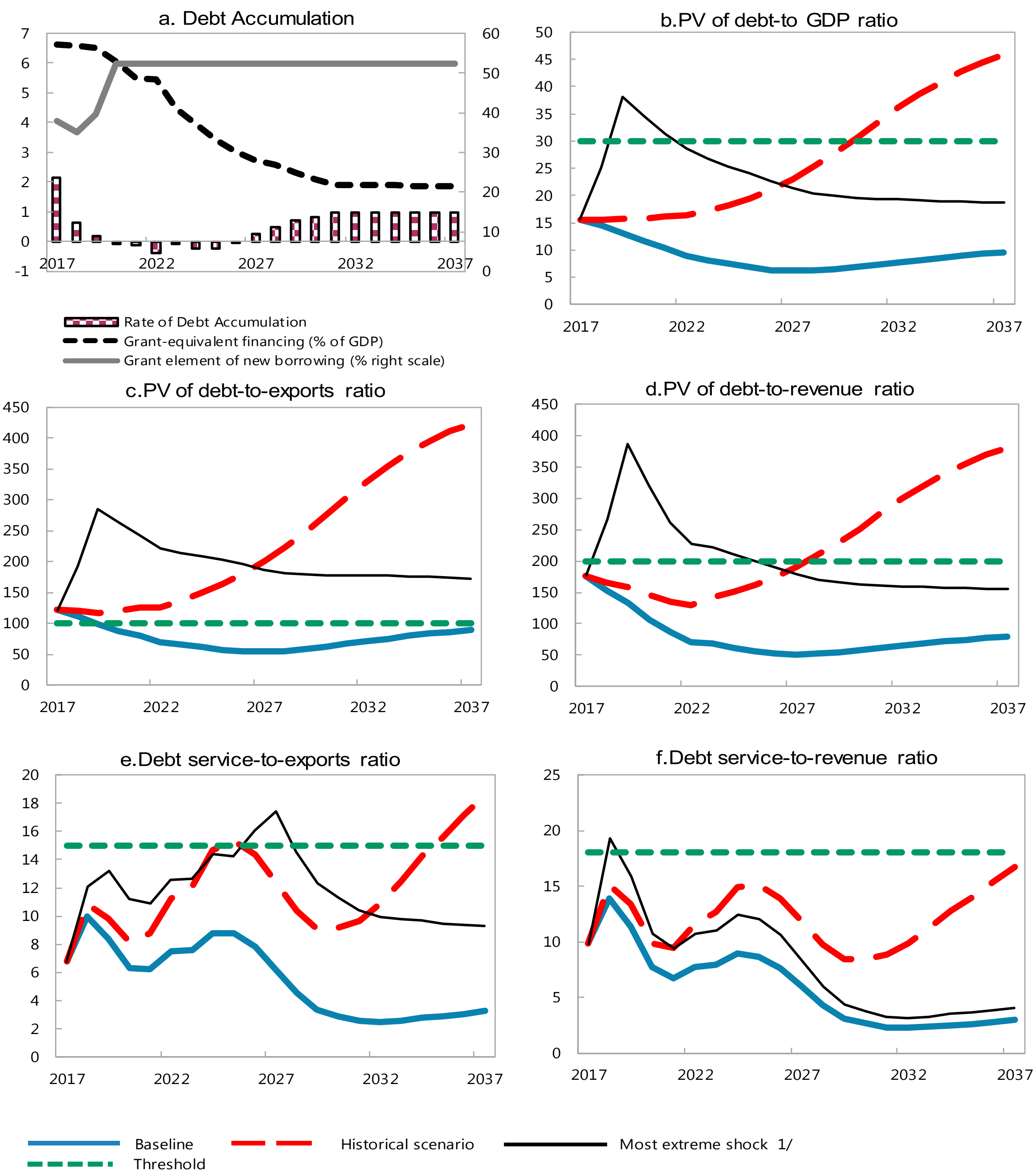
CONCLUSION

17. **As in the previous DSA, C.A.R.'s debt remains at high risk of distress.** Only the PV of external debt-to-exports ratio remains for some time above the policy threshold under the baseline scenario. The PV of the external debt-to-GDP ratio stays below the benchmark as do the indicators for external debt service. However, alternative scenarios and the sensitivity analysis show that C.A.R.'s debt sustainability is vulnerable to shocks, in particular, slower GDP, revenue and export growth.

18. **C.A.R. urgently needs to improve domestic revenue mobilization and promote exports.** The government's current program supported by the ECF envisages a gradual increase of domestic revenues to 10 percent of GDP by 2019. To this end, it will be critical to fully implement tax policy reforms as well as the actions plans to improve tax and customs administration. Staff encourages the authorities to strengthen public debt management and continue efforts to resolve external arrears in a timely manner. Consolidating peace and structural policies to improve the business climate, boost productivity and diversify the export base will further strengthen debt sustainability.

19. **C.A.R. should pursue a financing strategy limited to grant and, only in very few exceptional cases, highly concessional financing.** Staff urges the authorities to seek maximum concessionality in their external financing and to contract new concessional debt only in exceptional cases for critical projects when grant financing could not be secured. For any such project, there would be a need to: thoroughly and independently analyze the costs and benefits to ensure they are profitable and have no fiscal impact; ensure adequate due diligence, including the respect of procurement law; fully integrate them into the regular budget process.

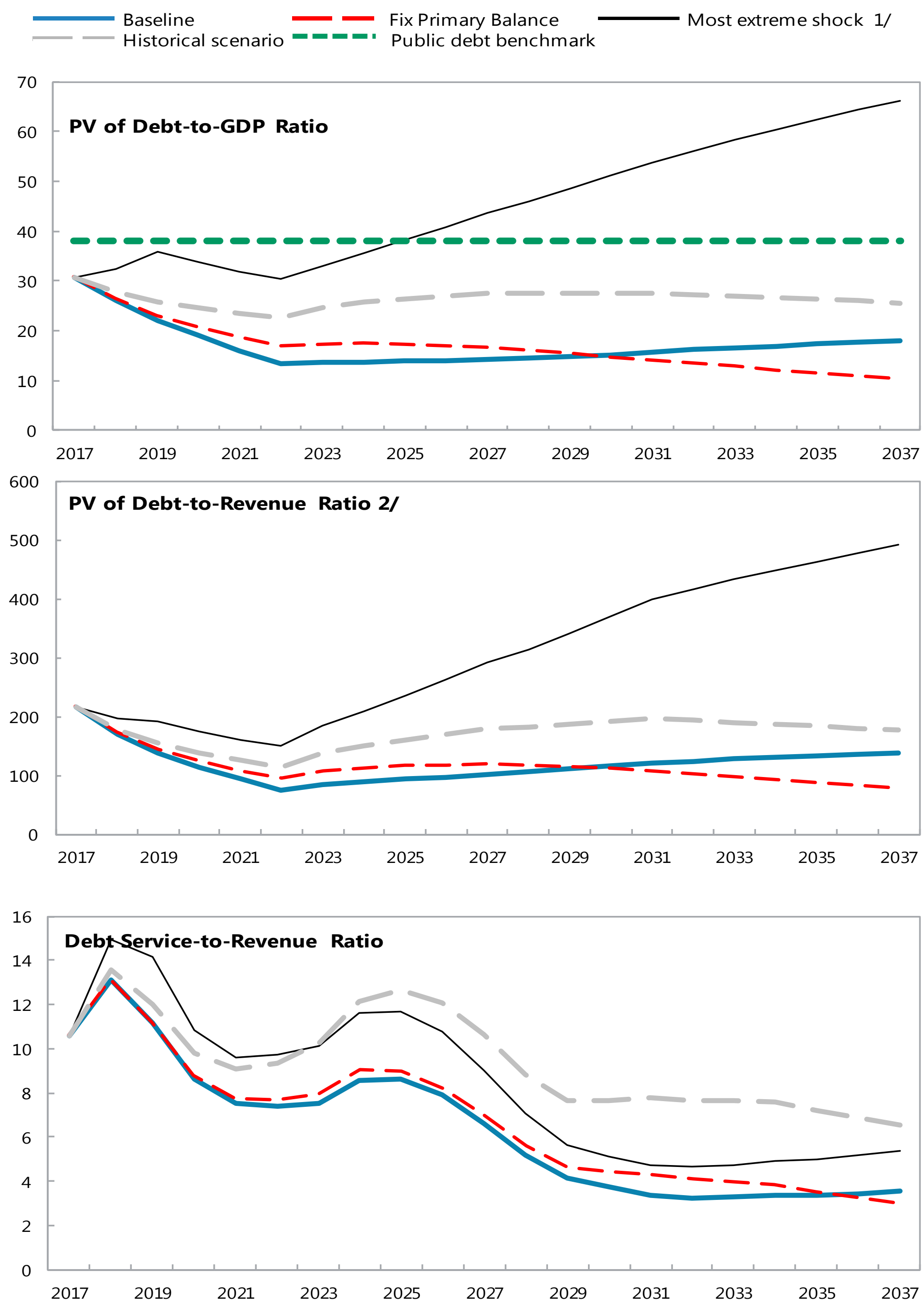
Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2017–37 1/



Sources: Country authorities; and staff estimates and projections.

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

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



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

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

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**29.2**	**26.5**	**24.3**			**24.4**	**22.4**	**20.1**	**17.7**	**15.6**	**13.7**		**11.1**	**17.1**	
of which: public and publicly guaranteed (PPG)	29.2	26.5	24.3			24.4	22.4	20.1	17.7	15.6	13.7		11.1	17.1	
Change in external debt	14.6	-2.7	-2.1			0.1	-2.0	-2.3	-2.5	-2.1	-1.9		0.1	0.4	
Identified net debt-creating flows	3.8	10.8	5.9			7.0	4.3	3.3	2.9	2.6	2.6		0.8	1.6	
Non-interest current account deficit	**5.2**	**8.7**	**8.7**	**7.0**	**2.4**	**10.0**	**7.1**	**6.0**	**5.3**	**4.8**	**4.8**		**2.6**	**3.5**	2.8
Deficit in balance of goods and services	24.5	22.0	18.8			19.5	16.8	15.0	13.6	12.3	11.7		8.6	7.9	
Exports	13.0	12.6	12.8			12.8	13.1	13.4	13.2	13.0	13.0		11.5	10.8	
Imports	37.6	34.6	31.6			32.3	29.9	28.5	26.8	25.2	24.7		20.1	18.7	
Net current transfers (negative = inflow)	-18.5	-12.5	-9.8	-7.2	5.0	-12.0	-13.1	-12.4	-11.5	-10.7	-10.4		-5.7	-4.1	-5.3
of which: official	-11.3	-5.8	-5.3			-5.0	-5.5	-4.7	-4.1	-3.6	-3.3		-3.2	-2.5	
Other current account flows (negative = net inflow)	-0.8	-0.8	-0.3			2.5	3.4	3.3	3.2	3.2	3.4		-0.2	-0.2	
Net FDI (negative = inflow)	**-0.1**	**-0.3**	**-0.4**	**-2.0**	**1.9**	**-2.2**	**-2.0**	**-1.8**	**-1.6**	**-1.5**	**-1.5**		**-1.6**	**-1.5**	-1.7
Endogenous debt dynamics 2/	**-1.3**	**2.4**	**-2.4**			**-0.9**	**-0.9**	**-0.9**	**-0.8**	**-0.7**	**-0.6**		**-0.2**	**-0.4**	
Contribution from nominal interest rate	0.3	0.4	0.3			0.2	0.2	0.2	0.2	0.2	0.2		0.1	0.1	
Contribution from real GDP growth	-0.1	-1.5	-1.1			-1.0	-1.1	-1.0	-1.0	-0.9	-0.8		-0.3	-0.5	
Contribution from price and exchange rate changes	-1.5	3.6	-1.7			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**10.8**	**-13.5**	**-8.0**			**-6.9**	**-6.2**	**-5.6**	**-5.3**	**-4.7**	**-4.5**		**-0.7**	**-1.2**	
of which: exceptional financing	-0.8	0.0	-0.2			0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	15.3			15.6	14.5	13.1	11.6	10.3	9.0		6.1	9.6	
In percent of exports	...	...	120.1			121.6	110.7	97.5	87.8	79.4	69.3		53.7	88.5	
PV of PPG external debt	**...**	**...**	**15.3**			**15.6**	**14.5**	**13.1**	**11.6**	**10.3**	**9.0**		**6.1**	**9.6**	
In percent of exports	**...**	**...**	**120.1**			**121.6**	**110.7**	**97.5**	**87.8**	**79.4**	**69.3**		**53.7**	**88.5**	
In percent of government revenues	**...**	**...**	**188.0**			**176.4**	**153.6**	**132.7**	**107.0**	**85.7**	**71.2**		**51.4**	**79.8**	
Debt service-to-exports ratio (in percent)	**7.6**	**8.5**	**9.3**			**6.8**	**10.0**	**8.4**	**6.3**	**6.2**	**7.5**		**6.2**	**3.3**	
PPG debt service-to-exports ratio (in percent)	**7.6**	**8.5**	**9.3**			**6.8**	**10.0**	**8.4**	**6.3**	**6.2**	**7.5**		**6.2**	**3.3**	
PPG debt service-to-revenue ratio (in percent)	**20.2**	**15.1**	**14.6**			**9.8**	**13.9**	**11.4**	**7.7**	**6.7**	**7.7**		**6.0**	**2.9**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.2	0.2			0.2	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
Non-interest current account deficit that stabilizes debt ratio	-9.4	11.4	10.9			9.9	9.1	8.3	7.7	6.9	6.7		2.5	3.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.0	4.8	4.5	-0.7	12.7	4.7	5.0	5.2	5.5	5.6	5.6	5.3	3.3	3.4	3.5
GDP deflator in US dollar terms (change in percent)	11.2	-10.9	6.9	4.1	8.5	6.8	6.7	6.2	6.3	6.2	4.0	6.1	3.3	3.3	3.3
Effective interest rate (percent) 5/	2.7	1.2	1.5	1.9	0.7	0.8	0.8	0.9	1.0	1.1	1.1	0.9	1.2	0.9	1.1
Growth of exports of G&S (US dollar terms, in percent)	1.3	-9.6	13.1	1.7	14.0	12.3	14.2	14.7	10.4	10.0	10.3	12.0	5.1	7.0	5.7
Growth of imports of G&S (US dollar terms, in percent)	68.8	-14.0	2.1	8.2	25.9	14.5	3.6	6.5	5.5	5.8	7.7	7.2	5.4	7.4	5.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	38.0	35.1	39.5	52.3	52.3	52.3	44.9	52.3	52.3	52.3
Government revenues (excluding grants, in percent of GDP)	4.9	7.1	8.2			8.8	9.4	9.9	10.8	12.0	12.7		12.0	12.0	12.0
Aid flows (in Billions of US dollars) 7/	0.2	0.1	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.2	0.3	
of which: Grants	0.2	0.1	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.1	0.1	
of which: Concessional loans	...	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.6	6.6	6.5	6.0	5.5	5.5		2.7	1.9	2.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			76.1	85.0	91.1	97.1	97.1	97.3		80.6	69.5	76.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	1.7	1.6	1.8			2.0	2.2	2.5	2.8	3.1	3.4		4.9	9.5	
Nominal dollar GDP growth	12.3	-6.6	11.7			11.9	12.1	11.7	12.2	12.2	9.9	11.7	6.8	6.8	7.0
PV of PPG external debt (in Billions of US dollars)			0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.9	
(PVt-PVt-1)/GDPt-1 (in percent)						2.1	0.6	0.2	-0.1	-0.1	-0.4	0.4	0.3	1.0	0.6
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)	...	...	15.4			15.6	14.5	13.1	11.6	10.3	9.0		6.2	9.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	123.5			124.9	113.5	99.7	89.7	81.1	70.6		54.7	89.7	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	9.6			7.0	10.3	8.6	6.5	6.4	7.6		6.3	3.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

(Percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	16	14	13	12	10	9	**6**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	16	16	16	16	16	16	**23**	46
A2. New public sector loans on less favorable terms in 2017-2037 2	16	15	14	12	11	10	**8**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	16	18	19	17	15	13	**9**	14
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	16	16	17	16	14	12	**9**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	16	16	16	14	13	11	**8**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	16	21	25	23	20	19	**14**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	16	25	38	35	31	29	**21**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	16	20	18	16	14	13	**9**	13
PV of debt-to-exports ratio								
Baseline	122	111	98	88	79	69	**54**	88
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	122	119	117	120	125	125	**200**	422
A2. New public sector loans on less favorable terms in 2017-2037 2	122	113	102	92	84	74	**73**	138
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	122	111	98	88	79	69	**54**	88
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	122	160	220	201	183	163	**133**	167
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	122	111	98	88	79	69	**54**	88
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	122	160	186	172	158	144	**121**	115
B5. Combination of B1-B4 using one-half standard deviation shocks	122	192	285	263	243	221	**187**	173
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	122	111	98	88	79	69	**54**	88
PV of debt-to-revenue ratio								
Baseline	176	154	133	107	86	71	**51**	80
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	176	166	159	146	135	129	**191**	380
A2. New public sector loans on less favorable terms in 2017-2037 2	176	157	138	112	90	76	**70**	124
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	176	187	197	159	126	105	**76**	118
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	176	170	176	144	116	98	**74**	88
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	176	172	166	134	106	88	**64**	99
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	176	222	253	209	171	148	**116**	104
B5. Combination of B1-B4 using one-half standard deviation shocks	176	267	387	319	261	226	**179**	155
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	176	215	186	150	119	99	**71**	111

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

(Percent)

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

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

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

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	54.8	51.1	44.3			39.4	33.9	29.1	25.3	21.5	18.3		19.3	25.5	
of which: foreign-currency denominated	29.2	26.5	24.3			24.4	22.4	20.1	17.7	15.6	13.7		11.1	17.1	
Change in public sector debt	16.2	-3.7	-6.7			-4.9	-5.4	-4.9	-3.8	-3.8	-3.2		0.5	0.4	
Identified debt-creating flows	-6.7	-3.2	-7.0			-4.2	-4.7	-4.3	-4.2	-4.2	-3.7		0.3	0.7	
Primary deficit	-3.6	0.1	-2.1	-0.3	2.7	-0.1	-1.1	-1.3	-1.7	-2.1	-2.2	-1.4	1.1	2.1	1.3
Revenue and grants	15.7	14.3	14.1			14.2	15.4	15.9	16.7	17.3	18.0		14.0	13.0	
of which: grants	10.8	7.2	6.0			5.3	5.9	6.1	5.8	5.3	5.3		2.0	1.0	
Primary (noninterest) expenditure	12.1	14.4	12.0			14.0	14.2	14.6	15.0	15.2	15.7		15.1	15.1	
Automatic debt dynamics	-2.1	-2.3	-4.8			-4.0	-3.5	-3.0	-2.5	-2.1	-1.5		-0.9	-1.3	
Contribution from interest rate/growth differential	-3.6	-5.0	-4.6			-3.8	-3.3	-2.7	-2.3	-1.9	-1.5		-0.9	-1.3	
of which: contribution from average real interest rate	-3.2	-2.5	-2.4			-1.8	-1.4	-1.0	-0.8	-0.5	-0.4		-0.2	-0.5	
of which: contribution from real GDP growth	-0.4	-2.5	-2.2			-2.0	-1.9	-1.7	-1.5	-1.3	-1.1		-0.6	-0.8	
Contribution from real exchange rate depreciation	1.5	2.7	-0.2			-0.3	-0.2	-0.3	-0.3	-0.2	0.0		...	...	
Other identified debt-creating flows	-1.0	-1.0	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.0	-1.0	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	22.9	-0.5	0.2			-0.8	-0.8	-0.6	0.4	0.3	0.5		0.2	-0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	35.3			30.6	26.0	22.0	19.2	16.2	13.6		14.4	18.0	
of which: foreign-currency denominated	...	...	15.3			15.6	14.5	13.1	11.6	10.3	9.0		6.1	9.6	
of which: external	...	...	15.3			15.6	14.5	13.1	11.6	10.3	9.0		6.1	9.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-1.9	1.8	-0.3			1.4	0.9	0.5	-0.2	-0.8	-0.9		2.1	2.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	250.1			215.9	169.3	138.3	115.3	93.7	75.9		102.7	138.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	433.2			346.3	276.1	223.6	177.4	135.0	107.6		119.9	149.6	
of which: external 3/	...	...	188.0			176.4	153.6	132.7	107.0	85.7	71.2		51.4	79.8	
Debt service-to-revenue and grants ratio (in percent) 4/	10.5	11.9	12.6			10.6	13.1	11.2	8.6	7.5	7.4		6.6	3.6	
Debt service-to-revenue ratio (in percent) 4/	33.7	24.1	21.8			17.0	21.4	18.0	13.3	10.9	10.5		7.7	3.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-19.8	3.8	4.6			4.8	4.3	3.5	2.1	1.7	1.0		0.6	1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.0	4.8	4.5	-0.7	12.7	4.7	5.0	5.2	5.5	5.6	5.6	5.3	3.3	3.4	3.5
Average nominal interest rate on forex debt (in percent)	2.7	1.2	1.5	1.9	0.7	0.8	0.8	0.9	1.0	1.1	1.1	0.9	1.2	0.9	1.1
Average real interest rate on domestic debt (in percent)	-8.9	-4.8	-5.1	1.3	7.1	-3.8	-2.6	-1.6	-0.8	0.0	1.1	-1.3	-0.4	-1.9	-0.6
Real exchange rate depreciation (in percent, + indicates depreciation	11.2	10.3	-0.9	1.8	7.1	-1.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	11.1	6.2	6.4	5.0	3.1	5.6	5.5	5.0	4.7	4.3	4.0	4.9	3.3	3.3	3.3
Growth of real primary spending (deflated by GDP deflator, in percer	-13.9	24.2	-12.6	-0.2	10.2	22.5	6.4	8.1	8.3	7.0	9.2	10.3	3.3	3.4	3.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	38.0	35.1	39.5	52.3	52.3	52.3	44.9	52.3	52.3	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

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

	Projections							
	2017	2018	2019	2020	2021	2022	2027	20
PV of Debt-to-GDP Ratio								
Baseline	31	26	22	19	16	13	14	
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	31	28	26	25	23	23	27	
A2. Primary balance is unchanged from 2017	31	26	23	21	19	17	17	
A3. Permanently lower GDP growth 1/	31	27	24	21	19	18	28	
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	31	32	36	34	32	30	43	
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	31	28	25	22	19	16	17	
B3. Combination of B1-B2 using one half standard deviation shocks	31	30	31	28	26	24	32	
B4. One-time 30 percent real depreciation in 2018	31	32	27	24	20	17	16	
B5. 10 percent of GDP increase in other debt-creating flows in 2018	31	31	27	23	20	17	17	
PV of Debt-to-Revenue Ratio 2/								
Baseline	217	169	138	114	93	75	102	
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	217	178	154	138	125	114	178	
A2. Primary balance is unchanged from 2017	217	172	144	125	108	94	118	
A3. Permanently lower GDP growth 1/	217	172	145	125	108	94	192	
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	217	195	191	174	160	149	291	
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	217	180	159	133	110	91	119	
B3. Combination of B1-B2 using one half standard deviation shocks	217	189	174	154	137	123	219	
B4. One-time 30 percent real depreciation in 2018	217	207	170	141	116	95	112	
B5. 10 percent of GDP increase in other debt-creating flows in 2018	217	201	167	139	115	96	125	
Debt Service-to-Revenue Ratio 2/								
Baseline	11	13	11	9	8	7	7	
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	14	12	10	9	9	11	
A2. Primary balance is unchanged from 2017	11	13	11	9	8	8	7	
A3. Permanently lower GDP growth 1/	11	13	12	9	8	8	9	
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	11	15	14	11	10	10	12	
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	11	13	11	9	8	8	7	
B3. Combination of B1-B2 using one half standard deviation shocks	11	14	13	10	9	9	10	
B4. One-time 30 percent real depreciation in 2018	11	15	14	11	10	10	9	
B5. 10 percent of GDP increase in other debt-creating flows in 2018	11	13	12	10	8	8	8	

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Statement by Mr. Daouda Sembene, Executive Director for the Central African Republic, Mr. Regis N'Sonde, Senior Advisor to Executive Director, and Mr. Bangrim Kibassim, Advisor to Executive Director

July 17, 2017

The Central African Republic (CAR) authorities are committed to sustaining the reform momentum initiated under the current Fund-supported program. Amid persistent security challenges and a difficult external environment, the CAR authorities have managed to advance their policy and reform agenda, resulting in a broadly satisfactory performance under the Extended Credit facility (ECF), as assessed by staff.

Notwithstanding these encouraging steps, the country remains in a fragile situation with fragile security conditions, significant social demands, and limited capacities. In this context, the authorities look forward to continued assistance from the international community in their efforts to secure peace and reconciliation, put in place a broad-based and inclusive peace process, sustain the ongoing economic reform agenda, deliver critical social services, and implement basic infrastructure projects.

Against the backdrop of satisfactory performance and given their renewed commitment to the ECF-supported program objectives, the authorities request the completion of the second review under the ECF. They would also appreciate the Executive Board’s support to their request for an augmentation of access to address additional balance-of-payment needs.

Recent Developments and Prospects

In 2016, growth reached 4.5 percent thanks to the rebound in some sectors such as cotton, coffee and forestry. Inflation for the same period is estimated at 4.6 percent. On the fiscal front, the authorities have kept the domestic primary balance in line with the program target, notably through savings from non-wage primary expenditure to offset shortfalls in custom revenues. On the external front, the current account deficit was stabilized at around 9% of GDP in 2016 owing to improved terms of trade, lower investment-related imports, and stronger export performance.

Staff assesses that risks to the outlook remain tilted to the downside, given domestic and external uncertainties. Looking forward, the improved security conditions expected from the ongoing dialogue, disarmament, demobilization, reintegration, and repatriation (DDRR) efforts and redeployment of defense forces should help sustain the recovery in the forestry, coffee and cotton sectors, while providing conditions conducive to a rapid resumption of activities in agriculture, mining and other sectors. Growth is expected to rise to 4.7 percent this year.

Program Implementation

The implementation of the ECF-supported program has been satisfactory on the quantitative front, with all quantitative performance criteria (PCs) for this second review being met. On the structural front, steps were taken to meet the two structural benchmarks (SBs) that were delayed on account of tight capacity constraints These relate notably to the consolidation of the Treasury Single Account and the suspension of expatriation benefits to diplomats who completed their assignment. Progress has since been made toward these measures, including as part of the three prior actions to the completion of this second review. Beside the delayed benchmark on the expatriation benefits of diplomats, these prior actions include the publication of a budget execution report per end-March 2017, and the termination of a sub-contract for customs management.

Policy and Reform Agenda

Going forward, the authorities intend to build on the favorable outlook to put in place their policy and reform agenda. This outlook is predicated on the assumptions of improved security, higher public investment, and rising production in the agriculture and mining sectors. The authorities' agenda remains anchored by the country's National Recovery and Peacebuilding Plan.
As noted in the staff report, the country's development partners have pledged about US$2.2 billion during the November 2016 Brussels donor conference in support of the National Plan for Recovery and peace (NPRP). The authorities look forward to the fulfillment of these pledges, as any shortfall or delay in external assistance run the risk of adversely impacting the reform momentum, jeopardizing the economic recovery and potentially derailing the peace building process. Sustained capacity building from the Fund and other partners is also an important prerequisite for the continued success of the ECF-supported program. In this connection, we welcome the understandings reached by the authorities and the Fund on a comprehensive capacity building strategy as part of the Capacity Building Framework pilot project.

On their part, the authorities are cognizant of their responsibility on maintaining fiscal sustainability, sustaining DDRR efforts, and preserving social cohesion. They are determined to make progress in this direction.

Advancing Fiscal Reforms

The authorities remain committed to further improving domestic revenue mobilization. In this vein, they will endeavor to enhance customs administration by improving control and strengthening procedures, with the objective of increasing transparency and recovering losses. Moreover, reforms of the tax administration and the VAT system in particular are expected to help enhance fiscal management and increase revenue.

On the expenditure side, the authorities will take necessary steps to contain current expenditure, notably by maintaining the freeze on salary advances and capping spending related to official travel. The ongoing civil service reform will also help to contain government spending. At the same time, priority will be given to investments in basic infrastructure which are expected to carry a significant impact and unlock the development of economic activity and jobs creation.

Strengthening Public Financial and Debt Management

Improving PFM is instrumental to the success of the authorities' economic agenda. However, effective implementation remains a challenge in this fragile country. To enhance transparency and achieve efficiency, the authorities plan to prohibit the creation of new bank accounts of the treasury, bring revenue to the single treasury account, and continue to reduce the use of extraordinary expenditure procedures. They will also implement the production of budget execution reports and strengthen the public accounting IT system to bring practices to higher standards.

Reducing domestic payment arrears contributes to improving PFM and is key to supporting growth and peace. Following audits of arrears to commercial banks, small- and medium-sized enterprises (SMEs), and wage and pension payments, a comprehensive settlement plan will be adopted. Arrears to commercial banks in particular will be securitized with the assistance of the central bank BEAC. Clearance of arrears to commercial SMEs, which is indispensable to lower non-performing loans (NPLs) in banks, alleviate liquidity constraints on those enterprises, and help them rebuild productive capacity, will create an additional BoP need. If approved, the requested augmentation of access under the ECF will help to close this gap.

Resolving public debt arrears is a top priority for the CAR authorities. Most post-HIPC external payment arrears have been cleared, and close dialogue has been maintained with remaining creditors to resolve outstanding debts, with some having already indicated their plan to cancel them. Likewise, efforts are being pursued to settle pre-HIPC external arrears.

CAR’s debt management framework is being strengthened with the assistance of Fund’s technical assistance and training. The authorities will rely on grants and highly concessional resources to finance critical projects. They call on bilateral and multilateral development partners to avail CAR with such financing.

Financial Sector Reforms

The authorities put particular emphasis on maintaining a healthy financial system and enhancing financial intermediation. All but one banks meet the prudential capital requirements and remain resilient. As underscored above, the authorities are determined to achieve a rapid clearance of payment arrears to commercial banks.

Efforts to strengthen the banking supervision framework is underway—with the support of the regional banking commission COBAC--and are focusing on governance practices and risk management. To promote financial intermediation and enhance financial inclusion, the authorities are implementing a dedicated work plan, and will strengthen the judicial system and modernize banking services, notably through mobile banking. The agriculture sector is their main target for access to credit given its high potential in advancing financial inclusion and reducing poverty.

Capacity Building

Successful implementation of CAR's program will depend on restoring administrative and absorptive capacity. The authorities welcome the different training and technical assistance provided by the Fund and other partners, notably on tax policy, revenue collection, public financial management, public debt management, macro fiscal capacity, and macroeconomic statistics. They look forward to additional TA provided by the Fund in those areas.

Conclusion

Central African Republic is a country in fragile situation that requires sustained financial and technical assistance to make meaningful inroads in restoring peace and political stability, safeguarding macroeconomic stability, and putting in place conditions for sustainable and inclusive growth. The authorities remain fully committed to restoring peace and stability in a durable manner. In this regard, efforts are being pursued tirelessly to maintain close dialogue with all armed groups which are currently participating in the disarmament, demobilization, reintegration, and repatriation (DDRR) process. The CAR authorities also continue to demonstrate strong commitment to sound reform agenda, building on recent progress. The authorities hope that they can continue to count on the international community, notably the Fund to assist their efforts.

We call on Directors to support the completion of the Second Review under the ECF and the requested augmentation of access under the ECF.