The Central African Republic authorities are appreciative of the constructive and candid policy discussions held with IMF staff in the context of the fourth review under the Extended Credit Facility (ECF). They recognize that the current ECF-supported program with its focus on macroeconomic stability, poverty reduction, and sustainable and inclusive growth is a key element of the government’s peace building and reform efforts. In addition, program implementation continues to help strengthening the country’s macroeconomic framework and remains in line with the regional crisis exit strategy of the Central African Economic and Monetary Community (CEMAC).

Despite the challenging security and humanitarian environment, performance under the ECF remains satisfactory and the country’s economic outlook remains favorable. All end-December 2017 performance criteria and indicative targets were met, except the continuous performance criteria on the non-accumulation of external arrears and the indicative target on domestic revenue. At the same time, two structural benchmarks out of three at end-December 2017 have been implemented—albeit with some delays. They have continued to demonstrate their strong commitment to the program’s objectives, as reflected in the recent submission of a revised 2018 budget to the Parliament which embodies several revenue-boosting measures.

**Recent Economic Developments, Risks and Outlook**

C.A.R.’s economic growth remains strong and is projected to reach 4.3 percent in 2017, supported by construction, forestry and the diamonds sector. Improvements in food supply have resulted in slightly lower inflation from 4.6 percent in 2016 to 4.1 percent in 2017.

While the authorities’ efforts to streamline expenditures helped to contain the wage bill, domestic revenue mobilization was weaker than expected due to lower forestry revenues,
insufficient tax arrears recovery and shortage of tax administration. As a result, the primary deficit is estimated to have increased in 2017. Nevertheless, prudent debt management contributed to a reduction of public debt from 56.0 percent of GDP in 2016 to 52.9 percent of GDP in 2017. The current account deficit stabilized partly thanks to improved forestry and diamond export performance.

Over the medium-term, potential risks to the C.A.R.’s reform program include volatile security conditions, insufficient institutional coordination, an increase in oil prices and delays in budgetary support from development partners. Despite a difficult environment, the economic outlook remains positive with GDP growth projected to reach 4.3 percent in 2018 supported by dynamic construction and forestry sectors as well as the implementation of public investment program, consistent with the National Recovery and Peace-building Plan (NRPP). For 2018-2021, GDP growth is projected at reach 5.0 percent with average inflation stabilizing at about 3.0 percent.

**Fiscal Policy and Public Financial and Debt Management**

The Central African Republic authorities’ fiscal policy will continue to be guided by the need to increase domestic revenue mobilization and enhance public spending efficiency by focusing on three areas.

In response to the 2017 revenue shortfall, the 2018 budget has been revised and incorporates new tax and customs measures, including an increase in forestry and diamond exports taxes, an increase of wood reference price, improvements in income tax collection and the remittance to the TSA of revenues from provinces, road usage fee and universal service fee. In addition, the government will work with Fund’s technical assistance to secure improvements to tax declarations, tax arrears collection and the information exchange between tax administration (DGID) and customs administration (DGDDI).

Moreover, recourse to exceptional expenditures procedures (DAO) for related expenses to security forces, universities, hospitals and prison facilities has been reduced. Stricter control over cash funds and imprest accounts will be exerted with a view to closing them by end-year. Other measures to strengthen efficiency in public spending include the publication of the quarterly budget execution report, a strict application of supervision by the Ministry of finance and legislation on State-Owned-Enterprises (SOEs) and a revision of the public procurement code.

Since the approval of the ECF in July 2016, improved debt management and reduction have been a key goal of the authorities. In this connection, the government is committed to a full implementation of its domestic arrears clearance strategy which is bearing fruit already. As confirmed by an international audit, arrears repayment is being conducted in accordance with program commitments. The authorities made significant progress in discussions with external
creditors which led to positive outcomes reported by staff. Other private and non-Paris Club creditors negotiations are progressing satisfactorily.

Financial Sector Reforms and Private Sector Development

Recognizing the critical role of the financial system in supporting economic recovery, the authorities are stepping up their efforts to address vulnerabilities in collaboration with regional authorities. In this regard, they will take necessary steps to ensure financial stability by improving supervision, governance and regulatory compliance in the banking system. At the same time, efforts to enhance financial intermediation will continue, including by implementing the recommendations of the National Credit Council.

The political and security shocks that C.A.R. recently endured have severely impacted the country’s institutional capacities and people’s well-being. Therefore, the authorities’ priority is to create enabling conditions for a harmonious development and their recovery strategy in these areas is based on a successful implementation of the NRPP which in turn requires continued capacity development efforts by the IMF and other development partners. Under the NRPP process, notable progress is underway as demonstrated by the recent execution of important infrastructure projects, notably in collaboration with the World Bank.

To improve the business climate, several reforms are being undertaken with the authorities’ priorities being focused on promoting the public–private sectors dialogue, and the implementation of an updated investment charter. Finally, the government will engage in reforms aimed at further increasing transparency in the mining sector and efficiency in the judiciary system to restore confidence and credibility.

Conclusion

The economic and financial program of C.A.R. supported by the Fund’s ECF arrangement remains pivotal for preserving macroeconomic and external stability and sustaining economic recovery. Based on the progress achieved and measures undertaken, the authorities seek the IMF Executive Board’s favorable completion of the fourth review under the ECF arrangement, and request waivers of nonobservance of performance criteria and modification of performance criteria.