**Statement by Mr. Raghani, Executive Director for the Central African Republic, Mr. N'Sonde, Senior Advisor to Executive Director, and Mr. Bangrim, Advisor to Executive Director**

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1. The authorities of Central African Republic (C.A.R.) would like to thank the Executive Board, Management and Staff for their constant support which has been instrumental in implementing the 2016–19 Extended Credit Facility (ECF) arrangement. This program has supported the authorities' efforts to restore macroeconomic stability and advance structural reforms. Program performance has been broadly satisfactory amid a challenging security and humanitarian environment. Real GDP growth has continued to expand throughout the program period, fiscal and external positions have strengthened, and public financial management has improved.

2. While progress is still underway, the country continues to cope with daunting challenges stemming notably from its fragility situation. A full restoration of state authority, full return to peace and capacity development remain key priorities. The authorities will leverage the peace dividends from the country's Political Agreement for Peace and Reconciliation (*Accord politique pour la paix et la réconciliation*, APPR) to step up the implementation of their refocused and extended Recovery and Peacebuilding Plan (*Plan de relèvement et de consolidation de la paix, RCPCA)*.

3. To address these challenges while reinforcing macroeconomic stability, enhancing administrative capacities and laying solid foundations for stronger, sustained and inclusive growth, the authorities are requesting a new three-year ECF arrangement. The new program should also help catalyze highly needed support from other external partners.

## I. Recent Economic Developments and Outlook

### *Recent Economic Developments*

4. Supported by the forestry, mining and construction sectors, real GDP growth is expected to increase from 3.8 percent in 2018 to 4.5 percent this year. As well, a positive output growth has been recorded in other sectors, including gold, diamonds and wood. Improved security conditions, particularly on the Douala-Bangui main economic corridor, have helped to dampen inflationary pressures. As a result, CPI inflation is projected at 3.2 percent this year against 3.5 percent anticipated at the conclusion of the 6th review under the previous ECF program. Revenue performance was slightly weaker than expected over the past few months on account of capacity constraints as well as unplanned tax exemptions. Expenditure as shown by primary domestic spending was also lower than anticipated due to reduced transfers to

public agencies and delays in public investment. Structural fiscal reforms are advancing, including the transfer of parafiscal taxes to the Treasury single account (TSA) and the elimination of a selected number of agencies. Furthermore, actions to enhance the monitoring of wood exports and the valuation of imports, and rationalization of current spending are currently underway. The domestic primary fiscal balance should stand at 3.0 percent of GDP this year against 2.0 percent last year. Public debt has been on a declining path and is expected to decrease to 47.1 percent of GDP at end-2019 compare to 50.0 percent in 2018. On the external front, the current account deficit (including grants) is narrowing from 8.0 percent of GDP in 2018 to 5.6 percent in 2019 owing notably to a significant increase in official transfers.

5. Regarding the financial sector, indicators show that the banking system is well capitalized and liquid, and it remains profitable in 2019 albeit slightly rising non-performing loans (NPLs) which are nevertheless adequately provisioned.

### *Outlook and Risks*

6. The progress made on the political front with the APPR, complemented by the ongoing macroeconomic stabilization, have improved prospects in CAR. Growth is projected at 5.0 percent over the medium-term and the anticipated economic recovery should be broad-based, supported notably by the revitalization of the energy, mining and transport sectors. In view of elevated domestic and external risks, stemming mainly from security issues, next-year elections, a slowdown of global growth and potential delays in partners financial support, the authorities intend to step up their efforts to accelerate the implementation of key policies and reforms.

## II. Policy and Reform Agenda for the Medium-Term

7. The authorities are determined to conduct policies and reforms aiming to enhance macroeconomic stability further, strengthen capacity building, reduce poverty while facilitating a gradual exit from crisis under the regional strategy. For this purpose, their approach which requires a substantial support from donors, will focus mainly on three areas: (i) *fiscal policy* oriented towards increasing domestic revenue mobilization; (ii) reinforcement of *public financial management* and public institutions to improve efficiency and credibility; and (iii) targeted structural reforms to reduce vulnerabilities and shortcomings respectively in *governance and business climate*.

### *Fiscal Policy*

8. Going forward, the government's fiscal policy will be anchored in reducing public debt to 40.0 percent of GDP over the medium-term and achieving a domestic primary fiscal deficit of about 2.5 percent of GDP. Already, the 2020 budget submitted to the National Assembly considers a domestic primary fiscal deficit of 2.7 percent of GDP, down from the 3.0 percent

deficit expected in 2019. It will strive to implement CEMAC directives and remove six public agencies with no meaningful economic justification in connection with the parafiscal reform.

9. The revenue mobilization strategy will be supported by efforts to streamline exemptions, digitalize tax administration, strengthen customs procedures, including by improving imports value declaration, upgrading IT systems and the interconnection of main offices. In the same vein, profit taxes, income taxes, and the VAT systems will be enhanced. Moreover, strict management of the government's cash flows under the TSA will be thoroughly followed. On the other hand, public spending will be streamlined notably by limiting transfers to public entities and non-priority expenditure.

10. The 2020 budget envisages a substantial increase in resources to health, education and humanitarian sectors. Throughout the program period, appropriate measures will be taken to safeguard resources allocated to social spending. The authorities will work with development partners, notably the World Bank, African Development Bank, French Development Agency (AFD), UNDP, and European Union to support the victims of the conflict and protect the most vulnerable segments of the population.

***Public Financial and Debt Management***

11. To achieve an efficient management of public finances, significant changes will be introduced to budget and accounting management software, and to the public procurement system while a strict control of exceptional spending procedures will be enforced. Furthermore, cognizant of the risk of debt distress, the authorities are reinforcing debt management by improving reporting, auditing and monitoring debt dynamics while ameliorating the quality of debt data. This also includes the clearance of domestic arrears with the continued implementation of the action plan approved in 2017. The authorities will continue to negotiate in good faith with external creditors, adopt a sound borrowing strategy and prioritize grants and concessional loans.

***Monetary and Financial Sectors***

12. The government of CAR remains committed to implement the enhanced foreign exchange regulation in collaboration with BEAC, in order to help rebuild the international reserves. In this context, the central bank is organizing outreach events with commercial banks and the private sector, including mining companies, with a view to enhance awareness and promote better understanding of the purpose of the regulation. The authorities will continue to support BEAC in enforcing the regulation in CAR, including the repatriation and surrender of foreign exchange deposits from export proceeds.

13. Regarding the financial sector, the government's policies intend to expand access to financial services through the increased use of mobile banking, thereby fostering financial

inclusion. The authorities also plan to improve the sector's business framework, including the creation of a credit bureau and the establishment of an arbitrage and mediation center for financial disputes, consistent with the outcome of the "Financial Sector and Justice in the CAR" conference.

***Structural Reforms***

14. Cognizant of the need to strengthen governance, capacity and business environment, the authorities are taking decisive actions to enhance transparency, accountability and the rule of law in line with the recommendations of the Fund diagnostic mission on governance. At the same time, the frameworks for enforcing officials' asset declaration requirements and aligning anti-corruption laws with the United Nations Convention Against Corruption (UNCAC) will be consolidated to address corruption challenges, especially those with macro critical implications.

15. Regarding capacity building, the authorities highly value the technical assistance provided by the Fund and other development partners. To augment the efficiency and coordination of capacity development support, they will reinvigorate the unit in charge of economic and financial reforms (CS-REF) while focusing on public financial and debt management, tax and customs administrations, statistics and fiscal governance.

16. The government aims to attract more private investments through greater ease of doing business. In this regard, with support from the UNDP and World Bank respectively, the authorities are making progress towards reinforcing the legal frameworks to limit the maximum amounts of liquidated damages due from employers and revise the labor code to introduce more flexibility. Meanwhile, they will maintain a close dialogue with the private sector under the dialogue platform CMCAA (*Cadre Mixte de Concertation pour l'Amélioration des Affaires*). It is also worth noting that additional initiatives are underway to simplify tax and customs procedures, develop an electronic business guide, revise the mining code as well as conduct a reform of the judicial system in line with their strategy adopted in September 2019.

## III. Conclusion

17. Our CAR authorities reiterated their strong commitment to pursue sound policies and far reaching reforms to consolidate the gains achieved under the 2016-19 ECF arrangement and continue supporting the CEMAC regional strategy. In this regard, they are requesting a new three-year arrangement under the ECF which will help catalyze the assistance of other external partners. We would appreciate the Executive Board's approval of their request.