Statement by Mr. Aivo Andrianarivelo, Executive Director for the Central African Republic, and Mr. Madjiyam Herve Bangrim Kibassim, Advisor to the Executive Director

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The authorities of the Central African Republic (CAR) would like to thank the Executive Board, Management and staff for their continued support to their country. The approval of the current ECF arrangement last year has sent a strong signal in support of their efforts to strengthen macroeconomic stability, improve administrative capacity, enhance governance and the business climate, and reduce poverty. Presidential and parliamentary elections were held on December 27, 2020 as scheduled, and priority continues to be given to restoring peace while fighting the Covid-19 pandemic and its economic and social fallout. The authorities remain firmly committed to the program objectives.

Recent Developments and Outlook

As of January 4, 2021, confirmed Covid-19 cases stood at 4,885 with 63 fatalities. Although the effect of the pandemic is declining in regard of the low number of new positive cases, vigilance and precautionary measures including social distancing continue to be recommended to the population. The recent holding of elections on the due date is an important step for the country towards building stability, peace and institutions despite challenging security conditions. Considering the elevated number of refugees and displaced persons reaching about 60 percent of the population, substantial humanitarian and financial assistance from partners continues to be needed to secure the political and economic gains achieved to date.

The swift containment measures implemented by the authorities have contributed to limit the spread of the virus but were also detrimental to economic activities in addition to low external demand. In this context, while the telecommunications and forestry sectors have shown some resilience, the mining, tourism, trade, hospitality, and transport sectors have been severely impacted. This has resulted in the economic growth projected to decline from 3 percent in 2019 to 0 percent in 2020. Due to disruptions of supply chains, inflation increased in the second half of 2020 but is expected to remain below 3 percent in 2020 at about 2.1 percent. Although expenditures increased due to the Covid-19 pandemic, public debt is anticipated to decline from 47.2 percent of GDP in 2019 to 46.8 percent of GDP in 2020. The current account deficit widened from 4.9 percent of GDP in 2019 to 7.6 percent in 2020 on the back of lower diamonds and wood export prices but is expected to improve in 2021 owing to an export rebound. The resources provided by the Rapid Credit Facility (RCF) last April and the debt relief under the Catastrophe Containment and Relief Trust (CCRT) have been essential to meeting substantial financing needs generated mainly by the Covid-19 pandemic.

In addition to security challenges, the authorities recognize that the health and economic effects of the pandemic are deeper and more persistent than previously envisaged, both globally and at the regional and national levels. This contributes to raising uncertainty in the outlook and tilt risks to the downside. On the other hand, the prospects of advances in the political dialogue—albeit recent difficulties around the elections--the benefits of the fiscal efforts and the reforms being implemented could lead to better economic prospects than currently envisaged.

Program Performance

The implementation of the ECF arrangement during the period under review has been challenging due to coordination difficulties and weaknesses in the administration, liquidity issues, and the impact of the Covid-19 pandemic. As a result, three quantitative performance criteria and four structural benchmarks were missed. Nevertheless, necessary corrective measures have been implemented successfully, including by addressing liquidity concerns. The authorities have also stepped up their efforts to implement the remaining structural reforms. This led to a fiscal performance in line with expectations and helped to maintain the program on track. To avoid further liquidity shortages and allow more flexibility, the authorities are requesting to replace the performance criterion on the repayment of domestic arrears with an indicative target.

Use of Covid-19 Resources

The authorities attach a great importance to transparency and accountability in the use of all resources dedicated to the fight the Covid-19 pandemic, including the emergency financing received from the IMF and World Bank. To that end, a committee composed of sectorial departments, agencies supervising public expenditure, civil society and partners was established by a July 2020 decree to ensure proper monitoring by the government and stakeholders of the execution of Covid-19 spending. This committee also supervises the compliance with dedicated procedures and potentially provides insights that could be inputs for improving transparency and efficiency in the use of these resources. The authorities are committed to the publication on a monthly basis of all relevant information related to public expenditures and contracts, including selection criteria of beneficiaries. They also agreed on the publication of the independent audit that will be conducted by the court of auditors on public expenditures executed in 2020 to tackle the pandemic.

Medium-Term Policy Priorities

To achieve their medium-term program objectives, including preserving debt sustainability and promoting inclusive growth, the authorities' policy priorities are focused on strengthening domestic revenue mobilization and public spending efficiency, reducing public

debt, pursuing PFM reforms, enhancing governance and the business climate, and building institutions and capacity.

Fiscal Policy and Reforms

The authorities will give priority to increasing revenue and public expenditure efficiency and streamlining non-priority spending, with a view to safeguarding fiscal and debt sustainability. Their objective in this regard is to gradually reduce the domestic primary deficit to 2½ percent of GDP.

The authorities are aware that achieving a strong domestic revenue mobilization is key to meeting the substantial financial and development needs of the country. To that effect, they intend to widen the tax base by further identifying taxpayers through matching the registers of tax and customs administrations. Tax reforms will be geared toward increasing transparency and revenue collection, including by implementing the customs ASYCUDA World IT System, addressing discrepancies in imports values, assessing exemptions, establishing interconnexions between major customs offices and advancing tax digitalization.

On the expenditure front, the authorities are committed to containing outlays that are not related to the fight against the Covid-19 pandemic and, accordingly, they have cancelled the equivalent of 0.5 percent of GDP in non-priority spending. While the government is facing challenges in financing infrastructure, security, and the implementation of the National Recovery and Peace Building Plan (RCPCA), it will continue to prioritize social spending and poverty reduction. In addition, the adoption of implementing decrees for the supervision of SOEs will allow a better monitoring of fiscal risks and of the financial position of public and para-public entities.

PFM Reforms

To support institution building and enhance efficiency in public finances, PFM reforms will focus on reinforcing budget procedures, eliminating the remaining seven public agencies without economic justification, and extending the recourse to electronic payment of wages in public administration and to militaries. The authorities have undertaken measures to enhance the monitoring of commitments in the existing PFM IT system GESCO and expect a technical assistance from the World Bank to maintain it. With the technical support from the IMF and the World Bank, the authorities will conduct a review of resources allocated to public institutions and ministries, and government's social spending. The French Development Agency (AFD) is expected to provide support in implementing quarterly audits of domestic arrear payments. Other important reforms, including the consolidation of the treasury single account (TSA) will also be pursued.

Debt Management

The authorities will maintain a prudent borrowing strategy prioritizing grants and concessional loans to meet the country's financing needs. They have implemented important reforms for debt monitoring. These include strengthened coordination between the debt unit and the treasury to prevent external arrears, the new legal framework governing SOEs, and capacity building with notably improvements of the IT system in the debt unit. The authorities have also undertaken to repay all domestic arrears by end-2021 and prevent the accumulation of pension arrears. Moreover, they are pursuing in good faith negotiations on restructuring external debt with official creditors.

Financial Sector

The banking system continues to be well-capitalized and profitable. However, the Covid-19 crisis has led to a deterioration of financial indicators. In this context, non-performing loans (NPLs) increased from 12.6 percent to 13.7 percent between 2019 and 2020, and credit to private sector in June 2020 declined by 4.8 percent compared to June 2019. Similarly, liquidity and capital adequacy ratios decreased, respectively from 165 percent in December 2019 to 132 percent in March 2020, and from 30 percent in December 2019 to 28 percent in May 2020, respectively. To further advance financial inclusion, key reforms in the financial sector will prioritize recourse to mobile and online banking and establish financing mechanisms to enable greater financial access by SMEs.

Structural Reforms

The authorities are cognizant of the importance of strengthening governance and the business climate to achieve inclusive growth and the country's development objectives. To that end, they are determined to implement the recommendations of the IMF governance diagnostic and pursue the development of an action plan to fight corruption and improve governance. In the same vein, they will step up their efforts to establish an anti-corruption law that complies with the United Nations Convention against Corruption, and issue in due course the related decrees for the new asset declaration regime.

Regarding the business climate, a new labor code offering a more favorable work environment to employees and fairness to employers before the courts has been submitted to the National Assembly. A mining code in line with international standards, reflecting contributions from the World Bank and the African Development Bank, will be forthcoming. Procurement contracts exceeding CFA 5 million will be published to enhance transparency. Finally, the establishment of the National Economic and Financial Council will also contribute to improving the business environment by allowing the implementation of an arbitration and mediation center, and an arbitration chamber.

Capacity Building

The Central African Republic remains a fragile state and the COVID-19 pandemic has increased challenges, including in the public administration, impacting notably program performance and revenue collection. In this context, the CAR authorities continue to rely on the technical assistance provided by development partners to strengthen institution building, ameliorate the public expenditure chain and increase transparency and governance. More specifically, they are seeking technical support to improve revenue administration, the quality of economic and financial statistics, fiscal governance and mechanisms to combat corruption; further strengthen public financial management; and ensure adequate capacity for macroeconomic programming and debt management.

Conclusion

Despite a challenging environment, the CAR authorities remain committed to safeguarding macroeconomic stability and maintaining the reform momentum under the program. They continue to put the achievement of higher and more inclusive growth at the center of their development agenda. To sustain their efforts, the authorities seek the Executive Board’s favorable completion of the first and second reviews under the ECF arrangement, and the approval of their request for waivers of nonobservance of performance criteria.