International Monetary Fund

IMF Executive Board Approves New US$63.2 Million Extended Credit Facility Arrangement for the Central African Republic and US$10.5 Million Disbursement

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The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Extended Credit Facility (ECF) for the Central African Republic in a total amount equivalent to SDR 41.775 million (about US$63.2 million) to support the authorities' medium-term economic program. The Board's decision will enable an immediate disbursement of an amount equal to SDR 6.963 million (about to US$10.5 million).

The authorities' program is aimed at consolidating macroeconomic stability by restoring fiscal discipline; creating fiscal space for increased spending on critical social programs and basic infrastructure; strengthening capacity and institutions; and accelerating structural reforms to remove impediments to growth. IMF support to the program acknowledges the fragility of the Central African Republic and seeks to catalyze donor financing and enhance coordination while helping the recovery and the authorities' reform efforts.

Following the Executive Board discussion on the Central African Republic, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Board Chair, issued the following statement:

"The Central African Republic authorities are to be commended for maintaining macroeconomic stability in a very difficult external environment, and for their commitment to fiscal consolidation geared at putting the public finances on a sound footing. As a fragile post-conflict state, the country faces daunting challenges that require the steadfast implementation of structural reforms to create fiscal space, strengthen administrative and institutional capacity, and improve the business climate to promote greater private sector participation in the economy.

"The authorities' economic program is closely aligned with the priorities of the second-generation poverty reduction strategy. This strategy aims at consolidating security and peace, boosting economic growth and regional integration, and advancing the development of human capital and essential social services. Its successful implementation is critical to help the Central African Republic progress toward the Millennium Development Goals.

"The debt sustainability analysis shows that the country is at moderate risk of debt distress. The authorities therefore need to remain committed to pursuing prudent fiscal and borrowing policies, with new external debt contracted on highly concessional terms, to preserve debt sustainability.

"Renewed and concerted assistance from the IMF and the Central African Republic's development partners is crucial to support the economic recovery and boost the prospects for sustained growth and poverty alleviation."

Background

Growth in 2011 was stronger than previously estimated and inflation is accelerating. Real GDP growth has been revised upward to 3.3 percent for 2011 on the back of strong agriculture and mining activity. Reversing the downward trend since it peaked in 2008; inflation accelerated starting in November 2011 driven by price gouging and supply disruptions. As a result, headline inflation reached 7.8 percent in March 2012; but given price pressures are expected to ease later in the year, annual inflation would be contained at 6.8 percent for the year as a whole.

The program objectives are aligned with the strategic priorities of the second-generation Poverty Reduction Strategy Paper (PRSP II). In addition, C.A.R., along with six other countries, is part of a pilot for donors to implement a "New Deal" for engaging in fragile states and an integrated strategy is expected to be developed in Bangui, in September 2012. Key elements of the ECF program will be an essential part of the integrated strategy. A Consultative Group meeting is expected to be held before end-2012 to mobilize financing for the PRSP II. With the prospect of increased financing, the macroeconomic framework will be revised and efforts will be made with donors to identify "quick wins" that would bolster support for the government's reform agenda.

Real GDP growth is projected to accelerate to about 6 percent by 2014, on the back of continued strength in agricultural production; a recovery in private sector investment in the mining sector driven by foreign direct investment (FDI) inflows; and a rebound in external demand. Inflation is expected to return to levels within the CEMAC convergence rate of 3 percent starting in 2013. Natural resource exploitation over the medium term is expected to support growth and fiscal revenue. Projects underway include gold mining and petroleum exploration.

The fiscal program aims at generating modest domestic primary surpluses and putting the public debt on a downward trend as the government accelerates the clearance of domestic payment arrears and relies mostly on grant financing. The external current account deficit is expected to decline gradually in the medium term. This is predicated on a gradual improvement in the terms of trade and a pickup in FDI and official transfers as donors resume disbursement of external aid. However, while recovering modestly, the reserves position would remain weak with import coverage reaching just three months by 2014.

The medium-term growth outlook is positive, but significant risks remain. They relate to a possible deterioration in the security and political situation and a weakening of the external environment, particularly in the euro area, C.A.R.'s main export market.

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