

Executive Briefing

- The contested 2020 elections could result in social unrest.
- Growth is forecast to average 6.1% between 2021 and 2030.
- In collaboration with the World Health Organization, a preparedness and response plan for the healthcare sector, equivalent to 1.9% of GDP, was implemented to offset the effects of Covid-19.
- Timber products account for approximately 30% of export earnings.

Macroeconomic Outlook

The Central African Republic (CAR) is experiencing a period of economic recovery. Growth is slowly strengthening and is forecast to reach 5.3% in 2021. However, following half a decade of robust growth, the economy contracted in 2020 by 0.5% as a result of the Covid-19 pandemic. In collaboration with the World Health Organization, CAR implemented a preparedness and response plan for the healthcare sector, equivalent to 1.9% of GDP, including the provision of medical care and financial support to vulnerable households and companies. The plan also contains measures to strengthen the healthcare system in order to deal with other pandemics in the future. The government has requested assistance from development partners to finance the implementation of the plan.

Growth is forecast to average 6.1% between 2021 and 2030. The rebound in the primary sector, particularly agriculture, logging and mining following the 2019 peace agreement, and the resumption of the services sector to supply these industries, will drive growth.

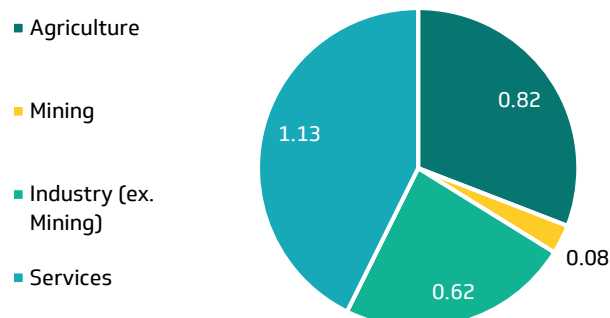
CAR uses the Central African CFA franc, which is pegged to the euro, with convertibility guaranteed by the French treasury. Use of the Central African franc has allowed CAR to keep its inflation rate, and therefore interest rates, low by sub-Saharan African standards. Inflation is expected to average 3.3% between 2021 and 2030, slightly above the Central African Economic and Monetary Community's 3% requirement, reflecting the improved security environment and lower overall food prices.

In December 2019, the IMF approved a three-year Extended Credit Facility (ECF) arrangement for CAR, equivalent to approximately USD115.1 million. This follows the previous ECF programme, launched in 2016. The

Political Climate

Presidential elections were held in December 2020, won by incumbent president Faustin-Archange Touadéra with 53.9% of the vote. However, some 14.0% of polling stations did not open due to rebel activity. In January 2021 ten defeated candidates called for the annulment of the result, citing irregularities and low voter participation. Opposition calls for a re-run are unlikely to succeed and the expected validation of the result by the Constitutional Court will likely lead to social unrest and rebel violence. There is a risk that the 2019 peace deal could break down with negative implications for overall political stability.

Central African Republic - GDP by Output, USD billion (2021)



Source: World Bank, Fitch Solutions

ECF should act as a catalyst for external concessional financing from other development partners. Foreign aid accounts for nearly 40% of the government budget. The programme aims to sustain macroeconomic stability, support robust and sustainable growth and strengthen the business climate.

The ECF arrangements have already had a positive effect. CAR's fiscal balance is improving, from 0.4% in 2018 to a forecasted surplus of 2.7% in 2021, the result of better management of public expenditure and a gradual increase in revenue after the implementation of various fiscal measures.

Key Macroeconomic Indicators	2018	2019	2020	2021	2021-25 ave	2021-30 ave
Population, mn	4.67	4.75	4.83	4.92	5.12	5.41
Real GDP Growth, % y-o-y	4.34	5.22	-0.46	5.27	5.60	6.06
Real GDP per capita, USD	349.02	361.13	353.17	364.97	391.63	432.84
Inflation (%)	1.60	2.70	3.20	3.40	3.32	3.31
Fiscal balance, % of GDP	0.38	3.12	2.76	2.73	2.42	2.41
Public debt, % of GDP	52.42	52.14	54.16	54.93	55.58	55.75
Current account balance, % of GDP	-28.86	-30.25	-30.34	-27.85	-26.00	-24.09
Exchange rate, XAF/USD, ave	555.70	585.96	575.40	542.11	534.20	531.60

Source: National Sources, Fitch Solutions

Business & Trade Climate

As part of the ECF, the government is committed to removing regulatory impediments to private investment. In order to attract private investment, the government has revised the tax code and is in the process of revising the investment charter. In line with the national development plan, a number of infrastructure projects are also planned, such as the modernisation of Bangui airport.

The resumption of farming and forestry activities and increased production from mining operations is expected to result in an increase in exports. However, this growth in exports will be offset by a rise in imports. CAR signed the African Continental Free Trade Agreement in an effort to improve its integration in Central Africa and boost its exports to the region.

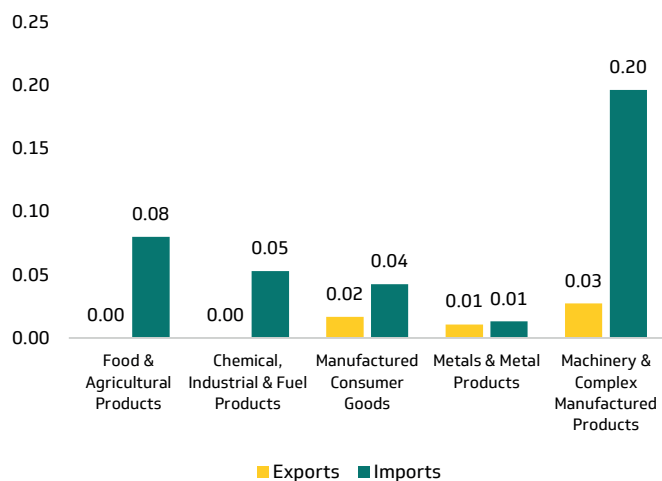
CAR's main export products are timber, diamonds, coffee and cotton, which represent about 90% of export revenues. Timber products alone account for approximately 30% of export earnings. Timber products are classified as a manufactured consumer good. China is the largest market for timber products.

Diamonds account for 20% of exports. Prior to the 2013 trade embargo on diamonds sourced from CAR (which was partially lifted in 2016) the gems used to account for 35% of the export basket. Diamond exports have not yet fully recovered to pre-2013 levels.

France is CAR's largest export partner, accounting for a third of all exports (France largely imports coffee and tobacco). Traditionally,

Belgium has been the largest importer of CAR's diamonds, but was overtaken by the United Arab Emirates (UAE) in 2018. Both Belgium and the UAE are major diamond cutting and polishing centres.

Central African Republic Exports & Imports, USD billion (2018)



Market Risk

Risk Factor	Impact on Business
Weak consumer purchasing power is prevalent.	This is a restraint on market size.
Poor business environment and weak political institutions.	Increases the time and cost of doing business and acts as a disincentive for foreign investment.
There is some political instability.	Lack of investment, increased security costs and potential disruptions to supply chains will all impact business.

Investment Opportunities



ICT

The Central African Backbone (CAB) project, valued at USD38.8 billion, financed by the African Development Bank and the European Union, will enhance CAR's connectivity by installing a fibre optic network and connecting CAR to its central African neighbours, particularly Cameroon.

CAR benefits from having a relatively independent and prudent telecoms regulator. There is healthy competition in the mobile sector with four operators, all of which are backed by international players. Continued competition in the mobile market will spur network expansion to underserved areas as operators seek new subscriber growth. In March 2020, representatives of the Central African Economic and Monetary Community met to advance a common project that will lead to the end of mobile roaming surcharges across member states.



Agriculture

CAR offers various opportunities in the agricultural sector, especially with regards to cash crops such as cotton, palm oil and coffee. The production of other crops including cassava, maize, peanuts and other cereals is largely for subsistence purposes. The government is supportive of the diversification of the sector and also encourages the cultivation of vegetables for export. The cotton industry offers a number of value-added opportunities, such as the production of cottonseed oil and carded cotton.



Mining

CAR has substantial mineral resources, with deposits of diamonds, gold, uranium, iron and copper. Most of these deposits remain underutilised and offer significant opportunities to foreign investors. The government has committed to reform the legal and institutional frameworks which govern the sector in order to increase its attractiveness to foreign investors.

Diamond exports are expected to regain importance in the medium term following the re-establishment of the Kimberley certification process, further encouraging investment in the sector. A number of Chinese mining companies, such as Tian Xiang, Meng, and SMC Mao have invested in gold mining in recent years. Canadian miner Axmin owns the Passendro Gold Mine and signed a letter of intent with Hong Kong-based AU Metals to further develop the project.



Forestry

The government has prioritised the forestry industry with the objective of adding value to it by supporting diversification activities and promoting the wood transformation industry. Regulations require that 70% of logs from first-grade species are processed onsite, although unofficial data suggests that less than a quarter of logs are actually processed in the country.

The timber industry presents a number of opportunities for further investment, including the manufacturing of plywood, cork products, furniture and fertilisers. There are eight primary processing plants and one secondary processing plant for the production of plywood. Total processing capacity is about 450,000m³ of input, although actual processing volumes are much lower.

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