

COUNTRY REVIEW

Central African Republic



30 July 2010

ANALYST: Andrew Atkinson

EULER HERMES COUNTRY RISK GRADE: D

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Bangui
GDP:	USD2,240mn (2009e)
Population:	4.42mn (2009e)
GDP per capita:	USD507 (2009e)
Currency:	CFA Franc BEAC (XAF)
Form of state:	Republic
Head of government:	President François Bozizé
Next elections:	Presidential and legislative were scheduled for March 2010 (timing now uncertain)

Although a ceasefire agreement with rebel forces was achieved in May 2008 and an opposition party participates in domestic affairs, **both the security and political outlooks remain uncertain**. In particular, government control in border areas remains weak and the country has a history of coups and armed mutinies. François Bozizé came to power following a military coup in 2003 but won presidential elections in May 2005, winning over 64% of the votes cast. That electoral process was reasonably successful and provided Bozizé with a legitimate mandate to govern and it led to the **African Union lifting sanctions** previously imposed against the country. Additionally, **the EU and US re-instated full links** with the country, after suspending macro-economic and infrastructure aid following the 2003 coup. Continuation of such support (and that from the IMF) depends on consolidation of the democratic process, so **elections postponed from March need to be timetabled without undue delay**. France maintains a small military capability in Bangui and signed a new defence agreement in April 2010. As elsewhere in Africa, China has become a leading influence, providing financial and technical assistance.

The government is likely to continue to attempt to meet **IMF** targets under an **Extended Credit Facility** (formerly Poverty Reduction and Growth Facility), which is currently scheduled to expire in December 2010, but is likely to be extended. IMF backing was instrumental in enabling the country to qualify for debt relief under the heavily indebted poor countries (HIPC) and Multilateral Debt Relief (MDR) initiatives. **Even after a significant debt write-off, the country remains heavily dependent on budgetary and other financial support from the international donor community**. In particular, external assistance is required so that outstanding public sector salary arrears can be reduced.

Subject to maintenance of overall stability (and of donor support), **GDP growth is likely to recover to 4-5% in 2009 and 2010 after only 1.7% in 2009** when global demand for commodities (particularly timber) was weak. However, such rates of economic expansion remain below that needed to bring about a marked advancement in general welfare and incomes. The UN estimates that around 82% of the population lives on less than USD2 each day, adult literacy is only 49% and life expectancy at birth is under 47 years. **Out of 182 countries assessed under the UN's Human Development Index 2009, CAR ranks a very lowly 179 (above only Sierra Leone, Afghanistan and Niger)**. The country is landlocked and has few natural resources—other than diamonds (34% of exports) and limited timber supplies (currently 50%). Inward shipments of oil account for over 30% of the total import bill.

The CFA franc is pegged to the euro at XAF656:1. Membership of this exchange rate system acts to underpin price stability, although high imported energy costs and disruptions to output in the agricultural heartland in the north increased the annual rate of inflation to around 9% in 2008. Average annual inflation is forecast to remain in a 4-5% range in 2010-11. The **exchange rate system also limits private sector transfer risk**, although poor public finances create a likelihood of new arrears in that sector. The external sector registers current account deficits equivalent to around 2-4% of GDP. **Arrears exist on both interest and principal repayments** on foreign obligations, amounting to around 45% of the total debt burden of almost USD1bn.

The business environment is weak and below the regional average, with a poor record in terms of protection of property rights and corruption. Regulatory procedures are burdensome.

Andrew Atkinson

London: +44 (0)20 7860 2577