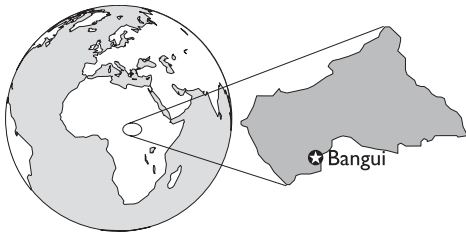


# CENTRAL AFRICAN REPUBLIC



Rank: 141

Regional Rank: 34 of 40

The economy of the Central African Republic (CAR) is 48.2 percent free, according to our 2008 assessment, which makes it the world's 141st freest economy. Its overall score is 2.1 percentage points lower than last year, primarily because of worsening investment freedom and freedom from corruption. The CAR is ranked 34th out of 40 countries in the sub-Saharan Africa region, and its overall score is lower than the regional average.

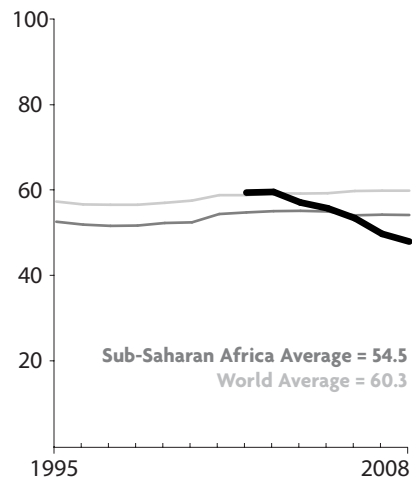
The CAR scores better than the world average only in terms of government expenditures, which are low in formal terms, although this is likely a sign of government weakness, not efficiency. Tax revenue is not high as a percentage of GDP, but rates are high. Inflation is low, but government interference with market prices is extensive.

Business freedom, trade freedom, financial freedom, property rights, and freedom from corruption are weak. Regulation is burdensome, and business operations are significantly hampered by the government. Labor laws impose exceptionally high costs on employers. Banking and the rule of law are subject to political pressure. Property rights cannot be guaranteed, and corruption is rampant.

**BACKGROUND:** The Central African Republic gained its independence in 1960 and has been politically unstable or under strict authoritarian rule for much of its history. A civilian government established through multi-party elections in 1993 was overthrown in 2003 by General François Bozize. Despite pledging not to run, Bozize won the 2005 presidential election. He continues to face opposition from armed groups in the northern region. Instability has undermined economic activity and caused over 200,000 people to flee. Refugees from Sudan's Darfur region have fled to the northern CAR. Resources include timber, diamonds, gold, uranium, and possibly oil; but most of the population is engaged in subsistence farming, and agriculture comprises over half of GDP. Resources, aside from diamonds and timber, remain undeveloped. Infrastructure is poor, institutions are weak, and corruption is prevalent.

How Do We Measure Economic Freedom? See Chapter 4 (page 39) for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

The economy is 48.2% free



## QUICK FACTS

**Population:** 4.0 million

**GDP (PPP):** \$4.9 billion

2.2% growth in 2005  
-1.2% 5-yr. comp. ann. growth  
\$1,224 per capita

**Unemployment:** 8.0% (2001 estimate)

**Inflation (CPI):** 2.9%

**FDI (net flow):** \$6.0 million

**Official Development Assistance:**

Multilateral: \$38.2 million  
Bilateral: \$67.9 million (25.4% from the U.S.)

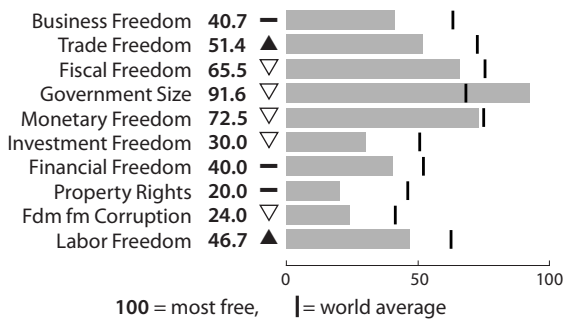
**External Debt:** \$1.0 billion

**Exports:** \$100.4 million (2004 estimate)  
Primarily diamonds, timber, cotton, coffee, tobacco

**Imports:** \$158.2 million (2004 estimate)  
Primarily food, textiles, petroleum products, machinery, electrical equipment, motor vehicles, chemicals, pharmaceuticals

2005 data unless otherwise noted.

## CENT. AFRICAN REP.'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 40.7%

The overall freedom to start, operate, and close a business is impeded by the Central African Republic's national regulatory environment. Starting a business takes less than the world average of 43 days, but obtaining a business license requires more than the world average of 19 procedures and 234 days. Closing a business can be difficult.

### TRADE FREEDOM — 51.4%

The Central African Republic's weighted average tariff rate was a high 16.8 percent in 2005. The government restricts imports of sugar and coffee, imposes import and export taxes, implements inappropriate customs valuation for certain imports, and subsidizes exports; other problems include inadequate infrastructure, weak regulatory and customs administration, and customs fraud and inefficiency. An additional 15 percentage points is deducted from the CAR's trade freedom score to account for these non-tariff barriers.

### FISCAL FREEDOM — 65.5%

The Central African Republic has high tax rates. The top income tax rate is 50 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a tax on check transactions. In the most recent year, overall tax revenue as a percentage of GDP was 7 percent.

### GOVERNMENT SIZE — 91.6%

Total government expenditures, including consumption and transfer payments, are very low. In the most recent year, government spending equaled 16.7 percent of GDP. Poor public expenditure management has hurt economic growth.

### MONETARY FREEDOM — 72.5%

Inflation is moderate, averaging 3.9 percent between 2004 and 2006. Relatively stable prices explain most of the monetary freedom score. The government influences most prices through the large public sector, subsidies, and price controls on 17 food staples, coffee, cotton, electricity, water, and petroleum. An additional 15 percentage points is deducted from the CAR's monetary freedom score to adjust for measures that distort domestic prices.

### INVESTMENT FREEDOM — 30%

Banditry and extortion are major obstacles to foreign

investment, which must be declared to the Ministry for the Economy, Finance, Planning and International Cooperation. Repeated insurrections and a coup in 2003 have virtually frozen foreign investment. Added to this are weak infrastructure, a limited domestic market, and landlocked status. Capital transfers and transactions are subject to exchange controls. Residents may hold foreign exchange accounts. All capital transactions, transfers, and payments to countries other than certain regional nations, France, and Monaco are subject to government approval and reporting requirements. Sale or issue of capital market securities and commercial credits likewise requires government approval.

### FINANCIAL FREEDOM — 40%

The CAR's financial sector is underdeveloped. The regional Central African Economic and Monetary Community (CEMAC) countries share a common central bank and a common currency pegged to the euro. In addition to a branch of the regional central bank, there are three commercial banks, a microfinance institution, and two postal financial institutions. The two largest commercial banks, Banque Internationale pour le Centrafrique and Commercial Bank Centrafrique, have been privatized, but the Banque Populaire Maroco-Centrafricaine is still partly government-owned. The banking sector is used to finance government expenditures, and the accumulation of state debt and lack of promised credits have undermined the system. There are two insurance companies, also overseen by the CEMAC. There is no stock market.

### PROPERTY RIGHTS — 20%

Protection of property rights is weak. The constitution has been suspended, allowing the president to rule by decree. Judges are appointed by the president, and the judiciary is subject to executive interference. The courts barely function because of inefficient administration, a shortage of trained personnel, growing salary arrears, and a lack of material resources.

### FREEDOM FROM CORRUPTION — 24%

Corruption is perceived as pervasive. The Central African Republic ranks 130th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Informal market activity and smuggling, especially in diamonds, are extensive. The formal sector has contracted significantly because of regulation and corruption. A significant part of the population works informally. The police and the judiciary are among the country's most corrupt institutions.

### LABOR FREEDOM — 46.7%

Highly rigid employment regulations hinder employment and productivity growth. The non-salary cost of employing a worker is moderate, and dismissing a redundant employee is relatively difficult. Regulations on increasing or contracting the number of work hours are rigid. The Central African Republic's labor freedom is one of the 20 lowest in the world.