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# Central African Republic: 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance and Modification of Performance Criteria, and Financing Assurances Review—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Central African Republic

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the combined discussion of the 2007 Article IV Consultation with the Central African Republic and the first review under the three-year arrangement under the Poverty Reduction and Growth Facility and its requests for waiver of nonobservance and modification of performance criteria, and financing assurances review with the officials of the Central African Republic, the following documents have been released and are included in this package:

- the staff report for the 2007 Article IV Consultation and first review under the three-year arrangement under the Poverty Reduction and Growth Facility, and request for waiver of nonobservance and modification of performance criteria and financing assurances review, prepared by a staff team of the IMF, following discussions that ended on August 23, 2007 with the officials of the Central African Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 13, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Public Information Notice (PIN) and Press Release summarizing the views of the Executive Board as expressed during its September 28, 2007 discussion of the staff report that concluded the Article IV consultation and the IMF arrangement respectively.
- a statement by the Executive Director for the Central African Republic.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Central African Republic*
Enhanced Initiative for Heavily Indebted Poor Countries–Decision Point Document
Poverty Reduction Strategy Paper–Preparation Status Report–Joint Staff Advisory Note
Statistical Appendix

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

# Staff Report for the 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance and Modification of Performance Criteria, and Financing Assurances Review

Prepared by the African Department
(In consultation with other departments)

Approved by Hugh Bredenkamp and Mark Plant

September 13, 2007

- Discussions for the 2007 Article IV consultation, first review of the PRGF arrangement, and preparations for bringing the C.A.R. to the HIPC decision point were held in Bangui August 9–23, 2007. The mission comprised Mr. York (head), Mr. Kinoshita, Ms. Schumacher, and Mr. Nachega (August 9–16) (all AFR). The mission was joined by World Bank and African Development Bank staff and Mr. Mamadou (OED). The mission met with President Bozizé; Prime Minister Doté; Mr. Ndoutingaï, Minister of Finance and Budget and Mines; Mr. Maliko, Minister of Planning and Economic Development; other ministers and senior government officials; Mr. Derant-Lakoue, National Director of the Bank of Central African States; and representatives of the private sector, labor unions, donors, and the media.
- The last Article IV consultation was completed on October 24, 2005. In December 2006 the Executive Board approved a three-year PRGF arrangement for the C.A.R. in an amount equivalent to SDR 36.2 million (65 percent of quota). The first disbursement was made in mid-January 2007 in an amount equivalent to SDR 17.6 million, part of which the authorities used to repay EPCA loans. In mid-March 2007 the Executive Board agreed that the C.A.R. is eligible for enhanced HIPC Initiative debt relief and that the decision point could be reached at the time of the first review of the PRGF arrangement if performance has been satisfactory and discussions on the completion point triggers have been finalized.
- The C.A.R. has accepted the obligations of Article VIII, sections 2(a), 3 and 4, and maintains an exchange system free of restrictions. The currency has had a fixed parity with the euro at a rate of 656 CFA francs since January 1, 1999. The C.A.R. is a member of the Central African Economic and Monetary Community (CEMAC).
- During the discussions, the key policy concerns were the challenge of accelerating growth as the C.A.R.'s main contribution to enhancing the external viability of the CEMAC, establishing a medium-term fiscal strategy to support implementation of the authorities' Poverty Reduction Strategy Paper, and the potential benefits to the C.A.R. of further sub-regional integration.

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## EXECUTIVE SUMMARY

**Over the past several decades political struggle and armed conflict have adversely affected domestic stability in the Central African Republic (C.A.R.), slowing growth and causing a deterioration in living standards.** But a recent improvement in the political and social situation and economic policies has provided a firm basis for economic recovery. The reengagement of the international financial community has helped, but foreign aid has been unpredictable and insufficient.

### Recent developments and prospects

- **At 4.1 percent, real GDP growth in 2006 reached the highest level in a decade and inflation has moderated more recently.** Private consumption and investment picked up, as did diamond and timber exports. For the first time in years, agriculture made a modest contribution to growth with the resurgence of cash crops like cotton and coffee.
- **The government's fiscal objectives for 2006 were achieved and performance was generally satisfactory in the first half of 2007.** Firm control over expenditure, especially wages and salaries, and strong tax collections stemming from tax and customs administration improvements and some tax measures, led to a domestic primary surplus of 0.4 percent of GDP last year, in line with the budget. This surplus has narrowed slightly during the first semester of 2007, partly on account of a government decision to help facilitate the recapitalization of a troubled commercial bank and delays in aid flows.
- **Progress is being made on structural reform**. Public financial management, domestic revenue mobilization, and governance is being enhanced, and the reform agenda is being broadened to improving the business environment more generally.
- **The short-term outlook is benign.** There is an upside risk if the disbursement of aid inflows is higher than programmed this year.

### Policies to enhance external viability

- **Policies to raise potential growth could enhance external viability.** These policies would help reverse the prolonged decline in the country's openness to trade, enhance competitiveness, and diversify the export base. Here, consolidating macroeconomic stability and accelerating structural reform are important, with the smooth execution of the program highly dependent on financial and technical assistance from donors.
- **Clearly, a recovery of the private sector will be required to sustain high growth.** In this regard, creating a more favorable environment for investment is critical. Key private sector reforms include updating forestry and mining legislation, fully implementing OHADA business laws, and combating corruption.
- **A medium-term fiscal strategy is becoming a high priority.** Such a strategy should be rooted in fiscal sustainability so that it can provide a sound basis for dealing with the anticipated scaling up of aid flows, and possible future borrowing in the sub-regional or domestic market.

Given the generally satisfactory implementation of the PRGF arrangement through end-June 2007, the staff supports the completion of the first review and the authorities' request for waiver of three quantitative and two structural performance criteria, and modification of the end-December 2007 targets, in light of the corrective actions taken and the authorities' commitment to achieve the policy objectives supported by the arrangement.

## I. BACKGROUND

1. **Over the past several decades political struggle and armed conflict have adversely affected domestic stability in the C.A.R., slowing growth and causing a deterioration of living standards.** The economy has also been buffeted by exogenous shocks, such as droughts and regional instability, and a long-term decline in the terms of trade that brought trade volumes down. The C.A.R. has thus made virtually no progress on achieving the Millennium Development Goals (MDGs), and the UNDP's human development index places the C.A.R. near the bottom of all countries (172nd of 177).

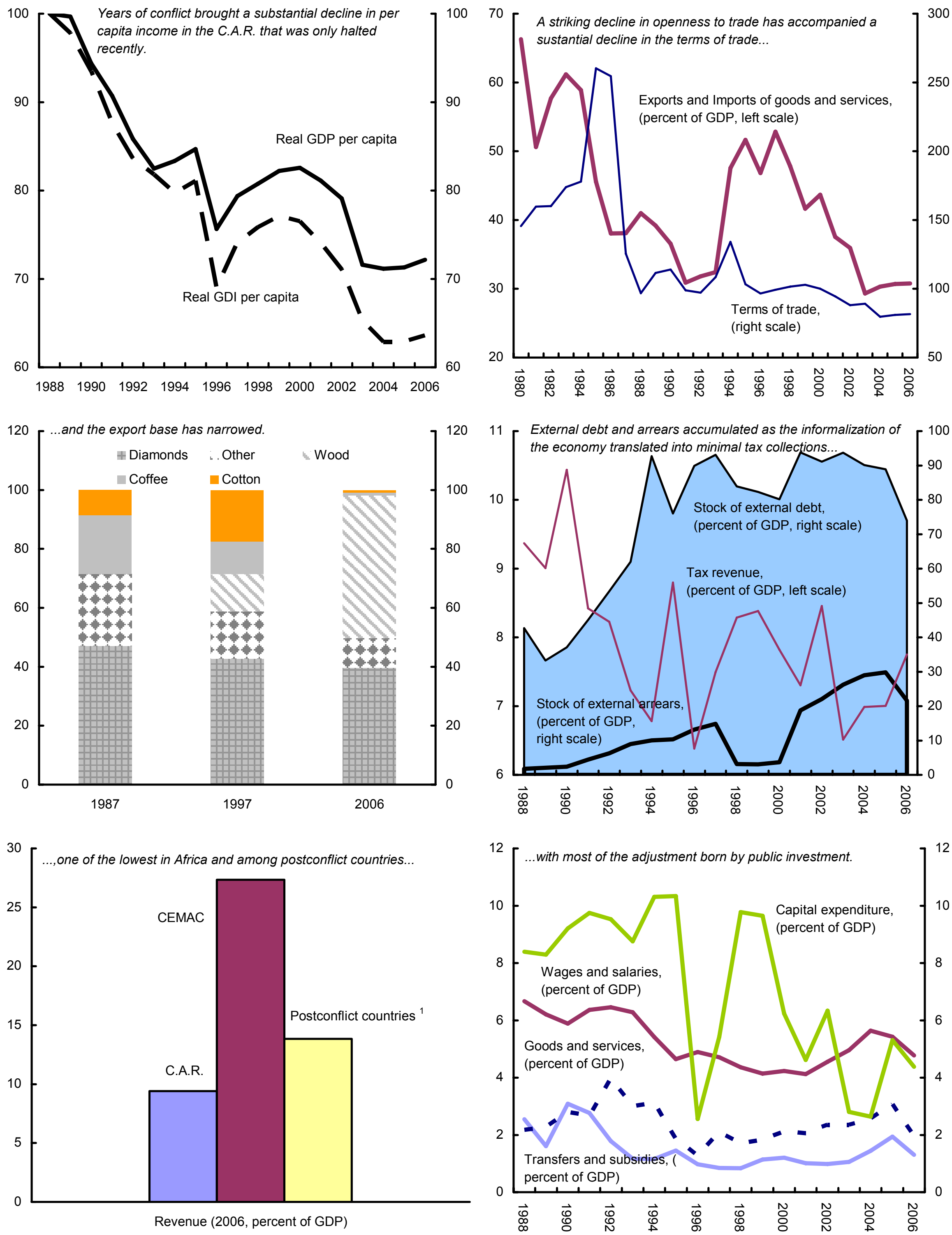
2. **The formal sector has been declining for years, making it hard to mobilize domestic revenue and leading to a significant accumulation of domestic and external public debt.** At about 8 percent of GDP, the C.A.R.'s tax revenue ratio is among the lowest for developing countries. At the end of 2006, the country's public and publicly-guaranteed external debt was estimated at US$ 726 million in NPV terms, equivalent to about 350 percent of exports of goods and services and 518 percent of government revenue; domestic debt was about 22.6 percent of GDP.

3. **A coup d'état in 2003 marked the end of generalized conflict and the beginning of economic and institutional recovery.** General Bozizé, the leader of the coup, later won free and fair elections in 2005. Since then, despite pockets of insecurity, the political and social situation has generally become more stable. This has allowed the government to focus on economic management—a critical element supporting recovery.

4. **Recent political and economic developments have encouraged the international financial community to reengage with the C.A.R.** The Fund provided Emergency Post-Conflict Assistance in July 2004 and January 2006 and approved a three-year PRGF arrangement in December 2006; arrears to the World Bank and the African Development Bank (AfDB) were cleared late last year. In March 2007, the Fund's Board also agreed that the country is eligible for enhanced Heavily Indebted Poor Countries (HIPC) Initiative debt relief and that it could reach the decision point when the first review of the PRGF arrangement is completed. The C.A.R. will qualify for the Multilateral Debt Relief Initiative (MDRI) once it reaches the HIPC completion point. In April 2007 the Paris Club agreed to reschedule its debt on Naples terms and to defer debt service during the program period (2007–09); the terms will improve to Cologne terms at the decision point.[1] In June 2007 a

[1] The staff understands that the authorities are making a good faith effort to reach a collaborative agreement with its other bilateral and commercial creditors; and it is expected that debt to these creditors will be rescheduled on terms at least as favorable as those granted by the Paris Club.

Figure 1. Central African Republic: Macroeconomic Indicators, 1988–2006




Source: C.A.R. authorities; and IMF staff estimates.

1/ Rep. of Congo, Mozambique, Sierra Leone, and Uganda, three years after the end of conflict.

donor roundtable provided feedback on a draft of the authorities' PRSP and committed to providing further financial assistance at a roundtable scheduled for October.

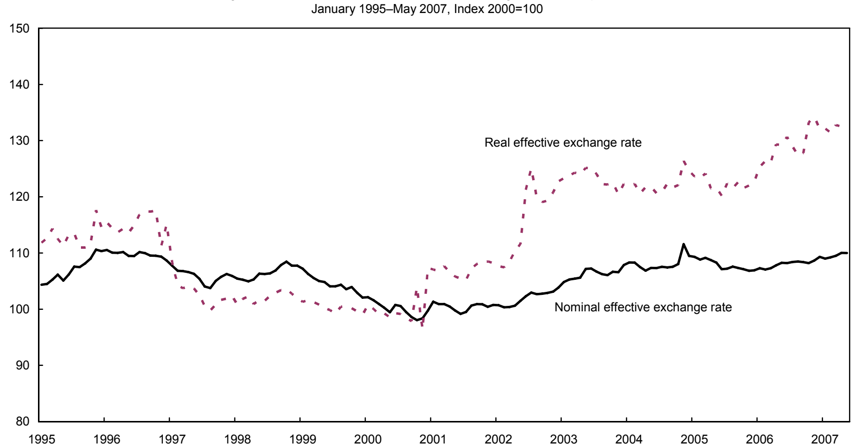
5. **The authorities have been receptive to the Fund's policy advice within the context of both Fund-supported programs and surveillance.** In line with this advice, the authorities have been making a determined effort to consolidate peace and security, establish the conditions for strong growth, and reverse deteriorating social conditions. Strong program ownership is also being demonstrated. However, with weak capacity and limited financial resources, the Board has also noted that the smooth implementation of the authorities' program is highly dependent on financial and technical assistance from donors.

## II. Recent Developments and Prospects

6. **After a slow start, the C.A.R.'s economic recovery is gathering strength.** Real GDP grew by 4.1 percent in 2006, compared with 1.3 percent in 2004 after the conflict ended. Private consumption and investment picked up, as did diamond and timber exports (Table 1). For the first time in years, agriculture made a modest contribution to growth with the resurgence of cash crops like cotton and coffee. Though inflation was relatively high in 2006, it has declined recently—the 12-month rate was 1.6 percent through June 2007—as food prices moderated.

7. **With strong export growth and higher official transfers related to recent external arrears clearance, the external current account deficit narrowed significantly, from about 6.5 percent of GDP in 2005 to 2.7 percent last year (Table 2).** Exports of wood products were particularly buoyant; they now account for nearly half of all exports (though this highlights the narrowness of the country's export base.) The growth of goods imports has not kept pace with that of exports, but the deficit in services trade (travel, freight, insurance) accounts for more than half of the recent current account deficit. Foreign direct investment is expanding slowly but is not sufficient to cover the C.A.R.'s balance of payments needs. Repayment of public debt continues to be a significant source of outflows; amortization of medium-term loans amounts to about 15 percent of goods exports. The real effective exchange rate (REER) appreciated by less than 3 percent in the 12 months through May 2007 because inflation was higher in the C.A.R. than in its trading partners (Figure 2).

Figure 2. Central African Republic: Effective Exchange Rate Developments, January 1995–May 2007, Index 2000=100




Source: Internatiomal Financial Statistics, IMF.

8. **The government's fiscal objectives for 2006 were achieved and performance was generally satisfactory in the first half of 2007 (Tables 3 and 4).** In 2006 current expenditures were slightly above budget due to exogenous factors (mainly high world oil prices and unanticipated military spending to address problems in the north), but they were offset by increased revenues resulting from government efforts to enhance tax and customs administration and by changes in some tax measures. The result was a domestic primary fiscal surplus of about 0.4 percent of GDP, in line with the budget, which allowed the government to clear 1.2 percent of GDP in domestic payments arrears accumulated in 2005. Control over current expenditure continues to be tight, but smooth execution of the budget has been adversely affected by the unpredictability of aid inflows; there was a 30 percent shortfall in budget and project disbursements during the first semester.[2] The unpredictability is linked to a number of factors: uncertainties over donor procedures, apparent changes in conditionality, and donors' concerns over governance and meeting conditionality. Though domestic revenue exceeded the authorities' target, there were some weaknesses in certain categories (customs, VAT), and the domestic primary surplus through end-June 2007 was lower than projected by 0.1 percent of GDP.[3]

**Central African Republic: Central Government Operations, 2006-07**
**(In billions of CFA francs, unless otherwise indicated)**

| | 2006 | 2007 | | |
|---|---|---|---|---|
| | | First semester | | Annual |
| | | Prog. | Actual | Proj. |
| Revenue | 164.8 | 63.1 | 60.2 | 131.5 |
| Domestic Revenue | 72.0 | 44.1 | 44.1 | 88.2 |
| Tax revenue | 60.3 | 37.5 | 34.2 | 71.2 |
| Nontax revenue | 11.7 | 6.6 | 9.9 | 17.0 |
| Grants | 91.5 | 18.8 | 16.1 | 43.3 |
| Program [1] | 67.9 | 7.7 | 8.0 | 21.3 |
| Project | 23.6 | 11.1 | 8.1 | 22.0 |
| Expenditure | -109.8 | -54.0 | -51.7 | -110.7 |
| Current primary expenditure | -62.5 | -34.2 | -34.2 | -68.6 |
| Wages and salaries | -37.2 | -17.5 | -17.7 | -35.0 |
| Transfers and subsidies | -10.2 | -7.1 | -7.3 | -16.9 |
| Goods and services | -15.2 | -9.6 | -9.2 | -16.7 |
| Interest due | -13.1 | -3.3 | -4.9 | -10.1 |
| External | -4.2 | -1.9 | -1.2 | -3.9 |
| Domestic | -8.9 | -1.4 | -3.7 | -6.2 |
| Capital expenditure | -34.1 | -16.6 | -12.5 | -32.0 |
| Domestically financed | -7.5 | -5.5 | -4.4 | -10.0 |
| Externally financed | -26.6 | -11.1 | -8.1 | -22.0 |
| Overall balance, commitment basis | | | | |
| Excluding grants | -36.5 | -9.8 | -7.6 | -22.5 |
| Of which: primary balance [2] | 3.3 | 4.7 | 5.5 | 9.6 |
| Including grants | 55.1 | 9.0 | 8.5 | 20.8 |
| Change in arrears (net; reduction -) | -50.0 | 0.0 | -4.8 | -18.1 |
| Domestic | -9.5 | 0.0 | -2.4 | -18.1 |
| External | -40.5 | 0.0 | -2.4 | 0.0 |
| Overall balance (cash basis) | 5.0 | 9.0 | 3.7 | 2.7 |
| Identified financing | -5.0 | -9.0 | -3.7 | -5.1 |
| External, net | -12.9 | -6.6 | -3.8 | -5.0 |
| Domestic, net | 7.9 | -2.4 | 0.1 | -0.1 |
| Of which: commercial banks | 4.2 | -2.0 | 0.6 | -2.0 |
| Residual financing need | 0.0 | ... | ... | 2.4 |

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] A portion of the program grants during the first semester (CFAF 2.5 billion) were tied to debt cancellation, and were not available for general budget support.
[2] Excludes interest payments, foreign-financed investment, and grants.

9. **The government completed the external audit of the domestic payments arrears, which accumulated during the period 1998-2004 (equivalent to about 11½ percent of GDP)**. A strategy for clearing these arrears is now

[2] Disbursements of program grants during the first semester amounted to CFAF 8 billion, of which CFAF 2.5 billion was tied to debt cancellation, leaving a shortfall of programmed budget support.

[3] The authorities attributed the weakness in customs and VAT collections to several factors: the recent harmonization of the VAT on basic consumption goods across the CEMAC region, which reduced the rate from 19 percent to 0 and had a higher-than-anticipated effect; a transport strike and plane crash that disrupted trade through the important Douala-Bangui corridor; and a shorter number of trading days in the month of May.

being discussed with stakeholders and the government is seeking foreign assistance to support this effort. For wage and pension arrears, the intention is to repay them over a ten-year period and consideration is being given to land swaps for arrears to civil servants; while for commercial creditors, the intention is to discount the amounts due in return for a shorter repayment period.

10. **Performance of the banking system has been mixed.** While the problem commercial bank has been recapitalized and now complies with all prudential requirements, the largest microfinance institution does not meet minimum capital requirements. As of June 2006, its minimum capital shortfall was about CFAF 66 million. This is being addressed by closing provincial branches to boost net income.

11. **The authorities are making progress on structural reform, although efforts to enhance tax and customs administration have not moved ahead as smoothly as envisaged.** Over the past year or so, to improve public expenditure management, the government has undertaken to eliminate fraud and duplication in the public sector payroll, establish a unified database for civil servants and military personnel, close a large number of Treasury commercial bank accounts, restrict issuance of Treasury checks, reduce the indiscriminate use of cash advances, and issue a decree on public accounting regulation. Tax administration reforms have been designed to enhance taxpayer compliance, strengthen the large taxpayer unit, and regularly audit domestic revenue sources, but more of the informal economy and unregistered enterprises need to be captured and exemptions eliminated. Reform of the customs administration included restructuring of all activities under a single entity, but problems with inadequate capacity still undermine performance. Other structural moves have been directed at enhancing governance and improving the business climate, improving the regulatory framework in the forestry and mining sector, addressing financial and commercial crime, and implementing the legal framework supported by OHADA.[4]

## A. Program Performance

12. **Through June 2007 policy implementation was broadly satisfactory.** The few slippages that did occur were mainly related to donor coordination problems and the government's decision—consistent with its obligations under the commercial law—to facilitate recapitalization of a systemically important commercial bank by a foreign investor. Three of the seven end-June quantitative performance criteria were not observed, for which the authorities are requesting waivers (Table 5):

- The government facilitated recapitalization of the troubled commercial bank by paying government-guaranteed liabilities of wholly state-owned enterprises to that

[4] OHADA is the Organization for the Harmonization of Business Laws in Africa, which provides a framework for common business law in 16 African countries with a French legal tradition.

bank, equivalent to CFAF 2.7 billion (about 0.3 percent of GDP). Because this transaction is recorded as a transfer, it lowered the domestic primary surplus to about 0.1 percent of GDP less than envisaged. The government reversed some of the impact of this transaction by cutting back capital expenditure, as the highly compressed budget provides for only minimal public services.

- This transaction and a delay in donor budget support did not allow for the planned net repayment by the government to the commercial banking system. Instead of repaying CFAF 2 billion (about 0.2 percent of GDP) at the end of June, the government borrowed CFAF 0.6 billion net.

- Wages and salaries were slightly above the program's performance criterion (CFAF 17.7 billion, compared with CFAF 17.5 billion targeted) because of unplanned compensation payments to retirees. Further retirements will require additional payments this year; the government will offset these outlays with savings on payroll to maintain the wage ceiling. The savings will come about through reclassifying jobs to resolve improper grading, reducing salaries where credentials cannot be justified, and eliminating unjustified benefits.

13. **To fully accommodate the fiscal impact of the government's decision to speed recapitalization of the commercial bank and account for additional domestic interest payments (equivalent to about 0.4 percent of GDP), the authorities are requesting modification of the related end-December performance criteria**.[5] These include (i) the floor on the domestic primary balance and (ii) the change in net claims of the commercial banking system on the government (see the Table attached to the Supplemental Letter of Intent). The authorities believe that the revised targets are consistent with their PRGF-supported policy objectives for this year, especially consolidation to allow some repayment of domestic debt, while giving them some fiscal room to maneuver. A further increase in nontax revenue from telecommunication fees is expected to provide enough resources to deliver the higher domestic primary surplus that is needed to cover the additional debt service this year.

14. **All of the structural conditions through end-June 2007 were observed, two with a delay for which the authorities are requesting waivers (Table 6).**[6] The external audit of the one-stop customs window was slowed by donor coordination problems, but the government financed it by itself to avoid further slippage. The external audit of domestic

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[5] The additional debt service is due to an earlier debt rescheduling with the central bank that was not accounted for in the budget for this year, and interest payments on new liabilities to commercial banks.

[6] The program includes a structural benchmark on the government refraining it from providing resources to recapitalize the troubled bank. As this bank has now been recapitalized by a foreign investor, this benchmark is no longer relevant and the authorities request that it be removed from the program.

payments arrears accumulated in 1998–2004 was slowed because the authorities were not clear about the procurement policies of some donors.

15. **During the review the authorities expressed concern about the delays in foreign budget support and the constraints of the adjustor for any shortfalls.**[7] The authorities, viewing the adjustor as potentially disruptive to smooth execution of the budget, suggested modifications to allow short-term borrowing from commercial banks. They do recognize the need to undertake fiscal adjustments to address the shortfalls in foreign financing, which may not be temporary, and their financing options are limited.[8] Authorities and staff agreed that, if necessary, any shortfalls in foreign budget support could be offset by slowing the execution of domestically financed capital expenditures, which is itself being affected by a downward revision to foreign project grants later this year (Table 3). For its part, the staff encouraged donors to better coordinate aid and the government to strengthen the lines of communication and dialogue with all donors, and ensure that its program commitments are fulfilled.

## B. Short-Term Outlook

16. **The short-term outlook is generally favorable and there is an upside risk, if the disbursement of aid inflows are higher than programmed this year:**

- It appears that positive momentum will continue in 2007, with real GDP growth of about 4 percent led by private investment in mining and telecommunications, net exports, and an improvement in rural incomes linked to intensification of some agricultural activities. Indeed, growth could even be higher if the aid inflows projected for earlier this year are disbursed; this would lead to higher public investment and boost aggregate demand.

- If food prices continue to moderate, inflation should fall to the CEMAC convergence criterion of 3 percent.

- The external current account deficit is likely to widen to about 4 percent of GDP, mainly because of lower official transfers (project-related grants).

- The government's 2007 fiscal objectives are achievable; the assumptions for aid flows in the revised program are on the conservative side.

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[7] The program provides for a downward adjustment to the floor on the domestic primary balance of up to CFAF 3 billion per quarter for any shortfall in programmed foreign grants or budget support, with a cumulative annual ceiling on the downward adjustment of CFAF 6 billion.

[8] As the C.A.R. is currently at the limit of its statutory advances from the central bank and there is no treasury bill market, the only domestic financing available is commercial bank borrowing with interest rates of 15–20 percent.

## III. Enhancing External Viability

17. **Because the C.A.R. is a member of CEMAC, the authorities recognize that they could enhance the external viability of the currency union through policies to raise growth, which could expand the country's tax base and allow it to meet its domestic and external obligations.** The development of the C.A.R. significantly lags its CEMAC partners (Figure 3). While high potential growth is not in general a precondition for domestic and external viability, in the case of the C.A.R. (and probably other post-conflict economies), high growth and poverty reduction policies are necessary to restore domestic stability and reduce risks that could affect the sustainability of the fixed exchange rate regime.

18. **The Article IV discussions therefore centered on the nexus between potential growth and external viability.** This comprised (i) an assessment of how consistent the government's medium-term growth and poverty reduction policies are with the stability of the CEMAC region, (ii) specific policies to promote growth, including measures to promote sub-regional integration, and (iii) the medium-term fiscal strategy for scaling up aid inflows and implementing the Poverty Reduction Strategy, which the authorities will complete shortly.

### A. Domestic and External Stability

19. **Over a long period, the C.A.R. openness to trade has been declining and its export base narrowing, contributing to chronic external current account deficits.** The authorities suggested that these deficits are not heavily influenced by movements in or the current level of the REER, which has been relatively stable for several years; the problem is the limited ability of the country to compete and to penetrate export markets. They viewed large external current account deficits as a consequence of misguided past policies, minimal national savings, poor quality of human capital, and inadequate infrastructure (in particular, roads and energy). The recent appreciation of the REER was a concern, especially since major exports are priced in US dollars, but they agreed with the staff assessment that the REER was probably in line with its fundamental determinants (Box 1), and it was noted that the real appreciation has coincided with the post-war improvement in economic conditions and prospects, including strong export growth.

20. **In 2006, gross official reserves declined by about US$17 million (from 10.6 to 7.3 months of import cover), something that could not be explained solely by the current account deficit.** The staff suggested that a significant narrowing of interest-rate differentials between the C.A.R. and the euro area (to which the CFA franc is fixed) may be providing incentives for capital outflows (Figure 4).[9] Instead, the authorities explained the recent behavior of net foreign assets in terms of weaknesses in capacity, and in particular the need to better control repatriation of export proceeds.

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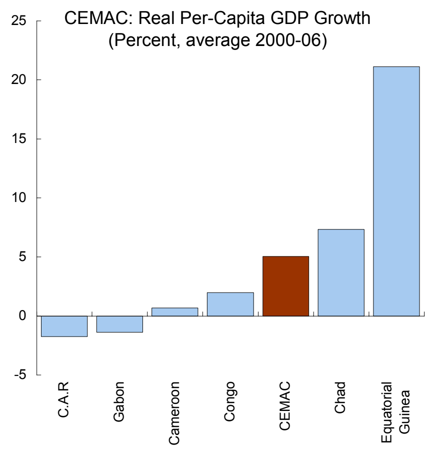
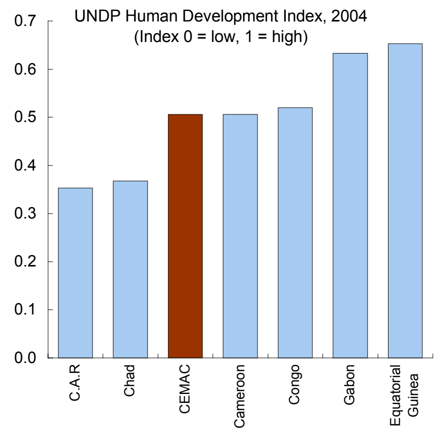
[9] The regional central bank, BEAC, sets a maximum lending rate and a minimum deposit rate for banks in the CEMAC region. However, because there are insufficient lending opportunities, bank deposit rates rarely deviate from the minimum.

**Figure 3. The Challenge of Development in the Central African Republic and CEMAC**

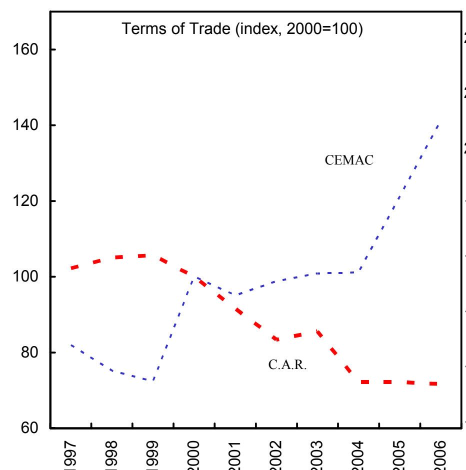
*Development in the C.A.R. has fallen futher behind its CEMAC partners...*



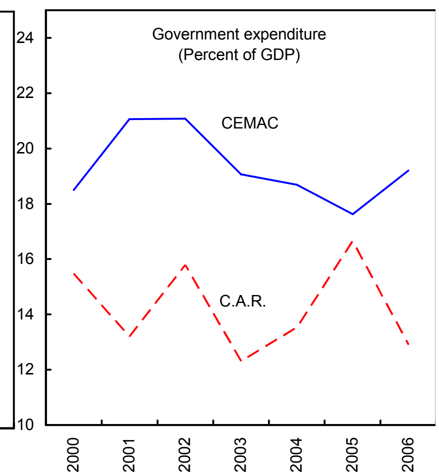

*...reflected in both weaker income and human development indicators.*




*The terms of trade have adversely affected the C.A.R.'s external position...*

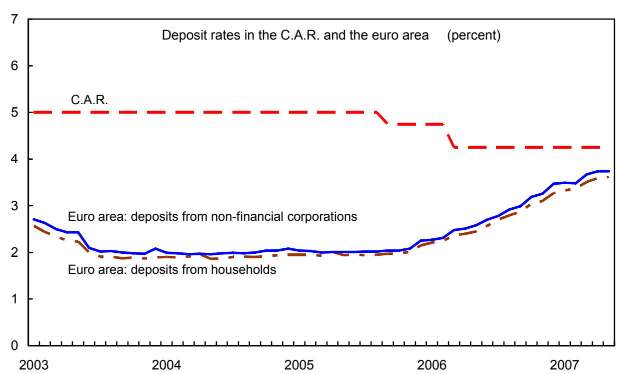


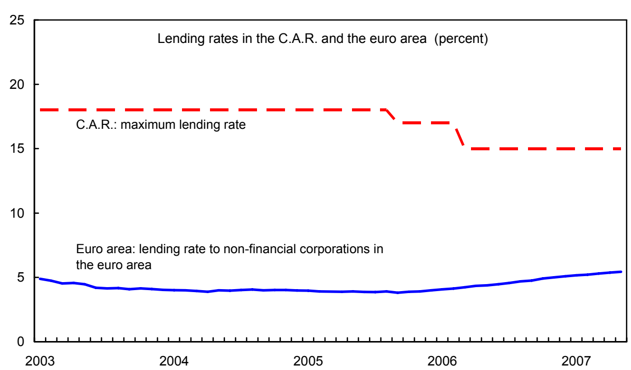

*...and compressed expenditures have provided limited support to growth.*




Sources: UNDP, Human Development Indicators, 2006; IMF, Direction of Trade Statistics; World Economic Outlook; and IMF staff estimates and projections.

Figure 4. Interest Rates in the C.A.R. and the Euro Area 1/




Source: C.A.R. authorities and European Central Bank
1/ For the euro area, period average rates. For the C.A.R., rates set by BEAC.

**Box 1. Actual and Equilibrium Real Effective Exchange Rates in the C.A.R**

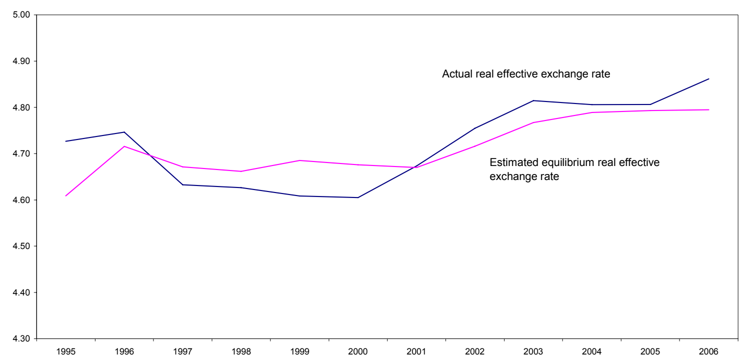
The staff examined the relationship between the C.A.R.'s REER and its long-term equilibrium level to test for significant misalignment, using the multivariate cointegration procedures developed by Johansen (1995). Using annual observations for 1980 through 2006, the study tests for a cointegrating (long-run) relationship between the REER, the terms of trade (TOT), openness to trade (OPEN), government consumption (GOVCY), technological progress (TPROG), and net foreign assets (NFAY):[1]

$$\ln(REER) = 0.9 \ln(TOT) - 0.1 \ln(OPEN) + 0.6 \ln(GOVCY) - 0.06\, TPROG + 0.01 NFAY$$

Except for *TPROG* all the variables have the expected sign, but *OPEN* and *NFAY* were found not to be statistically significant.

The results are consistent with those for the CEMAC region as a whole (see the recent staff report on Common Policies of Member Countries, June 2007): a period of deteriorating competitiveness before the 1994 devaluation of the CFA franc; improving competitiveness through 2001, and a deterioration in competitiveness since. At the end of 2006, the REER was above its estimated equilibrium, but the estimated deviation is not statistically significant.

Central African Republic: Actual and Equilibrium Real Effective Exchange Rates
(in natural logarithms)




Sources: International Financial Statistics, IMF; and Fund staff estimates and projections. The estimate of the equilibrium real effective exchange rate is based on the multivariate cointegration procedures developed by Johansen, Soren (1995), *Likelihood-based Inference in Cointegrated Vector Autoregressive Models*, Oxford University Press.

The strong export growth that took place in 2006 (15 percent increase in volumes), suggests that the REER has not been an obstacle in the short term. However, over the medium term, improving the C.A.R.'s international competitiveness will depend on removing a number of factors that raise business costs, such as the lack of an adequate road network, which is a key impediment in a land-locked country, costly freight and insurance charges, reflecting security concerns, problems with reliable energy, and the high cost of labor, which is influenced by relatively high public sector wages.

[1] This extends the analysis contained in Bakhache et al., "Assessing Competitiveness After Conflict: The Case of the Central African Republic," IMF Working Paper, WP/06/303.

## B. Accelerating Growth

21. **If the C.A.R. is to accelerate growth and regain competitiveness in international markets, domestic reform efforts must be complemented by scaled-up donor support to finance public investment in infrastructure and raise the quality and level of the labor force.** The medium-term growth strategy should also encompass measures to increase private sector development by, for example, enhancing the attractiveness of the C.A.R for foreign direct investment, improving the business climate, and making credit more widely available. In the short term, reviving the agriculture sector is important to alleviate poverty; the vast majority of the population live in rural areas and depend on food and cash crops and livestock for their livelihood.

## Medium-Term Fiscal Strategy

22. **The authorities agreed that a medium-term fiscal strategy is becoming urgent as they prepare to implement their PRS and anticipate scaled-up aid inflows.** The staff believe the strategy should be rooted in fiscal sustainability so that it can provide a basis for possible future borrowing in the sub-regional or domestic market. The baseline for the medium-term fiscal strategy that underlies the PRGF arrangement projects an increase in tax revenue to GDP to about 9.5 percent by 2009 and an unchanged expenditure envelope, given the financial constraints facing the C.A.R. During the discussions, it was understood that this baseline did not reflect the country's substantial needs (see next sub-section).

**Central African Republic: Medium Term Fiscal Framework 2007-10**
**(in percent of GDP, unless otherwise indicated)**

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Total Revenue | 15.8 | 14.1 | 14.3 | 14.0 |
| Tax revenue | 8.6 | 9.1 | 9.5 | 9.8 |
| Non tax revenue | 2.0 | 1.7 | 1.8 | 1.8 |
| Grants | 5.2 | 3.3 | 3.0 | 2.5 |
| Total Expenditure | -13.3 | -13.6 | -13.8 | -14.3 |
| Current Expenditure | -9.4 | -9.0 | -9.0 | -9.3 |
| Capital Expenditure | -3.8 | -4.6 | -4.8 | -4.9 |
| Overall deficit (exc. grants, commitment basis) | -2.7 | -2.7 | -2.5 | -2.7 |
| of which: narrow primary balance [1] | 1.2 | 1.1 | 1.1 | 1.0 |
| Change in arrears (reduction -) | -2.2 | -1.5 | -1.5 | -0.6 |
| Overall deficit (including grants, cash basis) | 0.3 | -0.9 | -1.0 | -0.9 |
| Financing | -0.6 | 0.4 | 0.2 | -1.1 |
| External | -1.6 | -1.2 | -1.1 | -0.7 |
| Domestic | 0.0 | -0.3 | -0.5 | -0.5 |
| Exceptional financing | 1.0 | 2.0 | 1.9 | 0.0 |
| Remaining financing gap (after grants, deficit) | 0.3 | 0.5 | 0.7 | 2.0 |

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] Excludes interest payments, foreign-financed investment and grants

23. **Staff stressed that the relatively low revenue ratio and recent unpredictability of aid inflows heightened the importance of enhancing efforts to mobilize more domestic revenue.**[10] Here, the discussions centered on several measures that could yield significant resources, such as broadening the tax base by capturing more of the informal sector, ensuring that all enterprises are registered, eliminating exemptions (which amount to about 0.8 percent of GDP), and improving taxation of the mining and forestry sectors; intensifying the audit of medium and large taxpayers; imposing heavy sanctions for noncompliance (tax arrears amount to about 3 percent of GDP); and rationalizing petroleum-related taxes. A recent FAD technical assistance report concluded that reform of the current petroleum-pricing regime, part of the authorities' program, could provide additional revenue of 0.7–1.8 percent of GDP, with the range reflecting choices between tax efficiency and equity.[11]

24. **The authorities recognized the need to further reorient spending and control it tightly to enhance the credibility and effectiveness of public finances.** Nonetheless, they stressed that the current provision for growth-enhancing and poverty-reducing social spending is well below what is needed to make progress toward the MDGs. They noted also that there is growing public impatience with delays in the government's plans for clearing

[10] An assessment of the country's debt sustainability using the LIC-DSA framework (provided in Annex III of the joint Fund-Bank Enhanced Heavily Indebted Poor Countries Initiative—Decision Point Document) indicates that the C.A.R.'s public debt is sustainable, provided that the envisaged improvement in domestic revenue mobilization and (domestic) debt reduction materialize.

[11] The authorities intend to implement a new petroleum-product pricing formula with parameters set to ensure full recovery of all costs, distribution margins, and taxes—one that avoids the need for further budget subsidies (an end-December 2007 structural performance criterion).

domestic payments arrears (accumulated during 1998–2004), and that private sector development is unlikely to take place until dilapidated infrastructure is rehabilitated. Acknowledging the difficult financial environment facing the C.A.R., staff urged the authorities to accelerate efforts to strengthen public financial management (in particular, treasury operations and cash-flow management, implementing the new budget nomenclature, and better controlling payrolls); push to reach the HIPC completion point to benefit from debt relief as soon as possible; and finalize the PRSP to ensure a firm foundation for soliciting donor assistance in the roundtable planned for late October of this year.

**Tapping Financial Markets**

25. **The authorities took the opportunity to clarify their intentions concerning the possibility of accessing the CEMAC financial market on commercial terms by issuing bonds, as some countries in the West African Economic and Monetary Union are doing.**[12] The authorities explained that issuing bonds could help improve debt sustainability by refinancing C.A.R. domestic bank debt on more favorable terms, and to complement donor resources to finance the country's vast investment needs. The staff acknowledged that refinancing relatively high cost commercial bank debt with this bond could improve debt sustainability, but that the amounts envisaged under the authorities' proposal went well beyond this, with adverse implications for the fiscal position. The staff and the authorities agreed to revisit this issue at a later stage, and in the meantime, the authorities indicated that they would not proceed with this proposal.[13]

**Scaling Up Aid Inflows**

26. **The authorities estimate that achieving annual growth of about 7–8 percent over the medium term would require US$1.25 billion (about 75 percent of GDP) in aid over the period 2008-10.**[14] Their priority infrastructure projects are to improve the road network that links the country with transit points for merchandise, which would reduce the transportation costs associated with international trade; construct roads to open up the interior of the country, the isolation of which inhibits the development of the agricultural sector; rehabilitate the electrical utility (only 3 percent of the population has access to electricity); and extend the supply of potable water and sanitation facilities to the interior, which would have a predictable impact on the health of the poorest among of the population.

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[12] The authorities envisaged an initial bond offering of CFAF 45 billion (about 0.5 percent of GDP), with an interest rate of about 8 percent per annum, which is lower than the interest charges on statutory advances from the central bank (10 percent) and short-term borrowing from commercial banks (15-20 percent).

[13] Also, the staff encouraged the authorities to seek technical assistance to better understand the modalities of such borrowing, and to enhance debt management to ensure its consistency with debt sustainability.

[14] In late October 2007, the C.A.R. government will present its finalized PRSP at a donor roundtable. The financial assistance pledged during this roundtable will be an important input both for planning the 2008 budget and for the medium-term growth strategy.

27. **While staff did not challenge the estimates of aid needed to finance priority investment projects, it did raise concerns about capacity constraints.** Staff noted that the authorities' resource requirements were about 12 times the amount of donor assistance committed this year and stressed that the pace of scaling up would need to take account of the country's absorptive capacity in terms of both macroeconomic and institutional constraints (see Box 2). On the macroeconomic side, the "speed limit" would be set by how quickly the productive capacity of the country could grow; if the limit is exceeded, internal disequilibrium would follow, probably in the form of much higher inflation that would hit the poor and the vulnerable hardest. On the institutional side, the country would need to build sufficient administrative and implementation capacity to spend scaled-up inflows productively. The authorities acknowledged these capacity constraints and indicated their intention to address them in their PRSP.

**Box 2. The Medium-Term Outlook and Capacity Constraints**

While there is little doubt about the need for scaling up aid inflows to accelerate growth and alleviate poverty in the C.A.R., there is some question about the pace of inflows. The authorities estimate that financing the PRSP over 2008–10 would require aid inflows about 12 times the amount of foreign disbursements projected for 2007.

Clearly, the pace of scaling up will be limited by absorptive capacity. During the discussions, the authorities' "dynamic medium-term scenario" was assessed alongside the staff's alternative and "capacity-constrained scenario." There were some important differences.

In the authorities' scenario, growth accelerates from 8.4 percent in 2008 to 11.4 percent in 2010, largely from a substantial increase in public investment; indeed, the public-investment to GDP ratio rises from less than 10 percent currently to above 30 percent. The staff scenario has GDP growth increasing moderately to about 6½ percent over the medium term, supported by a much smaller increase in public investment.

To derive the capacity constrained scenario, the staff considered (i) the potential supply response to additional capital accumulation using an aggregate production function, (ii) scope for (and limits to) expanding human capital (given the limited supply of skilled labor), and (iii) broad institutional capacity. The experience of other sub-Saharan countries with scaling up also provided guidance; for nearly all of all these countries, capacity constraints led to only a gradual rise in the investment-GDP ratio, which is reflected in the staff's scenario.

Central African Republic: Alternative Medium-Term Scenarios

| | Baseline scenario (PRGF arrangement) | | | Authorities' scenario ("dynamic") | | | Alternative scenario (capacity constrained) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Real GDP growth 1/ | 4.2 | 4.5 | 4.2 | 8.5 | 9.7 | 11.4 | 5.3 | 5.9 | 6.5 |
| Investment 2/ | 10.1 | 10.4 | 10.5 | 23.8 | 28.3 | 31.4 | 13.4 | 13.5 | 15.0 |
| Public | 3.4 | 3.6 | 3.7 | 17.8 | 22.0 | 24.7 | 4.9 | 5.3 | 6.3 |
| Private 3/ | 6.6 | 6.8 | 6.8 | 6.0 | 6.3 | 6.7 | 8.5 | 8.1 | 8.7 |
| Fiscal revenue | 10.8 | 11.3 | 11.6 | 11.4 | 12.3 | 12.9 | 11.3 | 12.0 | 12.6 |
| Current expenditure 2/ | 9.0 | 9.0 | 9.3 | 10.7 | 11.4 | 12.0 | 9.5 | 9.8 | 10.3 |
| Foreign aid 2/ | 3.6 | 3.5 | 3.2 | 13.8 | 20.2 | 29.7 | 5.0 | 5.1 | 5.7 |

1/ Annual percentage change.
2/ Percent of GDP.
3/ Alternative scenario reflects projected increases in foreign direct investment.

### Improving the Business Climate

28. **The shortage of national savings and the limitations of the labor force heighten the need for a business-friendly environment to create incentives for private sector development and to attract foreign direct investment.** The authorities are well aware of this challenge and, with the assistance of development partners like the World Bank, have responded to a number of perceived shortcomings, such as the lack of consultations with stakeholders on such policy issues as reform of customs, restructuring of the petroleum sector, and telecommunications regulations; transparency in policy implementation (for example, in the growth-critical natural resource sector); the high cost of doing business; and the need to enhance governance and combat corruption. Actions to address these shortcomings include establishing a permanent framework for consultation with the private sector (chaired by the Prime Minister); setting up a one-stop window in the Chamber of Commerce to ease regulatory red tape; reinforcing regulation of forestry and mining activities to remove discretion and ensure transparency and legal security; drafting a procurement code that incorporates international best practices; fully adopting the OHADA business laws and providing adequate resources to the Ministry of Justice to fight commercial and financial crime; and resolving problems with recent legislation to reform the petroleum-product sector (which could adversely affect supply and prospective investment), and increasing the sector's fiscal contribution.

29. **The discussions also highlighted the importance of making credit available to the private sector.** Currently, about two-thirds of all domestic credit is extended to the government, which is an attractive client because it is willing to pay relatively high interest (15–20 percent a year) and has no longstanding arrears to commercial banks; also nonperforming loans of the government or its enterprises do not require provisioning. The authorities agreed that there are few incentives for the commercial banks to seek private sector business or to assess private sector risks. An FSAP country module for the C.A.R. to be undertaken shortly will be an opportunity for World Bank and Fund staff to discuss measures to address these issues fully.

### Intensifying Sub-Regional Integration

30. **The authorities informed the staff of their close involvement in a number of sub-regional initiatives and institutional reforms that could enhance growth in the CEMAC area.** From the C.A.R. perspective, the most important are

- Efforts to facilitate the free movement of goods and people, liberalization of services by reducing non-tariff barriers, introducing a CEMAC passport, and harmonizing business regulations;

- Investment in sub-regional infrastructure (transportation, telecommunications, energy); and

- Reform of the central bank and improvements in liquidity management by replacing statutory advances with treasury bills and moving to a single treasury account at the central bank for each CEMAC member.

The staff encouraged the authorities to pursue these initiatives vigorously with their CEMAC partners: closer integration could help the C.A.R. diversify its export base in an expanding market; rehabilitating the sub-regional infrastructure could enhance competitiveness by reducing transportation costs; and a move to treasury bills could reduce costs and help alleviate the government's cash-flow concerns. Moreover, the C.A.R. would not be expected to provide additional financing for these initiatives beyond the current community integration tax. [15]

31. **While recognizing the importance of regional integration, the staff also encouraged the authorities to move with its CEMAC partners to lower barriers to trade**. The staff noted that both the Diagnostic Trade Integration Study and the World Trade Organization's Report on the C.A.R.'s trade policies stressed the distortions caused by the relatively high common external tariff (CET). With an average applied tariff of 18.2 percent, the CET is much higher than in the rest of sub-Saharan Africa. In addition, the C.A.R. applies a derogation to the community's free trade arrangement that allows it to treat imports of selected products from CEMAC partners as originating outside the sub-region. In the staff's view, rationalizing and lowering tariff barriers on a wider front could be an important step to gain access to regional as well as global markets.

### Capacity Building

**32. The authorities recognize that smooth implementation of their financial and economic reform program relies heavily on timely and effective technical assistance from development partners.** During the discussions, staff and authorities took stock of the technical assistance being provided (some through the Central AFRITAC) to identify overlap and ensure that priority needs are being covered. There was agreement that further assistance is required to accelerate public financial management, and tax and customs administration reform (Table 9).[16]

## IV. Staff Appraisal

33. **In 2006, real GDP growth reached its highest level in a decade—a clear sign that the authorities' efforts to consolidate peace and security, pursue macroeconomic stabilization, and undertake structural reform are paying off, even as financial**

[15] In addition to the community integration tax, financing will also come from oil revenue from the five oil-producing members.

[16] FAD will shortly undertake a technical assessment mission and provide recommendations in each of these areas.

**conditions continue to be difficult.** The recent reengagement of the international financial community has helped, but foreign aid has been unpredictable and insufficient.

34. **Delays in foreign assistance have made it harder for the authorities to implement the economic and financial program supported by Fund resources, but they are demonstrating a firm resolve to achieve their policy objectives.** However**,** ownership alone is not sufficient for a smooth and successful program. To grow enough to effectively fight poverty, the country must invest heavily to rebuild its physical and human capital. This will require substantial donor resources in support of the country's reform efforts. And it must build capacity, also with technical assistance, to better absorb scaled-up aid.

35. **Clearly, a recovery of private sector activity will be required to sustain higher growth.** In this regard, creating a more favorable environment for investment is critical. Key private sector reforms include updating forestry and mining legislation, fully implementing OHADA business laws, and combating corruption. The goal should be to discuss policy options and issues fully with stakeholders to ensure transparency about intentions and objectives, design measures that reflect best practice, and implement them in a fair and consistent manner.

36. **In the current economic and financial environment, the authorities must remain vigilant in expenditure control and move more aggressively to better mobilize domestic resources**. On spending, there is little room to maneuver. Unfortunately, any shortfalls in financing must be met by slowing the execution of capital expenditure, with adverse medium-term consequences for growth and poverty reduction. On domestic revenue, there is scope for collecting more but tough political decisions will be necessary to broaden the tax base and restructure some taxes (particularly for petroleum products).

37. **Continuing structural reform is critical to enhancing competitiveness, given the CEMAC's fixed exchange rate regime.** While the REER appears broadly in line with its fundamental determinants a significant upward movement could harm C.A.R. competitiveness.

38. **Intensifying sub-regional integration would help leverage the benefits of strong CEMAC performance and create opportunities for the C.A.R. to enhance its competitiveness**. The free movement of people and goods, the removal of nontariff barriers to trade, and upgrading subregional infrastructure will help the C.A.R. overcome the disadvantages of being landlocked and help it access an expanding market. But regional relations should not come at the expense of global integration and the opening of the C.A.R. and its CEMAC partners to all exports.

39. The staff recommends completion of the first review of the PRGF arrangement, the financing assurances review, disbursement of the second loan in an amount equivalent to SDR 3.1 million, and supports the authorities' request for waivers of three quantitative and two structural performance criteria and modification of two quantitative performance criteria

(for end-December 2007), in light of the corrective actions taken and the authorities' commitment to achieving the policy objectives supported by the arrangement.

40. It is recommended that the next Article IV consultation with the Central African Republic be held on the 24-month consultation cycle in accordance with Decision No. 12794-(02/76) of July 15, 2002, as amended.

**Table 1. Central African Republic: Selected Economic and Financial Indicators, 2004–09**

| | 2004 | 2005 | 2006 | 2007 | | 2008 | 2009 |
|---|---|---|---|---|---|---|---|
| | | | Est. | Prog. [1] | Proj. | Proj. | |
| | (Annual percentage change, unless otherwise indicated) | | | | | | |
| National income and prices | | | | | | | |
| GDP at constant prices | 1.3 | 2.2 | 4.1 | 4.0 | 4.0 | 4.3 | 4.5 |
| GDP at current prices | -0.6 | 4.7 | 8.0 | 6.5 | 6.6 | 6.9 | 7.0 |
| GDP deflator | -1.9 | 2.4 | 3.8 | 2.5 | 2.5 | 2.5 | 2.5 |
| Consumer prices | | | | | | | |
| Yearly average | -2.2 | 2.9 | 6.7 | 3.1 | 3.0 | 2.3 | 2.4 |
| Central government finance | | | | | | | |
| Total revenue and grants [2] | 23.1 | 12.2 | 87.2 | 25.3 | -20.2 | -4.3 | 8.6 |
| Total expenditure | 9.2 | 28.9 | -8.8 | 10.6 | 0.8 | 9.2 | 8.9 |
| Money and credit | | | | | | | |
| Net domestic assets [3] | 12.0 | 10.4 | 6.0 | 1.1 | 3.0 | ... | ... |
| Domestic credit | 13.6 | 9.8 | 7.5 | 1.8 | 1.9 | ... | ... |
| Broad money | 14.2 | 16.5 | -4.2 | 7.1 | 9.2 | ... | ... |
| Velocity of broad money (end of period) | 6.3 | 5.6 | 6.4 | 5.8 | 6.2 | ... | ... |
| External sector | | | | | | | |
| Exports, f.o.b. (US$ basis) | -0.5 | 1.5 | 22.8 | 7.1 | 18.3 | 6.8 | 7.4 |
| Export volume | -1.6 | -8.1 | 15.1 | 6.2 | 14.8 | 6.1 | 6.7 |
| Imports, f.o.b. (US$ basis) | 17.0 | 8.9 | 18.3 | 10.8 | 7.1 | 12.4 | 5.4 |
| Import volume | 15.7 | 8.2 | 11.3 | 8.3 | 3.4 | 10.2 | 4.1 |
| Terms of trade (US$ basis) | -7.7 | 2.8 | 0.4 | -1.4 | -0.5 | -1.3 | -0.6 |
| Nominal effective exchange rate | 1.7 | -0.2 | 0.2 | ... | ... | ... | ... |
| Real effective exchange rate | -0.9 | 0.7 | 4.1 | ... | ... | ... | ... |
| | (percent of GDP, unless otherwise indicated) | | | | | | |
| Gross national savings | 4.4 | 2.3 | 6.2 | 7.1 | 4.9 | 5.2 | 5.7 |
| *Of which:* current official transfers | 0.6 | 1.9 | 1.2 | 1.8 | 1.4 | 1.4 | 0.0 |
| Gross domestic savings | 0.1 | 0.2 | 1.1 | 3.1 | 2.2 | 2.3 | 2.9 |
| Government | 0.6 | 0.0 | 10.9 | 5.7 | 5.9 | 4.4 | 4.5 |
| Private sector | -0.5 | 0.2 | -9.8 | -2.6 | -3.7 | -2.1 | -1.6 |
| Consumption | 99.9 | 99.8 | 98.9 | 96.9 | 97.8 | 97.7 | 97.1 |
| Government | 3.2 | 4.4 | 3.0 | 3.2 | 3.0 | 3.7 | 4.0 |
| Private sector | 96.6 | 95.4 | 95.9 | 93.8 | 94.9 | 94.0 | 93.1 |
| Gross investment | 6.1 | 8.8 | 8.8 | 9.7 | 9.1 | 10.1 | 10.4 |
| Government | 2.0 | 4.0 | 3.3 | 3.5 | 2.9 | 3.4 | 3.6 |
| Private sector | 4.1 | 4.9 | 5.6 | 6.2 | 6.2 | 6.6 | 6.8 |
| Current transfers and factor income (net) | 4.3 | 2.1 | 5.1 | 4.0 | 2.7 | 2.9 | 2.8 |
| External current account balance | -1.7 | -6.5 | -2.7 | -2.6 | -4.1 | -4.8 | -4.7 |
| Overall balance of payments | -2.8 | -1.1 | 3.0 | -1.4 | -0.3 | -1.7 | -1.8 |
| Central government finance | | | | | | | |
| Total revenue and grants | 11.4 | 12.2 | 21.1 | 15.1 | 15.8 | 14.1 | 14.3 |
| Total expenditure | -13.5 | -16.7 | -14.1 | -13.4 | -13.3 | -13.6 | -13.8 |
| Overall balance (commitment basis) | | | | | | | |
| Excluding grants | -5.5 | -8.5 | -4.7 | -3.1 | -2.7 | -2.7 | -2.5 |
| Including grants | -2.2 | -4.5 | 7.0 | 1.7 | 2.5 | 0.6 | 0.5 |
| Domestic primary balance [4] | -2.7 | -3.5 | 0.4 | 1.1 | 1.2 | 1.1 | 1.1 |
| Basic balance [5] | -3.9 | -4.4 | -1.3 | 0.3 | -0.1 | 0.3 | 0.4 |
| Net present value of external public and publicly-guaranteed debt [6] | ... | ... | 350.0 | 463.8 | 294.7 | 278.8 | 266.5 |
| Government domestic debt [7] | ... | ... | 22.6 | ... | 19.3 | 16.7 | 13.5 |
| Gross official foreign reserves | | | | | | | |
| (millions of US$, end-of-period) | 148.4 | 147.1 | 129.9 | 148.1 | 135.1 | 139.4 | 143.9 |
| (in months of imports, f.o.b.) | 11.2 | 10.6 | 7.3 | 9.5 | 7.4 | 6.8 | 6.7 |
| Nominal GDP (billions of CFA francs) | 690.6 | 723.0 | 781.0 | 827.9 | 832.5 | 890.0 | 952.7 |
| Exchange rate (average; CFA francs per US$) | 528.3 | 527.5 | 522.9 | ... | ... | ... | ... |

Sources: C.A.R. authorities; and IMF staff estimates and projections.

[1] Program supported by the Poverty Reduction and Growth Facility, approved in December 2006 (Country Report No. 07/73).

[2] The differences in growth rates between the program and projections for 2007 reflect the different base used in their calculation. For the program, the calculation is based on a figure for 2006 which did not include the arrears clearance operations of the World Bank and African Development Bank undertaken in December 2006; this operation is included in the projection for 2007.

[3] In percent of broad money at beginning of the period.

[4] Excludes grants, interest payments, and externally financed capital expenditure.

[5] Excludes grants and externally financed capital expenditure.

[6] In percent of exports of goods and services.

[7] Comprises domestic arrears and government debt to BEAC and commercial banks.

**Table 2. Central African Republic: Balance of Payments, 2004–09**

| | 2004 | 2005 | 2006 | 2007 | | 2008 | 2009 |
|---|---|---|---|---|---|---|---|
| | | | Est. | Prog. [1] | Proj. | Proj. | |
| | | | | (billions of CFA francs) | | | |
| Current account | -11.8 | -47.3 | -20.7 | -21.5 | -34.5 | -43.1 | -45.2 |
| Balance on goods | -11.3 | -22.9 | -23.8 | -16.7 | -15.8 | -22.9 | -22.1 |
| Exports, f.o.b. | 66.7 | 67.5 | 82.4 | 78.8 | 94.1 | 100.0 | 107.1 |
| *Of which* : diamonds | 27.8 | 32.8 | 32.7 | 35.2 | 34.5 | 36.3 | 37.7 |
| wood products | 28.8 | 25.8 | 39.9 | 30.6 | 45.9 | 48.9 | 51.1 |
| Imports, f.o.b. | -78.1 | -90.3 | -106.2 | -95.5 | -109.8 | -123.0 | -129.1 |
| Petroleum products | -17.8 | -17.7 | -26.0 | -28.4 | -26.3 | -29.5 | -30.6 |
| Public investment program | -3.9 | -11.2 | -13.9 | -6.9 | -11.5 | -17.2 | -17.7 |
| Other | -56.3 | -61.4 | -66.3 | -60.2 | -72.0 | -76.3 | -80.8 |
| Services (net) | -30.1 | -39.6 | -37.0 | -38.0 | -41.6 | -46.2 | -49.8 |
| Income (net) | -0.9 | -1.1 | -2.1 | -0.4 | -1.9 | -1.5 | -1.1 |
| *Of which:* interest due on public debt | -5.6 | -3.7 | -4.5 | -4.3 | -4.5 | -4.1 | -3.7 |
| *Of which* : interest on Paris Club debt | -1.3 | -0.2 | -0.8 | -1.1 | -1.1 | -1.4 | -1.7 |
| Current transfers (net) | 30.5 | 16.2 | 42.2 | 33.5 | 24.8 | 27.5 | 27.7 |
| Capital account | 18.5 | 15.4 | 82.1 | 25.5 | 31.8 | 16.5 | 16.4 |
| Project grants [2] | 3.8 | 12.7 | 14.2 | 13.2 | 10.5 | 11.5 | 11.4 |
| Program grants | 14.8 | 2.7 | 67.9 | 12.3 | 21.3 | 5.0 | 5.0 |
| Financial account | -26.3 | 24.0 | -38.2 | -15.5 | 0.0 | 11.7 | 11.5 |
| Public sector (net) | -14.6 | -4.5 | -12.9 | -13.2 | -13.1 | -11.1 | -10.7 |
| Project disbursements | 2.6 | 3.2 | 3.0 | 0.0 | 0.0 | 2.8 | 4.0 |
| Program disbursements | 0.0 | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Scheduled amortization | -17.2 | -11.8 | -15.9 | -13.2 | -13.1 | -13.9 | -14.7 |
| Private sector (net) | -11.7 | 28.6 | -25.3 | -2.3 | 13.0 | 22.8 | 22.1 |
| Errors and omissions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -19.5 | -7.9 | 23.2 | -11.5 | -2.7 | -14.8 | -17.3 |
| Identified financing | 19.5 | 7.9 | -23.2 | 9.1 | 0.3 | 10.1 | 10.3 |
| Net official reserves movements [3] | 1.4 | -9.6 | 17.3 | -8.0 | -7.8 | -7.6 | -7.9 |
| Net IMF credit | 3.1 | -2.6 | 2.2 | -4.3 | -4.2 | -5.8 | -6.0 |
| Purchases and loans | 4.4 | 0.0 | 5.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayments (cash basis) | -1.3 | -2.6 | -3.1 | -4.3 | -4.2 | -5.8 | -6.0 |
| Other reserves (increase –) | -1.8 | -7.1 | 15.1 | -3.7 | -3.5 | -1.8 | -2.0 |
| Exceptional financing | 18.2 | 17.5 | -40.5 | 17.1 | 8.1 | 17.7 | 18.2 |
| Debt rescheduling | ... | ... | 0.0 | 17.1 | 8.1 | 17.7 | 18.2 |
| Paris Club [4] | | | | ... | 1.5 | 1.5 | 1.6 |
| Other exceptional financing [5] | | | | ... | 6.6 | 16.2 | 16.6 |
| Debt payments arrears (negative sign indicates reduction) [6] | 18.2 | 17.5 | -40.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Residual financing need 7/ | 0.0 | 0.0 | 0.0 | 2.4 | 2.4 | 4.7 | 7.1 |
| *Memorandum items:* | | | | | | | |
| | | (Annual percentage change, unless otherwise indicated) | | | | | |
| Terms of trade (US$ basis) | -7.7 | 2.8 | 0.4 | -1.4 | -0.5 | -1.3 | -0.6 |
| Unit price of exports (US$ basis) | 0.2 | 10.4 | 6.7 | 0.8 | 3.1 | 0.7 | 0.7 |
| Unit price of imports (US$ basis) | 8.6 | 7.4 | 6.3 | 2.3 | 3.6 | 2.0 | 1.3 |
| Gross official reserves | | | | | | | |
| (billions of CFA francs, end-of-period) | 72.6 | 79.6 | 64.5 | 75.3 | 68.0 | 69.9 | 71.8 |
| (in months of imports, f.o.b.) | 11.2 | 10.6 | 7.3 | 9.5 | 7.4 | 6.8 | 6.7 |
| Current account (in percent of GDP) | -1.7 | -6.5 | -2.7 | -2.6 | -4.1 | -4.8 | -4.7 |

Sources: C.A.R. authorities; and IMF staff estimates and projections.

[1] Program supported by the Poverty Reduction and Growth Facility, approved in December 2006 (Country Report No. 07/73).

[2] A portion (52.5 percent) of project grants is included under current transfers to reflect funds for technical assistance, expatriate military pensions, and UN programs.

[3] Based on definitions consistent with the IMF's *Balance of Payments Manual* (5th ed.).

[4] Reflects Paris Club rescheduling and moratorium agreement in April 2007.

[5] For 2007 the amount corresponds to the financing required to service external debt falling due to external creditors other than the IMF, World Bank, AfDB, and Paris Club. For 2008-09 it also includes debt service to World Bank and AfDB.

[6] Reflects the arrears clearance by the World Bank and the AfDB (CFAF 47.5 billion) and the increase in arrears to bilateral and a few multilateral creditors (CFAF 6.9 billion).

[7] This gap is equivalent to the proposed PRGF disbursement.

**Table 3. Central African Republic: Central Government Operations, 2004–09**
**(billions of CFA francs, unless otherwise indicated)**

| | 2004 | 2005 | 2006 | 2007 | | 2008 | 2009 |
|---|---|---|---|---|---|---|---|
| | | | Est. | Prog. [1] | Proj. | Proj. | |
| Revenue | 78.5 | 88.0 | 164.8 | 125.3 | 131.5 | 125.9 | 136.6 |
| Tax revenue | 48.3 | 50.6 | 60.3 | 71.2 | 71.2 | 81.3 | 90.9 |
| Direct taxes | 15.6 | 14.7 | 17.5 | 19.7 | 19.7 | 22.9 | 25.8 |
| Indirect domestic taxes | 22.1 | 26.4 | 27.7 | 34.1 | 34.1 | 38.1 | 42.2 |
| Taxes on international trade | 10.6 | 9.5 | 15.2 | 17.4 | 17.4 | 20.4 | 22.9 |
| *Of which:* taxes on imports | 7.1 | 7.0 | 11.7 | 11.4 | 11.4 | 13.0 | 13.9 |
| Nontax revenue | 7.5 | 8.0 | 12.9 | 14.0 | 17.0 | 15.3 | 16.7 |
| Grants | 22.7 | 29.5 | 91.5 | 40.1 | 43.3 | 29.3 | 29.0 |
| Program | 14.8 | 2.7 | 67.9 | 12.3 | 21.3 | 5.0 | 5.0 |
| Project | 7.9 | 26.7 | 23.6 | 27.8 | 22.0 | 24.3 | 24.0 |
| Expenditure | -93.4 | -120.4 | -109.8 | -110.9 | -110.7 | -120.9 | -131.6 |
| Current primary expenditure | -66.7 | -75.4 | -62.5 | -65.9 | -68.6 | -73.4 | -79.8 |
| Wages and salaries | -38.9 | -39.2 | -37.2 | -35.0 | -35.0 | -34.0 | -33.1 |
| Transfers and subsidies | -10.0 | -14.0 | -10.2 | -14.2 | -16.9 | -16.8 | -19.7 |
| Goods and services | -17.8 | -22.2 | -15.2 | -16.7 | -16.7 | -22.6 | -27.0 |
| Interest due | -8.5 | -6.6 | -13.1 | -6.6 | -10.1 | -6.6 | -6.3 |
| External | -5.5 | -3.6 | -4.2 | -3.9 | -3.9 | -3.6 | -3.4 |
| Domestic [2] | -3.0 | -3.0 | -8.9 | -2.7 | -6.2 | -3.0 | -2.9 |
| Capital expenditure | -18.2 | -38.4 | -34.1 | -38.4 | -32.0 | -40.8 | -45.5 |
| Domestically financed | -7.7 | -8.4 | -7.5 | -10.6 | -10.0 | -13.7 | -17.5 |
| Externally financed | -10.5 | -29.9 | -26.6 | -27.8 | -22.0 | -27.1 | -28.0 |
| Overall balance, commitment basis | | | | | | | |
| Excluding grants | -37.7 | -61.8 | -36.5 | -25.7 | -22.5 | -24.3 | -24.0 |
| *Of which:* domestic primary balance [3] | -18.6 | -25.3 | 3.3 | 8.7 | 9.6 | 9.4 | 10.3 |
| Including grants | -15.0 | -32.4 | 55.1 | 14.4 | 20.8 | 5.0 | 5.0 |
| Change in arrears (net; negative sign indicates reduction) | 21.1 | 26.9 | -50.0 | -18.1 | -18.1 | -13.4 | -14.5 |
| Domestic | 2.9 | 9.4 | -9.5 | -18.1 | -18.1 | -13.4 | -14.5 |
| External [4] | 18.2 | 17.5 | -40.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, cash basis | 6.1 | -5.5 | 5.0 | -3.7 | 2.7 | -8.4 | -9.4 |
| Identified financing | -6.1 | 5.5 | -5.0 | 1.3 | -5.1 | 3.7 | 2.4 |
| External, net | -14.6 | -4.5 | -12.9 | 3.9 | -5.0 | 6.6 | 7.5 |
| Project loans | 2.6 | 3.2 | 3.0 | 0.0 | 0.0 | 2.8 | 4.0 |
| Program loans | 0.0 | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization due | -17.2 | -11.8 | -15.9 | -13.2 | -13.1 | -13.9 | -14.7 |
| Exceptional financing | 0.0 | 0.0 | 0.0 | 17.1 | 8.1 | 17.7 | 18.2 |
| Paris Club [5] | ... | ... | ... | ... | 1.5 | 1.5 | 1.6 |
| Other [6] | ... | ... | ... | ... | 6.6 | 16.2 | 16.6 |
| Domestic, net | 8.5 | 10.0 | 7.9 | -2.6 | -0.1 | -2.9 | -5.2 |
| Banking system | 8.5 | 10.0 | 7.9 | -2.6 | -0.1 | -2.9 | -5.2 |
| Bank of Central African States | 9.9 | 7.6 | 3.7 | 1.8 | 1.9 | -2.1 | -4.2 |
| Counterpart to IMF resources | 3.1 | -2.6 | 2.2 | -4.3 | -4.2 | -5.8 | -6.0 |
| Other | 6.7 | 10.2 | 1.5 | 6.1 | 6.1 | 3.7 | 1.8 |
| Commercial banks | -1.4 | 2.4 | 4.2 | -4.4 | -2.0 | -0.9 | -1.0 |
| Residual financing need [7] | 0.0 | 0.0 | 0.0 | 2.4 | 2.4 | 4.7 | 7.1 |

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] Program supported by the Poverty Reductioin and Growth Facility, approved in December 2006 (Country Report No. 07/73).
[2] Increase in 2006 reflects the capitalization of unpaid interest due to change in BEAC accounting rules.
[3] Excludes grants, interest payments, and externally financed capital expenditure.
[4] Reflects arrears clearance by the World Bank and the AfDB (CFAF 47.5 billion) and the increase in arrears to bilateral and a few multilateral creditors (CFAF 6.9 billion).
[5] Reflects Paris Club rescheduling and moratorium agreement in April 2007.
[6] For 2007 the amount corresponds to the financing required to service external debt falling due to external creditors other than the IMF, World Bank, AfDB, and Paris Club. For 2008-09 it also includes debt service to the World Bank and AfDB.
[7] This gap is equivalent to the proposed PRGF disbursement.

**Table 4. Central African Republic: Central Government Operations, 2004–09**
**(Percent of GDP)**

| | 2004 | 2005 | 2006 | 2007 | | 2008 | 2009 |
|---|---|---|---|---|---|---|---|
| | | | Est. | Prog. [1] | Proj. | Proj. | |
| Revenue | 11.4 | 12.2 | 21.1 | 15.1 | 15.8 | 14.1 | 14.3 |
| Tax revenue | 7.0 | 7.0 | 7.7 | 8.6 | 8.6 | 9.1 | 9.5 |
| Direct taxes | 2.3 | 2.0 | 2.2 | 2.4 | 2.4 | 2.6 | 2.7 |
| Indirect domestic taxes | 3.2 | 3.6 | 3.5 | 4.1 | 4.1 | 4.3 | 4.4 |
| Taxes on international trade | 1.5 | 1.3 | 1.9 | 2.1 | 2.1 | 2.3 | 2.4 |
| *Of which:* taxes on imports | 1.0 | 1.0 | 1.5 | 1.4 | 1.4 | 1.5 | 1.5 |
| Nontax revenue | 1.1 | 1.1 | 1.7 | 1.7 | 2.0 | 1.7 | 1.8 |
| Grants | 3.3 | 4.1 | 11.7 | 4.8 | 5.2 | 3.3 | 3.0 |
| Program | 2.1 | 0.4 | 8.7 | 1.5 | 2.6 | 0.6 | 0.5 |
| Project | 1.1 | 3.7 | 3.0 | 3.4 | 2.6 | 2.7 | 2.5 |
| Expenditure | -13.5 | -16.7 | -14.1 | -13.4 | -13.3 | -13.6 | -13.8 |
| Current primary expenditure | -9.7 | -10.4 | -8.0 | -8.0 | -8.2 | -8.3 | -8.4 |
| Wages and salaries | -5.6 | -5.4 | -4.8 | -4.2 | -4.2 | -3.8 | -3.5 |
| Transfers and subsidies | -1.4 | -1.9 | -1.3 | -1.7 | -2.0 | -1.9 | -2.1 |
| Goods and services | -2.6 | -3.1 | -1.9 | -2.0 | -2.0 | -2.5 | -2.8 |
| Interest due | -1.2 | -0.9 | -1.7 | -0.8 | -1.2 | -0.7 | -0.7 |
| External | -0.8 | -0.5 | -0.5 | -0.5 | -0.5 | -0.4 | -0.4 |
| Domestic [2] | -0.4 | -0.4 | -1.1 | -0.3 | -0.7 | -0.3 | -0.3 |
| Capital expenditure | -2.6 | -5.3 | -4.4 | -4.6 | -3.8 | -4.6 | -4.8 |
| Domestically financed | -1.1 | -1.2 | -1.0 | -1.3 | -1.2 | -1.5 | -1.8 |
| Externally financed | -1.5 | -4.1 | -3.4 | -3.4 | -2.6 | -3.0 | -2.9 |
| Overall balance, commitment basis | | | | | | | |
| Excluding grants | -5.5 | -8.5 | -4.7 | -3.1 | -2.7 | -2.7 | -2.5 |
| *Of which:* domestic primary balance [3] | -2.7 | -3.5 | 0.4 | 1.1 | 1.2 | 1.1 | 1.1 |
| Including grants | -2.2 | -4.5 | 7.0 | 1.7 | 2.5 | 0.6 | 0.5 |
| Change in arrears (net; negative sign indicates reduction) | 3.1 | 3.7 | -6.4 | -2.2 | -2.2 | -1.5 | -1.5 |
| Domestic | 0.4 | 1.3 | -1.2 | -2.2 | -2.2 | -1.5 | -1.5 |
| External [4] | 2.6 | 2.4 | -5.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, cash basis | 0.9 | -0.8 | 0.6 | -0.4 | 0.3 | -0.9 | -1.0 |
| Identified financing | -0.9 | 0.8 | -0.6 | 0.2 | -0.6 | 0.4 | 0.2 |
| External, net | -2.1 | -0.6 | -1.7 | 0.5 | -0.6 | 0.7 | 0.8 |
| Project loans | 0.4 | 0.4 | 0.4 | 0.0 | 0.0 | 0.3 | 0.4 |
| Program loans | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization due | -2.5 | -1.6 | -2.0 | -1.6 | -1.6 | -1.6 | -1.5 |
| Exceptional financing | 0.0 | 0.0 | 0.0 | 2.1 | 1.0 | 2.0 | 1.9 |
| Paris Club [5] | | | | ... | 0.2 | 0.2 | 0.2 |
| Other [6] | | | | ... | 0.8 | 1.8 | 1.7 |
| Domestic, net | 1.2 | 1.4 | 1.0 | -0.3 | 0.0 | -0.3 | -0.5 |
| Banking system | 1.2 | 1.4 | 1.0 | -0.3 | 0.0 | -0.3 | -0.5 |
| Bank of Central African States | 1.4 | 1.1 | 0.5 | 0.2 | 0.2 | -0.2 | -0.4 |
| Counterpart to IMF resources | 0.5 | -0.4 | 0.3 | -0.5 | -0.5 | -0.7 | -0.6 |
| Other | 1.0 | 1.4 | 0.2 | 0.7 | 0.7 | 0.4 | 0.2 |
| Commercial banks | -0.2 | 0.3 | 0.5 | -0.5 | -0.2 | -0.1 | -0.1 |
| Residual financing need [7] | 0.0 | 0.0 | 0.0 | 0.3 | 0.3 | 0.5 | 0.7 |

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] Program supported by the Poverty Reduction and Growth Facility, approved in December 2006 (Country Report No. 07/73).
[2] Increase in 2006 reflects the counterpart for the unpaid interest due to change in BEAC accounting rules.
[3] Excludes grants, interest payments, and externally financed capital expenditure.
[4] Reflects arrears clearance by the World Bank and the AfDB (CFAF 47.5 billion) and the increase in arrears to bilateral and a few multilateral creditors (CFAF 6.9 billion).
[5] Reflects Paris Club rescheduling and moratorium agreement in April 2007.
[6] For 2007 the amount corresponds to the financing required to service external debt falling due to external creditors other than the IMF, World Bank, AfDB, and Paris Club. For 2008-09 it also includes debt service to the World Bank and AfDB.
[7] This gap is equivalent to the proposed PRGF disbursement.

**Table 5. Quantitative Performance Criteria and Benchmarks Under the PRGF Arrangement, 2007**

(billions of CFA francs; cumulative from December 31, 2006; ceilings, unless otherwise indicated)

| | End-Mar. Benchmark | | End-June Performance Criteria | | End-Sept. Benchmark | | End-Dec. Performance Criteria | |
|---|---|---|---|---|---|---|---|---|
| | Obj. (adj.) | Actual | Obj. (adj.) | Actual | Obj. | Modified obj. | Obj. | Modified obj. |
| Floor on total government revenue [1] | 21.3 | 20.1 | 42.1 | 44.1 | 61.2 | 61.2 | 81.0 | 81.0 |
| Wages, salaries, and bonuses [2] | 8.8 | 6.1 | 17.5 | 17.7 | 26.3 | 26.3 | 35.0 | 35.0 |
| Floor on domestic primary balance [3] | 5.5 | 0.9 | 6.9 | 5.5 | 6.4 | 7.6 | 8.7 | 9.6 |
| Accumulation of new government domestic arrears on wages and goods and services [4] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in net claims of the commercial banking system on the government | -1.0 | 2.2 | -2.0 | 0.6 | -3.0 | -1.0 | -4.4 | -2.0 |
| New nonconcessional external debt [5 6] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accumulation of government external payments arrears [6] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Indicative targets:* | | | | | | | | |
| NPV of external debt | ... | ... | ... | | ... | ... | 457.9 | 457.9 |
| Floor on poverty-related spending [7] | 3.1 | 4.0 | 6.1 | 8.1 | 9.2 | 9.2 | 12.3 | 12.3 |
| Domestic payments arrears [8] | 0.0 | -1.1 | 0.0 | -2.7 | -9.1 | -9.1 | -18.1 | -18.1 |

[1] Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, TMU, for more details).
[2] Including withholding taxes on government salaries (see TMU).
[3] The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally financed capital expenditures. Adjustors equivalent to CFAF 3 billion and CFAF 2.2 billion were applied for the first and second quarter respectively to reflect shortfalls in expected donor assistance (see the TMU).
[4] Wage arrears (including unpaid pensions and bonuses) and arrears on goods and services, excluding arrears on utility consumption. Arrears on goods and services include unpaid spending commitments to suppliers as well as deposit accounts of enterprises in the Treasury.
[5] Contracted or guaranteed by the government (see the TMU).
[6] These performance criteria will be monitored continuously.
[7] Total spending on health and education including wages and salaries and goods and services.
[8] Amount paid in first quarter of 2007 corresponds to arrears accrued in 2005. Targets for end-September and end-December consist of payment of arrears accumulated during 1998–2004 and predating 1998. As of end-June 2007, these arrears amounted to CFAF 109.8 billion and were validated by the Domestic Validation Committee and an external audit.

**Table 6. Structural Performance Criteria and Benchmarks Under the PRGF Arrangement, 2007**

| Measure | Date | Status |
|---|---|---|
| **Structural performance criteria** | | |
| • Complete the external audit of the operations of the one-stop customs window in Douala (*Guichet Unique)*. | end-February | Implemented with a delay |
| • Restructure (in consultation with Fund staff) the customs administration activities under a single entity, which will report to the Minister of Finance. | end-March | Implemented |
| • Implement a formal procedure to audit and report on a quarterly basis all sources of revenue (tax and non-tax, including those for fees, licenses, and permits in the natural resource sector) accruing to the State. The audits should be carried out by the Inspector General of Finance who will be given access to all relevant information to conduct the audits, and submitted to the Court of Accounts for verification and publication, no later than 2 months after the end of each quarter. The first of such audits should be published by May 2007. | end-March | Implemented |
| • Complete the external audit for the validation of the domestic payments arrears, which accrued during the period 1998-2004. | End-June | Implemented with a delay |
| • Eliminate the stock of treasury checks issued in 2005-06 and eliminate the issuance of non-cash backed treasury checks. The government will publicly announce that such treasury checks will no longer be valid after end-September 2007. | End-June | Implemented |
| • Begin an external audit of all the sources of government revenue (collected through ministries and agencies) during the period July-2005 to end-December 2006, to help ensure that all revenue has been dutifully reported to the state treasury, and to help clarify where reporting can be strengthened. | End-September | ... |
| • Implement a new petroleum product pricing formula with parameters set to ensure full recovery of all costs, distribution margins, and taxes, and that avoids the need for further budget subsidies. | End-December | ... |
| • Reduce the stock of tax arrears by at least CFAF 1 billion, net of uncollectible tax arrears. | End-December | ... |
| **Structural benchmarks** | | |
| • The government will refrain from providing resources to recapitalize the troubled commercial bank. | Continuous | Observed |
| • Reform commercial laws and civil procedures relating to debt collection and bankruptcy in line with the recommendations in the regional Financial Stability Assessment Program completed in June 2006. | End-December | ... |

**Table 7. Central African Republic: Monetary Survey, 2004–07**

| | 2004 | 2005 | 2006 | 2007 | |
|---|---|---|---|---|---|
| | | | Est. | Prog.[1] | Proj. |
| | (billions of CFA francs, at end of period) | | | | |
| Net foreign assets | 49.5 | 56.2 | 43.0 | 55.7 | 50.6 |
| Bank of Central African States (BEAC) | 51.4 | 59.7 | 43.6 | 58.3 | 51.2 |
| Operations account | 69.6 | 77.0 | 61.6 | 70.9 | 63.5 |
| Use of IMF credit | -21.2 | -20.0 | -21.0 | -17.1 | -16.8 |
| Other | 3.0 | 2.6 | 2.9 | 4.4 | 4.5 |
| Commercial banks | -1.9 | -3.5 | -0.6 | -2.6 | -0.6 |
| Net domestic assets | 60.7 | 72.2 | 80.0 | 88.1 | 83.7 |
| Domestic credit | 115.4 | 126.1 | 135.7 | 117.8 | 138.0 |
| Credit to the public sector | 60.2 | 72.0 | 79.3 | 55.7 | 79.3 |
| Credit to central government (net) | 62.9 | 74.2 | 80.9 | 56.3 | 80.9 |
| BEAC | 58.7 | 67.7 | 70.1 | 56.7 | 72.1 |
| Current account | 25.1 | 32.1 | 36.2 | 39.3 | 40.3 |
| Consolidated loans | 14.6 | 17.2 | 18.4 | 18.4 | 18.4 |
| IMF (net) | 21.2 | 20.0 | 21.0 | 17.1 | 16.8 |
| Deposits | -2.2 | -1.6 | -5.4 | -18.1 | -3.4 |
| Commercial banks | 4.2 | 6.6 | 10.8 | -0.4 | 8.8 |
| Credit to other public agencies (net) | -2.7 | -2.2 | -1.6 | -0.6 | -1.6 |
| Credit to the economy | 55.2 | 54.1 | 56.4 | 62.0 | 58.8 |
| Public enterprises | 6.7 | 5.6 | 5.2 | 5.1 | 4.7 |
| Private sector | 48.4 | 48.5 | 51.3 | 57.0 | 54.1 |
| Other items (net) | -54.6 | -53.9 | -55.7 | -29.7 | -54.4 |
| Money and quasi–money | 110.2 | 128.4 | 123.0 | 143.7 | 134.3 |
| Currency | 81.3 | 89.9 | 80.9 | 94.1 | 84.0 |
| Deposits | 28.9 | 38.6 | 42.0 | 49.6 | 50.3 |
| Demand deposits | 16.4 | 23.8 | 24.5 | 30.7 | 31.1 |
| Term and savings deposits | 12.5 | 14.7 | 17.5 | 18.9 | 19.2 |
| *Memorandum items:* | | | | | |
| Net domestic assets of the central bank | 32.3 | 38.6 | 40.1 | 46.0 | 37.1 |
| Monetary base | 83.7 | 98.3 | 83.7 | 102.6 | 86.7 |
| Nominal GDP | 690.6 | 723.0 | 781.0 | 827.9 | 832.5 |
| Velocity (GDP/broad money) | | | | | |
| End of period | 6.3 | 5.6 | 6.4 | 5.8 | 6.2 |
| | (Annual change, in percent of beginning period broad money) | | | | |
| Net foreign assets | 2.2 | 6.1 | -10.3 | 6.0 | 6.2 |
| Net domestic assets | 12.0 | 10.4 | 6.0 | 1.1 | 3.0 |
| Net domestic credit | 13.6 | 9.8 | 7.5 | 1.8 | 1.9 |
| Net credit to central government | 7.9 | 10.3 | 5.2 | -1.9 | 0.0 |
| Credit to the economy | 6.0 | -1.0 | 1.8 | 3.8 | 1.9 |
| Money and quasi–money | 14.2 | 16.5 | -4.2 | 7.1 | 9.2 |
| | (Annual percentage change) | | | | |
| Monetary base | 15.3 | 17.4 | -14.8 | 1.6 | 3.6 |
| Credit to the economy | 11.6 | -1.9 | 4.3 | 8.8 | 4.1 |
| Public enterprises | -20.2 | -16.2 | -8.3 | -10.0 | -10.0 |
| Private sector | 18.2 | 0.1 | 5.8 | 10.9 | 5.6 |

Sources: C.A.R. authorities; and IMF staff estimates and projections.

[1] Program supported by the Poverty Reduction and Growth Facility, approved in December 2006 (Country Report No. 07/73).

## Table 8. Central African Republic: Millennium Development Goals, 1990–2005

| | 1990 | 1995 | 2000 | 2005 |
|---|---|---|---|---|
| Goal 1. Eradicate extreme poverty and hunger. | | | | |
| **Target 1:** Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. | | | | |
| 1. Population below US$1 a day (percent) | ... | 66.6 | ... | ... |
| 2. Poverty gap ratio at US$1 a day (percent) | ... | 38.1 | ... | ... |
| 3. Share of income or consumption held by poorest 20 percent (percent) | ... | 2.0 | ... | ... |
| **Target 2**: Halve, between 1990 and 2015, the proportion of people suffering from hunger. | | | | |
| 4. Prevalence of child malnutrition (percent of children under 5) | ... | 23.2 | 24.3 | ... |
| 5. Population below minimum level of dietary energy consumption (percent) | 50.0 | 52.0 | ... | 44.0 |
| Goal 2. Achieve universal primary education. | | | | |
| **Target 3:** Ensure that, by 2015, children will be able to complete a full course of primary schooling. | | | | |
| 6. Net primary enrollment ratio (percent of relevant age group) | 52.0 | ... | ... | ... |
| 7. Percent of cohort reaching grade 5 | 23.0 | ... | ... | ... |
| 8. Youth literacy rate (percent ages 15–24) | 52.1 | ... | ... | 59.0 |
| Goal 3. Promote gender equality and empower women. | | | | |
| **Target 4:** Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by 2015. | | | | |
| 9. Ratio of girls to boys in primary and secondary education (percent) | 58.9 | ... | 65.0 | 65.0 |
| 10. Ratio of young literate females to males (percent, ages 15-24) | 60.1 | ... | ... | 67.0 |
| 11. Share of women employed in the nonagricultural sector (percent) | 30.4 | ... | ... | ... |
| 12. Proportion of seats held by women in the national parliament (percent) | 4.0 | 4.0 | 7.0 | 11.0 |
| Goal 4. Reduce child mortality. | | | | |
| **Target 5:** Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate | | | | |
| 13. Under-5 mortality rate (per 1,000) | 168.0 | 180.0 | 193.0 | 193.0 |
| 14. Infant mortality rate (per 1,000 live births) | 102.0 | 107.0 | 115.0 | 115.0 |
| 15. Immunization against measles (percent of children under 12 months) | 83.0 | 46.0 | 36.0 | 35.0 |
| Goal 5. Improve maternal health. | | | | |
| **Target 6:** Reduce by three-fourth between 1990 and 2015, the maternal mortality ratio. | | | | |
| 16. Maternal mortality ratio (modeled estimate, per 100,000 live births) | ... | ... | 1,100 | ... |
| 17. Proportion of births attended by skilled health personnel | ... | 45.9 | 44.0 | ... |

**Table 8. Central African Republic: Millennium Development Goals, 1990–2005 (concluded)**

| | 1990 | 1995 | 2000 | 2005 |
|---|---|---|---|---|
| Goal 6. Combat HIV/AIDS, malaria, and other diseases. | | | | |
| **Target 7**: Halt by 2015, and begin to reverse, the spread of HIV/AIDS | | | | |
| 18. HIV prevalence among females (percent, ages 15-24) | ... | ... | ... | 7.3 |
| 19. Contraceptive prevalence rate (percent of women ages 15-49) | ... | 14.8 | 28.0 | ... |
| 20. Number of children orphaned by HIV/AIDS | ... | ... | ... | ... |
| **Target 8:** Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases | | | | |
| 21. Prevalence of death associated with malaria | ... | ... | ... | ... |
| 22. Share of population in malaria risk areas using effective prevention and treatment | ... | ... | ... | ... |
| 23. Incidence of tuberculosis (per 100,000 people) | 117.0 | 205.0 | 280.0 | 314.0 |
| 24. Tuberculosis cases detected under DOTS (percent) | ... | 61.0 | 9.0 | 40.0 |
| Goal 7. Ensure environmental sustainability | | | | |
| **Target 9:** Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources. | | | | |
| 25. Forest area (percent of total land area) | 37.3 | ... | 37.3 | 37.3 |
| 26. Nationality protected areas (percent of total land area) | ... | ... | ... | 16.6 |
| 27. GDP per unit of energy use (PPP $ per kg oil equivalent) | ... | ... | ... | ... |
| 28. CO2 emissions (metric tons per capita) | 0.1 | 0.1 | 0.1 | 0.1 |
| 29. Proportion of population using solid fuels | ... | ... | ... | ... |
| **Target 10:** Halve by 2015 proportion of people without access to safe drinking water. | | | | |
| 30. Access to improved water source (percent of population) | 52.0 | ... | ... | 75.0 |
| **Target 11:** Achieve by 2020 significant improvement for at least 100 million slum dwellers | | | | |
| 31. Access to improved sanitation (percent of population) | 23.0 | ... | ... | 27.0 |
| 32. Access to secure tenure (percent of population) | ... | ... | ... | ... |
| Goal 8. Develop a Global Partnership for Development [1] | | | | |
| **Target 16.** Develop and implement strategies for productive work for youth | | | | |
| 45. Unemployment rate of population ages 15-24 (total) | ... | ... | ... | ... |
| **Target 17:** Provide access to affordable essential drugs | | | | |
| 46. Proportion of population with access to affordable essential drugs | ... | ... | ... | ... |
| **Target 18:** Make available new technologies, especially information and communications | | | | |
| 47. Fixed line and mobile telephones (per 1,000 people) | 2 | 2 | 4 | 27 |
| 48. Personal computers (per 1,000 people) | ... | ... | 2 | 3 |

Sources: World Bank, World Development Indicators database, 2007.

[1] Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC initiative.

**Table 9. Central African Republic: Technical Assistance Needs in the Fund's Core Areas**

**Public expenditure management**

- Implementation of the new accounting classification.
- Prevention of extra-budgetary and discretionary spending.
- Improving cash management through: limiting the use of cash advances; requiring prior authorization to execute payment orders; better control of public spending in the provinces; and reconciling revenue data (from all collection agencies and by tax type) with the treasury accounts.
- Treasury reforms, including: closing all unnecessary accounts in commercial banks and restoring the Treasury's control over all remaining accounts, in anticipation of a move to a single Treasury account; and accounting fully for all government tax collections and receipts.
- Regularize revenue repatriation from local/regional governments to the central government.
- Establishing a medium-term expenditure framework.

**Tax administration**

- Update the list of large enterprises and increase the intensity of audits to reduce tax evasion.
- Expand the coverage of taxpayer identification numbers to broaden the tax base.
- Develop measures to further strengthen tax compliance and the recovery of tax arrears.

**Customs administration**

- Implement the new customs administration structure and strengthen procedures and enforcement, as outlined in the government's action plan.
- Implement the recommendations of the audit of the Guichet Unique to strengthen its capacity.

**Statistics**

- Assessment of the overall (economic) statistics database.
- Reestablish capacity in public accounting and source data production.
- Reconcile debt service data with Treasury accounts.
- Examine sector classification and rebase national income accounts, develop quarterly expenditure-based accounts, and update consumer price index.
- Improve data on non-traditional exports, foreign direct investment, and services.
- Enhance the consistency between the balance of payments and national accounts.

Bangui, September 7, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431
USA

Dear Managing Director:

1. The authorities of the Central African Republic appreciate the international financial community's ongoing efforts to provide much needed financial and technical assistance in a coordinated effort to consolidate peace and security, support our economic and financial reform program, and rehabilitate the economic infrastructure.

2. The Fund's assistance under the Poverty Reduction and Growth Facility (PRGF) arrangement has been particularly helpful; in facilitating a recent debt rescheduling with Paris Club creditors on highly favorable terms, and paving the way for the Central African Republic to reach the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This initiative is critical to alleviating the external debt burden, which is weighing heavily on our financial position.

3. The implementation of our program has been challenging so far, partly because it will take time to strengthen institutional and administrative capacity. Furthermore, a lower level of programmed aid inflows has had adverse implications for program performance, although we have taken the necessary measures to try to offset the decline in these resources to ensure that our overall fiscal policy objectives continue to be achieved.

4. To complete the first review of our Fund-supported program, we are requesting the waiver of three quantitative performance criteria at end-June 2007.

- Wages and salaries exceeded slightly the program target (CFAF 17.7 billion, compared with CFAF 17.5 billion), because of some unbudgeted compensation payments to retirees. We anticipate further retirements and additional compensation payments, implying a further small increase in the wage bill over the rest of this year. To ensure that we remain within the annual budgeted wage ceiling, we will accelerate the process of job reclassification to resolve improper grading, reduce salaries where credentials cannot be justified, and eliminate unjustified benefits, which should lead to the required savings of about CFAF 440 million.

- The envisaged (net) repayment by the government to the commercial banking system did not materialize and instead further borrowing occurred through end-June. This was due to (i) the government's decision to facilitate the recapitalization by a foreign investor of a troubled commercial bank by paying government-guaranteed liabilities of wholly state-owned enterprises to that bank (equivalent to about 0.3 percent of GDP); and (ii) the use of a small amount of commercial bank financing to make up for a delay in foreign assistance, to begin the planned clearance of domestic payments arrears in the cotton sector.

- Also, because the recapitalization of the commercial bank is recorded as a transfer in the budget, this transaction led to a slightly lower domestic primary surplus than programmed (by about 0.1 percent of GDP). The government continued to maintain tight control over spending, but was not able to fully offset this transaction because the budget is already compressed, and only provides for a minimal level of public services.

5. To accommodate the fiscal impact of the government's decision to facilitate the recapitalization of the commercial bank and account for additional domestic interest payments on domestic debt (equivalent to CFAF 3.5 billion)—partly caused by the delay in foreign financing and the recourse to relatively costly commercial bank borrowing—we request the modification of the performance criterion at end-December 2007 on (i) the floor on the domestic primary balance and (ii) the change in net claims of the commercial banking system on the government. The revised targets are presented in Table 1 (attached). A key priority of our economic program is to regularize relations with all of our creditors; in this connection, we have raised the floor on the domestic primary surplus by a small amount (CFAF 900 million, or about 0.1 percent of GDP) to ensure timely payment of our domestic debt service. An unanticipated increase in non-tax revenue (from telecommunication fees) has provided sufficient resources to accommodate the higher debt service. In the same vein, we continue to place priority on reducing our liabilities to commercial banks, although recent developments have slowed the envisaged repayment, which is now targeted at 2 billion CFAF at end-December 2007 (0.2 percent of GDP), compared with CFAF 4.4 billion earlier.

6. We continued to make progress in structural reform and the program's five structural performance criteria were completed, although two with a slight delay. For one measure—concerning the external audit of the operations of the one-stop customs window in Douala—the delay was caused by donor coordination problems, which led the government to finance the audit itself to avoid further slippage. For the other measure—concerning the validation of domestic payments arrears, which accrued during the period 1998-2004—the delay was due to our limited understanding of some donor procurement procedures. In this regard, we request the waiver of these two structural performance criteria. In addition, since the recapitalization of the troubled bank is now completed, the structural benchmark refraining the government from providing further resources is no longer relevant, and we request its removal from the program.

7. We have made determined efforts to implement our PRGF arrangement under difficult financial conditions. Given our tight budget constraint, the unpredictability of aid inflows pose the main risk to our program, as this would result in a decline in public

investment with adverse consequences for medium-term growth and poverty reduction. Nonetheless, we will not take any actions inconsistent with our program, including accessing the sub-regional financial market to finance development at this time. We hope that completing the first program review and reaching the HIPC decision point will provide a further catalyst for a scaling up of aid inflows, and we expect that additional highly-concessional assistance should be forthcoming during a donor roundtable planned for end-October 2007. During this roundtable, we will present our key policies and priorities to enhance growth and alleviate poverty, as described in the Poverty Reduction Strategy Paper, which is now being finalized.

8. The government of the Central African Republic believes that the policies and measures set forth in the Memorandum of Economic and Financial Policies of November 30, 2006 continue to be adequate to achieve the objectives of the program, but we will take any further measures that may become appropriate for that purpose. During the implementation of the arrangement, we will consult with Fund staff on the adoption of any measures that may be appropriate, at the initiative of the government or whenever the Fund staff requests such a consultation.

9. The government intends to make the contents of this letter as well as the staff report accompanying its request for completion of the first review of the program, available to the public and authorizes the IMF to arrange for them to be posted on the IMF website, subsequent to Executive Board approval of its request.

10. The second review under the PRGF arrangement is expected to be completed by April 30, 2008.

11. Yours sincerely,

/s/

Elie Doté
Prime Minister

**Table 1. Revised Quantitative Performance Criteria and Benchmarks under the PRGF Arrangement, 2007**

(In billions of CFA francs; cumulative from December 31, 2006; ceilings, unless otherwise indicated)

| | End-Sept. Benchmark | End-Dec. Performance Criteria |
|---|---|---|
| Floor on total government revenue 1/ | 61.2 | 81.0 |
| Wages, salaries, and bonuses 2/ | 26.3 | 35.0 |
| Floor on domestic primary balance 3/ | 7.6 | 9.6 |
| Accumulation of new government domestic arrears on wages and goods and services 4/ | 0.0 | 0.0 |
| Change in net claims of the commercial banking system on the government | -1.0 | -2.0 |
| New nonconcessional external debt 5/ 6/ | 0.0 | 0.0 |
| Accumulation of government external payments arrears 6/ | 0.0 | 0.0 |
| Indicative targets: | | |
| NPV of external debt | ... | 457.9 |
| Floor on poverty-related spending 7/ | 9.2 | 12.3 |
| Domestic payments arrears 8/ 9/ | -9.1 | -18.1 |

1/ Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, TMU, for more details).

2/ Including withholding taxes on government salaries (see TMU).

3/ The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditures. An adjustor applies for any unplanned/or shortfalls of grants and loans (see the TMU).

4/ Wage arrears (including unpaid pensions and bonuses) and arrears on goods and services, excluding arrears on utility consumption. Arrears on goods and services include unpaid spending commitments vis-à-vis suppliers as well as deposit accounts of enterprises in the Treasury.

5/ Contracted or guaranteed by the government (see the TMU).

6/ These performance criteria will be monitored on a continuous basis.

7/ Total spending on health and education including wages and salaries and goods and services.

8/ End-2006 stock corresponds to the amount validated by the Domestic Arrears Validation Committee and is subject to an external audit; they include arrears which accrued during 1998-2004 and those which pre-date 1998.

9/ Amount paid in first quarter of 2007 corresponds to arrears accrued in 2005.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

**Staff Report for the 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance and Modification of Performance Criteria, and Financing Assurances Review—Informational Annex**

Prepared by the African Department
(In consultation with other departments)

September 13, 2007

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange rate system. Outstanding Fund credit was SDR 28.14 million (50.53 percent of quota) at end-July 2007.

- **Relations with the World Bank Group.** Describes the World Bank Group strategy in lending and non-lending activities, the IMF-World Bank collaboration in specific areas, areas in which the IMF leads, areas in which the World Bank leads, and areas of shared responsibility.

- **Statistical Issues.** Assesses the quality of statistical data. Although economic data are generally adequate for surveillance, weaknesses hamper economic analysis.

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## Appendix I. Central African Republic: Relations with the Fund
(As of July 31, 2007)

I. **Membership Status**: Joined: 07/10/1963; Article VIII

II. **General Resources Account**:

| | SDR million | %Quota |
|---|---|---|
| Quota | 55.70 | 100.00 |
| Fund holdings of currency | 55.55 | 99.73 |
| Reserve position in Fund | 0.16 | 0.29 |

III. **SDR Department**:

| | SDR million | %Allocation |
|---|---|---|
| Net cumulative allocation | 9.33 | 100.00 |
| Holdings | 0.55 | 5.95 |

IV. **Outstanding Purchases and Loans**:

| | SDR million | %Quota |
|---|---|---|
| PRGF arrangements | 28.14 | 50.53 |

V. **Latest Financial Arrangements**:

| Type | Approval date | Expiration date | Amount approved (In millions of SDRs) | Amount drawn (In millions of SDRs) |
|---|---|---|---|---|
| PRGF | Dec 22, 2006 | Dec 21, 2009 | 36.20 | 17.60 |
| PRGF | Jul 20, 1998 | Jan 19, 2002 | 49.44 | 24.48 |
| Stand-By | Mar 28, 1994 | Mar 27, 1995 | 16.48 | 10.71 |

VI. **Projected Obligations to the Fund**
(SDR million; based on existing use of resources and present holdings of SDRs):

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Principal | | 4.90 | 3.25 | 1.60 | 0.80 |
| Charges/interest | 0.24 | 0.50 | 0.48 | 0.47 | 0.47 |
| Total | 0.24 | 5.40 | 3.73 | 2.07 | 1.27 |

VII. **Implementation of HIPC Initiative:** Not applicable.

VIII. **Safeguards Assessments:** The Bank of the Central African States (BEAC) is the regional central bank of the Central African States, of which the Central African Republic is a member. A safeguards assessment of the BEAC was completed on August 30, 2004 and the main recommendations were reported in Country Report No. 05/424.

### Exchange Rate Arrangement

The Central African Republic is a member of a monetary association with a common central bank, the Bank of Central African States (BEAC). The exchange system, common to all members, operates without restrictions on the making of payments and transfers for current international transactions. The CFA franc is pegged to the euro at the fixed rate of

CFAF 655.957 = € 1. On June 27, 2007, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 738.37.

**Article IV Consultations**

The Central African Republic is currently on the standard 12-month cycle for Article IV consultations. The last Article IV consultation was concluded on October 24, 2005.

**Table 1. Recent Technical Assistance**

| Date | Department | Purpose |
|---|---|---|
| April 2001 | FAD | To follow up on the introduction of the VAT and discuss measures to improve tax and customs revenue collection. |
| Jan–Feb 2004 | STA | To assist the authorities in reviewing and updating the General Data Dissemination System (GDDS) and to provide technical assistance in government finance statistics. |
| March 2004 | FAD | To assist the authorities in the area of revenue administration. |
| April 2004 | FAD | To assist the authorities in the area of public expenditure management. |
| Aug-Oct 2004 | FAD | To assist the authorities improve tax administration. |
| Feb-Dec 2005 | FAD | To assist the authorities improve public expenditure management. |
| May 2005 | FAD | To follow up on implementation of tax administration reforms and review the progress made since the end of the three-month assignment of FAD tax expert. |
| Jun-July 2005 | STA | To assist the authorities improve government finance statistics. |
| July 2005 | STA | To assist the authorities improve real sector data. |
| March-May 2006 | FAD | To assist authorities in enforcing tax compliance and recovering tax arrears. |
| Sept-Oct 2006 | STA | To assist in the area of monetary and financial statistics |
| April-May 2007 | FAD | To assist in the area of fiscal implications of alternative fuel pricing policies and their distributional impact on vulnerable household groups, including mitigating measures. |

**Resident Representative**

The Fund's office in Bangui will reopen in the coming months (after being closed in September 2003). Mr. Joseph Ntamatungiro will be the next Resident Representative.

## APPENDIX II. CENTRAL AFRICAN REPUBLIC: RELATIONS WITH THE WORLD BANK GROUP
## (As of July 5, 2007)

1. World Bank assistance to the Central African Republic (CAR) was disrupted by the recurrent conflicts during much of the past decade as well as arrears to IDA from January 2002-November 2006. The presidential and parliamentary elections in March and May 2005 marked the end of a two-year political transition, following a coup d'état in March 2003, and were generally deemed to have been satisfactorily conducted. The Bank's objective over the past two years has been to help the CAR design and implement a framework to guide the country's recovery and longer-term development and poverty reduction efforts, and pave the way for a coordinated settlement of external arrears by multilateral creditors and increased volumes of donor financing. This has now been done and the Bank is now working with the international community to help the CAR move from a situation of crisis and emergency towards reconstruction and longer term economic recovery.

**The Bank Group strategy in lending and non-lending activities**

2. The World Bank and African Development Bank (AfDB) strategy and program in CAR is outlined in a joint Interim Strategy Note for FY07–08.

3. The World Bank currently has four active projects in its portfolio totaling US$148 million. The portfolio consists of a *Reengagement and Institution Building Support Program Grant* (US$82 million) approved in November 2006, which cleared the country's arrears to the Bank, paving the way for resumed IDA. This project also provided budget support and focused on strengthening Governance and Natural Resource Management. An *Emergency Urban Infrastructure Rehabilitation and Maintenance* (US$18 million) was approved in May 2007 to rapidly rehabilitate, restore, improve and expand sustainable access to basic infrastructure services for the population of the most deprived districts of Bangui. A *Regional Trade & Transportation Facilitation Project* (US$24 million) approved in June 2007 aims to facilitate regional trade between Chad, Cameroon and CAR and improve their access to world markets through improving the implementation of the CEMAC Customs Union, and reducing barriers along the Douala-Bangui corridor. An *HIV/AIDS project* (US$17 million) that was in the portfolio when the country went into non-accrual status was restructured in May 2007 to expand its scope to include health and education emergency support. A *second project funded by the Low Income Countries Under Stress (LICUS) Trust Fund* (US$6.8 million) approved in October 2006 is also under implementation, covering Public Financial Management (PFM), Mining, Community Driven Development, HIV/AIDS and PFM aspects of Security. A third LICUS grant is under preparation.

4. The Bank is also providing several pieces of analytical and advisory assistance (AAA). AAA completed in FY07 include a Diagnostic Trade Integration Study; a Country Financial Accountability Assessment; Country Procurement Issues Paper; Poverty Report; and Education Country Status Report. The Bank is also providing support to the PRSP, TA

on Customs and support for debt relief. A Public Expenditure Review and Rural Sector Strategy are planned.

**IMF-World Bank collaboration in specific areas**

5. The World Bank has worked closely with the IMF on the reform program in the CAR, and generally share the same views on policy issues. There is broad agreement on the core reform program in the CAR, namely: (i) reinforcement of public expenditure and public payroll management; (ii) revenue mobilization and improvement of tax and custom administration; (iii) improving governance and transparency; and (iv) improving the delivery of public services, including education and health.

**Table 2: Bank-Fund Collaboration**

| Area | Lead Institution |
|---|---|
| 1. Fiscal area | |
| Public expenditure management | IMF/World Bank |
| Tax administration | IMF |
| 2. Governance | |
| Transparency efforts | IMF/ World Bank |
| Natural resource management | World Bank |
| 3. Other | |
| Monetary and credit policy | IMF |
| Social sector assessment | World Bank |
| Poverty reduction strategy | World Bank |
| External sector | IMF |
| Debt sustainability analysis | IMF/World Bank |

**Areas in which the World Bank leads and there is no direct IMF involvement**

6. The Government has advanced in its preparation of the (full) PRSP, which is in the process of finalization, with assistance from UNDP. The Bank is working closely with the UNDP and the Government on the PRSP process, and has scaled up its support to ensure that the PRSP will provide the requisite medium-term framework with sufficient depth and breadth of coverage of the country's recovery and longer term development and poverty reduction needs. The Bank has also added support to ensure that the PRSP document would include a monitoring and evaluation mechanism, as well as a comprehensive participation of major stakeholders. In the meantime, the Government has prepared (August 06) an Economic and Social Policy Framework (ESPF), supported by Government Matrix of Priority actions as well as a Reconstruction Strategy presented to the International Community at a donors meeting in June 2007.

7. To assist demobilization and socio-economic reintegration of ex-combatants into their home communities, the Bank approved the Reintegration of Ex-combatants and Support

to Communities Special Project in an amount of US$9.8 million in April 2004. The project, funded through the Multi-Donor Trust Fund (MDTF) of the Multi-Country Demobilization and Reintegration Program (MDRP), closed in February 2007. Its objectives were to contribute to the overall stability of the country by (i) demobilizing ex-combatants and reintegrating them socially and economically back into their community; (ii) strengthening the capacity of communities of return to ensure the sustainable reintegration of the ex-combatants; and (iii) supporting projects on security and conflict prevention in communities that are most affected by security problems. This work is being followed up through the security component of LICUS2 and a multidonor effort in security sector reform.

9. To support the emergency rehabilitation of at least 80 communities in four prefectures (Kemo, Ouaka, Kemo, Basse Kotto and Mbomou), the Bank has signed a Grant agreement with an international NGO and with the Government in an amount of US$2.75 million. The project is funded entirely through the LICUS TF and is expected to establish a model for a community-driven approach that helps build social capital, provide critical social services, and restart some level of economic activity in the selected communities.

**Areas in which the World Bank leads and its analysis serves as input into the IMF-supported programs**

10 The Bank is taking the lead on laying the groundwork for the preparation of a medium term structural reform framework in the context of the PRSP. In addition to the LICUS Trust Fund activities, the Bank has continued to engage in analytical and advisory work. In collabo-ration with other partners, it prepared a set of Policy Notes, focusing on key thematic areas including security, natural resource management, social sectors and public finance. The IMF has a strong interest in the financial sector from a macroeconomic perspective, including growth and the monitoring of quasi-fiscal deficits and contingent public liabilities, as well as an interest in governance and transparency issues in natural resources management.

11. During 2006, the Bank has also prepared a report on public procurement (CPIP), on trade (DTIS) and on public finance management (CFAA). In the latter area, reports were prepared on cash management and accounting nomenclature on civil service reform and payroll control. In the context of the LICUS2 grant, and the Reengagement and Institution-Building Support Program, the Bank funded and is supporting governance-enhancing activities in the sectors of mining, forestry and telecommunications and in the judicial area. The objective pursued is to create an environment conducive to private sector development and to ensure the respect of investors' rights.

**Areas of shared responsibility**

12. The Bank and the IMF are working together to assess debt sustainability and HIPC eligibility for the C.A.R. The Bank and the IMF are also active in the area of regional integration. The Bank has been implementing a Regional Assistance Strategy for the CEMAC countries, including a support to the payments systems, while the IMF has been active in regional macroeconomic surveillance. An FSAP is expected to be undertaken for CAR.

**Areas in which the Fund leads and its analysis serves as input into the World Bank-supported programs**

13. The IMF has taken the lead on core macroeconomic and fiscal policies, on revenue mobilization and the management of aggregate expenditures. The Bank has been working with the IMF to ensure consistency between its own projects and policy advice and the overall fiscal framework. In the framework of a donor partnership, the Bank has provided training and technical assistance to strengthen the CAR public finance administration.

**Areas in which the IMF leads and there is no direct World Bank involvement**

14. The IMF has been leading the dialogue on monetary policy, exchange rate management, and balance of payments issues, although given the nature of the CFA franc arrangement, there is little scope for policy action in these areas at the national level.

Questions may be addressed to Eric Bell (202-458-7490) or Luc Razafimandimby (202-458-9539).

## APPENDIX III: CENTRAL AFRICAN REPUBLIC: STATISTICAL ISSUES

1. The statistical database is adequate for surveillance purposes but it suffers from weaknesses due to years of neglect, inadequate resources, and various conflicts. On the basis of the 1999 multi-sector statistical mission, efforts were initiated to improve the national statistical system including through adopting an statistics law and setting up a National Statistical Board in 2001.

2. With the support of a statistics expert mission during January 26–February 13, 2004, the Central African Republic (C.A.R.) became a participant in the GDDS and first posted metadata on the IMF's Dissemination Standards Bulletin Board (DSBB) on June 14, 2004. However, most of the metadata, excluding for financial sector statistics, has not been updated and certified. Issues of source data, compilation, and dissemination affect all sectors, but are particularly severe in the areas of the real sector, government finance, and external trade.

### Real sector

3. The compilation of national accounts is the responsibility of the General Directorate of Statistics and Economic and Social Studies (DGSEES) of the Ministry of Finance. The 1999 multisector mission found serious deficiencies in the institutional arrangements for compiling statistics as well as weaknesses in data collection procedures and compilation techniques. The authorities should continue efforts to improve the quality of national accounts estimates and the reporting of quarterly foreign trade data. At the same time, revisions are needed for the wholesale and the consumer price indices as the limited coverage and the obsolescence of the weights used in compiling these indices cast serious doubts on their accuracy.

4. A statistical expert visit in mid-2005 found a serious resource gap at the DGSEES and recommended a number of measures, particularly the redeployment of resources to strengthen the national accounts area. There is an urgent need to develop source data, by conducting surveys, particularly for the subsistence agriculture sector which represents an estimated 30 percent of the economy. In addition, estimates of activity in the informal sector are still based on a 1982 survey. In the manufacturing sector, estimation is based on an outdated list of enterprises and likely overestimates activity, given that many of these enterprises either do not exist or have reduced their production considerably. There is the pressing need to update the business register through a survey of enterprises and to reinstate publication of the industrial production index.

### Government finance

5. The 1999 multisector statistics mission noted that there was no single primary data source that could be used for the production of government finance statistics and that the available information was not communicated to the Ministry of Finance. In February 2004, a mission underscored that, in order to establish a systematic compilation of government finance statistics, substantial additional assistance will be required, notably in the area of Treasury accounting and expenditure management, with a view to producing reliable source data and improving the accuracy of the measures of domestic arrears. The mission made

specific recommendations toward this objective, and a subsequent March 2004 FAD mission confirmed and reinforced these recommendations. Support in this area is provided by an FAD public expenditure management advisor currently stationed in the Central African Republic. A follow-up STA mission in mid-2005 reviewed recent developments and proposed further steps in the framework of the earlier action plan for improving the source data for the compilation of the government financial operations table (Tableau des Opérations Financières de l'État, TOFE) and for further development and use of the Treasury cash plan.

**Monetary accounts**

6. Monthly data for the C.A.R., as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are regularly reported to the Fund in electronic form by the Bank of Central African States (BEAC). Accuracy of data on currency in circulation is affected by large cross-border movements of currency among CEMAC member countries. Only 30 percent of banknotes issued in the C.A.R. by the BEAC National Directorate remain in the territory, 49 percent circulate in Cameroon and about 16 percent in Chad, while currency in circulation in the C.A.R. includes some 6 percent of banknotes from Republic of Congo, 6 percent of banknotes from Cameroon, and 4 percent of banknotes from Gabon.

7. The monetary and financial statistics (MFS) mission in October 2006 assisted the authorities in assessing consistency between government finance statistics (bank financing) and monetary statistics (net position of the government). The mission also provided guidance in migrating to the new Standardized Report Forms (SRFs) for the submission of monetary statistics to STA, and helped update the metadata for the financial sector posted on the IMF website within the framework of the GDDS. However, the BEAC has yet to submit, for any of its member countries, test data using the SRFs. Key recommendations from the MFS mission included: (i) expansion of monetary statistics to include the largest microfinance institution in the country (Crédit mutuel de Centrafrique); (ii) finalization and implementation of the updated sectorized list of public entities to improve accuracy of monetary statistics and consistency with GFS; and (iii) verification of the reliability of source data reported by commercial banks through the new electronic reporting system.

**Balance of payments**

8. As in other CEMAC countries, the agency responsible for the compilation of balance of payments statistics is the Balance of Payments Unit of the national agency of the BEAC. Past delays with data compilation and dissemination, which were mainly related to the transition from the fourth to the fifth edition of the *Balance of Payments Manual*, have been addressed through the recent implementation of methodological improvements. The last complete reporting, prepared by the national balance of payments committee, covered 2002 annual data. Preliminary statements for 2003–05 are available from the national BEAC office in Bangui, and have been transmitted to the African Department. However, balance of payments data are transmitted to the Statistics Department only through 1994.

9. The 1999 multisector mission also provided a thorough assessment of needs in balance of payments statistics. Efforts have been made to address some of the problems identified by the mission, including training, compilation system, and development of a flexible questionnaire. Nonetheless, problems remain and the main issues concern data sources, including the need to update the BOP survey (list of respondents, reporting forms, and codification). Various methodologies or statistical techniques need to be reviewed, such as the computation of freight and insurance and procedures for attributing banknote movements among transactions. The timeliness of the biannual balance of payments (presently 90 days) needs to be improved.

**External and domestic debt**

10. External and domestic debt statistics are compiled by the Debt Directorate of the Ministry of Finance. The quality of data needs to be significantly improved and efforts have been underway to verify with creditors the stock of external debt outstanding and of external arrears. Similarly, domestic debt data are of poor quality, due in part to the difficulty of monitoring public expenditure on a commitment basis. However, the actual stock of government domestic arrears has been verified by a working group, with the help of a World Bank consultant. The reconciliation process was completed in June 2007, with 99 percent of the multilateral, bilateral and commercial debt as of end-2006 reconciled. The Debt Directorate is currently seeking funding and technical expertise to upgrade their outdated debt data management software.

## Table 3. Central African Republic: Table of Common Indicators Required for Surveillance (As of August 31, 2007)

| | Date of Latest Observation | Date Received | Frequency of Data[6] | Frequency of Reporting[6] | Frequency of Publication[6] |
|---|---|---|---|---|---|
| Exchange Rates | July 2007 | Aug 2007 | D | D | M |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | Mar 2007 | May 2007 | M | M | M |
| Reserve/Base Money | May 2007 | Aug 2007 | M | M | M |
| Broad Money | May 2007 | Aug 2007 | M | M | M |
| Central Bank Balance Sheet | May 2007 | Aug 2007 | M | M | M |
| Consolidated Balance Sheet of the Banking System | May 2007 | Aug 2007 | M | M | M |
| Interest Rates[2] | Jan. 2007 | Feb. 2007 | M | M | M |
| Consumer Price Index | Mar 2007 | May 2007 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4] | Mar. 2007 | May 2007 | Q | Q | A |
| Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government | Mar 2007 | May 2007 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | Mar 2007 | May 2007 | M | O | M |
| External Current Account Balance | 2006 | May 2007 | A | A | A |
| Exports and Imports of Goods and Services | 2006 | May 2007 | A | A | A |
| GDP/GNP | 2006 | May 2007 | A | A | A |
| Gross External Debt | Mar 2007 | May 2007 | M | O | A |

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic non-bank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

INTERNATIONAL MONETARY FUND
*Public Information Notice*
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 07/128
FOR IMMEDIATE RELEASE
October 12, 2007

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

# IMF Executive Board Concludes 2007 Article IV Consultation with the Central African Republic

On September 28, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Central African Republic (C.A.R.).[1]

## Background

Over the past several decades political struggle and armed conflict have adversely affected domestic stability in the C.A.R., slowing growth and causing a deterioration of living standards. The economy has also been buffeted by exogenous shocks, such as droughts and regional instability, and a long-term decline in the terms of trade. A coup d'état in 2003, followed by elections in 2005, marked the end of generalized conflict and the beginning of economic and institutional recovery.

A recent improvement in the political and social situation and economic policies has provided a firm basis for economic recovery. In this context, reengagement of the international financial community has helped in providing technical assistance to strengthen capacity, but foreign aid has been unpredictable and insufficient.

For its part, the Fund provided Emergency-Post Conflict Assistance to the C.A.R. in July 2004 and January 2006 and approved a three-year Poverty Reduction Growth Facility (PRGF) arrangement in December 2006. In March 2007, the Fund's Board also agreed that the country

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

is eligible for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The C.A.R. will qualify for the Multilateral Debt Relief Initiative once it reaches the HIPC completion point.

Real GDP grew by 4.1 percent in 2006, compared with 1.3 percent in 2004 after the conflict ended. Private consumption and investment picked up, as did diamond and timber exports, and for the first time in years, agriculture made a modest contribution to growth. Though inflation was relatively high in 2006, it has declined recently—the 12-month rate was 1.6 percent through June 2007—as food prices moderated. With strong export growth and higher official transfers related to recent external arrears clearance, the external current account deficit narrowed significantly, from about 6½ percent of GDP in 2005 to 2.7 percent last year.

The fiscal position has improved during the past several years, owing to firm expenditure control and the government's efforts to enhance domestic revenue mobilization. A strengthening of public expenditure management and a decline in the civil service wage bill have helped on the spending side, allowing room for an increase in priority outlays for growth-enhancing and poverty-reducing social policies. Meanwhile improvements in tax and customs administration and some new tax measures have supported an increase in the tax revenue ratio, which, however, remains low compared with other low-income countries. Together, these factors have led to a decline in the overall fiscal balance (excluding grants) from about 8½ percent of GDP in 2005 to 4.7 percent in 2006, with further consolidation projected for this year.

The authorities are making progress on structural reform. Along with efforts to enhance public expenditure management and revenue mobilization, the government has taken measures to improve governance and transparency, address financial and commercial crime, and develop the private sector through changes to the regulatory framework in the forestry and mining sectors, and implementing the legal framework supported by the Organization for the Harmonization of Business Laws in Africa.

## Executive Board Assessment

Directors commended the Central African authorities for their recent efforts to consolidate peace and security, and pursue macroeconomic stabilization and structural reforms. Despite difficult conditions, performance under the PRGF-supported program was generally satisfactory, demonstrating the authorities' commitment to move the economy from post conflict to sustained recovery. These efforts are beginning to bear fruit as the economic recovery has strengthened and the base of growth has broadened. However, daunting challenges remain, including pervasive poverty, susceptibility to shocks, and security and capacity constraints. Looking ahead, Directors stressed that policies need to focus on accelerating growth and increasing the economy's resilience, with the private sector playing an increasing role.

Directors welcomed that real GDP growth recently reached its highest level in a decade and inflation moderated, which bodes well for the authorities' fight against poverty. They noted that problems in donor coordination, which led to delays in aid disbursements, are being addressed, and they welcomed the international community's reengagement in the Central African Republic. Directors stressed the need for further financial assistance on highly concessional terms, together with technical assistance to strengthen capacity, to support the authorities' firm resolve to achieve their policy objectives.

Directors agreed with the need to continue with fiscal consolidation to reduce the overhang of domestic debt and accelerate efforts to mobilize more domestic revenue, especially in light of the very low tax take. Although the budget provides for only a minimal level of social services, prudent fiscal management is needed to ensure that domestic payments arrears are settled and new ones do not emerge, as this has been an important source of past social discontent. Directors recognized the authorities' efforts to reform tax and customs administration, but encouraged them to broaden the tax base─by eliminating exemptions, capturing more of the informal sector, and improving taxation in the mining and forestry sectors. Strengthening the management of the natural resources sector, and improving the transparency of the revenues from natural resources, will be crucial.

Directors took note of the authorities' interest in tapping the regional financial market to help improve debt sustainability by refinancing domestic bank debt on more favorable terms. While acknowledging that there could be potential benefit from such a refinancing operation, most Directors cautioned against issuing bonds on commercial terms to finance higher expenditures, in light of the country's efforts to attain debt sustainability.

Directors concurred with the authorities' structural reform agenda, which should help enhance the country's external viability and accelerate growth through private sector development. In this context, they stressed the importance of reducing the cost of doing business, enhancing governance and combating corruption, and updating legislation in key areas such as forestry and mining to attract investment.

Directors also underlined the need to accelerate structural reforms to improve the country's international competitiveness, which is critical under the CEMAC region's fixed exchange rate regime. In this context, they welcomed the authorities' intention—along with their CEMAC partners—of intensifying regional integration through the free movement of people and goods, the removal of nontariff barriers to trade, and upgrading the region's infrastructure. Directors also encouraged the authorities to aim for further integration in the global economy, through the liberalization of trade on a wider basis, while seeking ways to diversify the economy.

Directors agreed that the Central African Republic had fulfilled the requirements to reach the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, thereby qualifying for HIPC debt relief. They welcomed the progress achieved in the authorities' discussions with Paris Club and other bilateral and commercial creditors, and urged all creditors to participate fully in the debt relief efforts. Directors observed that the Central African Republic could reach its floating completion point following at least one year's implementation of its Poverty Reduction Strategy (which is to be finalized shortly), continued satisfactory performance under the PRGF arrangement, and implementation of the other HIPC triggers. Directors supported the coverage and content of the HIPC triggers, and urged the authorities to implement them as soon as possible.

***Public Information Notices (PINs)*** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

**Central African Republic: Selected Economic Indicators, 2004-07**

| | 2004 | 2005 | 2006 | 2007 (Proj.) |
|---|---|---|---|---|
| | (Annual percentage change, unless otherwise | | | |
| National Income and Prices | | | | |
| GDP at constant market prices | 1.3 | 2.2 | 4.1 | 4.0 |
| GDP at current prices | -0.6 | 4.7 | 8.0 | 6.6 |
| GDP deflator | -1.9 | 2.4 | 3.8 | 2.5 |
| Consumer prices | -2.2 | 2.9 | 6.7 | 3.0 |
| Central Government Finance | | | | |
| Total revenue and grants | 23.1 | 12.2 | 87.2 | -20.2 |
| Total expenditure | 9.2 | 28.9 | -8.8 | 0.8 |
| Money and Credit | | | | |
| Net domestic assets | 12.0 | 10.4 | 6.0 | 3.0 |
| Domestic credit | 13.6 | 9.8 | 7.5 | 1.9 |
| Broad money | 14.2 | 16.5 | -4.2 | 9.2 |
| External Sector | | | | |
| Exports, f.o.b. (U$S basis) | -0.5 | 1.5 | 22.8 | 18.3 |
| Imports, f.o.b. (U$S basis) | 17.0 | 8.9 | 18.3 | 7.1 |
| Terms of trade | -7.7 | 2.8 | 0.4 | -0.5 |
| Nominal effective exchange rate | 1.7 | -0.2 | 0.2 | ... |
| Real effective exchange rate | -0.9 | 0.7 | 4.1 | ... |
| | (In percent of GDP, unless otherwise indicated) | | | |
| Gross national savings | 4.4 | 2.3 | 6.2 | 4.9 |
| Gross domestic savings | 0.1 | 0.2 | 1.1 | 2.2 |
| Consumption | 99.9 | 99.8 | 98.9 | 97.8 |
| Gross investment | 6.1 | 8.8 | 8.8 | 9.1 |
| Current transfers and factor income (net) | 4.3 | 2.1 | 5.1 | 2.7 |
| External current account balance | -1.7 | -6.5 | -2.7 | -4.1 |
| Overall balance of payments | -2.8 | -1.1 | 3.0 | -0.3 |
| Gross official foreign reserves | | | | |
| (millions of US$, end of period) | 148.4 | 147.1 | 129.9 | 135.1 |
| (in months of imports, f.o.b.) | 11.2 | 10.6 | 7.3 | 7.4 |
| Central government finance | | | | |
| Total revenue and grants | 11.4 | 12.2 | 21.1 | 15.8 |
| Total expenditure | -13.5 | -16.7 | -14.1 | -13.3 |
| Overall balance (commitment basis) | | | | |
| Excluding grants | -5.5 | -8.5 | -4.7 | -2.7 |
| Including grants | -2.2 | -4.5 | 7.0 | 2.5 |
| Net present value of external public and publicly guaranteed debt | ... | ... | 350.0 | 294.7 |
| Government domestic debt | ... | ... | 22.6 | 19.3 |
| Nominal GDP (billions of CFA francs) | 690.6 | 723.0 | 781.0 | 832.5 |
| Exchange rate (average, CFA francs per U$S) | 528.3 | 527.5 | 522.9 | ... |

Sources: C.A.R. authorities; and IMF staff estimates and projections.

International Monetary Fund
Washington, D.C. 20431 USA

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**IMF Executive Board Completes First Review Under the PRGF Arrangement with the Central African Republic and Approves US$4.8 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) has completed the first review of the Central African Republic's economic performance under a program supported by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of this review enables the Central African Republic to draw an amount equivalent to SDR 3.1 million (about US$4.8 million).

In completing the review, the Executive Board approved the authorities' request for waivers of the non-observance of the quantitative performance criteria on the ceiling on wages, the floor on domestic primary balance and changes in the net claims of the banking system on the government, as well as of the structural performance criteria on the external audits of the one-stop customs window in Douala and the validation of domestic payment arrears. In addition, the Executive Board approved a modification of quantitative performance criteria for December 2007.

The Central African Republic's PRGF arrangement was approved on December 22, 2006 (see Press Release No 06/299) for an amount equivalent to SDR 36.2 million (about US$56.4 million). The first disbursement was made in mid- January 2007 in an amount equivalent to SDR 17.6 million (about US$27.4 million).

Following the Executive Board discussion of the Central African Republic's economic performance on September 28, 2007, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

"During the past several years, the Central African authorities have made important progress in consolidating peace and security and in strengthening economic policies. This progress is being reflected in an economic recovery that is gathering strength, with real GDP growth last year reaching the highest rate in over a decade.

"The authorities are demonstrating a firm resolve to implement their PRGF arrangement, under difficult financial conditions. The authorities remain committed to achieving the program's overall objectives this year. In this context, the Executive Board supported the authorities' request for waivers and modification of the program's performance criteria.

"Tight control over public expenditure needs to be maintained in the near term to address the overhang of domestic debt, safeguard the fiscal stance against unpredictable aid inflows, and prevent the emergence of new payments arrears, which had been a previous source of social discontent. This should be accompanied by concerted efforts to mobilize more domestic revenue, through a broadening of the tax base and some new tax measures. An increase in the tax revenue ratio is needed, but resources must be augmented by more foreign assistance if the Central African Republic is to make progress toward achieving the Millennium Development Goals.

"An acceleration of growth could be achieved through structural reform aimed at allowing the private sector to flourish. The authorities' focus on reducing the cost of doing business, enhancing governance and combating corruption, and updating legislation in key areas such as forestry and mining is on the right track. Also, this would help to improve the country's international competitiveness, which is critical under the CEMAC region's fixed exchange rate.

"Satisfactory implementation of the authorities' PRGF-supported program has paved the way for the Central African Republic to reach the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The Central African Republic could reach its floating completion point under the Initiative following at least one year's implementation of its Poverty Reduction Strategy (which is to be finalized shortly), continued satisfactory performance under the PRGF-supported program, and implementation of the other HIPC triggers. HIPC debt relief will help the Central African Republic achieve debt sustainability, but it will continue to need foreign assistance on highly concessional terms to finance development. At the completion point, the country would also benefit from the Multilateral Debt Relief," Mr. Portugal said.

**Statement by Laurean Rutayisire, Executive Director for the Central African Republic**
**September 28, 2007**

On behalf of my Central African authorities, I would like to express their appreciation to the Executive Board and to Management for their continued support and policy advice, over the years. My authorities would also like to thank staff for the quality of the dialogue shared during the recent consultation in Bangui. They fully recognized that the joint effects of this involvement at different levels of these institutions have helped them to implement sound policies, as evidenced by the improvement of the political and social situation, as well as the building of a solid basis for economic revival, which is well-acknowledged by all stakeholders. Progress is also being made in the consolidation of peace and security with the assistance of France and the Central African Economic and Monetary community (CEMAC).

## Recent Economic Developments

In the real sector, real GDP has rebounded from the sluggish path recorded before 2003, growing steadily to 1.3 percent in 2004, 2.2 percent in 2005, and 4.1 percent in 2006. Based ***on*** preliminary assessment of the program during the six first months of the current year, my authorities expect that in terms of growth rate, 2007 presents as favorable perspective as 2006, in spite of delays in foreign assistance, most of it affecting growth-led area of physical and human capital, as reported by the staff. This favorable evolution in the real sector was driven by the dynamics of domestic consumption benefiting from more regular disbursement of wages for civil servants and other government workers. Agriculture made a slight contribution to growth for the first time in years, as a result of the revival of the cotton marketing campaign conducted by the government. In secondary and tertiary sectors, the activities improved well, taking advantage of the resumption of confidence, in particular in the subsectors of manufacturing and mobile telephony. As regards the external sector, the current account deficit narrowed, driven by buoyant export and higher level of FDI. However, given the extent of balance of payments needs, especially for the rehabilitation of infrastructure and the delivery of basic services of health and clean water, this positive external account development has just contributed to improve the profile of external aggregates, leaving the social conditions still dire. Significant improvements in fiscal management yielded a primary domestic surplus of about 0.4 percent of GDP, though this surplus was slightly lower than the projected level of 0.5 percent of GDP. My authorities have also completed the external audit of the domestic arrears and a strategy of clearing these arrears is now being discussed with all stakeholders.

Implementing structural reforms progressed steadily, in particular those pertaining to fiscal area, governance and accountability, business climate, forestry and mining sectors. As regards fiscal reforms, several measures were taken, including the elimination of fraud and duplication in the public sector payroll, identification of ghost workers and subsequent establishment of cleaned database of civil servants and military personnel, introduction of one-stop window for custom administration, reform of judiciary court in order to consider the cases of financial and commercial crime. Efforts, in the area of tax and customs administration, aimed at raising the level of revenue collection are underway. Moreover, efforts towards implementation of the OHADA business laws have been made. As noted in the joint staff assessment of the PRSP, progress in the preparation of this document has been substantial. The permanent secretariat, responsible for overseeing PRSP, is fully operational, gathering considerable experience in guiding the process. The priorities set out in this document are consistent with the population's expectations and in line with the objectives of PRGF program.

**Program Performance**

As pointed out by staff in its report, my authorities have established satisfactory policy implementation track. Four of the seven end-June quantitative criteria were observed, among them the total government revenue, which has been attained with a 2 billion of CFA francs margin. As for the indicative targets, which set floors for poverty related spending and domestic arrears reduction, they were also met with comfortable margins. Likewise, all structural performance criteria and benchmarks were observed, though two with delays.

Regarding the 3 quantitative criteria for which waivers are requested, their occurrence is mainly due to the government's financial constraints stemming from the uncertainty of aid inflows already programmed in the 2007 budget. Indeed, for the criterion related to 'domestic primary surplus", missed by 0.1 percent of GDP, the cause of the slippage stems from the authorities' decision to rescue one commercial bank. This operation aimed to avoid the risk of financial perturbations in CAR banking system, given the strategic position of that bank, on one hand, and to facilitate the recapitalization of that institution through foreign investors on the other. The second waiver is requested for the criterion on "net claims of the commercial banking system on the government" for which the government has contracted a new loan of CFAF 0.6 billion, instead of reimbursing an amount of CFAF 2 billion. The last overrun concerned "wages and salaries" for which the criterion was breached by a small amount of 0.2 billion.

**Reaching the decision point of debt relief under the HIPC initiative**

As set out in the staff report of March 2007, CAR is eligible for HIPC debt relief. It is an IDA-only country with per capita GNI of 350$ and is eligible for the foreseeable future for support from the IMF under the PRGF. CAR's external public debt and publicly-guaranteed debt at end-2005 is estimated at US $ 869 millions. After application of traditional debt relief, the debt amounts to US$ 832 millions which corresponds to 750 percent of exports. CAR's external indebtedness is therefore not sustainable and is significantly above the 150 percent of export threshold of the HIPC even after the application of traditional debt reduction mechanisms.

My authorities have fulfilled the conditions required to qualify reaching HIPC decision point and benefit from interim HIPC debt relief.

i) They have established a satisfactory track record of policy performance under the two EPCA and they continue to pursue sound economic policies under the PRGF supported arrangement, as evidenced by the broadly positive conclusion drawn by the staff at the end of the last mission in Bangui. Under these programs, fiscal policy aimed at exerting effective controls and redirecting spending towards priority sectors. Looking ahead, my authorities intend to continue implementing sound policies and a vigorous reform agenda grounded in the PRSP.

ii) They have a satisfactory poverty reduction strategy in place in the form of I-PRSP. The latest version of this document was at early September 2007 shared with all stakeholders, including Bank and Fund staffs. All needed studies on Poverty analyses and participatory poverty assessment, Diagnostic trade integration analysis, and on the Country financial accountability assessment, have been completed. The authorities' priorities set out in the PRSP are consistent with the aspirations of the population.

iii) CAR's debt burden indicators are above the HIPC initiative export threshold, as mentioned in the preceding paragraphs.

My authorities have also concluded with staff on HIPC completion point triggers.

**Conclusion**

As highlighted above, Central African Republic has made progress since 2003 under EPCA and now under the PRGF program. My Central African Republic authorities have implemented these programs under several limited assistance from the international community. My authorities thank the Fund for continued support and will appreciate Board approval of this first review of PRGF and reaching HIPC decision point.