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EBS/84/121

CONFIDENTIAL

May 31, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Central African Republic - Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with the Central African Republic and a request for stand-by arrangement equivalent to SDR 15 million. Draft decisions appear on page 31.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Sidibe (ext. (5)8730) or Mr. Jbili (ext. (5)8735).

Att: (1)

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement

Prepared by the African Department and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by Rattan J. Bhatia and W.A. Beveridge

May 30, 1984

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I. Introduction

The 1984 Article IV consultation discussions with the Central African Republic, together with negotiations of an adjustment program, were conducted in Bangui during the periods January 12-26 and April 2-10, 1984. The C.A.R. representatives included the Minister of Economy and Finance, Mr. S. Bangui, and his successor Mr. J.L. Gervil-Yambala; the High Commissioner of the Economy and Budget, Mr. D. Wazoua; the High Commissioner of Planning and International Cooperation, Mr. G. Darlan; the Governor of the Bank of Central African States (BEAC), Mr. C. Oye Mba; the National Director of the BEAC, Mr. A. Koyamba; and other senior officials of various ministries and agencies. Members of the staff mission also met with President Kolingba. The staff representatives comprised Messrs. Sidibé (head-AFR), Jbili (AFR), Rajcoomar (AFR), Yao (STAT), and Massourakis (EP-AFR), with Miss Abdallah (AFR) and Miss Georges (AFR) as secretaries. Mr. Alfidja, Executive Director for the Central African Republic, attended the principal policy meetings.

In the attached letter dated May 22, 1984 from the Minister of Economy and Finance, the Government of the Central African Republic requests a one-year stand-by arrangement in the amount of SDR 15 million, equivalent to 49.3 percent of quota; all of this amount would be from the Fund's ordinary resources. As of May 15, 1984 the Fund's holdings of the Central African Republic's currency that are subject to repurchase amounted to SDR 24.6 million, or 80.8 percent of quota; excluding holdings of SDR 7.7 million under the compensatory financing facility, they were equivalent to 55.5 percent of quota. As shown in Table 1 on the schedule of proposed purchases and repurchases, if the full amount of the arrangement is purchased, the Fund's total holdings of the Central African Republic's currency would rise to 197.3 percent of quota by the end of June 1985.

According to the proposed phasing of purchases under the stand-by arrangement, SDR 8.0 million would be purchased in 1984, with the initial purchase of SDR 3.0 million to be made upon Board approval. The second purchase would be subject to the observance of the end-June performance criteria. The third purchase would be effected upon observance of the end-September performance criteria and completion of the first comprehensive review, the fourth purchase upon observance of the end-December performance criteria and completion of the second comprehensive review, and the final purchase upon observance of the end-March 1985 performance criteria.

The last Article IV consultation discussions, together with negotiations of a program for 1983, were held in Bangui during the period November 21-December 12, 1982. The staff report and stand-by request (EBS/83/65 and Correction 1) and the report on recent economic developments (SM/83/61) were considered by the Executive Board on April 22, 1983. Following discussions in Bangui during the period August 15-25,

Table 1. Central African Republic: Fund Position During Period of Stand-By Arrangement

	Outstanding at beginning of arrangement 1/ May 31, 1984	1984 June	1984 July-Sept.	1984 Oct.-Dec.	1985 Jan.-Mar.	1985 April-June
		(In millions of SDRs)				
Transactions under tranche policies (net) 2/		2.5	1.0	1.5	2.0	2.5
Purchases		3.0	2.0	3.0	3.5	3.5
Ordinary resources		(3.0)	(2.0)	(3.0)	(3.5)	(3.5)
Enlarged access resources		(--)	(--)	(--)	(--)	(--)
Repurchases		-0.5	-1.0	-1.5	-1.5	-1.0
Ordinary resources		(-0.5)	(-1.0)	(-1.5)	(-1.5)	(-1.0)
Enlarged access resources		(--)	(--)	(--)	(--)	(--)
Transactions under special facilities (net) 3/		--	-1.1	-1.1	-1.1	-1.1
Purchases		(--)	(--)	(--)	(--)	(--)
Repurchases		(--)	(-1.1)	(-1.1)	(-1.1)	(-1.1)
Total Fund credit outstanding (end of period)	24.57	27.07	26.97	27.37	28.27	29.67
Under tranche policies 2/	16.87	19.37	20.37	21.87	23.87	26.37
Special facilities 3/	7.70	7.70	6.60	5.50	4.40	3.30
		(As percent of quota)				
Total Fund credit outstanding (end of period)	80.8	89.0	88.7	90.0	93.0	97.6
Under tranche policies 2/	55.5	63.7	67.0	71.9	78.5	86.7
Special facilities 3/	25.3	25.3	21.7	18.1	14.5	10.9

Source: IMF, Treasurer's Department.

1/ End of calendar month in which staff paper was issued.
2/ Ordinary and enlarged access resources.
3/ Compensatory financing facility.

1983 and at headquarters at the time of the Annual Meetings, the mid-term review could not be completed, and the program became inoperative. A summary of the Central African Republic's relations with the Fund and the World Bank Group is provided in Appendix I.

The Central African Republic continues to avail itself of the transitional arrangements of Article XIV.

II. Recent Economic Developments

Since the late 1970s the Central African Republic has experienced a substantial decline in economic activity and in per capita income, as well as unsustainably high budget and external current account deficits (Table 2 and Chart 1). Real output declined at an average annual rate of 2.5 percent during the period 1980-82 (Appendix Table I), while the population grew at a similar rate. Over the same period the fiscal policy stance remained expansionary, with government spending 1/ and revenue averaging 18.5 percent and 14.3 percent of GDP, respectively. The resulting budgetary deficit was financed largely by foreign grants and loans. At the same time, substantial arrears were accumulated vis-à-vis the public enterprises, private domestic and foreign suppliers, and official creditors. Thus, the budgetary disequilibrium aggravated an already weak financial situation of public and mixed enterprises. Based on available information, the operating losses of the parastatals amounted to CFAF 3.5 billion in 1982.

With the erosion of confidence in the economy, foreign financing of investment declined as official aid disbursements slowed down and private investment was discouraged. Gross investment averaged only about 8 percent of GDP in 1980-82. Meanwhile, throughout the same period consumption exceeded GDP.

The inappropriate structure of domestic demand, together with inadequate incentive policies and extension services as well as the deteriorating internal transportation infrastructure, contributed to the decline in agricultural output, including production for export. With the turnaround in world market conditions, the rise in oil import prices, and the growth in domestic demand, large external current account deficits were registered (averaging 17 percent of GDP in 1980-82). The financing of these deficits involved the accumulation of substantial external arrears on debt service and recourse to debt rescheduling.

To redress this unsatisfactory economic and financial situation, the authorities adopted adjustment programs for the calendar years

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1/ Including only investment outlays through the budget which averaged about 12 percent of total public sector investments. These investments are largely financed by project aid outside the budget.

Table 2. Central African Republic: Selected Economic and Financial Indicators, 1980-84

	1980	1981	1982	1983 Prog.	1983 Prel.	1984 Program
	(Annual percent changes)					
National income and prices						
GDP at constant prices	-3.0	-2.1	-1.6	2.0	-2.3	2.7
GDP deflator	16.0	14.6	14.4	14.0	12.9	10.0
Consumer prices	17.1	12.6	13.2	14.0	13.3	...
External sector						
Exports, f.o.b. 1/	17.1	-9.4	-6.0	9.1	5.7	8.9
Imports, f.o.b. 1/	40.5	-12.5	2.4	-0.9	-5.7	3.6
Export volume	16.7	1.9	-4.9	2.5	5.5	7.5
Import volume	24.8	-15.8	1.5	-1.0	-1.5	-1.4 2/
Terms of trade (deterioration -) 3/	-10.7	-14.5	-2.1	6.4	4.8	0.8
Nominal effective exchange rate (depreciation -) 4/	0.2	-3.3	-3.6	...	-2.5	...
Government budget						
Revenue	8.0	14.7	43.8	9.6	1.1	5.8 5/
Expenditure	9.0	15.1	14.2	0.5	7.7	-4.2
Money and credit						
Domestic credit	33.5	13.0	-0.9	15.8	2.7	13.2
Government	11.3	29.0	-37.1	22.1	5.9	15.9
Private sector	50.2	4.1	24.2	13.0	1.6	12.2
Broad money (M_2)	35.2	23.8	-5.4	12.7	11.9	9.8
Velocity (GDP relative to M_2) 6/	5.3	4.4	5.1	4.9	5.1	5.3
Interest rate (one-year savings deposits)	5.5	7.5	7.5	...	7.5	7.5
	(In percent of GDP)					
Budgetary grants	4.4	3.0	2.3	1.2	1.4	1.3
Central government budget deficit (-) 7/						
Commitment basis	-5.2	-5.4	-2.0	-1.0	-3.0	-1.2
Cash basis	-4.6	-6.8	-1.9	-2.4	-2.6	-2.6
Domestic bank financing	0.8	2.0	-0.5	1.2	0.7	0.7
Foreign financing	4.5	4.7	2.6	1.2	1.7	1.1
Gross domestic investment	6.8	9.0	8.1	9.5	12.2	13.1
Gross domestic savings	-9.8	-1.8	-8.9	-0.4	-2.7	1.0
External current account deficit (-) 8/	-19.1	-12.3	-20.7	11.9	-18.8	-15.9
Official transfers	12.7	11.8	11.1 9/	8.6	11.3	10.3
External debt						
Total outstanding including Fund credit	29.3	37.3	38.2	26.1	43.5	42.7
Debt service ratio 10/						
Including the Fund	12.3	10.5	14.3	14.1	13.4	17.4
Excluding the Fund	7.7	8.2	12.9	...	12.0	12.2
Interest payments 10/	2.0	1.6	5.4	3.9	4.9	5.9
	(In millions of SDRs)					
Overall balance of payments	-0.4	-4.0	-29.5	-10.5	-8.3	-6.9
Gross official reserves (months of imports, c.i.f.)	3.1	4.1	3.0	3.5	3.5	...
Outstanding external arrears	62.2	5.4	12.9	--	4.1 11/	1.8 11/

Sources: Data provided by the C.A.R. authorities; and staff estimates and projections.

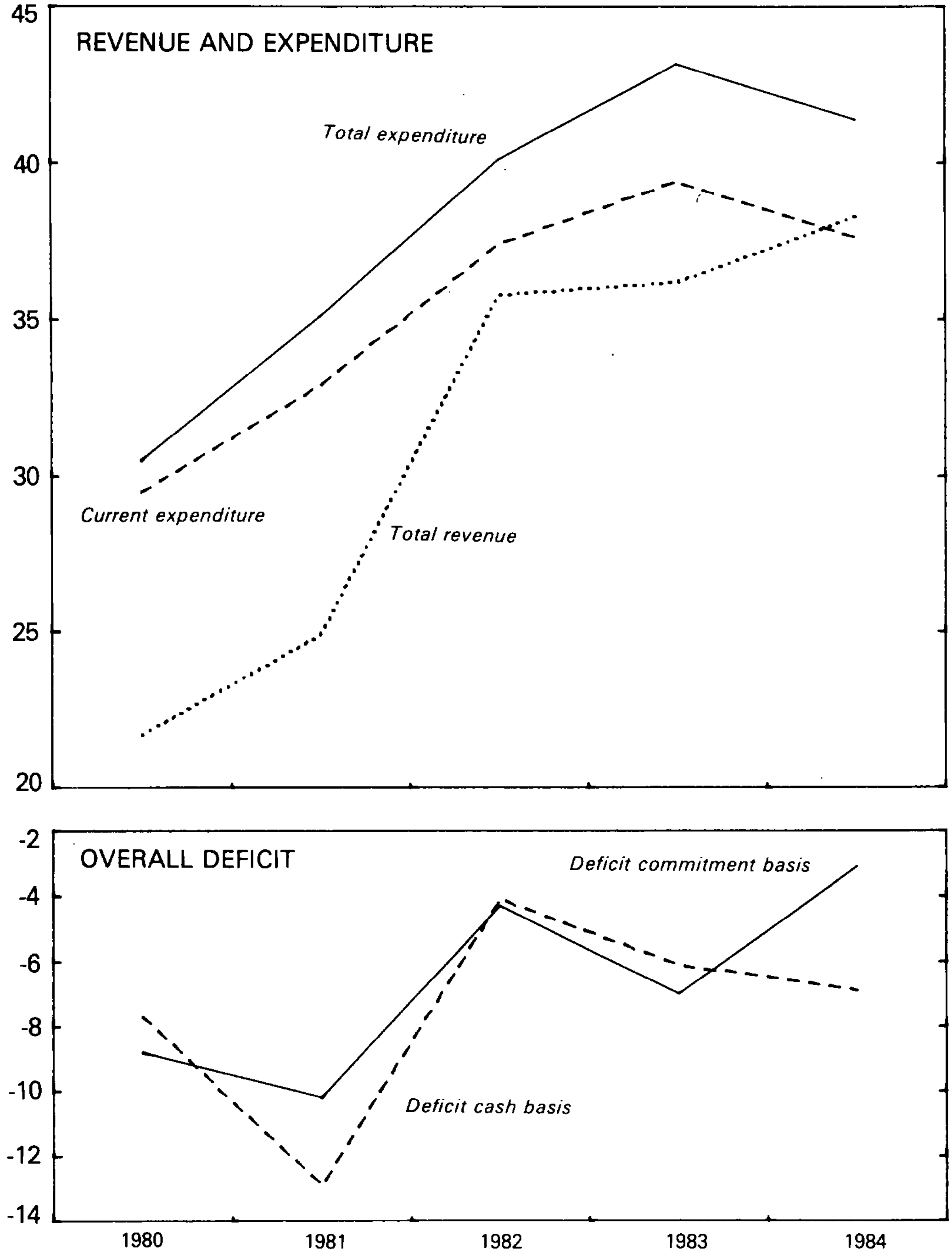
1/ Based on values expressed in SDRs.
2/ Excluding imports and re-exports of coffee.
3/ Based on prices in U.S. dollars.
4/ Import-weighted.
5/ Excluding the exceptional resources from the exchange rate guarantee scheme, budgetary revenue is projected to increase by about 14 percent in 1984.
6/ With M_2 calculated as annual averages of quarterly data.
7/ Excluding grants and investment outlays externally financed outside the budget.
8 Excluding official transfers.
9/ Excluding CFAF 5.1 billion of 1982 debt cancellation.
10/ Scheduled payments, in percent of exports of goods and nonfactor services.
11/ Including SDR 1.4 million of non debt arrears.

CHART 1

CENTRAL AFRICAN REPUBLIC

CENTRAL GOVERNMENT FINANCE, 1980-84

(In billions of CFA francs)



Source: Table 3.

1980 and 1981, both supported by successive one-year stand-by arrangements. The corrective policies were not fully implemented, and there was no significant improvement in the economy. Negotiations for a one-year stand-by arrangement in support of a financial program for 1982 could not be concluded. However, the authorities introduced a number of corrective policy measures aimed at stimulating production and improving the financial performance of the public sector. Producer prices of a number of basic food crops were raised by a range of 14 percent to 29 percent. Also, producer prices for the 1982/83 crop year were increased by 17 percent for cotton and by 8 percent for coffee. In the fiscal area, efforts to mobilize additional budgetary resources included notably the introduction of the special contribution to national recovery (a levy on wages and salaries of civil servants at rates ranging between 5 percent and 28 percent) and the strengthening of tax administration. These actions contributed substantially to the rapid increase in budgetary revenue from 13.2 percent of GDP in 1981 to 16.8 percent in 1982. However, despite the decision to freeze wages in the public sector and to suspend automatic promotions, government spending rose by 14 percent to 18.9 percent of GDP in 1982 due to continued recruitment and to the upgrading of the salary scales of the army and police. Though the budgetary deficit was substantially reduced, large external arrears on debt service were accumulated.

Cognizant of the deep-seated nature of the domestic and external disequilibria confronting the economy that needed to be addressed within the context of a medium-term program, on September 1, 1982 the authorities adopted a three-year recovery program (1983-85). The primary objectives of this program were to: (1) revive, develop, and diversify production and exports; (2) redress the fundamental internal and external disequilibria, particularly by restoring public finance and the public and mixed enterprises to a sound footing while promoting private savings in order to achieve a positive domestic savings rate; (3) meet the basic needs of the population and reduce the disparities between the capital city and the provinces; and (4) align the education system more closely with economic development requirements and the Government's financial resources. The program focused on the development of the agricultural sector and the elimination of bottlenecks in the area of transportation. The World Bank staff generally agreed with the priorities of the investment program and found its content and sectoral distribution to be well-suited to form the basis for future economic growth. The World Bank, which finances important projects in agriculture and infrastructure, also provides technical assistance to the Central African Republic in several areas, including the restructuring of public administration and of parastatals.

As an integral part of this recovery program the authorities adopted an economic and financial program for 1983 that was supported by a one-year stand-by arrangement.

III. Performance Under the 1983 Program

The program's immediate objective was to reduce significantly the external current account deficit, primarily by restraining domestic demand, especially public consumption. Thus, it emphasized the improvement in both the fiscal position of the Government and the financial performance of the state and mixed enterprises. The program also contained policy actions for increasing the rate of investment and incentives to ensure a lasting economic recovery.

In the context of the program the C.A.R. authorities took almost all the major policy measures aimed at reviving the economy and improving the financial performance of the public sector. In the parastatal sector corrective employment and price measures were introduced, including a freeze on wages and salaries, a further reduction in the payroll of the Société centrafricaine de développement agricole (SOCADA), the main rural development agency, increases in electricity tariffs and gasoline prices, and upward adjustment of the charges of the Post Office and Telecommunications Agency. Moreover, six state enterprises were liquidated. In line with the commitment to follow flexible producer pricing policies, the producer price for cotton, which had been increased by 17 percent in 1982/83, was raised again by 14 percent to CFAF 80 per kilo for the 1983/84 crop year. Furthermore, negotiations for the financing of an integrated rural development project in the cotton zone were successfully concluded with foreign creditors, including the World Bank. The implementation of the latter's Highways IV project, the largest of the new infrastructure projects to rehabilitate and maintain the road network, also began in early 1983. As a result of the acceleration in the implementation of the projects already under way in these two sectors and the start-up of the new projects, public investment increased to 12 percent of GDP, compared with 8 percent in 1982.

Notwithstanding the implementation of the above policy measures, the economy suffered a setback in 1983 due to the drought conditions that prevailed in the region during the first half of the year. The abnormally low level of the Oubangui River, the major supply route, disrupted trade flows during the first half of the year. As electricity production--more than 60 percent of which is from hydroelectric plants--fell sharply, manufacturing output declined. The level of activity in commerce and transportation also slowed down considerably. Production of foodstuffs fell significantly. Coffee output for 1983/84 is estimated to have declined by 41 percent to 10,000 tons, as the drought and attendant bushfires severely affected coffee trees. Cotton, which is planted and harvested during the second half of the year, was not affected, and production rose by 12 percent to 32,000 tons, following a 65 percent expansion in 1982/83. Although the rainfall was relatively normal during the second half of the year, a strong recovery in economic activity did not materialize, and real output declined by about 2 percent, compared with a targeted growth rate of a similar magnitude.

In the area of fiscal policy, new revenue-raising measures were introduced as called for under the program. In particular, the rate of taxes on petroleum products was increased, and the special contribution to national recovery was extended to all salaried nationals. Nevertheless, the lower than expected level of imports and economic activity, together with the accumulation of tax arrears by the petroleum company (TOCAGES), resulted in a 10 percent shortfall in tax receipts, in spite of substantially larger-than-anticipated coffee export tax proceeds owing to more favorable realized export prices. However, because of exceptional resources (CFAF 2.6 billion) accruing from the common central bank, 1/ nontax receipts more than doubled, and total budgetary revenue amounted to CFAF 36.2 billion in 1983, against CFAF 36.7 billion programmed (Table 3). On the expenditure front, no general wage increase was awarded. Moreover, in line with the decision to streamline public administration, a survey of government employment was undertaken with the assistance of World Bank consultants. The first results of the survey led to a government payroll reduction of 1,220, but, because of sizable new recruitment, the net reduction was 340 compared with the program target of 400, and overruns in wages and salaries occurred. Reflecting in part the larger-than-anticipated outlays for missions and travel and for the hosting of the UDEAC conference in Bangui, there were also considerable overruns in other current expenditure. With interest payments on debt service rising by 14 percent, total current expenditure at CFAF 39.4 billion was 11.3 percent above the program target. As capital outlays through the budget were kept within the limits foreseen, total budgetary expenditure reached CFAF 43.2 billion, resulting in a deficit on commitment basis of CFAF 7.0 billion, or nearly three times the targeted deficit. Consequently, the Treasury accumulated new arrears (largely domestic), resulting in a deficit on cash basis of CFAF 6.1 billion, or the level initially envisaged. This deficit was financed primarily by foreign aid (CFAF 5.0 billion) and debt relief (CFAF 3.7 billion) obtained following the Paris Club debt rescheduling of July 1983. Net bank financing amounted to CFAF 1.6 billion.

The decline in economic activity and the credit control measures, which resulted in improved adherence to crop loan repayment schedules and in the settlement of arrears on coffee and cotton credits, entailed a considerable slackening in credit to the private sector, which expanded by only 1.6 percent in 1983, against a program target of 13 percent and the 24 percent outcome in 1982 (Tables 2 and 4). With net bank credit to the Government rising by only 5.9 percent in 1983, domestic

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1/ This represents the Central African Republic's share of transfers from the French Treasury to the common central bank (BEAC) in accordance with the exchange rate guarantee agreement between France and the member states of the bank. Under this agreement the value of the BEAC holdings in the operations account with the French Treasury is guaranteed in terms of SDRs.

Table 3. Central African Republic: Budgetary Operations, 1980-84

	1980	1981	1982	1983 Program	1983 Actual	1984 Program
	(In billions of CFA francs)					
Total budgetary revenue	21.7	24.9	35.8	36.7	36.2	38.3
Tax revenue	20.9	23.2	30.8	34.4	30.9	35.2
Taxes on net income and profits	4.1	4.5	7.8	8.8	7.6	6.5
Taxes on goods and services	4.2	5.0	6.0	7.5	7.0	7.6
Import duties and taxes	8.6	9.4	11.3	12.5	9.2	12.8
Export duties and taxes	1.9	2.1	3.0	3.2	4.5	5.1
Other	2.1	2.2	2.7	2.4	2.6	3.2
Nontax revenue	0.8	1.7	5.0 1/	2.3	5.3 1/	3.1
Total expenditure 2/	30.5	35.1	40.1	39.3	43.2	41.4
Current expenditure	29.5	32.9	37.4	35.4	39.4	37.6
Wages and salaries	18.7	21.7	23.7	23.2	23.9	23.3
Materials and supplies	6.8	6.6	6.7	5.8	7.4	6.2
Transfers and subsidies	2.9	3.4	3.9	4.0	4.2	3.7
Interest on public debt 3/	1.0	1.0	2.9	2.4	3.3	4.1
Other	0.1	0.2	0.2	--	0.6	0.3
Capital expenditure 4/	1.0	2.2	2.7	3.9	3.8	3.8
Overall budgetary deficit (on commitment basis)	-8.8	-10.2	-4.3	-2.6	-7.0	-3.1
Arrears (net reduction -)	1.1	-2.7	0.2	-3.5	0.9	-3.8
Domestic	(0.5)	(0.3)	(1.0)	(--)	(1.9)	(-2.8)
External	(0.6)	(-3.0)	(-0.8)	(-3.5)	(-1.0)	(-1.0)
Treasury deficit (cash basis)	-7.7	-12.9	-4.1	-6.1	-6.1	-6.9
Financing	7.7	12.9	4.1	6.1	6.1	6.9
Domestic	0.2	4.1	-1.5	3.0	2.1	4.0
Banking system (net)	1.4	3.8	-1.1 5/	3.0	1.6 5/	1.8 5/
Of which: BEAC	(--)	(0.7)	(-1.4)	(2.7)	(1.3)	(1.0)
IMF counterpart	(1.8)	(4.1)	(0.1)	(0.3)	(0.5)	(0.8)
Other	-1.2	0.3	-0.4	--	0.5	2.2
Foreign (net)	7.5	8.8	5.6	3.1	4.0	2.9
Grants	7.4	5.6	5.0	3.0	3.4	3.5
Borrowing	0.6	3.8	0.9	1.6	1.6	1.5
Amortization paid	-0.5	-0.6	-0.7	-1.5	-1.2	-2.1
Debt relief on interest payments	--	--	0.4	--	0.2	--
Memorandum items:						
Scheduled amortization	-2.7	-3.5	-4.3	-4.7	-4.8	-4.8
Debt relief (principal)	--	2.7	0.9	3.2	3.5	2.7
Accumulation of debt arrears (principal)	2.2	0.2	2.7	--	0.1	--
Outstanding external debt arrears (end of period)	17.9	1.9	4.8	--	1.2	0.2

Sources: Data provided by the C.A.R. authorities; and staff estimates.

1/ Including resources accruing from the exchange rate guarantee scheme.
2/ Commitment basis.
3/ Contractual amounts falling due in each year.
4/ Excluding government outlays financed outside the budget through foreign loans and grants.
5/ Net claims of the banking system exclude deposits held by a number of public entities that are outside the direct control of the Treasury.

Table 4. Central African Republic: Monetary Survey, 1980-84

(In billions of CFA francs; end of period)

	1980	1981	1982	1983	1984 Prog.
Foreign assets (net)	6.15	8.37	5.41	6.95	5.65
Central Bank	8.23	10.14	3.96	3.70	2.40
Deposit money banks	2.76	3.04	1.45	3.25	3.25
Postal debt	-4.84	-4.81	--	--	--
Domestic credit	36.60	41.37	41.01	42.13	47.69
Claims on Government (net)	13.13	16.94	10.66	11.29	13.09
Of which:					
IMF and Trust Fund counterparts	(5.57)	(9.71)	(9.77)	(10.22)	(11.02)
postal debt	(4.84)	(4.81)	(--)	(--)	(--)
Claims on the private sector 1/	23.47	24.43	30.35	30.84	34.60
Broad money	36.63	45.34	42.89	47.99	52.68
Currency in circulation	24.37	31.96	31.22	34.38	37.73
Demand and time deposits 2/	12.26	13.38	11.67	13.61	15.35
Other items (net)	6.12	4.40	3.73	1.09	0.66

Sources: Data provided by the C.A.R authorities; and staff estimates.

1/ Including public enterprises.
2/ Including deposits with the postal checking system.

credit expansion was limited to 2.7 percent compared with a program target of 15.8 percent. As the overall balance of payments outcome turned out to be more favorable, broad money supply expanded by 12 percent, or about the level initially foreseen.

The balance of payments outcome for 1983 was more favorable than projected under the program (Table 5 and Appendix Table II). The volume of cotton exports rose by about 88 percent in 1983, reflecting the sharp growth of output in 1982/83, and that of diamonds expanded by 6.6 percent. This rapid increase more than offset the decline in exports of coffee and timber products, resulting in a 5.5 percent rise in total export volume, or more than double the rate forecast under the program. The volume of imports declined more rapidly (1.5 percent) than anticipated owing to the adverse impact of the drought. Meanwhile, as import prices fell and commodity export prices began to recover, the terms of trade turned out to be more favorable, and the trade balance improved significantly. The deficit in the services account widened owing to larger payments for travel and government services. Thus, in 1983 the external current account deficit remained unchanged at the 1982 level of CFAF 44 billion (SDR 108 million). In terms of GDP, however, it declined to 18.8 percent from 20.7 percent in 1982, but the sought-for improvement (3.5 percentage points of GDP) did not materialize. Public unrequited transfers at CFAF 26.5 billion were substantially above the level forecast, in part due to emergency aid in response to the drought that occurred in the first half of the year. With the acceleration in the implementation of existing projects and the start-up of new ones, aid disbursements rose rapidly in 1983, resulting in a threefold increase in net inflows of official capital to CFAF 5.2 billion, excluding the 1982 debt cancellation. This, together with the inflow of CFAF 2.6 billion related to the exchange rate guarantee agreement referred to above, largely offset the slowdown in private capital inflows, and the external position improved markedly. The overall balance of payments deficit narrowed to the equivalent of SDR 8.3 million compared to a program target of SDR 10.5 million and the 1982 outcome of SDR 29.5 million. Financing of the 1983 deficit involved largely a substantial debt relief of CFAF 6.7 billion, including CFAF 3.0 billion of arrears, obtained following the debt rescheduling of July 1983 under the auspices of the Paris Club. Net Fund drawings amounted to CFAF 1.7 billion (SDR 4.2 million). As a result, net official reserves increased moderately. As of end-1983 gross official reserves were equivalent to 3.5 months of 1984 projected imports (c.i.f.). Following the Paris Club debt rescheduling exercise, external arrears, which amounted to CFAF 4.8 billion as of end-1982, were to be liquidated through rescheduling (CFAF 3.0 billion) and cash payments. However, all bilateral agreements were not concluded by the end of 1983 and cash payments during that year amounted to CFAF 1.4 billion.

During the mid-term review discussions in Bangui (August 15-25) and at headquarters at the time of the Annual Meetings, it was anticipated

Table 5. Central African Republic: Balance of Payments, 1979-84

(In billions of CFA francs)

	1979	1980	1981	1982	1983 Prel.	1984 Prog.
Exports, f.o.b.	27.9	32.7	34.5	36.7	43.6	50.9 1/
Diamonds	(7.8)	(8.1)	(9.0)	(8.9)	(10.5)	(13.0)
Coffee	(6.2)	(7.2)	(6.4)	(9.5)	(13.7)	(13.1)
Timber	(5.6)	(7.2)	(8.5)	(8.1)	(8.3)	(9.2)
Cotton	(2.2)	(3.8)	(5.0)	(2.3)	(5.6)	(8.8)
Other	(6.1)	(6.4)	(5.6)	(7.9)	(5.5)	(6.8)
Imports, f.o.b.	-29.6	-41.6	-42.4	-49.2	-52.1	-57.9 1/
Trade balance	-1.7	-8.9	-7.9	-12.5	-8.5	-7.0
Services (net)	-15.9	-19.4	-11.6	-25.9	-29.8	-29.1
Of which: freight and insurance payments	(-9.2)	(-12.9)	(-12.7)	(-15.2)	(-15.4)	(-16.4)
scheduled interest payments on public debt 2/	(-0.8)	(-0.9)	(-0.8)	(-2.7)	(-2.8)	(-3.9)
Private transfers (net)	-2.6	-4.0	-3.8	-5.6	-5.8	-6.0
Current account balance	-20.2	-32.3	-23.3	-44.0	-44.1	-42.1
Public transfers (net)	19.4	21.4	22.3	28.7 3/	26.5	27.3
Capital (net)	6.6	10.1	2.6	4.4	7.2	11.8
Of which: scheduled public debt amortization	(-2.7)	(-2.7)	(-3.5)	(-9.4) 3/	(-4.8)	(-5.0)
SDR allocations, Trust Fund, and valuation adjustment	0.6	2.7	0.5	2.7	2.6	--
Errors and omissions (net)	-4.3	-2.0	-3.4	-2.5	4.4	--
Overall balance	2.1	-0.1	-1.3	-10.7	-3.4	-3.0
Financing	-2.1	0.1	1.3	10.7	3.4	3.0
Use of Fund credit (net)	-0.7	-0.2	4.8	0.7	1.7	0.8
Arrears (reduction -)	2.9	2.8	-16.1	3.0	-3.6	-1.0
Of which: cash payments	(--)	(--)	(--)	(-0.1)	(-1.6)	(-1.0)
Debt relief	--	--	19.3	2.0	6.7	2.7
Other net reserve movements (increase -)	-4.3	-2.5	-6.7	5.0	-1.4	0.5

Sources: Data provided by the C.A.R. authorities; and staff estimates.

1/ Including imports and re-exports of coffee.
2/ Including Fund charges.
3/ Including debt cancellation by the Federal Republic of Germany and France of CFAF 5.1 billion.

that the adverse impact of the drought on imports and the level of economic activity would result in a shortfall in budgetary revenue estimated at about 10 percent of the level projected under the program. Meanwhile, because of overruns that had already taken place, total budgetary outlays were expected to be some 3 percent above the programmed level. Since it appeared that supplementary expenditure restraint measures required to maintain the pace of adjustment underlying the program would not be readily adopted and implemented, the review could not be completed, and the program became inoperative. The Central African Republic made only one purchase of SDR 4.5 million under the stand-by arrangement.

IV. Report on the Discussions

The C.A.R. representatives noted that the policy initiatives to stimulate investment and production and restore overall domestic and external financial equilibria, introduced since 1982, have had mixed results. The authorities were encouraged by the pickup in the pace of public investment, which as a ratio to GDP rose from 8 percent in 1982 to 12 percent in 1983. Consistent with the planned sectoral allocation, 35 percent of investment was devoted to infrastructure, mostly roads (27 percent), and 21 percent to agriculture. They also noted with satisfaction that the response to the incentive policies has been positive; their impact has been particularly beneficial on production of cotton, which almost doubled over the two crop years ending in 1983/84. In their view, the decline in production of food crops and coffee in 1983/84, as well as the economic setback experienced in 1983, were largely attributable to the drought.

The authorities were also encouraged by the progress achieved in their efforts to restructure the public and mixed enterprises. They were, however, concerned by the income and employment effects of the corrective measures introduced since 1982. The wage freeze and price increases considerably reduced real incomes, while the payroll reductions and the closure of a number of enterprises added substantially to the already growing urban unemployment. In this respect, they observed that no immediate relief could be expected from the private sector, where the creation of employment opportunities has been minimal.

Discussing fiscal policy, the cornerstone of their efforts to restore sound financial conditions and promote economic growth, the C.A.R. representatives intimated that the authorities were fully aware of the need to rein in the growth of public spending and bring it more in line with available resources. However, as this involves a readjustment of employment and educational policies, with its social and political implications, progress in reversing past trends has been rather limited. Current spending, which was maintained at around 17.5 percent of GDP in 1980-82, primarily because of rapid increases in the wage bill, was contained to 16.8 percent of GDP in 1983, as the growth of the wage bill slowed down. Thus, despite the rapid increase in capital outlays, in 1983 total budgetary expenditure as a ratio to GDP remained at about the same level as in 1980-82. This progress was not sufficient, especially in the face of poor revenue performance, and the budget recorded an unsustainably large deficit resulting in a new accumulation of domestic and external arrears. The C.A.R. authorities expressed the view that these circumstances have reinforced their resolve to pursue adjustment efforts within the context of the recovery program (1983-85).

1. Production and investment policies

Planned investments under the recovery program have been revised upward to include new projects such as a textile factory, a cement plant and a sugar refinery. Moreover, investments for road rehabilitation have also been increased. Thus, as revised, total planned investments for 1983-85 amount to CFAF 117.0 billion (at current prices), of which about 24 percent were realized in 1983 (Appendix Table III). The recovery program's strategy remains unchanged. Of total investment planned for 1984-85, 53 percent is allocated to directly productive sectors--essentially agriculture and forestry (20 percent) and manufacturing (19 percent)--and 35 percent to infrastructure. Some 85 percent of these investments is expected to be financed by foreign aid, most of which has already been secured.

In agriculture the most important project is the integrated rural development project in the cotton zone, which aims at increasing yields and production of cotton and food crops. Substantial progress has already been achieved in the implementation of this project, and the initial target of 37,000 tons of cotton set for 1984/85 is likely to be exceeded. The two other major agricultural projects involve coffee and palm oil development. Coffee output, which had reached 17,000 tons in 1982/83, declined sharply in 1983/84 because of the 1983 drought; although it is expected to recover in 1984/85, production is likely to fall short of the objective of 21,000 tons. The agro-industrial palm oil project at Bossongo is to produce about 6,000 tons of oil a year, thereby reducing imports. In the infrastructure sector, investments for the rehabilitation of the road network, which more than doubled to CFAF 7.6 billion in 1983, are expected to increase further to CFAF 11.5 billion. In the forestry and mining sectors, the studies carried out by the World Bank consultants have already been submitted to the Government. The studies conclude, inter alia, that a revision of the existing legislation and fiscal regime would enhance private sector involvement in these two sectors. For 1984 the Government has already reduced the diamond export tax from 18 percent to 12 percent.

On the basis of the 1983 implementation rate, the average investment ratio will increase to 13 percent of GDP in 1984-85 from 12 percent in 1983. Assuming the continuation of existing incentive policies, and a return to relatively normal climatic conditions, a revival in economic activity is likely and the objective of an average growth rate of 2.5 percent of GDP should be attainable in 1984-85. The Government intends to pursue its development efforts within the context of a five-year plan covering 1986-90. The objective is to raise the average investment ratio to 15 percent of GDP and to achieve an average growth rate of real GDP of 3.5 percent per annum during that period. To ensure that financing will be available, the Government intends to organize a donors' conference during the second half of this year, at which time a priority list of projects will be presented. The development plan itself will be submitted to donors at a round table on foreign aid to be organized in 1985. The new plan, though at an early stage of preparation, is likely to put an even greater emphasis on the directly productive sectors. In particular, a larger share of investment will be in the manufacturing sector, including the development of small businesses. Private sector investment will be encouraged, and govern ment intervention, if required, will be limited to joint ventures with private partners. With regard to existing public and mixed enterprises, rehabilitation efforts, including privatization, will be continued with a view to ensuring their profitability. The Government maintains the view that the parastatal sector should contribute to the generation of domestic savings. Accordingly, as in the past, the financially nonviable public enterprises will be liquidated.

2. Fiscal policies

The C.A.R. representatives recognized that, in addition to ensuring the amelioration of the financial position of the public enterprises, restoring financial conditions propitious for sustained growth also requires the achievement of fiscal balance. Therefore, the primary objective of medium-term budgetary policy remains a relative reduction in public sector consumption. Despite the setback experienced in 1983, the Government is determined to reduce the budgetary deficit (commitment basis and excluding externally financed investments) to a maximum of 0.5 percent of GDP in 1986. In this way, there would be a turnaround in the budgetary situation beginning in 1987, and a surplus equivalent to about 1 percent of GDP could be realized in 1988. To that end, current expenditure will be reduced gradually from 16.8 percent of GDP in 1983 to 11 percent in 1988. Given that the wage bill represented more than 60 percent of current expenditures in 1983, this involves the streamlining of public administration. Thus, the Government has decided that, effective January 1, 1984, recruitment in the civil service will be effected only through competitive examination and that in a given year no more than one third of vacancies will be filled. Hence, the practice of guaranteeing a civil service job to all school and university graduates has been eliminated. To carry out the task of restructuring the civil service, a permanent body has been created under the supervision of the Secretary General of the Presidency. This unit will be assisted by the World Bank consultants, who will complete the survey of public sector employment sometime this year. The next task will be to reorganize the public service with a view to increasing its efficiency. This will require, inter alia, a clear definition of staff positions, a computerization of personnel files, and the improvement of the recruitment procedures and the personnel control system. Furthermore, in line with the objective to contain the growth of expenditure on education, the Government decided to introduce, effective January 1, 1984, competitive examinations for the award of scholarships for secondary and higher education. The World Bank's second technical assistance project will aim at supporting the Government's economic and financial rehabilitation efforts by strengthening expenditure control mechanisms and improving the institutional link between the ministries of Planning and Finance. Moreover, the World Bank, which intends to prepare an education sector memorandum in cooperation with UNESCO, will assist the Government in improving the efficiency of the educational system.

On the revenue side the objective is to ensure that over the period 1984-88 budgetary resources grow at a rate comparable to that of nominal GDP. In this respect the Government introduced this year the first phase of a tax reform designed to simplify and improve the yield of income taxes, along the lines of recommendations made by FAD. Moreover, to mobilize additional resources, efforts will be made to strengthen tax administration, thereby improving tax collection and reducing evasion. The authorities also propose to broaden the tax base, in particular through the taxation of unregistered small businesses. To assist them in this endeavor, they intend to request Fund technical assistance.

3. Balance of payments outlook

The authorities are hopeful that the policies to stimulate investment and output combined with actions to contain public consumption would help achieve a sustainable external current account position in the medium term. They are, however, fully aware that, although no single export item represents more than a third of total exports, the principal export products are nevertheless primary commodities that are highly vulnerable to weather conditions and to fluctuations in world market prices. The balance of payments forecast is therefore based on the assumption of a return to relatively normal climatic conditions and of a moderate improvement in the terms of trade. On this basis, the external current account deficit would decline from 18.8 percent of GDP in 1983 to 7.5 percent in 1988 (Appendix Table IV).

The volume of exports is forecast to increase at an average annual rate of 6 percent during 1984-88. Except for cotton and sawn timber, all other export products are projected to grow at lower-than-average rates. The rate of increase in the volume of cotton exports, which was 88 percent in 1983 and is estimated at 45 percent in 1984, is forecast to slow down to an average of 9 percent in 1985-88. It is expected that the actions to stimulate investment in the forestry sector would result in increased timber felling and production of sawn wood. Therefore, the volume of exports of sawn wood is assumed to expand at an average rate of 6.6 percent during 1984-88. The volume of exports of diamonds and coffee, the two most important export products, are assumed to grow at average annual rates of 5 percent and about 3 percent, respectively. With export prices increasing at an average annual rate of 3.6 percent in U.S. dollar terms, total export value in CFA francs is forecast to grow at a rate of about 12 percent during 1984-88.

The volume of imports, which is estimated to decline modestly in 1984, is assumed to increase at an average annual rate of 2.5 percent in 1985-88; during the same period import prices are forecast to rise by 3.7 percent on average, following a decline of 1.2 percent estimated for 1984. The growth rate of total import value would therefore be constrained to 4.4 percent in 1984-88, and as a result the trade balance would shrink gradually and turn into a surplus in 1987.

The deterioration in the services account is forecast to be moderate. The increase in payments for freight and insurance would be partly offset by the expected improvement in the other services account owing to continued restraint in government spending that would result in reduced payments for travel and other government services abroad. Moreover, scheduled interest payments on public debt, which are estimated to increase by almost 40 percent in 1984, would remain at about that level throughout the period 1985-88. Consequently, the external current account deficit is projected to decline from 18.8 percent of GDP in 1983 to 7.5 percent in 1988. Including public unrequited transfers, which are assumed constant in nominal terms over the same period, the external current account deficit would decline from 7.5 percent of GDP in 1983 to less than 1 percent in 1988.

With regard to the capital account, it is assumed that no new nonconcessional loans will be contracted during the period 1984-88; therefore, capital inflows would consist largely of concessional borrowings that would have minimal impact on debt service. The rapid upward trend in capital inflows begun in 1982, reflecting the acceleration in project aid disbursement, is expected to continue in 1984. However, for 1985-88 capital inflows are projected to stabilize around the level estimated for 1984. Thus, assuming no debt relief and given the scheduled debt amortization, net inflows of official transfers and capital, including net Fund repurchases, would decline from 11.2 percent of GDP in 1985 to 8.1 percent in 1988. On the basis of these projections, the overall balance of payments would be in equilibrium by 1986 and in surplus in 1987-88. However, for 1985 there would be a relatively sizable financing gap, which would require exceptional financing.

The Central African Republic's outstanding external debt, including obligations to the Fund amounted to CFAF 102 billion (SDR 233 million) as of end-1983, equivalent to 43.5 percent of GDP. Scheduled debt service, including obligations to the Fund, is estimated to increase from 13.4 percent of exports of goods and nonfactor services in 1983 to 17.4 percent in 1984 and to peak at 20.3 percent in 1985, before declining to 17 percent in 1986 and to 14.5 percent in 1987-88. Obligations to the Fund will increase from 10.4 percent of total debt service in 1983 to 30.2 percent in 1984 and 34.2 percent in 1985; thereafter, they will decline to 14.0 percent in 1987 before rising again to 23.7 percent in 1988 (Appendix Table V). The C.A.R. representatives indicated that nontrade related short-term debt and private sector debt are negligible.

The Central African Republic shares a common central bank (BEAC) and a common currency, the CFA franc, with Cameroon, Chad, Gabon, and the People's Republic of the Congo. The CFA franc is pegged to the French franc at the rate of CFAF 50 = F 1. The import-weighted nominal effective exchange rate, which had remained stable during 1979-80, depreciated at an annual rate of 2.9 percent in 1981-82, reflecting the downward movement of the French franc vis-à-vis other major currencies (Chart 2). It depreciated further by 2.5 percent in 1983, and the downward trend appears to have continued during the first few months of 1984. In real terms, however, it appreciated by 3 percent between 1979 and 1981, since then the movement was reversed, and by the end of 1983 it had depreciated by 3.5 percent. The C.A.R. representatives indicated that they considered the common exchange rate arrangements appropriate to their circumstances. The Central African Republic does not maintain restrictions on payments and transfers for current international transactions, and its trade system is liberal.

V. The Program for 1984

The economic and financial program for 1984 was designed within the context of the medium-term scenario described above, which envisages budgetary equilibrium by 1986-87 and a reduction in the external current account deficit to a sustainable level by 1988. Accordingly, as spelled out in detail in the attached letter of intent and accompanying economic memorandum and summarized in Table 6, the program seeks to reduce the budgetary deficit (commitment basis) by 1.8 percent of GDP and the external current account deficit (excluding official transfers) by 2.9 percent of GDP. The program assumes that the volume of exports will grow by 7.5 percent in 1984; real GDP is assumed to increase by 2.7 percent and inflation to be reduced to 10 percent. A modest improvement in the external terms of trade is also assumed given the anticipated revival in the world economy. Furthermore, it is expected that the Central African Republic would seek and obtain exceptional balance of payments support, including bilateral debt rescheduling.

Table 6. Central African Republic: Summary of Financial Program for 1984

	1982	1983 Prel.	1984 Program
I. Assumptions			
Change in total export volume (in percent)	-4.9	5.5	7.5
Of which: diamonds	(-11.6)	(6.6)	(10.6)
coffee	(26.6)	(-1.2)	(-5.2)
logs	(-26.3)	(-1.4)	(6.1)
sawn timber	(61.5)	(-3.9)	(5.3)
cotton	(-55.1)	(87.8)	(45.2)
Change in terms of trade (in percent)	-2.1	4.8	0.8
Exceptional balance of payments support, including debt rescheduling (in millions of SDRs)	5.5	16.4	6.2
CFAF/SDR (annual average)	362.80	407.36	437.00
II. Targets			
Real GDP growth	-1.6	-2.3	2.7
Inflation rate	14.4	12.9	10.0
External current account deficit, excluding official transfers			
In millions of SDRs	-121.1	-108.3	-96.3
In percent of GDP	-20.7	-18.8	-15.9
Overall balance of payments deficit (in millions of SDRs)	-29.5	-8.3	-6.9

III. Principal policy measures

a. Prices

- Producer prices increased from CFAF 80 to CFAF 90 for cotton and from CFAF 130 to CFAF 135 for coffee.

b. Budget

- Reduction in the overall budgetary deficit (commitment basis) to CFAF 3.1 billion (equivalent to 1.2 percent of GDP), compared to CFAF 7.0 billion (3.0 percent of GDP) in 1983.
- Increase in revenue of CFAF 4.7 billion or 14 percent, excluding resources from the exchange rate guarantee scheme, mainly through an income tax reform, an increase in the Treasury's share of marketing surplus on coffee from 55 percent to 60 percent, and a number of discretionary tax measures.
- Limit total expenditure (excluding amortization) to CFAF 41.4 billion (1983: CFAF 43.2 billion) by reducing current expenditure by 4.6 percent.
- No general wage increase, reduction in government employment by limiting new recruitment to one third of vacancies (with a maximum of 300 during 1984), and by introducing competitive examinations for the award of scholarships for secondary and higher education.
- Imposition of quarterly ceilings on current expenditure, excluding interest payments on the public debt.
- Borrowing from civil servants equivalent to one month's wage bill (CFAF 1.7 billion).
- Issue of Treasury bills (CFAF 0.5 billion) to be subscribed to by the Stabilization Fund.

c. State enterprises

- Water tariffs have been increased by 30 percent.
- Electricity tariffs to be increased by 10 percent by the end of August 1984.
- Privatization of three public enterprises is being considered.

d. Money and banking

- Limit domestic credit expansion to 13 percent (1983: 2.7 percent).
- Limit credit to Government to CFAF 1.8 billion (1983: CFAF 0.6 billion) with provision that exceptional budgetary resources from the exchange rate guarantee scheme in 1984 be used to reduce government indebtedness vis-à-vis the Central Bank.
- Limit credit expansion to private sector to 12 percent (1983: 1.6 percent).

e. External sector

- Elimination of all external arrears through cash payment and rescheduling over the stand-by period.
- No new borrowing on nonconcessional terms of less than 12 years.

IV. Surveillance of program

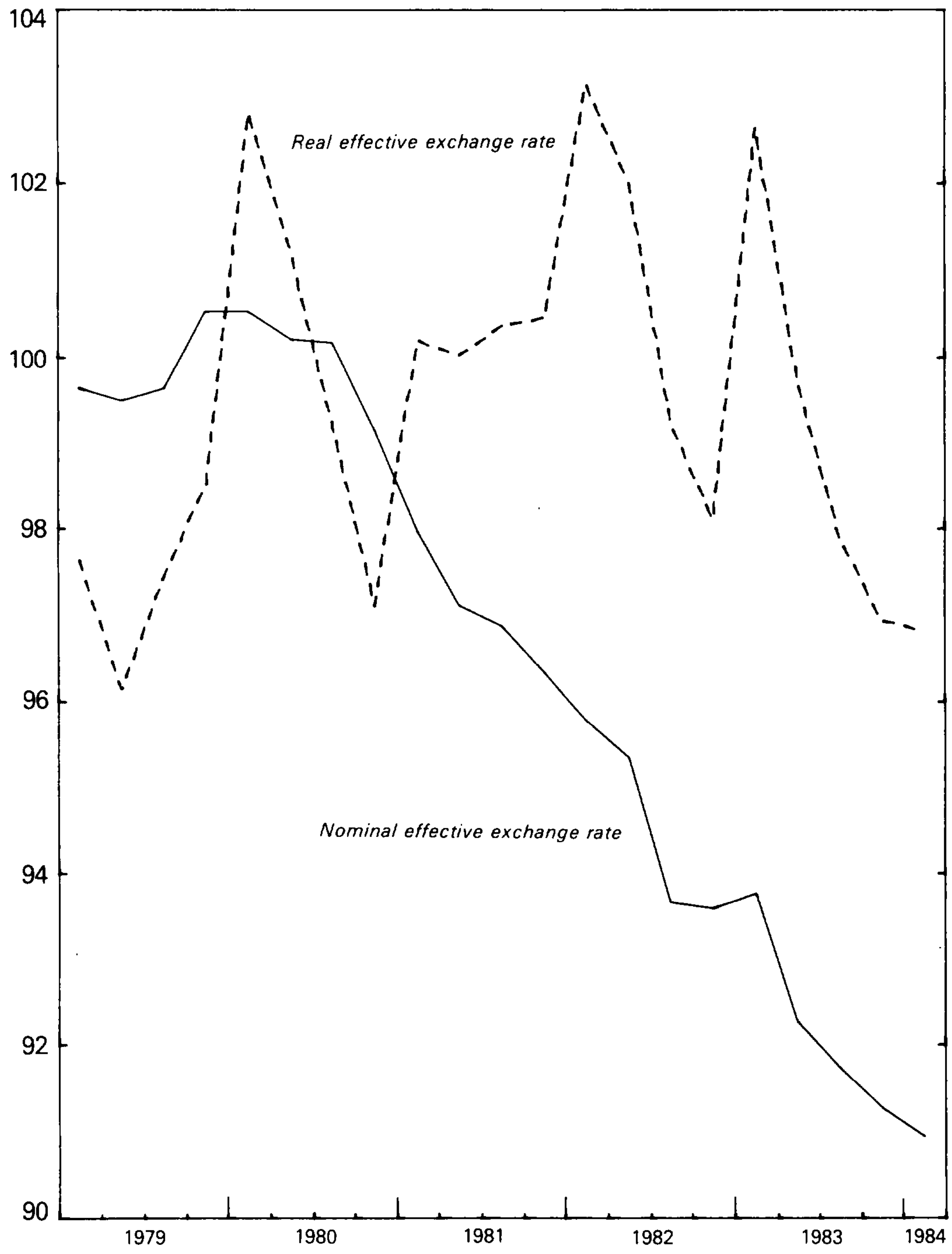
Mid-term review before end-November 1984.
A second review before end of April 1985, during which the 1985 budget will be discussed.
Consultation with the staff if the quarterly limits on current expenditure are exceeded by more than 5 percent.

CHART 2

CENTRAL AFRICAN REPUBLIC

EFFECTIVE EXCHANGE RATES, IMPORT - WEIGHTED, 1979-84[1]

(1980 = 100)



Source. IMF Data Fund.

[1]Quarterly averages (1980 = 100), fall in index = depreciation.

1. Economic outlook

In 1984, for the third consecutive year, the producer price of cotton has been raised, and set at CFAF 90 per kilo for the 1984/85 season, a 12.5 percent increase over the previous year. At the same time continued efforts will be made to improve extension services, input supply, and marketing. It is estimated that cotton output will increase by 16 percent to 37,000 tons in 1984/85. The producer price of coffee was also raised by 4 percent in 1983/84 to CFAF 135 per kilo.

The rainfall has so far been normal, and production of the main food crops is expected to be significantly higher than in 1983/84. At the same time production of electricity, which is largely from hydroelectric plants, and manufacturing output are anticipated to recover. A revival in most other economic sectors is also likely. Official diamond production in particular is estimated to increase by 10 percent in 1984. Furthermore, in that year planned public investment is projected to rise by 43 percent to CFAF 41 billion, of which 28 percent will be allocated to the agricultural sector, 21 percent to industry and energy, and 36 percent to infrastructure. Consequently, real GDP is targeted to grow by 2.7 percent in 1984, thus reversing the downward trend of the past few years.

In the parastatal sector the rehabilitation efforts will be continued in 1984. The rates charged by the water company (SNE) have already been raised by 30 percent, while those of the electricity company (ENERCA) will be increased by 10 percent by the end of August. Moreover, the Government intends to privatize three enterprises, the Imprimerie centrafricaine, the Librairie centrafricaine, and an insurance company (SIRIRI). Additional specific measures are also being examined.

2. Public finance

Consistent with the medium-term objectives, the budgetary deficit on commitment basis will be reduced by more than half, from CFAF 7.0 billion in 1983 to CFAF 3.1 billion in 1984, or, as a proportion of GDP, from 3.0 percent to 1.2 percent (Table 3). The program also calls for the settlement in 1984 of arrears in an amount of CFAF 3.8 billion, of which CFAF 1.0 billion represent external arrears; it is expected that the remainder (about CFAF 3.0 billion) of the domestic arrears will be settled in 1985-86. Therefore, the overall Treasury deficit (cash basis) will be limited to CFAF 6.9 billion. Scheduled public debt amortization is estimated at CFAF 4.8 billion and, under current assumptions, bilateral debt relief at CFAF 2.7 billion. Taking into account the budgetary grants (CFAF 3.5 billion) and a soft loan of CFAF 1.5 billion, which have already been secured, net external financing will amount to CFAF 2.9 billion. Nonbank domestic financing is estimated at CFAF 2.2 billion, consisting of the proceeds from subscriptions to Treasury bills by the Stabilization Fund of CFAF 500 million and of a borrowing of CFAF 1.7 billion from the civilian and military employees of the Government. This latter loan is to be refunded in annual installments over a three-year period from 1987 to 1989. Consequently, the net Treasury recourse to bank credit will be limited to CFAF 1.8 billion in 1984. In relation to broad money stock at the beginning of the period, the net claims of the banking system on the Government will increase from 1.5 percent in 1983 to 3.8 percent in 1984.

To contain the budgetary outcome within the above limits, total budgetary expenditure is to be curtailed by about 4 percent to CFAF 41.4 billion. This is to be achieved solely through reduction in current spending, which will be curbed by 4.6 percent to CFAF 37.6 billion, a level that, for the first time in many years, will be entirely covered by budgetary revenue. In contrast to previous years, the wage bill will be reduced by 2.5 percent to the targeted level of CFAF 23.3 billion, including outlays for temporary staff, which are not to exceed CFAF 600 million. To that end, as in 1983, there will be neither a general salary increase nor an upgrading of salary scales, and the automatic promotions planned for 1984 will have no financial impact. Although no general wage awards have been granted during the last three years, the resulting erosion in real wages has been offset to some extent by the significant upgrading of salary scales that took place in 1980-82. The new employment policy, which represents a fundamental departure from past practices, will be a major factor in the targeted reduction of the wage bill in 1984. In line with this policy, new recruitment in the civil service and the army, including personnel from the temporary staff, will not exceed 300. This will be facilitated by continued efforts to streamline the civil service with the assistance of the World Bank consultants. These efforts have been strengthened by the creation of a permanent body that will also be entrusted with the monitoring and control of public administration restructuring measures.

Nonwage current expenditures, excluding interest payments, are also likely to be curtailed by 16 percent to CFAF 10.2 billion, largely because appropriations for materials and supplies and transfers, which showed substantial overruns in 1983, will be sharply cut back. To that effect, the control measures introduced in 1983, especially the reduction in the number and size of missions, will be maintained and strengthened. With regard to transfers for scholarships, their amount has been set at CFAF 1.2 billion compared with CFAF 1.3 billion in 1983; the full impact of the new scholarship policy will not be felt until 1985. Over the first four months of 1984 these outlays have been held within their respective budgetary appropriations. Scheduled interest payments, including Fund charges, are estimated to increase by 24 percent to CFAF 4.1 billion in 1984. Thus, excluding interest payments, total current expenditure will be curtailed by 7 percent.

Capital outlays through the budget, which represent less than 10 percent of total public investment, will be maintained at their 1983 level of CFAF 3.8 billion. These outlays consist of counterpart funds, equity participation, and mainly expenditure for the maintenance of road infrastructure (Road Fund) and for the rehabilitation of public and mixed enterprises (Recovery Fund). Both of these two special funds are financed through earmarked taxes or proceeds from foreign grants and loans.

The proposed fiscal adjustment also involves a 14 percent increase in tax revenue despite the elimination of the special contribution to national recovery (a levy on wages and salaries) introduced in 1982. This increase is largely attributable to the introduction of new tax measures (Table 7) and the collection of tax arrears (CFAF 1.3 billion) from the petroleum distributing company (TOCAGES).

Nontax revenue is projected to decline by more than 40 percent in 1984, as no allowance is made for resources likely to accrue in that year to the Treasury from the exchange rate guarantee scheme; in 1982 and 1983 such resources amounted to CFAF 2.7 billion and CFAF 2.6 billion, respectively. Thus, total budgetary revenue is forecast to increase by only about 6 percent in 1984; in relation to GDP, it will decline by 1 percentage point to 14.5 percent. In contrast, tax revenue as a ratio to GDP will increase marginally to 13.3 percent.

To strengthen fiscal discipline and ensure that expenditures remain within the budgeted limits, quarterly targets have been set on current expenditure commitments, as indicated in Table 8. Any overrun at the end of a quarter will trigger an offsetting adjustment in commitments for the following quarter through the imposition of appropriate limits on budgetary appropriations; should the overrun exceed 5 percent of the targets, the authorities will consult with the Fund staff. Moreover, the programmed expansion in bank credit to the Government will be reduced pari passu by any amount of exceptional resources that may accrue to the Treasury from the exchange rate guarantee scheme; the Government will consult with the Fund during the program review to reach understandings on the use of these resources. In addition, should debt relief obtained be more favorable than assumed, the Government will consult with the Fund within the framework of the review of the program in order to reach understandings on the use of the budgetary appropriations thereby released. Furthermore, during the second review of the program, budgetary targets for 1985 consistent with the medium-term budgetary objectives will be discussed.

3. Monetary and credit policy

After the sluggish growth experienced in 1983 and given the assumed revival in activity in 1984, private sector demand for credit is expected to be strong. The authorities agree that the pursuit of a credit policy that will accommodate such demand without exerting undue pressures on prices and the external position is predicated upon the achievement of the budgetary targets. Taking that into account, credit to the private sector, which is largely for export crop financing, will expand by

Table 7. Central African Republic: Impact of New Tax Measures, 1984

(In millions of CFA francs)

Measures	Expected yield
Income tax reform	500
Increase in the rate of the taxes on petroleum products	900
Adjustment of certain administrative values (valeurs mercuriales) for the assessment of customs duties	190
Increase in the Treasury's share of the marketing surplus on coffee from 55 percent to 60 percent 1/	500
	2,090

Source: Proposed stand-by arrangement.

1/ The remaining 40 percent accrues to the Stabilization Fund, a government autonomous agency in charge of stabilizing producer prices and encouraging agricultural production for export.

Table 8. Central African Republic: Limits on Current Expenditure Commitments, 1984 1/

(In billions of CFA francs)

	June	September	December
	(Cumulative amounts at the end of each period)		
Current expenditure			
Wages and salaries	11.7	17.5	23.3
Materials and supplies	3.0	5.0	6.2
Transfers and subsidies 2/	2.0	3.0	3.9
Total	16.7	25.5	33.4

1/ Excluding transfers to the CAADE and interest on external debt.
2/ Including pensions, OCSS contributions, and interest due on BEAC advances.

12 percent in 1984, compared with 1.6 percent in 1983. Assuming that seasonal credit is liquidated on schedule, such an expansion should be adequate to meet the credit needs of the economy. Given the budgetary targets, the expansion in domestic credit in 1984 will be limited to CFAF 5.6 billion, or a 13 percent increase compared to about 3 percent in 1983. In relation to broad money outstanding at the beginning of the period, the expansion of credit to the private sector will increase from 1.1 percent in 1983 to 7.8 percent in 1984, and that of domestic credit from 2.6 percent to 11.6 percent. The increase in domestic credit will be adjusted downward pari passu, with any reduction in credit to the Government to take into account exceptional resources accruing to the Treasury as referred to above.

The above ceiling on domestic credit is consistent with the balance of payments objective and the assumed slowdown in the rate of monetary expansion from 11.9 percent in 1983 to 9.8 percent in 1984. In that year nominal GDP is targeted to grow by 12.8 percent and inflation to slow down to 10 percent from about 13 percent in 1983. The monetary authorities intend to take all necessary actions to maintain the growth in domestic credit within the agreed limits. In particular, they will ensure that seasonal credit is repaid in a timely manner. Should it prove necessary, they will apply strictly the available credit control instruments.

The monetary authorities shared the view that a more active interest rate policy could enhance the effectiveness of credit and monetary policy. Recognizing that the recent adjustment has not been adequate, they noted that interest on large deposits is freely negotiable. They added that in recent years the share of time and savings deposits in total deposits has increased steadily; however, the amount remains very low. In their view, the difficulties in mobilizing financial savings also partly reflect the inadequacy of bank infrastructure. The commercial banking system is limited to two commercial banks with only three branches, including the headquarters, all located in the capital city. The new agricultural lending institution has not yet started its operations. Moreover, the monetary authorities observed that a major change in the interest rate structure requires a decision at the level of the monetary union.

4. External policies

The program's targeted reduction of the external current account deficit by 2.9 percentage points to 15.9 percent of GDP in 1984 is consistent with the pace of adjustment underlying the medium-term balance of payments objectives. The supply-stimulating and demand-restraining measures introduced in 1984 are expected to contribute substantially to the envisaged improvement in the trade and external current accounts.

Total export volume is forecast to rise by about 7.5 percent in 1984, reflecting primarily increases in the volume of cotton (45 percent), diamonds (11 percent), logs (6 percent), and sawn timber (5 percent). Because of the expected sharp increase in border trade, the volume of coffee exports is projected to decline only moderately (5 percent). With the exception of diamonds, the export prices of all the major export products are slated to decline in U.S. dollar terms; unit export value of diamonds is projected to increase by 3.4 percent while that of coffee, the second largest export, will decline by 24 percent, a significant turnaround compared to the average realized price for 1983. As a result, the anticipated 1 percent decline in export prices in U.S. dollar terms is forecast to be more than offset by the rise in volume, and total export earnings are projected to increase by about 17 percent to CFAF 50.9 billion (SDR 116.5 million); in terms of SDRs, the increase in export earnings would be 9 percent. Imports are forecast to grow by 11 percent to CFAF 57.9 billion (SDR 132.5 million); however, excluding border trade in coffee, the rate of growth of imports drops to 6.5 percent, implying a real decline of about 2 percent. This will affect primarily imports of consumption goods and will be facilitated to some extent by the drawdown of stocks that were built up in late 1983, partly in anticipation of another drought.

With imports increasing by 3.6 percent in terms of SDRs and exports rising by 9 percent, the trade balance is expected to improve significantly. This, combined with reduced payments for freight and insurance and government services, is expected to bring about an 11 percent reduction in the external current account deficit to SDR 96.3 million (CFAF 42.1 billion). Inflows of official transfers and net capital, including scheduled debt amortization and errors and omissions, are forecast to decline by 11 percent to SDR 89.4 million, despite the acceleration in disbursements of public sector loans. These projections, which do not include any possible inflows on account of the exchange rate guarantee scheme in 1984, also assume a 4 percent decline in the nominal value of official transfers in terms of SDRs. Nevertheless, the improvement in the current account will help contain the overall balance of payments deficit to the equivalent of SDR 6.9 million (CFAF 3.0 billion), compared with a deficit of SDR 8.3 million (CFAF 3.4 billion) in 1983. This deficit, together with the cash payments of external arrears, will be covered mainly through bilateral debt relief and use of Fund resources under the proposed stand-by arrangement.

The Central African Republic's debt service ratio, including the Fund, is estimated to rise from 13 percent of exports of goods and nonfactor services in 1983 to 17 percent in 1984, representing 30 percent of that year's budgetary revenue. In view of the relatively high level of these debt obligations, the C.A.R. authorities have requested bilateral debt relief from their major creditor 1/ whose authorities have indicated

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1/ Obligations owed to other member countries of the Paris Club consist of minor amounts that would not be subject to rescheduling under the normal "de minimis" provisions of Paris Club agreements.

that following Board approval of the proposed stand-by arrangement, they expect negotiations on a bilateral rescheduling agreement to be concluded shortly. The staff has estimated that on the basis of the terms of the 1983 rescheduling, debt relief from this source could be in the order of CFAF 2.7 billion. The results of the debt relief negotiations will be reviewed at the time of the first comprehensive review of the program with the Fund that will take place by end-November 1984. During the period of the stand-by arrangement, the authorities also intend to settle all external arrears outstanding as of end-1983 (SDR 4.1 million); for 1984 the program calls for cash reduction of arrears of SDR 2.3 million (CFAF 1.0 billion).

5. Performance criteria

The quantitative performance criteria under the program are specified in Table 9. In addition, the performance criteria include the standard clauses regarding the exchange and payments system. Furthermore, there will be two comprehensive reviews with the Fund of progress under the program, the first not later than the end of November 1984 and the second not later than the end of April 1985, both of which constitute performance criteria. During the first review the staff will, in particular, ascertain the results of the bilateral debt rescheduling exercise. During the second review understandings will be reached on budgetary targets for 1985, and performance criteria will be set for March 1985.

Table 9. Central African Republic: Quantitative Performance Criteria for the Proposed Stand-By Arrangement

(In billions of CFA francs; end of period)

	1983	1984				1985
	Dec.	March 1/	June	Sept.	Dec.	March 1/
Domestic credit 2/	42.1	44.3	49.4	47.2	47.7	51.2
Of which: claims on the Treasury (net) 2/3/	(13.2)	(13.8)	(14.8)	(15.5)	(15.0)	(15.9)
Reduction in arrears						
External	...	0.2	0.4	0.7	1.0	1.4 4/
Domestic (net)	...	1.7	2.0	2.4	2.8	...
New external borrowing with initial maturities of 1 to 12 years 5/	...	--	--	--	--	--

1/ Indicative ceilings. Performance criteria for March 1985 will be set during the second comprehensive review of the program.

2/ These ceilings will be adjusted downward by an amount equivalent to any resources accruing to the Treasury from the exchange rate guarantee scheme.

3/ Defined as the claims of the banking system on the Government minus deposits with the banking system of the Treasury, the CAADE, the OCPT, the Postal Checking System, the Road Fund, the Clerk's Office of the Court of Bangui, the CMRN Presidency, and the cash holdings of the Treasury.

4/ The balance (CFAF 0.4 billion) will be settled before the end of the stand-by arrangement.

5/ Contracted or guaranteed by the Government.

VI. Staff Appraisal

In late 1981 the C.A.R. authorities decided to address the deep-seated domestic and external imbalances facing the country in the framework of a medium-term program, the National Action Program. To prepare the ground for the implementation of a three-year recovery program (1983-85), in 1982, an interim year, the authorities introduced a number of corrective policy measures designed to contain the deterioration in the economic and financial situation. Although in that year the budgetary performance improved owing to a sharp increase in revenue, the budgetary and external current account deficits remained large, and economic activity continued its downward trend. As an integral part of the recovery program, the authorities adopted an economic and financial program for 1983, which was supported by a one-year stand-by arrangement. In the context of this program, virtually all the major policy measures aimed at reviving the economy and improving the financial performance of the public sector were introduced. Nevertheless, in 1983 the economy suffered a setback, owing primarily to the drought in the first half of the year. During the mid-term review understandings could not be reached on supplementary fiscal restraint measures required to maintain the pace of adjustment underlying the program. Consequently, the mid-term review could not be completed, and the program became inoperative. In the event, in 1983 real output declined anew, and the budgetary deficit widened substantially, reflecting primarily overruns in current expenditure. Although the current account deficit in relation to GDP was reduced, it remained at an unsustainable level. Moreover, sizable domestic and external arrears were accumulated, and the debt service for 1984 and beyond remains relatively high.

The C.A.R. authorities expressed the opinion that these circumstances together with the country's difficult economic prospects, have reinforced their resolve to pursue their adjustment effort within the context of the three-year (1983-85) recovery program. In their view, shared by the staff, the objectives and strategy of this program, which aims at expanding supply and reducing public consumption, remain appropriate. The policy measures implemented during the last two years have produced some encouraging results. Public investment rose rapidly, from 8 percent of GDP in 1980-82 to 12 percent in 1983, and is estimated to rise further to 13 percent in 1984. Equally important is the favorable impact on production of the incentive policies introduced since 1982. Significant progress has also been made in the efforts to improve the performance of the parastatal sector. Therefore, the authorities have rightly decided to continue to pursue these policies during the remaining period of the recovery program and within the context of the new development plan envisaged for the period 1986-90. This new plan, currently at an early stage of preparation, will seek to raise the average investment ratio to 15 percent of GDP and to achieve an average growth rate of real output of 3.5 percent per annum, and thereby realize a modest growth in per capita incomes.

The C.A.R. authorities agreed with the staff that the restoration of financial conditions conducive to the achievement of sustainable economic growth requires a major improvement in the fiscal position. Consequently, the primary objective of medium-term budgetary policy will be to achieve budgetary equilibrium by 1986-87 and a surplus thereafter. Strict adherence to the new policies regarding recruitment and scholarships, which represent a fundamental departure from past practices, will be a critical element in controlling the growth of government spending. It will also be important to reform the education system and gear it more adequately to the requirements of the economy. Meanwhile, the progress already made in streamlining public administration is noteworthy, and the staff strongly encourages the rapid and vigorous implementation of additional actions envisaged in this area. The staff also welcomes the introduction of the first phase of the tax reform and recommends that additional actions be taken to mobilize domestic resources. In particular, a review of the present system of tax deductions could contribute significantly to increasing the yield of income taxes. An appropriate fiscal policy stance should make it possible to accommodate the expected increase in private sector demand for credit associated with economic recovery without exerting excessive pressures on prices and the external position. In this respect, the staff encourages the authorities to create conditions that will allow the pursuit of a more active interest rate policy.

The medium-term policies that aim at expanding supply and restraining domestic demand, if fully implemented, would contribute considerably to the attainment of a sustainable medium-term current account position, which should allow the normal servicing of the public external debt. These policies should be accompanied by great prudence in contracting new external debt.

The program for 1984 is consistent with these medium-term objectives. It provides for continued provision of incentives to stimulate production and for additional corrective measures to improve the financial performance of the parastatal sector. More important, appropriate fiscal policy measures have also been introduced. The staff is fully aware of the adverse impact of the adjustment effort on employment and incomes. However, in the circumstances of the Central African Republic, this seems unavoidable. Cognizant of this necessity, the authorities have already undertaken the implementation of the 1984 program in support of which they request the proposed stand-by arrangement. The staff believes that the adjustment effort under the program is adequate and deserves support.

The proposed stand-by is in an amount of SDR 15 million, or 49.3 percent of quota. This access is consistent with the balance of payments need. The Fund's holdings of the Central African Republic's currency subject to repurchase are relatively low. However, the country's external current account deficit is not expected to be reduced to a sustainable level until 1988, and in the meantime exceptional financing will be required. Scheduled debt service to the Fund is estimated to rise from 10 percent of the Central African Republic's total debt service in 1983 to 30 percent in 1984 and 34 percent in 1985.

The Central African Republic has made substantial progress in centralizing debt statistics and in debt management. There are, however, deficiencies in the area of production, price, and trade statistics. To assist them in their efforts to improve economic and financial statistics and to broaden the tax base, the authorities have expressed their intention to request Fund technical assistance.

The Central African Republic maintains a system of trade and payments that is free of restrictions on payments and transfers for current international transactions with France and all countries which are linked with the French Treasury by an operations account. Imports from all other countries are subject to licensing, and payments for invisibles to these countries are subject to approval. Moreover, capital transfers to these countries require exchange control approval and are restricted, but capital receipts are permitted freely. There has been some accrual of arrears on external payments owing to a lack of budgetary resources to purchase foreign exchange from the common central bank. The staff encourages the authorities to adopt fiscal policies aimed at eliminating arrears on official external payments obligations.

It is recommended that the next Article IV consultation with the Central African Republic be held on the standard 12-month cycle.

VII. Proposed Decisions

Accordingly, the following draft decisions are proposed for adoption by the Executive Board:

(i) 1984 Consultation

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with the Central African Republic, in light of the 1984 Article IV consultation with the Central African Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the Central African Republic continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

(ii) Stand-By Arrangement

1. The Government of the Central African Republic has requested a stand-by arrangement for a period of one year from June , 1984 in an amount equivalent to SDR 15 million.

2. The Fund approves the stand-by arrangement attached to EBS/84/121.

3. The Fund waives the limitation in Article V, Section 3(b)(iii), of the Articles of Agreement.

I. Central African Republic: Relations with the Fund

(As of May 31, 1984)

I. Membership status

Date of membership	July 10, 1963
Status	Article XIV

A. Financial Relations

II. General Department

(a) Quota	SDR 30.40 million	
(b) Fund holdings of local currency	SDR 54.88, or 180.53 percent of quota	
	Millions of SDRs	**Percent of quota**
(c) Use of Fund credit		
Credit tranches	12.37	40.68
EAR	4.50	14.80
CFF	7.70	25.33
(d) Repurchase obligations	24.57	80.82

III. Previous stand-by arrangements

A one-year stand-by arrangement was approved on April 10, 1981 in an amount of SDR 10.4 million (43.3 percent of quota). The total amount was drawn. A one-year stand-by arrangement was approved on April 22, 1983 in an amount of SDR 18 million (equivalent to 75 percent of quota). Total purchases under this arrangement amounted to SDR 4.5 million.

IV. SDR Department

(a) Net cumulative allocation	SDR 9.32 million
(b) Holdings	SDR 1.8 million, or 19.3 percent of net cumulative allocation

V. Administered accounts

Trust Fund loans	
(i) Disbursed	SDR 12.48 million
(ii) Outstanding (March 31, 1984)	SDR 11.94 million

VI. Overdue obligations to the Fund

None

I. Central African Republic: Relations with the Fund (concluded)

(As of May 31, 1984)

B. Nonfinancial Relations

VII. Exchange system

The CFA franc is pegged to the French franc at the fixed rate of CFAF 50 = F 1.

VIII. Last Article IV Consultation and Review of Stand-By Arrangement

1982 Consultation

November 21-December 12, 1982. Executive Board discussion: March 29, 1983.

"1. The Fund takes this decision in concluding the 1982 Article XIV consultation with the C.A.R., in the light of the 1982 Article IV consultation with the C.A.R. conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the C.A.R. continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions."

Stand-By Arrangement

"1. The Government of the Central African Republic has requested a stand-by arrangement for a period of one year from April 22, 1983, in an amount equivalent to SDR 18 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/65.

3. The Fund waives the limitation in Article V, section 3(b)(iii), of the Articles of Agreement."

4. The mid-term review that was conducted during August 1983 could not be concluded.

IX. Technical assistance

(a) CBD	None
(b) Fiscal	Tax expert (1983)

X. Resident representative/Advisor None

II. Central African Republic: Relations with the World Bank Group

(As of January 31, 1984)

A. IDA lending program 1/

	(In millions of U.S. dollars)		
	Total	Disbursed	Undisbursed
Livestock	2.50	1.84	0.66
Transportation (highways)	45.34	29.97	15.37
Education	15.14	5.36	9.78
Technical assistance	3.41	2.17	1.24
Total	66.39	39.34	27.05
Repayments		0.46	
Outstanding (excluding undisbursed)		38.88	

B. IFC investment

nil

C. Technical assistance

The World Bank is funding an ongoing project designed to improve the absorptive capacity of the economy and to stimulate private investment. Under this project, four resident experts are already in Bangui, namely, a project coordinator, an agricultural program coordinator, a legal expert, and an external debt expert. In addition, a World Bank economist has been seconded as an advisor to the High Commissioner for Planning. The World Bank is also financing a comprehensive survey of civil servants with a view to streamlining government employment.

1/ Does not include the Cotton Area Rural Development Project loan for US$ 10.40 million, signed June 13, 1983, which became effective January 31, 1984.

Table I. Central African Republic: Gross Domestic Product by Expenditure at Current Market Prices, 1980-84

	1980	1981	1982	1983	1984 Est.
	(In billions of CFA francs)				
Consumption 1/	184.9	192.3	231.4	240.7	261.9
Private 1/	(159.4)	(164.0)	(200.8)	(208.8)	(232.1)
Public	(25.5)	(28.3)	(30.6)	(31.9)	(29.8)
Gross domestic investment	11.5	17.0	17.2	28.6	34.6
Exports of goods and non-factor services	44.0	48.5	50.4	57.4	64.2
Imports of goods and non-factor services	72.0	69.0	86.5	92.4	96.3
GDP at current market prices	168.4	188.8	212.5	234.3	264.4
Memorandum items:	(As a percent of nominal GDP)				
Gross domestic investment	6.8	9.0	8.1	12.2	13.1
Resource gap	-16.6	-10.8	-17.0	-14.9	-12.1

Sources: Data provided by the C.A.R. authorities; and staff estimates.

1/ Residual.

Table II. Central African Republic: Balance of Payments, 1979-84

(In millions of SDRs)

	1979	1980	1981	1982	1983 Prel.	1984 Prog.
Exports, f.o.b.	101.5	118.9	107.7	101.2	107.0	116.5 1/
Diamonds	(28.4)	(29.5)	(28.1)	(24.5)	(25.8)	(29.7)
Coffee	(22.6)	(26.2)	(20.0)	(26.2)	(33.6)	(30.0)
Timber	(20.4)	(26.2)	(26.5)	(22.3)	(20.4)	(21.1)
Cotton	(8.0)	(13.7)	(15.6)	(6.3)	(13.7)	(20.1)
Other	(22.1)	(23.3)	(17.5)	(21.9)	(13.5)	(15.6)
Imports, f.o.b.	-107.7	-151.3	-132.4	-135.6	-127.9	-132.5 1/
Trade balance	-6.2	-32.4	-24.7	-34.4	-20.9	-16.0
Services (net)	-57.8	-70.5	-36.1	-71.3	-73.2	-66.6
Of which:						
freight and insurance payments	(-33.5)	(-46.9)	(-39.6)	(-41.9)	(-38.0)	(-37.6)
scheduled interest payments on public debt 2/	(-2.9)	(-3.3)	(-2.5)	(-7.4)	(-6.9)	(-8.9)
Private transfers (net)	-9.5	-14.5	-11.9	-15.4	-14.2	-13.7
Current account balance	-73.5	-117.4	-72.7	-121.1	-108.3	-96.3
Public transfers (net)	70.6	77.8	69.6	79.1 3/	65.1	62.4
Capital (net)	24.0	36.7	8.2	12.2	17.7	27.0
Of which: scheduled public debt amortization	(-9.8)	(-9.8)	(-10.9)	(-25.9) 3/	(-11.8)	(-11.5)
SDR allocations, Trust Fund, and valuation adjustment	2.2	9.8	1.6	7.4	6.4	--
Errors and omissions (net)	-15.6	-7.3	-10.7	-7.1	10.8	--
Overall balance	7.7	-0.4	-4.0	-29.5	-8.3	-6.9
Financing	-7.7	0.4	4.0	29.5	8.3	6.9
Use of Fund credit (net)	-2.5	-0.7	15.0	1.9	4.2	1.7
Arrears (reduction -)	10.6	10.2	-50.2	8.3	-8.8	-2.3
Of which: cash payments	(--)	(--)	(--)	(-0.3)	(-3.9)	(-2.3)
Debt relief	--	--	60.2	5.5	16.4	6.2
Other net reserve movements (increase -)	-15.8	-9.1	-21.0	13.8	-3.5	1.3

Sources: Data provided by the C.A.R. authorities; and staff estimates.

1/ Including imports and re-exports of coffee.
2/ Including Fund charges.
3/ Including debt cancellation by the Federal Republic of Germany and France of SDR 14.0 million.

Table III. Central African Republic: Public Investment, 1980-85

(In millions of CFA francs)

	1980	1981	1982	1983 Estimate	1984 Planned	1985 Planned	1984-85 Total	1984-85 In percent
Directly productive sectors	6,065	9,451	10,748	14,628	21,192	25,886	47,078	53.2
Agriculture	1,663	3,062	3,022	6,109	9,274	8,208	17,482	19.7
Livestock and fishing	598	948	1,043	1,196	1,385	1,385	2,770	3.1
Forestry	470	652	1,045	646	630	1,310	1,940	2.2
Extractive industries (mines, etc.)	550	1,796	3,225	1,511	435	525	960	1.1
Manufacturing	2,609	2,659	976	1,933	6,089	10,527	16,616	18.8
Energy and water	90	180	1,330	1,268	1,986	3,111	5,097	5.8
Tourism	85	154	107	427	383	420	803	0.9
Transport	--	--	--	1,538	1,010	400	1,410	1.6
Infrastructure	5,177	5,923	4,644	9,994	14,590	16,084	30,674	34.7
Roads	4,467	4,603	2,855	7,656	11,545	11,530	23,075	26.1
River transport	625	465	972	--	--	--	--	--
Air transport	75	125	90	970	1,770	3,745	5,515	6.2
Communications	10	730	727	1,368	1,275	809	2,084	2.4
Social and related services	249	1,675	1,770	3,952	4,951	5,746	10,697	12.1
Housing and urban development	--	180	20	--	--	--	--	--
Education	151	378	1,036	1,346	1,603	1,603	3,206	3.6
Public health	98	642	664	1,971	2,713	3,213	5,926	6.7
Administration	--	475	50	635	635	930	1,565	1.8
Total	11,491	17,049	17,162	28,574	40,733	47,716	88,449	100.0
Financing	11,491	17,049	17,162	28,574	40,733	47,716	88,449	100.0
Internal	3,445	4,714	6,522	4,480	5,658	7,257	12,915	14.6
External	8,046	12,335	10,640	24,094	35,075	40,459	75,534	85.4

Source: Data provided by the C.A.R. authorities.

Table IV. Central African Republic: Summary Balance of Payments, 1979-88

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
					Est.	Program		Projections		
					(In billions of CFA francs)					
Exports, f.o.b.	27.9	32.7	34.5	36.7	43.6	50.9 1/	54.3	60.8	68.1	76.3
Imports, f.o.b.	-29.6	-41.6	-42.4	-49.2	-52.1	-57.9 1/	-58.5	-62.0	-66.0	-70.6
Trade balance	-1.7	-8.9	-7.9	-12.5	-8.5	-7.0	-4.2	-1.2	2.1	5.7
Net services	-15.9	-19.4	-11.6	-25.9	-29.8	-29.1	-29.8	-30.8	-31.2	-30.6
Freight and insurance	(-8.8)	(-12.6)	(-11.8)	(-13.5)	(-14.2)	(-14.7)	(-15.2)	(-16.1)	(-17.2)	(-18.6)
Other (net)	(-7.1)	(-6.8)	(0.2)	(-12.4)	(-15.6)	(-14.4)	(-14.6)	(-14.7)	(-14.0)	(-12.0)
Private transfers	-2.6	-4.0	-3.8	-5.6	-5.8	-6.0	-6.0	-6.0	-6.0	-6.0
Current account balance (excluding public transfers)	-20.2	-32.3	-23.3	-44.0	-44.1	-42.1	-40.0	-38.0	-35.1	-30.9
Public unrequited transfers	19.4	21.4	22.3	23.6 2/	26.5	27.3	27.0	27.0	27.0	27.0
Current account balance (including public transfers)	-0.8	-10.9	-1.0	-20.4	-17.6	-14.8	-13.0	-11.0	-8.1	-3.9
Capital (net) (including errors and omissions) 3/	2.9	10.8	-0.3	9.7 2/	14.2	11.8	10.9	10.6	10.7	9.9
Overall balance	2.1	-0.1	-1.3	-10.7	-3.4	-3.0	-2.1	-0.4	2.6	6.0
Financing	-2.1	0.1	1.3	10.7	3.4	3.0	2.1	0.4	-2.6	-6.0
Arrears (reduction -)	2.9	2.8	-16.1	3.0	-3.6	-1.0	-0.8	--	--	--
Of which: cash payments	(--)	(--)	(--)	(-0.1)	(-1.6)	(-1.0)	(-0.8)	(--)	(--)	(--)
Debt rescheduling	--	--	19.3	2.0	6.7	2.7	...	...	...	...
Net Fund credit	-0.7	-0.2	4.8	0.7	1.7	0.8	-0.7	...	...	...
Purchases	(--)	(1.6)	(5.6)	(0.9)	(1.8)	(3.5)	(3.1)	(...)	(...)	(...)
Repurchases	(-0.7)	(-1.8)	(-0.8)	(-0.2)	(-0.1)	(-2.7)	(-3.8)	(-2.1)	(-1.4)	(-3.3)
Other reserve movements (increase -)	-4.3	-2.5	-6.7	5.0	-1.4	0.5	...	...	...	...
Financing gap	--	--	--	--	--	--	3.6	2.5	--	--
Memorandum items:					(In percent)					
Change in export volume	...	16.7	1.9	-4.9	5.5	7.5	5.8	5.5	5.6	5.8
Change in export prices 4/	...	1.1	-19.5	-7.5	-2.9	-0.4	6.5	6.1	6.1	5.9
					(In percent of GDP)					
Current account deficit	13.4	19.1	12.3	20.7	18.8	15.9	13.5	11.5	9.5	7.5
Inflows of official transfers, net capital, and debt relief 5/	16.7	19.8	12.9	17.9	18.7	14.4	11.2	10.7	9.8	8.1

Sources: Data provided by the C.A.R. authorities; and staff estimates and projections.

1/ Including imports and re-exports of coffee.
2/ Excluding CFAF 5.1 billion of 1982 debt cancellation.
3/ Including exchange rate guarantee from the BEAC (CFAF 2.7 billion in 1982 and CFAF 2.6 billion in 1983).
4/ In terms of U.S. dollars.
5/ Including errors and omissions, Fund repurchases, and changes in arrears.

Table V. Central African Republic: External Public Debt, 1979-88

	1979	1980	1981	1982	1983 Est.	1984 Program	1985	1986	1987	1988
								Projections		
				(In billions of CFA francs)						
Scheduled debt service										
Interest	0.6	0.7	0.5	2.2	2.1	3.1	3.2	3.3	3.2	3.0
Principal	2.7	2.7	3.5	4.3 1/	4.8	5.0	6.4	7.1	7.2	8.6
Fund charges	0.2	0.2	0.3	0.5	0.7	0.8	0.9	0.7	0.6	0.4
Repurchases	0.7	1.8	0.8	0.2	0.1	2.7	4.1	2.3	1.1	3.2
Debt service excluding Fund	3.3	3.4	4.0	6.5	6.9	8.1	9.6	10.4	10.4	11.6
Debt service including Fund	4.2	5.4	5.1	7.2	7.7	11.6	14.6	13.4	12.1	15.2
Scheduled debt service ratio										
Excluding Fund	9.4	7.7	8.2	12.9	12.0	12.2	13.4	13.0	11.7	12.0
Including Fund	11.9	12.3	10.5	14.3	13.4	17.4	20.3	17.0	13.6	15.4
Actual debt service ratio, including the Fund	3.7	5.9	3.9	4.2	5.6	13.4	20.3	17.0	13.6	15.4
Debt obligations to the Fund as a percentage of total debt service	21.4	37.0	21.6	9.7	10.4	30.2	34.2	22.4	14.0	23.7
Outstanding debt, excluding the Fund 2/	28.2	47.7	63.9	73.1	90.7	100.8	106.9	109.6	107.2	100.7
Net Fund credit 2/	2.2	1.7	6.6	8.0	11.2	12.0	10.9	8.5	7.5	4.3
Outstanding debt, including the Fund 2/	30.4	49.4	70.5	81.1	101.9	112.8	117.8	118.1	114.7	105.0
Memorandum items:										
GDP	150.9	168.4	188.8	212.5	234.3	264.4	296.1	330.7	369.4	412.6
Exports, f.o.b.	27.9	32.7	34.5	36.7	43.6	50.9	54.3	60.8	68.1	76.3
Services credit (excluding investment income)	7.3	11.3	14.0	13.7	13.8	15.7	17.5	19.0	20.6	22.4
Exports of goods and nonfactor services	35.2	44.0	48.5	50.4	57.4	66.6	71.8	79.8	88.7	98.7
				(In percent of GDP)						
Outstanding debt, excluding the Fund 2/	18.7	28.3	33.8	34.4	38.7	38.1	36.1	33.1	29.0	24.4
Outstanding debt, including the Fund 2/	20.1	29.3	37.3	38.2	43.5	42.7	39.8	35.7	31.1	25.4

Sources: Data provided by the C.A.R. authorities; World Bank debt tables; and staff estimates and projections.

1/ Excluding CFAF 5.1 billion of 1982 debt cancellation.
2/ End of period.

Assumptions:

(i) Fund purchases (net) equal gross repurchases during the period 1986-88; two drawings under the proposed 1984 stand-by arrangement for CFAF 3.1 billion are scheduled to take place in 1985.
(ii) No new nonconcessional loans contracted during 1984-88; thus capital inflows during this period would consist largely of concessional borrowings, which would have minimal impact on debt service.

Central African Republic: Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated May 22, 1984 from the Minister of Economy and Finance requesting a stand-by arrangement and setting forth the objectives, policies and measures that the authorities of the Central African Republic intend to pursue for the period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from June , 1984 to June , 1985, the Central African Republic will have the right to make purchases from the Fund in an amount equivalent to SDR 15 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 3.0 million through August 29, 1984, the equivalent of SDR 5.0 million through November 29, 1984, the equivalent of SDR 8.0 million through March 14, 1985 and the equivalent of SDR 11.5 million through May 14, 1985.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of the Central African Republic's currency in the credit tranches beyond 25 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources.

4. The Central African Republic will not make purchases under this stand-by arrangement that would increase the Fund's holdings of the Central African Republic's currency in the credit tranches beyond 25 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that

(i) the limit on domestic credit described in paragraph 6 and Table 2 of the annexed memorandum, or

(ii) the limit on the net bank credit to the Government described in paragraphs 3 and 6, and Table 2 of the annexed memorandum, or

(iii) the target for reduction in domestic and external arrears described in paragraphs 3 and 8, and Table 2 of the annexed memorandum, or

(iv) the limit on the amount of new nonconcessional external loans in the maturity range of 1-12 years contracted or guaranteed by the Government described in paragraph 9 and Table 2 of the annexed memorandum

are not observed; or

(b) during any period after November 29, 1984 and March 14, 1985, respectively, in which understandings have not been reached pursuant to the reviews mentioned in paragraph 3 of the attached letter, or while such understandings, having been reached, are not being observed; or

(c) during the entire period of this stand-by arrangement, while the Central African Republic has any overdue financial obligation to the Fund, or

(d) if the Central African Republic

(i) imposes new, or intensifies existing, restrictions on payments and transfers for current international transactions, or

(ii) introduces multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes new, or intensifies existing, import restrictions for balance of payments reasons.

When the Central African Republic is prevented from purchasing under this arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and the Central African Republic and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. The Central African Republic's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of the Central African Republic. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and the Central African Republic and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of the Central African Republic, the Fund agrees to provide them at the time of the purchase.

7. The Central African Republic shall pay a charge for this arrangement in accordance with the decisions of the Fund.

8. (a) The Central African Republic shall repurchase the outstanding amount of its currency that results from a purchase under this arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as the Central African Republic's balance of payments and reserve position improves.

(b) Any reductions in the Central African Republic's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the stand-by arrangement the Central African Republic shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to the Central African Republic or of representatives of the Central African Republic to the Fund. The Central African Republic shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of the Central African Republic in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

10. In accordance with paragraph 4 of the attached letter the Central African Republic will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while the Central African Republic has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning the Central African Republic's balance of payments policies.

Bangui, May 22, 1984

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington, D. C. 20431
U.S.A.

Dear Mr. de Larosière:

1. As part of the three-year recovery program (1983-85) which aims at improving the country's economic and financial situation, the Government of the Central African Republic adopted an economic and financial program for 1983 in support of which the International Monetary Fund granted a one-year stand-by arrangement. Most of the measures envisaged under this program have been implemented. However, because of the drought which prevailed in the country and the resulting decline in economic activity, the program's budgetary and balance of payments objectives could not be achieved.

2. Convinced of the necessity to continue the recovery effort, the Government of the Central African Republic has adopted an economic and financial program for 1984, which is described in detail in the attached memorandum. In support of this program, the Government of the Central African Republic requests the assistance of the International Monetary Fund under a one-year stand-by arrangement in the amount of SDR 15 million.

3. The implementation of this program will require close coordination among various ministerial departments. This task will be assigned to an Interministerial Committee to be chaired by the Minister of Economy and Finance. In addition, the Central African authorities will maintain close contacts with the Fund staff. The authorities will supply the Fund each month with data on progress under the program and, in particular, with information on the implementation of budgetary expenditure control measures, including those related to the streamlining of public administration. Furthermore, the Central African authorities and the Fund will undertake two comprehensive reviews of the program, the first before end-November 1984 and the second before end-April 1985. These two reviews will constitute performance criteria; the second will include an examination of the 1985 budget which will be consistent with the objective of restoring budgetary equilibrium in 1986.

4. The Government believes that the policies outlined in the attached memorandum are appropriate to achieve the program's objectives. However, it will take any further measures that may become necessary for this purpose and will consult with the Fund, in accordance with Fund policies, on the adoption of any such measures.

Sincerely yours,

/s/

Lt. Colonel J. L. Gervil-Yambala
Minister of State in charge of
Economy and Finance

Memorandum on the Economic and Financial Policy of the Government of the Central African Republic

I. Introduction

The medium-term economic policy of the Government of the Central African Republic is set within the framework of the three-year recovery program (1983-85), the main objectives of which are to: (1) revive, develop and diversify production and exports; (2) return public finance and the public and mixed enterprise sector to a sound financial footing; and (3) align the education system more closely with economic development requirements and the Government's financial resources. The strategy of the public investment program focuses on agriculture and infrastructure. In agriculture, the most important project is an integrated rural development project designed to increase yield and output of cotton and food crops. Regarding infrastructure, the investment program stresses modernization and maintenance of the road network, the deterioration of which has been a major obstacle to development of the country's resources.

The actions undertaken by the authorities within the framework of the 1983 economic and financial program have been consistent with the objectives of the three-year program. Public investment increased by approximately 67 percent and was concentrated on the road and agriculture projects, especially the integrated rural development project. The producer prices of cotton and coffee, which had been raised in 1982/83, were again increased in 1983/84. In order to improve the financial situation of the public enterprises, the prices and tariffs charged by some of these enterprises were increased, wages were frozen, and the labor force was reduced. In addition, six enterprises were liquidated. In the field of public finance, new tax measures were introduced, wages were frozen, and monthly ceilings were imposed on certain current expenditures. Furthermore, efforts have been undertaken to streamline the civil service, with technical assistance from a resident mission of World Bank consultants. Moreover, the Central African Republic obtained from its creditors, through the Paris Club, a rescheduling of its foreign public debt, including arrears as at end-1982.

These efforts have unfortunately been thwarted by the adverse effects of the severe drought which led to an interruption of river transportation, a decline in agricultural and electricity production and, consequently, a fall in economic activity and a shortfall in budgetary revenue. Because of these exogenous factors and the difficulties encountered in the execution of the budget, the program objectives for 1983 could not be achieved. Gross domestic product (GDP) dropped by approximately 2 percent, and the deficits in the budget (excluding investment expenditure financed externally outside the budget) and in the current account of the balance of payments (excluding public transfers) reached 3 percent and 19 percent of GDP, respectively.

The external public debt contracted and disbursed, including obligations towards the Fund, amounted to CFAF 102 billion (SDR 234 million) at end-1983. The debt service ratio, which represented 13 percent of exports of goods and nonfactor services in 1983, will amount to 17 percent in 1984 and 20 percent in 1985, before falling to an average level of 15 percent in 1986-88.

Given this situation, the objectives and strategy of the three-year recovery program which aims at expanding supply and reducing public consumption remain appropriate. As financing has already been obtained for most of the projects, the average investment ratio will be 13 percent of GDP in 1984-85, compared with 12 percent in 1983. Furthermore, assuming a return to relatively normal climatic conditions and the continuation of policies to encourage production, a revival in the main economic sectors is likely. Therefore, the objective of an average growth rate of 2.5 percent of real GDP should be attainable in 1984-85. The three-year program will be followed by the implementation of a five-year plan covering 1986-90. The Government intends to raise the average investment ratio to 15 percent of GDP during that period. For this purpose, it is planning to organize a donors' conference in 1984 and a round table on foreign aid in 1985. Since a growing proportion of investments will take place in directly productive sectors, the average growth rate of real GDP could reach 3.5 percent in 1986-90.

The primary objective of medium-term budgetary policy remains a relative reduction in public sector consumption. Despite the problems encountered in 1983, the Government is determined to reduce the budget deficit to a maximum of 0.5 percent of GDP in 1986. In this way, there would be a turnaround in the budgetary situation beginning in 1987 and a surplus of approximately 1 percent of GDP could be realized in 1988. To that end, current expenditure will be reduced gradually from 17 percent of GDP in 1983 to 11 percent in 1988. To this effect, the Government has already revised its policy on employment and transfers. As of January 1, 1984, recruitment in the civil service will be effected only through competitive examination and no more than one third of new vacancies will be filled. In addition, a competitive examination was instituted on the same date for the award of scholarships for secondary and higher education. As regards revenue, the introduction of the tax reform and the strengthening of tax administration would make it possible for budgetary revenue to grow in 1984-88 at a rate comparable to that of nominal GDP.

The relative reduction in public consumption that would result from the improvement in the budgetary position and restructuring of the parastatal sector begun in 1983, along with the efforts designed to promote domestic output (especially that of export goods), should help achieve a sustainable external current account deficit in the medium term. The volume of exports is forecast to increase at an average annual rate of 6 percent during 1984-88, while that of imports would be constrained to a growth rate of 2 percent per year. Assuming a moderate recovery of world economic activity, an improvement can be expected in the terms of trade. Under these circumstances, the external current account deficit would decline from 19 percent of GDP in 1983 to about 8 percent in 1988. Such a deficit may be sustainable, considering the expected movements in official aid and in capital inflows, as well as debt service obligations.

II. The 1984 Program

1. The economic and financial program for 1984 was designed within the framework of the above medium-term prospects and objectives. The program seeks to reduce the external current account deficit (excluding official transfers) from CFAF 44 billion (SDR 108 million) in 1983 to CFAF 42 billion (SDR 97 million) in 1984, or from 19 percent of GDP to 16 percent. The main assumptions in this regard are an 8 percent increase in the volume of exports and a 2 percent decrease in that of imports. Furthermore, world market prices for the main export products are expected to strengthen and import prices to decline slightly. The planned decrease in import volume will be partially facilitated by the expected decline in stocks accumulated in late 1983. Given estimates for official transfers and net capital inflows, including amortization of the debt, the overall deficit of the balance of payments will amount to some CFAF 3 billion (SDR 7 million). This expected development in the external position is consistent with the objective of a real GDP growth rate of 2.7 percent and an inflation rate of 10 percent in 1984. In order to contain the balance of payments deficit within this limit, the Government has adopted the specific policies and measures described below.

a. Economic policy

2. The incentive policies introduced since 1982 have had a beneficial impact on production, particularly on cotton output which has almost doubled over the past two crop seasons. For the third consecutive year, the producer price of cotton has been raised, and has now been set at CFAF 90 per kilo for the 1984/85 season. At the same time, SOCADA will continue its efforts to improve extension services, input supply and marketing practices. It is estimated that cotton output could increase by 16 percent to 37,000 tons in 1984/85.

The producer price of coffee was also raised by 4 percent in 1983/84 to CFAF 135 per kilo; however, because of the drought, coffee production is estimated at only 10,000 tons, a 41 percent drop from the 1982/83 level. Climatic conditions having so far returned to normal, production of the main food crops will be significantly higher than in 1983/84. Official diamond production will increase by 10 percent in 1984, in part reflecting the reduction in the export tax rate. Moreover, in 1984 public investment is projected to amount to CFAF 41 billion, with 28 percent allocated to the agricultural sector, 21 percent to industry and energy, and 36 percent to infrastructure. Consequently, real GDP is likely to grow by 2.7 percent in 1984, thus reversing the downward trend of the past few years. The Government will continue its efforts to rehabilitate the public and mixed enterprises begun in 1983. In this connection, in 1984, the rates charged by the SNE have already been increased by 30 percent, and those of ENERCA will be raised by 10 percent by the end of August. The Government intends to privatize the Imprimerie Centrafricaine, the Librairie Centrafricaine, and SIRIRI. Additional specific measures are being examined and will be discussed during the comprehensive review of the program.

b. Budgetary policy

3. In accordance with the medium-term budgetary policy objective, the fiscal deficit for 1984 (excluding debt amortization) will be limited to CFAF 3.1 billion (1.2 percent of GDP), as against CFAF 7 billion (3 percent of GDP) in 1983. In 1984 the settlement of arrears will amount to CFAF 3.8 billion, including CFAF 1 billion for external arrears; this will constitute a performance criterion and the settlement will be effected as set out in Table 2. Thus, the overall Treasury deficit will not exceed CFAF 6.9 billion. In 1984 scheduled public debt amortization is estimated at CFAF 4.8 billion, and expected bilateral debt relief at CFAF 2.7 billion. Taking into account anticipated budgetary aid (CFAF 5 billion), net external financing will be CFAF 2.9 billion. Nonbank domestic financing will amount to CFAF 2.2 billion, representing the proceeds from subscriptions to Treasury bonds by the Stabilization Fund for CFAF 500 million and a borrowing of CFAF 1.7 billion from the civilian and military employees of the Government. This loan is to be refunded in annual installments over a three-year period from 1987 to 1989. Consequently, net Treasury recourse to bank credit (as defined in the technical memorandum) will be limited to CFAF 1.8 billion in 1984. In order to contain the budgetary outcome within the above limits, the Government will implement the following measures.

4. Personnel outlays, including temporary staff, will be limited to CFAF 23.3 billion in 1984, compared with CFAF 23.9 billion in 1983. To this end, there will be no general wage increase, and allowances and other benefits will be maintained at their 1983 level. The automatic promotions and upgrading planned for 1984 will have no financial impact. In addition, efforts to streamline the civil service will be continued. To carry out this task, a permanent body has been created under the direction of the Secretary General of the Presidency. This body which will receive technical assistance from World Bank consultants, will monitor the execution and control of the restructuring measures already adopted, and will recommend any other necessary steps to the Government. New recruitment in the civil service and the army, including personnel from the temporary staff, will under no circumstances exceed 300 (three hundred) in 1984, and outlays for temporary staff will be subject to a CFAF 600

million ceiling. Regarding other current expenditure, transfers for scholarships have been set at CFAF 1.2 billion in 1984 as compared to CFAF 1.3 billion in 1983; the full impact of the new scholarship policy introduced in January 1984 will not be felt until 1985. The measures already taken in 1983 to control the growth of other current expenditure, especially the reduction in the number and size of missions, will be maintained and strengthened. Furthermore, quarterly commitments for current expenditure will not exceed the ceilings indicated in Table 1. Any overrun at the end of a quarter will be offset by an equivalent reduction in commitments for the following quarter by applying appropriate ceilings on budgetary appropriations. Should the overrun exceed 5 percent of the ceilings, the authorities will consult with the Fund staff. Overall current expenditure, excluding personnel outlays and interest on public debt, will therefore be limited to CFAF 10.2 billion. Given scheduled interest payments on public debt, estimated at CFAF 4.1 billion, total current expenditure will be CFAF 37.6 billion, or 4.6 percent less than in 1983. In contrast, capital expenditure will be maintained at the 1983 level of CFAF 3.8 billion. Altogether, budgetary expenditure will be limited to CFAF 41.4 billion, about 4 percent less than in 1983.

5. The 1984 Budget Law introduced a tax reform aimed at simplifying and increasing the yield of the income tax. The impact of the reform on tax receipts will be CFAF 0.5 billion in 1984. The special tax and the complementary tax on petroleum products have been increased by rates ranging from 22 percent to 31 percent; the administrative values used to determine export duties on certain products were also revised upwards, and the rate of the transactions tax raised from 2.5 percent to 3 percent. Lastly, the proportion of the coffee profit margin accruing to the government budget was increased from 55 percent to 60 percent. The authorities will vigorously continue their efforts to improve tax collection. To this end, the tax administration will be reinforced and the laws regarding penalties for tax fraud will be strictly enforced.

c. Monetary policy

6. The achievement of the budgetary targets will make it possible to pursue a monetary policy which promotes the expected resumption of economic activity while remaining consistent with the inflation rate and balance of payments objectives. In particular, seasonal credit has been fixed at levels that will ensure adequate crop financing and importation of petroleum products. Consequently, the expansion of domestic credit will be limited to CFAF 5.6 billion in 1984, or a 13 percent increase compared to less than 3 percent in 1983. The quarterly credit ceilings on domestic credit and net recourse by the Treasury to bank credit, both of which will constitute performance criteria, are shown in Table 2. The increase in bank credit to the Treasury, as well as the growth of domestic credit, will be reduced by an amount equivalent to possible

budgetary resources accruing from the exchange rate guarantee scheme. Use of these exceptional resources will be the subject of consultations with the Fund within the framework of the two comprehensive reviews of the program.

7. The monetary authorities will take all the necessary steps to ensure that the banking system's claims on the economy do not exceed the limits implied by the credit ceilings contained in the program. In particular, they will make sure that seasonal credit is repaid at the end of each crop season. Should it prove necessary, they will apply strictly the available credit control instruments.

d. External policy

8. In 1984 external public debt service, including obligations to the Fund, will represent the equivalent of 17 percent of exports of goods and services and 30 percent of budgetary revenues. Given the relatively high level of these obligations, the Government intends to negotiate soon, on a bilateral basis, a rescheduling agreement with some of its creditors. If the amount of debt relief so obtained exceeds that assumed in the program, the Government will consult with the Fund within the framework of the two comprehensive reviews of the program in order to reach agreement on the use of the budgetary appropriations thereby released. In addition, external payments arrears, which amounted to CFAF 1.8 billion at end-1983, will be entirely liquidated during the period of the stand-by arrangement in accordance with the timetable set out in Table 2. Furthermore, the Central African Republic will complete the bilateral debt rescheduling agreements on a timely basis in order to avoid the accumulation of new external arrears in 1984.

9. Debt service on account of external public debt, already contracted and disbursed, including obligations to the Fund, will remain high over the medium term. Consequently, during the period of the stand-by arrangement, the Government will neither contract nor guarantee nonconcessional loans with initial maturities of 1 to 12 years.

10. The Government will continue to maintain exchange arrangements free of restrictions on payments and transfers for current international transactions. During the stand-by period, it will not introduce new restrictions on payments and transfers for current international transactions, conclude bilateral payments agreements with Fund members, or introduce new restrictions on imports for balance of payments reasons.

Table 1. Limits on Current Expenditure Commitments, 1984 1/

(In billions of CFA francs)

	June	September	December
	(Cumulative amounts at the end of each period)		
Current expenditure			
Wages and salaries	11.7	17.5	23.3
Materials and supplies	3.0	5.0	6.2
Transfers and subsidies 2/	2.0	3.0	3.9
Total	16.7	25.5	33.4

1/ Excluding transfers to the CAADE and interest on external debt.
2/ Including pensions, OCSS contributions, and interest due on BEAC advances.

Table 2. Quantitative Performance Criteria for the Proposed Stand-By Arrangement

(In billions of CFA francs; end of period)

	1983	1984				1985
	Dec.	March 1/	June	Sept.	Dec.	March 1/
Domestic credit 2/	42.1	44.3	49.4	47.2	47.7	51.2
Of which: claims on the Treasury (net) 2/3/	(13.2)	(13.8)	(14.8)	(15.5)	(15.0)	(15.9)
Reduction in arrears						
External	...	0.2	0.4	0.7	1.0	1.4 4/
Domestic (net)	...	1.7	2.0	2.4	2.8	...
New external borrowing with initial maturities of 1 to 12 years 5/	...	--	--	--	--	--

1/ Indicative ceilings. Performance criteria for March 1985 will be set during the second comprehensive review of the program.

2/ These ceilings will be adjusted downward by an amount equivalent to any resources accruing to the Treasury from the exchange rate guarantee scheme.

3/ Defined as the claims of the banking system on the Government minus deposits with the banking system of the Treasury, the CAADE, the OCPT, the Postal Checking System, the Road Fund, the Clerk's Office of the Court of Bangui, the CMRN Presidency, and the cash holdings of the Treasury.

4/ The balance (CFAF 0.4 billion) will be settled before the end of the stand-by arrangement.

5/ Contracted or guaranteed by the Government.

Memorandum on Prior Actions

Before the discussion by the Executive Board of the Fund of its request for a stand-by arrangement, the Government of the Central African Republic will undertake the following measures and report them to Fund staff:

1. The Revised Budget Law for 1984 will be adopted, in accordance with the objectives and measures on revenue and expenditure set out in the memorandum attached to the letter from the Minister of State in Charge of Economy and Finance to the Managing Director of the Fund. In particular, sharing of the coffee profit margin will be revised, and the proportion accruing to the government budget will be increased to 60 percent. In addition, Treasury bonds for a total amount of CFAF 500 million will be issued and subscribed to by the CAISTAB.

2. A formal agreement with TOCAGES will be signed, indicating the amount and schedule of payment of the tax proceeds collected by TOCAGES from taxes on petroleum products, including arrears.