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EBS/83/65

CONFIDENTIAL

March 29, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Central African Republic - Staff Report for the 1982 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with the Central African Republic and its request for a stand-by arrangement equivalent to SDR 18 million. Draft decisions appear on page 30.

It is proposed to bring this subject to the agenda for discussion on Friday, April 22, 1983.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Staff Report for the 1982 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 J.B. Zulu and W.A. Beveridge

March 28, 1983

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I. Introduction

The 1982 Article IV consultation discussions with the Central African Republic (C.A.R.) were held in Bangui during the period November 21-December 12, 1982. At the same time, discussions took place on an economic and financial program for 1983 in support of which the C.A.R. requests a one-year stand-by arrangement. The representatives of the C.A.R. included Mr. A. Kongolo, Minister of Economy and Finance; Mr. J. Gbeti, High Commissioner in Charge of State and Mixed Enterprises; Mr. G. Darlan, High Commissioner of Planning and International Cooperation; Mr. C. Oye Mba, Governor of the Bank of Central African States (BEAC); Mr. A. Koyamba, National Director of the BEAC; and other senior officials of various ministries and agencies. The staff mission consisted of Messrs. Sidibé (head), Tshishimbi, Harnack, Begashaw, and Miss Wood (secretary), all from the African Department.

The one-year stand-by arrangement, requested by the C.A.R. Government in the attached letter, is in an amount of SDR 18 million, equivalent to 75 per cent of quota. Of this amount, SDR 3.34 million would be from ordinary resources and SDR 14.66 million from borrowed resources. As of February 28, 1983, the Fund's holdings of the C.A.R.'s currency, the CFA franc, amounted to 184.3 per cent of quota; excluding purchases under the special facilities, they stood at 146.3 per cent of quota. Purchases under the stand-by arrangement will be phased in four equal quarterly installments, and the C.A.R. could purchase up to SDR 13.5 million in 1983 (Table 1). If the full amount of the arrangement is utilized, and given the scheduled repurchases, the Fund's holdings of the C.A.R.'s currency would rise to 247.2 per cent of quota by the end of March 1984. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement is required.

The C.A.R. continues to avail itself of the transitional arrangements of Article XIV. The C.A.R. has had two previous stand-by arrangements with the Fund; the last one expired on December 31, 1981. 1/ A summary of the C.A.R.'s relations with the Fund and the World Bank Group is provided in Appendix I.

II. The Economic Background

The C.A.R. is a sparsely populated country, with only some 30 per cent of the population of 2.4 million living in cities of more than 10,000 people. The country is landlocked and dependent for its international trade on long routes to the ports of Pointe-Noire, in the People's Republic of the Congo, and Douala, in Cameroon. Pointe-Noire,

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1/ The 1980 stand-by request, in the amount of SDR 4 million (25 per cent of the quota of SDR 16.0 million), is described in detail in EBS/80/11, and performance under the program is reviewed in SM/81/60; the 1981 stand-by request, in the amount of SDR 10.4 million (43.3 per cent of the quota of SDR 24.0 million), is described in detail in EBS/81/67, and performance under the program is reviewed in EBS/81/169 and in EBS/82/72.

Table 1. Central African Republic: Schedule of Purchases and Repurchases, 1983-84

	1983				1984	
	Jan.-Mar.	April-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June
	(In millions of SDRs)					
Purchases under stand-by arrangement	--	4.5 1/	4.5 2/	4.5 3/	4.5 4/	--
Ordinary resources	(--)	(--)	(--)	(1.3)	(2.0)	(--)
Borrowed resources	(--)	(4.5)	(4.5)	(3.2)	(2.5)	(--)
Repurchases	2.8	0.1	--	--	--	1.6
Oil facility	(0.1)	(0.1)	(--)	(--)	(--)	(--)
CFF	(2.7) 5/	(--)	(--)	(--)	(--)	(1.1)
Other	(--)	(--)	(--)	(--)	(--)	(0.5)
Net purchases	-2.8	4.4	4.5	4.5	4.5	-1.6
Total Fund holdings 6/	41.5	45.9	50.4	54.9	59.4	57.8
Holdings, excluding purchases under CFF, oil facility, and gold distribution 6/	35.2	39.7	44.2	48.7	53.2	52.7
	(In per cent of quota) 7/					
Total Fund holdings 6/	172.6	191.0	209.7	228.5	247.2	240.5
Holdings, excluding purchases under CFF, oil facility, and gold distribution 6/	146.3	165.1	183.9	202.6	221.4	219.3

Source: IMF, Treasurer's Department.

1/ Upon Board approval.
2/ Upon observance of the June performance criteria and completion of review.
3/ Upon observance of the September performance criteria.
4/ Upon observance of the December performance criteria.
5/ Repurchase due to overcompensation.
6/ End of period.
7/ Assuming unchanged quota of SDR 24 million.

the more accessible of the two, is located some 1,600 km from Bangui, the capital city. The economy is largely agricultural; cotton, coffee, and tobacco are the most important export crops. Timber and diamonds are the other major export products.

1. Developments in 1979-81--An overview

In recent years the C.A.R. has experienced growing economic and financial difficulties brought about by the turnaround in world market conditions for its exports, the sharp increase in oil import prices, and, more importantly, weaknesses in economic and financial management. The authorities endeavored to redress the unsatisfactory economic performance by adopting adjustment programs for the calendar years 1980 and 1981, both supported by successive one-year stand-by arrangements. However, the corrective policies were not fully implemented, and the objectives of the adjustment programs were not attained.

Lax fiscal policies led to a succession of large annual budgetary deficits, 1/ which averaged more than 5 per cent of gross domestic product (GDP) over the three years 1979-81 (Table 2). The contraction of the tax base and poor tax administration resulted in sluggish growth of budgetary revenue despite the introduction of discretionary tax measures. Tax receipts, which account for 95 per cent of total revenue, declined from 12.4 per cent of GDP in 1978 to 11.9 per cent in 1981. Over the same period budgetary expenditure continued to grow steadily, rising from 16.6 per cent of GDP to 18.4 per cent, mainly on account of growing current outlays, which rose from 91 per cent of total expenditure in 1978 to 94 per cent in 1981. The growth of current expenditure was associated with a steady rise in employment and sizable wage awards to civil servants granted through increases in the minimum wage rates and the upgrading of wage scales. Between 1978 and 1981 the government wage bill rose by 68 per cent to CFAF 21.7 billion. 2/ Notwithstanding a substantial inflow of budgetary aid, the deterioration in government finances entailed a considerable accumulation of arrears vis-à-vis the public enterprises, private domestic and foreign suppliers, and official creditors. Moreover, the commodity stabilization agencies were required to transfer part of their resources to the Treasury in order to help alleviate the latter's tight liquidity situation. Thus, the budgetary disequilibrium aggravated an already weak financial position of public enterprises. In order to improve the financial performance of the parastatal sector, a number of key public enterprises were transformed into mixed companies with foreign partners contributing to capital and management. In addition, several enterprises raised their prices and reduced their employment. In spite of these measures, the performance of the parastatals remained unsatisfactory, and, based on available information, their operating losses amounted to CFAF 2.4 billion in 1981.

1/ Including only investment outlays through the budget which averaged about 14 per cent of total estimated public sector investments. These investments are largely financed by project aid outside the budget.

2/ CFAF 391.37 = SDR 1 as of March 25, 1983.

Table 2. Central African Republic: Selected Economic and Financial Indicators, 1979-83

	1979	1980	1981 Program 1/	1981 Actual	1982 Estimate	1983 Program
	(Annual per cent changes)					
National income and prices						
GDP at constant prices	-3.0	-3.9	3.0	-2.2	0.4	2.0
GDP deflator	13.8	16.1	16.0	14.6	14.0	14.0
Consumer prices	9.3	17.3	16.0	12.7	14.0	14.0
External sector 2/						
Exports, f.o.b.	3.6	17.1	5.3	-9.4	-7.3	9.1
Imports, c.i.f.	10.0	40.4	9.8	-13.2	3.2	-0.9
Export volume	-4.4	18.5	6.0	-8.8	-0.2	2.5
Import volume	-4.5	20.2	...	-10.5	2.9	-1.0
Terms of trade (deterioration -)	-4.4	-16.8	...	-1.3	-8.3	6.4
Nominal effective exchange rate (depreciation -) 3/	0.5	0.3	...	-3.6	-2.9	...
Real effective exchange rate (depreciation -) 3/	4.3	5.2	...	2.8	4.9	...
Budget						
Revenue	12.9	8.0	29.0	12.0	37.9	9.6
Expenditure	12.0	9.0	7.5	12.5	14.3	0.5
Money and credit						
Domestic credit	-9.3	15.8	21.4	15.1	19.5	15.8
Government	-1.5	-29.7 4/	35.2	46.3	12.1	22.1
Private sector	-14.4	50.3	13.0	4.1	23.2	13.0
Broad money (M_2) 5/	10.7	33.4	18.0	29.2	6.0	12.7
Velocity (GDP relative to M_2 5/)	6.0	5.0	4.7	4.4	4.7	4.9
Interest rate (one-year savings deposit)	5.5	5.5	...	7.5	7.5	...
	(In per cent of GDP)					
Budgetary grants	3.8	4.4	2.1	3.0	2.3	1.2
Central government savings 6/	-4.8	-4.6	-2.2	-4.1	-1.3	0.5
Central government budget deficit 6/	5.2	5.2	3.2	5.6	2.6	1.0
Domestic bank financing	0.2	0.8	2.6	2.0	0.6	1.8
Foreign financing	4.9	4.2	-1.1	4.5	2.2	-0.8
Official transfers	12.9	12.7	15.0	11.8	10.6	8.6
Gross domestic investment	8.0	7.5	...	9.9	9.2	9.6
Gross domestic savings	-5.0	-7.5	...	-1.0	-4.8	-0.4
External current account deficit 7/	13.4	19.2	21.6	12.3	15.4	11.9
External debt						
Inclusive of use of Fund credit	21.5	28.7	...	35.9	29.0	26.1
Debt service ratio 8/	11.9	12.3	...	10.3	13.5	14.1
Interest payments 8/	2.3	2.0	...	1.4	3.8	3.9
	(In millions of SDRs)					
Overall balance of payments	7.7	-0.4	-17.3	-7.5	-15.4	-10.5
Gross official reserves (months of imports, c.i.f.)	3.1	3.1	...	4.6	3.4	3.5
Outstanding external arrears	57.0	62.2	--	1.2	8.4	--

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

1/ Original figures. Some program objectives were revised during the mid-term review.
2/ Based on values expressed in SDRs.
3/ Import-weighted.
4/ Includes consolidation of the postal debt.
5/ Annual averages based on end-of-period quarterly data.
6/ Excluding grants; commitment basis.
7/ Excluding official transfers.
8/ Scheduled payments, in per cent of exports of goods and nonfactor services.

Reflecting the financial difficulties of the public sector, domestically financed public investment remained insignificant. With the erosion of confidence in the economy--partly due to civil disturbances in 1979 which resulted in destruction of property--foreign financing of investment declined as official aid disbursements slowed down and private investment was discouraged. Gross fixed investment, which averaged some 11 per cent of GDP in 1976-77, declined to 8 per cent in 1978-80 and rose to only about 10 per cent in 1981. Meanwhile, throughout the period 1979-81 domestic consumption consistently exceeded GDP, and hence domestic savings remained negative (Appendix II, Table I). In addition to the inappropriate structure of domestic demand, inadequate pricing policies and extension services, as well as deteriorating internal transportation infrastructure, brought about a decline in agricultural output. The producer price for cotton, formerly the principal export crop, which remained constant in nominal terms during the three years ended 1979/80, was raised by 20 per cent to CFAF 60/kg in 1980/81 and maintained at that level in 1981/82, thus implying a considerable decline in real terms. In 1979-81 inflation, as measured by the consumer price index, averaged 13 per cent per annum. The lack of incentives, coupled with unsettled political conditions in producing areas, led to a 46 per cent decline in output of unginned cotton between the 1978/79 and 1981/82 crop years. In contrast, production of coffee rose by some 13 per cent over the same period, partly because prices received by growers increased due to competition among buyers. Concurrently, shortages of inputs, notably of petroleum products and cotton, rising costs of production, and declining demand, which, inter alia, prompted the closure of the two textile plants in 1979, adversely affected the output of manufacturing and commerce. Transportation difficulties and the complexity of the legislation governing forest exploitation rights by private enterprises also contributed to the fall in timber output, which in 1981 was 9 per cent below its 1978 level. As regards the mining sector, the sluggish growth of official production was attributable to higher taxation and complex fiscal and legal regimes which resulted in increased smuggling. Consequently, despite the growth of public services, real GDP fell at an average annual rate of 3 per cent in the three years 1979-81. With the population increasing at 2.5 per cent per annum, there was a considerable decline in real per capita income.

The unsatisfactory performance of output for export, the turnaround in world market conditions, the rise in oil import prices, and the growth in domestic demand, led to annual external current account deficits (excluding official transfers), which averaged about 15 per cent of GDP in 1979-81. Official transfers, which rose rapidly to 13 per cent of GDP in 1979, from the equivalent of 9 per cent in 1978, largely because of the sharp increase in budgetary aid and technical assistance, averaged 12 per cent of GDP in 1979-81. As net inflows of capital also failed to register an upward trend, the financing of the current account deficits involved the accumulation of substantial external arrears on debt service and recourse to debt rescheduling (Table 3).

Table 3. Central African Republic: Financing of the External Current Account, 1979-86

(In billions of CFA francs)

	1979-80 Average	1981	1982 Est.	1983 Program	1984	1985	1986
					Projections		
Public unrequited transfers	20.4	22.3	22.8	21.5	22.0	22.0	22.0
Scheduled amortization	-2.7	-3.5	-4.7	-4.7	-5.3	-6.0	-5.2
Other capital 1/	9.6	2.1	9.5	9.3	9.0	9.0	9.0
Use of Fund credit (net)	-0.5	4.8	0.6	3.9	-0.3	-3.1	-2.2
Debt relief and other balance of payments support	--	2.7	1.3	3.2	--	--	--
Net arrears (reduction -)	2.8	-0.1	2.4	-3.5	--	--	--
Total	29.6	28.3	31.9	29.7	25.4	21.9	23.6
Current account deficit (-)	-26.3	-23.3	-33.2	-30.0	-25.4	-21.9	-23.6
As per cent of GDP	(16.5)	(12.3)	(15.4)	(11.9)	(8.6)	(6.3)	(5.7)
Other net reserve movements (decrease -)	3.3	5.0	-1.3	-0.3	--	--	--
Memorandum item:							
Nominal GDP	159.7	188.8	216.1	251.3	295.1	348.2	410.8

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

1/ Including errors and omissions.

The C.A.R.'s outstanding external debt, including obligations to the Fund, more than doubled between 1979 and 1981, when it reached CFAF 68 billion (SDR 203 million), equivalent to 36 per cent of GDP. As of end-1981, obligations to the Fund amounted to CFAF 6.6 billion (SDR 19.7 million), or 3.5 per cent of GDP. Over the same period the scheduled debt service ratio fell from 12 per cent to 10 per cent, reflecting partly the relatively low level of external borrowing during the second half of the 1970s. Although debt service obligations fell from 19 per cent of budgetary revenue in 1978 to 16 per cent in 1981, the normal servicing of the public debt could not be ensured because of financial difficulties of both the public enterprises and the Government. External arrears, which amounted to CFAF 17.9 billion (SDR 62.2 million) as of end-1980, were, however, liquidated by end-1981 through debt rescheduling and cash settlements, except for CFAF 0.4 billion. This latter amount has not been settled because of delays in reaching bilateral agreements with some creditors.

2. Developments in 1982

The Government which took office on September 1, 1981 decided to address the deep-seated domestic and external disequilibria in the context of a medium-term program, the National Action Program, to be implemented in two phases. During the first phase, covering the year 1982, measures aimed at containing the deterioration of the economic and financial situation were to be introduced, thereby preparing the ground for the second phase, the implementation of a three-year recovery program (1983-85). Negotiations for a one-year stand-by arrangement in support of a financial program for 1982 could not be concluded because of problems relating to the size of the fiscal and external adjustment. Under the C.A.R.'s circumstances the staff felt that adjustment efforts should involve substantial restraint in government spending. The fiscal adjustment envisaged by the authorities was to be achieved primarily through a sharp increase in revenue which, given the performance in 1981, could not be assured. Therefore, a financial program could not be formulated. However, the authorities introduced a number of policy measures aimed at improving the economic and financial performance in 1982.

Producer prices of a number of basic food crops were raised by a range of 14 per cent to 29 per cent. Also, producer prices for the 1982/83 crop year were increased by 17 per cent for cotton and by 5 per cent for coffee. Meanwhile, SOCADA, the main rural development agency, made increased efforts to improve extension services, input supply, and marketing practices. The Stabilization Fund (CAISTAB) also introduced measures to strengthen the management of cooperatives, encourage growers to deliver coffee (by providing a rebate of CFAF 1 per kilo), and organize buyers. Moreover, project aid disbursements were accelerated, particularly with respect to projects in directly productive sectors. Total investment outlays in 1982 are estimated at CFAF 18.1 billion, or 27 per cent above the 1980-81 average level, while those in directly productive sectors, mainly agriculture, forestry, and mining, were 48 per cent higher (Appendix II, Table II). Reflecting the above actions, in 1982/83 cotton output is estimated to have recovered by 45 per cent to 25,000 tons, and that of coffee rose by 6 per cent. As commerce recovered somewhat, in part because Treasury payments for goods and services were made in a more timely manner, and public services continued to expand, the decline in economic activity was reversed and there was a positive, albeit very modest (0.4 per cent), growth in real GDP.

At the request of the authorities, a team of World Bank consultants undertook a study of the public enterprises in early 1982. Pending the results of the study, a number of corrective measures were introduced. These included a freeze on wages and salaries of parastatals at their 1981 level, a 15 per cent increase in prices of petroleum products, and a significant upward adjustment in the fees charged by a number of other public and mixed enterprises, as well as a substantial reduction in the payrolls of the electricity company (ENERCA) and of SOCADA. In addition, to reduce its operating costs, SOCADA closed five of its cotton ginning plants.

To improve the fiscal performance, the Government introduced a special development tax on wages and salaries of civil servants and parastatal employees at rates ranging between 5 per cent and 28 per cent. At the same time, more determined efforts were made to improve tax administration, including the collection of tax arrears, notably through the adoption of progressive penalty rates for delay in tax payments and larger budgetary appropriations for the tax administration services. Reflecting this and the impact of discretionary tax measures introduced in mid-1981 and in early 1982, as well as an 18 per cent increase in imports (in CFAF terms), tax revenue rose by 37 per cent in 1982. With nontax receipts also expanding rapidly, mainly because of larger profits of the Central Bank, total budgetary revenue increased by about 38 per cent (Table 4). However, despite the Government's decision to freeze wages in the public sector and to suspend automatic promotions, the wage bill rose by 9 per cent, due to continued recruitment and, more importantly, to a decision to upgrade salary scales of the army and police. As explained by the authorities, this decision could not be delayed further because civil servants had benefited from similar salary actions in 1980 and 1981. Although additional expenditure restraint measures were introduced during the last quarter of the year, other current outlays also expanded rapidly, owing partly to expenditure overruns amounting to about CFAF 1.2 billion in the areas of travel, scholarships, and special funds (fonds spéciaux). Moreover, scheduled interest payments more than doubled. Therefore, as a result of the exceptionally favorable revenue performance, in 1982 the budgetary deficit was reduced considerably, amounting to CFAF 5.6 billion, or 2.6 per cent of GDP. However, the external public debt was not fully serviced, and new external arrears of CFAF 2.8 billion were accumulated in 1982. Domestic arrears were further reduced by CFAF 1.8 billion.

Table 4. Central African Republic: Government Operations, 1979-83 1/

(In billions of CFA francs)

	1979	1980	1981	1982 Estimate	1983 Program
Revenue	20.1	21.7	24.3	33.5	36.7
Tax	19.3	20.9	22.5	30.9	34.4
Nontax	0.8	0.8	1.8	2.6	2.3
Expenditure	27.9	30.4	34.8	39.1	39.3
Current	27.4	29.4	32.6	36.4	35.4
Capital	0.5	1.0	2.2	2.7	3.9
Overall deficit (commitment basis)	-7.8	-8.7	-10.5	-5.6	-2.6
Arrears (reduction -)	0.3	1.1	-3.0	-1.6	-3.5
Domestic	(--)	(0.5)	(-2.7)	(-1.8)	(--)
Foreign	(0.3)	(0.6)	(-0.3)	(0.2)	(-3.5)
Overall deficit (cash basis)	-7.5	-7.6	-13.5	-7.2	-6.1
Financing					
Domestic (net)	0.4	0.1	4.7	2.5	3.0
Monetary authorities	0.3	1.8	4.8	0.4	3.0
BEAC	(0.2)	(--)	(0.7)	(-0.2)	(2.7)
IMF counterpart	(0.1)	(1.8)	(4.1)	(0.6)	(0.3)
Deposit money banks	--	-0.4	-1.0	1.0	--
Other Treasury operations	0.1	-1.3	0.9	1.1	--
Foreign (net)	7.1	7.5	8.8	4.7	3.1
Grants	5.8	7.4	5.6	5.0	3.0
Loans	1.4	0.6	3.8	0.9	1.6
Amortization paid	-0.1	-0.5	-0.6	-1.2	-1.5 2/
Memorandum items:					
Outstanding external arrears 3/	15.1	17.9	0.4	3.2	--
Accumulation of external arrears 3/	2.6	2.8	0.4	2.8	--
Overall deficit (commitment basis) as per cent of GDP	5.2	5.2	5.6	2.6	1.0
Overall deficit (cash basis) as per cent of GDP	5.0	4.5	7.2	3.3	2.4

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

1/ Includes the operations of the Treasury and of the Amortization Fund (CAADE). Excludes, however, government investments financed by project aid outside the budget.
2/ Assuming rescheduling.
3/ On debt service.

The Treasury deficit (cash basis) of CFAF 7.2 billion was met essentially through a foreign budgetary grant (CFAF 5.0 billion), drawings on foreign loans (CFAF 0.9 billion), and exceptional resources accruing from the common Central Bank (CFAF 2.7 billion); the latter represented the C.A.R.'s share of transfers from the French Treasury to the Central Bank 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.

On the basis of the above developments, the expansion of net bank credit to the Government is estimated to have slowed down to 12 per cent in 1982, from 46 per cent in the preceding year (Table 5). However, with credit to the private sector increasing by 23 per cent, compared with 4 per cent in 1981, domestic credit expansion is estimated to have accelerated to 20 per cent, from 15 per cent in 1981. The growth in credit to the private sector was mainly due to a rapid increase in nonrediscountable credit. Delays in repayments of seasonal coffee credit were also a contributing factor. In view of the significant deterioration in the external position, broad money expanded by only some 7 per cent. Reflecting the impact of the price measures and of the depreciation of the CFA franc along with the French franc, the inflation rate is estimated to have increased somewhat to 14 per cent in 1982.

The expansion of domestic demand and the increase in import prices entailed a 7 per cent rise in payments for imports and net services in 1982, at a time when exports declined by 7 per cent (Table 6). The decline in export receipts reflected the continued unfavorable world market conditions for the principal export products and the fall in the volume of all exports, except coffee. Thus, the external current account deficit is estimated to have widened to 15.4 per cent of GDP. Therefore, despite significantly larger net inflows of official transfers and capital, reflecting the pickup in aid disbursements and the inflow of CFAF 2.7 billion related to the exchange guarantee agreement referred to above, the overall balance of payments deficit is estimated to have reached SDR 15 million (CFAF 5.6 billion). This was financed by use of reserves, debt relief, and accumulation of arrears on external public debt service. Since the C.A.R. did not have a stand-by arrangement with the Fund, there was no debt rescheduling under the auspices of the Paris Club in 1982. The C.A.R. did, however, benefit from debt relief from France equivalent to SDR 3.9 million. Drawings on Fund resources amounted to SDR 2.4 million, equivalent to the undrawn amount of the 1981 stand-by arrangement (EBS/82/72). Gross official reserves are estimated to have declined by SDR 8.8 million during 1982 and at year end were equivalent to four months of projected 1983 imports (c.i.f.), compared with five months of 1982 imports at the end of 1981.

Table 5. Central African Republic: Monetary Survey, 1979-83

(In billions of CFA francs; end of period)

	1979	1980	1981	1982 Estimate	1983 Program
Foreign assets (net)	3.25	11.29	13.82	8.10	7.40
Central Bank	5.85	8.53	10.78	6.10	5.40
Deposit money banks	2.35	2.76	3.04	2.00	2.00
Postal debt 1/	-4.95	--	--	--	--
Domestic credit	27.42	31.76	36.56	43.70	50.60
Claims on Government (net)	11.80	8.29	12.13	13.60	16.60
Of which:					
IMF counterpart	(3.78)	(5.57)	(9.71)	(10.30)	(10.60)
postal debt 1/	(4.95)	(--)	(--)	(--)	(--)
Claims on the private sector	15.62	23.47	24.43	30.10	34.00
Broad money	27.10	36.63	45.34	48.70	54.90
Currency in circulation	17.94	24.37	31.96	33.10	...
Demand and time deposits 2/	9.16	12.26	13.38	15.60	...
Other items (net)	3.57	6.42	5.04	3.10	3.10

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

1/ Consolidated in May 1980.
2/ Including deposits with the postal checking system.

Table 6. Central African Republic: Balance of Payments, 1979-83 1/

(In millions of SDRs)

	1979	1980	1981	1982 Estimate	1983 Program
Exports	101.5	118.9	107.7	99.8	108.9
Diamonds	(28.4)	(29.5)	(28.1)	(24.5)	(26.5)
Coffee	(22.6)	(26.2)	(20.0)	(24.0)	(26.7)
Timber	(20.4)	(26.2)	(26.5)	(20.1)	(20.0)
Cotton	(8.0)	(13.7)	(15.6)	(9.1)	(13.2)
Other	(22.1)	(23.3)	(17.5)	(22.1)	(22.5)
Imports, f.o.b.	-107.7	-151.3	-132.4	-137.8	-136.5
Trade balance	-6.2	-32.4	-24.7	-38.0	-27.6
Services (net)	-57.8	-70.5	-36.2	-42.2	-41.4
Of which:					
freight and insurance payments	(-33.5)	(-46.9)	(-39.6)	(-39.7)	(-39.5)
scheduled interest payments on public debt 2/	(-2.9)	(-3.3)	(-2.2)	(-5.2)	(-5.9)
Private transfers (net)	-9.5	-14.5	-11.9	-11.3	-12.2
Current account balance	-73.5	-117.4	-72.7	-91.5	-81.1
Public transfers (net)	70.6	77.8	69.6	62.8	58.2
Capital (net)	24.0	36.7	10.6	14.1	12.4
Of which: scheduled public debt amortization	(-9.8)	(-9.8)	(-10.9)	(-13.0)	(-12.7)
SDR allocations and Trust Fund	2.2	9.8	1.6	--	--
Errors and omissions (net)	-15.6	-7.3	-16.6	-0.8	--
Overall balance	7.7	-0.4	-7.5	-15.4	-10.5
Financing					
Use of Fund credit (net)	-2.5	-0.7	15.0	1.7	10.5
Arrears (decrease -)	10.6	10.2	-0.3	6.3	-9.5
Debt relief and other balance of payments support	--	--	8.4	3.9	8.7
Other net reserve movements (increase -)	-15.8	-9.1	-15.6	3.5	0.8

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

1/ Converted at the following CFAF/SDR average exchange rates: 1979 - 274.[illegible]3; 1980 - 275.01; 1981 - 320.41; 1982 - 362.80; and 1983 - 370.00.

2/ Including Fund charges.

In 1982 the C.A.R.'s outstanding external debt, including obligations to the Fund, declined by 7.5 per cent to about CFAF 62.7 billion (SDR 165 million), mainly reflecting cancellation of some debts by the Federal Republic of Germany and France. However, on the basis of the scheduled debt service, which was substantially higher than in 1981, the debt service ratio rose to 13.5 per cent, from 10.3 per cent in 1981. Taking into account external arrears existing at end-1981 (CFAF 0.4 billion), it is estimated that arrears on debt service amounted to CFAF 3.2 billion at end-1982. In addition, there are arrears to international organizations and foreign suppliers estimated at some CFAF 3.0 billion as of end-1982.

Together with Cameroon, Chad, Gabon, and the People's Republic of the Congo, the C.A.R. shares a common central bank (BEAC) and a common currency, the CFA franc, which is pegged to the French franc at the rate of CFAF 50 = F 1. The nominal effective import-weighted exchange rate of the C.A.R.'s currency, which had remained virtually stable in 1978-80, depreciated at an annual average rate of 3.2 per cent in 1981-82, reflecting the downward movement of the French franc vis-à-vis other major currencies (Chart 1). In real terms it appreciated by about 4 per cent per annum in 1981-82. At the time of the discussions, the authorities indicated that they considered the current exchange rate appropriate to their circumstances, but added that their exchange rate policy should be viewed in the light of the common exchange rate arrangements and its solidarity aspect to which they attached great importance. Subsequently, on March 21, 1983, the CFA franc was depreciated along with the French franc following the realignment of European currencies under the European Monetary System (EMS). The C.A.R. does not maintain restrictions on payments and transfers for current international transactions, and its trade system is liberal.

III. Medium-Term Economic Policies

The C.A.R. representatives noted that the results achieved during 1982, the interim year, were mixed. While the authorities were encouraged by the bottoming out of the downward trend in economic activity, they remained concerned by the size of the financial imbalances still facing the country. The vigorous efforts made to strengthen tax administration had led to a substantial improvement in tax collection, but a reversal of policies in the areas of government spending and public enterprises had proved more difficult to achieve in such a short period of time. Domestic savings were still negative and the external current account deficit unsustainably high. They added that this underscored the need to pursue the corrective policies initiated in 1982 within the context of a comprehensive medium-term program. Accordingly, on September 1, 1982 the Government adopted a three-year recovery program (1983-85) which aims essentially at (i) reviving, developing, and diversifying production and exports, while rehabilitating the supporting infrastructure, and (ii) restoring internal and external equilibria, particularly by returning the public sector to a sound financial footing. Together with measures to promote private savings, this should help achieve a positive domestic savings rate. Another important objective of the program is the reform of the education system to bring it more in line with the country's economic development requirements and budgetary resources.

1. The investment program for 1983-85

The recovery program, which in many respects carries forward the actions initiated under previous programs, provides for total public investment of CFAF 86 billion (at current prices) in 1983-85, which should help achieve an average annual GDP growth rate of 3 per cent, compared with a 2 per cent decline in 1980-82. Planned public investment would accelerate from an average level of 8 per cent of GDP in 1981-82 to 11 per cent in 1983-84 and decline to 7.4 per cent in 1985. Of total investment under the program (including estimates of private sector investment for 1983), 51 per cent is allocated to directly productive sectors--essentially agriculture and forestry (29 per cent), mining (10 per cent), and energy and water (8 per cent)--40 per cent to infrastructure, mainly roads (31 per cent), and the remainder to social infrastructure and other services. Some 92 per cent of total investment is expected to be financed by foreign aid, most of which has been secured.

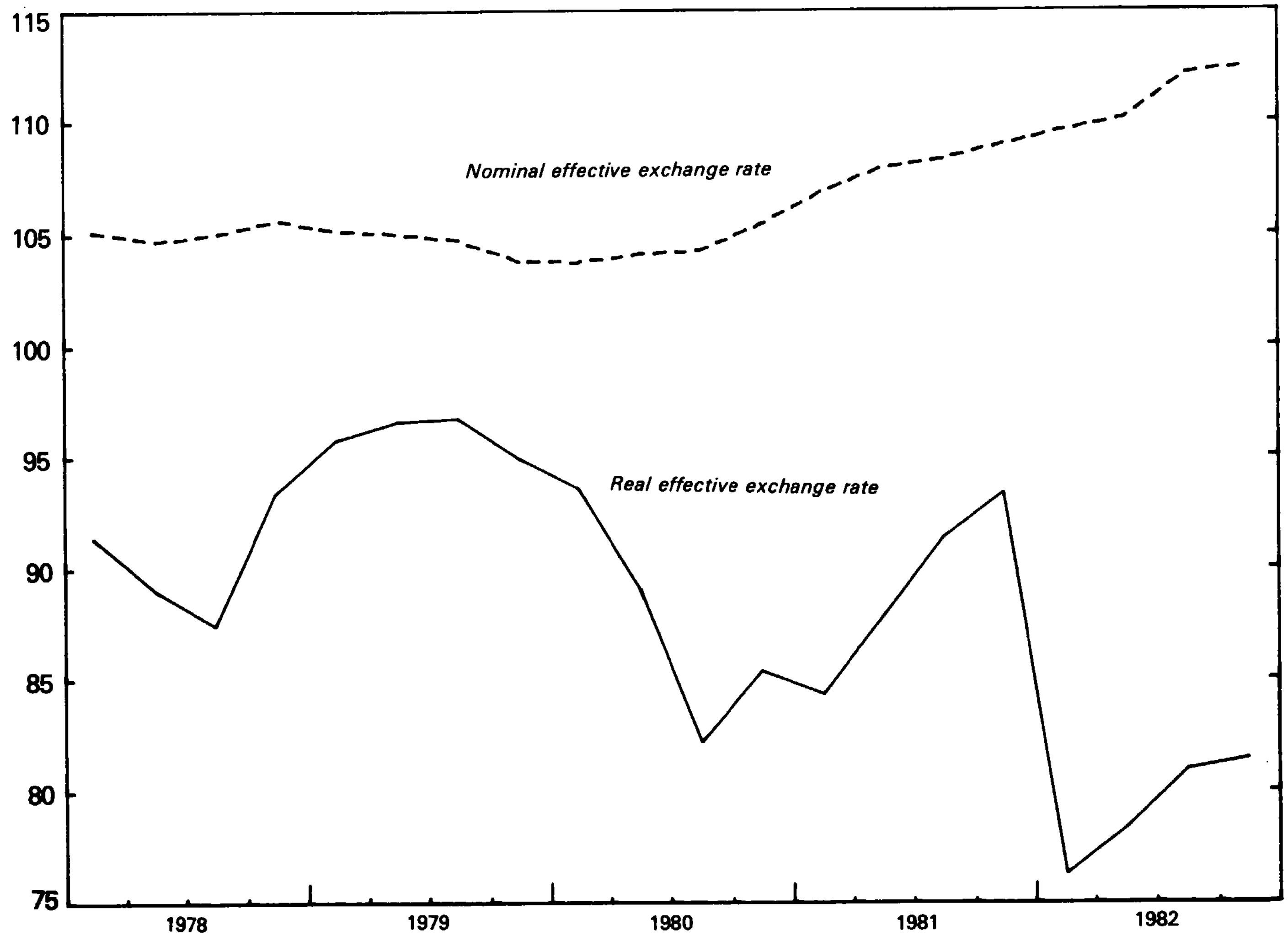
The World Bank staff is in general agreement with the priorities of the investment program; in their view, its content and sectoral distribution are well-suited to form the basis for future economic growth. The Bank's lending program envisages a substantial increase in both technical and financial assistance in 1983-87, notably in agriculture, transport infrastructure, public administration, and state enterprises. For 1983-84 the Bank staff also anticipates a significant acceleration in investment expenditures because many projects are expected to reach their implementation stage, and a larger number of them will be carried out almost entirely by private contractors.

As evidenced by the sectoral allocation of resources, the investment program's strategy concentrates on agriculture and infrastructure. In agriculture, the most important project is an integrated rural development project in the cotton zone, which aims at increasing yields and production of cotton and food crops. Total cotton output is to be raised from 25,000 tons in 1982/83 to 37,000 tons in 1984/85. In the immediate future World Bank assistance in agriculture would be concentrated on this project and on strengthening SOCADA, which will manage the project. This assistance will be accompanied by policy reforms, including improvements in incentives and the liberalization of prices of food crops. Other major sources of financing of the projected outlays of CFAF 12.7 billion in 1983-85 are the French FAC and CCCE, the FED, and BADEA. The two other major agricultural projects involve coffee and palm oil development. Coffee output is to increase from its present level of 17,000 tons to 21,000 tons in 1984/85. The agro-industrial palm oil project at Bossongo would produce about 6,000 tons of oil a year, thereby reducing imports. As regards infrastructure, the investment program emphasizes the rehabilitation and maintenance of the road network. The deterioration of the transportation network, mainly

CHART 1

CENTRAL AFRICAN REPUBLIC

EFFECTIVE EXCHANGE RATES, IMPORT—WEIGHTED, 1978-82[1]



Source: IMF Data Fund.

[1] Quarterly averages (1975 = 100); fall in index = appreciation.

because of poor maintenance, has represented an important constraint on the development of the country's resources. About one third of the country's priority road network will be rehabilitated under the World Bank's Highways IV project approved in June 1982. The five-year project will cost some CFAF 17 billion (US$48 million) and will be co-financed by five other donors, including the FAC, the Kuwait Fund, and the OPEC Fund. The rehabilitation of another third of the priority road network is being financed by France, the Federal Republic of Germany, and the FED.

Private sector investments are expected to concentrate on forestry and mining, the two other major sources of export earnings. In order to enhance private sector involvement in the forestry and diamond sectors, the World Bank Group is to assist the Government in reorganizing and strengthening administration of these two sectors and in reviewing existing legislation which has hitherto discouraged private sector investments. A foreign oil company is also expected to make substantial investments in oil exploration. At present the C.A.R. depends mostly on oil imports for its energy consumption. To lessen this dependence, the investment program envisages the expansion of the Boali hydroelectric plant; of the total cost of CFAF 18 billion, outlays in 1983-85 would amount to CFAF 4.5 billion.

The C.A.R. representatives stated that the authorities were mindful of the need for the parastatal sector to contribute to the generation of domestic savings. For this reason, an important aspect of the recovery program is the rehabilitation and reorganization of the public and mixed enterprises. In this endeavor, government policy will aim primarily at ensuring profitability of these enterprises. Consistent with this objective, and taking into account recommendations made in the World Bank Group consultants' report, financially nonviable enterprises will be liquidated, and past deficits of the remaining ones as well as their claims on the Government will be settled. The rehabilitation efforts will also be accompanied by corrective pricing and employment policy measures, as well as by improved management. Moreover, in the future, the Government would preferably seek association with private partners and limit direct intervention to those sectors which are regarded as strategic or where private initiative is inadequate or lacking.

2. Demand management policies

The C.A.R. authorities recognize that fiscal policy should be the key element in their efforts to restore sound financial conditions and promote economic growth. Accordingly, they will endeavor to increase the share of budgetary resources devoted to the development of the economy, while allowing the normal servicing of internal and external public debt. Consequently, the primary aim of medium-term budgetary policy will be the relative reduction of public consumption. Given that wages and salaries account for about 65 per cent of current expenditure, any lasting solution to the budgetary imbalance will require that employment in the civil service be limited to the level necessary for the smooth operation of the public administration. The authorities are conscious that a major change in both recruitment and educational policies is needed. In 1982 the Government, in cooperation with a team of World Bank consultants, began preparing a plan of action aimed at improving the country's public administration, including a three-year plan for controlling budgetary expenditure growth. With a view to promoting better use of staff and increasing productivity, the plan prescribes, inter alia, a steady and significant reduction in government employment. Furthermore, in order to ensure that the education system is geared to the manpower needs of the economy and to eliminate as quickly as possible the practice of guaranteeing all school and university graduates a civil service job, a reform of the system is expected to begin in 1983. Another important objective of the reform is to contain expenditure on education.

On the revenue side, efforts will be made to mobilize additional domestic resources. The actions begun in 1982 will be vigorously pursued in 1983-85 with a view to reducing tax evasion and exemptions. A review of the individual income tax is being undertaken with Fund technical assistance, the objective being to simplify the system and improve its yield through the introduction, beginning in 1984, of a single tax on individual income. The successful rehabilitation of the state enterprises would also enable them to discharge their tax liabilities.

The C.A.R. representatives remarked that in recent years, notwithstanding some sharp fluctuations, credit to the private sector, consisting largely of credit for crop financing and import of petroleum products, has expanded at a relatively slow pace, reflecting the depressed economic conditions. It was likely that economic recovery would be accompanied by a significant increase in private sector demand for credit, including credit for the nonexport sectors. Therefore, in 1983-85 monetary policy would aim at meeting the genuine credit needs of the economy in order to promote the development of the directly productive sectors. The expected improvement in budgetary performance should help attain this objective without exerting undue pressures on the external position of the country. However, the growth of nonrediscountable credit would have to be curbed. Though they shared the view that a more active interest rate policy would be helpful in this respect and contribute toward the mobilization of financial savings, the C.A.R. representatives observed that a major change in this area requires a decision at the level of the monetary union. They pointed out that a positive, though small, step was taken in that direction when the Central Bank's basic rediscount rate was increased by 0.5 percentage points to 9 per cent effective December 6, 1982. Thus, for the immediate future, credit demand was likely to be regulated largely through the existing system of establishing ceilings on bank credit. The authorities hoped to reorient more credit toward the agricultural sector following the envisaged creation of an agricultural lending institution.

Scheduled external debt service payments are projected to increase to 14 per cent of exports of goods and nonfactor services in 1983, and further to about 15 per cent in 1984-85, before declining to 11 per cent in 1986-87 (Table 7). The authorities intimated that they would seek debt relief through the Paris Club in 1983. It was, however, their intention to avoid recourse to debt rescheduling thereafter. Accordingly, great care would be exercised in contracting new external debt, and over the period 1983-85 commitments on nonconcessional terms would be kept to a minimum and strictly limited to the financing of projects with high rates of return. In this respect, they pointed to the strengthening of the CAADE's role in the area of debt centralization and management. Moreover, the authorities intend to adhere strictly to the 1981 decree stipulating that all borrowings by the Government and the parastatals with or without government guarantee are to be submitted for the approval of the CAADE.

IV. The Program for 1983

The recovery program aims to achieve a sustainable external current account deficit in the medium term. Assuming that, in nominal terms, official transfers remain at around their 1983 level, that no debt rescheduling takes place in 1984-86, and that no new nonconcessional loans are contracted until 1986, current account financing is tentatively projected at about 6 per cent of GDP in 1985-86 (Table 3). Given that the external current account deficit was estimated at 15.4 per cent of GDP in 1982, the implied pace of adjustment would be a reduction of some three percentage points per year over 1983-85.

In view of the above considerations, and as an integral part of their three-year recovery program, the authorities have adopted an economic and financial program for 1983, which is described in detail in the attached letter of intent and accompanying economic memorandum, and summarized in Table 8. The program assumes that real exports will grow by 2.5 per cent in 1983, while inflation is targeted to remain at the same level of 14 per cent estimated for 1982, due in part to the adverse impact of corrective price increases. An improvement in the external terms of trade is also assumed because of the anticipated recovery in export prices and virtually unchanged import prices. Furthermore, it is expected that the C.A.R. would seek and obtain a substantial amount of exceptional balance of payments support, including debt rescheduling.

On the basis of the above assumptions, the program seeks to limit the external current account deficit to CFAF 30 billion (SDR 81 million) in 1983, equivalent to 11.9 per cent of projected GDP. Excluding imports linked to project aid, the current account deficit falls to 7.7 per cent of GDP. With projections of official transfers and net capital inflows, including debt amortization, the overall balance of payments

Table 7. Central African Republic: External Public Debt Service, 1982-87

(In billions of CFA francs)

	1982 Est.	1983 Program	1984 Projected	1985 Projected	1986 Projected	1987 Projected
Scheduled interest 1/	1.4	1.7	1.5	1.3	1.2	0.9
IMF charges	0.5	0.5	0.7	0.6	0.5	0.3
Total	1.9	2.2	2.2	1.9	1.7	1.2
Scheduled amortization 1/	4.7	4.7	5.3	6.0	5.2	5.0
IMF repurchases	0.2	1.1	2.0	3.1	2.2	3.3
Total	4.9	5.8	7.3	9.1	7.4	8.3
Total scheduled debt service	6.8	8.0	9.5	11.0	9.1	9.5
Debt relief	-1.4	-3.2	--	--	--	--
Net arrears (accumulation -)	-2.3	3.5	--	--	--	--
Actual debt service payments	3.1	8.3	9.6	11.0	9.1	9.5
Scheduled debt service ratio, excluding the Fund 2/	12.1	11.3	10.9	10.2	8.0	6.7
Scheduled debt service ratio, including the Fund 2/	13.5	14.1	15.2	15.4	11.4	10.8
Outstanding debt, excluding the Fund 3/	25.3	21.4	17.1	13.4	10.5	8.1
Outstanding debt, including the Fund 3/	29.0	26.1	21.1	15.9	12.0	8.7
Memorandum items:						
Outstanding debt, including the Fund 4/	62.7	65.7	62.2	55.2	49.4	42.3
Exports of goods and non-factor services	50.5	56.7	62.6	71.3	80.0	88.3

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

1/ Assumes no nonconcessional borrowing in 1983-85 and that such borrowing will remain modest in 1986-87. Thus, the impact on debt service of new borrowing is assumed to be minimal.
2/ In per cent of exports of goods and nonfactor services.
3/ End of period; in per cent of GDP.
4/ End of period.

Table 8. Central African Republic: Summary of Financial Program for 1983

	1981	1982 Estimate	1983 Program
Assumptions			
Change in total export volume (in per cent)	-8.8	-0.2	2.5
Of which: diamonds	(-9.9)	(-9.9)	(3.7)
coffee	(21.3)	(10.9)	(6.9)
timber	(-3.7)	(-13.6)	(-5.9)
cotton	(-2.6)	(-34.2)	(27.4)
Change in terms of trade (in per cent)	-1.3	-8.3	6.4
Exceptional balance of payments support, including debt rescheduling (in millions of SDRs)	8.4	3.6	8.7
CFAF/SDR (annual average)	320.41	362.80	370.00
Targets			
Real GDP growth (in per cent)	-2.2	0.4	2.0
Inflation rate (as measured by CPI)	12.7	14.0	14.0
External current account deficit, excluding official transfers			
In millions of SDRs	72.7	91.5	81.0
In per cent of GDP	12.3	15.4	11.9
Overall balance of payments deficit (in millions of SDRs)	7.5	15.4	10.5

Principal policy measures

a. Real sector

Producer prices already increased from CFAF 60 to CFAF 70 for cotton and from CFAF 120 to CFAF 125 for coffee.

Improve extension services, transportation, and marketing of agricultural products.

Create new purchasing offices and improve controls to increase official production of diamonds.

Table 8. Central African Republic: Summary of Financial Program for 1983 (concluded)

b. State enterprises

Complete the liquidation of five financially nonviable enterprises.
Improve financial performance by reducing employment and increasing fees and prices charged, including of petroleum products and electricity.
Rehabilitate SOCADA, by settling most of the arrears and further reducing the number of employees.
Secure private sector partners to improve performance of a number of enterprises.

c. Budget

Reduce the overall budgetary deficit (commitment basis) to CFAF 2.6 billion or 1.0 per cent of GDP (1982: CFAF 5.6 billion or 2.6 per cent).
Increase in revenue of CFAF 3.2 billion, or 9.6 per cent with respect to 1982, with almost half the increase produced by discretionary tax measures.
Limit total expenditures (excluding amortization) to CFAF 39.3 billion (1982: CFAF 39.1 billion) by reducing current expenditures by 3 per cent.
No general wage increase, and reduction in government employment by at least 400 (less than 2 per cent of the total).

d. Money and banking

Basic rediscount rate increased by 0.5 per cent, effective December 6, 1982; mid-term review of interest rate policy.
Limit domestic credit expansion to 16 per cent (1982: 20 per cent).
Limit credit to Government to CFAF 3 billion (1982: CFAF 1.4 billion) with provision that exceptional budgetary resources accruing in 1983 be used to reduce recourse to the banking system.

e. External sector

Reduction in external arrears through cash settlement of CFAF 3.5 billion.
No new borrowing on nonconcessional terms of less than 12 years.

Surveillance of program execution

Mid-term review before end-August 1983, including a preliminary discussion of the 1984 budget.

deficit in 1983 is expected to be contained at CFAF 3.9 billion (SDR 10.5 million). To attain these objectives, the program includes policy measures, some of which have already been implemented, designed to restrain domestic demand, especially public consumption, while making sufficient financing available for achieving the growth in real output. At the same time, the policy actions provide for increased investments and appropriate incentives to ensure a lasting economic recovery.

1. Economic policies

As most of the projects in agriculture and infrastructure have reached the implementation stage and with financing secured, total public investment outlays are expected to accelerate to about CFAF 24.0 billion in 1983, or 33 per cent more than in the previous year. Some 29 per cent of public investment is earmarked for agriculture and 55 per cent for infrastructure. The Government's decision to provide budgetary appropriations of CFAF 1.5 billion for the partial settlement of SOCADA's accumulated deficits will make it possible to start the implementation of the cotton/food integrated development project, the most important in the agricultural sector. As regards infrastructure projects, 41 per cent of the planned investments for 1983 relate to projects already under way. The World Bank's Highways IV project, which is the largest of the new infrastructure projects, began in early 1983.

Producer prices for most food crops, as well as those for cotton and coffee, were raised in the 1982/83 crop year. Both SOCADA and the Stabilization Fund are to follow flexible producer pricing policies, and a further increase of the cotton producer price for 1983/84 has not been ruled out. Efforts begun in the previous year to improve extension services and marketing will also be pursued vigorously. It is expected that in 1983/84 these actions will help achieve a 20 per cent increase in cotton output to 30,000 tons and an 11 per cent increase in coffee production. The establishment of new foreign companies and additional purchasing offices, combined with the strengthening of controls, should also result in increased official production of diamonds. In view of the expected favorable developments in other sectors, notably commerce, real output is anticipated to grow by 2 per cent.

In line with the decision to rehabilitate and reorganize the parastatal sector, the 1983 budget allocates CFAF 2.2 billion to the Recovery Fund, of which CFAF 1.5 billion is to be transferred to SOCADA for the partial settlement of its accumulated deficits prior to the 1982/83 crop season. The remainder of the resources of the Recovery Fund will help in liquidating five financially nonviable enterprises, the Banque nationale de crédit et de dépôts (BNCD), the Banque centrafricaine d'investissement (BCI), the Compagnie nationale de transports routiers (CNTR), the Société nationale des hôtelleries (SNH), and the Société centrafricaine d'exploitation forestière et industrielle (SOCEFI). Both the BNCD and the SOCEFI are to be replaced by new mixed ventures in association with foreign partners. To improve the financial performance of the other enterprises, employment and corrective price measures will also be introduced, as shown in Table 1, Attachment II. These measures include a freeze on wages and salaries of parastatals, a further reduction in the payrolls of SOCADA, the water distribution company (SNE), and the telecommunications agency, and increases in electricity tariffs and petroleum prices. Tariffs charged by the electricity company have been raised by 20 per cent in January 1983 and will be raised by a further 20 per cent by August 1, 1983. Effective January 1, 1983, the prices of gasoline and diesel have been raised further by 23 per cent and 31 per cent, respectively. The Post Office and the telecommunications agency have also adjusted their fees upward by 10 to 25 per cent. Meanwhile, the Government will not accumulate new arrears vis-à-vis the public enterprises, and before year end a schedule for the settlement of outstanding government arrears estimated at CFAF 4.8 billion will be drawn up.

The 1984 Finance Law will provide budgetary appropriations to settle the remainder (CFAF 431 million) of SOCADA's accumulated deficits prior to the 1982/83 crop season, to compensate SOCADA for losses (CFAF 250 million) resulting from the most recent increase in the producer price of cotton, and to settle the anticipated deficit (CFAF 194 million) of the 1982/83 crop season.

2. Financial policies

a. Fiscal policy

In addition to ensuring the amelioration of the financial position of the public enterprises, the reduction in public consumption also requires a substantial improvement in the fiscal position. Thus, the program calls for a reduction in the budget deficit (commitment basis) by more than half, from CFAF 5.6 billion in 1982 to CFAF 2.6 billion in 1983, or, as a proportion of GDP, from 2.6 per cent to 1.0 per cent. The proposed fiscal adjustment is to be achieved through both revenue-raising and expenditure restraint measures.

Budgetary revenue is projected to increase by 9.6 per cent to a level equivalent to 14.6 per cent of GDP. About half of this increase is to result from new tax efforts (Table 9). The Government also decided to maintain the special contribution to national recovery, but at 80 per cent of the rate applied in 1982 in order to reduce somewhat its impact on employees' incomes. Meanwhile, actions to strengthen tax administration taken in 1982 will be continued. As a result, though the tax/GDP ratio is projected to decline by less than 1 percentage point to 13.7 per cent from the exceptionally high level of 1982, it would still be significantly above the level of 12 per cent attained in 1980-81.

Table 9. Central African Republic: Impact of New Tax Measures, 1983

(In millions of CFA francs)

Measures	Expected yield
Increase of CFAF 15 per liter in the rate of the complementary tax on petroleum products	600
Adjustment of certain administrative values (valeurs mercuriales) for the assessment of customs duties	231
Increase in the transactions tax rate from 2.04 per cent to 2.50 per cent	128
Extension of the special contribution to national recovery to all salaried nationals in the private sector	400
Total	1,359

Source: Proposed stand-by arrangement.

Total budgetary expenditure (excluding debt amortization), at CFAF 39.3 billion, is programmed to remain at virtually its 1982 level. This is to be achieved through a 3 per cent reduction in current expenditure. In this way, budgetary revenue will cover current expenditure. The restraint in current expenditure involves the reversal of past trends in the areas of employment and wage policies, which has hitherto been difficult to effect. Personnel expenditure will not exceed CFAF 23.2 billion in 1983, a decrease of about 2 per cent from 1982. To this end, there will be neither a general salary increase nor an upgrading of salary scales, and the financial benefits of automatic promotions planned for 1983 will not be paid. Furthermore, government employment is programmed to be reduced by at least 400 people (less than 2 per cent of government employment) through a limit or total freeze on recruitment and by attrition. Meanwhile, expenditures for materials and supplies and transfers are to be held to a combined level of CFAF 9.8 billion, compared with CFAF 10.6 billion in 1982. To remain within this limit, appropriations for missions and travel, which showed sizable overruns in 1982, will be sharply cut back in 1983 to CFAF 1.2 billion. Measures to that effect include the reduction in the number and size of missions; the limiting of first class travel to cabinet members only, and of training abroad to cases where the total cost is borne by organizing countries or institutions; and the extension from two to three years of the period for home leave entitlements for students abroad. Appropriations for scholarships will also be limited to CFAF 1.4 billion, compared with CFAF 1.7 billion in 1982, when outlays exceeded budgetary appropriations. The reduction in the number of students admitted to the university in October 1982 and a strict census of government scholarship holders being carried out will make it possible to meet the targeted reduction in outlays on scholarships.

Capital expenditure, however, is programmed to expand by 44 per cent to CFAF 3.9 billion, reflecting appropriations of CFAF 2.2 billion for the Recovery Fund (Fonds de Relance), which was established by the 1982 Finance Law to assist in the rehabilitation of public and mixed enterprises but could not be funded in that year. Excluding these appropriations, capital expenditure would fall significantly in 1983. It should be noted that the bulk of public investments consists of foreign-financed projects outside the budget.

In order to ensure that budgetary expenditure remains within the programmed limits, the Government has decided to extend the system of monthly ceilings on expenditure to all current outlays with the exception of wages and salaries and scholarships which are subject to the limits mentioned above. Under the system, average monthly ceilings will be set at 80 per cent of appropriations. The number of civil servants will be closely monitored, and the work of the commission entrusted with surveying and pruning civil service employment will be accelerated. The budgetary control system has also been revised, notably by increasing the powers and independence of the financial controller, to enable him to apply more rigorously the rules governing the approval of budget operations. Moreover, the recently introduced computerization of expenditure operations at the commitment stage makes it possible to monitor such commitments in the light of the appropriations and the spending rate, and, consequently, to enforce the ceiling system strictly.

The budgetary deficit (commitment basis) is projected at CFAF 2.6 billion and, taking into account the cash settlement of external arrears, the Treasury deficit at CFAF 6.1 billion. Under current assumptions of debt rescheduling, the Treasury would finance this deficit almost equally through recourse to domestic bank financing and to foreign aid. The latter consists of budgetary grants and drawings on soft loans which have already been secured. As a result, the expansion of bank credit to the Government will not exceed CFAF 3.0 billion in 1983. This increase in bank credit to the Government will be reduced by the equivalent of exceptional resources accruing to the Treasury and resulting from the exchange guarantee agreement between the member states of the BEAC and France. Moreover, should the debt rescheduling outcome be more favorable than assumed, the Government will consult with the Fund during the midterm review in order to reach agreement on the use of budget appropriations thereby released.

b. Monetary policy

For 1983 monetary policy has been designed to accommodate the anticipated recovery in economic activity, especially the revival in agriculture, while taking into account the need to restrain domestic demand and achieve the balance of payments target. In view of the decision to curb the growth of nonrediscountable credit and assuming that seasonal credit is liquidated on schedule, credit to the private sector is programmed to expand by 13 per cent. Such an expansion should be adequate to meet the credit needs of the economy. Given the budgetary targets, the expansion in total domestic credit would not exceed CFAF 6.9 billion in 1983. With total domestic credit outstanding at end-1982 estimated at CFAF 43.7 billion, this would represent a 16 per cent increase in 1983, as against 20 per cent in 1982. The expansion in domestic credit would 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.

In view of the targeted balance of payments deficit, broad money would expand by 13 per cent, compared with a projected 16 per cent nominal GDP growth. The monetary authorities intend to take all necessary actions to maintain the growth in domestic credit within the targeted limit. In particular, measures will be adopted to ensure repayment of agricultural credit by the end of the crop season and to collect those seasonal credits which have not been liquidated in a timely manner. Should it prove necessary, they will also activate the system of reserve requirements. They recognize that the recent adjustment in interest rates has not been adequate and intend to discuss the matter with the staff during the mid-term review of the program.

c. External policies

The authorities are hopeful that the implementation of the program would help achieve the targeted 3.5 percentage point reduction in the external current account deficit in 1983. The demand-restraining policies are expected to result in a virtually unchanged nominal value of imports, implying a 1 per cent decline in volume. As the volume of project aid imports is estimated to rise significantly, the drop in the volume of other imports would be more pronounced. Meanwhile, total export volume is forecast to increase by 2.5 per cent in 1983, owing mainly to volume increases in exports of cotton (27 per cent), coffee (7 per cent), and diamonds (4 per cent). Cotton export prices are slated to increase by 14 per cent in U.S. dollar terms, while those of coffee and diamonds would increase by 4 per cent. The value of exports is to rise by 9 per cent in SDR terms and that of imports (c.i.f.) to decline by 1 per cent, resulting in significantly improved trade and external current account balances. Net inflows of official transfers and capital, including debt amortization, are forecast to decline by 8 per cent to SDR 70.6 million despite larger long-term borrowing.

This reflects reduced budgetary aid and the assumed significant decline in inflows related to the exchange guarantee scheme; this latter assumption may, however, prove to be too conservative. Nevertheless, the improvement in the current account would result in an overall balance of payments deficit equivalent to SDR 10.5 million, compared with a deficit of SDR 15.4 million in 1982.

The C.A.R.'s debt service ratio, including the Fund, is expected to rise to 14 per cent of exports of goods and nonfactor services in 1983, and represents 19 per cent of budgetary revenue. The C.A.R. authorities regard this level as relatively high and intend to seek a rescheduling under the auspices of the Paris Club. Moreover, in 1983 cash reductions of external arrears will amount to CFAF 3.5 billion (SDR 9.5 million), and by the end of the year there will be no external arrears on debt service.

3. Performance criteria and review clause

The proposed stand-by contains the following performance criteria: (i) quarterly ceilings on the expansion of total domestic bank credit, with quarterly subceilings on net credit to the Government; (ii) quarterly reductions in external arrears through cash settlements; (iii) a provision that no new nonconcessional external loans in the maturity range of 1-12 years will be contracted or guaranteed by the Government; and (iv) the standard provision relating to trade and exchange practices. The quantitative performance criteria are shown in Table 10. In addition, before the end of August 1983, there will be a mid-term review of the program with the Fund, during which the staff will examine its implementation, particularly as regards prices (including interest rates), the budget, money and credit, and public and mixed enterprises. Budgetary targets for 1984 will also be discussed during this review.

Table 10. Central African Republic: Performance Criteria for the Proposed Stand-By Arrangement

(In billions of CFA francs; end of period)

	1982	1983			
	Est.	March	June	Sept.	Dec.
Domestic credit	43.7	44.9	47.5	48.5	50.6
Of which: claims on Government (net) 1/	(13.6)	(13.6)	(14.7)	(15.8)	(16.6)
Reduction in external arrears through cash settlements	...	0.9	2.0	3.1	3.5
New external borrowing with initial maturities of 1 to 12 years 2/	...	--	--	--	--

Source: Proposed stand-by arrangement.

1/ Excluding revaluations of counterpart funds of purchases from the Fund.
2/ Contracted or guaranteed by the Government.

V. Staff Appraisal

In recent years the C.A.R. has experienced growing economic and financial difficulties, stemming from the turnaround in world market conditions, the sharp increase in oil prices, and, more importantly, weaknesses in economic and financial management. Lax fiscal policies led to a succession of large budgetary deficits and to a substantial accumulation of arrears vis-à-vis the public enterprises, private domestic and foreign suppliers, and official creditors. This aggravated an already weak financial performance of the parastatals. Domestic savings remained negative and domestically financed public investment insignificant. With the erosion of confidence in the economy, foreign financing of investment also declined as official aid disbursements slowed down and private investment was discouraged. The inappropriate structure of domestic demand, together with inadequate pricing policies, resulted in an economic downturn. In the three years 1979-81 real output fell at an average annual rate of 3 per cent, and there was a considerable decline in real per capita income. The poor performance of output for export also contributed to unsustainably high external current account deficits. In the context of stabilization programs, supported by stand-by arrangements in 1980 and 1981, the authorities took several policy initiatives aimed at redressing the situation. The corrective policies were not, however, fully implemented, and there was no perceptible improvement in the economy.

The new Government which took office on September 1, 1981 rightly decided to address the deep-seated large domestic and external imbalances facing the country in the context of a comprehensive medium-term program for 1982-85. In 1982, the interim year, a number of corrective measures were implemented and economic performance improved somewhat; in particular, the downward trend in economic activity bottomed out. The authorities intend to pursue their adjustment efforts within the framework of a three-year recovery program (1983-85) which emphasizes the revival of production, the rehabilitation of infrastructure facilities, and the restoration of internal and external equilibria with a view to achieving a positive domestic savings rate. The investment program strategy and priorities are appropriate and could help promote a lasting recovery in output. The rehabilitation and reorganization of the public and mixed enterprises would contribute importantly to the generation of domestic saving. To ensure the intended improvement in operational efficiency and financial performance of the parastatals, the rehabilitation efforts should be accompanied by flexible employment and pricing policies as well as better management. The staff welcomes the actions already undertaken and strongly encourages the rapid and vigorous implementation of the envisaged additional measures.

The restoration of financial conditions propitious to a lasting resumption of economic growth would also require a major improvement in the fiscal position. In view of the structure of the government budget, this calls for a readjustment of employment and educational policies and continued efforts to mobilize additional domestic resources. The envisaged actions to restructure public administration and reform the educational system should be undertaken in a timely manner. Meanwhile, the authorities' stated policy of raising substantially the proportion of current expenditure covered by budgetary revenue should contribute toward restraint in government spending. The improvement in budgetary performance should help accommodate the expected increase in demand for credit associated with economic recovery, without exerting undue pressures on prices and the external position. In this respect, a more active interest rate policy could be useful.

The supply-oriented and demand-restraining measures contained in the authorities' recovery program, if fully adhered to, would contribute significantly toward restoring a sustainable external current account position in the medium term while allowing the normal servicing of public external debt. In this respect, the staff welcomes the authorities' intention to exercise great care in contracting new external debt over the period 1983-85.

As an integral part of the recovery program, the authorities have adopted an economic and financial program for 1983 in support of which they are requesting the proposed stand-by arrangement. The program, which the authorities have already begun to implement, seeks to achieve a 3.5 per cent reduction in the external current account deficit primarily through policy measures designed to restrain domestic demand, especially public consumption. Thus, the emphasis placed on the improvement in both the financial performance of the state enterprises and the fiscal position of the Government is appropriate. The authorities are aware that this involves flexible employment and pricing policies, as well as the restructuring of public administration and the reform of the educational system. Meanwhile, to promote a lasting recovery in economic growth, the program also contains policy actions for increased investments and incentives.

The implementation of the program will not be easy, especially as regards the achievement of the fiscal target, which calls for a reversal of past employment policies. It will therefore require sustained and determined efforts on the part of the authorities. The staff believes that the program for 1983 and the pace of adjustment are appropriate to achieve a sustainable external current account position over the medium term.

Proposed Decisions

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

I. 1982 Consultation

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.

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 April , 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.

I. Fund Relations with the Central African Republic

Date of membership	July 10, 1963
Status	Article XIV
Quota	SDR 24.0 million
Exchange rate	The CFA franc is pegged to the French franc, the intervention currency, at CFAF 1 = F 0.02. On February 28, 1983 CFAF 374.00 = SDR 1.

Fund holdings of the C.A.R.'s currency (February 28, 1983)

	Millions of SDRs	Per cent of quota
Total holdings	44.2	184.3
Of which:		
credit tranches	(12.4)	(51.7)
CFF	(9.0)	(37.5)
oil facility	(0.1)	(0.3)

SDR holdings (February 28, 1983)	SDR 0.2 million, equivalent to 1.7 per cent of the net cumulative allocation of SDR 9.3 million.
Distribution of profits from gold sales	US$2.1 million
Gold distribution	11,125.995 troy ounces of fine gold
Trust Fund loans outstanding	SDR 12.7 million
Last Article IV consultation	November 22-December 7, 1980. The staff report (SM/81/80) was discussed by the Executive Board on April 10, 1981.
Recent staff contacts	Staff missions visited Bangui in late 1981 and in April-May 1982 to negotiate a financial program for 1982 that could be supported by a stand-by arrangement. These discussions were pursued in July and September 1982 in Washington, when delegations led by the Minister of Finance visited headquarters.

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

Technical assistance	In June 1982 an expert, sponsored by the Fiscal Affairs Department, began a long-term assignment in Bangui as Tax Advisor to the Minister of Finance, in particular to assist in the implementation of the recommendations of the 1977 tax survey prepared by the Fund at the request of the C.A.R. authorities. During the period August 23-September 2, 1982, a technical assistance mission from the Bureau of Statistics was in Bangui to assist the authorities with the compilation of government finance statistics.

II. World Bank Group Relations with the Central African Republic

(As of December 31, 1982)

	(In millions of U.S. dollars)	
A. IDA lending program	Disbursed	Undisbursed
Livestock	0.9	1.6
Transportation (highways)	28.3	18.2
Education	4.7	--
Technical assistance	1.7	2.3
Total	35.6	22.1
Less: Amortization	0.3	
Outstanding, excluding undisbursed	35.3	

B. IFC investments

Nil

Memorandum item:

IDA gross disbursements	
1978	0.6
1979	7.1
1980	10.3
1981	4.4
1982	2.1

Technical assistance

1. Project designed to help improve the absorptive capacity and to stimulate private investment. Under this project, four resident experts are already in place in Bangui, namely, a project coordinator, an agricultural program coordinator, a legal expert, and an external debt expert. In addition, a World Bank economist is to be seconded as an advisor to the High Commissioner of Planning and International Cooperation.

2. A World Bank team of consultants undertook in 1982 a study of the public enterprise sector, including financial institutions.

Source: World Bank Group.

Table I. Central African Republic: Supply and Use of Resources, 1979-83

	1979	1980	1981	1982 Estimate	1983 Program	1980	1981	1982 Estimate	1983 Program
	(In billions of CFA francs)					(Annual percentage changes)			
GDP at market prices	150.9	168.4	188.8	216.1	251.3	11.6	12.1	14.5	16.3
Primary sector	55.8	63.4	70.5	75.6	86.5	13.6	11.2	7.2	14.4
Secondary sector	32.1	31.8	33.6	41.2	48.4	-1.2	5.7	22.6	17.5
Tertiary sector	63.0	73.2	84.7	99.3	116.4	16.2	15.7	17.2	17.2
Of which: public services	(22.1)	(25.4)	(30.9)	(35.3)	(37.8)	(14.9)	(21.7)	(14.2)	(7.1)
Imports of goods and non-factor services	52.8	69.2	69.0	80.8	81.7	31.1	-0.3	17.1	1.1
Total resources	203.7	237.6	257.8	296.9	333.0	16.6	8.5	15.2	12.1
Consumption	158.5	181.1	190.7	226.5	252.4	14.3	5.0	18.8	11.4
Private 1/	(139.8)	(155.6)	(163.0)	(196.1)	(223.5)	(11.3)	(4.8)	(20.3)	(13.9)
Public	(18.7)	(25.5)	(27.7)	(30.4)	(28.9)	(36.4)	(8.6)	(9.7)	(-4.9)
Gross domestic investment	12.1	12.7	18.6	19.9	23.9	5.0	46.5	7.0	20.1
Exports of goods and non-factor services	33.1	43.8	48.5	50.5	56.7	32.3	10.7	4.1	12.3
Memorandum items:									
GDP (at 1978 prices)	132.6	127.4	124.6	125.1	127.6	-3.9	-2.2	0.4	2.0
	(In per cent of GDP)								
Public services	14.6	15.1	16.4	16.3	15.0	...	...	...	...
Gross domestic investment	8.0	7.5	9.9	9.2	9.6	...	...	...	...
Gross domestic savings	-5.0	-7.5	-1.0	-4.8	-0.4	...	...	...	...
External resource surplus or gap (-)	-13.1	-15.1	-10.9	-14.0	-10.0	...	...	...	...

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

1/ Includes changes in stocks.

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

(In millions of CFA francs)

	1980-81 Average	1982 Estimate	1983 Planned	1984 Planned	1985 Planned	1983-85 Total	1983-85 In per cent
Directly productive sectors	7,751	11,458	14,064	19,185	14,099	47,348	51.4
Agriculture 1/	2,353	3,799	5,373	7,843	6,641	19,857	21.6
Livestock and fishing	794	921	1,469	1,222	1,461	4,152	4.5
Forestry	561	1,045	772	885	1,025	2,682	2.9
Extractive industries (mines, etc.)	1,173	3,225	3,775	4,140	1,105	9,020	9.8
Manufacturing	2,616	971	1,072	810	750	2,632	2.9
Energy and water	135	1,330	1,047	3,310	3,100	7,457	8.1
Transport	...	50	--	--	--	--	--
Tourism	119	117	556	975	17	1,548	1.7
Infrastructure	5,453	4,619	13,235	15,002	8,648	36,885	40.1
Roads	4,420	2,775	10,687	11,782	5,668	28,137	30.6
River transport	545	942	970	430	300	1,700	1.8
Air transport	100	90	800	1,060	--	1,860	2.0
Communications 2/	388	812	778	1,730	2,680	5,188	5.6
Social and related services	998	1,996	2,632	1,974	3,201	7,807	8.5
Housing and urban development	90	20	80	--	--	80	0.1
Education	265	1,234	1,065	1,650	1,451	4,166	4.5
Manpower training	--	--	--	--	--	--	--
Public health	393	742	1,287	324	1,750	3,361	3.6
Administration	250	--	200	--	--	200	0.2
Total	14,202	18,073	29,931 3/	36,161	25,948	92,040	100.0
Financing	14,202	18,073	29,931	36,161	25,948	92,040	100.0
Internal	3,977	3,722	2,834	2,494	2,424	7,752	8.4
External	10,225	14,351	27,097	33,667	23,524	84,288	91.6

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

1/ Includes agro-industries.
2/ Postal service, telecommunication, and radio.
3/ Includes private investments of CFAF 5.9 billion.

Central African Republic - Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated March 17, 1983 from the Minister of Economy and Finance requesting a stand-by arrangement and setting forth the objectives and policies which the Government of the Central African Republic intends to pursue. To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of one year, from April , 1983 to April , 1984, the Central African Republic will have the right, after making full use of any reserve tranche that it may have at the time of making a request for a purchase under this arrangement, to make purchases from the Fund in an amount equivalent to SDR 18 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 4.5 million until August 30, 1983, SDR 9.0 million until November 15, 1983, and SDR 13.5 million until February 15, 1984, but none of these limits shall apply to a purchase under the stand-by arrangement that would not increase the Fund's holdings of the Central African Republic's currency beyond the first credit tranche plus 12.5 per cent of quota.

3. Purchases under this arrangement shall be made from borrowed resources until purchases reach the equivalent of SDR 10,641,763 and thereafter from ordinary and borrowed resources in the ratio of 1 : 1.2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. The Central African Republic will not make purchases under this arrangement that would increase the Fund's holdings of its currency beyond the first credit tranche plus 12.5 per cent 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 10 of the annexed memorandum, or

(ii) the limit on net bank credit to the Government described in paragraph 9 of the annexed memorandum, or

(iii) 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 13 of the annexed memorandum, or

(iv) the cash reductions in external arrears described in paragraph 12 of the annexed memorandum

are not observed; or

b. during any period after August 31, 1983 in which understandings have not been reached pursuant to the review mentioned in paragraph 3 of the attached letter, or while such understandings, having been reached, are not being observed; or

c. 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 value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. The Central African Republic will consult with the Fund on the timing of purchases involving borrowed resources.

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

9. 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.

c. The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. 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.

11. 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, March 17, 1983

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

Dear Mr. de Larosière:

1. In the past few years the economy of the Central African Republic has been suffering from deep-seated domestic and external disequilibria. The Government of the Central African Republic has therefore made the recovery of the country's economic and financial situation its priority objective under a National Action Program (1982-85). In 1982, the interim year, the Government adopted a number of measures which bear clear testimony to its determination in this respect. These efforts will be pursued under a three-year recovery program (1983-85), the second phase of the National Action Program.

2. The economic and financial program appended hereto and which the Government has decided to implement in 1983 is compatible with the objective of recovery in the medium term. 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 18 million.

3. The main objective of the authorities in 1983 is to reduce the external current account deficit to SDR 81 million, or 11.9 per cent of GDP, compared with SDR 92 million, or 15.4 per cent of GDP, in 1982. In view of expected official transfers and net capital movements, the overall balance of payments deficit would be limited to SDR 10.5 million in 1983. To this end, the Government has adopted a number of measures in the area of prices, the budget, money and credit, and public and mixed enterprises. Administrative measures have also been adopted to ensure implementation of the program. Before August 31, 1983, the authorities of the Central African Republic will hold consultations with the Fund on the progress under the program in accordance with the provisions of paragraph 15 of the appended memorandum.

4. The Government believes that the policies set forth in the appended memorandum are adequate to achieve the objectives of the program. It is, however, prepared to 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/

SYLVESTRE BANGUI
Général de Corps d'Armée
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 primary objectives of the National Action Program (1982-85) adopted by the Government of the Central African Republic on September 1, 1982 are to: (1) revive, develop and diversify production and exports; (2) restore the fundamental internal and external equilibria, particularly by returning public finance and the public and mixed enterprise sector 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 provides for public investments totaling CFAF 86 billion in 1983-85 which should help achieve an average annual growth rate of 3 per cent, compared to a 2 per cent average decline in 1980-82. The Program emphasizes the development of the agricultural and forestry sectors and the elimination of bottlenecks in the area of transportation. As an integral part of the National Action Program, the Government has adopted an economic and financial program for 1983 whose objectives and specific measures are described below.

II. Economic and Financial Program for 1983

a. Objectives

1. In accordance with the medium-term objective of reducing the external payments imbalance to a sustainable level, the main purpose of the program is to reduce the external current account deficit (excluding official transfers) from CFAF 33 billion (SDR 92 million) in 1982 to CFAF 30 billion (SDR 81 million) in 1983, or, from 15.4 per cent of GDP to 11.9 per cent. If imports linked to project aid are excluded, the current deficit falls from 11.4 per cent of GDP in 1982 to 7.7 per cent in 1983. With estimates for official transfers and net capital inflows, including debt amortization, the overall balance of payments deficit would decline from the equivalent of SDR 15.4 million in 1982 to SDR 10.5 million in 1983. To keep the overall balance of payments deficit within this limit, the Government will implement the following policies and measures.

b. Economic policy

2. In 1983, planned public investments will amount to CFAF 24 billion, 29 per cent of which is earmarked for agriculture and 55 per cent for infrastructure. Financing has been obtained for most of these investments. The main productive investment projects involve cotton and coffee production, oil palm plantations and development of the forestry sector. In 1983, the transfer of CFAF 1.5 billion to SOCADA will make it possible to start the implementation of the integrated agricultural development project (cotton and food production), partly financed by the World Bank. As regards infrastructure projects, 41 per cent of the planned investment for 1983 relate to projects already under way. The IVth Road Project, partly financed by the World Bank and whose total cost will reach CFAF 17 billion (US$48 million), is the largest of the new infrastructure projects to be started in 1983.

3. The producer price of cotton, which was raised from CFAF 60 to CFAF 70 in 1982, could be raised again in 1983. SOCADA will pursue the efforts begun in 1982/83 to improve extension services, input supply, and marketing practices. These activities have already brought about an increase in cotton production, which is estimated at 25,000 tons (un-ginned) in 1982/83 as compared with 17,300 tons in 1981/82. In 1983/84, cotton production could reach 30,000 tons. In view of the anticipated developments in international coffee prices and of the financial position of the Stabilization Fund, the producer price of coffee for the 1982/83 crop season was increased by CFAF 5 to CFAF 125 per kilo. The measures which the Stabilization Fund introduced for 1982/83 in order to strengthen the management of cooperatives, encourage growers to deliver coffee to the cooperatives (by introducing a rebate of CFAF 1 per kilo), and to organize buying operations more effectively, should bear fruit in 1983. As a result, coffee production is again expected to increase (by 6 per cent) in 1983. At the same time, the establishment of new companies, the opening of new purchasing offices and the reduction of smuggling through the strengthening of control squads will result in increased official production of diamonds. Consequently, total export volume could rise by 2.5 per cent in 1983. In view of the expected developments in other sectors of the economy, the downward trend of real GDP would be reversed in 1983, and real growth of about 2 per cent is expected.

4. The principles which will govern the rehabilitation, reorganization, and development of the public and mixed enterprise sector are: (a) government intervention will be confined to those sectors regarded as strategic (e.g., energy, water and the mining sector), to major industrial and agricultural projects, and to those sectors where private initiative is inadequate or lacking; (b) insofar as possible, government intervention will be in association with private partners; and (c) profitability will be a primary objective for all enterprises in this sector. The rehabilitation of this sector will involve settling

past deficits, liquidating enterprises known to be financially nonviable, and settling government debts vis-à-vis the enterprises. Under the 1983 budget the Recovery Fund (fonds de relance), which was established for this purpose by the 1982 Finance Law but could not be funded, will receive appropriations of CFAF 2.2 billion; 68 per cent of which will be earmarked for partially settling SOCADA's accumulated deficits prior to the 1982/83 crop season. The 1984 Finance Law will provide budgetary appropriations to settle the remainder of these deficits (CFAF 431 million), to compensate SOCADA for losses resulting from the most recent increase in the producer price of cotton (CFAF 250 million), and to settle the anticipated deficit (CFAF 194 million) of the 1982/83 crop season. In 1983, the resources of the Recovery Fund will also help in liquidating the BNCD, BCI, CNTR, and SNH, and in subsidizing OCPT (telecommunications) and SOCEFI until measures are introduced in the near future for the rehabilitation of these two enterprises. The rehabilitation efforts will be accompanied by flexible price, wage, and employment policies and improved management in order to ensure a lasting recovery of the enterprise sector. In addition to the 1982 efforts along these lines, the specific supplementary measures mentioned in Table 1 will be implemented in 1983. These measures are based on proposed solutions in a document prepared by the Office of Control and Management of Public and Mixed Enterprises recently submitted for government approval, as well as on the recommendations made in the report of the World Bank consultants. At the same time, the Government will not accumulate new arrears vis-à-vis the public enterprises. The government debt to these enterprises, which amounted to CFAF 6.5 billion at end-1979, has already been reduced by 23 per cent. The Government intends to settle the remainder according to a schedule which will be drawn up before the end of 1983.

c. Budgetary policy

5. The relative reduction of public consumption--a primary aim of medium-term budgetary policy--will promote budgetary savings which will make it possible to devote an increasing share of budgetary resources to the development of the productive sector while allowing the normal servicing of internal and external public debt. As a result, the 1983 budget deficit (excluding debt amortization) will be limited to CFAF 2.6 billion (1.0 per cent of GDP), as opposed to CFAF 5.6 billion (2.6 per cent of GDP) in 1982. To this end, the Government will implement the following measures as part of the 1983 Finance Law.

6. About half of the CFAF 3.2 billion increase in revenue will result from new tax measures. Improved tax yield, which resulted from the strengthening of the tax administration and made a substantial contribution to the sharp increase in revenue in 1982, will have a significantly smaller impact in 1983. Efforts will still continue in this area. Furthermore, the special contribution to national recovery, a levy on civil service and public enterprise wages and salaries introduced in 1982, will be maintained in 1983, but at 80 per cent of the rate applied in 1982 in order to reduce somewhat its impact on employees' income. The yield of the new tax measures is estimated as follows:

New tax measures:	(In millions of CFA francs)
i. increase of CFAF 15 per liter in the rate of the complementary tax on petroleum products	600
ii. adjustment of certain administrative values (valeurs mercuriales)	231
iii. increase in the transactions tax rate from 2.04 per cent to 2.50 per cent	128
iv. extension of the special contribution to national recovery to all salaried nationals in the private sector	400
Total	1,359

Moreover, in order to simplify and improve taxes on individual income, the Government will introduce a single tax on individual income beginning in 1984.

7. Budgetary expenditure (excluding debt amortization) will be limited to CFAF 39.3 billion, or less than 1 per cent above the 1982 level. Current expenditure will be reduced by about 3 per cent. Personnel expenditure will not exceed CFAF 23.2 billion in 1983, a decrease of about 2 per cent from 1982. To this end there will be neither a general salary increase nor an upgrading of salary scales of the civil service, and civil servants will not be paid the financial benefits of the automatic promotions planned for 1983. Furthermore, civil service employment will be reduced by at least 400 people through a limit or total freeze on recruitment, and through attrition. The number of civil servants will be closely monitored, and the work of the commission entrusted with surveying and pruning civil service employment will be accelerated. Given that wages and salaries account for about 65 per cent of current expenditure, any lasting solution to the budgetary imbalance will require that employment in the civil service be limited to the level necessary for the smooth operation of the Government. This will make it possible to raise considerably the proportion of current expenditure covered by budgetary revenue. In cooperation with a team of World Bank consultants, the Government is in the process of preparing a plan of action aimed at restructuring the country's public administration including a three-year plan for controlling expenditure growth. Among other measures, the plan prescribes a steady and significant reduction of the total number of civil servants with a view to promoting better use of staff and increasing productivity. Furthermore, in order to ensure better adaptation of the education system to economic

development needs and to eliminate as quickly as possible the practice of guaranteeing all school and university graduates a civil service job, a major reform of the educational system will be started in 1983. The reform, to be undertaken with the assistance of UNESCO experts, will also aim at containing expenditure on education within limits compatible with government resources. In the immediate future, transfers for scholarships will be limited to a maximum of CFAF 1.4 billion in 1983 compared to CFAF 1.7 billion in 1982, when outlays exceeded the budget appropriations. The reduction in the number of students admitted to the university in October 1982 and a strict census of government scholarship holders--in progress--will make it possible to remain within the limit mentioned above. Appropriations for missions and travel as well as discretionary expenditure, which also showed sizable overruns in 1982, will be sharply cut back in 1983 to CFAF 1.2 billion. The necessary provisions will be contained in the 1983 Finance Law or its accompanying texts. Owing to the above-mentioned expenditure cuts, expenditure for materials and supplies and transfers will be held to a combined total of CFAF 9.8 billion, compared with CFAF 10.6 billion in 1982. Nevertheless, the total amount of appropriations will be sufficient to ensure that public services operate more smoothly, and that government arrears toward public and private suppliers are avoided. Capital expenditure, on the other hand, will increase by 44 per cent to CFAF 3.9 billion. This increase reflects the Government's decision to fund the Recovery Fund, as mentioned in paragraph 4. Other capital expenditure will drop slightly in comparison to the 1982 level (excluding participation in BDEAC capital which took place in 1982).

8. In order to make sure that current budget expenditure remains within the limits set under the program, the Government has decided to maintain the system of monthly ceilings on expenditure and to extend it to all current outlays with the exception of wages and salaries; the average monthly ceilings will be set at 80 per cent of appropriations. Budgetary controls will be tightened following the reform of the control system recently adopted by the Government. An increase in the powers and independence of the financial controller, as part of the new system, will enable him to apply rigorously the rules governing the approval of budget operations. In addition, computerization of expenditure operations at the commitment stage will be introduced in the first quarter of 1983. It will thus be possible to monitor expenditure commitments in the light of the appropriations and the spending rate, and consequently to reinforce the ceiling system.

9. The implementation of these budgetary policies and measures will reduce the budget deficit to CFAF 2.6 billion in 1983, as mentioned in paragraph 5. Nevertheless, taking into account debt amortization payments falling due in 1983 (estimated at CFAF 4.7 billion), the expected debt relief (CFAF 3.2 billion), the need to settle external arrears (estimated at CFAF 3.5 billion), and finally the anticipated budgetary aid (CFAF 4.5 billion), the Government will have to have significantly larger

recourse to bank financing. The increase of bank credit to the Government (defined as the sum of claims on Government of the Central Bank, commercial banks, the postal checking system, and of those arising from the postal debt, plus the net use of counterpart funds of purchases from the Fund--excluding revaluation of such counterpart funds--less government deposits) will be CFAF 3.0 billion in 1983 as compared with CFAF 1.4 billion in 1982. Bank credit to the Government will not increase between end-1982 and end-March 1983, and credit expansion to the Government will not exceed CFAF 1.1 billion, CFAF 2.2 billion, and CFAF 3.0 billion between end-1982 and end-June, September and December 1983, respectively. This increase in bank credit to the Government will be reduced by the equivalent of any exceptional budgetary resources which the Government may receive in 1983.

d. Monetary policy

10. Monetary policy will aim at meeting the credit needs of the economy in order to promote development of the productive and export sectors while remaining within limits compatible with the balance of payments objectives. Seasonal credit will be fixed at levels that will ensure adequate crop financing and importation of petroleum products. In view of the above-mentioned budgetary targets, the growth of domestic credit (the sum of net claims on the Government as defined in paragraph 9 and the banking system's claims on the economy) will be limited to CFAF 6.9 billion in 1983. On the basis of estimated domestic credit outstanding as at end-1982, this represents a 16 per cent increase in 1983 as against 20 per cent in 1982. The growth of domestic credit will not exceed CFAF 1.2 billion, CFAF 3.8 billion, CFAF 4.8 billion and CFAF 6.9 billion between end-1982 and end-March, June, September and December 1983, respectively. This increase in domestic credit will be reduced by the equivalent of all exceptional resources which the Government may receive in 1983, as mentioned in paragraph 9. In view of the balance of payments target referred to above and the growth of domestic credit, broad money would increase by 12.7 per cent, while nominal GDP is projected to increase by 16.3 per cent. The monetary authorities will take all necessary steps to ensure that the banking system's claims on the economy do not exceed the limits implied by the overall credit ceilings provided for in the program. In particular, measures will be adopted to ensure repayment of agricultural credit by the end of each crop season and to collect those seasonal credits which have not yet been repaid. Should it prove necessary, the monetary authorities will activate the system of reserve requirements.

11. The Central Bank's basic rediscount rate was increased by 0.5 points to 9 per cent effective December 6, 1982. The lending rates charged by commercial banks were raised accordingly. Interest rate policy will be reviewed during consultations between the Government and the Fund at the time of the mid-term review of the program.

e. External policies

12. During the last two years, considerable progress has been made toward improving management of the public debt. The inventory of the public debt and of domestic and external arrears has been nearly completed. Unfortunately, owing to budgetary constraints, the Autonomous Amortization Fund for Government Debts (CAADE) was unable to ensure the normal servicing of the public debt in 1982 and external arrears on debt service payments estimated at CFAF 2.8 billion were accumulated during the year. Taking into account the external arrears existing at end-1981 (CFAF 0.4 billion), it is estimated that arrears on debt service payments will reach CFAF 3.2 billion at end-1982. There are arrears other than those on debt service payments, which were reduced by CFAF 0.6 billion in 1982. The 1983 budget will allocate CFAF 3.5 billion for cash settlements of arrears, of which CFAF 3.2 billion is intended for settlement of arrears on debt service payments. Cash settlement of arrears will be made according to the schedule set forth in Table 2. Given the relatively large size of the debt service payments due in 1983, the Government intends to negotiate--through the Paris Club--a rescheduling of such payments with its creditors. If the debt relief obtained exceeds that set forth in the program, the Government will consult with the Fund during the mid-term review in order to reach agreement on the use of the budget appropriations thereby released. There will be no accumulation of new external arrears in 1983 except for those which might possibly emerge from the temporary postponement of debt service payments due in this period which could be considered for rescheduling by the Paris Club.

13. 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 program period, the Government will neither contract nor guarantee nonconcessional loans with initial maturities of 1 to 12 years.

14. The Government will continue to maintain exchange arrangements free of restrictions on payments and transfers for current international transactions. During the program period, the Government 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.

15. In order to monitor closely the implementation of the economic and financial program, the Government has established a follow-up committee which will provide the Fund with monthly data on program execution, in accordance with the Memorandum of Understanding. Furthermore, before August 31, 1983 the Government of the Central African Republic will consult with the Fund on the implementation of the program, particularly as regards prices, including interest rates, the budget, money and credit, and public and mixed enterprises. Budgetary targets for 1984 will also be discussed during this mid-term review.

Attachments

Table 1. Program of Action for the Parapublic Sector, 1983

(Specific measures)

	1981	1982	Measures to be adopted in 1983: Decisions already taken	Measures to be adopted in 1983: Decisions pending
SOCADA				
Producer price for cotton	--	Increase from CFAF 60 to CFAF 70 per kilo	--	Flexible producer price policy
Staff	Reduction to 930	Reduction to 420	Reduction to 397 by end-January 1983	--
Number of factories	Reduction to 13	Reduction to 5	--	--
Previous deficits	--	--	Settlement of previous deficits (as provided for in the Recovery Fund 1983)	--
SNE				
Rate	Increase of 40 per cent on May 1	--	--	--
Staff	--	--	--	Reduction by June 30, 1983
Debt owed by the Government	Payment of CFAF 61 million	--	--	--

Table 1. Program of Action for the Parapublic Sector, 1983 (continued)

(Specific measures)

	1981	1982	Measures to be adopted in 1983	
			Decisions already taken	Decisions pending
SEGA				
Staff	--	--	--	Reduction of wage bill by June 30, 1983
Slaughtering fee	--	50 per cent increase on January 1 from CFAF 3,000 to CFAF 4,500 per head of cattle	--	--
INTER-RCA	--	Reduction of operating costs	Settlement of 1980-82 deficits	Increase in capital
	--	--	Establishment of a domestic chartering office	Renewal of fleet
ENERCA				
Rates	20 per cent increase on September 1	--	20 per cent increase by February 1	20 per cent increase by August 1
Staff	--	Reduction of 117	--	--
Debt owed by the Government	Payment of CFAF 110 million	--	--	--

Table 1. Program of Action for the Parapublic Sector, 1983 (continued)

(Specific measures)

	1981	1982	Measures to be adopted in 1983	
			Decisions already taken	Decisions pending
Post Office				
Rates	30 to 50 per cent increase depending on service	10 to 20 per cent increase for international services	10 per cent increase	--
Staff	Reduction of 160	Reduction of 30	--	--
Interest rate (CNE)	--	--	--	Increase from 4 to 6 per cent by June 30
Telecommunications				
Rates	Increase from CFAF 50 to CFAF 70 on January 1	Increase from CFAF 70 to CFAF 90 on July 1	Increase from CFAF 90 to CFAF 100	--
Surcharge	20 per cent for international services	Increase from 20 to 40 per cent on January 1	Increase from 40 to 50 per cent	--
Staff	Reduction of 70	--	--	Reduction by 150 by August 1
SNH				
Staff	Reduction of 200 out of 230	--	Liquidation in progress	--

Table 1. Program of Action for the Parapublic Sector, 1983 (continued)

(Specific measures)

	1981	1982	Measures to be adopted in 1983: Decisions already taken	Measures to be adopted in 1983: Decisions pending
CNTR				
Staff	Reduction of 70 out of 100	--	Liquidation in progress	--
BCI				
Staff	Reduction of 28 out of 40	--	Liquidation in progress	--
BNCD	--	--	--	Liquidation, and establishment of an agricultural credit bank
SCET - SAFARI				
Government debt	Payment of CFAF 113 million	--	Signing of protocol with PLM	Work program to be confirmed in accordance with agreements with CCCE
ICAT	Liquidated	Protocol of agreement signed with SCHAFFER-TEXUNION for reopening	--	Work program to be confirmed following signing of agreements with CCCE and EIB
ACCF/CENTRAHYDRO	--	--	--	Merger of the two companies to reduce management costs

Table 1. Program of Action for the Parapublic Sector, 1983 (concluded)

(Specific measures)

	1981	1982	Measures to be adopted in 1983: Decisions already taken	Measures to be adopted in 1983: Decisions pending
TOCAGES	--	--	Increases in petroleum product prices	--
LOROMBOIS	Liquidated	--	--	Find partner with a view to reopening
SOCEFI	--	Negotiations with timber companies	Liquidation, and establishment of a mixed enterprise by end-1983. Reduction in employment by 420 (out of 620) by end-January 1983	Find partner

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

(In billions of CFA francs; end of period)

	1982	1983			
	Est.	March	June	Sept.	Dec.
Domestic credit	43.7	44.9	47.5	48.5	50.6
Of which: claims on Government (net) 1/	(13.6)	(13.6)	(14.7)	(15.8)	(16.6)
Reduction in external arrears through cash settlements	...	0.9	2.0	3.1	3.5
New external borrowing with initial maturities of 1 to 12 years 2/	...	--	--	--	--

1/ Excluding revaluations of counterpart funds of purchases from the Fund.
2/ Contracted or guaranteed by the Government.