FOR AGENDA

EBS/00/289

CONFIDENTIAL

December 28, 2000

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Central African Republic—Requests for Second Annual Arrangement Under the Poverty Reduction and Growth Facility and for Extension of Commitment Period**

Attached for consideration by the Executive Directors is a paper on requests from the Central African Republic for the second annual arrangement under the Poverty Reduction and Growth Facility and for an extension of the commitment period. A draft decision appears on pages 19 and 20. This subject, together with the interim poverty reduction strategy paper for the Central African Republic (to be issued) and the joint staff assessment of the interim poverty reduction strategy paper (to be issued), is tentatively scheduled for discussion on Monday, January 8, 2001. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Central African Republic indicating whether or not they consent to its publication.

Questions may be referred to Mr. Beaugrand (ext. 37009), Mr. Wiegand (ext. 38750), and Mr. Mensah-Zekpa (ext. 36617).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, January 8, 2001; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Request for Second Annual Arrangement Under the Poverty Reduction and Growth Facility and for Extension of Commitment Period

Prepared by the African Department

(In consultation with the Legal, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Jean A.P. Clément and Martin J. Fetherston

December 28, 2000

- The program discussions took place in Bangui during October 15–28, 2000.
- The C.A.R. representatives included Mr. Dologuélé, Prime Minister and Minister for the Economy, Finance, Planning, and International Cooperation; Mr. Dabanga, Deputy Minister of Finance; Mr. Mbaïtadjim, Deputy Minister for the Economy, Planning, and International Cooperation; and Mr. Ndoum, National Director of the Bank of Central African States (BEAC).
- The staff team comprised Messrs. Beaugrand (head), Cuc, Mensah-Zekpa, Wiegand, and Samaké (Research Assistant), all from the African Department, and was assisted by Mr. Kuoh-Moukouri, the Fund's Resident Representative. World Bank staff also participated in the discussions. Mr. Barro Chambrier, Executive Director for the Central African Republic, and Mr. Kpetigo, Advisor, took part in the policy meetings.
- The Central African Republic is an Article VIII country. The last Article IV consultation was concluded on July 12, 2000. On that occasion, Executive Directors noted the limited progress in economic and financial management achieved by the authorities since 1998 and stressed the importance of strengthening policy implementation. They regretted that discussions on a second PRGF arrangement could not be concluded as planned. They encouraged the authorities and the staff to work expeditiously toward a resumption of external support, including under the PRGF.
- The main authors of the report were Philippe Beaugrand, Johannes Wiegand, and Nicolas Mensah-Zekpa.

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EXECUTIVE SUMMARY

Background and recent economic developments

- Real GDP growth has slowed in 2000, reflecting in part two oil shocks. In addition to higher world market prices, transportation costs for petroleum products surged following a suspension of river imports from Kinshasa from June 2000 onward. The 12-month increase in consumer prices was about 9 percent in 2000, the highest rate on record since 1994.

- It is estimated that the overall fiscal position has improved in 2000. Nevertheless, the government has been recurrently late in settling its wage bill because of large repayments of other domestic arrears made in the early part of the year, and it has also built up arrears on external debt service. Government revenue collection was broadly on track in the first five months of the year but weakened in the wake of the disruption in the supply of petroleum products.

- The external current account deficit has widened, but the impact of the large terms of trade loss has been mitigated by a contraction of oil and project-related imports, as well as by strong increases in wood and diamond exports.

Key elements of the program

- The 2001 program seeks to strengthen economic management and, in particular, move toward fiscal sustainability. The authorities' foremost policy objective is to secure sufficient resources to fund core outlays. Growth is projected to accelerate in 2001, and the external current account deficit is to remain broadly unchanged in relation to GDP.

- The primary budget surplus is programmed to increase from 0.4 percent of GDP in 2000 to 1.1 percent of GDP in 2001. A key challenge is to raise government revenue collection. Revenue is to increase from 9.2 percent of GDP in 2000 to 9.8 percent of GDP in 2001. Achievement of the revenue target is predicated on the implementation of measures to strengthen tax administration, and legal or regulatory changes to streamline and improve the tax system. A value-added tax is to be introduced effective January 1, 2001, as a replacement for the current turnover tax. Primary government expenditure (excluding foreign-financed investment) is set to remain unchanged at 8.8 percent of GDP.

- The authorities intend to proceed with a gradual settlement of wage arrears in 2001. They aim at clearing external debt payments arrears (4 percent of GDP at end-2000), but in view of available program financing in 2001, part of the arrears repayments are to be deferred into 2002. Understandings have been reached with external creditors, including the African Development Bank, on the proposed approach.

Central African Republic: Key Economic and Financial Indicators, 1997–2001					
	1997	1998	1999 Est.	2000 Proj.	2001 Prog.
		(Annual percentage change)			
Real GDP	4.3	4.8	3.4	2.6	5.1
Consumer prices (average)	1.6	-1.9	-1.5	3.0	3.3
Consumer prices (end-of-period)	0.5	-3.0	-5.5	9.1	2.5
Broad money (end of period)	-7.7	-16.2	7.9	6.4	9.7
		(In percent of GDP)			
Primary budget balance (excluding foreign-financed investment)	-0.5	0.6	-0.4	0.4	1.1
Overall fiscal balance (excluding grants)	-8.1	-10.7	-10.8	-7.6	-8.4
External current account (including current official transfers)	-3.3	-4.3	-3.6	-4.6	-4.4

Issues highlighted in the staff appraisal

- The Central African Republic has faced unusually difficult circumstances in 2000, as the country has been hit by two oil shocks. The authorities have begun addressing the situation in the last quarter of 2000. They raised petroleum prices in October, and have taken steps to improve public finances in November-December.

- Achieving the revenue target will require strong efforts on the part of revenue collection agencies. The authorities also need to strengthen expenditure control. The staff welcomes the recent measures adopted by the authorities to improve governance in the area of revenue collection. Yet more needs to be done to combat corruption and fraud, especially at the customs department.

- The approach under the proposed program, which provides for the deferral of part of the external arrears into 2002, is pragmatic, especially in view of the magnitude of the stock of arrears at end-2000. It will be essential that the authorities adhere to the schedule of arrears repayment, which is critical for the normalization of relations with external creditors.

- The requested increased access under the second annual PRGF arrangement will help the authorities regain control over the fiscal situation and accelerate the repayment of arrears. The staff urges donors to ensure the timely availability of technical and financial assistance, and hopes that satisfactory implementation of the program will help the authorities mobilize further external support.

I. Introduction

1. In the attached letter dated December 15, 2000, the Prime Minister of the Central African Republic requests a second annual arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 20.0 million (35.9 percent of quota). The requested arrangement is to support the government's economic and financial program described in the authorities memorandum of economic and financial policies (MEFP) for 2001 (Appendix I, Annex I), together with the technical memorandum of understanding (Appendix I, Annex II). As of October 31, 2000, the Central African Republic's outstanding use of Fund resources amounted to SDR 16.48 million, equivalent to 29.6 percent of quota. Taking into account the scheduled disbursements under the second annual arrangement, the Central African Republic's obligations to the Fund would increase to SDR 36.48 million, equivalent to 65.5 percent of quota, at end-2001 (Table 1).[1]

2. The proposed access under the second annual arrangement has been increased by SDR 3.5 million relative to the annual amount provided for under the initial three-year arrangement. The higher access will help the authorities face higher oil import costs in 2001, which have translated into lower government revenue (see para. 6 below). The increased access under the second annual program represents about one-third of the additional oil import costs in 2001. Given the delay in putting in place the program to be supported by the second annual PRGF arrangement, the authorities are seeking a six-month extension of the original commitment period and intend to request a new three-year PRGF arrangement at end-2001.

3. The World Bank recently resumed its activities in the Central African Republic with approval of a Fiscal Consolidation Credit (FCC) (in December 1999) and a Policy Support Project (in June 2000). The second tranche of the FCC (US$5 million), which related to the privatization of petroleum distribution, was released in December 2000. Following the conclusion of a new agreement for the gradual settlement of debt payments arrears in July 2000, the Arab Bank for Economic Development in Africa (BADEA) is expected to initiate new project financing shortly. The African Development Bank (AfDB) has not resumed its operations in the Central African Republic as yet, given the country's arrears. Relations with the Fund and the World Bank Group are summarized in appendices II and III, respectively, and income and social indicators are shown in Appendix IV.

4. The social situation has remained tense, reflecting in part recurrent delays in settling government wages. Civil servants have been on strike since mid-October to demand the

[1] The current three-year PRGF arrangement was approved on July 20, 1998 (EBS/98/117, 7/10/98), and the review under the first annual arrangement took place on July 2, 1999 (EBS/99/104, 6/18/99). Discussions in late 1999 and early 2000 on a second annual arrangement were not concluded, mainly because of delays in privatizing petroleum distribution. Developments through mid-2000 were reviewed in the staff report for the 2000 Article IV consultation (SM/00/104, 6/28/00).

settlement of wage arrears.[2] Trade unions and opposition political parties stepped up their activities in November and early December, with repeated demonstrations and calls for strikes throughout the country. This situation complicated the management of government finance and prevented an improvement in government revenue collection levels in recent months, although the authorities expected revenue to recover in December. The Central African Republic has also been adversely affected by the war in the neighboring Equator Province of the Democratic Republic of the Congo, which caused in an influx of more than 14,000 refugees in midyear.

II. Recent Economic Developments

5. **Real GDP has increased only by an estimated 2½ percent in 2000**, compared with a projected 5 percent and 3½ percent in 1999. The slowdown in activity has mainly reflected poor weather conditions for agriculture, as well as disruptions in the supply of petroleum products in midyear. With higher food and petroleum prices, the increase in consumer prices is projected at 9 percent at end-December 2000—the highest rate on record since 1994. The increase in the GDP deflator is estimated at 3 percent in 2000, compared with a projected 1½ percent. Although the real effective exchange rate began to appreciate in midyear, the average index has depreciated by some 3 percent over 2000 as a whole as it had fallen sharply in the latter part of 1999 (Table 2 and Figures 1–2).

6. **The country has been hit by two oil shocks in 2000**, as higher world market prices have been compounded by a surge in transportation costs. River imports from Kinshasa were suspended in June 2000, following shortages in the Democratic Republic of the Congo and war in the Equator Province (which borders the Central African Republic). Oil imports resumed soon thereafter but almost exclusively by road from the seaport of Douala, at a much higher cost. To help cover the higher import and transportation costs, the government raised the petroleum product prices by 33–44 percent in mid-October (Box 1). However, taxes were also reduced substantially to limit the increase in retail prices, especially for kerosene (which is widely used as lighting and cooking oil, especially by the poor). The authorities estimated that lowering taxes on petroleum products would reduce potential government revenue in 2000 by CFAF 5 billion (0.7 percent of GDP) on an annual basis.[3]

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[2] In October 2000, the authorities announced the mobilization of a loan of US$10 million, which was to allow the settlement of about three months of wage arrears. The operation would have involved government borrowing from a private foreign company, with a guarantee in the form of a mining concession valued at twice the amount of the loan. As it turned out, the staff has been informed that no such borrowing is to be undertaken, and the government was unable to repay wage arrears as announced.

[3] The authorities had hoped to buffer the increase in retail prices by using counterpart funds generated from the sale of petroleum products to be provided free of charge by Libya. However, the grant of petroleum products officially announced in June 2000 did not materialize, except in small quantities. See MEFP, para. 4.

Box 1. Retail Prices of Petroleum Products, December 1999 and October 2000

(In CFA francs per liter, unless otherwise mentioned)

	Premium Gasoline			Kerosene			Diesel Fuel		
	Dec. 1999	Oct. 2000	Perc. change	Dec. 1999	Oct. 2000	Perc. change	Dec. 1999	Oct. 2000	Perc. change
Import cost at seaport[1]	124.7	255.2	105	116.5	241.4	107	99.6	229.6	131
Transportation costs	60.2	125.0	108	62.2	125.0	101	64.2	125.0	95
Distribution costs and margin	53.4	66.0	24	36.1	66.0	83	45.1	66.0	46
Cost in Bangui	238.3	446.2	87	214.8	432.4	101	208.9	420.6	101
Taxes and duties	220.8	143.8	-35	86.3	41.6	-52	191.1	154.3	-19
Equalization	31.0	60.0	94	-41.0	-124.0	202	0.0	0.0	0
Retail price in Bangui	490.0	650.0	33	260.0	350.0	35	400.0	575.0	44

[1] Matadi (Democratic Republic of the Congo) for December 1999, and Douala (Cameroon) for October 2000.

7. It is projected that **the primary budget balance has improved by nearly 1 percentage point of GDP in 2000**, turning from a deficit equivalent to 0.4 percent of GDP in 1999 into a surplus of a similar magnitude (using a narrow definition, i.e., excluding foreign-financed investment). The overall government deficit on a commitment basis (excluding grants) is estimated to have fallen by more than 3 percentage points of GDP, reflecting a drop in foreign-financed investment expenditure (Table 3).[4] Despite the overall improvement in the fiscal position, the government has been recurrently late in settling its wage bill because of large repayments of other domestic arrears made in the early part of the year, and it has also built up arrears on nonreschedulable external debt service (MEFP, para. 8).

8. **Government revenue in 2000 is projected to fall short of the budget target by nearly 1 percentage point of GDP** and reach 9.2 percent of GDP. Revenue was broadly on target through May but weakened in the wake of disruptions in the supply of petroleum products. The collection of petroleum-based taxes declined, as the state oil company (PETROCA) faced soaring import costs, while retail prices remained unchanged. In addition, tax and customs receipts fell short of target, in spite of large increases in non-oil private sector imports.

9. **The government has continued to accumulate arrears, including on wages**. Wage arrears rose to CFAF 21 billion (equivalent to 9½ months' wage bill) at end-September 2000 from about CFAF 16 billion at end-1999 (7 months' wage bill). In September, the government announced that payments would be made soon to settle three months of wage arrears, but continued to make wage payments late. The disbursement of the second tranche of the FCC in mid-December was to help clear some external debt payments arrears and pay

[4] The drop in foreign-financed investment in 2000 reflected delays in finalizing the transportation sector development project, the late approval of the 2000 finance law, and the problematic supply of petroleum products (MEFP, para. 7).

off one month of wage arrears accumulated in 2000.[5] The net buildup of wage payments arrears in 2000 is expected to reach some 1½ months' wage bill.

10. **Broad money has continued to increase in 2000**. Based on data through end-September 2000, broad money growth was 8 percent, and demand deposits with commercial banks rose by 19 percent (Table 4). The net domestic assets of the banking system declined below the end-1999 level, reflecting in part the impact of the recapitalization of commercial banks.[6] Private sector credit increased markedly, but credit to public enterprises fell because of the reduced turnover of the cotton parastatal (SOCOCA) and a smaller volume of oil imports.[7]

11. The staff projects that **the external current account deficit has widened by 1 percentage point of GDP in 2000** to reach an estimated 4½ percent of GDP (Table 5).[8] The terms of trade have deteriorated by more than 10 percent as a result of a near doubling of oil import prices (in CFA franc terms). Nevertheless, the impact of the terms of trade loss has been mitigated by the contraction of oil and project-related imports, as well as by strong increases in wood and diamond exports (resulting in part from the appreciation of the U.S. dollar against the euro). The projections point to a slight widening of the overall balance of payments deficit from 1.8 percent of GDP in 1999 to 2.1 percent of GDP in 2000. The Central African Republic's contribution to the international reserve position of the Bank of Central African States (BEAC) zone as a whole has remained slightly positive (Tables 4 and 5).

12. **The external debt is projected at 81½ percent of GDP at end-2000**, compared with 83½ percent of GDP at end-1999 (Tables 2 and 6). The nominal debt stock has increased as a result of the depreciation of the CFA franc vis-à-vis the U.S. dollar. At the same time, the net liability flow has continued to be negative, as the bulk of project disbursements have taken the form of grants. The net resource transfer has declined as a result of the drop in foreign-

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[5] The second tranche disbursement (US$5 million) was related to the privatization of PETROCA. The Bank's Executive Board granted a waiver for the nonsettlement of PETROCA's arrears to the road fund, in view of the impossibility of mobilizing stocks of petroleum products in Kinshasa.

[6] Two of the three commercial banks (BICA and UBAC) have been privatized; all of them (including the BPMC, jointly owned by the Moroccan and C.A.R. governments) have been recapitalized. Banks were expected to meet all mandatory prudential requirements at end-December 2000.

[7] See MEFP, para. 5. Oil imports normally take place during the rainy season (June-December) on the Congo and Ubangui Rivers, and stocks are then consumed during the dry season (January-June). Because imports in 2000 have been made by road, at a much higher cost, there has been no buildup of stock, and thus import volumes have been about half as large as usual.

[8] Consistent with the definitions in the *Balance of Payments Manual* (fifth edition), the external current account includes current official transfers but excludes capital transfers. Balance of payment estimates have been changed from the previous staff report (SM/00/104) to reflect new data compilation methods at the BEAC, more comprehensive estimates for technical assistance, and upward revisions in wood exports for 1998–2000.

financed investment but has remained largely positive at 6.7 percent of GDP (Table 5). External arrears are projected to reach CFAF 25½ billion (3.8 percent of GDP) at end-2000, owed mainly to multilateral creditors.

13. **The implementation of structural reforms has continued, albeit with some delays** (see MEFP, para. 9). The privatization of petroleum distribution is nearly completed, with private operators expected to take over responsibility for managing the sector in January 2001. The retail distribution network for petroleum products was to have been sold in three lots. However, out of the three companies that had been selected, one (Shell) has withdrawn, and the two others (Total and Elf) have since merged. In the circumstances, the privatization agreement was modified in early December 2000 to provide for a new transition period of up to six months, pending the identification of at least one other private operator.

III. The 2001 Program

A. Macroeconomic Framework and Poverty Reduction Strategy

14. **The program for 2001 seeks to strengthen economic management and, in particular, move toward fiscal sustainability**. The authorities' foremost policy objectives are to secure sufficient resources to fund core outlays, and to expand the reach of government services—notably in the areas of health, education, and basic infrastructures.

15. **Growth is projected at 5 percent in 2001 and over the near term**. This projection assumes normal conditions for agriculture, continued expansion in the forestry sector, and sustained growth in manufacturing and trade. Aggregate investment is projected to increase over time to reach 16 percent of GDP by 2003, compared with an estimated 13½ percent of GDP in 2000. Inflation is expected to return to a low level, at 2½ percent (end-of period basis), consistent with the fixed peg of the CFA franc vis-à-vis the euro (Table 2 and MEFP, para. 11).

16. Based on the programmed strengthening of fiscal management, **the external current account deficit is projected to remain broadly unchanged at 4½ percent of GDP in 2001** and to stabilize at 5 percent of GDP in 2002–03 (Box 2 and Table 7). The projected deterioration in the government savings-investment balance, of nearly 1 percentage point of GDP—on account of a resumption of public investment—is expected to be more than offset by an improvement in the net position of the rest of the economy. In subsequent years, the government deficit is projected to decline; meanwhile, the rest of the economy would also register a deficit as private investment expands.

Box 2. Savings and Investment Balances, 1999–2003
(In percent of GDP)

	1999 Est.	2000 Proj.	2001 Prog.	2002 Proj.	2003 Proj.
External current account	-3.6	-4.6	-4.4	-5.1	-5.0
Central government	-6.2	-4.2	-5.1	-4.1	-3.6
Gross savings	2.6	1.6	2.3	3.4	4.2
Gross fixed investment	-8.7	-5.8	-7.4	-7.6	-7.8
Rest of the economy (residual)	2.6	-0.4	0.7	-1.0	-1.4

17. **The authorities have prepared an interim poverty reduction strategy paper** (I-PRSP), which reviews ongoing poverty alleviation policies and describes the road map for preparing a full-fledged PRSP. The interim PRSP and the joint staff assessment will be issued to the Executive Boards of the World Bank and the Fund in early January. It is expected that successful implementation of the program would lay the groundwork for the presentation of a preliminary document under the enhanced Initiative for the Heavily Indebted Poor Countries (HIPC Initiative) and allow a decision point to be reached soon, possibly at the same time as the first review under the second annual PRGF arrangement.

B. Fiscal Policies

18. **The overall fiscal deficit is programmed at 8.4 percent of GDP in 2001,** up from 7.6 percent of GDP in 2000 (on a commitment basis, excluding grants). This deterioration takes into account an increase in the revenue ratio of 0.6 percentage point of GDP to 9.8 percent of GDP. Primary expenditure (excluding foreign-financed investment) would remain unchanged at 8.8 percent of GDP. The primary surplus (narrow definition) is projected to increase to 1.1 percent of GDP in 2001 from 0.4 percent of GDP in 2000, while foreign-financed investment would increase markedly (Table 3 and MEFP, paras. 12–18).

19. **A key challenge facing the authorities is to raise revenue collection.** The revenue ratio in the Central African Republic remains one of the lowest in sub-Saharan Africa and constrains the functioning of the central administration. There are many obstacles to raising revenue, including a low per capita income (less than US$300), the large subsistence economy (about 30 percent of GDP), and a large diamond sector that has traditionally eluded effective taxation. Nevertheless, the authorities recognize that there is much scope to increase the efficiency of revenue-collecting agencies, and that the elimination of tax evasion and fraud could yield significantly higher revenue.

20. **The authorities have adopted a two-pronged approach to improving revenue.** First, they are implementing measures to strengthen administration at the tax, customs, and treasury directorates; second, they are making changes designed to streamline and improve the tax system (Box 3). The administrative measures have been adopted as prior actions under the program (see Appendix I, Table 1), while most of the other changes are provided

Box 3. Measures to Improve Tax Revenue in 2001	
Areas	Measures
Administrative measures	
Petroleum taxes and duties	Realistic price structure and mechanism for its revision as often and as much as needed; payment of taxes and duties every ten days, based on actual volumes.
Monitoring of taxpayers	Systematic use of a single taxpayer identifier, upgrade of systems at the national computer office, and interconnection of the tax and customs directorates.
Domestic indirect taxes	Imposition of flat taxes (*taxation d'office*) on nonreporting taxpayers and multiplication of tax audits.
Customs directorate	Nomination of a general manager on a permanent basis, implementation of a new organizational structure as recommended by Fund technical assistance missions, and upgrading of computer systems.
Customs duties	Strengthened collaboration with import certification agency (SGS); initiative to improve control over goods in transit from Douala.
Treasury	Cleanup of old unpaid tax bills, offset against government payments arrears, and recourse to aggressive collection methods.
Regulatory measures	
Mining sector exemptions	Ban on indirect tax and customs exemptions in the mining sector, except those allowed under the Central African Economic and Monetary Community (CEMAC) regulations.
Value-added tax (VAT)	Single rate (18 percent), low threshold (annual turnover of more than CFAF 30 million), short list of exemptions, and procedures to carry over and reimburse tax credits for investments and exports.
Export duties	Elimination of all levies at the tax directorate, as well as export duties on agricultural products at the customs directorate.
Diamond trade	Mandatory evaluation and certification through the National Diamond Office (BECDOR).

for under the 2001 finance law that was approved by the cabinet and submitted to the National Assembly on November 15, 2000. The latter includes the value-added tax (VAT), which, although initially set to be introduced on July 1, 2000, was postponed because of unstable conditions in midyear and delays in the implementation of key administrative measures. The authorities intend to enact the 2001 finance law by end-December 2000, thus ensuring the adoption of all budget measures ahead of the consideration of their PRGF request by the Executive Board.

21. **The projected revenue increase in 2001 reflects a widening of the tax base**. The VAT—which replaces a turnover tax at the same rate—is designed to be revenue neutral, but preparation for its introduction also involved raising the number of taxpayers and strengthening auditing capacity. Moreover, the elimination of exemptions and the administrative measures implemented at customs should result in higher effective tax rates. Petroleum-based taxes have been reduced, but privatization of the distribution network and

sporadic price adjustments will help ensure that taxes are collected in a timely manner.[9] The streamlining and reduction of export duty rates will have little impact on revenue, as the application of taxes on agricultural products, such as cotton and coffee, has already been suspended in recent years.

22. **Measures are under way to improve expenditure control and treasury cash management**. The authorities have set up a committee to improve expenditure control procedures and verify the validity of bills due to be paid at the treasury. A settlement law for 1999 is under preparation and will be submitted soon to the Auditing Court (MEFP, para. 27). A reform of the expenditure authorization process is planned, with technical assistance from the Fund and the European Union. In addition, the treasury's accounting methods and cash budgeting will be upgraded, with greater involvement of the standing technical monitoring committee, to improve the implementation of established priorities. In particular, the authorities intend to set aside resources on an ongoing basis to secure the regular settlement of wages and salaries.

23. Within the very tight constraints on the level of expenditure, **the authorities have raised the amounts allocated to the social sectors** and kept the allocation for defense constant in nominal terms (Box 4). The application of the new civil service statute has resulted in a wage drift of about 4½ percent, which, however, has been partly offset by improved controls over the civil service roster and tighter rules for temporary recruitment. Although the allocations for education and health have been raised in the 2001 budget, they remain low in relation to the needs for basic services. Further efforts are under way, with assistance from the European Union, to improve the targeting of social spending toward primary education and basic health care, sanitation, and access to drinking water. The increase in capital expenditure reflects mainly a projected resumption of project activity in the area of infrastructure development, especially road construction. The bulk (nearly 85 percent) of the externally funded capital budget is in the form of grants.[10]

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[9] The price adjustment mechanism agreed between the authorities and the petroleum distribution companies does not provide for a specific periodicity, as oil imports normally take place only a few times each year (during May-October). The authorities intend to raise petroleum taxes at a later date, when import costs will fall with the resumption of river transport and, eventually, the decline in world market prices.

[10] It is expected that, once additional debt relief under the HIPC Initiative has been secured, a revised finance law would be prepared to spell out the use of additional resources, consistent with the priorities established in the interim PRSP.

Box 4. Distribution of Government Expenditure, 2000–01[1]

	2000 Budget	2000 Proj.	2001 Budget	2000 Budget	2000 Proj.	2001 Budget
	(In billions of CFA francs)			(In percent of GDP)		
Total primary expenditure	128.2	103.3	124.3	18.5	15.6	16.9
Of which: education	8.8	...	10.9	1.3	...	1.5
health	10.7	...	13.6	1.5	...	1.8
defense	8.0	...	7.9	1.1	...	1.1
Wages and salaries	27.1	27.0	27.6	3.9	4.1	3.7
Of which: education	6.8	...	7.3	1.0	...	1.0
health	2.9	...	3.1	0.4	...	0.4
defense	5.6	...	5.6	0.8	...	0.8
Other current expenditure	22.5	23.1	24.3	3.3	3.5	3.3
Of which: education	1.5	...	1.7	0.2	...	0.2
health	2.1	...	2.8	0.3	...	0.4
defense	1.0	...	1.2	0.1	...	0.2
Domestic capital budget	12.0	10.0	12.8	1.7	1.5	1.7
Of which: education	0.3	...	0.7	0.0	...	0.1
health	0.4	...	0.7	0.1	...	0.1
defense	0.4	...	0.1	0.1	...	0.0
Foreign-financed capital budget	66.6	43.1	59.7	9.6	6.5	8.1
Of which: education	0.2	...	1.2	0.0	...	0.2
health	5.3	...	7.0	0.8	...	1.0
defense	0.8	...	0.3	0.1	...	0.0

[1] The current budget breakdown does not take into account centrally paid utilities, while the capital budget breakdown does not take into account technical assistance. Education excludes universities and scientific research.

C. Monetary and External Sector Policies

24. **Money and credit policies** in the Central African Economic and Monetary Community (CEMAC) zone are conducted by the BEAC, and responsibility for bank supervision has been delegated to the regional bank supervision agency (COBAC). In view of the rapid progress made in bank restructuring over the last two years, the authorities expect that the C.A.R. banking system will increase its contribution to the financing of the economy. The authorities and the COBAC are monitoring closely the situation of commercial banks and have expressed their intention to implement rigorously existing rules (including penalties) on banks that would fail to meet the prudential requirements. With the programmed fiscal policies, the C.A.R. contribution to the BEAC's international reserve position (excluding net use of Fund resources) is projected to increase by CFAF 5 billion in 2001, equivalent to 4½ percent of broad money at the beginning of period (Table 4 and MEFP, paras. 20–22).

25. The **balance of payment projections** for 2001 assume a relatively low increase in the volume of exports (3 percent), following the marked upturn observed in 2000 (19 percent). Imports are projected to recover (a 15 percent increase in 2001 compared with an 11½ percent decline in 2000), reflecting the resumption of public investment, increased oil imports, and stronger private sector activity.[11] Overall, the external current account deficit would narrow slightly to 4.4 percent of GDP in 2001 from 4.6 percent of GDP in 2000, owing to an expected improvement in the terms of trade of about 4½ percent.

D. Structural Reforms

26. The **structural reform agenda** continues to focus on the privatization or leasing out of the three major public enterprises. As indicated above, the privatization of the petroleum distribution network is nearly completed, and the liquidation of the national company (PETROCA) is to be closed by end-June 2001. In addition, the authorities are proceeding with plans to place the electricity company (ENERCA) and the telecommunications company (SOCATEL) under private management, with technical assistance from the World Bank. Subsequently, the authorities intend to launch additional privatization or liquidation operations in the second batch of public enterprises.[12]

27. While the C.A.R. trade system has been liberalized in recent years, **sugar imports are subject to the advanced payment of taxes and duties**. The mechanism in effect acts as a licensing requirement, with the obligation to settle taxes and duties in advance.[13] The authorities have decided to retain this system for the time being as a means to protect the national sugar company (SOGESCA), but they have agreed to conduct a study in 2001 with World Bank technical assistance to evaluate its costs and impact on the economy (MEFP, para. 26).

E. Program Financing, Capacity to Repay the Fund, and Risks

28. **The external financing requirement in 2001 is estimated at CFAF 108½ billion, or 15 percent of GDP** (Table 8 and MEFP, paras. 30–32). The residual financing need in 2001, after taking into account project financing and available debt relief, is projected at

[11] The projections assume a resumption of oil imports from Kinshasa in the second half of 2001, implying a much larger import bill (despite an expected decline in oil import prices), as well as lower transportation costs.

[12] The remaining portfolio of public enterprises comprises the following: two hotels in Bangui (SCET-Sofitel and Hôtel du Centre), the national printing press (ICA), the Bangui slaughterhouse (SEGA), the national sugar company (SOGESCA), a palm plantation (CENTRAPALM), a road transport agency (BARC), a river transport company (SOCATRAF), and a river transport agency (ACCF).

[13] The regulations applying to sugar imports were introduced over the years by executive orders and were confirmed in the context of the 1999 revised finance law (in November 1999).

CFAF 42½ billion, or 6 percent of GDP.[14] This amount corresponds in large part to the settlement of arrears, comprising CFAF 6 billion in domestic arrears and CFAF 25½ billion in external arrears (Box 5 and Table 6). The repayment of domestic arrears would allow the clearing of two months' wage arrears and a slight reduction in the float on government spending. The remaining wage arrears would be settled gradually over time. Earlier plans to securitize the arrears vis-à-vis domestic commercial creditors have been shelved, pending further progress toward a sustainable fiscal position.[15]

Box 5. External Debt Arrears and Debt Service, 2000–01

(In billions of CFA francs)

	Arrears at end-2000 (projection)	Service due in 2001 (after debt relief)
Total	25.6	17.2
Bilateral	0.4	6.6
Multilateral	22.4	9.3
Of which: AfDB	12.0	0.5
BDEAC	4.0	0.0
OPEC Fund	6.0	0.7
Commercial	2.8	1.3

29. **Identified program financing in 2001 amounts to CFAF 32½ billion, which leaves a residual financing gap of CFAF 10 billion** (Table 8). In addition to the proposed PRGF loan disbursements, program financing in 2001 includes CFAF 4 billion from the World Bank under the third (floating) tranche of the FCC, CFAF 7 billion from the European Union, and CFAF 2½ billion from France. The program provides for the deferred settlement of CFAF 10 billion of part of the external debt-payments arrears owed to the African Development Bank, the Development Bank of Central African States (BDEAC), and the OPEC Fund.[16] The financing gap for 2002 (CFAF 29 billion) is expected to be covered by additional program loans and grants, including possible assistance under a new PRGF arrangement.

[14] Available debt relief includes flow rescheduling under the 1998 Paris Club agreement, with similar debt relief from other bilateral creditors, as well as the rescheduling of debt payments arrears agreed in mid-2000 with the BADEA.

[15] The stock of domestic commercial arrears was estimated at CFAF 10 billion at end-1999. The authorities intend to update the audit of domestic payments arrears in 2001 with technical and financial assistance from the European Union.

[16] The program provides for an adjusting mechanism that distributes two-thirds of additional budgetary assistance to the repayment of external arrears and one-third to the repayment of domestic arrears.

30. **The risks associated with an increased Fund exposure are limited** (Table 9). The Central African Republic recently made its last scheduled repurchase on the 1994 drawings, and no principal repayment will be due before 2004. Annual repayments and charges are projected to peak at SDR 7½ million in 2007–08, representing 3½ percent of exports and 5 percent of government revenue. Moreover, the C.A.R. authorities have shown in the past that they ascribed a very high priority to their financial obligations to the Fund, even under the most difficult circumstances. Nevertheless, the risk remains that meeting debt service due to the Fund would present a challenge unless sustained progress is made to raise government revenue.

IV. Staff Appraisal

31. The Central African Republic has faced unusually difficult circumstances in 2000. Following fiscal slippages in the latter part of 1999, the country has been hit by two oil shocks. The surge in international oil prices has been compounded, from June 2000 onward, by a doubling of transportation costs as a result of the suspension of river imports from Kinshasa. Rising import costs heightened the problem faced by the national oil company in paying its taxes. Moreover, tax and customs collection has been increasingly difficult. Lacking the minimum resources to function, the government has built up external and domestic arrears, including on the wage bill. As a result, the social situation has deteriorated sharply and become tense in recent months.

32. The authorities have begun addressing the situation with determination in the last quarter of 2000. They raised the retail prices of petroleum products in October, lowering the tax content in the process but also taking care to minimize the increase in the price of kerosene out of social concerns. In November-December, they have taken steps to strengthen revenue collection and tighten expenditure control. Although results have been limited so far, the staff believes that these actions represent a commendable step toward improving the fiscal position.

33. The program for 2001 is realistic. While the budget revenue objective for 2001 may seem conservative, its attainment requires strong efforts on the part of the revenue-collecting agencies, in view of the recent cut in petroleum-based taxes. It will be especially important to improve the coordination between the tax and the customs directorates to ensure a smooth transition to the VAT system, using the road map designed in collaboration with Fund technical assistance missions. Experience shows that, over time, the VAT brings considerable benefits, both in terms of improved efficiency and higher tax collection. However, there are also downside risks, especially with uncontrolled tax credits. The staff urges the authorities to monitor closely developments in this area, and to implement timely corrective action if needed. The staff welcomes the streamlining and reduction of export duties on agricultural products provided for as part of the 2001 finance law. Over time, the authorities should consider replacing the remaining export duties, especially on wood, by production-based or resource-rent taxes.

34. The authorities are strengthening expenditure control and intend to overhaul procedures at the budget and treasury directorates. These efforts, which will involve technical

assistance from the Fund, the French Cooperation, and the European Union, will take time. In the short run, it is essential to ensure that expenditure commitments meet established priorities, and that cash management is fully consistent with the program's objectives. The staff supports the authorities' plan to proceed with a gradual settlement of wage arrears.

35. In the past, serious questions have been raised on governance in the Central African Republic with respect to revenue collection. Over the last two years, the authorities have taken significant steps to combat corruption and fraud, most prominently in the case of the sale of tax-free petroleum products uncovered in late 1999. Yet more must be done in this area. The staff welcomes the recent measures adopted by the authorities, including the restructuring of customs administration and the upcoming mandatory certification of diamond exports. The authorities will need to remain vigilant and should stand ready to implement additional measures should customs performance continue to fall below expectations.

36. The amount of budgetary assistance under the 2001 program is large in relation to the size of the C.A.R. economy. Nevertheless, there remains a residual financing gap in 2001, which corresponds to the deferral of part of the external arrears into 2002. The staff considers this approach as pragmatic in view of the magnitude of the stock of arrears at end-2000. It will be essential that the authorities adhere to the schedule of arrears repayment, which is critical for the normalization of relations with external creditors.

37. Data weaknesses continue to hamper economic analysis and program monitoring. The staff welcomes the establishment of a national statistical development plan to improve the accuracy and timeliness of macroeconomic statistics and socio-demographic indicators. The authorities should give a high priority to implementing this plan, and provide the required coordination and resources, as well as seek appropriate support from donors to undertake statistical development projects.

38. The authorities have requested increased access under the second PRGF arrangement. The higher access relative to the annual amount provided under the three-year arrangement represents about one-third of the additional oil import costs in 2001. The financing provided by the Fund should help the authorities regain control over the fiscal situation and accelerate the repayment of arrears. Bilateral donors have indicated their willingness to consider additional financing in the second half of 2001, and the World Bank may provide supplementary assistance to help cover the impact of higher oil import costs. Over time, subject to the clearance of arrears, multilateral creditors such as the African Development Bank are also expected to resume budgetary support. The staff urges donors to ensure the timely availability of technical and financial assistance, and hopes that satisfactory implementation of the program will help the authorities mobilize further external support.

39. The proposed program is not without risks. The Central African Republic is facing considerable challenges and remains highly vulnerable to external shocks. Nevertheless, the authorities have made significant progress in recent months in addressing the country's difficult financial situation. The staff therefore recommends approval of the second annual PRGF arrangement for the Central African Republic.

PROPOSED DECISION

The following decision, which can be made by a majority of the votes cast, is proposed for adoption:

1. The Government of the Central African Republic has requested (i) the second annual arrangement under the three-year arrangement for the Central African Republic under the Poverty Reduction and Growth Facility (PRGF) (EBS/98/117, Supp. 1, 7/22/1998) in an amount equivalent to SDR 20 million, and (ii) an extension of the commitment period of the three-year arrangement from July 19, 2001 through January 19, 2002.

2. The letter dated December 15, 2000, with its attached Memorandum of Economic and Financial Policies, Technical Memorandum and Tables, from the Prime Minister, Minister for the Economy, Finance, Planning, and International Cooperation, shall be attached to the three-year arrangement for the Central African Republic under the PRGF.

3. The Fund determines that the Interim Poverty Reduction Strategy Paper (I-PRSP) for the Central African Republic set forth in EBD/00/__ provides a sound basis for the development of a fully participatory PRSP, for reaching the decision point under the HIPC Initiative and for Fund concessional financial assistance.

4. Subject to paragraph 5 below, the Fund:

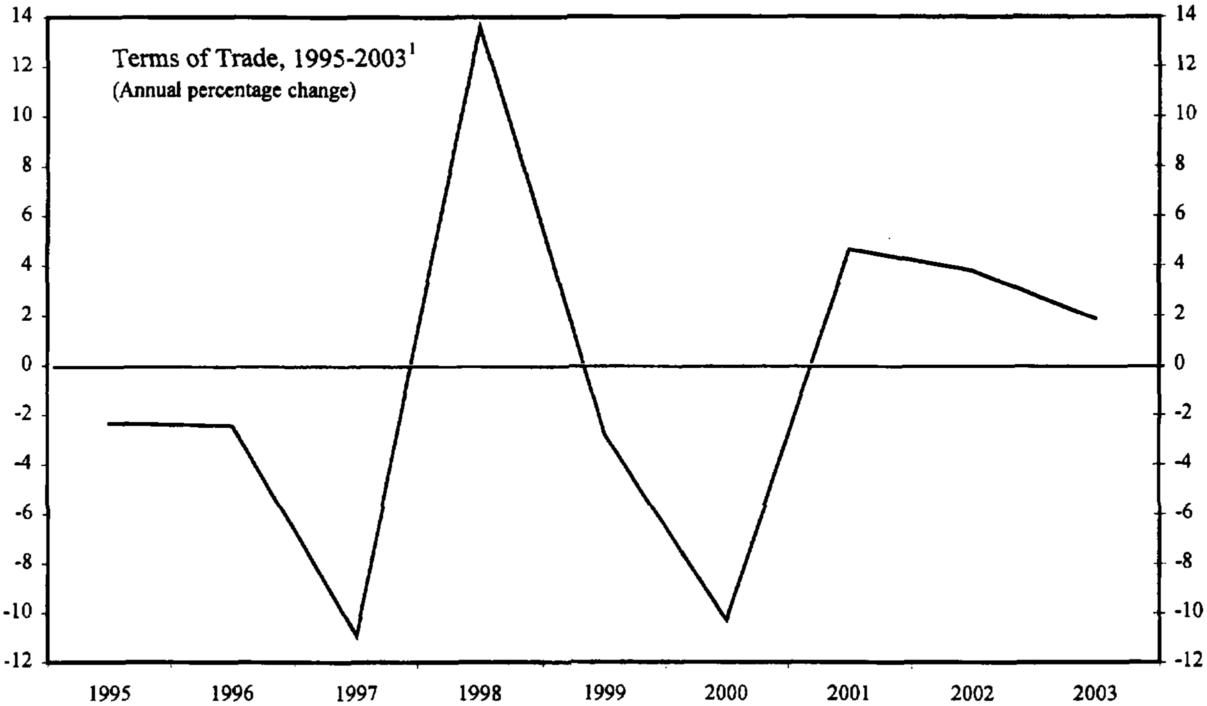
(i) amends paragraph 1(b) of the three-year PRGF arrangement for the Central African Republic to partially read: "...the amount of the second annual arrangement will be the equivalent of SDR 20 million, and of the third annual arrangement, the equivalent of SDR 12.96 million";

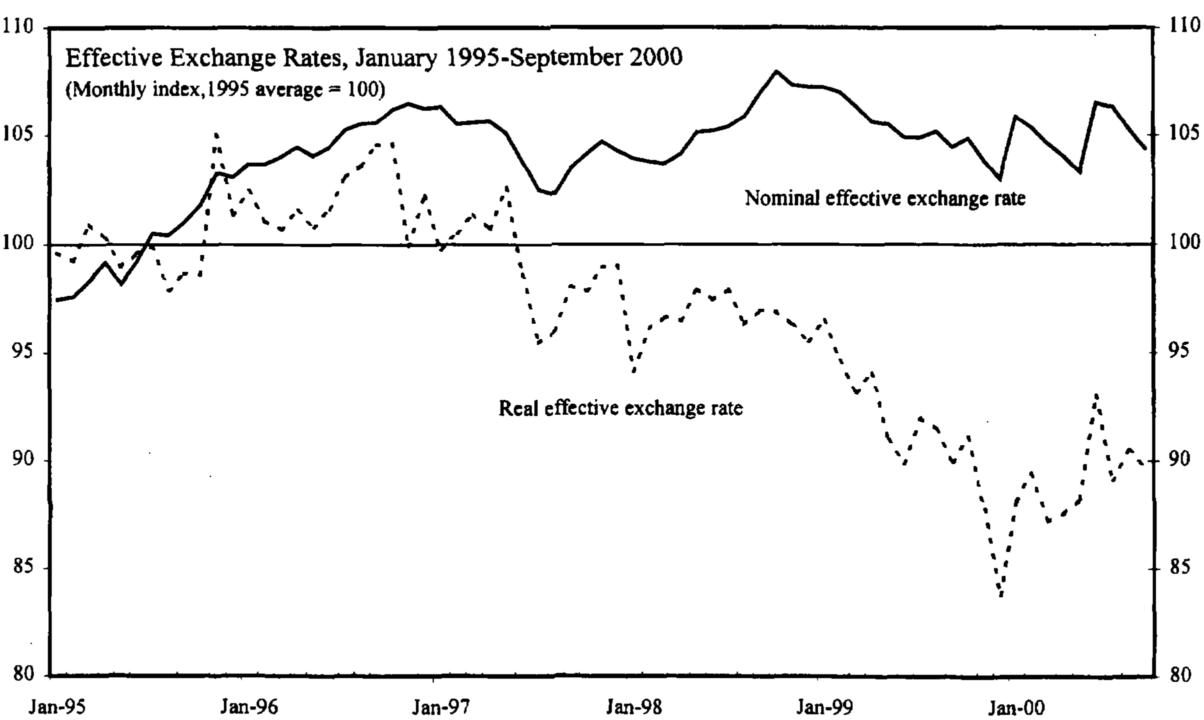
(ii) extends the commitment period of the three-year arrangement under the PRGF for the Central African Republic through January 19, 2002; and

(iii) approves the second annual arrangement under the PRGF for the Central African Republic set forth in EBS/00/289, and decides that the disbursements may be made under the arrangement on the condition that the information provided by the Central African Republic on the implementation of the measures specified in Table 1 of the Memorandum of Economic and Financial Policies attached to the letter dated December 15, 2000 from the Prime Minister, Minister for the Economy, Finance, Planning, and International Cooperation of the Central African Republic, is accurate.

5. Paragraph 3 above shall become effective on the date when the Fund decides that the World Bank has concluded that the I-PRSP submitted by the Central African Republic provides a sound basis for reaching the decision point under the HIPC Initiative and for World Bank concessional financial assistance.

Figure 1. Central African Republic: Terms of Trade and Effective Exchange Rate Developments, 1995 - 2003

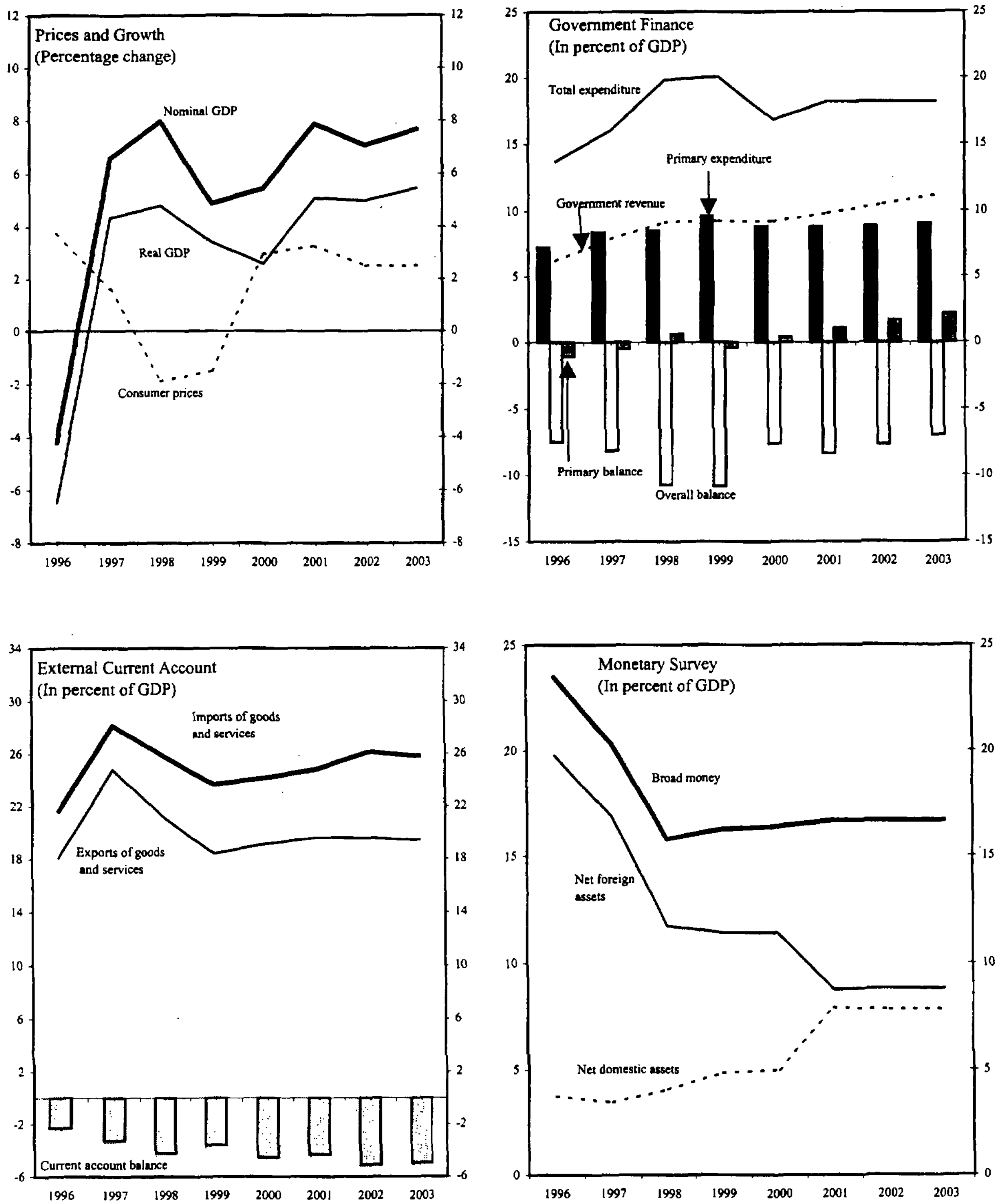




Sources: IMF, Information Notice System; C.A.R. authorities; and Fund staff estimates and projections.

1/ Data for 2000-03 are staff projections.

Figure 2. Central African Republic: Selected Economic Indicators, 1996–2003 1/



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

1/ Data for 2000–03 are staff projections.

Table 1. Central African Republic: Fund Position During the Period of the PRGF Arrangement, 2000–01

	Outstanding as of Sep. 30, 2000	2000 Oct.-Dec.	2001 Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.
		(In millions of SDRs)				
Disbursements						
Poverty Reduction and Growth Facility (PRGF)		0.00	8.00	0.00	8.00	4.00
Repurchases/repayments		0.00	0.00	0.00	0.00	0.00
Ordinary resources		0.00	0.00	0.00	0.00	0.00
PRGF		0.00	0.00	0.00	0.00	0.00
Charges and interests		0.15	0.11	0.15	0.11	0.15
Ordinary resources		0.00	0.00	0.00	0.00	0.00
PRGF		0.04	0.00	0.04	0.00	0.04
SDR charges		0.11	0.11	0.11	0.11	0.11
Total Fund credit outstanding (end of period)	16.48	16.48	24.48	24.48	32.48	36.48
Ordinary resources	0.00	0.00	0.00	0.00	0.00	0.00
PRGF	16.48	16.48	24.48	24.48	32.48	36.48
		(In percent of quota)				
Total Fund credit outstanding (end of period)	29.6	29.6	43.9	43.9	58.3	65.5
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0
PRGF	29.6	29.6	43.9	43.9	58.3	65.5

Sources: International Monetary Fund, Treasurer's Department; and Fund staff projections.

Table 2. Central African Republic: Selected Economic and Financial Indicators, 1997–2003

	1997	1998	1999		2000		2001	2002	2003
		Est.	Prog.	Est.	Proj. 1/	Rev. pr.	Prog.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
GDP at constant prices	4.3	4.8	5.0	3.4	5.2	2.6	5.1	5.0	5.4
GDP at current prices	6.6	8.0	7.3	4.9	6.8	5.4	7.9	7.1	7.7
GDP deflator	2.1	3.0	2.2	1.4	1.5	2.8	2.7	2.0	2.1
Consumer prices									
Yearly average	1.6	-1.9	2.4	-1.5	2.3	3.0	3.3	2.5	2.5
End of period	0.5	-3.0	2.4	-5.5	2.1	9.1	2.5	2.5	2.5
Central government finance									
Total revenue	35.4	25.2	15.4	6.0	15.6	5.0	15.3	14.1	14.9
Total expenditure	24.8	33.7	1.5	6.1	7.9	-11.7	16.7	6.9	7.8
Money and credit									
Net domestic assets 2/	-0.3	4.6	15.3	6.4	5.1	2.6	21.5	2.9	3.7
Domestic credit	-1.1	5.7	14.7	9.3	6.3	7.5	16.5	2.0	2.6
Broad money	-7.7	-16.2	11.3	7.9	7.7	6.4	9.7	7.1	7.7
Velocity of broad money (average)	4.7	5.7	6.3	6.4	6.0	6.1	6.1	6.1	6.1
External sector									
Exports, f.o.b. (CFA franc basis)	24.1	-1.9	15.9	6.9	16.1	20.4	11.2	7.3	7.3
Export volume	29.3	-12.7	18.7	12.0	8.0	19.0	3.2	4.5	4.4
Imports, f.o.b. (CFA franc basis)	12.9	11.1	5.1	-8.5	11.2	-0.1	18.7	17.5	7.6
Import volume	4.7	12.2	7.1	-6.8	0.0	-11.4	15.2	18.6	6.7
Terms of trade	-10.9	13.6	-0.5	-2.8	-3.4	-10.3	4.6	3.8	1.9
Nominal effective exchange rate 3/	-0.5	1.1	...	-0.6	...	0.3	...	...	...
Real effective exchange rate 3/	-3.5	-1.7	...	-4.9	...	-2.9	...	...	...
	(In percent of GDP, unless otherwise indicated)								
Gross national savings	6.4	11.8	5.9	10.9	9.4	8.8	10.2	10.1	11.0
Of which: current official transfers	2.9	3.7	2.8	4.7	1.8	3.4	3.3	3.6	3.4
Gross domestic savings	6.2	11.4	5.6	9.2	9.6	8.3	9.3	8.7	9.6
Government	-1.8	-0.8	0.5	-0.9	0.3	-0.3	0.1	0.8	1.6
Private sector	8.0	12.3	5.0	10.1	9.4	8.6	9.2	7.9	8.0
Consumption	93.8	88.6	94.4	90.8	90.4	91.7	90.7	91.3	90.4
Government	3.9	4.6	4.3	4.7	4.5	4.0	4.6	4.8	5.0
Private sector	89.9	84.0	90.2	86.0	85.9	87.7	86.1	86.5	85.5
Gross investment	9.6	16.1	12.5	14.5	16.1	13.4	14.6	15.3	15.9
Government	5.3	8.8	8.3	8.7	7.0	5.8	7.4	7.6	7.8
Private sector	4.3	7.3	4.2	5.8	9.1	7.6	7.2	7.7	8.2
Resource gap	-3.4	-4.7	-6.9	-5.3	-6.5	-5.0	-5.2	-6.6	-6.4
Current transfers and factor income (net)	0.1	0.4	0.3	1.7	0.1	0.5	0.9	1.4	1.4
External current account balance	-3.3	-4.3	-6.6	-3.6	-6.4	-4.6	-4.4	-5.1	-5.0
Overall balance of payments	-4.7	-5.1	-1.8	-1.8	-1.1	-2.1	-2.4	-1.8	-1.1
Central government finance									
Total revenue	7.9	9.1	9.7	9.2	10.0	9.2	9.8	10.5	11.2
Total expenditure	-16.0	-19.8	-18.7	-20.1	-18.1	-16.8	-18.2	-18.2	-18.2
Overall balance (commitment basis)									
Excluding grants	-8.1	-10.7	-8.9	-10.8	-8.1	-7.6	-8.4	-7.7	-7.0
Including grants	-1.6	0.0	-0.4	-0.5	-0.8	-1.2	-1.2	-0.6	-0.2
Narrow primary balance 4/	-0.5	0.6	1.0	-0.4	1.1	0.4	1.1	1.7	2.1
External public debt	94.4	84.2	78.2	83.6	78.6	81.4	75.9	67.0	63.6
Net present value of total debt 5/	222.1	233.2	257.0	241.9	235.4	226.9	176.5	172.3	164.9
Scheduled debt-service ratio 5/	17.4	15.3	13.3	12.3	11.9	10.6	11.9	11.9	11.5
Scheduled debt-service ratio, excluding IMF 6/	40.3	23.2	20.3	20.8	20.4	21.0	23.6	22.1	19.8
Actual debt-service ratio 5/	4.7	8.9	13.3	6.9	11.9	5.8	11.9	11.9	11.5
Scheduled debt-service ratio (before debt relief) 6/	54.9	43.0	34.8	40.2	34.6	42.4	31.9	31.2	27.6
Gross official foreign reserves									
(in millions of U.S. dollars)	185.6	147.9	149.0	138.9	152.9	132.7	140.9	149.6	158.4
Nominal GDP (in billions of CFA francs)	571.7	617.3	668.7	647.4	692.1	682.6	736.4	788.3	848.8
Exchange rate (CFA francs per U.S. dollar)	583.7	590.0	...	614.9	...	699.2	...	...	...

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

1/ Staff projections, consistent with the authorities' 2000 budget (SM/00/104; 06/28/00).

2/ In percent of broad money at beginning of the period.

3/ Data through June 2000.

4/ Excludes interest payments and externally financed investment.

5/ In percent of exports of goods and services.

6/ In percent of government revenue (excluding grants).

Table 3. Central African Republic: Central Government Operations, 1997–2003

	1997	1998 Est.	1999 Prog.	1999 Est.	2000 Proj. 1/	2000 Rev. pr.	2001 Prog.	2002 Proj.	2003 Proj.
	(In billions of CFA francs)								
Revenue	45.0	56.3	65.0	59.7	69.0	62.7	72.4	82.6	94.9
Tax revenue	42.4	50.3	57.6	53.5	61.5	55.8	65.4	75.4	87.5
Direct taxes	11.7	13.9	16.7	14.7	16.1	14.9	18.9	21.7	25.7
Indirect domestic taxes	21.5	27.2	30.5	29.0	32.8	30.7	34.5	39.0	43.9
Taxes on international trade	9.1	9.2	10.5	9.9	12.6	10.2	11.9	14.8	17.9
Of which: taxes on imports	5.4	5.5	6.6	5.4	6.8	5.8	6.6	8.1	9.7
Nontax revenue	2.6	6.1	7.4	6.2	7.5	7.0	7.0	7.2	7.3
Expenditure	-91.6	-122.5	-124.8	-129.9	-139.2	-114.8	-133.9	-143.2	-154.3
Current primary expenditure	-43.3	-41.9	-41.9	-45.4	-49.6	-50.1	-51.9	-54.7	-57.9
Wages and salaries	-26.6	-26.5	-26.5	-26.4	-27.1	-27.0	-27.6	-28.2	-28.7
Transfers and subsidies 2/	-4.8	-5.1	-5.3	-7.3	-8.8	-9.4	-8.5	-8.8	-9.0
Goods and services 2/	-11.9	-10.3	-10.1	-11.7	-13.7	-13.7	-15.7	-17.8	-20.2
Interest due	-7.8	-8.3	-9.0	-9.1	-11.0	-11.5	-9.6	-8.9	-8.6
External	-6.1	-6.9	-7.9	-8.1	-9.7	-10.2	-8.3	-7.1	-6.9
Domestic	-1.7	-1.4	-1.0	-1.0	-1.3	-1.3	-1.3	-1.7	-1.7
Capital expenditure	-40.4	-72.3	-74.0	-75.4	-78.6	-53.1	-72.4	-79.6	-87.8
Domestically financed	-4.4	-10.6	-16.3	-16.8	-12.0	-10.0	-12.8	-14.7	-18.8
Externally financed 3/	-36.0	-61.7	-57.7	-58.6	-66.6	-43.1	-59.7	-64.9	-69.0
Overall balance, commitment basis									
Excluding grants	-46.6	-66.1	-59.8	-70.2	-70.2	-52.0	-61.5	-60.6	-59.5
Of which: narrow primary balance 4/	-2.7	3.8	6.9	-2.5	7.5	2.6	7.7	13.1	18.2
Including grants	-8.9	0.0	-2.8	-3.0	-5.6	-8.4	-9.0	-4.4	-1.8
Change in arrears (net; reduction -)	20.6	-70.1	-34.2	-3.0	-6.3	-0.9	-31.6	-3.0	-3.0
Domestic	4.3	-2.8	-15.3	-3.5	-1.8	-7.1	-6.0	-3.0	-3.0
External	16.2	-67.3	-18.9	0.5	-4.5	6.2	-25.6	0.0	0.0
Overall balance (cash basis)	-26.0	-136.2	-94.0	-73.2	-76.5	-52.9	-93.1	-63.6	-62.5
Identified financing	26.0	136.2	63.2	73.2	68.4	52.9	50.7	44.5	47.9
External, net	28.4	132.7	52.4	69.9	68.8	50.3	50.9	45.9	49.4
Projects	36.0	61.7	57.7	58.6	66.6	43.1	59.7	64.9	69.0
Grants	33.3	61.1	57.0	57.3	63.4	42.4	52.5	56.2	57.7
Loans	2.7	0.5	0.7	1.4	3.2	0.7	7.2	8.7	11.3
Program	4.4	5.0	0.0	9.9	6.6	10.1	0.0	0.0	0.0
Grants	4.4	5.0	0.0	9.9	1.2	1.2	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	5.4	8.9	0.0	0.0	0.0
Amortization due	-12.0	-10.4	-14.0	-13.7	-15.2	-15.8	-15.0	-18.9	-19.7
External debt relief	0.0	76.4	8.7	15.1	10.8	12.8	6.2	0.0	0.0
Domestic, net	-2.4	3.5	10.8	3.3	-0.5	2.6	-0.2	-1.5	-1.5
Banking system 5/	-1.4	1.8	-2.9	4.3	-0.9	2.6	-1.7	-1.5	-1.5
Bank of Central African States	-2.9	0.2	-2.9	4.5	-3.0	0.9	-0.7	-1.5	-1.5
Counterpart to IMF resources 5/	-4.4	-1.1	-2.9	3.9	-0.5	-0.6	0.0	0.0	0.0
Other	1.5	1.3	0.0	0.6	-2.4	1.5	-0.7	-1.5	-1.5
Commercial banks	1.5	1.6	0.0	-0.1	2.1	1.7	-1.0	0.0	0.0
Nonbank	-1.0	1.7	13.7	-1.1	0.4	0.0	1.6	0.0	0.0
Residual financing need	0.0	0.0	30.8	0.0	8.1	0.0	42.4	19.1	14.6
Memorandum items:	(In percent of GDP)								
Revenue	7.9	9.1	9.7	9.2	10.0	9.2	9.8	10.5	11.2
Expenditure	-16.0	-19.8	-18.7	-20.1	-20.1	-16.8	-18.2	-18.2	-18.2
Of which: military expenditure	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Balance, commitment basis (deficit -)									
Excluding grants	-8.1	-10.7	-8.9	-10.8	-10.1	-7.6	-8.4	-7.7	-7.0
Including grants	-1.6	0.0	-0.4	-0.5	-0.8	-1.2	-1.2	-0.6	-0.2
Narrow primary budget balance 4/	-0.5	0.6	1.0	-0.4	1.1	0.4	1.1	1.7	2.1

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

1/ Staff projections, consistent with the authorities' 2000 budget (SM/00/104; 06/28/00).

2/ Beginning with the 2001 finance law, budget allocations for the National Assembly are recorded as transfers and subsidies, rather than goods and services as in the past. Earlier data have been revised accordingly.

3/ Includes technical assistance.

4/ Excludes interest payments and externally financed investment.

5/ Excludes assumed purchases/drawings from IMF.

Table 4. Central African Republic: Monetary Survey, 1997–2001

	1997	1998	1999				2000				2001
	Dec.	Dec.	Mar.	Jun	Sep	Dec.	Mar.	Jun.	Sep. Prel	Dec. Proj.	Dec. Proj.
	(In billions of CFA francs at end of period, unless otherwise indicated)										
Net foreign assets	96.6	72.5	75.2	75.0	73.3	73 9	80.8	83 7	78 2	77.9	64.6
Bank of Central African States (BEAC)	97.5	73.3	76.6	77.1	72.5	75.4	78.0	83.3	77 2	78.6	65.2
Operations account	106.8	81.8	84.6	83.5	85.6	88.8	92.1	96.8	91 7	92.5	97.5
Use of IMF credit	-11.1	-9 8	-9.5	-8.0	-15.1	-15.3	-15.8	-15.1	-16.0	-15.8	-34.0
Other	1.8	1.4	1.5	1 6	2.0	1 9	1.7	1.6	1 5	1.9	1.8
Commercial banks	-0.8	-0.9	-1.4	-2.1	0.7	-1.4	2.8	0.4	1.0	-0.6	-0.6
Net domestic assets	19.7	25.1	25.9	23.5	27.3	31.3	31.5	29.0	30.5	34.1	58.2
Domestic credit	59 4	66.1	67.6	67.3	72.7	75 1	77.9	77.2	82.7	83.0	101.4
Credit to the public sector	28.8	30.1	28.9	28.0	35 7	34.8	31.1	32 8	40.9	40.3	56 8
Credit to central government (net)	30.9	32 5	32.0	33.3	39.0	38 4	35.3	38.9	44.6	42.1	58.6
BEAC	31.4	31 4	31 1	30.0	37.3	37.4	35.2	34.8	40.2	39.4	56.9
Current account	10.4	11.3	11.3	11 3	11.4	14.4	11.4	11.4	11.9	11.6	11.6
Consolidated loans	11.2	11.2	11 2	11 2	11.2	11.2	11.2	11.2	14.6	14.6	13.8
IMF (net)	11.1	9.8	9.5	8.0	15.1	15.3	15.8	15.1	16.0	15.8	34.0
Deposits	-1.4	-0.9	-0.8	-0.5	-0.3	-3.4	-3.2	-2.9	-2.3	-2.5	-2.5
Commercial banks	-0.5	1.1	0.8	3 3	1.7	1.0	0.0	4.1	4.4	2.7	1 7
Credit to other public agencies (net)	-2.1	-2.4	-3.0	-5.3	-3.4	-3 6	-4.1	-6.0	-3.7	-1.8	-1.8
Credit to the economy	30.5	35.9	38.7	39 2	37.0	40.3	46.8	44.3	41.8	42.7	44.6
Public enterprises	6.4	8 0	9.8	12.4	8.9	14.2	17.9	13.0	8.4	10.2	8.2
Private sector	24.2	28.0	28.9	26 8	28.1	26 1	28.9	31.4	33 4	32.5	36.4
Other items (net)	-39.7	-41.0	-41 8	-43 7	-45.4	-43.8	-46 4	-48.2	-52.2	-48.9	-43.2
Money and quasi money	116.3	97 5	101.1	98.5	100.6	105.3	112.3	112.7	108.7	112.0	122.8
Currency	93 0	75 2	78.2	75.3	75.7	81 1	81.8	85.3	82.6	84.6	90.9
Deposits	23 4	22.3	22 9	23.2	24.9	24 2	30.6	27.4	26.0	27.4	31.9
Demand deposits	14.2	12.3	14 2	13.1	15.2	14 6	21 0	17.9	18.1	16.7	19.3
Term and savings depostis	9.1	10.0	8 7	10 1	9.6	9 6	9 6	9 4	7.9	10.7	12.7
Memorandum items											
Net domestic assets of the central bank	-2.1	2.8	2.6	0 4	4.6	6.6	4 8	3.6	6.2	5.8	28 0
Monetary base	95.3	76.1	79.2	77.4	77.1	82.0	82 8	87 0	83.5	84.4	93.2
Nominal GDP	571.7	617.3	625.9	633.3	640.7	647 4	659.0	671 3	677.8	682.6	736 4
Velocity (GDP/broad money)											
Average 1/	4.7	5.7	6 2	6 3	6.4	6.4	5.9	6 0	6.2	6.1	6.1
End of period	4.9	6.3	6.2	6.4	6.4	6 1	5.9	6.0	6.2	6.1	6 0
	(Annual change, in percent of broad money at beginning of period)										
Net foreign assets	-7.5	-20 8	2 9	2.6	0.8	1 5	6 5	9.3	4.0	3.8	-11.9
Net domestic assets	-0.3	4.6	0.8	-1.6	2.3	6 4	0.1	-2.2	-0 8	2.6	21.5
Net domestic credit	-1.1	5 7	1 6	1.2	6.8	9 3	5.5	1.9	7.2	7.5	16.5
Net credit to central government	-1.6	1.4	-0.5	0.9	6.7	6.1	-0 2	0.4	5.9	3 5	14 7
Credit to the economy	0.1	4.6	2.8	3.4	1.1	4.5	6.2	3.8	1.4	2.3	1.7
Money and quasi money	-7.7	-16 2	3.7	1.0	3.1	7.9	6.5	7.1	3.2	6.4	9.7
	(Annual percentage change)										
Monetary base	-12 4	-20.2	-16 8	-10.1	-4.2	7 7	4 5	12.3	8.3	3.0	10.5
Credit to the economy	0 5	17.6	11.7	6 5	11 3	12 2	20.9	13.0	12.9	5.9	4 5
Public enterprises	-10.8	25.2	5.3	13 5	31.1	77.5	83.6	4.4	-5 0	-28.0	-19 6
Private sector	4.0	15.6	14.1	3.6	6 3	-6.5	-0.2	16.9	18 6	24.3	12 1
Money and quasi money	-7 7	-16.2	-14.8	-10.8	-1 9	7.9	11.1	14.4	8.1	6 4	9.7

Sources. C.A.R. authorities; and Fund staff estimates and projections.

1/ Based on five-quarter average of broad money

Table 5. Central African Republic: Balance of Payments, 1997–2003

(In billions of CFA francs, unless otherwise indicated)

	1997	1998	1999		2000		2001	2002	2003
		Est.	Prog.	Est.	Proj. 1/	Rev. pr.	Prog.	Proj.	Proj.
Current account	-18.6	-26.3	-44.0	-23.3	-44.5	-31.2	-32.1	-40.4	-42.1
Balance on goods	8.0	-3.1	1.8	11.2	1.9	31.1	28.2	19.9	21.0
Exports, f.o.b.	92.6	90.9	94.6	97.2	96.7	117.0	130.2	139.7	149.9
Diamonds	39.1	34.9	40.4	38.2	43.7	47.0	50.5	52.9	55.6
Wood products	15.0	24.2	15.4	29.6	20.6	47.7	55.4	59.7	64.2
Cotton	16.0	16.2	12.9	9.8	8.2	6.0	9.1	9.7	10.8
Coffee	10.0	5.2	10.0	8.7	8.6	6.1	4.5	5.8	6.7
Other	12.5	10.5	16.0	10.9	15.6	10.2	10.7	11.6	12.6
Imports, f.o.b.	-84.6	-94.0	-92.8	-86.0	-94.8	-85.9	-102.0	-119.8	-128.9
Petroleum products	-10.6	-8.7	-7.4	-10.2	-12.0	-12.0	-17.4	-16.1	-16.5
Public investment program	-13.8	-26.4	-24.2	-25.9	-25.8	-13.1	-19.5	-31.8	-35.1
Other	-60.2	-59.0	-61.2	-49.9	-57.0	-60.8	-65.1	-71.9	-77.3
Services (net)	-27.3	-25.7	-48.0	-45.4	-46.9	-65.5	-66.6	-71.6	-75.0
Credit	49.1	39.7	20.9	21.7	26.8	13.5	14.1	14.5	14.8
Debit	-76.4	-65.4	-68.8	-67.1	-73.7	-79.0	-80.7	-86.1	-89.9
Income	-9.2	-12.0	-8.5	-13.0	-12.1	-13.5	-11.7	-10.7	-10.8
Credit	1.6	0.1	1.7	0.2	0.2	0.2	0.2	0.2	0.2
Debit	-10.8	-12.2	-10.2	-13.2	-12.3	-13.7	-11.9	-10.9	-11.0
Of which: interest due on public debt	-6.5	-7.2	-8.0	-8.2	-9.8	-10.3	-8.4	-7.3	-7.1
Current transfers (net)	9.9	14.5	10.6	23.9	12.6	16.7	18.0	21.9	22.7
Of which: official	16.5	23.0	18.5	30.2	12.4	23.2	24.2	28.1	28.8
Capital account	21.2	45.1	38.9	37.4	38.7	20.9	28.5	28.1	28.9
Project grants	16.8	38.1	38.5	27.1	37.1	19.2	28.3	28.1	28.9
Program grants	4.4	5.0	0.0	9.9	1.2	1.2	0.0	0.0	0.0
Debt cancellation	0.0	2.0	0.4	0.4	0.5	0.5	0.2	0.0	0.0
Financial account	-37.5	-36.6	-7.2	-25.4	-1.7	-4.0	-14.4	-1.8	3.7
Public sector (net)	-9.3	-9.8	-13.3	-12.3	-6.6	-6.2	-7.9	-10.3	-8.3
Project disbursements	2.7	0.5	0.7	1.4	3.2	0.7	7.2	8.7	11.3
Program disbursements	0.0	0.0	0.0	0.0	5.4	8.9	0.0	0.0	0.0
Scheduled amortization	-12.0	-10.4	-14.0	-13.7	-15.2	-15.8	-15.0	-18.9	-19.7
Private sector (net)	-28.2	-26.8	6.1	-13.1	4.8	2.2	-6.5	8.4	12.0
Errors and omissions	8.0	-13.7	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Overall balance	-26.9	-31.5	-12.4	-11.5	-7.5	-14.3	-18.0	-14.1	-9.6
Identified financing	26.9	31.5	-18.4	11.5	-2.7	14.3	-24.5	-5.0	-5.0
Net official reserves movements 2/	10.7	24.4	-7.9	-3.7	-8.5	-4.3	-4.9	-5.0	-5.0
Net Fund credit	-4.4	-1.1	-2.9	3.9	-0.5	-0.6	0.0	0.0	0.0
Purchases and loans	0.0	6.6	0.0	6.9	0.0	0.0	0.0	0.0	0.0
Repayments (cash basis)	-4.4	-7.7	-2.9	-3.0	-0.5	-0.6	0.0	0.0	0.0
Other reserves (increase -)	15.0	25.5	-5.0	-7.5	-8.0	-3.7	-4.9	-5.0	-5.0
Exceptional financing	16.2	7.1	-10.5	15.2	5.8	18.6	-19.6	0.0	0.0
Debt rescheduling 3/	0.0	74.4	8.3	14.7	10.3	12.4	6.0	0.0	0.0
Debt payments arrears (reduction -)	16.2	-67.3	-18.9	0.5	-4.5	6.2	-25.6	0.0	0.0
Residual financing need (+)	0.0	0.0	30.8	0.0	10.2	0.0	42.4	19.1	14.6
Memorandum items:									
Net resource transfer	33.8	57.2	53.4	66.1	50.2	45.7	59.3	57.8	56.8
Net resource transfer (in percent of GDP)	5.9	9.3	8.0	10.2	7.3	6.7	8.1	7.3	6.7
Gross official reserves (end of period)	108.6	83.1	88.1	90.7	98.7	94.4	99.3	104.3	109.3
Current account (in percent of GDP)	-3.3	-4.3	-6.6	-3.6	-6.4	-4.6	-4.4	-5.1	-5.0

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

1/ Staff projections, consistent with the authorities' 2000 budget (SM/00/104; 06/28/00).

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

3/ Includes debt relief under the 1998 Paris Club rescheduling agreement, as well as agreements reached with other creditors in 1999.

Table 6. Central African Republic: External Public Debt and Scheduled Debt Service, 1997–2003 1/

(In billions of CFA francs)

	1997	1998	1999	2000	2001	2002	2003
					Projections		
Total medium- and long-term debt outstanding, including arrears	539.7	519.8	540.9	555.8	559.3	528.0	539.6
Multilateral	383.0	360.9	359.9	358.8	363.9	383.2	393.3
Of which: IMF	12.8	10.7	15.3	15.4	34.0	33.9	33.7
Bilateral	131.2	132.9	152.9	168.2	170.8	120.3	121.8
Paris Club	32.4	31.4	32.3	32.2	34.2	33.2	36.7
Non-Paris Club	98.8	101.5	120.6	136.1	136.6	87.2	85.2
Other 2/	25.4	25.9	28.1	28.7	24.6	24.5	24.4
External arrears outstanding	85.8	19.7	19.4	25.6	...	...	...
Multilateral	18.3	19.7	16.9	22.4	...	...	...
Of which: IMF	1.8	0.8	0.0	0.0	...	...	...
Bilateral	42.0	0.0	0.2	0.4	...	...	...
Paris Club	6.0	0.0	0.2	0.4	...	...	...
Non-Paris Club	36.0	0.0	0.0	0.0	...	...	...
Other 2/	25.4	0.0	2.2	2.8	...	...	...
Debt service due after debt relief 3/	24.7	20.0	14.7	13.8	17.2	18.4	18.9
Principal	18.2	14.6	11.2	8.9	11.6	12.8	13.2
Interest	6.6	5.4	3.4	4.9	5.6	5.6	5.7
Debt service due on pre-2000 debt before debt relief 4/	24.7	24.3	24.0	26.6	23.1	25.5	25.6
Multilateral	14.3	15.3	11.5	12.4	9.3	11.9	12.2
Of which: IMF	6.6	7.0	2.3	0.6	0.1	0.1	0.1
Bilateral	9.6	8.4	10.2	13.6	12.5	13.3	13.3
Paris Club	2.6	2.5	2.9	3.4	3.1	3.0	2.6
Non-Paris Club	7.0	5.9	7.4	10.2	9.4	10.3	10.7
Other 2/	0.9	0.5	2.3	0.6	1.3	0.2	0.1
Debt service on new and rescheduled debt	0.0	0.0	0.0	0.0	0.3	0.8	1.1
Multilateral	0.0	0.0	0.0	0.0	0.0	0.2	0.3
Of which: IMF	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Bilateral	0.0	0.0	0.0	0.0	0.3	0.6	0.8
Paris Club	0.0	0.0	0.0	0.0	0.1	0.2	0.3
Non-Paris Club	0.0	0.0	0.0	0.0	0.3	0.4	0.5
Other 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	76.4	15.1	12.8	6.2	0.0	0.0
Total rescheduling	0.0	74.4	14.7	12.4	6.0	0.0	0.0
Multilateral creditors	0.0	0.0	5.7	0.0	0.0	0.0	0.0
Paris Club	0.0	6.5	2.0	2.4	1.4	0.0	0.0
Non-Paris Club	0.0	42.0	7.0	10.0	4.7	0.0	0.0
Other 2/	0.0	25.9	0.0	0.0	0.0	0.0	0.0
Debt cancellation	0.0	2.0	0.4	0.5	0.2	0.0	0.0
Paris Club	0.0	2.0	0.4	0.5	0.2	0.0	0.0
Non-Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
Net present value of debt 5/	314.8	304.5	287.7	296.2	254.7	265.7	271.6

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

1/ Including an assumed stock-of-debt operation under Naples terms in 2002.

2/ Including debt owed to the French hospital and postal agencies.

3/ Excluding repayments of nonrescheduled arrears.

4/ Excluding rescheduling and cancellation.

5/ Including 1998 Paris Club rescheduling and a stock-of-debt operation under Naples terms in 2002.

Table 7. Central African Republic: Sectoral Financial Balances, 1997–2003

(In percent of GDP)

	1997	1998	1999		2000		2001	2002	2003
	Est.	Est.	Prog.	Est.	Proj. 1/	Rev. pr.	Prog.	Proj.	Proj.
Central government									
Revenue	7.9	9.1	9.7	9.2	10.0	9.2	9.8	10.5	11.2
Wages and transfers	-5.5	-5.1	-4.7	-5.2	-5.0	-5.3	-4.9	-4.7	-4.4
Domestic interest payments	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Gross income (including current transfers)	2.1	3.8	4.8	3.9	4.7	3.7	4.7	5.6	6.5
Consumption	-3.9	-4.6	-4.3	-4.7	-4.5	-4.0	-4.6	-4.8	-5.0
Gross domestic savings	-1.8	-0.8	0.5	-0.9	0.3	-0.3	0.1	0.8	1.6
Official grants (current transfers)	2.9	3.7	2.8	4.7	1.8	3.4	3.3	3.6	3.4
Net factor income	-1.1	-1.1	-1.2	-1.2	-1.4	-1.5	-1.1	-0.9	-0.8
Gross national savings	0.0	1.8	2.1	2.6	0.7	1.6	2.3	3.4	4.2
Fixed investment	-5.3	-8.8	-8.3	-8.7	-7.0	-5.8	-7.4	-7.6	-7.8
Net financial balance	-5.3	-7.0	-6.2	-6.2	-6.3	-4.2	-5.1	-4.1	-3.6
Financing	5.3	7.0	6.2	6.2	6.3	4.2	5.1	4.1	3.6
Domestic	0.3	0.1	-0.7	0.0	-0.6	-0.7	-0.8	-0.6	-0.5
Bank	-0.2	0.3	-0.4	0.7	-0.4	0.4	-0.2	-0.2	-0.2
Nonbank	-0.2	0.3	2.0	-0.2	0.1	0.0	0.2	0.0	0.0
Net change in arrears	0.8	-0.5	-2.3	-0.5	-0.3	-1.0	-0.8	-0.4	-0.4
External	4.9	6.9	2.3	6.2	5.5	4.9	0.1	2.3	2.4
Medium- and long-term loans	0.5	0.1	0.1	0.2	1.2	1.4	1.0	1.1	1.3
Amortization payments	-2.1	-1.7	-2.1	-2.1	-2.2	-2.3	-2.0	-2.4	-2.3
Grants (capital transfers)	3.7	7.0	5.8	5.7	5.5	3.0	3.8	3.6	3.4
Debt relief	0.0	12.4	1.3	2.3	1.6	1.9	0.8	0.0	0.0
Net change in arrears	2.8	-10.9	-2.8	0.1	-0.7	0.9	-3.5	0.0	0.0
Other financing and residual gap	0.0	0.0	4.6	0.0	1.5	0.0	5.8	2.4	1.7
Rest of the economy									
National income (= GDP)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Wages and transfers	5.5	5.1	4.7	5.2	5.0	5.3	4.9	4.7	4.4
Domestic interest	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Tax payments	-7.9	-9.1	-9.7	-9.2	-10.0	-9.2	-9.8	-10.5	-11.2
Gross disposable income	97.9	96.2	95.2	96.1	95.3	96.3	95.3	94.4	93.5
Consumption 2/	-89.9	-84.0	-90.2	-86.0	-85.9	-87.7	-86.1	-86.5	-85.5
Gross domestic savings	8.0	12.3	5.0	10.1	9.4	8.6	9.2	7.9	8.0
Private transfers, net	-1.2	-1.4	-1.2	-1.0	0.0	-1.0	-0.8	-0.8	-0.7
Net factor income	-0.5	-0.8	-0.1	-0.8	-0.3	-0.5	-0.5	-0.5	-0.5
Gross national savings	6.3	10.0	3.8	8.4	9.0	7.2	7.9	6.7	6.8
Fixed investment	-4.3	-7.3	-4.2	-5.8	-9.1	-7.6	-7.2	-7.7	-8.2
Net financial balance	2.0	2.7	-0.4	2.6	-0.1	-0.4	0.7	-1.0	-1.4
Financing	-2.0	-2.7	0.4	-2.6	0.1	0.4	-0.7	1.0	1.4
Domestic	1.4	3.8	-0.5	-0.4	-0.6	-0.1	0.2	-0.1	-0.1
Bank credit	0.3	0.6	0.9	0.1	0.3	-0.1	1.0	0.6	0.8
Broad money (increase -)	1.7	3.0	-1.6	-1.2	-1.2	-1.0	-1.5	-1.1	-1.2
Nonbank	0.2	-0.3	-2.0	0.2	-0.1	0.0	-0.2	0.0	0.0
Net change in arrears	-0.8	0.5	2.3	0.5	0.3	1.0	0.8	0.4	0.4
External (private capital and errors and omissions)	-3.4	-6.6	0.9	-2.1	0.7	0.4	-0.9	1.1	1.4
Sum of financial balances = external current account	-3.3	-4.3	-6.6	-3.6	-6.4	-4.6	-4.4	-5.1	-5.0

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

1/ Staff projections, consistent with the authorities' 2000 budget (SM/00/104, 06/28/00).

2/ Residual item in the derivation of the use of resources in the national accounts. Changes reflect in part leads and lags in the recording of imports in the balance of payments.

Table 8. Central African Republic: External Financing Requirements, 1997–2003

(In billions of CFA francs)

	1997	1998	1999		2000		2001	2002	2003
		Est.	Prog.	Est.	Proj. 1/	Rev. pr.	Prog.	Proj.	Proj.
Central government operations									
Gross financing requirements (-)	-56.7	-158.4	-97.2	-96.9	-80.3	-72.3	-108.3	-84.0	-83.6
Primary budget balance (narrow definition) 2/	-2.7	3.8	6.9	-2.5	7.5	2.6	7.7	13.1	18.2
Foreign-financed investment	-36.0	-61.7	-57.7	-58.6	-52.6	-43.1	-59.7	-64.9	-69.0
Domestic transactions, net (excluding IMF)	5.0	0.6	-2.6	-5.0	-5.1	-5.2	-7.4	-6.0	-6.0
External debt service (before debt relief, excluding arrears)	-18.1	-17.3	-21.9	-21.8	-24.9	-26.0	-23.3	-26.1	-26.6
Reduction of external arrears (cash payments, cancellation, or rescheduling)	0.0	-76.0	-18.9	-5.9	-4.5	0.0	-25.6	0.0	0.0
IMF repayments and charges	-4.8	-7.9	-3.0	-3.2	-0.6	-0.6	-0.1	-0.2	-0.2
Identified financing	40.4	143.1	66.4	83.6	70.0	66.1	65.9	64.9	69.0
Project financing	36.0	61.7	57.7	58.6	52.6	43.1	59.7	64.9	69.0
Program loans and grants	4.4	5.0	0.0	9.9	6.6	10.1	0.0	0.0	0.0
External debt relief (including consolidation of arrears)	0.0	76.4	8.7	15.1	10.8	12.8	6.2	0.0	0.0
Residual financing need	16.2	15.3	30.8	13.3	10.2	6.2	42.4	19.1	14.6
Possible new debt relief	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...
Accumulation of external arrears	16.2	8.7	0.0	6.4	0.0	6.2	0.0	0.0	0.0
Deferred payment of arrears	0.0	0.0	0.0	0.0	0.0	0.0	10.0	-10.0	0.0
Use of Fund resources	0.0	6.6	11.7	6.9	5.9	0.0	18.7	0.0	0.0
New program financing	0.0	0.0	19.0	0.0	4.3	0.0	13.7	29.1	14.6
Memorandum items:									
External financing need, balance of payments basis	-40.1	-135.4	-78.7	-66.8	-67.9	-49.1	-84.1	-55.9	-54.8
Current account balance, excluding interest due on public debt	-12.1	-19.2	-36.0	-15.2	-34.7	-20.9	-23.7	-33.1	-35.0
Net private sector transactions (including errors and omissions)	-20.2	-40.5	6.1	-13.3	4.8	2.2	-6.5	8.4	12.0
Increase (-) in international reserves	15.0	25.5	-5.0	-7.5	-8.0	-3.7	-4.9	-5.0	-5.0
Service due on public debt (including arrears and IMF repayments and charges)	-22.9	-101.2	-43.8	-30.8	-30.0	-26.7	-49.0	-26.2	-26.8
External resources	40.1	135.4	78.7	66.8	67.9	49.1	84.1	55.9	54.8
Project loans and grants (excluding technical assistance grants)	19.5	38.7	39.2	28.5	40.3	19.9	35.5	36.8	40.2
Debt relief	0.0	76.4	8.7	15.1	10.8	12.8	6.2	...	...
Accumulation of external arrears	16.2	8.7	0.0	6.4	0.0	6.2	0.0	0.0	0.0
Deferred payment of arrears	0.0	0.0	0.0	0.0	0.0	0.0	10.0	-10.0	0.0
Program loans and grants	4.4	5.0	19.0	9.9	10.9	10.1	13.7	29.1	14.6
Use of Fund resources	0.0	6.6	11.7	6.9	5.9	0.0	18.7	0.0	0.0

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

1/ Staff projections, consistent with the authorities' 2000 budget (SM/00/104; 06/28/00).

2/ Excludes interest payments and externally financed investment.

Table 9. Central African Republic: Indicators of Fund Credit, 1998–2011

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
								Projections						
Outstanding use of Fund credit							(In units indicated)							
In millions of SDRs	12.5	17.1	16.5	36.5	36.5	36.5	34.8	31.5	28.2	20.9	13.6	8.0	4.0	0.0
In billions of CFA francs	9.9	15.3	15.4	34.0	33.9	33.7	32.0	28.9	25.9	19.2	12.5	7.3	3.7	0.0
In percent of government revenu	17.5	25.6	24.6	47.0	41.1	35.5	30.3	24.9	20.3	13.8	8.2	4.4	2.0	0.0
In percent of exports, f.o.b.	10.9	15.7	13.2	26.2	24.3	22.5	20.0	16.8	14.1	9.7	5.9	3.2	1.5	0.0
In percent of external public debt	1.9	2.8	2.8	6.1	6.4	6.3	5.8	5.1	4.6	3.4	2.2	1.3	0.7	0.0
In percent of GDP	1.6	2.4	2.3	4.6	4.3	4.0	3.5	3.0	2.5	1.8	1.1	0.6	0.3	0.0
In percent of quota	30.3	30.7	29.6	65.5	65.5	65.5	62.5	56.6	50.7	37.6	24.5	14.4	7.2	0.0
Repurchases and charges due 1/														
In millions of SDRs	8.7	2.7	0.7	0.1	0.2	0.2	1.8	3.5	3.5	7.4	7.4	5.7	4.0	4.0
In billions of CFA francs	6.9	2.4	0.6	0.1	0.2	0.2	1.7	3.2	3.2	6.8	6.8	5.2	3.7	3.7
In percent of government revenu	12.2	4.0	1.0	0.1	0.2	0.2	1.6	2.7	2.5	4.9	4.5	3.2	2.1	2.0
In percent of exports, f.o.b.	7.6	2.5	0.6	0.1	0.1	0.1	1.1	1.9	1.7	3.4	3.2	2.3	1.5	1.4
In percent of external public debt	1.3	0.4	0.1	0.0	0.0	0.0	0.3	0.6	0.6	1.2	1.2	1.0	0.7	0.8
In percent of GDP	1.1	0.4	0.1	0.0	0.0	0.0	0.2	0.3	0.3	0.6	0.6	0.4	0.3	0.3
In percent of quota	21.1	4.8	1.2	0.1	0.3	0.3	3.3	6.2	6.2	13.4	13.3	10.3	7.3	7.2
Net use of Fund credit														
(in millions of SDRs)	-1.3	4.6	-0.6	20.0	0.0	0.0	-1.6	-3.3	-3.3	-7.3	-7.3	-5.6	-4.0	-4.0
Disbursements	8.2	8.2	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	9.6	3.6	0.6	0.0	0.0	0.0	1.6	3.3	3.3	7.3	7.3	5.6	4.0	4.0
							(Annual percentage changes, unless otherwise indicated)							
Memorandum items:														
Real GDP growth	4.8	3.4	2.6	5.1	5.0	5.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Government revenue-GDP ratio														
(in percent)	9.1	9.2	9.2	9.8	10.5	11.2	11.7	12.0	12.4	12.7	13.0	13.3	13.6	13.8
Export volume growth	-12.7	12.0	19.0	4.1	4.2	4.3	4.2	4.8	3.4	3.6	3.6	3.6	3.6	3.7
Import volume growth	12.2	-6.8	-11.4	20.8	18.5	6.9	6.3	6.2	5.0	4.1	4.1	4.2	4.2	4.2

Sources: International Monetary Fund, Treasurer's Department; and Fund staff estimates and projections.

1/ Excluding SDR charges.

Central African Republic: Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

Attached hereto is a letter, with an attached Memorandum of Economic and Financial Policies, Technical Memorandum of Understanding and Tables, dated December 15, 2000, from the Prime Minister, Minister for the Economy, Finance, Planning and International Cooperation of the Central African Republic requesting from the International Monetary Fund ("the Fund") the second annual arrangement under the Enhanced Structural Adjustment Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of the Central African Republic intend to pursue during the period of the arrangement;

(b) understandings of the Central African Republic with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of the Central African Republic will pursue for the third annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangement in accordance with the following provisions, and subject to the Instrument to Establish the Poverty Reduction and Growth Facility.

1. Under the second annual arrangement:

(a) a first loan, in an amount equivalent to SDR 8 million, will be available on January 15, 2001 at the request of the Central African Republic;

(b) a second loan, in an amount equivalent to SDR 8 million, will be available on June 15, 2001, at the request of the Central African Republic, and subject to paragraph 2 below; and

(c) a third loan, in an amount equivalent to SDR 4 million, will be available on November 30, 2001, at the request of the Central African Republic, and subject to paragraph 2 below.

2. The Central African Republic will not request disbursement of the loans specified in paragraph 1(b) and 1(c) above:

(a) If the Managing Director of the Trustee finds that the data as of March 31, 2001, with respect to the second loan, and as of September 30, 2001 with respect to the third loan, indicate that:

(i) the ceiling on the end-of-period stock of net claims of the banking system on the government, excluding the counterpart of the use of Fund resources, specified in table 2 to the Technical Memorandum attached to the letter is not observed, or

(ii) the cumulative ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of 1 year to 25 years by the government, from January 1, 2001 specified in table 2 to the Technical Memorandum attached to the letter is not observed, or

(iii) the ceilings on the end-of-period stock of external payments arrears, excluding reschedulable external debt service obligations, specified in table 2 to the Technical Memorandum attached to the letter is not observed, or

(iv) the cumulative zero ceilings on the accumulation of new external payments arrears, excluding reschedulable external debt service obligations, from January 1, 2001, specified in table 2 to the Technical Memorandum attached to the letter is not observed, or

(v) the cumulative floors on the net reduction in government domestic payments arrears from January 1, 2001, specified in table 2 to the Technical Memorandum attached to the letter is not observed; or

(vi) the cumulative floors on total government revenue, including earmarked revenue, from January 1, 2001, specified in table 2 to the Technical Memorandum attached to the letter is not observed; or

(b) if the Central African Republic has

(i) imposed or intensified restrictions on payments and transfers for current international transactions; or

(ii) introduced or modified multiple currency practices, or

(iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposed or intensified import restrictions for balance of payments reasons, or

(v) incurred any new external payment arrears, except arrears on obligations eligible for rescheduling pending conclusion of the renegotiations; or

(c) until the Fund has determined that the first review of the Central African Republic's program referred to in paragraph 17 of the Technical Memorandum attached to the letter, with respect to the second loan, and the second review referred to in the same paragraph 17 with respect to the third loan, has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 has not been met with respect to the second or third loans specified in paragraphs 1(b) and 1(c), such loans may be made available only after consultation has taken place between the Fund and the Central African Republic, and understandings have been reached regarding the circumstances in which the Central African Republic may request that loan.

3. Before approving the third annual arrangement, the Fund will appraise the progress of the Central African Republic in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:

(a) the structural benchmarks specified in table 1 to the Technical Memorandum attached to the letter;

(b) imposition or intensification of restrictions on payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements that are inconsistent with Article VIII;

(e) imposition or intensification of import restrictions for balance of payments reasons;

(f) incurrence of any external payment arrears.

4. In accordance with paragraph 5 of the attached letter, the Central African Republic will provide the Fund with such information as the Fund requests in connection with the progress of the Central African Republic in implementing the policies and reaching the objectives supported by these arrangements.

5. During the period of the second annual arrangement, the Central African Republic will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests such a consultation. Moreover after the period of the second annual arrangement and while the Central African Republic has outstanding financial obligations to the Fund arising from loans under the arrangement, the Central African Republic will consult with the Fund from time to time, at the initiative of the government or whenever the Managing Director requests consultation on the Central African Republic's economic and financial policies. 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.

Attachments

Bangui, December 15, 2000

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431, U.S.A.

Dear Mr. Köhler,

In July 1998, the International Monetary Fund approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in support of the Central African Republic's economic and financial policies. Despite some difficulties, significant progress has been made in implementing the measures planned under the program.

The C.A.R. authorities' memorandum of economic and financial policies for 2001 is attached. This memorandum reviews recent economic developments and describes the objectives and policies that the government intends to pursue in 2001. In view of the delay in launching the second annual PRGF arrangement, the government seeks an extension of the present three-year arrangement for six months, that is, through January 20, 2002. In support of this program, the C.A.R. government requests from the International Monetary Fund a second annual arrangement under the PRGF in an amount equivalent to SDR 20.0 million, and a first disbursement in an amount equivalent to SDR 8.0 million. The higher amount provided for under the second annual arrangement will help the Central African Republic to face the additional costs relating to the importation of petroleum products by road. The schedule of future disbursements under the second annual arrangement is described in paragraph 17 of the attached technical memorandum of understanding.

The government's approach to poverty reduction is summarized in the preliminary statement on poverty reduction strategies and medium-term economic policies (or interim poverty reduction strategy paper), which was transmitted to you and to the President of the World Bank on December 12, 2000. It is expected that a full-fledged strategy will be devised in the second half of 2001, with the participation of civil society and the donor community. In order to facilitate the distribution of these documents, the C.A.R. government hereby authorizes the Fund to publish them on its internet site.

The technical memorandum of understanding for the second PRGF arrangement provides detailed elements on program monitoring. These include definitions of performance criteria and benchmarks, as well as the government's commitments with respect to the provision of data.

The government of the Central African Republic believes that the envisaged economic and financial policies and structural reforms will be sufficient to reach the objectives of the program. It will provide the Fund staff with all information necessary for program monitoring and will take any additional measures required to achieve the program's objectives.

Sincerely yours,

//s//

Anicet-Georges Dologuélé
Prime Minister
Minister for the Economy, Finance,
Planning and International Cooperation

Attachments

CENTRAL AFRICAN REPUBLIC

Memorandum of Economic and Financial Policies for 2001

I. INTRODUCTION

1. Following two years marked by serious political and social turmoil and deteriorating financial conditions, the government launched an economic and financial program in 1998 that was supported by the Fund under the Poverty Reduction and Growth Facility (PRGF) arrangement approved in July 1998. Implementation of this program faced various difficulties, which delayed completion of the midterm review until July 1999. Thereafter, further delays occurred in preparing the request for a second annual arrangement, notably because of the organization of presidential elections and difficulties in finalizing the privatization of the petroleum distribution network.

2. Since the departure of the UN peacekeeping forces (MINURCA) in February 2000, the C.A.R. government has assumed full responsibility for security within its territory, in an unstable regional context. The social peace restored in recent years remains fragile, poverty is widespread, and basic social services have steadily deteriorated. The challenge facing the authorities is to promote security and development in a sustainable manner, with a view to improving conditions for overall stability and economic progress. To this end, the government is determined to reinforce its program, implement targeted measures to reduce poverty, and seek the support required to achieve these policy objectives.

II. ECONOMIC DEVELOPMENTS IN 2000

3. The overall economic situation has remained fragile in 2000 and has been deteriorating further from June onward, following disruptions in the supply of petroleum products. The Planning Ministry estimates that growth has slowed to 2.6 percent in 2000, against 3.4 percent in 1999, notably because of poor conditions for agricultural production (especially cassava). Even though the shortages of petroleum products have disrupted all economic activities, timber exports have risen strongly, partly offsetting the contraction of the primary sector. Inflation has accelerated toward the end of the year following the sharp increase in the prices of petroleum products. The increase in consumer prices in 2000 is estimated at 3 percent on an annual average basis, and 9 percent on an end-of-period basis.

4. The shortages of petroleum products has arisen because of the insufficient buildup of stocks in Bangui at end-1999, the inability to collect large stocks belonging to PETROCA that were kept in Kinshasa, and the suspension of imports via the Ubangui River because of war in the Equator Province of the Democratic Republic of Congo. To overcome this crisis as fast as possible, the authorities secured help from a friendly country, which promised to deliver free of charge 55,000 tons of petroleum products (representing about 80 percent of the Central African Republic's annual consumption). However, only about 2,200 tons were

delivered, 700 of which were lost or stolen during transportation. The remaining 1,500 tons were sold through PETROCA for CFAF 742 million, which generated about CFAF 500 million in receipts for the treasury.

5. Regular supplies of petroleum products have been restored since July 2000 through road transport from the Douala seaport. Because of the high cost associated with this mode of transportation (about CFAF 125 per liter by road, against CFAF 60 per liter by river), imports have been limited to the country's current needs and have not permitted the building up of stocks as in the past. The government increased the prices of petroleum products in October 2000 by 33 percent for premium gasoline, 35 percent for kerosene, and 44 percent for diesel fuel. The new price structure takes into account the increased international market prices and higher transportation costs; at the same time, the equalization tax was raised to keep the price of kerosene below costs. In addition, taxes on petroleum products were reduced to limit the increase in prices for consumers.

6. Total government revenue (excluding grants) has remained stable at some 9 percent of GDP in 2000. Attempts to increase revenue have continued to meet with serious difficulties, which have prevented the authorities from reaching the target of 10 percent of GDP set in the budget. Customs revenue collection has been below expectation; and while the performance of the tax directorate has improved, revenue collection at the treasury has remained low.

7. Primary current expenditure (i.e., excluding interest due) has remained below the ceiling set for 2000. Significant efforts have been made to control strictly the government wage bill, notably by cleaning up the civil service roster and limiting recourse to temporary recruitment. Public investment has fallen sharply relative to 1999, reflecting delays in finalizing the transportation sector development project, the late approval of the 2000 finance law, and the problematic supply of petroleum products.

8. The overall budget deficit on a commitment basis (excluding grants) has narrowed to 7½ percent of GDP in 2000, compared with 11 percent of GDP in 1999 and a 2000 budget projection of 10 percent of GDP. The primary balance (using a narrow definition, i.e., excluding foreign-financed investment) has turned into a surplus of 0.4 percent of GDP in 2000, compared with a deficit of 0.4 percent of GDP in 1999 and a budgeted surplus of 1 percent of GDP. The strengthened cash position during the first few months of 2000 allowed the treasury to reduce the float on government outlays that had accumulated in the previous two years, which led to a net reduction of domestic arrears. Subsequently, however, the cash position worsened, and the treasury has been unable to settle all expenditure commitments, including civil service wages. Furthermore, new payments arrears have accumulated on external debt obligations.

9. In the area of structural reforms, the government has achieved significant progress in privatizing petroleum distribution, made notable efforts in bank restructuring, implemented adjustment measures in the cotton sector, and approved the new civil service statute. In particular, the assets of the parastatal PETROCA (which is being liquidated) were transferred to private investors in November, and an agreement was reached to adjust petroleum prices

with changes in costs (see para. 15). The National Assembly approved the new civil service statute in November 1999, and the government issued the implementing decree in July 2000 (with effect from January 1, 2000). The implementation of the new statute will allow for more flexible management of staff, and the enforcement of strict rules for promotions. The total number of public employees has remained subject to a ceiling of 19,500; a census of civil servants and controls carried out in 2000 established that the number of public employees has been kept below that ceiling (i.e., about 19,000 at the end of September 2000, including temporary employees).

III. ECONOMIC AND FINANCIAL PROGRAM FOR 2001

10. The main objective of the program is to lay out the conditions that promote rapid and sustainable growth, and to achieve a significant reduction of poverty. To that end, the government intends to meet as soon as possible the conditions for preparing a preliminary document for debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative).

11. The program for 2001 projects real growth of about 5 percent, stemming mainly from rising activity in the forestry, construction, and industry sectors in an environment of improved investors' confidence. Inflation is expected to remain moderate, at an annual rate of about 2½ percent on average, consistent with the exchange rate peg. Despite a projected surge in imports, the external current account deficit is projected to remain broadly unchanged at about 4½ percent of GDP. The government deficit (excluding grants) is set to widen to 8½ percent of GDP in 2001 from 7½ percent of GDP in 2000, while the primary budget surplus (narrow definition) would increase to CFAF 7½ billion, or 1 percent of GDP.

A. Fiscal Policy

12. The draft 2001 finance law was approved by the government and submitted to the National Assembly on November 15, 2000. The draft law provides for substantial increases in government revenue, which would cover core outlays while allowing for a primary surplus to settle part of the external debt service due. Nevertheless, the full payment of government obligations vis-à-vis external creditors and the domestic banking system, and the clearance of payments arrears, would require large financial support from donors.

13. Overall revenue is projected at nearly 10 percent of GDP in 2001, compared with 9 percent of GDP in 2000. The increase in the revenue ratio reflects not only measures to strengthen collecting agencies—notably by implementing the new organizational structure at the customs directorate, in line with technical assistance recommendations, and by increasing the number of taxpayers subject to return-based taxation at the tax directorate—but also the introduction of the value-added tax (VAT), effective January 1, 2001. The 2001 finance law reinforces the elimination of exceptions to the general rule by banning all tax and customs exemptions that are inconsistent with the regulations of the Central African Economic and Monetary Community (CEMAC). At both the tax and customs directorates, preparations are

well under way to introduce the VAT, with Fund technical assistance. At the treasury, measures have been implemented to improve the tracking of overdue tax payments.

14. The elimination of tax and customs exemptions applies, in particular, to the mining code, which had its exemptions reestablished in February 2000. Henceforth, exemptions allowed for mining sector imports will be limited to those provided for under CEMAC regulations, that is, duty-free imports for specific equipment used in mining and oil exploration. In addition, the finance law provides for the streamlining and reduction of export duties. It eliminates all levies imposed by the tax directorate on diamonds and agricultural products, as well as export duties on agricultural products collected by the customs directorate. Apart from the 2 percent minimum tax collected at the customs point, there remain only export duties on diamond and wood. Moreover, the government will submit a draft law to the National Assembly by end-December 2000 to ban special dispensations for diamond exports, and to mandate the use of official valuation and certification for all diamond exports.

15. In view of the recent reduction in petroleum-based taxes, the government has decided to defer the implementation of the customs tariff and the VAT on petroleum products. Normal taxes and duties will apply to petroleum products once river imports resume regularly. Taxes on petroleum products will not be reduced. From January 2001 onward, the retail prices of petroleum products will be adjusted in a transparent manner as often and as much as needed to take into account changes in costs and taxes. The government has also reinforced the monitoring of taxes on petroleum products and set mechanisms to collect tax payments every ten days based on actual amounts due (taking into account government consumption and legal exemptions). The settlement of mutual debts among PETROCA, the government, and the road fund will be made when PETROCA is actually liquidated, by June 2001 at the latest.

16. The government will step up its efforts to improve expenditure control and implement agreed spending priorities effectively. A provision in the draft 2001 finance law restates that the Finance Minister solely is authorized to commit expenditure. Primary expenditure (excluding foreign-financed investment) is set to remain broadly unchanged, compared with 2000, at 8.8 percent of GDP. The government wage bill is to increase by 2.2 percent in 2001 relative to 2000, taking into account new staff recruitment within the established ceiling (19,500) and some wage drift. Expenditure on other goods and services will increase by some 15 percent, mainly for priority areas (education, health, and social affairs), demobilization efforts, centrally paid bills (water, telephone, electricity, mission allowances and transportation costs). No new budget subsidy is planned for the cotton company (SOCOCA), which should reach financial balance in 2001.

17. Budget allocations for the health and education sectors have been raised from 1.6 percent of GDP in 2000 to 1.8 percent of GDP in 2001, and from 1.3 percent of GDP to 1.5 percent of GDP, respectively. To reinforce the monitoring of priority social expenditure, the government, in collaboration with staff from the European Union, intends to set quarterly spending targets in the areas of primary education, basic health care, water management and

sewerage, and access to drinking water. In addition, the authorities have appointed a committee to monitor the poverty reduction program that will be responsible for developing targeted approaches that would benefit the poorest segments of the population.

18. Investment expenditure is to increase from 8 percent of GDP in 2000 to 10 percent of GDP in 2001 (including the cost of technical assistance). This projection is based on expected disbursements, taking into account the existing project portfolio. The public investment program continues to focus on health, primary education, and basic infrastructure, notably in the transport sector, and also includes an important component for the restructuring of the armed forces.

19. External debt service in 2001 is estimated at CFAF 17 billion (after debt relief), or 2.3 percent of GDP, while domestic debt service is projected at CFAF 3 billion (including repayments to the banking system). The government intends to settle external arrears and regularize relations with external creditors as fast as possible (see para. 32). The stock of external arrears at end-2000 is expected to reach CFAF 25½ billion, including about CFAF 12 billion vis-à-vis the African Development Bank, CFAF 6 billion vis-à-vis the OPEC Fund, and CFAF 4 billion vis-à-vis the Development Bank of Central African States. The stock of domestic arrears includes CFAF 10 billion in late payments to suppliers (in addition to the float on government expenditure) and CFAF 21 billion in overdue government wages. The 2001 program provides for CFAF 6 billion in domestic arrears repayments, which would allow two months in wage arrears to be settled and the float to be reduced slightly.

B. Monetary and Credit Policies

20. Monetary policies are conducted by the Bank of Central African States (BEAC) in a regional context. Central bank policies contribute to the defense of the fixed peg and the strengthening of the external position. Assuming a return of confidence related to the restored health of the C.A.R. banking system, and taking into account the pursuit of prudent fiscal policies, the net domestic assets of the central bank (excluding the counterpart to the use of Fund resources) are projected to increase by about CFAF 5 billion in 2001.

21. The net claims of the banking system on the government are projected to decline by CFAF 1.7 billion in 2001, excluding the counterpart to the use of Fund resources. This takes into account amortization scheduled on consolidated loans and drawings on counterpart funds (especially in the context of arrangements with the European Union). The government's arrears vis-à-vis the BEAC were consolidated in July 2000, with a schedule of repayments drawn up through 2010. Over time, the authorities plan to reduce outstanding statutory advances from the BEAC.

22. The C.A.R. bank restructuring has made much progress. The three commercial banks have been recapitalized, and each of them is to abide at end-2000 by the main prudential regulations set by the regional supervisory agency (COBAC), including the ratios for minimum capital, liquidity, and solvency. The monetary authorities—in close collaboration

with the COBAC—will see to it that all prudential requirements are met from January 2001 onward.

C. Poverty Reduction and Structural Reforms

23. The medium-term program focuses on poverty reduction policies and structural reforms designed to improve economic efficiency and increase growth potential. In these areas, the authorities intend to rely extensively on technical and financial assistance from bilateral and multilateral donors, notably the World Bank, which will assess progress in program implementation.

24. The preliminary statement on poverty reduction strategies and medium-term economic policies describes the timetable to be followed in convening a national conference aimed at defining this strategy, in the context of a participatory process that would bring together the civil society, nongovernmental organizations, bilateral donors, and international organizations. Studies will be conducted ahead of this conference to adopt a series of relevant indicators, sort out priorities, and estimate the costs of proposed poverty reduction programs. At present, it is expected that the full PRSP will be available in the second half of 2001.

25. The government plans to speed up the implementation of structural reforms with technical and financial assistance from the World Bank. Ongoing operations to privatize or restructure companies relate to the cotton sector, energy (petroleum products and electricity), water, and telecommunications. Decisions will be taken soon on the strategies (liquidation or privatization) that will be adopted as regards the second batch of public enterprises. An agency responsible for regulating the water, electricity, and telecommunications sectors, as well as the prices of petroleum products, will be set up by September 2001 with assistance from World Bank staff. In addition, the government expects to finalize a new labor code and a revised mining code in 2001.

26. Because of market disturbances and the need to preserve the market share of the national sugar company (SOGESCA), the government decided to maintain controls over sugar imports, with prior authorization and the up-front payment of taxes and duties. A detailed study to evaluate the economic and financial impact of this system will be completed with the assistance of World Bank staff by September 2001.

D. Governance and Judiciary System

27. The authorities place a high priority on reinforcing the rule of law, strengthening the revenue-collecting agencies, and combating corruption. Already, the transfer of the disciplinary board to the Ministry of the Civil Service in July 2000 has helped improve the efficacy of existing regulations applying to government employees guilty of fraud. The Ministry of Commerce and Industry will continue its awareness campaign to ensure that private operators adapt their practices to the business law treaty (OHADA Treaty). Also, in collaboration with the Ministry of Justice, existing laws will be reviewed and revised as needed to achieve consistency with OHADA regulations. The Ministry of Finance is

preparing a settlement law (*loi de règlement*) for 1999, which includes the settlement of treasury accounts for previous years, and plans to finalize detailed functional accounts (*comptes de gestion*). On this basis, the Auditing Court will be in a position to review execution of the 1999 budget.

E. Statistical Apparatus and Debt Management

28. The statistical data available are very limited and do not allow a fully reliable assessment of the country's economic situation. To address this problem on a lasting basis, the Planning Ministry has prepared a work program based on the diagnosis made by the Fund technical assistance mission of October 1999. The program includes measures to improve the coverage, reliability, consistency, and timeliness in publication of macroeconomic data. In view of the limited available resources, the government intends to seek assistance from the donor community to implement this program. The government will soon finalize a draft statistical law for parliamentary approval and intends to set up a National Statistical Board by March 2001. Already, efforts are under way to improve computation of the consumer price index, based on updated surveys and according to a methodology harmonized with other countries of the subregion.

29. The debt directorate at the Ministry of Finance is improving its monitoring of public debt, including through upgraded computer hardware and software. A comprehensive database is under development, in close collaboration with Fund and Bank staffs, in the format needed to prepare HIPC Initiative documents. In view of its financial situation, the government intends to mobilize financing, including debt relief, exclusively through grants or loans on highly concessional terms. As regards bilateral creditors, the authorities will abide strictly by the provision on the comparability of treatment with the conditions granted by Paris Club creditors.

F. Program Financing

30. Based on program projections, the aggregate financing need is estimated at CFAF 108½ billion in 2001 (15 percent of GDP). This estimate takes into account the primary budget surplus (narrow definition) of CFAF 7½ billion, externally financed investment of CFAF 58½ billion, current external debt service of CFAF 23½ billion (before debt relief), and the clearance of CFAF 25½ billion in external arrears, as well as net payments on the domestic debt (including wage and pension arrears) for CFAF 7½ billion. In addition to project loans and grants, secured financing includes debt relief for CFAF 6 billion (excluding possible additional assistance under the HIPC Initiative), which leaves a financing gap of CFAF 42½ billion.

31. The full implementation of the program should enable budgetary support totaling some CFAF 32½ billion to be mobilized, including the use of Fund resources, the third tranche of the World Bank Fiscal Consolidation Credit, and assistance from France and the European Union. Thus, there remains a residual gap on the order of CFAF 10 billion.

32. Efforts will continue to seek additional financing to cover the residual gap. In particular, the government will request an extension of the consolidation period under the rescheduling agreement with Paris Club creditors and seek new budgetary support from bilateral and multilateral donors. The government plans to settle outstanding external arrears, including vis-à-vis the Development Bank of Central African States, the African Development Bank, and the OPEC Fund. Discussions have already been initiated with these institutions, which have been informed of the authorities' firm commitment to settle all current obligations due in a timely manner, and to implement a schedule for the repayment of arrears over 2001–02.

G. Prior Actions and Program Monitoring

33. All prior program actions mentioned in the attached Table 1 have been implemented during the last two months. Criteria and benchmarks for 2001 are shown in Table 2. The targets for net bank credit to the government (excluding the counterpart of Fund resources) and outstanding external arrears will be subject to an adjustment mechanism, as described in footnote 5, Table 2. The precise definition of performance criteria and benchmarks is provided in the following technical memorandum (Annex II). Two reviews under the PRGF arrangement are scheduled by June 2001 (based on criteria and benchmarks for end-March) and by December 2001 (based on criteria and benchmarks for the end of September), respectively. The first review will focus on fiscal developments and progress in privatizations.

CENTRAL AFRICAN REPUBLIC

Technical Memorandum of Understanding

1. This memorandum describes the performance criteria and the quantitative and structural benchmarks adopted to monitor execution of the second annual arrangement under the Poverty Reduction and Growth Facility (PRGF). This arrangement supports the program set forth in the memorandum of economic and financial policies for 2001 (MEFP) attached to the letter of December 15, 2000 from the Prime Minister of the Central African Republic to the Managing Director of the International Monetary Fund. The program performance criteria and benchmarks are listed in Table 2.

A. Quantitative Criteria and Benchmarks

2. The quantitative performance criteria are the following:

(a) ceilings on the end-of-period stock of net claims of the banking system on the government,[1] excluding the counterpart of the use of Fund resources;

(b) cumulative ceilings on the contracting or guaranteeing of new nonconcessional external debt[2] with original maturity of 1 years to 25 years by the government, from January 1, 2001 onward;

(c) ceilings on the end-of-period stock of external payments arrears, excluding reschedulable external debt-service obligations;

(d) cumulative zero ceilings on the accumulation of new external payments arrears, excluding reschedulable external debt-service obligations, from January 1, 2001 onward;

(e) cumulative floors on the net reduction in government domestic payments arrears, from January 1, 2001 onward; and

(f) cumulative floors on total government revenue, including taxes on wages, earmarked revenues, and duties and taxes on projects, from January 1, 2001 onward.

[1] The term "government" is understood to include the treasury and all autonomous bodies that are defined as part of central government agencies by the Bank of Central African States (BEAC).

[2] The definition of debt excludes leases with a net present value of less than CFAF 20 million.

3. The quantitative benchmarks are as follows:

(a) cumulative ceilings on total government expenditure, excluding interest payments and foreign-financed investment, from January 1, 2001; and

(b) cumulative ceilings on the government wage bill, from January 1, 2001.

Definitions and computation

4. The end-of-period stock of net claims of the banking system on the government, excluding the counterpart of the use of Fund resources, is valued in accordance with the accounting framework currently used by the Bank of Central African States (BEAC). As of August 31, 2000, these claims amounted to CFAF 26.008 billion, broken down as follows:

Net banking system claims on government, excluding counterpart of the use of Fund resources (in billions of CFA francs)	26,008
BEAC current (statutory) advances	11,384
Consolidated advances	14,552
Less: deposits with the BEAC	-2,528
Commercial bank advances	3,039
Less: deposits with commercial banks	-0,439

5. Performance criteria for external indebtedness are cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government. Loans of 1 to 25 years are those with initial terms—recorded in the original loan agreement—of at least 1 year and at most 25 years. Cumulative ceilings are also established for external debt contracted or guaranteed by the government with a maturity of under 1 year, excluding normal import financing (for example, documentary credits). Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the initial date of disbursement, the ratio between the present value of the loan, calculated on the basis of the reference interest rates, and its nominal value is less than 50 percent (i.e., a grant element of at least 50 percent). For example, CIRRs for the period October 15–November 14, 2000 were as follows:

	Term of up to 5 years	Term of 6 to 8½ years	Term of more than 8½ years
		(Annual percentage)	
U.S. dollar	7.02	6.93	6.98
Euro	6.18	6.23	6.27
Pound sterling	6.75	6.75	6.75
Japanese yen	2.20	2.20	2.20

6. The government's external payment arrears include all overdue external public debt, excluding obligations that are potentially reschedulable under the terms of the agreement with the Paris Club creditors (September 25, 1998). Arrears accumulation is the difference between the gross amount of external debt-service payments due (interest and principal, including penalty interest, if appropriate) and the amount actually paid during the period under consideration. The stock of external debt arrears is revalued at the end of the period, amounts in foreign exchange being converted into CFA francs based on the exchange rates published by the IMF. According to data compiled by the Debt Directorate of the Ministry of Finance, the (gross) accumulation of arrears on external debt service was estimated at CFAF 6.4 billion in 1999, with the following split among creditor types:

	(In billions of CFA francs)
Multilateral creditors	4.0
Bilateral creditors, Paris Club	0.2
Bilateral creditors, non-Paris Club	0.0 [3]
Other (including short term)	2.2

Arrears on external debt at end-December 1999 were at CFAF 19.4 billion, with the following split between among types:

	(In billions of CFA francs)
Multilateral creditors	16.9
Bilateral creditors, Paris Club	0.2
Bilateral creditors, non-Paris Club	0.0 [3]
Other (including short term)	2.2

7. The net change in government domestic payments arrears corresponds to the difference during the period between liabilities contracted by the government, excluding external debt operations, and payments made. This change corresponds to a net reduction of arrears when the amount is negative and a net accumulation of arrears when the amount is positive. Government liabilities include all expenditure for which commitment vouchers have been approved by the central offices (*Direction des services centraux*) of the Ministry of Finance, automatic expenditures (such as salaries, utilities, pensions, and other expenditures for which payment is centralized), and expenditure committed by project managers.

[3] Assumes that debt services and arrears vis-à-vis non-Paris Club creditors were rescheduled at Naples terms, as specified under the Paris Club agreement of September 1998.

Government payments include treasury cash payments and offsetting operations.[4] The net change in government domestic payments arrears is estimated by its components, including cash operations and the net balance of central government accounts, excluding the treasury accounts; this amount should also ensure a balanced supply and use of funds in the consolidated government operations table (*Tableau des opérations financières de l'État*—TOFE). For 1999, the net change in arrears was CFAF –3.5 billion (i.e., a net reduction), broken down as follows:

Net change in domestic arrears (in billions of CFA francs)	-3.5
Current expenditure	-8.3
Wages and salaries	-1.1
Transfers and subsidies	-3.2
Goods and services	-4.0
Domestically financed capital expenditure	5.6
Other	-0.8

8. Government revenues are valued on a cash basis and include offsetting operations in current revenue and expenditure. Revenues are shown in the TOFE and include earmarked revenues, customs checks for project-related customs duties, and withholdings from civil service wages and salaries. Revenues for 1999 were estimated at CFAF 59.7 billion, broken down as follows:

Fiscal revenue (TOFE basis, in billions of CFA francs)	59.7
Cash receipts (customs directorate, tax directorate, treasury)	50.6
Earmarked revenue (road fund, CEMAC)	1.7
Withholding taxes on government salaries	3.1
Customs duties on projects (treasury checks)	4.3

9. Total public expenditure, excluding interest payments and foreign-financed investment is valued on a commitment basis. Government commitments include all expenditure for which commitment vouchers have been approved by the central offices of the Ministry of Finance, automatic expenditures (such as salaries, utilities, pensions, and other expenditures for which payment is centralized), expenditure by means of offsetting operations, and budgetary contributions in the form of treasury checks in payment of customs duties on projects. Expenditures for 1999 were valued at CFAF 62.2 billion, broken down as follows:

[4] The net change in arrears does not necessarily correspond to arrears in the legal sense. The calculation described here also takes into account temporary operations, such as net flows of cash operations, as well as temporary discrepancies between bank financing information as reported by the government and by the Bank of Central African States, respectively.

Primary budget expenditure (TOFE basis), excluding foreign-financed investment (in billions of CFA francs)	62.2
Current expenditure	45.4
Wages and salaries	26.4
Other goods and services	12.7
Subsidies and transfers	6.3
Domestically financed capital expenditure	16.8

10. The government wage bill is valued on a commitment basis for all staff (permanent and temporary) of the civil service and the armed forces, including withholdings on behalf of the national tax directorate. The wage bill covers wages, salaries, and bonuses for the current period, even when advices for the period are not issued by the payroll directorate owing to the payment lag. The 1999 wage bill was estimated at CFAF 26.4 billion.

Adjusters

11. The automatic adjustment mechanism for the performance criteria referred to in Table 2, footnote 5, of Appendix I, applies to external payments arrears outstanding and the net reduction in government domestic payments arrears. The excess corresponds to the deviations in disbursements of external budgetary assistance (including the use of Fund resources, excluding project assistance; based on actual use of counterpart funds rather than disbursements in the case of external budgetary assistance from the European Union) indicated as a memorandum item in Table 2. The adjustment will be distributed as follows: 67 percent for outstanding external arrears, and 33 percent for net reduction in government domestic payments arrears. The adjustment will apply only for positive deviations (disbursements higher than forecast), in which case the ceiling on the stock of external payments arrears will be adjusted downward and the floor on the net reduction in government domestic payments arrears will also be adjusted downward (i.e., upward in absolute terms).

B. Structural Benchmarks

12. The structural benchmarks are:

(a) Setting up of a statistical council by March 31, 2001;

(b) Final closure of PETROCA by June 30, 2001, as evidenced through the issuance of a liquidation ordinance; and

(c) Completion of a study to evaluate the economic and financial effects of sugar imports licensing by September 30, 2001.

C. Program Monitoring

13. Monitoring the performance criteria and benchmarks will be the subject of a monthly evaluation report, prepared within six weeks following the end of each month. This document will assist with assessing performance in terms of the program quantitative and structural objectives.

14. The Standing Technical Committee responsible for program monitoring (CTP-PAS) will regularly report the data required for program monitoring to the IMF's African Department by fax or e-mail. These data will include:

(a) monetary survey, central bank survey, and commercial bank accounts;

(b) fiscal operations, based on the cash-flow table, the expanded table (bridge from cash-flow table to TOFE), and the consolidated government operations (TOFE);

(c) breakdown of cash outlays on current expenditure and on domestically financed capital expenditure according to whether these outlays correspond to expenditure commitments for 2001, for 2000, or for earlier years, respectively;

(d) breakdown of revenue office receipts, including the monthly report on the reconciliation of customs payments with data from the import certification agency (SGS);

(e) breakdown of public expenditure growth, on both a cash and commitment basis;

(f) breakdown of external debt service and external debt arrears, including by interest and principal, and by principal creditors;

(g) amount of new nonconcessional external debt contracted or guaranteed by the government;

(h) actual disbursements of nonproject external financial assistance, and external debt relief granted by the external creditors;

(i) indices assisting with an assessment of overall economic trends, such as the household consumer price index, import and export flows (in volume and value), activity in the forestry sector and in industry, etc.; and

(j) a review of the implementation of structural measures.

15. In addition, the Standing Technical Committee will provide the IMF's African Department with the following specific information, to be sent not later than 15 days after the end of the respective month:

(a) a monthly report on petroleum prices;

(b) a monthly report on the provision of petroleum free of charge or at concessional prices; and

(c) a bimonthly report on the implementation of specific measures at the tax directorate, the customs directorate, and the treasury, as recommended by technical assistance missions of the IMF.

16. The Standing Technical Committee will also provide the IMF's African Department with any information deemed necessary or requested by Fund staff for purposes of program monitoring.

D. Schedule and Terms of Loan Disbursements

17. The disbursements under the second annual PRGF arrangement will be made according to the following schedule and conditions:

- The first disbursement will be available upon approval by the Executive Board of the International Monetary Fund of the second annual arrangement under the PRGF.

- The second disbursement will be available on (a) completion by the IMF Executive Board of the first review under the second annual PRGF arrangement, no later than June 30, 2001; and (b) observance of the quantitative performance criteria for March 31, 2001. This review will also establish the quantitative performance criteria, quantitative benchmarks, and structural benchmarks for end-September 2001 and end-December 2001.

- The third and last disbursement will be available on (a) completion by the IMF Executive Board of the second review under the second annual PRGF arrangement, no later than December 31, 2001; and (b) observance of the quantitative performance criteria for September 30, 2001.

Table 1. Central African Republic: Prior Actions Implemented in October–December 2000

Areas	Measures
1. Petroleum sector	
1.1 Pricing	New price structure agreed with private operators; amendement to the memorandum of understanding to revise the price structure as often and whenever necessary
1.2 Privatization	Transfer of all assets and responsibilities of the state oil company (PETROCA--which is under liquidation) to the private operators
1.3 Management of grants in kind	Transmission to the private operators of all information on petroleum products imported free of charge or at concessional prices; implementation of strict accounting procedures for the management of counterpart funds (deposit of an amount equivalent to the value of grants in kind into a special account with the Bank of Central African States--BEAC)
1.4 Payment of taxes and duties	Implementation of a system to collect taxes and duties every ten days, based on actual volumes; strict control of legal exemptions
2. Public finances	
2.1 Cash management	Adoption and implementation of emergency measures to strengthen expenditure control and cash management; submission of a request for technical assistance to the IMF
2.2 Tax directorate	Issuance of tax bills to nonreporting taxpayers (40 companies) and launch of audits for suspicious cases (32 companies that declared zero turnover in September 2000)
2.3 Customs directorate	Implementation of a new organizational structure and restructuring of the administration; integration of the computer system (SYDONIA) into a network; submission of a request to the Cameroonian authorities to transmit documents relating to goods in transit from Cameroon to the Central African Republic
2.4 Treasury	Seizure of monetary assets (*avis à tiers détenteur*) for all delinquent taxpayers, after clearing up irrecoverable tax liabilities and netting out payment arrears owed by the government
2.5 Finance law	Approval by the Council of Ministers and submission to the National Assembly of the draft 2001 finance law
3. Program financing	
3.1 Budgetary assistance	Reaching of understandings on the mobilization of budgetary assistance (program loans and grants); financing conditions consistent with the program agreed with Fund staff
3.2 External arrears	Preparation of a schedule to settle external arrears during 2001–02

Table 2. Central African Republic: Performance Criteria and Benchmarks Under the Second Annual PRGF Arrangement

(In billions of CFA francs; ceilings, unless otherwise indicated)

	2000		2001			
	Sep. Est.	Dec. Proj.	March	June	Sep.	Dec.
			Program			
Quantitative performance criteria 1/						
Net bank credit to the central government, excluding counterpart to use of Fund resources (end of period)	27.5	26.3	25.9	25.5	25.0	24.6
Contracting and guaranteeing of new nonconcessional debt by the central government (including leasing) 2/						
With maturities of less than 1 year and up to 25 years with a grant element of less than 50 percent 3/	0.0	0.0	0.0	0.0	0.0	0.0
With maturities of less than 1 year 4/	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external payments arrears (end of period) 5/ 6/	25.3	25.6	21.9	20.0	14.0	10.0
Accumulation of new external payments arrears (on a continuous basis) 2/ 6/	7.2	7.5	0.0	0.0	0.0	0.0
Floor on net reduction (-) in government domestic payments arrears 2/ 5/	-4.7	-4.7	-3.0	-4.0	-5.0	-6.0
Floor on total government revenue 2/ 7/	48.6	62.7	20.3	40.5	57.0	72.4
Quantitative benchmarks						
Government expenditure, excluding interest payments and foreign-financed investment 2/	46.8	60.1	16.5	32.3	48.7	64.6
Government wage bill 2/	20.2	27.0	6.9	13.8	20.7	27.6
Memorandum item:						
Disbursements of external program assistance (including the use of Fund resources) 8/	8.5	10.2	10.3	11.0	21.0	32.4
Structural benchmarks		Timing				
Setting up of a National Statistical Board		March 2001				
Final closure of state oil company (PETROCA)		June 2001				
Completion of a study on the economic effects of sugar import licensing		September 2001				

1/ Performance criteria for March and September 2001; benchmarks for June and December 2001. The targets for September and December 2001 are indicative and will be finalized by the time of the first review. Detailed definitions are provided in the technical memorandum of understanding (TMU).

2/ Cumulative from the beginning of the calendar year.

3/ This performance criterion applies not only to debt, as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and borrowing from the Fund. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 50 percent, calculated by using currency-specific commercial interest rates that are based on the OECD commercial interest reference rates (CIRRs).

4/ This performance criterion applies not only to debt, as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, borrowing from the Fund, and normal import-related credits. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 50 percent, calculated by using currency-specific commercial interest rates that are based on the OECD commercial interest reference rates (CIRRs).

5/ The targets for the outstanding stock of external payments arrears and for the net reduction in government domestic payments arrears are subject to adjustments (upward and downward, respectively) in absolute terms so as to take into account deviations from programmed amounts of external program assistance (excluding project financing). The adjustment will be distributed as follows: 33 percent for net reduction in domestic payment arrears, and 67 percent for external arrears outstanding.

6/ Excluding reschedulable external debt-service obligations.

7/ Including earmarked revenue.

8/ Cash basis, based on actual use of counterpart funds in case of disbursements from the European Union.

Table 3. Central African Republic: Quarterly Cash-Flow Plan, 2001

(In billions of CFA francs, cumulative from the beginning of the year)

	March	June	September	December
Government revenue, cash, excluding grants 1/	16.4	33.9	47.2	59.7
Primary expenditure 1/ 2/	-13.3	-26.0	-39.2	-52.0
Current primary expenditure	-12.2	-23.6	-35.6	-47.1
Of which: wages and salaries 3/	-5.8	-11.6	-17.4	-23.3
Domestically financed investment 4/	-1.1	-2.4	-3.6	-4.8
Narrow primary balance 2/	3.1	7.9	8.0	7.7
Debt service	-3.8	-8.4	-12.6	-18.4
Domestic	-0.2	-0.4	-0.8	-1.3
Of which: IMF	0.0	0.0	0.0	-0.1
External 5/	-3.6	-8.0	-11.8	-17.1
Settlement of arrears	-6.7	-9.6	-16.6	-21.5
Domestic	-3.0	-4.0	-5.0	-6.0
Of which: wages and salaries	-2.5	-3.3	-4.0	-4.0
External	-3.7	-5.6	-11.6	-15.5
Cash balance	-7.4	-10.1	-21.2	-32.2
Financing	7.4	10.1	21.2	32.2
Domestic	-2.1	0.6	11.7	18.5
Bank financing	-2.1	0.6	10.2	17.0
Central bank, excluding IMF	-2.7	-0.4	-0.5	-0.7
IMF	7.5	7.5	15.0	18.7
Commercial banks	-7.0	-6.5	-4.3	-1.0
Of which: Counterpart funds under European Union program grants	-6.7	-6.0	-3.5	0.0
Nonbank financing	0.0	0.0	1.6	1.6
External	9.5	9.5	9.5	13.7

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

1/ Excluding withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports.

2/ Excluding foreign-financed investment.

3/ Excluding withholding taxes on government salaries.

4/ Excluding earmarked revenue and taxes and duties on project-related imports.

5/ After the application of traditional debt-flow relief mechanisms, but excluding possible additional assistance under the Initiative for Heavily Indebted Poor Countries (HIPC Inititiative).

Table 4. Central African Republic: Budget Receipts, 2000–01

(In billions of CFA francs, cumulative from the beginning of the year)

	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Cash receipts 1/												
2000 – projections 2/	...	...	16.0	21.3	26.3	31.3	35.6	39.9	44.0	48.3	52.5	56.5
Customs direcorate	...	...	7.3	9.4	11.6	13.9	16.1	18.3	20.2	22.5	24.6	26.6
Tax directorate	...	...	7.3	10.0	12.3	14.4	16.1	17.6	19.2	20.8	22.4	24.0
Treasury	...	...	1.4	1.9	2.5	3.0	3.5	4.0	4.5	5.0	5.5	5.9
2000 – actual 3/	4.4	9.8	15.8	20.5	25.6	29.5	33.6	37.5	40.8	44.7	48.4	52.2
Customs direcorate	2.3	4.3	6.6	8.6	10.7	12.9	15.1	17.3	19.0	20.7	22.3	23.8
Tax directorate	1.6	4.5	7.8	10.1	12.4	13.9	15.6	17.2	18.5	20.1	21.6	23.2
Treasury	0.4	0.9	1.4	1.8	2.5	2.7	2.9	3.1	3.3	3.9	4.5	5.1
2001 – projections	4.2	9.5	16.4	22.2	27.6	32.8	37.4	41.8	46.1	49.8	54.0	58.6
Customs direcorate 4/	1.6	2.9	4.5	5.9	7.3	9.0	10.3	11.8	13.1	14.4	16.0	17.8
Tax directorate 4/	2.1	5.6	10.3	14.2	17.7	20.9	23.7	26.1	28.5	30.4	32.3	34.6
Treasury	0.5	1.0	1.6	2.1	2.6	2.9	3.4	3.9	4.5	5.0	5.7	6.2
Memorandum items:												
Total revenue												
2000 – projections 1/	...	...	19.0	25.3	31.3	37.4	42.8	48.2	53.3	58.7	64.0	69.0
2000 – actual 3/	5.3	11.7	18.7	24.3	30.3	34.9	39.8	44.4	48.6	53.3	58.0	62.7
2001 – projections	5.2	11.7	20.3	27.4	34.1	40.5	46.2	51.6	57.0	61.5	66.7	72.4

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

1/ Excluding withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports.

2/ Estimates as of April 2000 for January through March 2000.

3/ Projections for October through December 2000.

4/ Receipts from value-added tax on imports have been collected by the customs directorate until 2000. From 2001 onward, they will be collected by the tax directorate.

Central African Republic: Relations with the Fund
(As of October 31, 2000)

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

II. **General Resources Account**:	SDR million	%Quota
Quota	55.70	100.0
Fund holdings of currency	55.59	99.8
Reserve position in Fund	0.11	0.2

III. **SDR Department**:	SDR million	%Allocation
Net cumulative allocation	9.32	100.0
Holdings	0.11	1.2

IV. **Outstanding Purchases and Loans**:	SDR million	%Quota
Enhanced Structural Adjustment Facility (ESAF) arrangements	16.48	29.6

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (In millions of SDRs)	Amount drawn (In millions of SDRs)
ESAF/PRGF	07/20/1998	07/19/2001	49.44	16.48
Stand-By Arrangement	03/28/1994	03/27/1995	16.48	10.71
SAF	06/01/1987	05/31/1990	21.28	21.28

VI. Projected obligations to Fund (SDR Million; based on existing use of resources and present holdings of SDRs): [1]

	Overdue 10/31/2000	Forthcoming 2000	2001	2002	2003	2004
Principal	0.0	0.6	0.0	0.0	0.0	1.6
Charges/interest	0.0	0.4	0.5	0.5	0.5	0.5
Total	0.0	1.0	0.5	0.5	0.5	2.1

[1] The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

Central African Republic: Relations with the Fund
(As of October 31, 2000)

Exchange Rate Arrangement

The Central African Republic is a member of a monetary association with a common central bank, the Banque des Etats de l'Afrique Centrale (BEAC). The exchange system, common to all members, has operated without restrictions on the making of payments and transfers for current international transactions. The CFA franc is pegged to the euro at the fixed rate of 655.957 = € 1. On October 31, 2000, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 997.02.

Article IV Consultations

The Central African Republic is on the standard 12-month cycle. The last consultation discussions took place in Bangui during the periods November 13–December 3, 1999 and February 25–March 10, 2000, and were concluded in Washington during April 12–19, 2000. The staff report (SM/00/104, 06/28/00) was considered by the Executive Board on July 12, 2000.

Recent Technical Assistance

Date	Department	Purpose
October 1999	Statistics	To assess the situation in the fiscal, monetary, external, and real sectors.
December 1999	Fiscal Affairs	To prepare the introduction of the value-added tax (VAT) system planned for July 2000 and discuss specific measures to improve customs revenue collection.
April 2000	Fiscal Affairs	To monitor preparation for the introduction of VAT and help strengthen the tax directorate.
June 2000	Fiscal Affairs	To monitor preparation for the introduction of VAT and help strengthen the tax directorate.
October 2000	Fiscal Affairs	To monitor preparation for the introduction of VAT and help strengthen the tax directorate.
Oct.–Nov. 2000	Fiscal Affairs	To prepare the introduction of the VAT system and discuss specific measures to improve customs revenue collection.
December 2000	Fiscal Affairs	To prepare the introduction of the VAT system (planned for January 2001) and discuss specific measures to improve tax revenue collection.

Resident Representative

The Fund's resident representative office in Bangui was opened in October 1998. Mr. Kuoh Moukouri took up his position as full time Resident Representative in the Central African Republic in December 2000. He replaced Mr. Fiator, who had been the Fund's Resident Representative for both Chad and the Central African Republic since October 1998, with residence in N'Djamena.

Central African Republic: Relations with the World Bank Group

(As of October 31, 2000)

1. As of October 31, 2000, 29 IDA credits had been approved for the Central African Republic, totaling the equivalent of US$448.5 million. In the past, IDA's assistance was shared among adjustment lending, including three structural adjustment credits (1986, 1988, and 1990), a cotton sector adjustment operation (1987), and lending for investment and rehabilitation of the transport (1990), education (1980 and 1983), energy (1989), and agricultural sectors (1983 and 1992), as well as a credit for the management of natural resources (1990). Two technical assistance projects in support of economic management were also approved. Following the mutinies of 1996, the Central African Republic entered nonaccrual status on April 3, 1997. After accrual status was reinstated on April 4, 1998, the government agreed to focus its full attention on economic reform and to close the remaining portfolio, which was performing very badly.

2. Bank assistance strategy in the Central African Republic focuses on helping the government to improve public sector management and governance, particularly through fiscal consolidation, including the regular payment of salaries, and accelerated privatization. To that effect, IDA has approved a Fiscal Consolidation Credit for US$20 million in December 1999.

3. A Policy Support Project for US$8.0 million was approved in May 2000. It aims at helping with the implementation of the Fiscal Consolidation Credit, assisting the government in preparing its poverty reduction strategy, rebuilding the statistical database, strengthening the management of the mining sector, and improving the functioning of the technical committee in charge of the reform program. Resumption of investment lending, which could focus on social sectors and basic infrastructure, will be considered once a track record on economic and structural reform has been established.

4. IDA is preparing an operation to tackle the social and economic consequences of the high AIDS/HIV prevalence (the HIV infection rate is estimated at about 18 percent of the population).

Central African Republic: Relations with the World Bank Group

(As of October 31, 2000; in millions of U.S. dollars)

Summary of IDA lending operations [1]

	Approved amount	*Of which:* undisbursed
27 closed credits	431.8	
1 disbursing credit		
Fiscal consolidation Credit (FY 2000)	20.0	10.6
1 approved but not yet effective credit		
Policy Support Project (FY 2000)	8.0	8.0
Original principal	448.5	
Cancellations	32.9	
Disbursed	418.7	
Undisbursed	18.3	
Repaid	20.0	
Borrower's obligation	381.5	

Memorandum items:

Annual IBRD/IDA Operations	Gross disbursements	Repayments
FY 1985	10.5	0.1
FY 1986	13.5	0.1
FY 1987	27.0	0.1
FY 1988	32.6	0.1
FY 1989	32.0	0.3
FY 1990	35.5	0.4
FY 1991	61.8	0.5
FY 1992	16.8	0.7
FY 1993	23.8	0.8
FY 1994	39.0	1.3
FY 1995	29.1	1.2
FY 1996	25.0	1.3
FY 1997	14.9	1.6
FY 1998	0.5	0.7
FY 1999	2.7	5.2
FY 2000	8.2	4.2
FY 2001	0.0	0.8
Total	418.7	20.0

Source: World Bank.

[1] Discrepancies between the sum of disbursed and undisbursed amounts and the original principal are due to fluctuations in the exchange rate between the U.S. dollar and the SDR.

Central African Republic: Income and Social Indicators [1]

	1980 –85	1985 –90	1990 –95	1995 –2000	1997	1998	1999	2000 Est.
Total population (millions)	2.5	2.8	3.1	3.5	3.5	3.6	3.7	3.8
Population growth rate (in percent)	2.4	2.4	2.3	2.5	2.5	2.5	2.5	2.5
Overall fertility rate (percent)	5.7	5.6	5.4	4.9	4.9	...	...	...
Population density (per sq. km.)	3.9	4.4	5.0	5.5	5.5	5.6	5.7	5.8
Per capita GNP (U.S. dollar) [2]	305.0	405.0	425.0	325.0	320.0	310.0	290.0	...
Consumer price index (1995=100)	64.3	74.8	77.2	102.9	105.4	103.4	101.9	104.9
			(In percent, unless otherwise indicated)					
Public spending on health/GDP	...	...	1.3	2.0	2.0	...	...	...
Public spending on education/GDP	...	...	2.6	2.3	2.3	...	...	...
Gross primary attendance	74.0	68.0	61.0	...	60.0	57.0	...	...
Males	96.0	85.0	75.0	...	...	...	...	...
Females	53.0	52.0	48.0	...	...	...	...	...
Net primary attendance	59.0	57.0	53.0	...	42.0	44.0	...	...
Males	75.0	70.0	64.0	...	...	...	...	...
Females	43.0	45.0	42.0	...	...	...	...	...
Adult literacy rate	26.0	31.0	37.0	...	42.0	...	...	...
Distribution of households by main energy source of lighting								
Electricity	...	...	3.0	...	...	...	...	...
Kerosene	...	...	84.0	...	...	...	...	...
Others	...	...	13.0	...	...	...	...	...
Access to drinking water (relative to population)	...	...	27.6	...	...	...	30.0	26.0
Urban	...	...	44.0	...	...	...	25.0	...
Rural	...	...	19.7	...	...	...	35.0	...
Immunity rate (percent children under 12 months)								
Measles	...	...	70.0	...	...	...	...	...
DPT	...	...	40.0	...	...	...	...	...
Infant malnutrition rate (percent children under 5 years)	...	...	25.3	...	23.0	...	...	...
AIDS infection rate	...	...	...	...	...	...	15.0	18.0
Life expectancy at birth (years)	46.3	47.6	47.6	...	49.5	49.5	49.5	...
Infant mortality rate (per 1,000)	115.6	103.1	100.1	...	98.0	...	...	...
Mortality rate, children under 5 years (per 1,000)	...	212.0	157.0	...	160.0	...	...	...
Maternal mortality rate (per 100,000)	...	...	948.0	...	649.0	...	...	...

Sources: C.A.R. authorities; World Bank; United Nations Children's Fund (UNICEF); and staff estimates.

[1] Data availability across sectors is very limited.
[2] Method used in the *World Bank Atlas*.