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AGENDA

EBS/84/121
Correction 1

CONFIDENTIAL

June 27, 1984

To: Members of the Executive Board

From: The Acting Secretary

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

The following corrections have been made in EBS/84/121
(5/31/84):

Page 1, para. 2, line 5: for "As of May 15, 1984" read "As of
June 30, 1984"

line 7: for "to SDR 24.6 million, or 80.8 percent"
read "to SDR 24.1 million or 79.2 percent"

line 9: for "to 55.5 percent" read "to 53.9 percent"

line 12: for "to 197.3 percent" read "to 196.0 percent"

last line: for "end of June 1985" read "end of July 1985"

Page 2: revised Table 1

Page 4, Table 2, first column, line 1: for "-3.0" read "-3.9"

Corrected pages are attached.

Att: (3)

I. Introduction

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

In the attached letter dated May 22, 1984 from the Minister of Economy and Finance, the Government of the Central African Republic requests a one-year stand-by arrangement in the amount of SDR 15 million, equivalent to 49.3 percent of quota; all of this amount would be from the Fund's ordinary resources. As of June 30, 1984 the Fund's holdings of the Central African Republic's currency that are subject to repurchase amounted to SDR 24.1 million, or 79.2 percent of quota; excluding holdings of SDR 7.7 million under the compensatory financing facility, they were equivalent to 53.9 percent of quota. As shown in Table 1 on the schedule of proposed purchases and repurchases, if the full amount of the arrangement is purchased, the Fund's total holdings of the Central African Republic's currency would rise to 196.0 percent of quota by the end of July 1985.

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

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

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

Outstanding at beginning of arrangement June 30, 1984	1984			1985		
	July	Aug.- Oct.	Nov.- Dec.	Jan.- Feb.	Mar.- Apr.	May- July <u>1/</u>
(In millions of SDRs)						
Transactions under tranche policies (net) <u>2/</u>	2.0	1.0	2.0	-1.0	2.5	3.0
Purchases	3.0	2.0	3.0	--	3.5	3.5
Ordinary resources	(3.0)	(2.0)	(3.0)	(--)	(3.5)	(3.5)
Enlarged access resources	(--)	(--)	(--)	(--)	(--)	(--)
Repurchases	-1.0	-1.0	-1.0	-1.0	-1.0	-0.5
Ordinary resources	(-1.0)	(-1.0)	(-1.0)	(-1.0)	(-1.0)	(-0.5)
Enlarged access resources	(--)	(--)	(--)	(--)	(--)	(--)
Transactions under special facilities (net) <u>3/</u>	-1.1	-1.1	--	-1.1	-1.1	--
Purchases	(--)	(--)	(--)	(--)	(--)	(--)
Repurchases	(-1.1)	(-1.1)	(--)	(-1.1)	(-1.1)	(--)
Total Fund credit outstanding (end of period)	24.07	24.97	24.87	26.87	24.77	29.17
Under tranche policies <u>2/</u>	16.37	18.37	19.37	21.37	20.37	25.87
Special facilities <u>3/</u>	7.70	6.60	5.50	5.50	4.40	3.30
(As percent of quota)						
Total Fund credit outstanding (end of period)	79.2	82.1	81.8	88.4	81.5	96.0
Under tranche policies <u>2/</u>	53.9	60.4	63.7	70.3	67.0	85.1
Special facilities <u>3/</u>	25.3	21.7	18.1	18.1	14.5	10.9

Source: IMF, Treasurer's Department.

1/ July 6, 1985.

2/ Ordinary and enlarged access resources.

3/ Compensatory financing facility.

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

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

II. Recent Economic Developments

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

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

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

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

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

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

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

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

1/ Based on values expressed in SDRs.2/ Excluding imports and re-exports of coffee.3/ Based on prices in U.S. dollars.4/ Import-weighted.5/ Excluding the exceptional resources from the exchange rate guarantee scheme, budgetary revenue is projected to increase by about 14 percent in 1984.6/ With M₂ calculated as annual averages of quarterly data.7/ Excluding grants and investment outlays externally financed outside the budget.8/ Excluding official transfers.9/ Excluding CFAF 5.1 billion of 1982 debt cancellation.10/ Scheduled payments, in percent of exports of goods and nonfactor services.11/ Including SDR 1.4 million of nondebt arrears.