FOR AGENDA

EBS/07/108

September 14, 2007

To: Members of the Executive Board

From: The Secretary

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

Attached for consideration by the Executive Directors is the staff report for the 2007 Article IV consultation with the Central African Republic, the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, the Central African Republic's request for a waiver of nonobservance and modification of performance criteria, and the financing assurances review. A draft decision appears on pages 21–25. This paper, together with the decision point document for the enhanced Initiative for Heavily Indebted Poor Countries for the Central African Republic (EBS/07/106, 9/12/07), is tentatively scheduled for discussion on **Friday, September 28, 2007**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Central African Republic indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. York (ext. 36895), Mr. Kinoshita (ext. 39798), and Ms. Schumacher (ext. 39416) in AFR.

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, September 24, 2007; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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CENTRAL AFRICAN REPUBLIC

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

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

Approved by Hugh Bredenkamp and Mark Plant

September 13, 2007

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

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EXECUTIVE SUMMARY

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

Recent developments and prospects

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

Policies to enhance external viability

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

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

I. BACKGROUND

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

2. **The formal sector has been declining for years, making it hard to mobilize domestic revenue and leading to a significant accumulation of domestic and external public debt.** At about 8 percent of GDP, the C.A.R.'s tax revenue ratio is among the lowest for developing countries. At the end of 2006, the country's public and publicly-guaranteed external debt was estimated at US$ 726 million in NPV terms, equivalent to about 350 percent of exports of goods and services and 518 percent of government revenue; domestic debt was about 22.6 24 percent of GDP.

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

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

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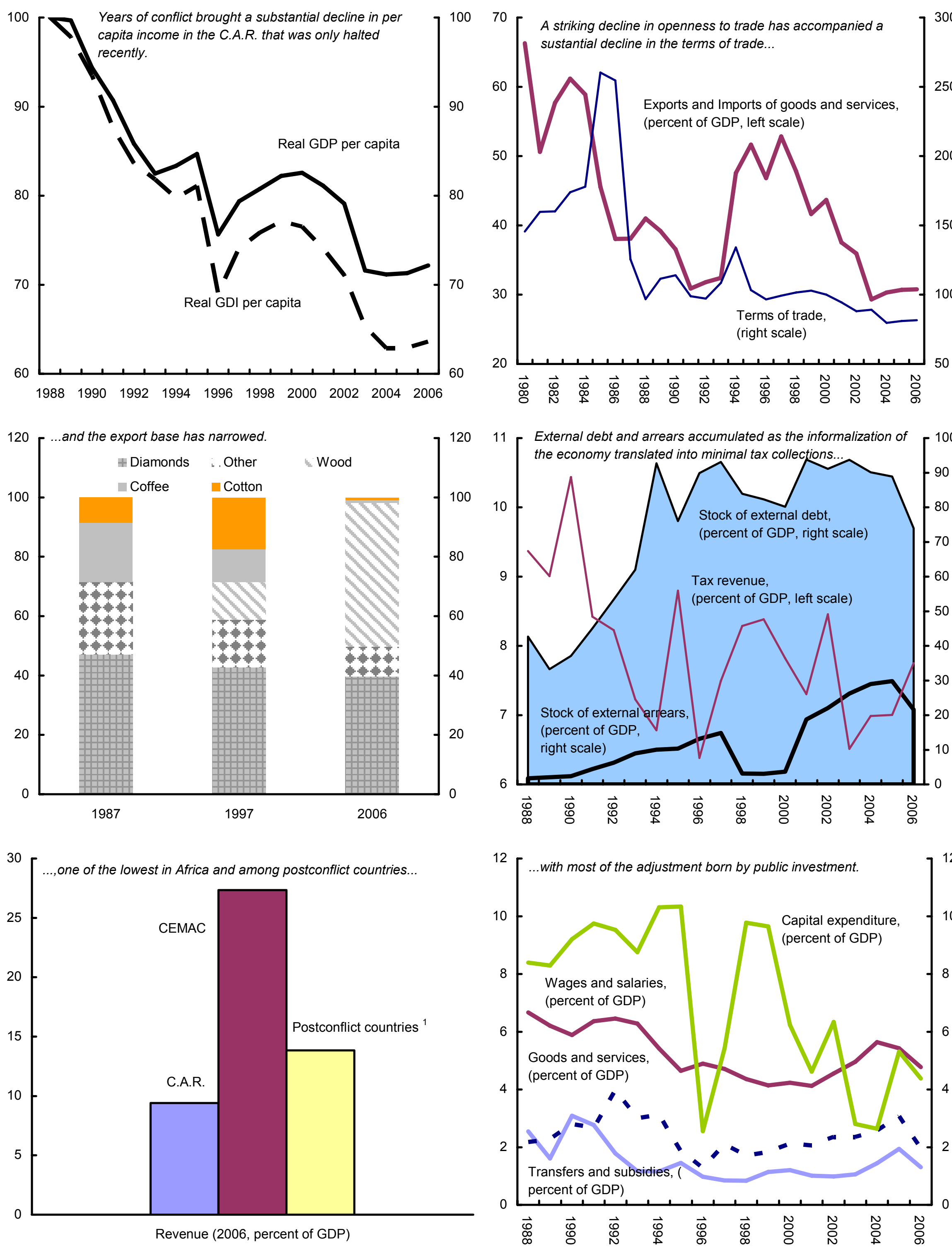
[1] The staff understands that the authorities are making a good faith effort to reach a collaborative agreement with its other bilateral and commercial creditors; and it is expected that debt to these creditors will be rescheduled on terms at least as favorable as those granted by the Paris Club.

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



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

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

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

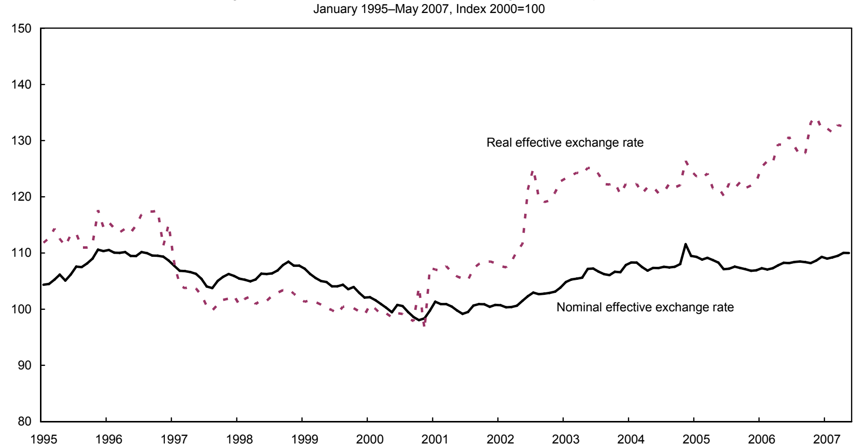
5. **The authorities have been receptive to the Fund's policy advice within the context of both Fund-supported programs and surveillance.** In line with this advice, the authorities have been making a determined effort to consolidate peace and security, establish the conditions for strong growth, and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

II. Recent Developments and Prospects

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

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

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



Source: Internatiomal Financial Statistics, IMF.

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

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

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

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

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

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

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

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

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

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

A. Program Performance

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

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

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

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

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

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

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

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

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

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

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

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

B. Short-Term Outlook

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

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

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

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

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

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

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

III. Enhancing External Viability

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

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

A. Domestic and External Stability

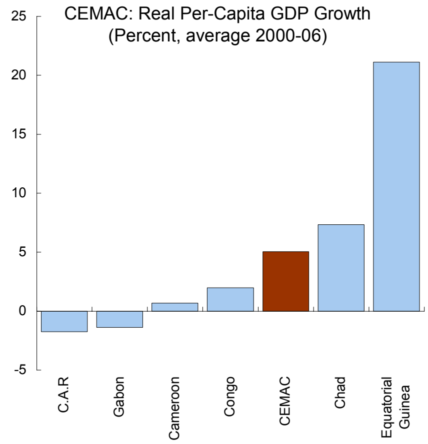
19. **Over a long period, the C.A.R. openness to trade has been declining and its export base narrowing, contributing to chronic external current account deficits.** The authorities suggested that these deficits are not heavily influenced by movements in or the current level of the REER, which has been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

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

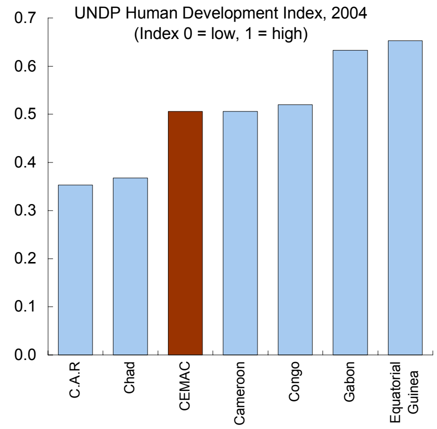
[9] The regional central bank, BEAC, sets a maximum lending rate and a minimum deposit rate for banks in the CEMAC region. However, because there are insufficient lending opportunities, bank deposit rates rarely deviate from the minimum.

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

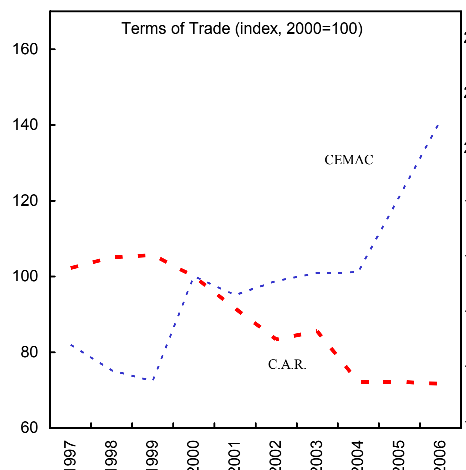
Development in the C.A.R. has fallen futher behind its CEMAC partners...



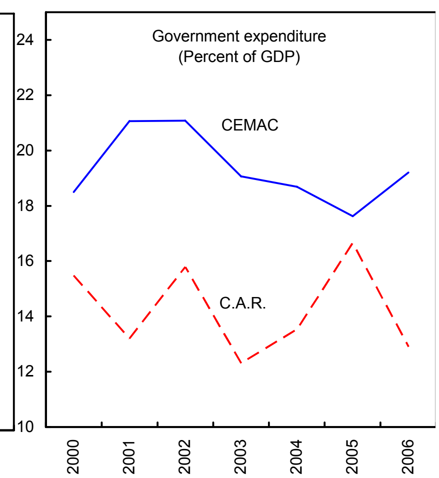
...reflected in both weaker income and human development indicators.



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

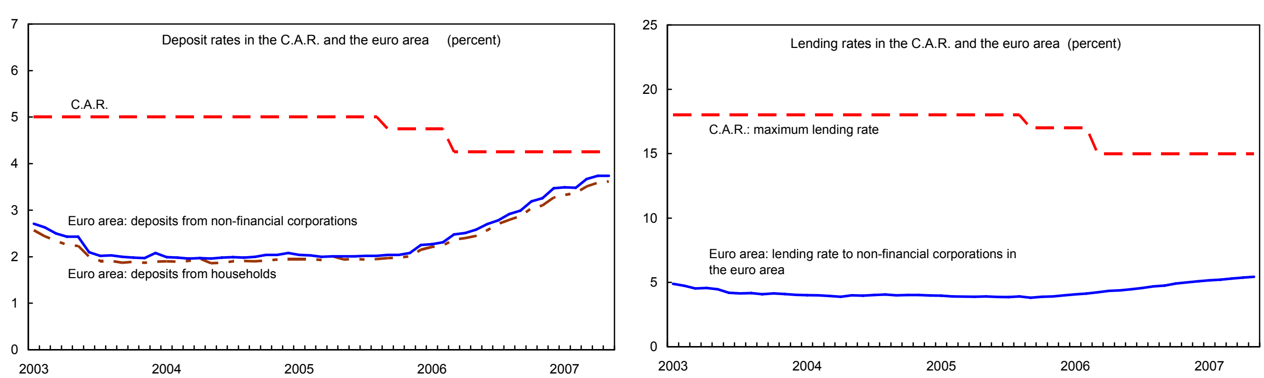


…and compressed expenditures have provided limited support to growth.



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

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



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

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

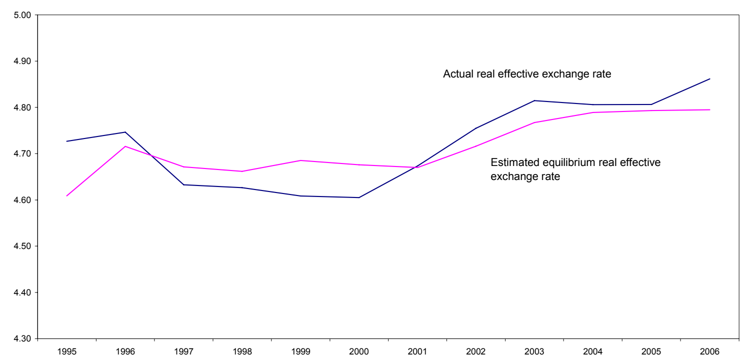
The staff examined the relationship between the C.A.R.'s REER and its long-term equilibrium level to test for significant misalignment, using the multivariate cointegration procedures developed by Johansen (1995). Using annual observations for 1980 through 2006, the study tests for a cointegrating (long-run)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

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

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

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

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



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

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

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

B. Accelerating Growth

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

Medium-Term Fiscal Strategy

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

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

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

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

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

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

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

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

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

Tapping Financial Markets

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

Scaling Up Aid Inflows

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

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

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

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

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

Box 2. The Medium-Term Outlook and Capacity Constraints

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

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

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

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

Central African Republic: Alternative Medium-Term Scenarios

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

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

Improving the Business Climate

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

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

Intensifying Sub-Regional Integration

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

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

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

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

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

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

Capacity Building

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

IV. Staff Appraisal

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

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

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

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

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

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

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

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

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

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

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

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

Proposed Decision

1. The Central African Republic has consulted with the Fund in accordance with paragraph 4(c) and 5(d) of the three-year arrangement for the Central African Republic under the Poverty Reduction and Growth Facility (PRGF) (EBS/06/164, 12/8/06) to review program implementation and financing assurances.

2. The letter of the Prime Minister dated September 7, 2007 ("the Letter") shall be attached to the three-year PRGF Arrangement for the Central African Republic, and the letter of the Prime Minister and Minister of Finance and Budget dated November 30, 2006 and its attachments shall be read as supplemented and modified by the Letter, together with its attachments.

3. Accordingly, the PRGF Arrangement for the Central African Republic shall be amended as follows:

(a) A new paragraph 2(a) shall be added as follows:

"During the second year of the arrangement:

(i) the third disbursement, in an amount equivalent to SDR 3.1 million, will be available on or after March 28, 2008, at the request of the Central African Republic and subject to paragraphs 4 and 5 below; and

(ii) the fourth disbursement, in an amount equivalent to SDR 3.1 million, will be available on or after September 26, 2008, at the request of the Central African Republic and subject to paragraphs 4 and 5 below.

(b) A new Paragraph 4(a)(1) shall be added as follows:

"(a)(1) The Central African Republic will not request the third disbursement specified in paragraph 2(a)(i) if the Managing Director of the Trustee finds that the data as of December 31, 2007, indicate that the ceilings or floors specified in paragraph 4(a)(i) through 4(a)(v), as set out in Table 1 of the Letter and further specified in paragraphs 3-17 of the TMU, was not observed, or;".

(c) A new paragraph 4(b)(6) shall be added as follows:

"(b)(6) with respect to the third disbursement, the Central African Republic, by September 30, 2007, has not carried out its intentions to begin an external audit of all sources of government revenue (collected through ministries and agencies) during the period July 1 2005 to December 31, 2006 to help ensure that all revenue has been dutifully reported to the state treasury, and to help clarify where reporting can be strengthened as set out in Table 2 of the Memorandum and further specified in paragraph 23 of the Memorandum, or;".

(d) A new paragraph 4(b)(7) shall be added as follows:

"(b)(7) with respect to the third disbursement, the Central African Republic, by December 31, 2007, has not carried out its intentions to implement a new petroleum product pricing formula with parameters set to ensure full recovery of all costs, distribution margins, and taxes, and that avoids the need for further budget subsidies as set out in Table 2 of the Memorandum and further specified in paragraph 16 of the Memorandum, or;".

(e) A new paragraph 4(b)(8) shall be added as follows:

"(b)(8) with respect to the third disbursement, the Central African Republic, by December 31, 2007, has not carried out its intentions to reduce the stock of arrears by at least CFAF 1 billion, net of uncollectible tax arrears as set out in Table 2 of the Memorandum and further specified in paragraph 21 of the Memorandum, or;".

(f) A new paragraph 4(c)1 shall be added as follows:

"(c)(1) until the Trustee has determined, with respect to the third disbursement, that the second review of the Central African Republic's program, referred to in paragraph 10 of the Letter has been completed."

4. The Fund decides that:

(a) The first program review contemplated in paragraph 4(c) and the financing assurances review contemplated in paragraph 5(d) of the PRGF arrangement for Central African Republic are completed.

(b) The Central African Republic may request the second disbursement under the arrangement in an amount equivalent to SDR 3.1 million, notwithstanding the nonobservance of:

(i) the end-June 2007 quantitative performance criterion on the ceiling on wages, salaries and bonuses specified in paragraph 4(a)(ii) of the arrangement;

(ii) the end-June 2007 quantitative performance criterion on the floor on domestic primary balance specified in paragraph 4(a)(iii) of the arrangement;

(iii) the end-June 2007 quantitative performance criterion on the changes in net claims of the commercial banking system on the government specified in paragraph 4(a)(v) of the arrangement;

(iv) the end-February 2007 structural performance criterion on completion of the external audit of the operations of the one-stop customs window in Douala (*Guichet Unique)* specified in paragraph 4(b)(1) of the arrangement; and

(v) the end-June 2007 structural performance criterion on completion of the external audit for the validation of the domestic payments arrears, which accrued during the period 1998-2004 as specified in paragraph 4(b)4 of the arrangement,

on the condition that the information provided by the Central African Republic on performance under these criteria is accurate.

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

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

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] Program supported by the Poverty Reduction and Growth Facility, approved in December 2006 (EBS/06/164).
[2] The differences in growth rates between the program and projections for 2007 reflect the different base used in their calculation. For the program, the calculation is based on a figure for 2006 which did not include the arrears clearance operations of the World Bank and African Development Bank undertaken in December 2006; this operation is included in the projection for 2007.
[3] In percent of broad money at beginning of the period.
[4] Excludes grants, interest payments, and externally financed capital expenditure.
[5] Excludes grants and externally financed capital expenditure.
[6] In percent of exports of goods and services.
[7] Comprises domestic arrears and government debt to BEAC and commercial banks.

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

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

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

[1] Program supported by the Poverty Reduction and Growth Facility, approved in December 2006 (EBS/06/164).

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

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

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

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

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

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

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

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

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] Program supported by the Poverty Reductioin and Growth Facility, approved in December 2006 (EBS/06/164).
[2] Increase in 2006 reflects the capitalization of unpaid interest due to change in BEAC accounting rules.
[3] Excludes grants, interest payments, and externally financed capital expenditure.
[4] Reflects arrears clearance by the World Bank and the AfDB (CFAF 47.5 billion) and the increase in arrears to bilateral and a few multilateral creditors (CFAF 6.9 billion).
[5] Reflects Paris Club rescheduling and moratorium agreement in April 2007.
[6] For 2007 the amount corresponds to the financing required to service external debt falling due to external creditors other than the IMF, World Bank, AfDB, and Paris Club. For 2008-09 it also includes debt service to the World Bank and AfDB.
[7] This gap is equivalent to the proposed PRGF disbursement.

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

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

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] Program supported by the Poverty Reduction and Growth Facility, approved in December 2006 (EBS/06/164).
[2] Increase in 2006 reflects the counterpart for the unpaid interest due to change in BEAC accounting rules.
[3] Excludes grants, interest payments, and externally financed capital expenditure.
[4] Reflects arrears clearance by the World Bank and the AfDB (CFAF 47.5 billion) and the increase in arrears to bilateral and a few multilateral creditors (CFAF 6.9 billion).
[5] Reflects Paris Club rescheduling and moratorium agreement in April 2007.
[6] For 2007 the amount corresponds to the financing required to service external debt falling due to external creditors other than the IMF, World Bank, AfDB, and Paris Club. For 2008-09 it also includes debt service to the World Bank and AfDB.
[7] This gap is equivalent to the proposed PRGF disbursement.

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

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

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

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

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

[3] The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally financed capital expenditures. Adjustors equivalent to CFAF 3 billion and CFAF 2.2 billion were applied for the first and second quarter respectively to reflect shortfalls in expected donor assistance (see the TMU).

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

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

[6] These performance criteria will be monitored continuously.

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

[8] Amount paid in first quarter of 2007 corresponds to arrears accrued in 2005. Targets for end-September and end-December consist of payment of arrears accumulated during 1998–2004 and predating 1998. As of end-June 2007, these arrears amounted to CFAF 109.8 billion and were validated by the Domestic Validation Committee and an external audit.

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

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

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

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

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

[1] Program supported by the Poverty Reduction and Growth Facility, approved in December 2006 (EBS/06/164).

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

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

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

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

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

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

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

Public expenditure management

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

Tax administration

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

Customs administration

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

Statistics

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

APPENDIX

Bangui, September 7, 2007

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

Dear Managing Director:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. Yours sincerely,

/s/

Elie Doté
Prime Minister

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

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

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

1/ Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, TMU, for more details).
2/ Including withholding taxes on government salaries (see TMU).
3/ The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditures. An adjustor applies for any unplanned/or shortfalls of grants and loans (see the TMU).
4/ Wage arrears (including unpaid pensions and bonuses) and arrears on goods and services, excluding arrears on utility consumption. Arrears on goods and services include unpaid spending commitments vis-à-vis suppliers as well as deposit accounts of enterprises in the Treasury.
5/ Contracted or guaranteed by the government (see the TMU).
6/ These performance criteria will be monitored on a continuous basis.
7/ Total spending on health and education including wages and salaries and goods and services.
8/ End-2006 stock corresponds to the amount validated by the Domestic Arrears Validation Committee and is subject to an external audit; they include arrears which accrued during 1998-2004 and those which pre-date 1998.
9/ Amount paid in first quarter of 2007 corresponds to arrears accrued in 2005.