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EBS/88/228

CONFIDENTIAL

November 9, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Central African Republic - Staff Report for the 1988 Article IV Consultation and Request for Arrangement Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1988 Article IV consultation with the Central African Republic and its request for the second annual arrangement under the structural adjustment facility. Draft decisions appear on page 42.

This subject, together with the policy framework paper for the Central African Republic (EBD/88/310, 11/8/88), will be brought to the agenda for discussion on a date to be announced.

Mr. Fiator (ext. 8731) or Mr. Bourhane (ext. 8666) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Staff Report for the 1988 Article IV Consultation and Request for Arrangement Under the Structural Adjustment Facility

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

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

Approved by G.E. Gondwe and H.B. Junz

November 8, 1988

I. Introduction

In the attached letter dated June 27, 1988, the Government of the Central African Republic (C.A.R.) requests the second annual arrangement under the structural adjustment facility (SAF) in an amount equivalent to SDR 9.12 million (30 percent of quota), in support of a program for the period July 1988-June 1989, and reviews policies and performance under the previous arrangement. Discussions on the requested arrangement and the 1988 Article IV consultation were initiated in Bangui in February/March 1988, continued in May 1988, and were completed when a C.A.R. delegation visited Washington in July 1988. 1/ A detailed description of the economic policies and objectives of the Government's medium-term program for the period 1988/89-1990/91 is set forth in the updated policy framework paper (PFP), which has been prepared by the authorities in collaboration with the staffs of the Fund and the World Bank (EBD/88/320, 11/8/88). This PFP updates and extends the original PFP (contained in EBS/87/96, 5/4/87), which covered the period 1987-89. It has been transmitted both to the Managing Director of the Fund and to the President of the World Bank, and will be considered by the Bank's Executive Board, at a meeting of the Committee of the Whole, in late November 1988.

1/ The February/March mission included Messrs. Fiator (head), Bourhane, Ndoye (all AFR), Krichene (INST) and Ms. Linares (secretary - AFR). The May mission comprised Messrs. Fiator (head), Bourhane (both AFR), Le Marois (STAT) and Ms. Groen (secretary - ADM). Mr. van den Boogaerde, the Fund resident representative, took part in the discussions. The C.A.R. delegation was headed by Mr. Wazoua, Minister of Economy, Finance, Planning and International Cooperation. The visits to Bangui overlapped with World Bank missions.

On June 1, 1987, the Executive Board approved the Central African Republic's request for a three-year arrangement and the first annual arrangement under the SAF together with a one-year stand-by arrangement for the equivalent of SDR 8 million (EBS/87/96, 5/4/87). The loan under the first annual SAF arrangement, in an amount equivalent to SDR 6.08 million (20 percent of quota), was disbursed shortly thereafter and the Central African Republic effected a purchase, equivalent to SDR 1 million under the stand-by arrangement. No other purchases were made under the stand-by arrangement, because from end-June onward, the performance criteria related to the net reduction in external payments arrears were not observed, owing to large shortfalls in budgetary revenue. Moreover, the Government extended its guarantee to a CFAF 1 billion nonconcessional loan contracted by a local commercial bank from its foreign shareholder banks to restructure its financial situation. As the objectives of the program could not be attained, the review under the stand-by arrangement could not be completed, and the program became inoperative.

If the loan under the second-year SAF arrangement is disbursed, and if repurchases are effected on schedule 1/, the Central African Republic's financial obligations to the Fund would amount to 100.8 percent of quota by end-June 1989 (Table 1).

The Central African Republic is on the standard 12-month consultation cycle. On March 4, 1987 the Executive Board considered the staff report for the 1986 Article IV consultation (EBS/87/24, 2/6/87) and the report on recent economic developments (SM/87/56, 2/2/87). A summary of Executive Directors' views is contained in Section III, below. The Central African Republic continues to avail itself of the transitional arrangements of Article XIV. 2/

The collaboration of the Fund and World Bank staffs has been close with respect to the Central African Republic. On September 12, 1986, the World Bank approved a first structural adjustment loan for the Central African Republic equivalent to SDR 26.3 million. A second structural adjustment loan in an amount of SDR 28.9 million, was approved by the World Bank Executive Board on June 9, 1988. (A summary of IDA credits to the Central African Republic is given in Table 2).

This report includes the following appendices: the proposed second annual arrangement under the SAF, together with the transmittal letter of request and memorandum on economic and financial policies from the Minister of Finance (Appendix I); summaries of the Central African

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1/ As the Central African Republic continues to experience difficulties in remaining current in its financial obligations to the Fund, the Government will earmark the domestic counterpart of the SAF loan for meeting its financial obligations to the Fund during the program period.

2/ A notification of delay in concluding the 1988 Article IV consultation was issued on April 28, 1988.

Table 1. Central African Republic: Fund Position During Period of Arrangement, 1988/89 1/

	Outstanding on August 31, 1988 2/	1988/89 Sept. 1- Nov. 30 3/	Dec. 1- Feb. 28	March 1- June 30
		(In millions of SDRs)		
Transactions under tranche policies (net)	--	-3.25	-1.94	-2.88
Purchases	--	--	--	--
Repurchases	.81	-3.25	-1.94	-2.88
Ordinary resources	.81	-2.69	-1.94	-2.25
Enlarged access resources	--	-0.56	--	-0.63
Structural adjustment facility loans	--	9.12	--	--
Total Fund credit outstanding (end of period)	29.21	35.08	33.14	30.26
Under tranche policies	23.13	19.88	17.94	15.06
Under structural adjustment facility	6.08	15.20	15.20	15.20
		(In percent of quota)		
Total Fund credit outstanding (end of period)	96.06	115.39	109.01	99.54
Under tranche policies	76.06	65.39	59.01	49.54
Under structural adjustment facility	20.00	50.00	50.00	50.00
Memorandum items:				
Trust Fund loans outstanding (end of period)				
In millions of SDRs	2.96	2.30	1.74	1.58
As percent of quota	9.72	7.57	5.72	5.20

Source: IMF, Treasurer's Department.

1/ No outstanding holdings or transactions anticipated under special facilities.
2/ Includes overdue repurchases of SDR 0.81 million and overdue Trust Fund of SDR 0.50 million due August 1988.
3/ Assumes repayment of overdue obligations.

Table 2. Central African Republic: IDA Credits 1/ and Debt Service, 1986-92

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991	1992
			Projections				
IDA loans (net)	19.076	28.098	12.719	8.761	6.828	3.193	2.146
Disbursements	19.208	28.208	12.918	9.068	7.250	3.806	3.077
Amortization	0.132	0.110	0.199	0.307	0.422	0.613	0.931
Interest payments	0.622	0.899	1.173	1.172	1.168	1.096	1.093

Source: World Bank.

1/ Credits approved as of December 31, 1987.

Republic's relations with the Fund (Appendix II) and the World Bank Group (Appendix III); basic data (Appendix IV); and statistical issues (Appendix V).

II. Background and Recent Economic Developments

1. Background

During 1981-86 the Central African Republic's efforts to adjust its economy, supported by four stand-by arrangements from the Fund, were only partly successful. Budgetary policy, which was the cornerstone of the adjustment programs, continuously fell short of target owing in part to weak administrative capacity and delays in effecting tax reform, compounded by recurring droughts and unfavorable external developments. More recently, the rigidity of the exchange rate policy in the context of a monetary union also contributed to the unfavorable financial developments. The combined effects of the recent appreciation of the CFA franc and the fall in world market prices have resulted in a substantial negative impact on the budget as it covered the large losses of the cotton and coffee sector activities.

A number of underlying structural problems also impeded economic growth. Among these problems were a narrow export base with a few traditional exports; the excessive dependence of the tax system on import-related taxes and a lack of buoyancy in government revenue; negative or low domestic savings; a large and inefficient public enterprise sector; low returns on public sector investments; and an underdeveloped infrastructure, including insufficient energy supply and an inadequate transportation system. In addition, overstaffing continued in the civil service, and a mismatch persisted between the education system and the basic manpower needs of the country.

To address these structural problems, in 1986/87 the authorities initiated a wide-ranging structural adjustment program, supported by a structural adjustment loan from the World Bank and by arrangements under the SAF. As set out in the original PFP, the economic strategy focused on the pursuit of agriculture-led growth; a further opening of the economy to market forces; a continued retrenchment of the public sector; and a mobilization of financial resources on concessional terms to support a comprehensive five-year plan that was endorsed by donors at a round table conference sponsored by the United Nations Development Programme (UNDP), held in Geneva in June 1987. In the trade and industrial area, impediments to private investment were to be removed, and the price system was to be significantly liberalized. Efforts to increase domestic resource mobilization were to include measures to improve the profitability of public enterprises and a major tax reform designed to raise the ratio of budgetary revenue to GDP. To provide a stable financial environment for these actions, the Government undertook to implement cautious financial policies. Budgetary policy was to be tightened, the access of the Treasury to bank credit reduced, and interest rates maintained positive in real terms.

The first annual SAF program, which covered the period June 1987-May 1988, included a specific timetable of reform measures to be implemented in the first of the three years. This program coincided with a one-year stand-by arrangement. The performance criteria under the stand-by arrangement served as the quantitative benchmarks under the SAF. 1/ The program also contained a number of structural benchmarks, comprising the settlement of cross-debt arrears between the Government and the public enterprise sector and restructuring measures for priority public enterprises.

2. Performance under the first annual program

a. Economic and financial developments

In 1987, despite the implementation of a large number of structural measures, the main macroeconomic targets were not attained (Table 3). Real GDP is estimated to have increased at about the same rate as in 1986, 1.5 percent, or less than half the program target of 3.3 percent; the overall budget deficit (on a commitment basis, excluding grants) reached 14.4 percent of GDP as against a target of 12.2 percent; and the external current account deficit deteriorated to 19.8 percent of GDP instead of the targeted 16 percent. However, the GDP deflator declined by 3.5 percent, following the price decreases for exports and imports, and a fall in the consumer price index (CPI).

Owing to favorable weather conditions in conjunction with increased producer prices, the output of coffee, the second leading export commodity, rose markedly during 1987. However, because of a lack of budgetary resources to support the official producer price during the first half of 1987, the purchase of coffee berries from farmers was delayed. Later in the year, the price support made available through the disbursement of a foreign loan led to a resumption of purchases from farmers. Despite the release of coffee stocks accumulated at the end of the preceding year, the export volume was 14.2 percent less than assumed under the program. Moreover, coffee unit value in local currency terms fell by 46 percent. The export volumes of other commodities and their unit values decreased as well. The consequence of these unanticipated developments was a sharp reduction in incomes (particularly in the rural areas) and depressed economic conditions, which combined with delays in implementing tax reforms, led to shortfalls in budgetary revenue. The latter, as well as the recurrence of extrabudgetary outlays contributed to the deterioration in the fiscal position. The overall budgetary deficit (on a commitment basis, excluding grants) is estimated at

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1/ These benchmarks and the status of their implementation are summarized in Table 4.

Table 3. Central African Republic: Selected Economic and Financial Indicators, 1985-92

	1985	1986	1987 Prog.	1987 Est.	1988 Prog.	1989	1990	1991	1992
							Projections		
(Annual percentage change)									
National income and prices									
GDP at constant prices	3.8	1.5	3.3	1.4	2.0	2.6	3.0	3.2	4.00
GDP deflator	9.3	3.1	4.5	-3.5	1.0	2.0	3.0	3.5	3.5
Consumer prices (lower income)	10.4	2.2	...	-7.0	...	...	...	...	...
External sector									
Exports, f.o.b. (in CFA francs)	16.8	-23.4	-1.1	-12.8	-1.1	14.6	14.2	9.4	7.5
Imports, f.o.b. (in CFA francs)	23.4	-12.4	4.5	-7.3	-2.3	-0.3	6.2	4.4	4.9
Export volume	9.1	-17.4	4.4	3.8	-2.9	8.6	9.9	5.9	2.5
Import volume	19.9	0.8	5.2	-5.1	-5.7	-5.6	2.4	0.1	2.3
Terms of trade (deterioration -)	4.0	6.6	-4.7	-14.3	-1.7	-0.2	0.4	-1.0	2.3
Nominal effective exchange rate (depreciation -) 1/	7.5	6.4	...	5.7					
Real effective exchange rate (depreciation -) 1/	2.4	8.8	...	0.4					
Government sector									
Total revenue	5.5	-3.7	12.8	-4.9	18.2 2/	-0.3	7.9	7.0	7.8
Total expenditure 3/	28.7	2.3	6.9	-0.5	6.6	-8.1	-1.0	4.7	6.2
(Changes in percent of beginning-of-period money stock)									
Money and credit									
Domestic credit	11.6	-0.2	5.2	-5.6	2.6	1.9	-0.4	4.5	6.9
Government (net)	3.1	5.2	-2.9	-1.3	-2.1	-0.6	-3.5	-0.1	0.2
Of which: Treasury (net)	(2.9)	(7.6)	(2.3)	(0.7)	(0.8)	(0.6)	(-3.0)	(--)	(0.2)
Private sector	8.5	-5.4	8.1	-4.3	4.8	2.6	3.1	4.6	6.8
Broad money	8.5	4.1	9.7	5.0	3.0	4.7	6.1	6.8	7.6
Velocity (GDP relative to M_2)	5.6	5.6	5.6	5.2	5.2	5.2	5.2	5.2	5.2
Interest rate on time deposits 4/	8.0	8.0	8.0	8.0	...	...	...	...	...
(In percent of GDP)									
External current account deficit (-) 5/	-17.9	-17.0	-16.0	-19.8	-18.4	-15.1	-13.9	-13.0	-12.6
Official transfers	10.2	10.0	8.2	11.0	10.6	10.0	9.6	9.1	8.5
External debt									
Total outstanding (including net use of Fund credit)	41.4	42.9	49.3	49.1	55.1	56.4	55.7	55.0	55.0
Overall fiscal deficit (-) 3/									
Excluding grants									
Commitment basis	-13.1	-13.6	-12.2	-14.4	-13.6	-10.9	-9.1	-8.6	-8.3
Cash basis	-13.8	-13.6	-12.6	-13.4	-17.1	-11.5	-9.5	-8.9	-8.3
Including grants									
Commitment basis	-8.1	-8.5	-8.3	-8.3	-6.8	-5.4	-3.7	-3.6	-4.0
Cash basis	-8.7	-8.5	-8.7	-7.3	-10.3	-5.9	-4.1	-3.9	-4.0
Domestic financing	0.8	1.3	0.6	0.2	1.0	0.3	-0.2	0.3	0.3
Foreign financing (net)	12.9	12.4	12.0	13.3	13.8	9.8	8.6	8.8	8.5
Of which: budgetary grants	(1.1)	(1.2)	(1.1)	(2.0)	(1.9)	(1.4)	(1.4)	(1.3)	(1.1)
Gross domestic investment	15.5	14.6	...	13.0	11.7	11.2	11.3	11.5	11.3
Gross domestic savings	0.8	0.2	...	-3.3	1.5	1.4	3.0	1.8	4.2
(In percent of exports of goods and nonfactor services)									
Scheduled debt service									
Including the Fund	18.1	18.3	19.3	22.6	28.0	27.9	22.5	18.7	19.3
Excluding the Fund	11.8	14.3	16.8	19.8	22.7	21.8	18.9	17.2	18.1
(In millions of SDRs)									
Overall balance of payments Before debt relief	-13.5	1.6	9.2	-7.1	-6.9	-5.1	-4.8	2.4	1.8
Overall balance of payments After debt relief 6/	-5.4	9.1	14.9	-0.7	-6.9	-5.1	-4.8	2.4	1.8
Gross official reserves (months of imports, c.i.f.)	2.3	2.7	3.8	3.4	4.1	4.1	3.8	3.7	...
Outstanding external arrears (end of period)	6.9	1.9	--	13.6	--	--	--	--	--

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

1/ Trade-weighted.
2/ This increase is due to the abnormally low level of tax revenue in 1987 and the inclusion of CFAF 3 billion in the 1988 tax revenue, following the regularization of cross-debt arrears between the Treasury and the public enterprises.
3/ Including foreign-financed investment outlays and on-lending.
4/ For more than two years' deposit; negotiable over CFAF 10,000,000.
5/ Excluding official transfers.
6/ In 1987: rescheduling of postal arrears.

CFAF 46.5 billion (14.4 percent of GDP) in 1987, as against a program target of 12.2 percent of GDP. The Treasury reduced domestic payments arrears by CFAF 1.2 billion (slightly more than programmed), but the debt agency (CAADE) accumulated CFAF 4.4 billion in external payments arrears whereas a reduction of CFAF 0.7 billion had been programmed. The Government encountered frequent difficulties in meeting its financial obligations to the Fund. 1/ The Treasury's total financial requirements were met essentially through foreign budgetary and capital grants (CFAF 5.5 billion more than forecast in the program) and foreign loans; net bank credit amounted to CFAF 0.4 billion, as against CFAF 1.4 billion in the program.

The program had targeted budgetary revenue at CFAF 45.3 billion in 1987, taking into account the fact that two important sources of revenue (the exchange guarantee scheme 2/ and the coffee margin, which had provided about CFAF 5 billion on average during 1984-86) had completely disappeared. In the event, total revenue amounted to CFAF 38.1 billion in 1987, or CFAF 7.2 billion less than programmed. Both tax and nontax revenue registered shortfalls. The shortfalls in tax revenue relative to program projections stemmed from lower levels of imports and collection problems. The shortfall in nontax revenue of about CFAF 0.5 billion in 1987 was due to a decline in exceptional revenue from the petroleum stabilization fund.

Total expenditure and net lending amounted to CFAF 84.7 billion in 1987, compared with a program target of CFAF 89.3 billion and a 1986 outturn of CFAF 85.1 billion. The 1987 outturn stemmed primarily from a lower-than-envisaged amount of on-lending (CFAF 4.8 billion against a projected amount of CFAF 12.1 billion) designed to cover the losses of the cotton and coffee sectors, as the authorities encountered difficulties in providing the requisite import documents needed to facilitate timely disbursements under the World Bank's structural adjustment program. Current expenditure was slightly higher than programmed because of some minor slippages in wages and salaries and other goods and services. Although the expenditure on wages and salaries was 2 percent higher than in 1986, it represented about 60 percent of current expenditure in 1987 compared with 62-64 percent during 1985-86. The relative decline in the wage bill stemmed from the progressive elimination of "ghost" civil servants from the payroll and the application of the rule requiring that one franc of new recruitment-related costs be offset by three francs in savings in remunerations. In

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1/ In 1987, frequent delays occurred in discharging financial obligations to the Fund.

2/ Under the Exchange rate guarantee scheme between France and the member states of the Central Bank (BEAC) the value of the BEAC holdings in the operations account with the French Treasury is guaranteed in terms of SDRs. If during a given year, the French franc depreciates vis-à-vis the SDR, the French Treasury covers the related exchange losses.

1987, 600 civil servants were retired and replaced by 160 persons. The budgetary savings for 1988 is estimated at CFAF 338 million. In addition, during 1987, about 450 unproductive persons were removed from the government payroll. In view of the freeze of the basic salary scale since 1982, the implementation of the one-franc-for-three-francs rule should have resulted in an absolute reduction in the wage bill but it was offset by selective promotions and multiple fringe benefits.

Scheduled interest payments continued to be relatively small (11.7 percent of current expenditure) because of the concessional nature of the Central African Republic's public debt. Subsidies and transfers continued to rise moderately (4-5 percent per year), reflecting a tighter grip on scholarship awards, and limits on transfers to local governments. Notwithstanding the improved monitoring over most expenditure categories, and contrary to program undertakings, there was a recurrence of extrabudgetary expenditure of CFAF 1.4 billion. Half the extrabudgetary expenditure was related to the parliamentary elections and official events; the remainder was related to fringe benefits for officials in the Income Tax Department, and for subsistence allowances to the newly elected parliamentarians.

In 1987 there was a sharp decrease in domestic credit (minus 5.6 percent of beginning broad money stock), compared with a projected increase of 5.2 percent in the program. The drop in credit centered on lower utilization of seasonal credit for cotton (as production was halted in marginal areas), for coffee (as funds were not made available on time to support the purchase and export of this crop), and petroleum products (as large stocks existed by end-1986). All the quantitative benchmarks with respect to the domestic credit aggregates were met during 1987 (Table 4). Money supply grew by 5 percent in 1987, compared with a 9.7 percent program target. During the year, interest rates remained positive in real terms.

In recent years, the trend in real effective exchange rate has not been helpful to the Central African Republic's economy. Between end-1984 and end-1986, the real appreciation has been quite substantial (9 percent) reflecting a significant nominal effective appreciation (17.3 percent), coupled with relatively high rates of inflation in the Central African Republic.

In 1987, external developments were generally unfavorable to the C.A.R. economy, which experienced a large deterioration in its terms of trade (minus 14 percent compared with a program projection of minus 4.7 percent) following sharp declines in world market prices, and a 6 percent appreciation in the nominal effective exchange rate (see Charts 1 and 2). In contrast to a program target of an improvement to 16.0 percent of GDP, the external current account deficit deteriorated from 17.0 percent of GDP in 1986 to 19.8 percent of GDP in 1987 (Table 3). Export receipts declined by 12.8 percent compared with a programmed decline of 1.1 percent. Apart from uncut diamonds, the proceeds from all the export commodities decreased, reflecting mainly a

Table 4. Central African Republic: First-Year Program Under the Structural Adjustment Facility, Quantitative and Structural Benchmarks, June 1987-March 1988

	1987			1988
	June	Sept.	Dec.	March
	(In billions of CFA francs; end of period)			
A. Quantitative benchmarks				
Domestic credit				
Ceiling	56.82	54.56	56.78	61.07
Actual	52.73	52.86	49.65	51.23
Net claims on the Treasury				
Ceiling	19.54	19.53	19.20	18.96
Actual	18.37	19.01	18.27	18.70
Minimum cumulative reduction in arrears through cash payments				
External				
Target	0.20	0.40	0.70	0.70
Actual	0.15 1/	-3.00 2/	-5.20	0.20
Domestic				
Target	0.10	0.50	1.07	1.57
Actual	0.90	0.35 2/	1.16	1.84
Contracting or guaranteeing by the Government of nonconcessional external loans (1-12 years)				
Ceiling	--	--	--	--
Actual	--	--	1.00 3/	--
Increase in nontrade-related short-term external debt (0-1 year)				
Ceiling	--	--	--	--
Actual	--	--	--	--

B. Structural benchmarks	
Actions	Implementation status
1. Settlement of cross-debt arrears	To be done in the second half of 1988, owing to large shortfalls in budgetary revenue in 1987.
2. Measures for priority public enterprises	SOCADA program implemented. Interim measures for CAISTAB taken. Audits of CAISTAB, OCPT, ENERCA, and SNE initiated.
3. Ceilings on deficits for CAISTAB and SOCADA	Reduction in real terms of operating deficits following cost-cutting measures (SOCADA, CAISTAB) and review of cost-price structure for coffee (CAISTAB).

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

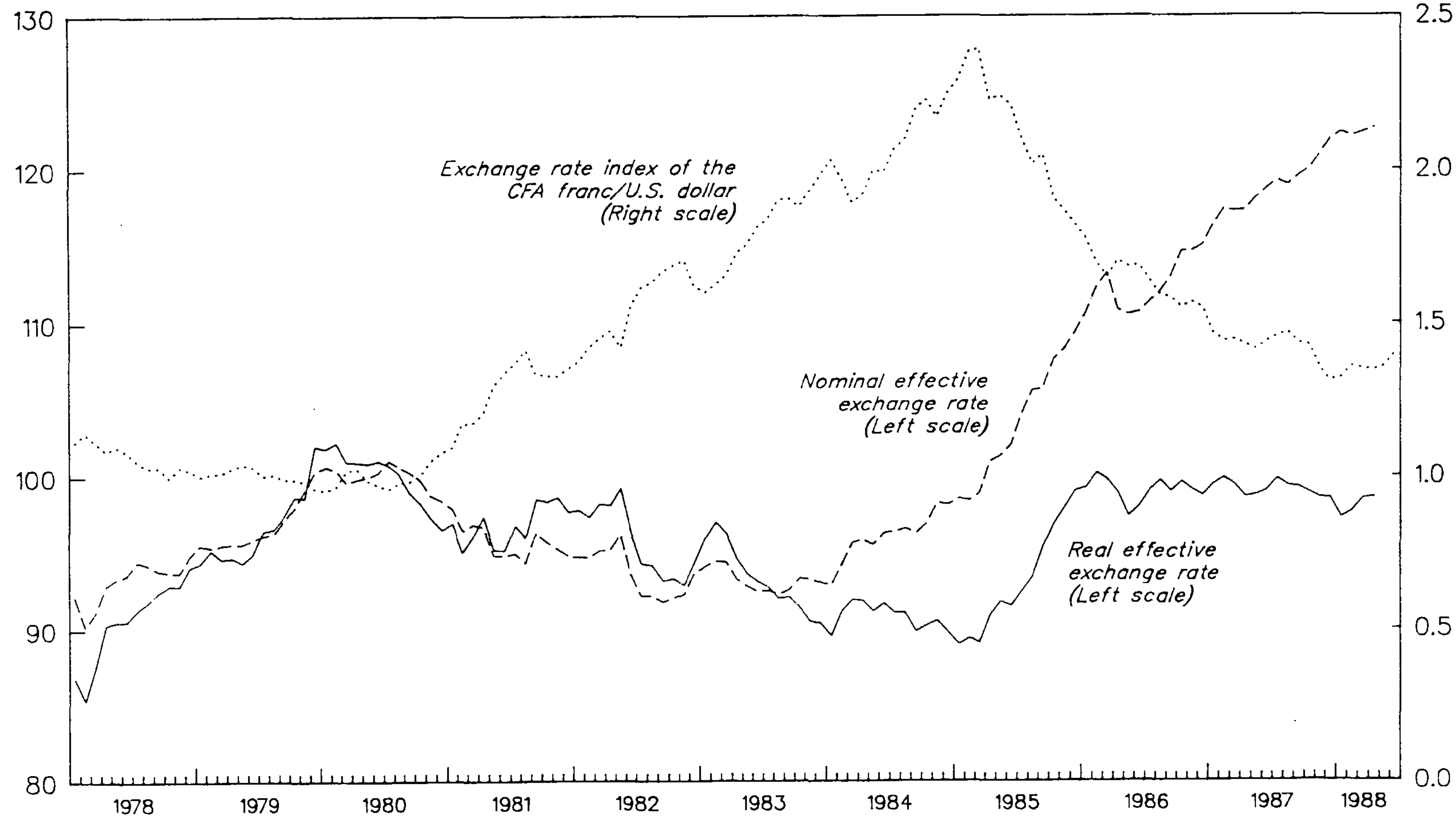
1/ Target was not met because a payment that had been duly authorized was fraudulently diverted to another external account abroad.
2/ Due in part to delays in the disbursement of World Bank financing.
3/ Loan from foreign bank shareholders to a local commercial bank (UBAC) for restructuring, guaranteed by the Government.

CHART 1

CENTRAL AFRICAN REPUBLIC

CFA FRANC/U.S. DOLLAR EXCHANGE RATE AND TRADE-WEIGHTED NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, JANUARY 1978-JUNE 1988

(Period average, 1980=100)



Source: IMF, Information Notice System.

CHART 2

CENTRAL AFRICAN REPUBLIC

TERMS OF TRADE

(1980=100)

Source: Table 10.

drop in CFA franc prices. Imports fell by 7 percent compared with a programmed increase of about 4.5 percent. This reflected in part a fall in consumer goods imports owing to the combined effects of a larger availability of foodstuffs and the impact of the sluggish economic activity, and also to a reduction in petroleum imports as large stocks existed at the end of the preceding year. Net service payments amounted to CFAF 36.3 billion, or 13.3 percent higher than forecast, because of unforeseen large outlays on travel. Net private transfers remained negative and close to the programmed level (CFAF 5.7 billion).

Net capital inflows (excluding debt rescheduling) were lower than projected by CFAF 7 billion, reflecting lower drawings for public sector investment and smaller-than-programmed amounts of program loans. The impact of the exceptional financing in the form of postal and hospital debt rescheduling amounted to CFAF 2.5 billion. 1/ As a result, the overall balance was in slight deficit (CFAF 0.3 billion) against a programmed surplus of CFAF 6.1 billion. On the financing side, official reserves increased by CFAF 5.2 billion. This increase reflected an accumulation of external payments arrears (CFAF 3.1 billion), and net use of Fund credit (CFAF 1.8 billion). The ratio of gross reserves to imports, c.i.f., rose from 2.7 months in 1986 to 3.4 months in 1987, but was lower than the programmed target of 3.8 months. In 1987 the scheduled public debt service amounted to the equivalent of 22.6 percent of exports of goods and nonfactor services, compared with 18.3 percent in 1986 (Tables 3 and 10).

b. Structural reforms

In general, the program of structural reforms under the first annual SAF arrangement and the World Bank SAC program has been satisfactorily implemented, although some delays have occurred in the setting up of a three-year rolling public investment program, in the implementation of the civil service and the fiscal reforms, and in the settlement of cross debt arrears (Table 4).

A major achievement is the progressive liberalization of prices and the trade regime, through the abolition of import licensing and quotas, the replacement of export authorizations by a system of declarations, the lifting of price controls (except those on a few basic necessities), and the elimination of restrictions on the marketing of local products. The liberalization of pricing policies, coupled with better weather conditions and the improvement in rural feeder roads, led to increases in food supply and to a sharp reduction in the CPI in 1987. However, the full effect of the liberalization policy was not felt in all sectors, as economic activity had not picked up, private sector

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1/ The debt rescheduling in question was provided by the French Government. There was no Paris Club rescheduling during 1987.

confidence was lacking, important companies had closed down, and the informal sector benefitting from smuggled imports had intensified its activities.

The reform of the agricultural sector was well under way by the end of the first-year program. Under this reform, streamlining of the cotton and coffee marketing companies was achieved through cost-cutting measures, including reduction in personnel and closing down of processing units, as producer prices have been maintained in the context of ongoing World Bank programs. Nevertheless, these policies still entailed substantial budgetary expenditure through on-lent resources to the coffee and cotton sector, thus impeding quick improvement in fiscal performance. The forestry sector benefited from a rebate of export taxes on wood products and of import taxes on spare parts and equipment for the sector as a whole.

In the public enterprise sector, progress was made toward divestiture and restructuring. A national liquidation commission was created, which so far has closed three banks and four important enterprises. The vegetable oil processing company (SICPAD) was privatized; moreover, audits of key public enterprises have been carried out, and decisions were pending on their rehabilitation. In addition, a new list of eight enterprises to be privatized in 1988 was prepared, and the authorities undertook to investigate the possibilities for privatizing others. No new public enterprise was created during 1987.

The administrative capacity of the Secretariat of State in Charge of Planning was strengthened with foreign technical assistance. A three-year rolling public investment plan was prepared in May 1988, and will be reviewed and extended annually. Moreover, a new budget format that included on-lending to public enterprises and all foreign-financed public investment outlays was adopted, with a view to enhancing the monitoring of disbursed external resources and assessing their macroeconomic impact.

III. Medium-Term Objectives and Policy Framework, 1988/99-1990/1991

At the conclusion of the 1986 Article IV consultation discussion (EBM/87/38, 3/4/87), Executive Directors noted that because of adverse external developments and slippages in the fiscal area, the adjustment objectives of the past years had not been met. With regard to fiscal policy, Directors emphasized that major weaknesses still existed and underscored the need for a tight policy stance, in order to attain the target of reducing the fiscal deficit, particularly as revenue performance until then had not been satisfactory. They looked forward to progress in the area of tax reform and the implementation of strong measures to avoid the recurrence of extrabudgetary expenditure and the accumulation of payments arrears. Accordingly, they stressed the need to check the rise in the civil service wage bill through the restructuring of recruitment and wage policies. With regard to the external sector, Directors observed that the Central African Republic was vulnerable to developments in the world market. Accordingly, they stressed the need for a major effort to strengthen the private sector and to diversify exports, in part through appropriate investments and reform of state enterprises dealing with the export sector, in conjunction with appropriate producer price policies. They also called for structural improvements in the agricultural marketing system.

Despite progress in dealing with major impediments to growth, the Central African Republic still faces a very difficult medium-term structural and financial outlook and protracted balance of payments disequilibria, in the context of the projected low world market prices for most of its export commodities, and in view of its rigid exchange rate policy.

In the updated policy framework for 1988/89-1990/91 the broad economic objectives of the original PFP and the first annual SAF arrangement have been generally retained. Revisions have been made, however, to a number of quantified targets in the face of projected lower export receipts and lower-than-projected imports, in line with the scaling down of public investment expenditure. 1/

The major macroeconomic objectives for the period from mid-1988 to mid-1991 have now been revised as follows: (a) to achieve an annual rate of growth of real GDP of about 2.5 percent per year, with a view to improving income per capita from 1989 onward; (b) to contain the rate of inflation (as measured by the GDP deflator) to around 2 percent per annum on average; and (c) to reduce the external current account deficit (excluding official unrequited transfers) to around 13 percent of GDP by 1991; including official unrequited transfers, the deficit should decline from 8.9 percent of GDP in 1987 to about 4 percent in 1991 (Table 3).

To achieve these objectives, the C.A.R. authorities will accelerate ongoing structural reforms and will implement a prudent demand-management policy. Economic growth should stem mainly from the food crop and livestock sectors and from the revival of the light manufacturing sector; the tertiary sector growth should parallel the growth performance of the other sectors of the economy.

The updated PFP emphasizes a need for a more positive environment for the private sector, in particular through the fostering of the small- and medium-size private enterprise sector, the promotion of the transport sector, the continuation of the trade and price liberalization

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1/ The scaling down of imports took place as a result of a recent review of the investment program.

policy, and the scaling down of the civil service. 1/ Within overall budgetary targets, savings made from the reduction in the Government's wage bill would be reallocated to primary education and preventive health care, which until now have been operating at a suboptimal level.

The improvement of the public investment process will be continued through the strengthening of the planning procedures, and through a better evaluation of projects in the framework of a three-year rolling public investment program, put in place with World Bank assistance. Public investment will be maintained at about 10 percent of GDP throughout the three-year period, which is in line with the absorptive capacity of the economy and the administrative capacity of the Secretariat of State in Charge of Planning. In the context of the annual updating of the PFP, the three-year rolling investment program could provide for the integration of new projects in the investment budget, as long as these projects are conducive to growth, whereas any projects that have lost their priority status should be removed. In view of the Central African Republic's debt service capacity, and in light of limited domestic financial resources, the public investment program will continue to be financed through grants and external borrowing on highly concessional terms.

Concerning the fiscal stance during 1988/89-1990/91, the Government will aim at reducing the overall deficit, so as to avoid inflationary pressures and improve the external sector position, given the fixed exchange rate system. Thus, the overall deficit (on a commitment basis, excluding grants) will be reduced from 14.4 percent of GDP in 1987 to about 8.6 percent in 1991; including grants, the deficit will be reduced from 8.3 percent of GDP in 1987 to 3.5 percent in 1991. Measures aimed at broadening the tax and customs bases will be implemented in order to raise budgetary revenue, in line with the recommendations of a 1987 Fund fiscal technical assistance report. On the expenditure side, outlays on goods and services are programmed to rise gradually to meet the requirements of the administrative apparatus. The departure of about 2,000 civil servants during 1988-89 is the main expenditure measure, which, coupled with improved personnel management and retraining, would result in increased productivity in public administration. Furthermore, the authorities are pursuing the reform of the education system, in line with a related project financed by several donors--in particular the World Bank, the African Development Bank (AfDB), the OPEC Fund for International Development, and France; to this end, they will rationalize students' eligibility for scholarships in favor of fields of studies that match the basic economic and social needs of the country.

1/ Arrangements are being made to help those who leave the civil service to identify business opportunities in the private sector. This help will be provided essentially through the private sector promotion agency (CAPMEA), and special retraining programs sponsored by UNDP and the International Labour Organisation (ILO). These arrangements will be supplemented by special lines of credit from the banking system.

The level of net lending is also expected to decrease gradually as progress is achieved in improving the financial performance of the cotton and coffee sectors. Moreover, the authorities are committed to improving the monitoring of the fiscal program through more frequent meetings of the existing interministerial surveillance committee.

As a whole, credit policy will be consistent with the stated growth, inflation, and balance of payments objectives. In that context, the authorities plan to provide adequate bank credit for sustained growth of private sector activity. The projected improvement in the public finances would enable the banking system to accommodate a cautious expansion in private sector credit. To facilitate close monitoring of credit development, quarterly ceilings will be set for domestic credit and net bank credit to the Treasury, which will serve as benchmarks. The improvement of the liquidity of the banking system will be fostered through the repayment of arrears incurred by the public enterprises. 1/ Finally, the authorities will endeavor, in the context of the common regional central bank, to keep positive real interest rates on deposits.

The authorities will pursue policies that would strengthen the financial position of the public enterprises. The strategy of progressive retrenchment through divestiture will be continued, especially as eight new enterprises to be privatized have been identified and await interested private partners. By end-October 1988, a timetable of restructuring measures will be adopted for the stabilization fund, the postal system, and the water and electricity companies. Furthermore, a recent law on guaranteed debt will allow the debt agency to review carefully the investment programs of public enterprises that benefit from government guarantee, to ensure that these enterprises can meet their debt-servicing obligations before any such loans are contracted.

The Government will continue the liberalization policy by lifting price controls by end-March 1989 for the products still requiring price certification and by reviewing the customs tariff system in the context of the Central African Economic and Customs Union (Union Douanière et Economique de l'Afrique Centrale--UDEAC) system; decisions will be taken by end-December 1988 to allow the main public enterprises to adjust their pricing policies periodically to reflect effective operating costs, with a view to enhancing their long-term financial viability.

The medium-term program includes strategies for the agricultural, mining, energy, and transport sectors. For agriculture, the aim is to increase efficiency in cotton and coffee production, and to increase

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1/ In 1987 one commercial bank undergoing restructuring benefited from government guarantee for a CFAF 1 billion loan from foreign shareholder banks. In 1988 the Government will receive a foreign grant in an amount of CFAF 1 billion that will be used to settle its payments arrears to companies that are, in turn, in arrears to that bank.

wood processing. Measures to preserve grazing grounds will be reinforced in the context of the ongoing livestock project, while food crop research will be enhanced so as to increase the exportable surpluses. Fiscal incentives that lower the export tax on increases in export 1/ will continue to be applied in the mining sector to discourage fraud.

In the energy sector, the planned construction of the Mbali Dam will put an end to the frequent power cuts that have recently proven to be damaging to the secondary sector; moreover, the streamlining of the electricity company will be carried out within a framework of a contract between the Government and the company, detailing their respective financial contractual obligations. As regards the transport sector, the authorities aim to make road transport more efficient and less costly by reducing the monopoly power of the state enterprise in charge of regulating transportation quotas and tariffs, while encouraging competition with the private sector.

With respect to the external sector, 2/ the projected export growth would support a rise in imports of intermediate and capital goods consistent with the public investment program and the modest GDP growth objective. Owing to improvements in export prices and to the impact of the diversification of the export base, export volumes are projected to rise annually on average by 5 percent during 1988-91. Reflecting reductions of imports of consumption goods, import volumes are projected to decrease by 5.6 percent per annum during 1988-89, before slowly resuming a rising trend. Net capital inflows are programmed to decrease annually by about 11 percent, following the restriction of the investment program to priority projects, the reduction in program loans reflecting the full settlement of SOCADA arrears by end-1988, and the reduction of the operating deficits of SOCADA and the coffee stabilization fund, CAISTAB. On the basis of the projected improvement in the current account, and the programmed target for official reserves (a buildup to about 4 months of imports), the financing gap would total CFAF 18.4 billion (SDR 48.5 million) during 1988-91 (Table 10). This gap is expected to be filled by debt rescheduling from Paris Club

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1/ If exported output exceeds that of the previous year, the surplus will be exported with lower export tax rates.

2/ The main assumptions underlying the external sector projections are shown in Table 5. It is assumed that the terms of trade will improve gradually from 1988 onward through the recovery of export prices; that the volume of most exports will pick up during the period although at a slower pace than projected under the first annual SAF arrangement; and that gross capital inflows during 1989-90 will remain lower than in 1988 following the scaling down of the public investment program and a reduction in program loans. The exchange rate for the CFA franc vis-à-vis the U.S. dollar is assumed to remain unchanged at CFAF 280 per U.S. dollar. The scenario that arises from these assumptions represents a baseline scenario for the Central African Republic's external sector.

Table 5. Central African Republic: Basic Assumptions and Targets, 1988-92

	1988	1989	1990	1991	1992
Basic assumptions					
Terms of trade (percentage change)	-1.7	-0.2	0.4	-1.0	2.3
Exchange rate (period average)					
CFAF/US$	280	280	280	280	280
CFAF/SDR	380	380	380	380	380
Cotton					
Export volume ('000 tons)	6.3	8.3	10.0	10.0	10.3
Export prices (CFAF/kg)	420.0	420.0	430.0	430.0	504.5
Uncut diamonds					
Export volume ('000 carats)	370.0	382.9	399.0	410.8	423.2
Export price (CFAF/carat)	34,440	36,506	38,697	41,019	43,480
Coffee					
Export volume ('000 tons)	13	15	16	17	17
Export price (CFAF/kg)	550.0	581.9	602.9	618.5	634.6
Wood					
Export volume ('000 m^3)	76.9	85.0	93.5	94.5	94.5
Export price ('000 CFAF/m^3)	89.7	91.8	93.9	96.1	99.3
Oil imports (CFAF billion)	4.2	4.1	4.4	4.5	4.7
Official unrequited transfers (CFAF billion)	35.2	35.0	35.6	35.6	35.8
Gross public capital inflows (CFAF billion)	31.6	23.5	19.7	21.7	23.3
Basic targets					
Real GDP growth (percent)	2.0	2.6	3.0	3.2	4.0
GDP deflator (percentage change)	1.0	2.0	3.0	3.5	3.5
Current account deficit (-), excluding official transfers (in percent of GDP)	-18.4	-15.1	-13.9	-13.0	-12.6
Overall balance of payments (in millions of SDRs)	-6.9	-5.1	-4.8	2.4	1.8
Overall fiscal deficit (-) (on commitment basis) including foreign-financed outlays and on-lending; excluding all grants (in percent of GDP)	-13.6	-10.9	-9.1	-8.6	-8.3
Total domestic credit expansion (in percent of beginning broad money)	2.6	-1.9	-0.4	4.5	6.9

Sources: Data provided by the C.A.R. authorities; letter of intent dated June 27, 1988 from the Minister of Economy, Finance, and Planning and International Cooperation; and staff estimates and projections.

creditors, 1/ by additional resources from the European Communities (EC), and by cofinancing for sub-Saharan debt-distressed countries. The cautious external borrowing stance would allow the ratio of outstanding debt (including Fund credit) to be kept to about 55 percent of GDP. Scheduled debt service 2/ before rescheduling, is expected to peak at 28 percent in 1988, but then to decline to 22 percent in 1990 and to 19 percent in 1991.

Though assessed conservatively, the projected outcome for the balance of payments has considerable uncertainty, particularly with respect to export receipts from coffee, cotton, timber, and diamonds, together with the uncertainties of the exchange rate and weather conditions. Hence, a strengthening of the adjustment effort, as well as additional concessional financing could be needed, especially if world market developments for the Central African Republic's main export commodities should become less favorable.

IV. The Program for 1988/89

1. Objectives

The second annual SAF program spans July 1988-June 1989. Consonant with the medium-term framework described above, the second annual program provides for a 2 percent growth in real GDP, a rate of inflation (as measured by the GDP deflator) of 1 percent, and a reduction of 1.4 percentage point of the external current account deficit (excluding official unrequited transfers) equivalent to 18.4 percent of GDP. To achieve these targets, emphasis will continue to be placed on improving the private sector environment, on retrenching government involvement in the productive and commercial sectors, and on limiting aggregate demand to a level compatible with available resources. The main instrument for the adjustment process will be the reduction of about 0.8 percentage point 3/ in the size of the overall central government fiscal deficit. The basic assumptions and targets of the program are presented in Table 5; the fiscal measures aiming at broadening the tax base are summarized in Table 7; and the structural benchmarks are shown in the authorities' letter of intent (Appendix I, Table 2)

1/ Debt rescheduling under the auspices of the Paris Club is expected to take place in November 1988. The authorities intend to seek the rescheduling of eligible external payments arrears outstanding at the end of 1987 as well as that of eligible 1988/89 maturities. No other debt rescheduling is presently assumed during the following years.

2/ Including financial obligations to the Fund.

3/ This reduction takes into account the settlement of arrears incurred in the past mainly by the cotton sector, through on-lent resources in an amount equivalent to about 1.6 percentage point of GDP.

2. Structural measures

In the agricultural sector, the principal measures pertain to the reorganization of the Ministry of Rural Development, and the pursuit of the ongoing reforms in the cotton, coffee, forestry, and food crop sectors.

The first steps in the reorganization of the Ministry of Rural Development (October 1988) consist of restructuring its services through a reduction in personnel; in parallel, the Secretariat of State in Charge of Planning is being assigned the coordination of rural development projects; moreover, a National Research Center will be created by bringing together various related centers scattered among different agricultural projects; and finally, a global strategy will be adopted in December 1988 for the streamlining of agricultural extension services.

In the cotton sector, in order to guarantee a minimum living standard for growers, the producer price has been frozen at last year's level, although world market prices have fallen; offsetting economies will be found through the continuing restructuring of SOCADA. During 1988 the Government will support SOCADA through on-lending of about CFAF 8 billion 1/ (2.4 percent of GDP), of which CFAF 5.2 billion will be used to settle payments arrears to banks dating back to 1985/86, and CFAF 2.8 billion to cover losses made during 1987/88. It is expected that financial support to SOCADA will decline sharply in 1989. 2/

In the coffee sector as well, the producer price is remaining unchanged during 1988, which presently implies a budgetary support to this sector of about CFAF 2 billion. During 1988 the Government will provide that amount to CAISTAB. In line with a provision under the SAL program, the authorities will also streamline the operations of CAISTAB by reducing its export activities and leaving exporting functions primarily to the private sector. The main function of CAISTAB would then consist of ensuring quality control and supervising the pricing system. Starting in the 1989/90 season, the authorities intend to put in place a relatively flexible producer price system that will still incorporate a minimum guaranteed income for growers in the sense that the 1987/88 producer prices would be maintained as floor prices. In parallel with the change in the pricing system, the arrangement for price support will be entrusted to a newly created coffee stabilization *fund managed and funded jointly by the Government, and private exporters.* Thus coffee marketing losses will be covered progressively by the new coffee stabilization fund, in contrast to the present arrangement in

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1/ During 1987 on-lending to SOCADA and CAISTAB amounted to CFAF 3.6 billion (1.1 percent of GDP), and CFAF 1.1 billion (0.3 percent of GDP), respectively.

2/ Following the settlement of arrears and taking into account the impact of ongoing restructuring measures in the context of the World Bank SAL.

which these losses are met by the Government through on-lending. With the adoption of the new system, the current practice of guaranteeing marketing margins for the Government, CAISTAB, and traders will be eliminated and the Government will introduce a progressive export tax when world market prices exceed a specified level.

A number of structural measures, including the overhaul of the forestry code and the further improvement in fiscal incentives are under way. The authorities will endeavor to eliminate food aid which may be in competition with local production. Furthermore, they will undertake during the year a study on the potential for agricultural processing in the small- and medium-scale enterprises (SMEs) sector.

The rehabilitation and restructuring of public enterprises will be pursued, under the aegis of the World Bank. The withdrawal of the Central Government from the public enterprise sector is expected to lead to the reduction of the financial burden of the public enterprises on the budget, while the progressive involvement of the private sector should add to the efficiency of the sector. The freeze on the creation of new public enterprises will be maintained; any cross-debt arrears pertaining to 1987 will be settled during 1988. 1/ By January 1989, arrangements will be put in place to make it possible for public enterprises to settle cross-debts vis-à-vis one another. An institutional and legal framework for the sector will be adopted before end-1988. The privatization process will be continued through the expansion of the list of public enterprises to be privatized. Finally, a timetable of restructuring measures for the postal system and the two main utilities--water and electricity--will be submitted to donors in December 1988, including provision for the revision of tariff policies to cover operating costs and the reduction in personnel.

A three-year rolling public investment plan was prepared in May 1988; the plan will be reviewed and extended every December (beginning in December 1988) in the light of changing circumstances, the recurring cost of the investments, and the availability of local and foreign financing. This annual rolling plan will also include a review of the implementation of the previous year's investment budget. Other important features of the investment programming system will include semiannual reports on the physical and financial implementation of public investment, and semiannual reviews of the economic and financial situation. To facilitate these reviews, macroeconomic and private investment monitoring units will be established within the Secretariat of State in Charge of Planning before December 1988. By that same date, the Secretariat will be strengthened, mainly through technical assistance, so that the new programming system can be effectively implemented.

1/ In 1987, the Government settled the payments arrears that were identified at end-1986 in favor of the parastatal enterprises.

The price liberalization policy initiated in 1987 will be pursued in 1988. The prices of 5 textile products, soap, and matches were liberalized in June 1988, and those of the remaining 11 products will be fully liberalized by March 1989. Before the end of 1988, the authorities will reduce the role of the public enterprise that regulates road traffic quotas and tariffs (BARC) and will foster competition from the private transporters, in order to reduce transportation charges. To complement the liberalization effort, the Government will undertake a study to identify the major SME activities and the constraints on their development, and the technical training needs of the sector.

A study of the customs tariff structure with emphasis on the review of the complementary tax 1/ will be undertaken jointly by the Central African Republic and the UDEAC and will be completed by end-1988. One of the aims of that study is to reduce the protection granted to local enterprises producing for export.

The most far-reaching structural measure to be implemented during the two-year period 1988-89 is a phased reduction--by about 2,000--in the number of civil servants. To this end, each ministry has to prepare a staffing plan (plan d'effectifs), and the redundant personnel will be placed in a personnel pool (banque de personnel) and removed from the civil service payroll. Departures from the civil service are in part voluntary, in which case the severance pay package is high (up to 40 months of pay), and in part compulsory, after the redundant employees have been in the personnel pool for six months but have not been reassigned. In order to receive the highest severance pay package, voluntary leavers are expected to announce their intention prior to the creation of the personnel pool. Those in this pool for less than six months may be transferred to other ministries in case of vacancies and depending on their job profile, or they may leave voluntarily with a pay package lower than the one that they would have received if they had not been in the pool at all. Those forced to leave after six months in the pool will be helped in identifying job opportunities in the private sector and will receive appropriate retraining.

Because of the lack of expertise, the authorities have requested foreign technical assistance to undertake the staffing plans, but the response has been slower than initially envisaged. As a result, only 7 out of 16 ministries have been surveyed as of September 1988 and 4 staffing plans implemented. This implementation has resulted in staff reassignments. The authorities expect enough technical support to implement all staffing plans and scale down the civil service by December 1989. Meanwhile, the above-mentioned one-franc-for-three-francs rule will continue to apply.

1/ A tax levied on certain imports at rates determined independently by each UDEAC member.

Laws and decrees related to voluntary departures and the personnel pool were issued near the end of August 1988 and the personnel pool is expected to become operational in October 1988 following disbursements under the World Bank structural adjustment loan. 1/ Another decree relating to the elimination of multiple fringe benefits was adopted in August 1988. 2/

3. Financial policies

The second annual program provides for a reduction in the overall deficit (on a commitment basis, excluding grants) of consolidated central government operations from 14.4 percent of GDP in 1987 to 13.6 percent in 1988 (Table 6). Including grants, the deficit will be reduced from 8.3 percent of GDP to 6.8 percent. The Government will also reduce domestic payments arrears by CFAF 6.5 billion (about 2 percent of GDP), including CFAF 4.9 billion in cross-debt arrears, and will eliminate external payments arrears in an amount of CFAF 5.2 billion (1.6 percent of GDP) through cash payments and rescheduling.

Because of this large reduction in arrears, the overall deficit on a cash basis will increase from 13.4 percent of GDP in 1987 to 17 percent of GDP in 1988 and will be financed mainly through external grants and concessional loans. The remaining financing gap, projected to amount to CFAF 9.6 billion (2.9 percent of GDP), will be covered by debt rescheduling (which is being requested by the C.A.R. authorities from the Paris Club) and by STABEX funds from the EC. The Central African Republic is included in the list of debt-distressed African countries whose needs for cofinancing on concessional terms will be discussed at a multiple donor conference scheduled for October 1988. It is assumed that financing resulting from that meeting will not be disbursed during 1988. As in early 1989 the EC is to provide balance of payments support (already approved during 1988) in an amount of about CFAF 3 billion, and debt rescheduling for the first half of 1989 is expected to yield about CFAF 2.2 billion, the financing gap for the first half of 1989 will be fully covered.

On the revenue side, total revenue is projected to amount to CFAF 45.1 billion (13.5 percent of GDP), which includes CFAF 3 billion of receipts from the settlement of cross-debts and CFAF 1.2 billion from the sale of some equity capital of the petroleum import company

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1/ It is expected that about 1,000 employees could be placed in the personnel pool by the end of 1988; the process is to be finalized in any case by end-1989.

2/ The setting up of technical and legal mechanisms for the reduction in the civil service, and the elimination of multiple fringe benefits were prior actions under the program.

Table 6. Central African Republic: Consolidated Central Government Operations, 1985-92

	1985	1986	1987 Prog.	1987 Est.	1988 Prog.	1989	1990	1991	1992
							Projections		
				(In billions of CFA francs)					
Total revenue	41.66	40.10	45.25	38.14	45.07	44.96	48.52	51.90	55.92
Tax revenue	37.59	37.10	40.17	33.53	39.19	40.11	43.67	47.05	51.07
Nontax revenue	4.07	3.00	5.08	4.61	5.88	4.85	4.85	4.85	4.85
Total expenditure and net lending	83.21	85.11	89.25	84.66	90.21	82.97	82.17	86.07	91.35
Current expenditure	38.32	40.20	42.09	42.27	45.20	44.70	42.92	44.01	46.56
Goods and services	30.04	31.62	32.20	32.92	34.96	33.90	31.50	32.00	33.30
Wages and salaries	24.50	24.88	25.20	25.44	24.00	22.00	22.00	22.00	22.50
Other goods and services 1/	5.54	6.74	7.00	7.48	10.96	11.90	9.50	10.00	10.80
Scheduled interest payments	4.27	4.40	5.14	4.94	5.44	5.80	6.22	6.61	7.66
Subsidies and current transfers	4.01	4.18	4.75	4.41	4.80	5.00	5.20	5.40	5.60
Capital expenditure 2/	42.81	41.99	35.08	36.18	32.98	33.13	35.33	37.86	40.59
Budgetary (including road fund)	3.25	4.11	3.87	3.64	3.98	4.50	4.60	5.00	5.50
Financed with external resources	39.56	37.88	31.21	32.54	29.00	28.63	30.73	32.86	35.09
Net lending	--	1.79	12.08	4.83	12.03	5.11	3.92	4.20	4.20
Extrabudgetary expenditure	2.08	1.13	--	1.38	--	--	--	--	--
Overall deficit (before grants) (commitment basis)	-41.55	-45.01	-44.00	-46.52	-45.14	-37.99	-33.64	-34.16	-35.43
Change in arrears (decrease -)	-2.00	0.02	-1.77	3.26	-11.69	-2.00	-1.65	-1.00	--
Foreign	-1.00	-0.43	-0.70	4.42	-5.16	--	--	--	--
Domestic	-1.00	0.45	-1.07	-1.16	-6.53	-2.00	-1.65	-1.00	--
Overall deficit (before grants) (cash basis)	-43.55	-44.99	-45.77	-43.27	-56.83	-39.99	-35.29	-35.16	-35.43
Financing	43.55	44.99	45.77	43.43	47.21	35.56	30.93	35.16	35.43
Foreign financing (net)	40.90	40.86	43.61	42.94	46.02	34.07	31.82	34.07	34.16
Drawing (gross)	27.10	27.47	36.56	30.03	31.65	23.54	19.70	21.56	23.29
Grants	16.10	16.80	14.16	19.69	22.41	19.29	19.95	19.90	18.56
Budgetary grants	3.50	4.10	4.00	6.56	6.45	5.00	5.00	4.40	2.56
Capital grants	12.60	12.70	10.16	13.13	15.96	14.29	14.95	15.50	16.00
Scheduled amortization	-6.02	-5.81	-7.11	-6.78	-8.04	-8.76	-7.83	-7.39	-7.69
Debt relief (principal and interest)	3.72	2.40	--	--	--	--	--	--	--
Domestic financing	2.65	4.13	2.16	0.49	1.19	1.48	-0.89	1.10	1.27
Banking system	2.96	3.89	1.36	0.44	0.49	0.38	-1.99	--	0.13
Central Bank	1.00	3.46	1.76	0.95	0.49	0.38	-1.99	--	0.13
Of which: IMF	(0.80)	(0.62)	(1.76)	(1.85)	(-0.51)	(-1.00)	(-1.97)	(-0.71)	(-0.55)
Purchases	5.10	2.82	...	2.37	1.48	1.99	--	--	--
Repurchases	-4.30	-2.20	...	-0.52	-1.99	-2.99	-1.97	-0.71	-0.55
Commercial banks	1.96	0.43	-0.40	-0.51	--	--	--	--	--
Other 3/	-0.31	0.24	0.32	0.05	0.70	1.10	1.10	1.10	1.14
Financing gap (- surplus)	--	--	--	-0.17	9.62	4.43	4.37	--	--
Memorandum items:									
Departing civil servants (financing)	--	--	--	--	3.00	2.90	--	--	--
GDP (current prices)	316.22	330.91	361.79	323.67	333.27	348.76	370.12	395.39	425.60
Investment program	42.81	41.99	...	36.18	33.00	38.20	42.50	43.00	45.00
				(In percent of GDP)					
Total revenue	13.2	12.1	12.5	11.8	13.5	12.9	13.1	13.1	13.1
Tax revenue	11.9	11.2	11.1	10.4	11.8	11.5	11.8	11.9	12.0
Total expenditure	26.3	25.7	24.7	26.2	27.1	23.8	22.2	21.8	21.5
Current expenditure	12.1	12.1	11.7	13.1	12.7	12.0	11.6	11.1	10.9
Overall deficit (commitment basis)	-13.1	-13.6	-12.2	-14.4	-13.6	-10.9	-9.1	-8.6	-8.3
Overall deficit (cash basis)	-13.8	-13.6	-12.7	-13.4	-17.1	-11.5	-9.5	-8.9	-8.3
Overall deficit (commitment basis, including grants)	-8.0	-8.5	8.2	-8.3	-6.8	-5.4	-3.7	-3.6	-4.0
				(In percent of tax revenue)					
Wages and salaries	65.2	67.1	62.8	75.9	61.2	54.8	50.4	46.8	44.1
				(In percent of total revenue)					
Wages and salaries	58.8	62.0	55.7	66.7	53.3	48.9	45.3	40.4	40.2
				(In percent of current expenditure)					
Wages and salaries	63.9	61.9	59.9	60.2	56.9	52.7	51.3	50.0	48.3

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

1/ Includes CFAF 3 billion and CFAF 2.9 billion for severance payments in 1988 and 1989, respectively.

2/ 1985-87: actual; 1988-92: a rate of implementation is applied to the investment program; revision of figures will be effected through the rolling investment program exercise and updating of the policy framework paper in 1989.

3/ Treasury charges and debt service paid by public enterprises.

(PETROCA). 1/ Moreover, retail prices for petroleum products will be maintained despite the downward trend of world market prices, so as to provide the Treasury with CFAF 2.4 billion in exceptional revenue from the hydrocarbon stabilization fund. To compensate for a significant shortfall (CFAF 2 billion) in custom duties during the first half of 1988, the authorities adopted quick-yielding revenue measures effective August 1988, including a 5 percent across-the-board increase in import taxes; the reimposition of the tax on flour; the rescission of reduced taxes on such items as cement, salt, and sugar; and the mandatory witholding of one month's rent by renters in favor of the Treasury in payment for real estate taxes. The most far-reaching and long-term measures of the tax reform will be the broadening of the tax and custom bases, and a better control of customs exemptions. As a starting point, in August 1988 the Government took measures to limit customs exemptions for diplomats, and requested technical assistance from the Fund to review the general income tax system, with a view to including the ensuing recommendations into the 1989 budget. 2/ A number of specific measures relating to the reduction of customs exemptions and combating customs fraud as well as the timing for the implementation of these measures are included in Table 7. 3/

Total expenditure and on-lending will amount to CFAF 90.2 billion in 1988, or an increase of 6.6 percent over the 1987 estimates. Current expenditure will decline by 0.2 percent. The wage bill will be reduced by 5.7 percent compared with 1987, following the implementation of the personnel pool in October 1988. 4/ To ensure that the current expenditure targets are observed, 5/ cumulative indicative ceilings have

1/ Consultants have been provided recently by the French Government and the World Bank to assess the market value of the equity capital. The above-mentioned sale is expected to take place near the end of 1988.

2/ Pending the review of the general income tax system, the Government issued a decree in August 1988 to tax all bonuses and fringe benefits.

3/ The adoption of a supplementary budget, inclusive of the revenue measures that were taken in August, was a prior action under the program.

4/ A separate allowance (CFAF 3 billion and 2.9 billion in 1988 and 1989, respectively) is made under "Other goods and services", to cover the payments of severance pay packages and the operations of the personnel pool (Table 6).

5/ To prevent the re-emergence of extrabudgetary expenditure, the office in charge of financial control over budgetary expenditure has been recently strengthened with foreign technical assistance; the authorities are committed to the observance of the Treasury's projected cash flow agreed with the mission. Moreover, pending the further strengthening of the expenditure monitoring system, the authorities will regularize quickly any extrabudgetary expenditure that could emerge through the use of budgetary appropriations for other expenditure.

Table 7. Central African Republic: List of Fiscal Measures, 1988-90
(0 = study; * = implementation; ± = impact)

	1988 Half-year I	1988 Half-year II	1989 Half-year I	1989 Half-year II	1990 Half-year I	1990 Half-year II
1. Consolidation and expansion of customs base						
1.1 Improvement of customs procedures and controls						
1.1.1 Management and reception of imported goods						
1.1.1.1 Improvement of airport and BARC (Land Freight Office) cargo areas	0	0	*+	+		
1.1.1.2 24-hour surveillance of access		0	*+	+		
1.1.1.3 Supervision and checking	*+	+				
1.1.1.4 Inventory of stores and warehouses	*	*+	+	+		
1.1.2 Handling of manifests						
1.1.2.1 Checking and clearance of original manifests	*+	+				
1.1.2.2 Recording of shortages or surpluses	*+	+				
1.1.3 Transit						
1.1.3.1 Cooperation with Cameroonian authorities	*	*	*	+		
1.1.3.2 C.A.R. customs office in Douala	0	0	*	+		
1.1.3.3 Offices in CNJ Cameroon - C.A.R.	0	0	*	+		
1.1.3.4 Mobility border surveillance - K.12.	0	*+	*+	+		
1.1.3.5 Travel time, radio liaison	0	*+				
1.2 Reorganization of customs statistics machinery						
1.2.1 Preliminary study	0	0				
1.2.2 Joint implementation with SYDONIA		0	*			
1.3 Follow-up and strict management of exemptions						
1.3.1 Study of follow-up system	0					
1.3.2 Implementation of manual follow-up system	0	*	+	+		
1.3.3 Implementation of computerized follow-up		0	*+	*+	+	+
1.3.4 Restriction of government and parapublic sector exemptions	0	0	*	*+	+	+
1.3.5 Improvement of granting procedures and initiation of control	0	0	*	*+	+	+
1.3.6 Improvement of final destination checking	0	0	*+	*+	+	+
1.3.7 Monitoring of duty-free entry	0	*	*+	+		
1.3.8 Review of legislation and implementing regulations	0	0	*+	+		
1.4 Control of customs valuation						
1.4.1 Creation of valuation section at headquarters	0	0	*	*+		
1.4.2 Documentation - collection and dissemination		0	*	*+		
1.4.3 Improvement of controls in offices		0	*	*+		
2. Consolidation and expansion of the domestic tax base						
2.1 Expansion of general income tax						
2.1.1 Tax on wages and salaries (e.g., benefits, allowance)	0	0	*+	+		
2.1.2 Taxation of financial profits	0	*+	+	+		
2.1.3 Deductible expenses (study and implementation)	0	*	*+			
2.2 Rents for government property and property taxes						
2.2.1 Rule in assessment of rents for government property	0	*	*+	+		
2.2.2 Property tax rate	0	*	*+	+		
2.3 Field of application and expansion of companies' tax base	0	*	*+	*+		
2.4 Improvement of administration						
2.4.1 Specialized inspections	0	*	*			
2.4.2 Computerized follow-up of companies	0	0	*			
2.4.3 Single customs/tax identifier	0	0	*	*+	+	+
2.4.4 Use of external sources of information	*	*+	*+	+		
2.4.5 Cross-checking of information	*	*+	*+	+		
2.4.6 Improvement of collections	*	*+	*+	+		
3. Management of tax incentives policy						
3.1 Review of tax incentives code and investment code (eligibility procedures, control procedures, duration of eligibility, need for destination control, abolition of reduction of sales taxes, review of conditions of exemption from financial contributions, etc.)	0					
3.2 Implementation		*	*	*+		
4. Management of special systems						
4.1 Single tax system						
4.1.1 Review of granting conditions; minimum rate; review of rates	0	*	*+	*+	+	+
4.1.2 Control of final destination of products	*	*+	*+	+	+	+
4.2 Taxation of government projects and contracts						
4.2.1 Review of benefits for projects financed by grants and assistance received by Government	0	0	*+	*+	+	+
4.2.2 Government contracts: review of abuse clauses with respect to direct taxation and introduction of system to take into account indirect taxation	0	0	*	*	*	+

Source: IMF, Fund fiscal technical assistance report, March 31, 1988.

been set for wages and salaries, transfers and subsidies, goods and services, and subceilings for transportation and missions. These indicative ceilings set for June have been met (Table 8). The quantitative and structural benchmarks are shown in Table 2 of Appendix I. While the indicative targets relating to total domestic credit and to net banking system claims on the Treasury were met in June 1988, those set for the reduction in payments arrears were not observed owing to shortfalls in revenue and to unanticipated delays in the disbursement of a foreign loan. As explained earlier, expenditure covered by on-lent resources is projected to rise sharply by CFAF 8 billion to CFAF 12 billion, 1/ but will contract in 1989. In 1988 the amount of on-lending relates primarily to the structural measures in the cotton and coffee sectors.

Consistent with the balance of payments, growth and inflation objectives, domestic credit will rise by 2.6 percent of beginning broad money stock; net bank claims on the Central Government will fall by about 2 percent, while net bank credit to the Treasury will increase by 0.8 percent, in line with the programmed fiscal target. 2/ The 4.8 percent increase in credit to the private sector (including public enterprises), combined with the programmed reduction in cross-debt arrears benefiting the public enterprises, will adequately cover the financing needs of the private sector, especially the financing of traditional crops (Table 9). The increases in domestic credit and net bank credit to the Treasury represent quantitative benchmarks under the program. Taking into account domestic credit developments and the slight drop in net foreign assets, broad money growth is targeted to increase by only 3 percent in 1988, in line with the projected nominal GDP growth. This restrictive credit policy should help achieve the external current account target by constraining consumption goods imports (Table 10).

In recent years, payments arrears of the Government vis-à-vis the public enterprises have caused the enterprises to incur payments arrears toward the banking system. The situation is now being corrected through a foreign grant to the Government to enable it to settle these arrears. This, in combination with the settlement of SOCADA's arrears to banks, will help improve the liquidity of the banking system during 1988/89. In view of the deteriorating balance of payments position of the monetary area as a whole, in early 1988 the BEAC Executive Board decided to raise the basic discount rate from 8 percent to 9 percent,

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1/ CFAF 8 billion for the cotton sector, CFAF 2.8 billion for the coffee sector (including arrears incurred in 1987), and CFAF 1.2 billion for the palm oil company.

2/ The Government intends to earmark the domestic counterparts of the SAF loan for meeting its financial obligations to the Fund during the program period. According to the accounting practices of the BEAC, the utilization of the domestic counterparts of Fund resources is considered as a central bank claim on the Treasury.

Table 8. Central African Republic: Current Expenditure - Indicative Ceilings and Subceilings, June 1988-June 1989 1/

(In millions of CFA francs)

	1988				1989	
	June	June (Actual)	Sept.	Dec.	March	June
Wages and salaries	12,800	12,632	19,200	24,000	6,000	11,800
Equipment and supplies	3,600	3,540	5,400	7,090	200	4,050
Of which: transportation	(300)	(380)	(540)	(573)	(150)	(300)
mission	(125)	(94)	(190)	(250)	(60)	(120)
Transfers and subsidies	2,000	1,654	3,500	4,800	1,000	2,200

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

1/ Cumulative expenditures (commitment basis).

Table 9. Central African Republic: Monetary Survey, 1985-1992

	1985	1986	1987 Prog.	1987 Est.	1988 Prog.	1989	1990	1991	1992
						Projections			
				(In billions of CFA francs)					
Foreign assets	16.10	18.99	21.85	20.65	20.51	24.99	27.52	28.45	29.12
Central Bank	9.04	11.54	20.08	14.92	19.99	24.47	27.00	27.93	28.61
Commercial banks	7.06	7.45	1.77	5.73	0.52 1/	0.52	0.52	0.52	0.52
Domestic credit	53.02	52.92	56.78	49.65	51.28	52.51	52.26	55.41	60.64
Net claims on Government	17.98	20.95	20.02	20.19	18.86	18.47	16.17	16.07	16.20
Treasury 2/	13.51	17.84	19.20	18.27	18.76	19.15	17.15	17.15	17.28
Other	4.47	3.11	0.85	1.92	0.10	-0.68	-0.98	-1.08	-1.08
Private sector 3/	35.03	31.97	36.75	29.46	32.42 4/	34.04	36.08	39.33	44.44
Of which: rediscounted	(18.13)	(18.85)	(...)	(13.11)	(...)	(...)	(...)	(...)	(...)
Broad money	56.55	58.85	64.57	61.77	63.59	66.55	70.63	75.45	81.21
Currency outside banks	37.15	41.11	45.11	42.08	...	...	...	...	...
Deposit liabilities 5/	19.40	17.74	19.46	19.69	...	...	...	...	...
Other items (net)	12.57	13.06	14.00	8.54	8.20	10.95	9.15	8.41	8.57
Trust fund	4.00	2.81	2.06	1.83	0.95	0.40	0.10	--	--
SDR allocations	3.86	3.67	...	3.52	3.53	3.53	3.53	3.53	3.53
Postal debt	1.97	2.35	...	1.17	0.23	--	--	--	--
Other	2.73	4.23	...	2.01	3.49	7.02	5.52	4.88	5.04
Memorandum items:									
Velocity	5.6	5.6	5.6	5.2	5.2	5.2	5.2	5.2	5.2
					(Percentage change)				
Broad money	8.5	4.1	9.7	5.0	3.0	4.7	6.1	6.8	7.6
Private sector credit 6/	8.5	-5.4	8.1	-4.3	4.8	2.6	3.1	4.6	6.8
Nominal GDP	13.5	4.6	7.9	-2.2	3.0	4.7	6.1	6.8	7.6
					(In billions of CFA francs)				
GDP (current prices)	316.22	330.91	361.79	323.67	333.27	348.76	370.12	395.39	425.60

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

1/ Cotton export credits make up the bulk of the commercial bank foreign assets. These are in fact arrears on previous crop credits extended to the cotton agency (SOCADA). The settlement of these arrears by SOCADA in local currency entail a mechanical drop in those foreign assets.
2/ Including debt agency (CAADE) and road fund.
3/ Including public enterprises.
4/ The increase in credit to the private sector is a return to normal levels for seasonal credits (cotton, coffee, petroleum products), compared with the abnormally low level of 1987.
5/ Including private sector deposits with the Postal System.
6/ In percent of beginning-of-period money stock.

Table 10. Central African Republic: Balance of Payments, 1985-92

(In billions of CFA francs)

	1985	1986	1987 Prog.	1987 Est.	1988 Prog.	1989 Projections	1990 Projections	1991 Projections
Exports, f.o.b.	58.72	44.96	44.98	39.18	38.75	44.39	50.71	55.47
Diamonds (uncut)	14.20	12.27	14.11	15.06	12.74	13.98	15.44	16.85
Diamonds (cut)	0.95	0.36	1.35	0.40	0.46	0.53	0.61	0.70
Coffee	18.50	10.64	7.93	6.26	7.28	8.73	9.65	10.51
Wood products	9.00	8.06	8.37	5.97	6.90	7.80	8.78	9.08
Cotton	6.51	4.55	3.69	2.75	2.65	3.47	4.30	4.30
Tobacco	1.96	1.94	1.51	1.12	0.73	0.74	0.77	0.81
Other	7.59	7.13	8.01	7.63	8.13	9.14	11.17	13.21
Imports, f.o.b.	-65.50	-66.17	-65.17	-61.37	-59.95	-59.76	-63.47	-66.27
Petroleum	-8.00	-7.49	-4.00	-3.03	-4.20	-4.05	-4.36	-4.51
Public investment program	-22.10	-20.84	-19.06	-21.80	-18.85	-18.61	-21.51	-23.00
CFAF bills	-12.80	-12.00	-11.52	-13.04	-13.30	-13.40	-13.60	-13.70
Other	-32.60	-25.84	-30.60	-23.50	-23.60	-23.70	-24.00	-25.06
Trade balance	-16.78	-21.21	-20.20	-22.19	-21.20	-15.37	-12.75	-10.80
Services (net)	-34.69	-30.63	-32.05	-36.33	-34.70	-32.77	-34.23	-36.55
Of which: freight and insurance (debit)	(-24.20)	(-21.67)	(-26.07)	(-19.46)	(-18.84)	(-18.71)	(-20.13)	(-21.22)
scheduled interest payments on public debt	(-4.10)	(-3.95)	(-4.84)	(-4.63)	(-5.14)	(-5.47)	(-5.84)	(-6.23)
Of which: total nonfactor (net)	(-29.69)	(-26.37)	(-27.12)	(-30.77)	(-28.06)	(-26.44)	(-27.53)	(-29.45)
credit	(21.10)	(19.39)	(22.25)	(15.33)	(16.65)	(18.83)	(20.25)	(22.67)
debit	(-50.79)	(-45.77)	(-49.37)	(-46.10)	(-44.71)	(-45.27)	(-47.78)	(-52.12)
factor (net)	(-5.00)	(-4.26)	(-4.93)	(-5.56)	(-6.64)	(-6.32)	(-6.70)	(-7.10)
Private transfers (net)	-5.72	-4.50	-5.72	-5.69	-5.55	-4.54	-4.37	-4.18
Current account balance (before official transfers)	-56.77	-56.35	-57.96	-64.21	-61.45	-52.68	-51.35	-51.53
Official transfers	32.40	32.99	29.82	35.44	35.23	34.96	35.62	35.57
Current account balance	-24.37	-23.36	-28.14	-28.77	-26.22	-17.72	-15.73	-15.96
Public sector capital	21.08	21.66	29.45	23.25	23.61	14.78	11.87	14.17
Disbursements	27.10	27.47	36.56	30.03	31.65	23.54	19.70	21.56
Program loans	--	2.29	12.08	9.62	18.61	9.20	3.92	4.20
Public investment projects	27.10	25.18	24.48	20.41	13.04	14.34	15.78	17.36
Scheduled amortization on public debt	-6.02	-5.81	-7.11	-6.78	-8.04	-8.76	-7.83	-7.39
Other monetary capital	-2.50	1.00	2.40	1.64	--	1.00	2.02	2.72
Debt rescheduling 1/	3.70	3.04	2.34	2.47	--	--	--	--
Balance on capital account	22.28	25.70	34.19	27.36	23.61	15.78	13.89	16.89
Errors and omissions	-0.35	1.36	--	1.12	--	--	--	--
Overall balance	-2.44	3.70	6.05	-0.29	-2.61	-1.94	-1.84	0.93
Financing	2.44	-3.70	-6.05	0.29	-5.02	-4.48	-2.53	-0.93
Change in arrears (decrease -)	-1.00	-1.15	-0.70	3.13	-5.16	--	--	--
Net Fund credit 2/	0.76	-0.07	3.31	1.85	1.14	-3.42	-2.33	-0.93
Purchases	5.10	1.96	1.92	0.39	--	--	--	--
Of which: SAF	(--)	(--)	(2.39)	(2.36)	(3.47)	(--)	(--)	(--)
Repurchases	-4.34	-2.03	-1.00	-0.90	-2.33	-3.42	-2.33	-0.93
Change in commercial bank reserves (increase-)	-3.40	-0.39	5.68	1.72	5.21	--	--	--
Change in official reserves, excluding Fund credit (increase-)	5.27	-2.46	-12.00	-5.23	-6.21	-1.06	-0.20	--
Postal debt	0.81	0.37	-2.34	-1.18	--	--	--	--
Financing gap (+)	--	--	--	--	7.63	6.42	4.37	--
Memorandum items:								
GDP (current prices)	316.23	330.92	361.79	323.67	333.30	348.76	370.12	395.39
Current account balance/GDP (in percent)								
Including official transfers (in percent)	-7.7	-7.1	-7.8	-8.9	-7.9	-5.1	-4.2	-4.0
Excluding official transfers (in percent)	-17.9	-17.0	-16.0	-19.8	-18.4	-15.1	-13.9	-13.0
Scheduled debt service/Exports of GNFS 3/ (in percent)	18.1	18.3	19.3	22.6	28.0	27.9	22.5	18.7
Exchange rates:								
Average CFAF/SDR	456.15	406.27	384.61	387.44	380.00	380.00	380.00	380.00
Average CFAF/US$	449.26	346.31	310.00	300.54	280.00	280.00	280.00	280.00

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

1/ Postal arrears rescheduling in 1987.
2/ Purchases and repurchases are slightly different in the budgetary table (Table 1), as part of some purchases were blocked in the central bank.
3/ GNFS: goods and nonfactor services.

which resulted in an upward adjustment in lending rates. The authorities are planning to review the margins applied by the commercial banks over the basic discount rate before the end of the year. Real interest rates, which had been positive throughout 1987, are expected to rise further during 1988/89 in the context of falling domestic prices. The BEAC also took action to improve bank supervision in order to enhance the quality of the banking system portfolio.

The SAF program provides for a cautious external debt management policy (Table 11), especially through a better scrutiny of the investment program and an active involvement of the debt agency in the design and the monitoring of the investment program of the public enterprises that have part of their debt guaranteed by the Government. Apart from the expected rescheduling of part of the payments arrears outstanding at the end of 1987 and of the eligible 1988/89 maturities, no rescheduling is foreseen during 1989/90-1990/91. In 1988 the Government will neither contract nor guarantee nonconcessional external loans having a repayment period of less than 12 years. Moreover, disbursements of short-term credits will be limited to normal import credits. With regard to gross official reserves, the target is to maintain them at the equivalent of 4 months of imports, c.i.f.

The Central African Republic maintains an exchange system that is free of restrictions on payments and transfers for current international transactions other than foreign exchange allocations for tourist and business travel, which are maintained by the Central African Republic under the transitional arrangements of Article XIV of the Fund's Articles.

4. Benchmarks for the second annual program

For the purposes of monitoring progress in the implementation of the program supported by the second annual arrangement under the SAF, a number of financial and structural benchmarks have been set (Table 12). A detailed timetable for the implementation of policy actions under the SAF arrangement is shown in Table 13.

The quantitative benchmarks of the program are as follows:

(a) quarterly ceilings on total domestic credit and net banking system credit to the Treasury;

(b) minimum cumulative reductions in domestic and external payments arrears;

(c) no accumulation of new external and domestic payments arrears; and

(d) zero limit on new nonconcessional foreign borrowing contracted or guaranteed by the public sector with a maturity range of 1-12 years, and no recourse to borrowings of less than one year other than normal import credits.

Table 11. Central African Republic: External Public and Publicly Guaranteed Debt, 1984-92

	1984	1985	1986	1987	1988	1989	1990	1991	1992
					Projections				
					(In billions of CFA francs)				
Outstanding debt, excluding the Fund	107.69	120.18	131.31	146.53	170.14	184.92	196.79	210.96	226.56
Net Fund credit	11.47	10.74	10.65	12.50	13.63	11.77	9.44	8.52	7.59
Outstanding debt, including the Fund	119.14	130.92	141.99	158.87	183.77	196.70	206.23	219.47	234.15
Scheduled debt service									
Interest	2.40	3.39	3.36	4.03	4.54	5.02	5.55	6.06	7.18
Principal	4.90	6.02	5.81	6.78	8.04	8.76	7.83	7.39	7.69
Fund charges	0.90	0.71	0.59	0.66	0.60	0.45	0.29	0.17	0.10
Fund repurchases	2.80	4.34	2.03	0.90	2.33	3.42	2.33	0.93	0.93
Total scheduled debt service									
Excluding the Fund	7.30	9.41	9.17	10.81	12.58	13.78	13.38	13.45	14.87
Including the Fund	11.00	14.46	11.79	12.31	15.51	17.65	16.00	14.55	15.90
					(In percent of exports of goods and nonfactor services)				
Scheduled debt service									
Excluding the Fund	11.1	11.8	14.3	19.8	22.7	21.8	18.5	17.2	18.1
Including the Fund	16.8	18.1	18.3	22.6	28.0	27.9	22.5	18.7	19.3
Obligations to the Fund/ Total debt service	33.6	34.9	22.2	12.2	18.9	21.9	16.4	7.5	6.5
					(In percent of GDP)				
Outstanding debt									
Excluding the Fund	38.6	38.0	39.7	45.3	51.0	53.0	53.2	53.3	53.2
Including the Fund	42.7	41.4	42.9	49.1	55.1	56.4	55.7	55.5	55.0
					(In billions of CFAF francs)				
Memorandum items:									
Exports, f.o.b.	50.2	58.7	45.0	39.2	38.7	44.4	50.7	55.5	59.6
Service receipts (excluding investment income)	15.2	21.1	19.4	15.3	16.6	18.8	20.2	22.7	22.7
Exports of goods and nonfactor services	65.4	79.8	64.3	54.5	55.4	63.2	70.9	78.1	82.3

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

Table 12. Central African Republic: Indicative Targets and Benchmarks for the Second Annual Program Under the Structural Adjustment Facility, July 1988-June 1989

	1987	1988			1989	
	Dec.	June 1/	Sept. 1/	Dec.	March	June
A. Quantitative benchmarks	(In billions of CFA francs; end of period)					
Domestic credit						
Ceiling	56.78 2/	54.40	54.10	53.27	55.40	52.90
Actual	49.65 3/	50.61	...	...	...	...
Net claims on the Treasury						
Ceiling	19.20 2/	20.00	21.00	20.75	20.00	19.50
Actual	18.27 3/	18.27	...	...	...	...
Minimum cumulative reduction in arrears						
Through cash payments						
External						
Target		0.75	1.75	2.83	--	--
Actual		-2.40	...	...	...	...
Domestic 4/						
Target		5.44 5/	6.00	6.53	6.63	7.13
Actual		4.38	...	...	...	...
Through rescheduling						
External						
Target		--	--	2.33	--	--
Actual		--	...	...	...	...
Contracting or guaranteeing by the Government of nonconcessional external loans (1-12 years)		--	--	--	--	--
Increase in nontrade-related short-term external debt (0-1 year) 6/		--	--	--	--	--

B. Structural benchmarks

Actions	Timing
1. Elimination of unofficial exemptions	During program period.
2. Implementation of personnel pool	October 1988.
3. Timetable of restructuring measures for CAISTAB, ENERCA, OCPT, and SNE	October 1988.

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

1/ Indicative targets.
2/ Ceiling under the 1987/88 program.
3/ Base figures.
4/ If these targets are not attained, corresponding ceilings for net claims on the Treasury will be adjusted pro tanto.
5/ Including CFAF 3 billion of regularization of cross-debt arrears due by the Treasury.
6/ Excluding normal short-term credits related to imports.

Table 13. Central African Republic: Timetable for the Implementation of Policy Actions Included in the Second Year of the Structural Adjustment Program

Measures	Timing
1. Agriculture	
a. Coffee	
Creation of a coffee fund managed by an independent committee	Done
Privatization of commercial activities of cooperatives	December 31, 1988
Preparation of a flexible producer price system	May 31, 1989
b. Cotton	
Continuation of ongoing reforms initiated under SAL I and first-year SAF	In progress
Settlement of SOCADA arrears vis-à-vis the banking system	November 30, 1988
c. Food crops	
Formulation of a set of measures to maintain and construct rural roads	April 31, 1989
Study on export diversification based on crop resources	November 1988
d. Forestry	
Abolition of export taxes on wood (except those on the most valuable species)	Done
Finalization of revision of forestry code	December 31, 1988
Initiation of a survey of the assessment of forestry potential	December 31, 1988

Table 13 (continued). Central African Republic: Timetable for the Implementation of Policy Actions Included in the Second Year of the Structural Adjustment Program

Measures	Timing
e. Livestock	
Study of the valorization of livestock products, with a view to exporting surpluses	December 31, 1988
f. Reform of the Ministry of Rural Development	
Creation of a research service for rural development	Done
Reorganization of the Ministry	In progress
Formulation of a national extension strategy	November 31, 1988
2. Investment programming	
Review of public investment program	Done
Introduction of a three-year rolling investment program	Done
Improvement of project evaluation unit	Done
Biannual report on the rolling investment program	December 31, 1988
Monitoring of private investment levels	March 31, 1989
3. Industrial and liberalization policy	
Liberalization of road transport tariffs	Done
Liberalization of prices for textiles, soap, and matches	Done
Reorganization of the Ministry of Commerce, Industry, and SMEs	October 31, 1988

Table 13 (Continued). Central African Republic: Timetable for the Implementation of Policy Actions Included in the Second Year of the Structural Adjustment Program

Measures	Timing
Study of tariff regime ("taxe complémentaire")	December 31, 1988
Liberalization of controlled prices for the 11 remaining products	March 31, 1989
Strengthening of regional cooperation in transportation sector	March 31, 1989
4. Parastatal sector	
Expansion of list of public enterprises to be privatized	Done
Audit of CAISTAB's accounts (1986/87 crop season)	Done
Definition of range of activities in connection with the creation of new coffee fund	November 30, 1988
Decision to allow the main public enterprises to adjust their pricing policies periodically	December 31, 1988
Elimination of identified cross-debt arrears with the Treasury	December 31, 1988
Long-term measures to rehabilitate ENERCA, SNE, OCPT (tariffs; personnel; contractual links with Government)	December 31, 1988
Establishment of institutional and legal framework for the subsector	December 31, 1988
No creation of state enterprise (over 50 percent government-owned)	1988-90
Application of the "1 franc recruitment for 3 francs savings"	1988-90

Table 13 (Continued). Central African Republic: Timetable for the Implementation of Policy Actions Included in the Second Year of the Structural Adjustment Program

Measures	Timing
5. Fiscal policy	
a. Revenue	
Broadening of tax and customs bases	See Table 7
General 5 percent increase in import taxes	Done
Retaxation of imported flour	Done
Abolition of reduced import taxes (cement, salt, sugar)	Done
Selling of parts of equity capital of PETROCA	November 30, 1988
b. Expenditure	
Implementation of personnel pool	October 31, 1988
Quarterly targets of wages and salaries, transfers, and subsidies	1988-90
c. Arrears	
Elimination of external payments arrears	December 31, 1988
6. Credit policy and external debt management	
a. Credit	
Enforcement of banking regulations	1988-90
Restructuring of banking system	1988-90

Table 13 (Concluded). Central African Republic: Timetable for the Implementation of Policy Actions Included in the Second Year of the Structural Adjustment Program

Measures	Timing
b. External debt	
Enactment of law governing publicly guaranteed debt	Done
No nonconcessional borrowing	1988-90
Reinforcement of management capacity of debt agency	1988-90

The structural benchmarks are:

(a) elimination of unofficial customs exemptions;

(b) timetable by end-October 1988 for the implementation of the personnel pool;

(c) timetable by end-October 1988 of restructuring measures for CAISTAB, the postal system (OCPT), the energy company (ENERCA) and the water company (SNE); and

(d) the standard clauses regarding the exchange and trade system.

Before consideration of the request for the second annual arrangement under the SAF by the Fund's Executive Board, the following measures will be adopted, and the appropriate documentation forwarded to the Fund:

(a) supplementary budget law including the new revenue and expenditure measures;

(b) preliminary conclusions of the evaluation mission on double benefits and taxation thereof;

(c) establishment of a precise timetable for implementing those measures in the tax report discussed with the mission and accepted by the authorities;

(d) confirmation of the anticipated receipt of external assistance for the budget and provision of a tentative timetable of projected financial flows for 1988/89; and

(e) legal and technical arrangements prior to implementation of the system of voluntary and assisted departures.

V. Staff Appraisal

Since the early 1980s, the Central African Republic has implemented a number of Fund-supported adjustment programs. Most of these programs fell short of target, mainly because of weak fiscal performance. In June 1987 the Government initiated a three-year structural adjustment program aimed at raising the rate of economic growth through policies designed to strengthen the fiscal and balance of payments positions. In support of this effort, the Fund granted a one-year stand-by arrangement, and a three and the first annual arrangements under the structural adjustment facility. However, unanticipated unfavorable developments on the external sector and inadequate fiscal policies prevented attainment of most of the program's financial targets. Moreover, the adjustment process (on both fiscal and external current account) has been impeded by a substantial real effective appreciation of the exchange rate since

1984. By contrast, the bulk of the structural measures with respect to the agricultural sector, the liberalization of the price and trade regime, and the public enterprises sector have been implemented. In view of these difficulties as well as these accomplishments, the authorities have prepared a new medium-term framework and, accordingly, have updated and extended the original three-year policy framework to cover the period 1988/89-1990/91. The framework is consistent with that of the second structural adjustment loan approved by the World Bank Executive Board on June 9, 1988.

Despite a good crop harvest, growth performance during 1986/87 fell short of target, as economic activity was reduced significantly by unforeseen developments such as sharp falls in commodity prices on world markets, strong appreciation of the domestic currency against the U.S. dollar, and unusually long delays in purchasing and exporting coffee owing to lack of resources for price support. The consequent depressed economic activity led to a shortfall in the target for budgetary revenue. This situation was compounded by persistent customs fraud and difficulties in revenue collection as well as by delays in effecting tax reform. Because of lower-than-programmed budgetary revenue and the recurrence of extrabudgetary outlays, the Government accumulated payments arrears, and experienced difficulties in meeting the Central African Republic's financial obligations to the Fund. The fiscal and the external current account deficits were larger than programmed, but the rate of inflation, as measured by the GDP deflator, fell sharply. To guarantee a minimum living standard in the rural areas, the authorities decided to keep the producer prices of coffee and cotton unchanged, but to achieve economies through continued restructuring of the public enterprises in charge of marketing. In this connection, they initiated a restructuring of the cotton sector by closing down nonproductive ginning mills, reducing production in low-yield areas, and implementing significant cost-cutting measures for the cotton agency, including a large reduction in personnel. Broadly similar actions were taken in the coffee sector and have been intensified in 1988.

In the rest of the public enterprise sector, the policy of progressive government retrenchment was continued in 1987, despite difficulties in finding private investors to take over some public enterprises. Moreover, the audits of the postal system and the main utility companies were finalized near the end of the year and form the basis for streamlining measures being taken during 1988.

The liberalization of prices combined with the improvement in rural feeder roads led to increases in food supply and to a sharp reduction in the CPI in 1987. However, the full effect of the liberalization policy was not felt in all sectors, as economic activity had not picked up, private sector confidence was lacking, important companies had closed down, and the informal sector had intensified its activities.

Taking these developments into account, the authorities have prepared a comprehensive reform program contained in the program supported by the second annual arrangement under the SAF for the period 1988/89-1990/91. It emphasizes a tightening in fiscal policy, the need for the full implementation of tax reform, and the pursuit of the restructuring of the public enterprise sector. The 1988 budget is the cornerstone of the program. To compensate for the shortfall in budgetary revenue during the first half of the year, the authorities have recently issued a supplementary budget including additional revenue-raising and expenditure-reducing measures. The authorities are determined to implement these measures fully in order to reach the programmed fiscal target. No extrabudgetary expenditures will be incurred and no new payments arrears will be accumulated. The main budgetary measure is the reduction in the size of the civil service by about 2,000 personnel during 1988-89. However, the severance pay packages, combined with the large amounts of on-lending mainly to cover previous losses of the cotton and coffee agencies, will result in a temporary surge in total expenditure and only a modest decline in overall fiscal deficit on a commitment basis in relation to GDP. The amounts of on-lending will be reduced sharply from 1989 onward.

The staff believes that the attainment of the authorities' fiscal targets will require substantial determination. On the expenditure side, the attainment of these targets assumes that the reduction in the size of the civil service will be effected as scheduled and that major expenditure categories will be closely monitored in order to avoid the re-emergence of extrabudgetary outlays. On the revenue side it assumes that the projected import-related revenue will be collected and that the tax reform will be fully implemented.

The pursuit of the structural and liberalization measures and the retrenchment of the public sector from economic activity should lead to the expansion of private sector activity and to a diversification of the export base. In the absence of a flexible exchange rate policy, the staff urges the C.A.R. authorities to implement these measures with determination. The structural and adjustment policies are expected to result in a continuous strengthening of the external sector position, consistent with the medium-term objective of avoiding to the extent possible debt rescheduling after 1988/89. However, even if such fundamental economic policy reforms and comprehensive adjustment are effected successfully, the staff believes that the Central African Republic will still be faced with significant albeit decreasing external and fiscal gaps through 1990/91. These financing gaps will be fully covered in 1988/89 by Paris Club rescheduling and by additional resources from EC, and thereafter by concessional financing in the context of additional disbursements in favor of sub-Saharan debt-distressed countries.

The staff notes that the authorities have made arrangements to enable the Central African Republic to remain current in its financial obligations to the Fund during the program period. In the medium term, the policies and measures leading to a viable external position and to the elimination of budgetary and external financing gaps should enhance the Central African Republic's capacity to meet its financial obligations to the Fund on a timely basis.

Given the large burden of the external debt, the staff welcomes the authorities' decision to examine carefully the public investment program with a view to retaining only those priority projects that are conducive to growth. Furthermore, the staff urges the authorities to continue to seek grants and highly concessional loans to finance the public investment program with a view to easing the Central African Republic's external debt burden over the medium term. An adequate response from donors to meet the projected external financing requirements will be an important factor in the achievement of the program objectives. However, this will depend on the authorities' demonstrable progress in effecting structural reforms and their commitment to strengthened fiscal adjustment.

The Central African Republic maintains an exchange system that is free of restrictions on payments and transfers for current international transactions other than the foreign exchange allocation limits for tourist and business travel, which are maintained by the Central African Republic under the transitional arrangements of Article XIV of the Fund's Articles.

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

VI. Proposed Decisions

In view of the above, the following draft decisions are proposed for adoption by the Executive Board.

A. 1988 Consultation

1. The Fund takes this decision in concluding the 1988 Article XIV consultation with the Central African Republic, in the light of the 1988 Article IV consultation with the Central African Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The Central African Republic maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, with the exception of the limits on foreign exchange availability for tourist and business travel, which the Central African Republic maintains in accordance with Article XIV, Section 2.

B. Structural Adjustment Arrangement

1. The Government of the Central African Republic has requested the second annual arrangement under the structural adjustment facility.

2. The Fund has appraised the progress in implementing the policies of the program supported by the first annual arrangement and notes the updated policy framework papèr (EBD/88/320).

3. The Fund approves the arrangement set forth in EBS/88/228.

Structural Adjustment Facility Second Annual Arrangement

Attached hereto is a letter, with an annexed memorandum on economic and financial policies, dated June 27, 1988 from the Minister of Economy, Finance, Planning and International Cooperation, requesting from the Fund the second annual arrangement under the structural adjustment facility, and setting forth the objectives and policies of the program to be supported by the second annual arrangement. The policy framework paper has been updated for the period 1988/89-1990/91, and gives a detailed description of the Government's medium-term program (EBD/88/320, 11/8/88).

To support these objectives and policies, the Fund grants the requested arrangement in accordance with the following provisions and subject to the Regulations for the administration of the structural adjustment facility.

1. The second loan in the amount equivalent to SDR 9.12 million is available for disbursement at the request of the Central African Republic.

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

(a) the indicators referred to in paragraph 20 of the memorandum annexed to the attached letter and specified in Table 2 of the annex to Appendix I.

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

(c) introduction of multiple currency practices;

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

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

3. In accordance with paragraph 4 of the attached letter the Central African Republic will provide the Fund with such information as the Fund requests in connection with its progress in implementing the policies and reaching the objectives supported by the second annual arrangement.

4. In accordance with paragraph 5 of the attached letter the Central African Republic will consult the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the Government or whenever the Managing Director requests consultation because of deviations from any of the indicators under paragraph 2 above or because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to the Central African Republic or of representatives of the Central African Republic to the Fund.

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C.

Bangui, June 27, 1988

Dear Mr. Camdessus:

1. Throughout the second half of 1987 and the first half of 1988, the C.A.R. authorities have endeavored to implement the economic and financial program supported by a stand-by arrangement approved by the International Monetary Fund on June 1, 1987 in the amount of SDR 8 million (23.6 percent of quota) for the period June 1, 1987 to May 30, 1988. They have also implemented most of the economic and financial policy measures set forth in the program for the first-year arrangement under the structural adjustment facility approved for the same period, in support of which a loan of SDR 6.08 million (20 percent of quota) was disbursed.

The results of these measures have, to some degree, been affected by the unfavorable developments in the international economic environment, to which the C.A.R. economy is still sensitive, particularly as regards its principal export resources.

Consequently, because of a significant decline in domestic economic activity, and the fall in export receipts, the targets for government finance, the balance of payments, and the net reduction in external payments arrears could not be met. However, price levels have tended to fall and food crop production has grown satisfactorily.

2. Taking into account the particular constraints caused by the fixed exchange rate and the difficult medium-term outlook for the viability of its external accounts, the Government has decided to persevere in its efforts to complete the structural reforms of the economy, and to return to a satisfactory growth path. To this end, in close collaboration with the Fund and World Bank staffs, the Government has reviewed the policy framework paper, which describes the macroeconomic framework and the structural adjustment policies, together with the needs for external financing, after taking due account of the financial resources already expected to be forthcoming. The Government of the Central African Republic will remain in close contact with the staffs of the Fund and the World Bank on developments and progress in implementing these policies. The policy framework paper will be updated annually as the program is implemented.

3. The economic and financial program described in the attached memorandum is consistent with the revised policy framework paper. It outlines the strategies and defines the targets that the Government intends to pursue in 1988 for which balance of payments assistance is

needed. It is in support of this program that the Government of the Central African Republic requests from the Fund an arrangement for the second year under the structural adjustment facility.

4. The Government of the Central African Republic will provide the International Monetary Fund with such information as the Fund requests in connection with its progress in implementing the policies and achieving the objectives of the program. The Government is convinced of the need to pursue in the medium term its efforts to promote growth in a climate of financial stability, and would thus appreciate receiving continued technical and financial assistance from the Fund.

5. The Government of the Central African Republic believes that the policies and measures set forth in the annexed memorandum are adequate to achieve the objectives of its 1988 program. However, it will take any further measures that may become appropriate for this purpose. The Government will consult with the Managing Director of the Fund on the adoption of any measure that may be appropriate, either on its own initiative, or on the initiative of the Managing Director.

Very truly yours,

/s/

Dieudonné Wazoua
Minister of Economy, Finance, Planning
and International Cooperation

Annex: Memorandum on Economic and
Financial Policies

Memorandum on Economic and Financial Policies

1. The Central African Republic has made considerable progress toward structural adjustment through the program established for the first-year arrangement under the structural adjustment facility (SAF), in support of which it obtained a loan of SDR 6.08 million (20 percent of quota). However, while implementation of the measures designed to increase supply and reform the basic structures of the economy has been entirely satisfactory, no significant progress has been made in reducing internal and external financial imbalances. The Central African Republic has thus been able progressively to expand its agricultural production, particularly of food crops, to liberalize its pricing and trade system, to embark on a thorough reform of the parastatal sector, to improve the educational system, and to contain the expansion of domestic credit. However, the overall fiscal deficit increased and the external current account deteriorated significantly during 1987, thereby preventing the attainment of the financial indicators of the SAF arrangement.

2. Throughout 1987, except for the lessening of inflationary pressures, partly brought about by a drop in import and consumer prices, the economic indicators remained well below projections. Gross domestic product (GDP) grew by only 1.4 percent, compared with the 3.3 percent program target. The external current account deficit as a percentage of GDP, excluding official grants, increased from 17 percent in 1986 to 19.8 percent in 1987. However, the improvement in the capital account, after the rescheduling of part of the postal debt, led to an overall deficit in the balance of payments of about SDR 0.7 million, which brought about an increase in official reserves, from the equivalent of 10.9 weeks of imports, c.i.f., in 1986 to 13.6 weeks in 1987. Furthermore, the GDP deflator declined by 3.5 percent, compared with a targeted increase of 4.5 percent.

3. The overall government fiscal deficit, on a commitment basis, excluding grants, rose from 13.6 percent of GDP in 1986 to 14.4 percent of GDP in 1987. The program target of 12.2 percent was therefore not met, owing essentially to a significant decline in revenue. Although there has been a substantial accumulation of external arrears, instead of the planned reduction in arrears, the overall Treasury deficit, on a cash basis, of nearly 13.4 percent of GDP was higher than the programmed 12.7 percent. The level of external financing, slightly below the program level, has allowed the Treasury to limit its recourse to net domestic bank borrowing to CFAF 0.4 billion, a lower figure than the program estimate.

4. On the revenue side, results have fallen far short of the target set following the 1987 Fund fiscal report and in light of the expectations that still prevailed in the first quarter of 1987 of a pickup in economic growth. Thus, total revenue reached CFAF 38.1 billion in 1987, a decrease of nearly 5 percent from 1986, compared with the nearly 12.8 percent increase forecast in the

program. The shortfall is reflected at all levels, in both direct and indirect taxes (particularly the turnover tax), in import duties, and in nontax and exceptional revenues. The low level of budgetary revenue for 1987 also suggests a sharp rise in fraudulent or exempted imports. This situation prevented the Treasury from transferring to the debt agency (CAADE) the appropriation needed to cover debt servicing, with the result that, contrary to the program, the Government accumulated nearly CFAF 5 billion in external payments arrears by end-1987.

5. On the expenditure side, total expenditure and net lending fell by 0.5 percent, compared with the program's projected increase of close to 7 percent. This outturn is mainly due to the lower level of on-lending, (CFAF 4.8 billion compared with the program target of CFAF 12.1 billion) especially to the cotton agency (SOCADA) which was therefore unable to pay part of its arrears to the banking system. The wage bill amounted to CFAF 25.4 billion, that is, close to the programmed target. Expenditure on materials and supplies were kept below the programmed ceiling, apart from a regularization of expenditure related to the settlement of cross-debts between the Treasury and the public enterprises. However, contrary to the program, the Treasury incurred almost CFAF 1.4 billion in extrabudgetary expenditure.

6. In 1987 the evolution of the money supply was influenced by a moderate rise in the net foreign assets of the banking system, and essentially by a low utilization of seasonal credits for cotton, coffee, and petroleum products. In percent of broad money stock at the beginning of the period, credit to the private sector fell by 4.3 percent, whereas the program projected an increase of nearly 8.1 percent. Net bank credit to the Treasury rose by 0.7 percent, compared with a projected increase of 2.3 percent. As a result, domestic credit fell by 5.6 percent, as against an increase of 5.2 percent in the program. This contributed to a moderate growth of about 5 percent in the money supply, compared with the projected growth of 9.7 percent.

7. In contrast to the deterioration of the financial indicators, implementation of the structural measures has proved very satisfactory and has had the political support of the authorities of the Central African Republic. The most substantial achievements lie in five areas. First, the liberalization of prices and trade regime was achieved on schedule. Price controls have been maintained for only a limited number of basic necessities, for which the authorities affirm that they are unable to provide adequate competition; import licenses have been abolished and a system of export declarations has replaced the authorization system; and obstacles to marketing of local products have been removed. The second structural measure has been to contain the expansion of the wage bill by applying to the civil service the rule that for every 1 franc of costs on the recruitment side, 3 francs must be saved on the wage bill. Furthermore, the government budget now includes loans on-lent to public enterprises and foreign-financed investments, which enhances the control of the Government's financial

commitments. The third aspect of the structural reforms concerns the rehabilitation of the parastatal sector. In this regard, as planned, no public enterprises in which the Government holds a majority share have been created. Several public enterprises are in the process of liquidation; two others have been privatized, and the insurance company and the slaughterhouse are on the verge of being taken over by private investors. Moreover, several audits have been carried out, particularly on the Stabilization Fund, the water company, and the postal and telecommunications system. The fourth area is the agricultural sector, where producer prices for coffee have been maintained, the marketing of food crops liberalized, cotton subsidies reduced and a number of ginning mills closed, while cotton production in the low-yield areas has been scaled back. Finally, a new policy related to wood production and promotion of the export of wood products has been put in place. Its main thrust is a tax incentive policy (including the reduction of import duties on spare parts and equipment).

8. As a whole, despite the progress made in the recent past, the Central African Republic still faces serious structural and financial problems. The economy remains very vulnerable to such external shocks as unpredictable weather and falling prices for its main export commodities (coffee, diamonds, cotton, wood, and tobacco). The fiscal and external deficits remain high and the debt burden heavy. Faced with these problems, the authorities reaffirm their determination to reduce financial imbalances and promote economic growth, by continuing to implement structural measures. To this end, the Central African Republic intends to continue to apply the structural and financial policies described in the first policy framework paper. It has updated this paper to cover the period 1988-90, and has adopted a financial program for the period from July 1, 1988 to June 30, 1989, in support of which it requests a loan under the second year of the SAF.

9. As indicated in the policy framework paper that was forwarded to you on June 27, 1988, the 1988-90 program targets consist of: (a) attaining an average annual real GDP growth rate of about 2.5 percent, a rate roughly equal to the rate of population growth; (b) containing the annual rate of inflation, as measured by the GDP deflator, at about 2 percent on average; (c) reducing the external current account deficit (excluding official unrequited transfers) from 19.8 percent in 1987 to 13.9 percent in 1990. The policies and measures designed to help achieve these targets are set forth below. These policies should lead to a viable external position through a progressive reduction in the need for debt rescheduling or other forms of exceptional financing so that such financing is eliminated by end-1991. The macroeconomic program targets assume that the private sector and the agricultural incentive policies initiated in the first year SAF program will be enhanced, that the parastatal sector will be thoroughly reformed, and that public sector deficits as a whole will be reduced. Accordingly, the Government's fiscal deficit (on a commitment basis and excluding grants) will be reduced from 14.4 percent of GDP in 1987 to 9.1 percent in 1990. All external payments arrears will be

eliminated by cash payment or by rescheduling in 1988, while domestic payments arrears will be eliminated by end-1991. Recourse by the Treasury to bank credit will be limited to resources obtained from the SAF, except for marginal adjustments of central bank advances in the foreseeable context of a growth in the Government's own revenue. 1/ Finally, the ratio of gross domestic savings to GDP should grow and become positive from 1988 onward, and it should be possible to maintain the ratio of total investment to GDP at about 11.4 percent over the period. The Central African Republic will also continue to maintain the exchange system free of restrictions on payments and transfers relating to current international transactions. The Government undertakes to remain in close contact with the International Monetary Fund and World Bank staffs as regards developments and progress in implementing the three-year program, and will continue to review the policy framework paper each year as the program proceeds. Benchmarks will be used for monitoring purposes, which should make it possible during the first year, in consultation with the International Monetary Fund, to implement any measures that prove necessary to carry out the program successfully.

10. The objectives of the 1988 program are as follows: (a) to achieve a real GDP growth rate of about 2 percent; (b) to keep the inflation rate (as measured by the GDP deflator) to about 1 percent; (c) to reduce the external current account deficit (excluding official unrequited transfers) from 19.8 percent of GDP in 1987 to 18.4 percent. As the exchange rate cannot be used as an economic policy instrument, attainment of the external objective will require vigorous action to reduce the overall fiscal deficit (on a commitment basis and excluding grants) in 1988, despite the indirect costs involved in the support planned for the cotton and coffee sectors. This deficit should be reduced from 14.4 percent of GDP in 1987 to 13.6 percent in 1988.

11. In the area of public investment, the Government will endeavor to maintain the ratio of its investments to GDP at about 9.6 percent. It will also endeavor to strengthen the planning system by rendering the three-year rolling plan fully operational, and will select only viable projects that are likely to stimulate growth and improve the basic infrastructure and the economic environment. To this end, the Secretariat of State in Charge of Planning will be reorganized, particularly by reinforcing the statistical services, the department responsible for preparation of the national accounts, the projects unit, and the macroeconomic monitoring unit. A special effort will be made to improve the ways in which private investments are reported and included in the accounts. The investment budget should amount to about CFAF 33 billion in 1988 (CFAF 29 billion of which is externally financed, almost 55 percent of it in the form of grants), a significantly lower amount than for 1987. This drop in investment expenditure is essentially due to the delays encountered after the June 1987 donors'

1/ CFAF 1 billion of budgetary aid was deposited in the Treasury advance account at the BEAC at end-1987, and was used early in 1988.

conference in preparing and finalizing a number of dossiers. The Government further undertakes to update the list of projects and the expenditure estimates, and submit them semiannually to the Fund.

12. Regarding price and trade policy, the liberalization policy that has been put in place will be continued. In particular, road transport tariffs have been recently liberalized and the number of products requiring price certification has been reduced. Price control for the remaining eleven products will be lifted by end-March 1989. In foreign trade, a general study will be undertaken before end-1988, prior to embarking on a reform of the complementary tax, a delicate issue that needs to take due account of all aspects of the Central African Republic's membership in the Central African Customs and Economic Union (UDEAC).

13. In the parastatal sector, which is suffering from a decline in the prices of primary commodities on the world market, competition from the informal sector, difficulties in recovering outstanding debts, and inefficient management, the Government's policy of divestiture will be maintained. The assumptions underpinning this policy include a strengthening of the ability of the Office of the High Commissioner for Public and Semi-Public Enterprises to monitor this sector, payment by the Government of its debt to the parastatal sector, and an increase of appropriations in the government budget for electricity consumption and telephone use. The Government undertakes, by end-September 1988, to propose plans to rehabilitate the postal system (OCPT), the National Water Company (SNE), and the National Electricity Company (ENERCA). These reforms will lead to a significant reduction in costs, particularly the wage bill. Finally, the reciprocal obligations of the Government and the strategic enterprises will be clarified by end-October 1988 when the program contracts defining their contractual relations are drawn up.

14. In the agricultural sector, the Government undertakes to reform the Ministry of Rural Development in order to assign to it specific tasks in the planning and coordination of agricultural development activities. Its staffing levels will be reduced as part of the civil service reform. As regards the cotton sector, which has received a sector loan from the World Bank, emphasis will be put on improving yields and controlling SOCADA's operating costs. In the coffee sector, the Government will study the conditions for introducing a system of flexible producer prices for coffee berries based on world prices for crop year 1989/90, and will set up a coffee support fund to be administered by a management committee bringing together the Government and the private sector. It will be financed initially by the Treasury (through the on-lending system) and subsequently from profits from the subsector, as world prices permit. As part of the consolidation of the coffee subsector, the Stabilization Fund (CAISTAB) is also undergoing a comprehensive reform, in order to strengthen its supervisory role and to reduce gradually its export activities. As for the forestry sector, the Government plans to reduce further in July 1988 taxes discriminating

against investment, finalize the C.A.R. forestry code, and draw up a strategy for conserving forest resources by end-December 1988. Finally, in the food crops sector, which is growing steadily, the focus will shift on encouraging the establishment of small- and medium-scale agricultural enterprises, in particular using the African Development Bank (AfDB) financing which is already available for this purpose through the local banking system. Similarly, the authorities will continue the policy of eliminating food aid where it might compete with local production.

15. In the mining sector, the encouraging results obtained in 1986-87 in combatting fraud do not seem to have progressed since the beginning of 1988. Consequently, it seems advisable to continue with the existing tax incentive policy (that lowers the export tax on increases in exports) 1/ rather than with increasing the size of the mine inspection units. The new valuation system, which has made possible a considerable increase in the unit price expressed in dollars, will be improved as experience is gained with its operations. Finally, the inventory of mining resources planned some time ago is expected to be finalized by 1989. With regard to small- and medium-scale enterprises, which appear to be one of the means of resolving unemployment or absorbing employees leaving the civil service, the Government will continue to strengthen CAPMEA, the agency for promoting the sector, and to study the most effective means of channeling resources to this promising sector.

16. One of the most important reforms under the three-year structural adjustment program is the significant reduction of the civil service by voluntary or assisted departures. The Government will draw up and implement ministry staffing plans before the end of December 1988, and ensure that a start is made to the program of voluntary and assisted departures and to the "Personnel Pool" before the end of July 1988, with a view to containing total wage bill in 1988 to CFAF 24 billion. However, the success of this operation depends on the availability of funds needed to compensate the departing civil servants by end-July 1988. A new system of family allowances will also be introduced, to control this item and lessen its burden on the wage bill. Moreover, a mission has been requested, and is expected to submit its preliminary conclusions before July 15, 1988, on revising the regulations governing the civil service and eliminating the deficiencies of the system of multiple premiums. Meanwhile, the Government will propose measures to ensure that bonuses, indemnities, and incentive premiums paid to officials of the revenue-collecting administrations are taxed forthwith. Finally, the "1 for 3" rule will continue to be applied until the staffing plans have been fully implemented.

1/ If exported output exceeds that of the previous year, the surplus will be exported with lower export tax rates.

Parallel to the reform of the civil service, measures for restructuring the education system will be pursued, in particular through the education project financed by the World Bank.

17. The program objectives for government finance are to reduce the fiscal deficit, improve revenue collection, and reallocate current expenditure so as to benefit the educational and social sectors. This policy should lead to a reduction in the pressures on the balance of payments. It aims at a reduction in the overall fiscal deficit (on a commitment basis and excluding grants) from 14.4 percent of GDP in 1987 to 13.6 percent in 1988.

Taking into account a reduction in domestic arrears of CFAF 6.5 billion (of which CFAF 3 billion for settlement of cross-debts, and CFAF 1.9 billion for cash payment of net cross-debt owed by the Treasury to public corporations) and the elimination of all external arrears (CFAF 5.2 billion), the overall fiscal deficit, on a cash basis, will be CFAF 56.8 billion in 1988 (17 percent of GDP) compared with CFAF 43.3 billion (13.4 percent of GDP) in 1987. External financing identified amounts to CFAF 31.7 billion and domestic financing resources to CFAF 3.2 billion. The remainder would be covered by a projected exceptional rescheduling under the auspices of the Paris Club and by additional funds from the European Communities and funds lent bilaterally under a cofinancing arrangement with the World Bank as part of the program to assist debt-distressed African countries. In order to achieve the 1988 deficit target, in a year in which financing of the personnel pool (for voluntary or assisted departure of employees) and support of the cotton and coffee sectors will amount to CFAF 15 billion (4.5 percent of GDP), the Government is implementing measures to increase revenue, while containing the wage bill.

Total revenue is expected to equal CFAF 45.1 billion, including CFAF 3 billion for revenue adjustment in connection with the settlement of cross-debts.

In this context, the Government has decided to improve tax administration and expand the customs and tax bases.

Customs procedures and monitoring must be strengthened, statistics improved, and a valuation office set up, through the following measures:

- Strengthening of procedures and monitoring: Imported goods will be more effectively monitored, particularly by improving the freight areas and by monitoring stores and warehouses. Manifests will be managed and transits controlled, by means of closer collaboration with the Cameroonian authorities, and the border control posts will be strengthened.

- Reorganization of the statistical apparatus: Implementation of the Sydonia data processing system at the end of 1988 should assist in the preparation of external trade statistics.

- Monitoring and strict management of exemptions:

(i) Imports under the new government loans and contractual agreements, and the subcontractors and contracting enterprises and their employees, and imports by the Government and public enterprises will be subject to the ordinary tax and customs regime from 1988 onward.

(ii) Exemptions for diplomatic representations will be limited to bona fide diplomatic personnel, pursuant to the Vienna Convention, and exempted material will be carefully restricted.

- Assessment of customs valuation: A customs valuation office will be set up and brought into operation in 1988.

As regards the tax base, pending a study of the entire general income tax (IGR) system, the Government undertakes to tax fully bonuses, indemnities, and premiums.

A special effort will be made to recover tax arrears from solvent persons and enterprises. Finally, the Government is committed to sell equity capital shares of some public enterprises in an amount of at least CFAF 1.2 billion, following the visit of the mission for financial assessment of various public corporations requested from the World Bank at the beginning of May 1988.

On the expenditure side, total expenditure and net lending will amount to CFAF 90.2 billion. The Government will harmonize the incentive premiums system benefiting the officials of the revenue-collecting administrations. In addition, decrees on the use of official and service vehicles and the entitlement to housing accommodation (Articles 63 and 65 of the 1988 Finance Law) will be enacted by the end of May 1988. The Government undertakes to pursue its policy of selectively reducing its diplomatic posts and withdrawing from certain international organizations. The execution of budgetary expenditure restraint will be monitored by means of quarterly indicative ceilings for salaries, equipment and supplies, including transportation and missions, and transfers and subsidies. Moreover, the office in charge of financial control on budgetary expenditure, in collaboration with the Treasury, will contribute to the closer monitoring of the projected cashflow agreed on with the mission; any expenditure outside the budget will be regularized by using budgetary appropriations earmarked for other purposes (Table 1).

18. In support of the measures described above, the authorities will pursue a prudent credit policy. Thus, in 1988, credit to the private sector, as a percentage of beginning broad money stock, will increase by 4.8 percent in view of the abnormally low level achieved in 1987. In accordance with budgetary targets, net credit to the Treasury will increase by 0.8 percent. Total domestic credit is expected to increase by 2.6 percent. Taking this into account and the slight decrease in net foreign assets, money supply growth would reach 3 percent, in line with

the projected nominal GDP growth. The restructuring of the banking system will continue, with an external contribution in the form of grants to the Government, which will pay off its debt to the public corporations, which in turn will settle their debts with the banks. Under the policy defined by the Bank of Central African States (BEAC), the monetary authorities will endeavor to mobilize private savings, inter alia, by keeping real interest rates positive.

19. The adjustment measures and prudent credit policies described above should ensure a continued improvement in the Central African Republic's external payments position. Despite the virtual stagnation of export receipts, the drop in imports, attributable basically to the fall in disbursements for public investments, should result in a slight decrease in the trade deficit. Taking into account an improvement in net private transfers and services, the current account as a percentage of GDP (excluding unrequited public transfers) is expected to improve, decreasing from 19.8 percent in 1987 to 18.4 percent in 1988. This improvement would result, however, in a deficit on the overall balance of about CFAF 2.6 billion, owing to a sharp decline in the capital account. The rescheduling anticipated by the authorities in 1988 will be used to fill this gap, but mainly the budget financing gap, caused primarily by debt servicing on the order of CFAF 15.1 billion (4.6 percent of GDP). The Government will pursue a prudent external debt management policy, so as to reduce the burden of debt servicing on the state budget. Consequently, in the period July 1988-June 1989 the Government will neither contract nor guarantee any new loans on nonconcessional terms in the 1 to 12-year maturity range. During the program period, the Government will neither contract nor guarantee any new short-term external loan with a maturity of one year or less, except for normal import credits. The Government will see to the effective implementation of the new law on the policy and procedures for granting government guarantees.

20. To monitor the program's progress more effectively, the SAF financial benchmarks will be as follows:

(a) quarterly ceilings on total domestic credit;

(b) quarterly ceilings on net bank credit to the Treasury;

(c) minimum cumulative reduction in domestic payments arrears;

(d) minimum cumulative reduction in external payments arrears;

(e) no accumulation of new external and domestic payments arrears; and

(f) zero limit on new noncessional foreign borrowing, contracted or guaranteed by the public sector with a maturity of 1-12 years, and no recourse to borrowings of less than one year other than normal import credits.

In addition, the following structural benchmarks will be observed:

(a) elimination of unofficial exemptions;

(b) timetable for implementation of the personnel pool;

(c) timetable of restructuring measures for CAISTAB, OCPT, ENERCA, and SNE; and

(d) the standard clauses regarding the exchange and trade system.

21. Before consideration of the request for the second annual arrangement under the SAF by the Executive Board of the International Monetary Fund, the following measures will be adopted, and the appropriate documentation forwarded to the Fund;

(a) supplementary budget law including the new revenue and expenditure measures;

(b) preliminary conclusions of the evaluation mission on double benefits and taxation thereof;

(c) establishment of a precise timetable for implementing those measures in the tax report discussed with the mission and accepted by the authorities;

(d) confirmation of the amount of budget assistance and provision of a tentative timetable of projected financial flows for 1988/89; and

(e) legal and technical arrangements prior to implementation of the system of voluntary and assisted departures.

Table 1. Central African Republic: Current Expenditure - Indicative Ceilings and Subceilings, June 1988-June 1989 1/

(In millions of CFA francs)

	1988			1989	
	June	Sept.	Dec.	March	June
Wages and salaries	12,800	19,200	24,000	6,000	11,800
Equipment and supplies	3,600	5,400	7,090	200	4,050
Of which: transportation	(300)	(540)	(573)	(150)	(300)
mission	(125)	(190)	(250)	(60)	(120)
Transfers and subsidies	2,000	3,500	4,800	1,000	2,200

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

1/ Cumulative expenditures (commitment basis).

Table 2. Central African Republic: Indicative Targets and Benchmarks for the Second Annual Program Under the Structural Adjustment Facility, July 1988-June 1989

	1987	1988			1989	
	Dec.	June 1/	Sept. 1/	Dec.	March	June
A. Quantitative benchmarks	(In billions of CFA francs; end of period)					
Domestic credit						
Ceiling	56.78 2/	54.40	54.10	53.27	55.40	52.90
Actual	49.65 3/	...	...	...	...	...
Net claims on the Treasury						
Ceiling	19.20 2/	20.00	21.00	20.75	20.00	19.50
Actual	18.27 3/	...	...	...	...	...
Minimum cumultive reduction in arrears						
Through cash payments						
External	...	0.75	1.75	2.83	--	--
Domestic 4/	...	5.44 5/	6.00	6.53	6.63	7.13
Through rescheduling						
External	...	--	--	2.33	--	--
Contracting or guaranteeing by the Government of non-concessional external loans (1-12 years)	...	--	--	--	--	--
Increase in outstanding short-term external debt (0-1 year) 6/	...	--	--	--	--	--

B. Structural benchmarks

Actions	Timing
1. Elimination of unofficial exemptions	During program period.
2. Implementation of personnel pool	October 1988.
3. Timetable of restructuring measures for CAISTAB, ENERCA, OCPT, and SNE	October 1988.

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

1/ Indicative targets.
2/ Ceiling under the 1987/88 program.
3/ Base figures.
4/ If these targets are not attained, corresponding ceilings for net claims on the Treasury will be adjusted pro tanto.
5/ Including CFAF 3 billion of regularization of cross-debt arrears due by the Treasury.
6/ Excluding normal short-term credits related to imports.

Central African Republic: Relations with the Fund

(As of August 31, 1988)

I. Membership Status

(a) Date of membership — July 10, 1963

(b) Status — Article XIV

A. Financial Relations

II. General Department

(a) Quota — SDR 30.4 million

(b) Fund holdings of local currency — SDR 54.06 million, or 177.84 percent of quota

	Millions of SDRs	Percent of quota
(c) Use of Fund credit	23.75	78.13
Credit tranches	17.75	58.39
EAR	6.0	19.74
(d) Reserve tranche position	0.11	0.4

III. Use of Fund Resources

a. Previous Stand-By Arrangements

An eight-month stand-by arrangement was approved on April 10, 1981 in an amount of SDR 10.4 million (43.3 percent of quota); a total of SDR 8.0 million was drawn. A one-year stand-by arrangement was approved on April 22, 1983 in an amount of SDR 18 million (75 percent of quota); total purchases under this arrangement amounted to SDR 4.5 million. A one-year stand-by arrangement was approved on July 6, 1984 in an amount of SDR 15 million (49.3 percent of quota); the total amount was purchased. An 18-month stand-by arrangement was approved on September 22, 1985 in an amount of SDR 15 million (49.3 percent of quota); total purchases under the arrangement amounted to SDR 7.5 million. A one-year stand-by arrangement was approved on June 1, 1987, in an amount of SDR 8 million (26.3 percent of quota); one purchase only was made on Board approval, in an amount of SDR 1 million.

b. Special Facilities

- CFF

A drawing under the compensatory financing facility was approved on August 2, 1979 in an amount of SDR 9 million.

Central African Republic: Relations with the Fund (continued)

- SAF

A first-year arrangement under the structural adjustment facility was approved on June 1, 1987 in an amount of SDR 6.08 million (20 percent of quota).

IV. SDR Department

(a) Net cumulative allocation	SDR 9.33 million
(b) Holdings	SDR 1.64 million, or
17.61 percent of net cumulative allocation	

V. Administered Accounts

Trust Fund loans	
(i) Disbursed	SDR 12.70 million
(ii) Outstanding	SDR 3.33 million

VI. Financial Obligations Due to the Fund

	Overdue financial obligations Aug. 31	Principal and interest due				
		1988 Sept.-Dec.	1989	1990	1991	1992
	(In millions of SDRs)					
Principal	1.32	2.91	10.45	6.91	2.49	1.19
- Repurchases	.81	2.75	9.00	6.13	2.44	1.19
- Trust Fund repayments	.50	0.16	1.45	0.79	0.05	--
Charges and interest including Special Drawing Rights and Trust Fund (provisional)	.29	.35	1.47	0.91	0.58	0.43
Total	1.61	3.26	11.92	7.82	3.07	1.62

Central African Republic: Relations with the Fund (concluded)

B. Nonfinancial Relations

VII. Exchange System

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

VIII. Last Article IV Consultation

The consultation discussions were held in Bangui during October 23-November 6 and at headquarters during December 13-18, 1986. The staff report (EBS/87/24, and Corrections 1 and 2) and the report on recent economic developments (SM/87/56, 2/16/87) were considered by the Executive Board (EBM/87/38) on March 4, 1987. The following decision was taken:

1. The Fund takes this decision in concluding the 1986 Article XIV consultation with the Central African Republic, in the light of the 1986 Article IV consultation with the Central African Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

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

IX. Technical Assistance

(a) CBD: None

(b) STAT: A mission visited Bangui during the period October 22-November 1, 1984 to examine the Central African Republic's technical assistance needs in the area of general economic statistics. A second mission visited Bangui in November 1984 to assess the methodology and sources for the compilation of balance of payments statistics.

(c) FAD: Tax expert (1983).
A mission visited Bangui during the period September 8-25, 1986, to examine the tax system. Its recommendations were sent to the authorities on December 24, 1986. Another mission visited Bangui during the period November 3-19, 1987, to examine customs exonerations and the tariff system (taxe complémentaire). Its recommendations were sent to the authorities in April 1988.

(d) Resident representative:
Mr. Pierre van den Boogaerde was the IMF resident representative in Bangui February 1986 - June 1988. This post has been closed.

Central African Republic: Relations with the World Bank Group

(As of July 31, 1988)

A. IDA Lending Program

	Original principal 1/	Disbursed 2/	Undisbursed 2/
	(In millions of U.S. dollars)		
Disbursing credits:			
Cotton Area Rural Development	10.40	10.38	0.43
Livestock	11.90	3.95	9.41
Transportation (highways)	18.00	17.24	0.16
Education	29.00	9.89	20.00
Technical Assistance	10.00	7.10	3.55
Cotton Sector Adjustment Credit	15.00	13.27	2.08
Second Structural Adjustment Credit	40.00	--	37.47
Total	134.30	61.83	73.10

Progress of the Central African Republic's adjustment program continues to be satisfactory despite the difficulty of implementing such an ambitious program in a country with a relatively weak administrative capacity. The second tranche of the IDA and African Facility Structural Adjustment Credits was released in May 1987 and the Cotton Sector Adjustment Program became effective in October 1987. A Second Structural Adjustment Credit was approved by the Bank Board on June 9, 1988. A Third Education Project became effective in April 1988 and a Third Technical Assistance Credit is scheduled for Board presentation in December 1988.

B. IFC Investment — Nil

Source: Data provided by the World Bank.

1/ Net of cancellation.

2/ Discrepancies between the sum of disbursed and undisbursed amounts and the original principal are due to fluctuations in the exchange rate between the dollar and the SDR. IDA credits after 1980 and African facility credits are denominated in special drawing rights, using exchange rate prevailing at time of credit negotiations.

CENTRAL AFRICAN REPUBLIC - Basic Data

Area, population, and GDP per capita

Area	620,000 square kilometers
Population: Total (1986 estimate)	2.7 million
Growth rate	2.6 percent
GDP per capita (1986 estimate)	US$354

National accounts	1983	1984	1985	1986	1987	1988 Prog.
	(In billions of CFA francs)					
GDP (at current market prices)	251.0	278.7	316.2	330.9	323.7	333.3
GDP (at 1984 prices)	256.3	278.7	289.3	293.6	297.6	303.5
Of which:						
Agriculture	(32.9)	(39.4)	(40.8)	(41.3)	(44.3)	(50.3)
Mining	(7.5)	(7.5)	(7.5)	(7.6)	(7.6)	(7.5)
Commerce, transport, telecommunications	(64.3)	(67.5)	(71.6)	(72.2)	(74.1)	(79.5)
Domestic public administration	(32.1)	(28.0)	(29.3)	(29.8)	(30.4)	(29.1)
	(Annual percentage changes)					
Real GDP	-6.1	8.7	3.8	1.5	1.4	2.0
Nominal GDP	2.1	11.0	13.5	4.7	-2.2	(3.0)
Prices						
GDP deflator	8.7	2.1	9.3	3.1	-3.5	1.0
Consumer prices	14.6	1.6	10.4	6.6	-7.0	...
Central government operations	(In billions of CFA francs)					
Revenue	36.5	39.5	41.7	40.1	38.1	45.1
Expenditure 1/	42.4	64.7	83.2	85.1	84.7	90.2
Of which:						
Current outlays 2/	(38.6)	(37.0)	(38.3)	(41.3)	(43.7)	(42.2)
Overall deficit (commitment basis)	-5.9	-25.2	-41.6	-45.0	-46.5	-45.1
Arrears (reduction -)	0.9	-3.8	-2.0	--	-1.8	-11.7 3/
Overall deficit (cash basis)	-3.1	-28.9	-43.6	-43.6	-45.0	56.8
Domestic financing (net)	1.1	1.3	2.7	4.1	0.5	3.1
Of which:						
Banking system	(1.7)	(-0.9)	(3.0)	(3.9)	(0.5)	(2.5)
Foreign financing (net)	3.9	27.6	40.9	40.9	42.9	46.1

1/ Including foreign-financed investment outlays and on-lending from 1984 onward.
2/ Including extrabudgetary outlays.
3/ Including CFAF 3 billion on cross-debt arrears with the public enterprises' sector.

CENTRAL AFRICAN REPUBLIC--Basic Data (continued)

	1983	1984	1985	1986	1987	1988 Prog.
Money and credit	(Changes in percent of beginning broad money stock)					
Domestic credit	6.7	4.9	11.6	-0.2	-5.6	5.9
Claims on Government (net)	5.5	5.4	3.1	5.2	-1.3	1.1
Claims on the economy	1.2	-0.5	8.5	-5.4	-4.3	4.0
Broad money supply	10.7	8.7	8.5	4.1	5.0	3.0
Balance of payments	(In millions of SDRs)					
Exports, f.o.b.	115.4	112.2	128.7	110.7	101.1	102.0
Imports, f.o.b.	-131.8	-136.6	-165.5	-162.9	158.4	157.8
Trade balance	-16.4	-24.4	-36.9	-52.2	-57.3	-55.8
Services (net)	-72.7	-63.0	-76.1	-75.4	-93.8	-91.3
Private transfers (net)	-14.0	-10.1	-12.5	-11.1	-14.7	-14.6
Current account balance	-103.1	-98.4	-124.5	-138.7	-165.7	-161.7
Official transfers	73.9	71.7	71.0	81.2	91.5	92.7
Capital account (net)	18.7	49.3	48.8	63.3	70.6	62.1
Overall balance	-33.1	-25.7	-5.4	9.1	-0.7	-6.9
Current account deficit (excluding official grants, as percent of GDP)	-16.7	-15.8	-18.0	-17.0	-19.8	-18.4
Gross official reserves						
In weeks of imports, c.i.f.	13.2	11.1	9.3	10.9	13.6	16.7
External public debt						
Scheduled debt service (percentage of exports of goods and nonfactor services)						
Including the Fund	11.7	16.8	18.1	18.3	22.6	28.0
Excluding the Fund	10.4	11.2	11.8	14.2	19.8	22.7
Outstanding external debt (in percent of GDP)						
Including the Fund	40.4	42.8	41.4	42.9	49.1	55.1
Excluding the Fund	35.9	38.6	38.0	39.7	45.3	51.0

CENTRAL AFRICAN REPUBLIC--Basic Data (concluded)

Selected social indicators 1/

	1965	1973	Recent estimate	Reference groups Low income	Lower mid-income
Education					
Enrollment rates 2/					
primary	56	64	77	97	103
secondary	2	4	16	32	40
Pupils reaching Grade 6 3/	...	36	49	49	71
Energy consumption per capita. (kg. of oil equivalent)	22	35	33	310	345
Vital statistics 4/					
crude birthrate	34	38	42	29	36
crude deathrate	24	21	17	10	11
infant mortality rate	169	148	138	72	82
child deathrate	47	42	27	9	11
Food, health, nutrition					
Index of food production per capita (1979-81=100)	...	105	97	115	108
Per capita supply of calories (per day)	2,130	2,240	2,050	2,339	2,514
Population per physician (per thousand)	...	...	22.4	8.9	6.0
Population per hospital bed (per thousand)	...	...	0.6	1.1	0.8
Access to safe water (percent of population)					
Total	..	16	...	...	...
Urban	...	40	...	...	...
Rural	...	5	...	...	...

1/ World Bank estimates.
2/ In percent of school-age children.
3/ Percentage of children starting primary school and continuing until Grade 6.
4/ Per thousand population.

Central African Republic -- Statistical Issues

1. Outstanding statistical issues

a. Real sector

The statistical base of the Central African Republic remains weak, although there have been improvements in the area of price statistics. The authorities are currently seeking technical assistance in the field of national accounts.

b. Government finance

The Central African Republic does not prepare any consolidated statistical presentation on government finance, although accounting documents do exist for several units of central government. The latest data in the GFS Yearbook relate to 1981 and at present there is no GFS correspondent. A technical assistance mission visited Bangui from March 22 - April 1, 1988, to train local officials in the methodology of the GFS system and help establish procedures for the compilation of government finance statistics. The mission compiled statistics on the operations of the consolidated central government for the period 1983-87 and projections for 1988: the data needed to compile a presentation for 1982 were not available during the mission. These data will appear in the 1988 GFS Yearbook and in subsequent issues of IFS.

c. Monetary accounts

A money and banking technical assistance mission recently visited the Headquarters of the Banque des Etats de l'Afrique Centrale (BEAC). The mission developed a data compilation system based on personal computers for the six member countries of the BEAC. It is expected that the computerization of the compilation of monetary statistics will improve the currentness of these data.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for the Central African Republic in the June 1988 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banque des Etats de l'Afrique Centrale (BEAC), which during the past year have been provided on a timely basis.

Central African Republic -- Statistical Issues (continued)

Status of IFS Data

		Latest Data in June 1988 IFS
Real Sector	- National Accounts	n.a.
	- Prices: CPI 1/	July 1987
	WPI	Dec. 1987
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1981
	- Financing	1981
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	Dec. 1987
	- Deposit Money Banks	Dec. 1987
	- Other Financial Institutions	n.a.
Interest Rates	- Discount Rate	Feb. 1988
	- Bank Lending/Deposit Rate	Feb. 1988
	- Government Bond Yield	n.a.
External Sector	- Merchandise Trade:	
	Values:	1986
	Prices:	n.a.
	- Balance of Payments	1986
	- Int'l. Reserves	Dec. 1987
	- Exchange Rates	Apr. 1988

1/ CPI for the African population in Bangui.

Central African Republic -- Statistical Issues (concluded)

3. Technical Assistance Missions in Statistics (1985-present)

Missions to the headquarters of the BEAC:

Subject	Staff Member	Date
Money and Banking Statistics	Mr. The Thiet Luu	Dec. 4-13, 1985
Money and Banking Statistics	Mr. The Thiet Luu	March 3-14, 1987
Money and Banking Statistics	Mr. G. Raymond	March 16-30, 1988