FOR AGENDA

EBS/85/108

CONFIDENTIAL

April 30, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Central African Republic - Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a review under the stand-by arrangement for the Central African Republic. A draft decision appears on pages 23 and 24.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Sidibé (ext. 8730) or Mr. Jbili (ext. 8735) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Review Under Stand-By Arrangement

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

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

Approved by A.D. Ouattara and Eduard Brau

April 30, 1985

I. Introduction

On July 6, 1984 the Executive Board approved a one-year stand-by arrangement for the Central African Republic in an amount of SDR 15 million, equivalent to 49.3 percent of quota (EBS/84/121, Correction 1 and Supplements 1 and 2). Under this arrangement, the Central African Republic has made three purchases totaling SDR 8 million. The third purchase of SDR 3 million was made on February 28, 1985 upon completion of the first review of the program (EBS/85/23) and the observance of the performance criteria for end-September 1984; because of delays in completing the discussions, the first review could not be concluded by the Executive Board before end-November 1985 as originally envisaged. The next purchase of SDR 3.5 million is subject to the completion of the present (second) review of the program, and to the observance of the end-December 1984 performance criteria. During this review, understandings were reached concerning the size of the fiscal deficit and related budgetary policies for 1985. Performance criteria governing the fifth and last purchase (SDR 3.5 million) under the program were also set for May 1985. If all the purchases are made as scheduled, total Fund credit outstanding, which amounted to SDR 24.8 million at end-March 1985 (equivalent to 81.5 percent of quota), will reach SDR 29.7 million (97.6 percent of quota) at the end of the present arrangement (Table 1); excluding compensatory financing facility purchases, total Fund credit outstanding would amount to SDR 26.4 million (86.7 percent of quota).

The discussions for the conclusion of the present review were held in Bangui during the period February 28-March 7 and in Washington during the period April 16-17, 1985. 1/ In the attached letter to the Managing Director dated April 29, 1985, the Minister of State in Charge of Economy

1/ The staff representatives during these discussions comprised Messrs. Sidibé (head), Cronquist, Jbili, Rajcoomar, and Kaba (EP), and Miss Casaromani (secretary), all from AFR. Mr. Alfidja, Executive Director for the Central African Republic, and Mrs. Diaby attended the meetings held in Washington.

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

	Outstanding at beginning of arrangement June 30, 1984	1984 July	1984 Aug.-Oct.	1984 Nov.-Dec.	1985 Jan.-Mar.	1985 Apr.-May	1985 June-July 1/
				(In millions of SDRs)			
Transactions under tranche policies (net) 2/		2.5	1.0	-1.0	1.5	2.5	3.5
Purchases		3.0	2.0	--	3.0	3.5	3.5
Ordinary resources		(3.0)	(2.0)	(--)	(3.0)	(3.5)	(3.5)
Enlarged access resources		(--)	(--)	(--)	(--)	(--)	(--)
Repurchases		-0.5	-1.0	-1.0	-1.5	-1.0	--
Ordinary resources		(-0.5)	(-1.0)	(-1.0)	(-1.5)	(-1.0)	(--)
Enlarged access resources		(--)	(--)	(--)	(--)	(--)	(--)
Transactions under special facilities (net) 3/		-1.1	-1.1	--	-1.1	-1.1	--
Purchases		(--)	(--)	(--)	(--)	(--)	(--)
Repurchases		(-1.1)	(-1.1)	(--)	(-1.1)	(-1.1)	(--)
Total Fund credit outstanding (end of period)	24.07	25.47	25.37	24.37	24.77	26.17	29.67
Tranche policies 2/	16.37	18.87	19.87	18.87	20.37	22.87	26.37
Special facilities 3/	7.70	6.60	5.50	5.50	4.40	3.30	3.30
				(As percent of quota)			
Total Fund credit outstanding (end of period)	79.2	83.8	83.5	80.2	81.5	86.1	97.6
Tranche policies 2/	53.9	62.1	65.4	62.1	67.0	75.2	86.7
Special facilities 3/	25.3	21.7	18.1	18.1	14.5	10.9	10.9

Source: IMF, Treasurer's Department.

1/ July 5, 1985.
2/ Ordinary and enlarged access resources.
3/ Compensatory financing facility.

and Finance reviews the performance of the Central African Republic in 1984, indicates the budgetary targets for 1985 as well as measures envisaged to attain these objectives, and contains performance criteria for end-May 1985.

A summary of the Central African Republic's relations with the Fund and the World Bank Group is provided in the Appendix.

II. Background

The program for 1984 was designed within a medium-term framework which envisages budgetary equilibrium by 1986-87 and a reduction of the external current account deficit to a sustainable level by 1988. The primary objectives of the program were to reduce the external current account deficit (excluding official transfers) by about 3 percentage points to 15.9 percent of GDP in 1984, and the budgetary deficit (commitment basis) 1/ from 3.0 percent to 1.2 percent of GDP (Table 2). After taking into account payments of domestic and external arrears, the overall Treasury deficit was expected to be limited to 2.6 percent of GDP. Under the program budgetary revenue was to rise by 14 percent, excluding exceptional resources from the exchange guarantee scheme, through the introduction of a tax reform, an upward adjustment in the rates of a number of taxes, and an increase in the Treasury's share of the marketing surplus on coffee. Government spending was to be curtailed by 4 percent through a further net reduction in employment, a general wage freeze, and efforts to curb the growth of other current expenditure. Furthermore, a large part of the overall Treasury deficit was to be financed with domestic resources in the form of borrowing from civil servants (equivalent to one month's salary) and from the Coffee Stabilization Fund (CAISTAB). In the area of supply-oriented measures, the program envisaged a further increase in the producer prices for cotton and coffee, and a continuation of the rehabilitation efforts of the state enterprises.

III. Performance Under the 1984 Program

As indicated in the staff report for the first review of the stand-by arrangement (EBS/85/23), in 1984 the C.A.R. authorities implemented the measures envisaged under the program; noticeable progress was made in reducing the domestic and external financial imbalances as well as inflationary pressures. All performance criteria for end-December 1984 were observed (Table 3).

1/ Excluding grants and investment outlays externally financed outside the budget (about 13 percent of GDP); capital expenditure financed through the budget represents about 1.2 percent of GDP.

Table 2. Central African Republic: Selected Economic and Financial Indicators, 1981-85

	1981	1982	1983 Program	1983 Actual	1984 Program	1984 Est.	1985 Proj.
	(Annual percent changes)						
National income and prices							
GDP at constant prices	-2.1	-1.6	2.0	-2.3	2.7	2.7	2.6
GDP deflator	14.6	14.4	14.0	12.9	10.0	10.0	9.2
Consumer prices	12.6	13.2	14.0	13.3	10.0	6.0	8.0
External sector							
Exports, f.o.b. 1/	-9.4	-6.0	9.1	4.6	8.9	0.4	4.2
Imports, f.o.b. 1/	-12.5	2.4	-0.9	-5.8	3.6	2.9	-8.0
Export volume 2/	1.9	-4.9	2.5	1.7	7.5	-3.7	15.1
Import volume 2/	-15.8	1.5	-1.0	-1.5	-1.4	2.5	2.5
Terms of trade (deterioration -) 3/	-14.5	-2.1	6.4	9.4	0.8	3.6	-0.9
Nominal effective exchange rate (depreciation -) 4/	-3.3	-3.6	...	-2.5	...	-2.7	...
Real effective exchange rate 4/	0.3	0.3	...	-1.3	...	-2.9	...
Government budget 5/							
Revenue 6/	14.7	32.9	9.6	1.5	14.0	7.7	12.7
Expenditure	15.1	14.2	0.5	7.7	-4.2	-8.1	8.6
Money and credit							
Domestic credit	13.0	-0.9	15.8	2.7	13.2	-3.3	11.7
Government	29.0	-37.1	22.1	5.9	15.9	-10.4	23.5
Private sector	4.1	24.2	13.0	1.6	12.2	-0.7	7.8
Broad money (M_2) 7/	23.8	-5.4	12.7	11.9	9.8	8.1	11.7
Velocity (GDP/M_2)	4.4	5.1	4.9	5.1	5.3	5.1	5.1
Interest rate (one-year savings deposits)	7.5	7.5	...	7.5	7.5	7.5	7.5
	(In percent of GDP)						
Budgetary grants	3.0	2.3	1.2	1.5	1.3	1.3	1.2
Central government budget deficit (-)							
Commitment basis	-5.4	-2.0	-1.0	-3.0	-1.2	-1.3	-0.8
Cash basis	-6.8	-1.9	-2.4	-2.6	-2.6	-2.8	-1.4
Domestic bank financing	2.0	-0.5	1.2	0.7	0.7	-0.6	0.7
Foreign financing	4.7	2.6	1.2	1.7	1.1	1.2	0.2
Gross domestic investment	9.0	8.1	9.5	12.2	13.1	...	...
Gross domestic savings	-1.8	-8.9	-0.4	-2.7	1.0	...	...
External current account deficit (-) 8/	-12.0	-20.8	-11.9	-19.1	-15.9	-16.2	-13.5
Official transfers	11.8	11.1 9/	8.6	12.8	10.3	10.8	9.5
External debt							
Total outstanding (including Fund credit)	37.3	38.2	26.1	43.5	42.7	46.0	43.1
Debt service ratio 10/							
Including the Fund	10.3	14.0	14.1	13.3	17.4	17.0	21.7
Excluding the Fund	8.1	12.6	...	11.9	12.2	11.5	13.6
Interest payments 10/	1.6	5.3	3.9	4.8	5.9	5.1	6.1
	(In millions of SDRs)						
Overall balance of payments (deficit -)	-4.0	-29.5	-10.5	-8.3	-6.9	10.7	-2.0
Gross official reserves (months of imports, c.i.f.)	4.1	3.0	3.5	3.5	...	4.0	4.0
Outstanding external debt arrears	5.4	12.9	...	17.2 11/	13.8 11/	5.9	—

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

1/ Based on values expressed in SDRs.
2/ Excluding imports and re-exports of coffee.
3/ Based on prices in U.S. dollars.
4/ Import-weighted.
5/ Excluding grants and investment outlays financed outside the budget.
6/ Excluding the proceeds from the exchange rate guarantee.
7/ With M_2 calculated as annual averages of quarterly data.
8 Excluding official transfers.
9/ Excluding CFAF 5.1 billion of 1982 debt cancellation.
10/ Scheduled payments, in percent of exports of goods and nonfactor services.
11/ Adjusted to include SDR 10.8 million which was rescheduled on a bilateral basis in 1984.

Table 3. Central African Republic: Quantitative Performance Criteria and Results Under the Stand-By Arrangement

(In billions of CFA francs; end of period)

	1983 Dec.	1984 March	June	Sept.	Dec.
Domestic credit					
Program		44.3 1/	49.4	47.2	45.6 2/
Actual	42.1	41.6	38.0	36.9	40.7
Of which: net claims on Treasury					
Program		13.8 1/	14.8	15.5	12.9 2/
Actual	13.2	14.6	14.7	14.6	12.3
Reduction of arrears 3/ (cumulative)					
External					
Program			0.4	0.7	1.0
Actual			0.2	0.5	1.0
Domestic (net)					
Program			2.0	2.4	2.8
Actual			2.1	2.3	2.8
New nonconcessional external borrowing with initial maturities of 1 to 12 years (cumulative)					
Program		--	--	--	--
Actual		--	--	--	--

1/ Indicative ceilings.
2/ New ceilings reflecting the buildup of reserves by the Treasury.
3/ Excluding rescheduling.

1. Economic policies

Economic performance in 1984 was greatly helped by the return of normal weather conditions following the severe drought in 1983, and by the continued implementation of incentive policies. In particular, producer prices for cotton and coffee were increased by 12.5 percent and 4 percent, respectively, and the rate of the export tax on diamonds was reduced from 18 percent to 12 percent. As a result, agricultural output recovered significantly and official exports of diamonds increased by nearly 16 percent. River transportation (the main supply route) returned to normal, and, as electricity production, which is obtained mainly from hydroelectric plants, recovered, manufacturing output registered a sizable improvement. Accordingly, the growth of real GDP in 1984 is estimated to have reached the targeted rate of 2.7 percent, thus reversing the downward trend of the past few years.

In the parastatal sector, rehabilitation efforts have been continued. The rates charged by the electricity company (ENERCA) and the water company (SNE) were raised significantly. The Librairie Centrafricaine was transformed into a mixed enterprise, with the management of the new company entrusted to the foreign partner. Similar agreements are currently being negotiated for two other public enterprises, the Imprimerie Centrafricaine, and an insurance company (SIRIRI). The management of the two government-owned hotels has been transferred to international hotel companies. A summary of the implementation status of the principal adjustment measures is shown in Table 4.

2. Fiscal policy

All of the budgetary measures envisaged in the 1984 program were introduced. The first phase of the tax reform was adopted, and tax rates were increased for several items. Additional expenditure and revenue measures were introduced toward the end of the year in an effort to meet the budgetary targets for 1984.

On the expenditure front, the C.A.R. representatives indicated that unanticipated outlays for the repatriation of diplomats, following the closure of a number of embassies, and of students who had completed their stay abroad, led to overruns in certain expenditure categories. Total budgetary expenditure, at CFAF 39.7 billion, however, was more than 8 percent below the 1983 level, and 4 percent below the programmed level for 1984 (Table 5). Current expenditure amounted to CFAF 37 billion, or 1.6 percent below the programmed level. Expenditure on materials and supplies together with outlays on transfers and subsidies amounted to CFAF 10 billion, approximately equal to the level targeted in the program. Scheduled interest on public debt amounted to only CFAF 3.4 billion, or 17 percent below the programmed level mainly because of variations in exchange rates. Wages and salaries, which accounted for 59 percent of total outlays in 1984, were at about the level foreseen under the program. Commitments for capital expenditure were nearly 29 percent below the budget estimates owing to difficulties in collecting taxes.

Table 4. Central African Republic: Implementation Status of the 1984 Adjustment Program

Policies and measures	Status of implementation
1. Fiscal measures	
a. First phase of the tax reform involving a simplification of the income tax, a consolidation of income brackets, and an increase in the rates applicable to wage earners	Introduced with the amended 1984 budget law.
b. Increase in the rates of taxes on petroleum products	Implemented January 14, 1984.
c. Increase in the rate of the transactions tax	Implemented January 14, 1984.
d. Upward adjustment of the standard values (valeurs mercuriales) used for the assessment of export duties	Implemented January 14, 1984.
e. Increase in the Treasury's share of the profit margin on coffee marketing from 55 to 60 percent	Implemented.
f. Freeze on wages and salaries; no financial impact of the automatic promotions in 1984	Implemented.
g. Reduction in government employment by limiting new recruitment to one third of vacancies (with a maximum of 300 during 1984)	Implemented; new recruitment represented about one third of vacancies.
h. Competitive examination for the award of scholarships for secondary and higher education	A presidential decree to that effect was issued but not implemented. However, expenditure for scholarships was limited to the agreed amount.
i. Borrowing from government employees, equivalent to one month of salary	Implemented.
j. Borrowing from the Stabilization Fund (CAISTAB) of CFAF 500 million	Implemented.
2. State enterprises	
a. Increase in electricity tariffs	Implemented in July 1984.
b. Privatization of three public enterprises	Being implemented. One public enterprise has already been privatized.
3. Producer prices	
Increase in producer prices from CFAF 80/kg to CFAF 90 for cotton and from CFAF 130/kg to CFAF 135 for coffee	Implemented.
4. External sector	
a. Bilateral debt rescheduling agreements	Being implemented.
b. Elimination of all external arrears over the stand-by period	Being implemented.
c. No new borrowing on nonconcessional terms of less than 12 years	Being observed.

Table 5. Central African Republic: Budgetary Operations, 1981-85

(In billions of CFA francs)

	1981	1982	1983 Program	1983 Actual	1984 Program	1984 Est.	1985 Program
Total budgetary revenue	24.9	35.8	36.7	36.2	38.3	39.6	42.4
Tax revenue	23.2	30.8	34.4	30.9	35.2	33.2	36.4
Nontax revenue	1.7	5.0	2.3	5.3	3.1	6.4	6.0
Of which: receipts from the exchange guarantee	(--)	(2.7)	(--)	(2.6)	(--)	(3.4)	(1.6)
Total expenditure	35.1	40.1	39.3	43.2	41.4	39.7	43.1
Current expenditure	32.9	37.4	35.4	39.4	37.6	37.0	38.5
Wages and salaries	(21.7)	(23.7)	(23.2)	(23.9)	(23.3)	(23.4)	(23.8)
Materials and supplies	(6.6)	(6.7)	(5.8)	(7.4)	(6.2)	(5.4)	(6.2)
Transfers and subsidies	(3.4)	(3.9)	(4.0)	(4.2)	(3.7)	(4.6)	(3.8)
Scheduled interest on public debt	(1.0)	(2.9)	(2.4)	(3.3)	(4.1)	(3.4)	(4.5)
Other	(0.2)	(0.2)	(--)	(0.6)	(0.3)	(0.2)	(0.2)
Capital expenditure 1/	2.2	2.7	3.9	3.8	3.8	2.7	4.6
Overall budgetary deficit (commitment basis)	-10.2	-4.3	-2.6	-7.0	-3.1	-0.1	-0.7
Arrears (net reduction -)	-2.7	0.2	-3.5	0.9	-3.8	-3.8	-2.0
Domestic	(0.3)	(1.0)	(--)	(1.9)	(-2.8)	(-2.8)	(-1.0)
External	(-3.0)	(-0.8)	(-3.5)	(-1.0)	(-1.0)	(-1.0)	(-1.0)
Overall Treasury deficit (cash basis)	-12.9	-4.1	-6.1	-6.1	-6.9	-3.9	-2.7
Financing	12.9	4.1	6.1	6.1	6.9	3.9	2.7
Domestic	4.1	-1.5	3.0	2.1	4.0	0.8	2.2
Banking system (net) 2/	3.8	-1.1	3.0	1.6	1.8	-1.6	2.2
Of which: BEAC	(0.7)	(-1.4)	(2.7)	(1.3)	(1.0)	(0.4)	(2.0)
IMF counterpart	(4.1)	(0.1)	(0.3)	(0.5)	(0.8)	(-0.6)	(0.2)
Other	0.3	-0.4	--	0.5	2.2	2.4 3/	--
Foreign (net)	8.8	5.6	3.1	4.0	2.9	3.1	...
Grants	5.6	5.0	3.0	3.4	3.5	3.5	3.5
Borrowing	3.8	0.9	1.6	1.6	1.5	1.4	--
Amortization paid	-0.6	-0.7	-1.5	-1.2	-2.1	-2.0	-6.4
Debt relief on interest payments	--	0.4	--	0.2	--	0.2	...
Financing gap	--	--	--	--	--	--	3.4 4/
Memorandum items:							
Scheduled amortization	-3.5	-4.3	-4.7	-4.8	-4.8	-4.8	-6.4
Debt relief (principal)	2.7	0.9	3.2	3.5	2.7	2.6	...

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

1/ Excluding government outlays financed outside the budget through foreign loans and grants. Beginning in 1985 investment by the Stabilization Fund in the agricultural sector is consolidated with central government operations.

2/ *Net claims of the banking system exclude deposits held by a number of public entities that* are outside the direct control of the Treasury.

3/ Borrowing from civil servants and from the Stabilization Fund (CAISTAB); and other Treasury operations.

4/ Expected to be financed mostly through rescheduling under the auspices of the Paris Club currently assumed at CFAF 3-4 billion.

By contrast, the growth of budgetary revenue, excluding proceeds from the exchange rate guarantee scheme, 1/ was lower than expected, owing largely to difficulties in the collection of income taxes and some indirect taxes. In 1984, budgetary revenue amounted to CFAF 36.2 billion, excluding CFAF 3.4 billion of nontax revenue accruing from the exchange guarantee scheme, compared with CFAF 38.3 billion in the program, a shortfall of 5.5 percent; compared to 1983, however, budgetary revenue increased by 7.7 percent, excluding proceeds under the exchange guarantee scheme, and by 9.4 percent if these proceeds are included in both years. The shortfall in revenue in 1984 is due entirely to a 5.7 percent decline in tax revenue compared with the budget estimates, although tax revenue rose by 7.4 percent compared with 1983.

In an effort to improve revenue performance the authorities decided to accelerate tax collection, notably by setting up in early November a task force to carry out tax audits and controls, and by reviewing tax arrears due to the Treasury from the mixed enterprise (TOCAGES) entrusted with the importation and distribution of petroleum products. These arrears were incurred as the company failed to transfer to the Treasury taxes on petroleum products collected on the latter's behalf. An examination of TOCAGES' financial situation, carried out with the assistance of a foreign expert, concluded that the company's tax arrears amounted to about CFAF 1.2 billion as of end-November 1984, a level agreed to by both the Government and TOCAGES. Of this amount, TOCAGES settled CFAF 600 million in December 1984, followed by a further payment of CFAF 240 million in January 1985. The remainder (about CFAF 400 million) is to be offset against government arrears vis-à-vis TOCAGES. Despite these additional efforts, budgetary revenue, excluding exceptional resources from the exchange guarantee scheme, rose by only 8 percent to CFAF 36.2 billion, against a programmed growth of 14 percent. On this basis, the budgetary deficit, on a commitment basis, was equivalent to 1.3 percent of GDP, or about the level (1.2 percent of GDP) originally programmed. However, taking into account the exceptional resources from the exchange guarantee scheme (which are treated as nontax revenue), budgetary revenue for 1984 amounted to CFAF 39.6 billion, or 3.4 percent more than programmed and 9.4 percent above the 1983 level. As the net reduction in domestic and external arrears amounted to CFAF 3.8 billion as programmed, the overall budgetary deficit, on a cash basis, amounted to CFAF 3.9 billion (1.5 percent of GDP), compared with CFAF 6.1 billion (2.6 percent of GDP) in 1983.

The Treasury financing requirements were met essentially through external resources, which amounted to CFAF 3.1 billion. Domestic financing included CFAF 2.2 billion of borrowing from civil servants (CFAF 1.7 billion) and from the Stabilization Fund (CFAF 0.5 billion). As the resources (CFAF 3.4 billion) from the exchange rate guarantee scheme became available toward year-end, the Treasury was able to build up reserves with the central bank, as called for under the program and

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1/ Under the exchange rate guarantee scheme between France and the member states of the bank, the value of the BEAC holdings in the operations account with the French Treasury is guaranteed in terms of SDRs.

thereby help alleviate possible liquidity problems in 1985. Given their uncertain nature, these resources were not taken into account in the design of the program. After consultation with the Fund and because of lower-than-anticipated use of the counterpart of Fund drawings owing to the delay in concluding the first review of the program, the Treasury used CFAF 1.3 billion in 1984 and deposited the remainder with the banking system.

As indicated above, all budgetary measures were introduced, including the new policies on recruitment and scholarships. These last two policy measures, however, proved difficult to implement fully. Under the program, recruitment into the permanent civil service and the military was to be limited to 300, or one third of vacancies, whichever was less. Because of actions taken toward year-end to correct irregularities in employment discovered in two ministries, the total number of vacancies, which was estimated at 549 at end-September, reached 917 by year-end. However, the number of recruitments in 1984 was 326. The authorities explained that this overrun was due to the recruitment of military personnel in relation to security problems at the borders with Chad and Sudan. In the area of education, because of unexpected difficulties in implementation, the authorities decided to review their initial decision to introduce competitive examinations for the award of scholarships, and to consider alternative methods of controlling the growth of educational expenditure. In addition, a comprehensive reform of the educational system is under study in collaboration with the World Bank. Meanwhile, the entrance examinations for university admission have been made more rigorous in an attempt to make selection more efficient. This helped limit expenditure on scholarships in 1984 to about the programmed level of CFAF 1.2 billion.

3. Credit policy

During 1984 domestic credit declined by 3.3 percent compared with a programmed increase of 13 percent (Table 6). This was attributable mainly to the accelerated pace of liquidation of seasonal credit and to sluggish demand for credit from the rest of the private sector. Credit for cotton was almost liquidated by end-September, while coffee credit was fully reimbursed as a result of the lower-than-anticipated coffee crop; in addition, the importation of petroleum products for the 1984/85 season did not start until late in the fourth quarter of 1984 because of the high level of stocks existing as of end-1983. Domestic credit increased rapidly (10 percent) in the fourth quarter, led by a 29 percent expansion in credit to the private sector, as oil imports recovered significantly. Despite this rapid increase, credit to the private sector at end-1984 was still marginally below the end-1983 level. Thus, in 1984 the decline in domestic credit was mainly due to the substantial improvement in the Government's position vis-à-vis the banking system. As the Treasury used part of the proceeds of the exchange guarantee scheme to build up reserves with the banking system, net claims on the Government declined by over 10 percent at end-1984. Despite the more than doubling of the net foreign assets of the banking

Table 6. Central African Republic: Monetary Survey, 1980-85

(In billions of CFA francs; end of period)

	1980	1981	1982	1983 March	1983 June	1983 Sept.	1983 Dec.	1984 March	1984 June	1984 Sept.	1984 Dec.	1985 Dec. Proj.
Foreign assets (net)	6.15	8.37	5.41	7.50	9.29	5.37	6.95	11.40	13.97	14.25	13.15	14.65
Central bank	8.23	10.14	3.96	4.22	4.34	2.05	3.70	7.83	10.38	8.66	9.69	11.19
Deposit money banks	2.76	3.04	1.45	3.28	4.95	3.32	3.25	3.57	3.59	5.59	3.46	3.46
Postal debt	-4.84	-4.81	--	--	--	--	--	--	--	--	--	--
Domestic credit	36.60	41.37	41.01	39.61	39.42	40.95	42.13	41.59	38.02	36.94	40.74	45.50
Claims on Government (net)	13.13	16.94	10.66	9.21	10.47	12.49	11.29	11.66	12.79	13.24	10.12	12.50
Net claims on the Treasury 1/	13.51	18.36	11.48	10.52	12.35	13.91	13.17	14.55	14.66	14.65	12.33	14.53
Central bank 2/	(8.37)	(13.17)	(12.38)	(11.32)	(13.15)	(14.81)	(14.10)	(15.54)	(15.25)	(15.37)	(14.69)	(16.89)
Deposit money banks 3/	(5.14)	(5.19)	(-0.90)	(-0.80)	(-0.80)	(-0.90)	(-0.93)	(-0.99)	(-0.59)	(-0.72)	(-2.36)	(-2.36)
Other net claims on the Government 4/	-0.38	-1.42	-0.82	-1.31	-1.88	-1.42	-1.88	-2.89	-1.87	-1.41	-2.21	-2.03
Credit to the private sector	23.47	24.43	30.35	30.40	28.95	28.46	30.84	29.93	25.23	23.70	30.62	33.00
Broad money	36.63	45.34	42.89	44.41	48.63	44.05	47.99	50.96	51.43	53.73	51.65	58.00
Currency in circulation	24.37	31.96	31.22	32.60	33.09	32.18	34.38	36.62	35.48	35.70	36.77	...
Demand and time deposits	12.26	13.38	11.67	11.81	15.54	11.87	13.61	14.34	15.95	18.03	14.88	...
Other items (net)	6.12	4.40	3.73	2.70	0.08	2.27	1.09	2.03	0.56	-2.54	2.24	2.15

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

1/ Including the Treasury, the Amortization Fund (CAADE), the Road Fund, and the Recovery Fund.
2/ Including the counterpart of Fund drawings.
3/ Including deposits with the Postal Checking System, and the postal debt.
4/ Net claims on various autonomous government agencies such as the Stabilization Fund, and the Social Security Fund.

system, broad money supply rose by only 7.6 percent. During the year as a whole, the inflation rate, as measured by the consumer price index in the capital city, was about 6 percent, compared with 13 percent in 1983. This was mainly due to the substantial recovery in food production, which led to a deceleration in the price rise of basic foodstuffs.

4. External policies

The external current account deficit (excluding official transfers) is estimated to have been reduced from 19 percent of GDP in 1983 to 16 percent in 1984, reflecting the virtual stagnation of credit to the private sector, the relatively satisfactory export performance, and the improvement in the fiscal position of the Government. Earnings from exports rose by 10.2 percent, compared with a program estimate of 14.9 percent (Table 7). Exports of diamonds and cotton exceeded the program targets, but they were more than offset by the sharp decline in coffee exports. Earnings from uncut diamonds rose by about 32 percent to a record level of CFAF 13 billion, as unit value increased by 13.6 percent (in terms of domestic currency), and volume by 15.5 percent, partly due to the reduction in the export tax rate on diamonds from 18 percent to 12 percent. Earnings from coffee amounted to only CFAF 11 billion, about 16 percent below the program estimate; export volume declined to 13,400 tons compared with initial projections of 16,000 tons, despite the substantial recourse to imports from neighboring countries which partly offset the severe drought-induced decline in domestic production. As the transportation bottlenecks at the port of Pointe Noire in the People's Republic of the Congo eased considerably toward the end of the year, earnings from exports of both timber and cotton recovered to about their projected levels. Imports are estimated to have increased by 13 percent to CFAF 60 billion, compared with a program estimate of 8.4 percent, as the value of coffee imported for re-exports was nearly three times the projected level. As a result, the trade deficit worsened significantly compared with both the 1983 level and the program estimate. However, net service payments declined appreciably, reflecting the reduction in expenditure on travel and other government services. Thus, the current account deficit (excluding official transfers) is estimated at CFAF 42.9 billion, equivalent to 16.2 percent of GDP, compared with the program target of 15.9 percent. As project-related disbursements accelerated in the second half of the year, the capital account surplus nearly doubled to CFAF 12.4 billion, representing a moderate improvement over the program estimate. Taking into account transfers under the exchange rate guarantee scheme with France (CFAF 3.4 billion), the overall balance of payments registered a substantial surplus in 1984, amounting to CFAF 4.4 billion (1.7 percent of GDP), compared with a deficit of CFAF 3.4 billion in 1983, and an estimated deficit of CFAF 3.0 billion in the program.

As envisaged in the program, all outstanding external debt arrears at end-1983, estimated at the time at CFAF 1.8 billion, were to be settled during the period of the stand-by arrangement; for 1984 the program called for cash reduction of arrears of CFAF 1.0 billion. As

Table 7. Central African Republic: Balance of Payments, 1981-84

(In billions of CFA francs)

	1981	1982	1983	1984 Program	1984 Est.
Exports, f.o.b. 1/	35.5	37.7	44.3	50.9	48.8
Diamonds	(9.0)	(8.9)	(10.3)	(13.0)	(13.3)
Coffee	(7.3)	(10.1)	(14.3)	(13.1)	(11.0)
Timber	(8.5)	(8.1)	(8.4)	(9.2)	(9.1)
Cotton	(5.1)	(2.7)	(5.6)	(8.8)	(9.0)
Tobacco	(1.4)	(1.2)	(0.9)	(1.3)	(1.6)
Other	(4.2)	(6.7)	(4.8)	(5.5)	(4.8)
Imports, f.o.b. 1/	-42.4	-50.5	-53.4	-57.9	-60.3
Trade balance	-7.2	-12.8	-9.1	-7.0	-11.5
Services (net)	-11.6	-25.9	-30.0	-29.1	-25.7
Of which: freight and insurance	(-12.7)	(-15.2)	(-15.6)	(-16.4)	(-16.6)
scheduled interest on public debt 2/	(-0.8)	(-2.7)	(-2.8)	(-3.9)	(-3.3)
Private unrequited transfers (net)	-3.8	-5.6	-5.7	-6.0	-5.7
Current account balance	-22.6	-44.3	-44.8	-42.1	-42.9
Public unrequited transfers (net)	22.3	28.7 3/	30.1	27.3	28.6
Capital account balance	2.6	4.4	6.1	11.8	12.4
Of which: scheduled public debt amortization	(-3.5)	(-9.4) 3/	(-4.8)	(-5.0)	(-4.8) 4/
SDR allocations, and exchange rate guarantee	--	2.7 5/	2.6 5/	--	3.4 5/
Errors and omissions (net)	-3.6	-2.2	2.6	--	3.3
Overall balance	-1.3	-10.7	-3.4	-3.0	4.8
Financing	1.3	10.7	3.4	3.0	-4.8
Use of Fund credit (net)	4.8	0.7	1.7	0.8	-0.6
Purchases	(5.6)	(0.9)	(1.8)	(3.5)	(2.2)
Repurchases	(-0.8)	(-0.2)	(-0.1)	(-2.7)	(-2.8)
Arrears (reduction -)	-16.1	3.0	-3.6	-1.0	-5.7
Of which: cash payments	(--)	(-0.1)	(-1.6)	(-1.0)	(-1.0) 6/
Debt relief	19.3	2.0	6.7	2.7	7.5
Other reserve movements, net (increase -)	-6.7	5.0	-1.4	0.5	-6.0
Memorandum items:					
Current account balance (excluding public transfers) as a proportion of GDP (percent)	-12.0	-20.8	-19.1	-15.9	-16.2
Scheduled external debt service (in billions of CFA francs; including the Fund)	5.1	7.2	7.7	11.6	10.9
Scheduled debt service as a proportion of exports of goods and nonfactor services (percent)	10.3	14.0	13.3	17.4	17.0
Exports of goods and nonfactor services (in billions of CFA francs)	49.5	51.4	57.8	66.6	64.2

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

1/ Including coffee imports and re-exports.
2/ Including Fund charges.
3/ Including external debt cancellation (CFAF 5.1 billion).
4/ Including Trust Fund repayments of CFAF 0.5 billion.
5/ Resources accruing under the exchange rate guarantee scheme.
6/ Including CFAF 0.6 billion reduction in arrears on nonconventional debt.

shown in Table 8, this performance criterion relating to the cash reduction of arrears was observed in 1984 through payments of CFAF 0.4 billion on arrears on medium- and long-term debt, and CFAF 0.6 billion on arrears on short-term noncontractual debt. During the second review, it was determined that the Central African Republic had additional outstanding arrears amounting to CFAF 5.7 billion to Iraq, South Africa, the U.S.S.R., Curaçao and some member countries of the African Postal and Telecommunications Union (UAPT). As a result, the total stock of arrears outstanding as of end-1983 was revised to CFAF 7.5 billion. The C.A.R. authorities explained that, pending the conclusion of the respective bilateral agreements, they had decided in late 1983 to apply to these arrears the terms of the 1983 Paris Club debt rescheduling. During the last quarter of 1984, these arrears were consolidated through bilateral agreements which were signed with Iraq, South Africa, the U.S.S.R., and some member countries of the UAPT, providing a debt relief of CFAF 4.7 billion. Moreover, information was also obtained on the stock of arrears on noncontractual short-term external obligations. As of end-1983 these arrears amounted to CFAF 3.2 billion. As noted above, these arrears were reduced to CFAF 2.6 billion as of end-1984.

Table 8. Central African Republic: External Arrears, 1984

(In billions of CFA francs)

	Contractual 1/	Noncontractual 2/
Outstanding beginning of year		
Program estimate	1.8	3.2
Revised	7.5	3.2
Cash reduction	-0.4	-0.6
Rescheduling	-4.7	--
Accumulation during year	0.4 3/	--
Outstanding end of year	2.8	2.6

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

1/ Medium- and long-term.
2/ Short-term. Consist largely of arrears on contributions to international organizations.
3/ Of which CFAF 0.2 billion settled in early 1985.

Regarding current maturities falling due in 1984 (CFAF 8.1 billion), the Central African Republic obtained debt relief of CFAF 2.8 billion through bilateral agreements with France, Austria, the U.S.S.R., Iraq, and South Africa, compared with CFAF 2.7 billion assumed in the program. However, the bilateral agreement with Italy regarding the rescheduling of CFAF 0.2 billion could not be signed, and a further CFAF 0.2 billion due by parastatals on debt guaranteed by the Government was not paid until the first quarter of 1985.

The import-weighted nominal effective exchange rate of the CFA franc depreciated by about 2.7 percent in 1984, or by 12 percent on a cumulative basis since 1980; in real terms, the effective exchange rate depreciated by nearly 3 percent during 1984, or by about 4 percent over the past five years. Between 1980 and 1984, the CFA franc depreciated in nominal terms by 52 percent vis-à-vis the U.S. dollar, and by 39 percent vis-à-vis the SDR.

IV. Balance of Payments Outlook

During the review, the medium-term balance of payments prospects were re-examined on the basis of recent developments in world commodity markets and economic recovery in the major markets for the Central African Republic's exports. The examination suggested that the balance of payments scenario presented in EBS/84/121 remains essentially valid and the objective of achieving a sustainable external current account deficit (7.5 percent of GDP) in 1988 is attainable (Table 9). To that effect the authorities reiterated their determination to continue to implement policies to stimulate investment and output and to contain public consumption. While the country's export base is reasonably diversified, the major export products are nevertheless primary commodities which remain highly vulnerable both to climatic factors and to developments in world markets. The balance of payments scenario is therefore based on the assumptions of relatively normal weather conditions and a marginal improvement in the terms of trade.

After increasing by 16.6 percent in 1985, earnings from exports are projected to rise by 10.5 percent per annum during 1986-88. Export prices are projected to grow by 4.5 percent per annum, with lower-than-average increases forecast for coffee and cotton, and higher rates of growth for wood products. The volume of exports is forecast to increase at an average annual rate of 7 percent during 1985-88, due largely to a rise of 15 percent in export volume in 1985 on account of a substantial recovery in coffee production from the 1983 drought; thus, during 1986-88 export volume is projected to rise by only 4.6 percent per annum. After increasing by 49 percent in 1983 and by 36 percent in 1984, the volume of cotton exports is projected to rise by 22 percent in 1985 and thereafter at an average annual rate of 11 percent in 1986-88. Given further actions to stimulate investment in the forestry sector and the decision of the authorities to place greater emphasis on wood processing, it is expected that the volume of sawn wood exports will rise by 7 percent per

Table 9. Central African Republic: Summary Balance of Payments, 1985-88

(In billions of CFA francs)

	1985	1986	1987	1988
		Projections		
Exports, f.o.b. 1/	56.9	63.4	69.6	76.8
Diamonds	15.6	17.3	19.0	21.0
Coffee	14.8	15.7	17.0	18.2
Timber	9.7	10.8	11.9	13.0
Cotton	10.2	12.4	13.9	16.2
Tobacco	1.5	1.7	1.9	2.1
Other	5.1	5.5	5.9	6.3
Imports, f.o.b. 1/	-62.0	-65.4	-68.8	-72.7
Trade balance	-5.1	-2.0	0.8	4.1
Services (net)	-29.1	-30.0	-29.9	-29.0
Of which:				
freight and insurance	(-18.4)	(-19.8)	(-21.3)	(-23.0)
scheduled interest on public debt	(-4.4)	(-4.7)	(-4.7)	(-4.4)
Private unrequited transfers (net)	-5.8	-6.0	-6.0	-6.0
Current account balance	-40.0	-38.0	-35.1	-30.9
Public unrequited transfers (net)	28.0	28.0	28.0	28.0
Current account balance (including public transfers)	-12.0	-10.0	-7.1	-2.9
Capital account balance	11.0	9.5	9.0	9.0
Of which: scheduled public debt amortization	(-6.4)	(-7.0)	(-7.6)	(-9.1)
Of which: Trust Fund repayments	(-0.8)	(-1.2)	(-1.2)	(-1.1)
Overall balance	-1.0	-0.5	1.9	6.1
Financing	1.0	0.5	-1.9	-6.1
Arrears (reduction -)	-2.8	--	--	--
Of which: cash payments	(...)	(--)	(--)	(--)
Net Fund credit	0.2	-2.7	-2.7	-3.0
Purchases	(5.0)	(--)	(--)	(--)
Repurchases	(-4.8)	(-2.7)	(-2.7)	(-3.0)
Other reserve movements (increase -)	...	...	...	...
Financing gap	3.6 2/	3.2	0.8	-3.1
Memorandum items:				
GDP at current prices	296.1	330.7	369.4	412.6
Current account deficit (in percent of GDP)	-13.5	-11.5	-9.5	-7.5
Scheduled debt service (as a ratio of exports of goods and nonfactor services) 3/	21.7	16.6	16.0	16.2
Inflows of official transfers, net capital, and net Fund purchases (in percent of GDP)	13.2	10.5	9.3	8.2

Source: Staff projections.

1/ Including coffee imports and re-exports.
2/ Expected to be covered by exceptional financing, including debt rescheduling.
3/ Including obligations to the Fund.

annum during 1985-88, while exports of logs will stagnate. Diamond exports are expected to continue to gain from the reduction in the export tax, and volume is projected to rise by 6 percent per annum during 1985-88.

The value of total imports is projected to rise by about 5 percent per annum on average, with import prices rising by 4 percent, and import volume by about 1 percent. Excluding coffee, however, the value of total imports is forecast to rise by 8 percent annually, with volume rising by 2.5 percent, and prices by 5.4 percent. As a result, the trade deficit would shrink gradually, and disappear in 1987-88.

The deficit on the services account is projected to stabilize at around CFAF 29.5 billion per annum during 1985-88. Payments for freight and insurance, representing about 40 percent of the value of imports, f.o.b., would rise in line with imports, but continued restraint in government spending is expected to lead to a slowdown in expenditure on travel, other transportation, and government services abroad. Moreover, scheduled interest payments on external debt, which rose by 18 percent in 1984, is estimated to increase by a further 36 percent in 1985, before stabilizing at that level during 1986-88. Consequently, the external current account deficit is projected to decline to 7.5 percent of GDP in 1988, compared to 19.1 percent in 1983, and 16.2 percent in 1984. Including public unrequited transfers, which are assumed constant in nominal terms over the period 1985-88, the external current account deficit would decline from 5.4 percent of GDP in 1984 to less than 1 percent in 1988.

Regarding the capital account, it is assumed that no new nonconcessional loans will be contracted during the period 1985-88, and that capital inflows would consist largely of concessional borrowing with minimal impact on debt service in the medium term. The capital account surplus is projected to decline by one third in 1985 to CFAF 11 billion and to stabilize at about CFAF 9 billion during 1986-88, reflecting higher scheduled payments for amortization and the absence of any inflows related to the exchange rate guarantee scheme. Thus, given the scheduled debt amortization, net inflows of official transfers and capital (including net Fund purchases) would decline from 15.3 percent of GDP in 1984 to 8.2 percent in 1988.

The Central African Republic's outstanding external debt, including obligations to the Fund, amounted to CFAF 122 billion (SDR 258 million) as of end-1984, equivalent to 46 percent of GDP, compared to CFAF 102 billion at end-1983 (43.5 percent of GDP). Scheduled debt service, including obligations to the Fund, is estimated to rise from 17 percent of exports of goods and nonfactor services in 1984 to a peak of 21.7 percent in 1985, before declining to an average of about 16 percent during 1986-88. Obligations to the Fund are projected to rise from 32 percent of total debt service in 1984 to nearly 37 percent in 1985; they are forecast to decline steadily thereafter to about 23 percent in 1987-88.

V. Financial Policies for 1985

The 1985 budget seeks to consolidate the favorable results obtained in 1984. Accordingly, consistent with the objective of achieving budgetary equilibrium by 1986-87, for 1985 the budgetary deficit on a commitment basis will be limited to CFAF 0.7 billion, equivalent to 0.2 percent of GDP. Excluding the proceeds from the exchange guarantee scheme, the deficit will be reduced from 1.3 percent of GDP in 1984 to 0.8 percent in 1985. As the settlement of arrears will amount to CFAF 2.0 billion, the overall Treasury deficit on a cash basis will be reduced by about one third to CFAF 2.7 billion in 1985. Scheduled public debt amortization is estimated at CFAF 6.4 billion; under current assumptions, total debt relief could amount to CFAF 3-4 billion to be obtained from creditors under the auspices of the Paris Club. Taking into account the budgetary grants (CFAF 3.5 billion), net external financing will amount to CFAF 0.5 billion. Domestic financing will consist of a drawing down (CFAF 2.0 billion) of previously accumulated Treasury deposits with the banking system and of net use of the counterpart of Fund drawings (CFAF 0.2 billion). In relation to broad money stock at the beginning of the period, the net claims of the banking system on the Government will increase from 21 percent in 1984 to 24 percent in 1985.

Budgetary revenue for 1985 includes nontax resources from the Stabilization Fund (CFAF 1.7 billion), as noted above, and from the exchange guarantee scheme (CFAF 1.6 billion). 1/ On this basis, budgetary revenue for 1985 is projected to rise by 7 percent to CFAF 42.4 billion; excluding these two items, the increase will be 8 percent. As the budget does not provide for any new tax measures, this growth will stem in part from the intensification of tax collection efforts undertaken in late 1984. Tax revenue, which represents 86 percent of budgetary revenue, is anticipated to rise by 9.6 percent, reflecting mainly the impact of the measures already taken to strengthen income tax collection and larger proceeds from taxes on international trade. However, as a ratio of GDP, tax revenue is estimated at 12.3 percent, comparable to the 1984 level. To help enhance future revenue performance, the authorities intend to request Fund technical assistance.

Budgetary expenditure will continue to bear the brunt of fiscal adjustment. Total expenditure is budgeted to increase by 8.6 percent, reflecting largely a 70 percent growth in capital outlays. Current expenditure is to rise by 4 percent to CFAF 38.5 billion. As in the last three years, there will be no general wage awards and the automatic promotions will have no financial impact. However, the budget provides for an increase ranging from one to five percentage points in certain specific allowances included in civil servant salaries. The budgetary

1/ In 1984 resources from the exchange guarantee scheme (CFAF 3.4 billion) were not taken into account in the design of the program because of uncertainties regarding their availability. For 1985, the decision has already been taken to distribute part of these resources to the member countries of the BEAC.

impact of this adjustment (about CFAF 600 million) will be partly offset by budgetary economies of CFAF 200 million resulting from stricter control of dependency allowances and gratuities. Therefore, the wage bill will be limited to CFAF 23.8 billion, or an increase of 1.7 percent compared with 1984. Moreover, outlays for materials and supplies and for transfers and subsidies will be maintained at their 1984 level. Scheduled interest on the public debt is to rise by about one third to CFAF 4.5 billion. Excluding interest, current outlays are budgeted to increase by about one percent, compared with a projected rate of inflation of 8 percent. The rapid increase in investment expenditure reflects mainly the inclusion in the budget of investments in the agricultural sector financed by the Stabilization Fund. Beginning in 1985, these investments and the corresponding revenue have been consolidated with the government budget. Furthermore, the 1985 budget provides for larger counterpart resources for externally financed projects.

In light of the 1984 experience, the authorities have decided that, beginning with the 1985 budget, the principle applicable to government employment will be that every new recruitment costing one franc be matched by budgetary economies of three francs. This measure, which was introduced by a decree of the President of the Republic in January 1985, will replace the former principle applied in 1984 according to which no more than one third of vacancies could be filled. Although, in terms of its financial impact, the new principle is more constraining than the previous one, the C.A.R. representatives indicated that it would introduce more flexibility in recruitment in line with the priorities set by the Government. Regarding scholarships, the authorities agreed to maintain these outlays at their 1984 level pending the outcome of ongoing discussions concerning the best system of controlling the growth of educational expenditure. In the meantime, measures introduced in 1984 to upgrade the university entrance examinations and to control the awards of scholarships will remain in force.

In order to contain budgetary expenditure to a level compatible with available resources and to introduce an element of flexibility in the execution of the budget, monthly budgetary commitments (excluding salaries and interest on the public debt) will be limited to 90 percent of budgetary appropriations with effect from May 1, 1985. The level of these expenditures will be re-examined during the first review of the new program in the light of revenue performance and of the results of the debt rescheduling exercise.

In view of the anticipated rapid increase in production and export of agricultural products, as well as of the need for higher imports of petroleum products, private sector demand for credit is expected to be substantially above its 1984 level. Thus, credit to the private sector is forecast to rise by 8 percent in 1985, compared with a virtual stagnation in 1984. With net bank financing of the Treasury deficit estimated at CFAF 2.2 billion, domestic credit is projected to rise by about 12 percent. The projection for credit to the private sector will be reviewed in the light of actual requirements for crop credit and for the importation of petroleum products.

VI. Performance Criteria

During the present review, understandings were reached on the budgetary targets for 1985 as called for under the program, and performance criteria governing the last purchase under the current stand-by arrangement have been set for May 1985 (Table 10). In addition, the Central African Republic intends to complete the bilateral debt rescheduling agreements on a timely basis in order to eliminate all outstanding external debt arrears as of end-1984 (CFAF 2.8 billion). Indicative ceilings have also been set for June, September, and December 1985. These ceilings will be reviewed during the negotiation of a new program.

Table 10. Central African Republic: Quantitative Performance Criteria 1/

(In billions of CFA francs; end of period)

	1985			
	May	June	Sept.	Dec.
Domestic credit				
Program	45.5	46.5	45.0	45.5
Actual				
Of which:				
net claims on Treasury				
Program	16.5	17.5	17.5	14.5
Actual				
Reduction of arrears (cumulative)				
External				
Program	0.5	0.8	0.9	1.0
Actual				
Domestic (net)				
Program	0.4	0.6	0.8	1.0
Actual				
New external borrowing with initial maturities of 1 to 12 years				
Program	--	--	--	--
Actual				

1/ Ceilings for June, September and December 1985 are indicative.

VII. Staff Appraisal

The Central African Republic's performance under the 1984 adjustment program has been satisfactory. Real GDP growth is estimated to have attained the targeted rate after four years of continuous decline. The continued provision of incentives stimulated domestic production, and the return of normal weather conditions helped bring about a significant recovery in agricultural output. Official production of diamonds also increased substantially, partly reflecting the impact of the decline in the export tax. Inflationary pressures abated considerably, due in part to the recovery in food crop production. In the area of fiscal policy, the cornerstone of the adjustment effort, all policy measures were introduced as called for under the program. As the prospects for budgetary revenue became unfavorable in the course of the year, the authorities introduced additional corrective measures which helped to maintain the pace of the fiscal and external adjustment underlying the program.

While progress was made in reducing the external current account deficit, it remains large and unsustainable. The commitment of the authorities to reduce it to a sustainable level primarily by restraining public sector expenditure therefore remains appropriate. This will require sustained efforts to contain the growth of government spending. In particular, continued restraint in the areas of personnel and education expenditures is essential. There is also the need to strengthen tax administration with a view to enhancing revenue performance. Progress made in improving budgetary expenditure control should be consolidated.

In line with these objectives, budgetary policies for 1985, which aim at further reducing the fiscal imbalance, would contribute importantly to the achievement of the medium-term targets of the program. At the same time, the authorities remain committed to the rehabilitation of the public enterprise sector and to providing production incentives. Furthermore, as indicated above, all performance criteria for end-December 1984 were observed. In view of this, the staff believes that the authorities' adjustment efforts deserve continued Fund support. The authorities have indicated that they intend to request Fund support in the context of a new stand-by arrangement to become effective upon the expiration of the current arrangement.

VIII. Proposed Decision

Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. The Central African Republic has consulted the Fund in accordance with paragraph 4(b) of the stand-by arrangement for the Central African Republic (EBS/84/121, Supplement 2), and paragraph 3 of the letter of the Minister of State in Charge of Economy and Finance dated May 22, 1984, attached to the stand-by arrangement, in order to reach understandings subject to which further purchases may be made by the Central African Republic under the stand-by arrangement.

2. The letter from the Minister of State in Charge of Economy and Finance dated April 29, 1985 shall be annexed to the stand-by arrangement for the Central African Republic, and the letter of May 22, 1984, supplemented by the letter dated December 19, 1984, shall be read as supplemented by the letter dated April 29, 1985.

3. The references in paragraph 4(a) of the stand-by arrangement to paragraphs 6 and 9 of the letter of May 22, 1984 and to Table 2 of the memorandum annexed to that letter (relating to the limits on total domestic credit and net bank credit to the Treasury, and on the amount of new nonconcessional external borrowing by the Government, as well as to the target for reduction in domestic and external arrears), read as references to paragraphs 8 and 9 and Table 1 of the letter dated December 19, 1984, shall be read as references to paragraph 13 and Table 2 of the letter dated April 29, 1985.

4. (a) Subparagraph (c) of paragraph 4 of the stand-by arrangement shall be deleted and subparagraph (d) shall be designated subparagraph (c).

(b) The following paragraph shall be added after paragraph 4, with paragraphs 5 through 10 to be renumbered as 6 through 11:

> "5. The Central African Republic will not make purchases under the stand-by arrangement during any period of the arrangement in which the Central African Republic has overdue financial obligations to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase."

I. Central African Republic: Relations with the Fund

(As of March 31, 1985)

I. Membership Status

Date of membership	July 10, 1963
Status	Article XIV

A. Financial Relations

II. General Department

(a) Quota	SDR 30.4 million	
(b) Fund holdings of local currency	SDR 55.1, or 181.2 percent of quota	

	Millions of SDRs	Percent of quota
(c) Use of Fund credit		
Credit tranches	15.9	52.2
EAR	4.5	14.8
CFF	4.4	14.5
(d) Repurchase obligations	24.8	81.6
(e) Reserve tranche position	0.1	0.4

III. Previous Stand-By Arrangements

A one-year stand-by arrangement was approved on April 10, 1981 in an amount of SDR 10.4 million (43.3 percent of quota). The total amount was drawn. A one-year stand-by arrangement was approved on April 22, 1983 in an amount of SDR 18 million (equivalent to 75 percent of quota). Total purchases under this arrangement amounted to SDR 4.5 million. The present one-year stand-by arrangement was approved on July 6, 1984 in an amount of SDR 15 million (equivalent to 49.3 percent of quota). Total purchases made so far under this arrangement amount to SDR 8.0 million.

IV. SDR Department

(a) Net cumulative allocation	SDR 9.33 million
(b) Holdings	SDR 2.7 million, or 29.1 percent of net cumulative allocation

I. Central African Republic: Relations with the Fund (continued)

(As of March 31, 1985)

V. Administered Accounts

Trust Fund loans	
(i) Disbursed	SDR 12.7 million
(ii) Outstanding	SDR 10.9 million

VI. Overdue Obligations to the Fund

None

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 and Review of Stand-By Arrangement

1984 Consultation

January 12-26 and April 2-10, 1984. Executive Board discussion: July 6, 1984.

"1. The Fund takes this decision in concluding the 1984 Article XIV consultation with the Central African Republic, in light of the 1984 Article IV consultation with the Central African Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

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

Stand-By Arrangement

"1. The Government of the Central African Republic has requested a stand-by arrangement for a period of one year from July 6, 1984, in an amount equivalent to SDR 15 million.

2. The Fund approves the stand-by arrangement attached to EBS/84/121.

3. The Fund waives the limitation in Article V, section 3(b)(iii), of the Articles of Agreement."

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

(As of March 31, 1985)

IX. Technical Assistance

(a) CBD	None
(b) FAD	Tax expert (1983)
(c) 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.

X. Resident Representative/Advisor

None

II. Central African Republic: Relations with the World Bank Group

(As of January 31, 1985)

A. IDA Lending Program

	(In millions of U.S. dollars)		
	Total	Disbursed	Undisbursed
Cotton area rural development	10.40	3.05	7.35
Livestock	2.50	2.10	0.40
Transportation (highways)	47.36	34.41	12.95
Education	14.90	6.71	8.19
Technical assistance	4.00	3.02	0.98
Total	79.16	49.29	29.87
Repayments		0.57	
Outstanding (excluding undisbursed)		48.72	

B. IFC Investment

nil

C. Technical Assistance

The World Bank is currently funding a technical assistance project designed to improve the absorptive capacity of the economy and to support Government efforts for the rehabilitation of the national economy. Under this project, four resident experts are already in Bangui, namely, a project coordinator, an agricultural program coordinator, a legal expert, and an external debt expert. In addition, a World Bank economist has been seconded as an advisor to the High Commissioner for Planning. The World Bank has also financed a comprehensive survey of civil servants with a view to streamlining government employment. A follow-up technical assistance project (SDR 8.4 million) approved in April 1985 is designed to strengthen the capacity of the Government to formulate and carry out an effective medium-term economic development program.

Bangui, April 29, 1985

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

Dear Mr. de Larosière:

1. In accordance with the stand-by arrangement approved by the International Monetary Fund on July 6, 1984, the C.A.R. authorities and the Fund staff have carried out the second comprehensive review of the implementation of the economic and financial program and have agreed on the 1985 budget. As indicated in my letter of December 19, 1984, the adjustment measures introduced by the C.A.R. Government have stimulated production and reduced the budget deficit, helping to improve the external current account and to reduce inflation sharply. Furthermore, all the performance criteria for the end of December 1984 were observed (Table 1).

2. Owing to the production incentives which were introduced and more favorable weather conditions, the economic situation in the Central African Republic improved markedly in 1984. Production of foodstuffs and exports increased substantially, while recovery has begun in other economic sectors. Consequently, real GDP is estimated to have increased by 2.7 percent. The rate of inflation, as measured by the consumer price index in Bangui, declined to 6 percent, which is less than half the rate of 1983.

3. The C.A.R. Government's efforts to improve its financial position have begun to produce results. In 1984 government expenditure was 8.1 percent below the 1983 level and 4.1 percent below the program estimates. The reduction in expenditure was achieved mainly in the areas of personnel, and materials and supplies. Furthermore, investment expenditure under the government budget was lower than envisaged in the program. These results were achieved through the Government's sustained efforts to restructure the civil service and to control other current expenditure. Recruitment and confirmation in the civil service totaled 326 at end-December 1984, compared with 917 vacancies. The slight increase in recruitment over the limit of 300 provided for in the program was due to special circumstances connected with the security of our borders with Chad and Sudan. However, the strengthening of financial control as well as the measures introduced to limit expenditure on scholarships kept other current expenditure within the overall program limits.

4. Budgetary revenue in 1984 was below program targets owing to difficulties in collecting direct taxes and customs duties. Nevertheless, excluding the exchange guarantee receipts, total budgetary revenue in-

creased by 8 percent compared to 1983. Consequently, the budget deficit, on a commitment basis, and excluding the exchange guarantee resources, amounted to CFAF 3.5 billion, equivalent to 1.3 percent of GDP, against CFAF 9.6 billion (4.0 percent of GDP) in 1983. If the exchange guarantee revenue is included, the deficit amounted to CFAF 0.1 billion, against CFAF 7.0 billion in 1983.

5. In 1984, domestic and external arrears were reduced by the amounts envisaged by the program, i.e. CFAF 3.8 billion. The overall Treasury deficit was largely financed by external resources, while net bank financing was negative owing to the use by the Treasury of part of the exchange guarantee resources to build up reserves with the banking system as provided for in the program. During the same year, the Central African Republic obtained bilateral rescheduling of payments due in 1984 on its medium- and long-term external debt in the amount of CFAF 2.8 billion. Pending the outcome of the negotiations on the consolidation of obligations outstanding at end-1983 (CFAF 7.5 billion), the Central African Republic decided to apply to these obligations the terms of the 1983 Paris Club rescheduling and, consequently, these obligations were not included as arrears as of end-1983. Bilateral agreements were in fact signed during the last quarter of 1984 with a number of creditors and the Central African Republic obtained debt relief of CFAF 4.7 billion. However, as bilateral agreements could not be signed with some creditors, including certain members of the Union Africaine des Postes et Télécommunications (UAPT), the stock of external arrears amounted to CFAF 2.8 billion at end-December 1984. The Central African Republic will endeavor to complete bilateral agreements with these countries in order to eliminate all arrears as rapidly as possible.

6. During 1984 credit to the private sector declined by almost 1 percent mainly as a result of the rapid liquidation of crop credit and delays in petroleum product imports compared to the normal seasonal schedule. As the Government used part (CFAF 2.1 billion) of the exchange guarantee to reduce its indebtedness to the banking system, total domestic credit at end-December 1984 declined by 3.3 percent compared to 1983.

7. During the present review, the C.A.R. authorities and the Fund staff examined the 1985 budget. Revenue is anticipated to increase by 7 percent, including the exchange guarantee which is estimated at CFAF 1.6 billion. This increase would result mainly from a rapid rise in receipts from direct taxes, and additional revenue (CFAF 1.7 billion) from the Stabilization Fund for the financing of agricultural investment operations. 1/ On the other hand, customs duties and indirect taxes will increase at a moderate rate, in line with the projected weak growth of imports. A considerable tax collection effort will be made in 1985. Tax administration services will be strengthened and will be allocated adequate resources.

1/ In the 1985 budget, the Stabilization Fund investments in the agricultural sector and the corresponding revenue have been consolidated with central government budgetary operations.

8. The growth of budgetary expenditure will be limited in 1985 and existing control mechanisms reinforced. As mentioned in my letter of December 19, 1984, the Government of the Central African Republic is determined to continue its efforts to restructure the civil service and to control current expenditure. For this purpose, and in order to reduce the share of wages and salaries in total budgetary expenditure, the 1985 finance law has introduced measures to control recruitment based on the financial impact on the government budget, rather than on the ratio of recruitments to vacancies. To this end, any recruitment adding 1 franc to the wage bill can be made only if corresponding savings of 3 francs are made from vacancies arising from retirement or other causes. Although this arrangement is more constraining, the C.A.R. Government believes that it will permit greater flexibility in civil service employment in line with the priorities established by the C.A.R. authorities in this area.

9. In view of the erosion in the purchasing power of the C.A.R. civil servants, whose wages have been frozen since 1982, the Government has decided to increase by 1 to 5 percentage points the rate of the housing and cost of living allowances (IRCV) included in the base salary. The financial impact of this measure will be CFAF 600 million. However, budgetary savings of about CFAF 200 million will be achieved in personnel expenditure by a stricter control of family allowances and various gratuities. As a result, the wage bill will be limited to CFAF 23.8 billion, a rise of 1.7 percent compared with 1984. Therefore, total current expenditure, estimated at CFAF 38.5 billion, will increase by only 4 percent in 1985; excluding interest on the external debt, which is expected to increase by 31 percent, the growth rate will be less than 2 percent, compared with a projected inflation rate of 8 percent. On the other hand, investment expenditure will increase by 70 percent, largely owing to the inclusion of part of the agricultural investment expenditure of the Stabilization Fund (CAISTAB) in the budget, as mentioned above. At the same time, increased counterpart funds in domestic currency will be made available through the budget to finance the various investment projects.

10. In order to contain budgetary expenditure to a level compatible with available resources, monthly budgetary commitments (excluding salaries and interest on the public debt) will be limited to 90 percent of budgetary appropriations with effect from May 1, 1985. The level of these expenditures will be re-examined during the first review of the new program.

11. The budget deficit for 1985, on a commitment basis, will be CFAF 0.7 billion, or 0.2 percent of GDP. With the scheduled settlement of CFAF 2.0 billion in domestic and external arrears, the overall Treasury deficit will amount to CFAF 2.7 billion. This deficit will be financed largely by drawing on the reserves built up by the Treasury with the banking system in 1984 (CFAF 2.0 billion), by budgetary aid (CFAF 3.5 billion), and by net use of the counterpart of drawings on the International Monetary Fund (CFAF 0.2 billion).

12. In 1985 external public debt service, including obligations to the Fund, will represent the equivalent of 22 percent of exports of goods and nonfactor services, and 36 percent of budgetary receipts. For 1986, the external public debt service ratio is projected at 17 percent. Given the high level of external public debt service, the Government has requested a rescheduling of 1985 and 1986 debt obligations under the auspices of the Paris Club, and hopes to obtain the most favorable terms. On the basis of discussions already held with our main creditors, it appears that the Paris Club meeting could take place during the third quarter of 1985. Should the amount of debt relief obtained exceed the level currently assumed, the Government will consult with the Fund within the framework of the first review of the new program to determine the use of the budgetary appropriations thereby released.

13. The C.A.R. authorities will continue to follow a cautious monetary policy in 1985. In view of the significant increase in the production and exports of agricultural products in 1985, and in order to meet the financing requirements for crop marketing and for imports of petroleum products, credit to the private sector is projected to increase by 8 percent in 1985. With the Treasury's recourse to bank financing, estimated at CFAF 2.2 billion (including the counterpart of purchases from the Fund), the expected increase in domestic credit will be about 12 percent over the previous year. Table 2 indicates the ceilings which will be applied to domestic credit and the subceilings on credit to the Treasury in 1985. The ceilings on domestic credit may be adjusted, after consultation with Fund staff, in the light of actual requirements for crop credits and for the importation of petroleum products. The ceilings set for end-May 1985 are performance criteria; the reduction of external arrears by end-June is also a performance criterion. The other ceilings for June, September, and December 1985 are indicative and will be reviewed when a new program is negotiated with the Fund.

14. In 1985 exports are expected to increase by about 17 percent, due to a sharp rise in exports of diamonds (17 percent), coffee (34 percent), and cotton (13 percent). This improvement, together with cautious budgetary and monetary policies, will help to reduce the external current account deficit to CFAF 40 billion, equivalent to 13.5 percent of GDP, compared to 16.2 percent in 1984.

15. In accordance with the objective of rehabilitating the public sector, negotiations are currently under way with a view to privatizing five state enterprises (ICA, SIRIRI, SICPAD, the state pharmacy, and INTER-RCA). If the negotiations do not reach a satisfactory conclusion, these enterprises will be liquidated.

16. During the current review, the medium-term balance of payments outlook was re-examined. The C.A.R. Government remains resolved to achieve the objective of budgetary equilibrium by 1986-87, and to reduce the external current account deficit to a sustainable level, equivalent to 7.5 percent of GDP, by 1988. The budgetary and credit policies for 1985 are appropriate to attain these objectives. The C.A.R. Government hopes that these policies will continue to be supported by the International Monetary Fund in the framework of a new stand-by arrangement, which will become effective upon the expiration of the current arrangement.

Table 1. Central African Republic: Quantitative Performance Criteria and Results Under the Stand-By Arrangement

(In billions of CFA francs; end of period)

	1983	1984			
	Dec.	March	June	Sept.	Dec.
Domestic credit					
Program		44.3 1/	49.4	47.2	45.6 2/
Actual	42.1	41.6	38.0	36.9	40.7
Of which:					
net claims on Treasury					
Program	13.2	13.8 1/	14.8	15.5	12.9 2/
Actual		14.6	14.7	15.6	12.3
Reduction of arrears (cumulative)					
External 3/					
Program			0.4	0.7	1.0
Actual			0.2	0.5	1.0
Domestic (net)					
Program			2.0	2.4	2.8
Actual			2.1	2.3	2.8
New external borrowing with initial maturities of 1 to 12 years					
Program		--	--	--	--
Actual		--	--	--	--

1/ Indicative ceilings.
2/ New ceilings reflecting a downward adjustment of CFAF 2.1 billion from the original program ceilings.
3/ Excluding rescheduled external arrears.

Table 2. Central African Republic: Quantitative Performance Criteria 1/

(In billions of CFA francs; end of period)

	1985			
	May	June	Sept.	Dec.
Domestic credit				
Program	45.5	46.5	45.0	45.5
Actual				
Of which:				
net claims on Treasury				
Program	16.5	17.5	17.5	14.5
Actual				
Reduction of arrears (cumulative)				
External				
Program	0.5	0.8	0.9	1.0
Actual				
Domestic (net)				
Program	0.4	0.6	0.8	1.0
Actual				
New external borrowing with initial maturities of 1 to 12 years				
Program	--	--	--	--
Actual				

1/ Ceilings for June, September and December 1985 are indicative.