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Central African Republic: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers of Nonobservance of Performance Criteria and Augmentation of Access, and Financing Assurance Review—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Central African Republic

In the context of second review under the three-year arrangement under the Poverty Reduction and Growth Facility, requests for waivers of nonobservance of performance criteria and augmentation of access, and financing assurance review, the following documents have been released and are included in this package:

- The staff report for Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers of Nonobservance of Performance Criteria and Augmentation of Access, and Financing Assurance Review, prepared by a staff team of the IMF, following discussions that ended on March 20, 2008, with the officials of Central African Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 4, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its June 18, 2008 discussion of the staff report that completed the review and request.

- A statement by the Executive Director for the Central African Republic.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Central African Republic*
Memorandum of Economic and Financial Policies by the authorities of the Central African Republic*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers of Nonobservance of Performance Criteria and Augmentation of Access, and Financing Assurances Review

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

Approved by Hugh Bredenkamp and Mark Plant

June 4, 2008

Fund relations:	A three-year PRGF arrangement was approved in December 2006 for an amount equivalent to SDR 36.2 million (65 percent of quota). The first review was completed in September 2007; at that time, the C.A.R. reached the decision point for the Heavily Indebted Poor Countries (HIPC) Initiative. Upon receipt of sufficient financing assurances, the IMF disbursed interim HIPC assistance of SDR 3.467 million in January 2008.
Mission discussions:	Program performance in 2007 was satisfactory. Understandings were reached on quantitative and structural performance criteria for 2008. The authorities requested an augmentation of 15 percent of quota to cushion the external oil price shock. A disbursement of SDR 8.67 million will become available upon completion of this review.
Mission team:	Mr. Petri (head), Ms. Schumacher, Mr. Kinoshita and Mr. Hitakatsu (all AFR). The mission was assisted by Mr. Ntamatungiro (resident representative).
Location and mission dates:	Bangui, March 6–20, 2008
Interlocutors:	President of the Republic General Bozizé; Prime Minister Mr. Touadéra; Minister of Finance and Budget Mr. Bizot; Minister of State for Economy and Plan Mr. Maliko; National Director of BEAC (acting) Mrs. Limbio; other senior officials; and representatives of civil society, donors, and the business community.

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ACRONYMS

AfDB	African Development Bank
BEAC	Banque des États de l'Afrique Centrale (Bank of Central African States)
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale (Economic and Monetary Community of Central Africa)
DSA	Debt Sustainability Analysis
EITI	Extractive Industries Transparency Initiative
FSAP	Financial Sector Assessment Program
HIPC	Highly Indebted Poor Countries
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
QB	Quantitative Benchmark
PA	Prior Action
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PC	Performance Criterion
SB	Structural Benchmark
SOE	State-Owned Enterprise
SPC	Structural Performance Criterion
TMU	Technical Memorandum of Understanding
TSA	Treasury Single Account

EXECUTIVE SUMMARY

Political stability was consolidated over the last year, but social tensions remain. Concerns about the social impact of higher fuel prices have delayed implementation of an automatic pricing formula and caused serious fiscal losses. The authorities applied the formula in June 2008 (prior action). Mitigating measures (reducing VAT rates on staple foods), and a significant payment of salary arrears, should help reduce adverse social reactions to higher prices.

After many years of modest growth economic activity has started picking up. Real GDP growth increased and inflation declined in 2007. The growth in agriculture (5.4 percent) was particularly important for poverty alleviation and reflects peace consolidation. The current account deficit increased mainly because grants were lower, and gross foreign reserves declined from 7.3 months of imports at-end 2006 to 4.3 months at-end 2007.

Program performance was broadly satisfactory in 2007. The main objectives of the PRGF-supported program were achieved with an improved fiscal position and progress in structural policies. However, the quantitative performance criteria (PC) on wages, commercial bank credit, domestic and external arrears were not observed; as were the structural PCs on implementing an automatic fuel pricing formula and reducing tax arrears, in part due to capacity constraints. The authorities have undertaken remedial actions.

The macroeconomic outlook for 2008 is mainly positive. Real GDP growth is expected to reach 5 percent with inflation rising moderately to 3 percent. The current account is expected to widen because of higher oil prices; the authorities have requested an augmentation of 15 percent of quota to cushion the shock. Addressing the domestic debt overhang (salary arrears and costly bank loans) is an economic and social priority.

In 2008 the authorities intend to address the weaknesses that impeded program implementation in 2007 and to put in place a financing strategy to make domestic debt more sustainable. Structural measures will boost tax revenues, improve public financial management (PFM), address the quasi-fiscal deficits of state-owned enterprises (SOEs), and enhance liquidity management. The new financing strategy is based on issuing debt instruments in the regional financial market to improve the domestic debt profile.

Staff recommends completion of the second review, granting of waivers for nonobservance of performance criteria, and an augmentation of access. Deviations from program conditionality were small, transitory, or have been addressed in the 2008 program.

I. INTRODUCTION

1. **After several years of armed conflict and deterioration in living standards, the C.A.R. has entered a period of economic recovery and reengagement with the international community, but political stability is fragile.** After a two-month strike of civil servants over payment of salary arrears, a new government was appointed in January 2008. The security situation outside the capital remains fragile, and social tensions over domestic arrears, mostly salaries, are not yet fully resolved.

2. **Fiscal consolidation and external debt relief have brought significant progress in addressing debt sustainability.** After reaching the decision point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in September 2007, the authorities restarted debt servicing to the main multilateral creditors, are negotiating debt relief and arrears clearance with official bilateral creditor, and are engaged in good faith efforts to reach collaborative agreements with external private creditors as required under the lending-into-arrears policy. The authorities are working toward meeting the HIPC triggers, but stepped-up efforts are needed to secure the 80 percent creditor participation necessary for the HIPC completion point.

3. **Resolution of the domestic debt overhang is pressing.** At about 23 percent of GDP, public sector domestic debt is economically and socially problematic. About 60 percent of domestic debt is arrears (mostly salaries) that have no financial cost but high social cost; some civil servants are owed several years of salary. One third of the debt is with BEAC; because C.A.R. exceeded the statutory maximum, the government cannot access cheap funds for liquidity management. It must thus borrow from domestic banks (8 percent of debt) at interest rates of up to 18 percent.

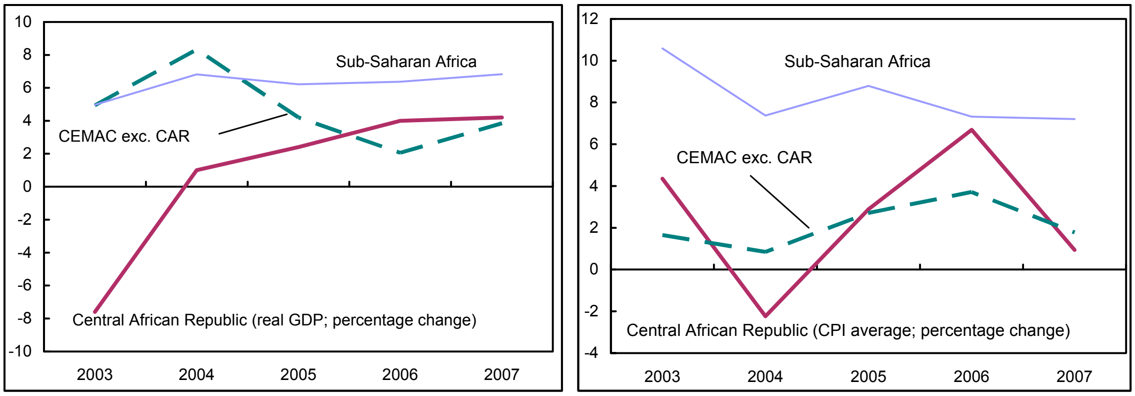
II. RECENT DEVELOPMENTS

A. Economic Performance in 2007

4. **The economic recovery has gathered strength.** Real GDP grew by 4.2 percent in 2007 compared with 2.4 percent in 2005 (Figure 1). Economic activity benefited from a pick-up in private consumption due to the resumption of regular salary payments to civil servants, foreign investment, and a recovery in diamond and timber exports. Agriculture—the largest economic sector in C.A.R.—recovered, moderating food prices and helping bring inflation down to 1 percent in 2007 (Figure 1).

Figure 1. Central African Republic: Growth and Inflation Developments, 2003–07

Growth has recovered, and inflation has moderated after a temporary surge.

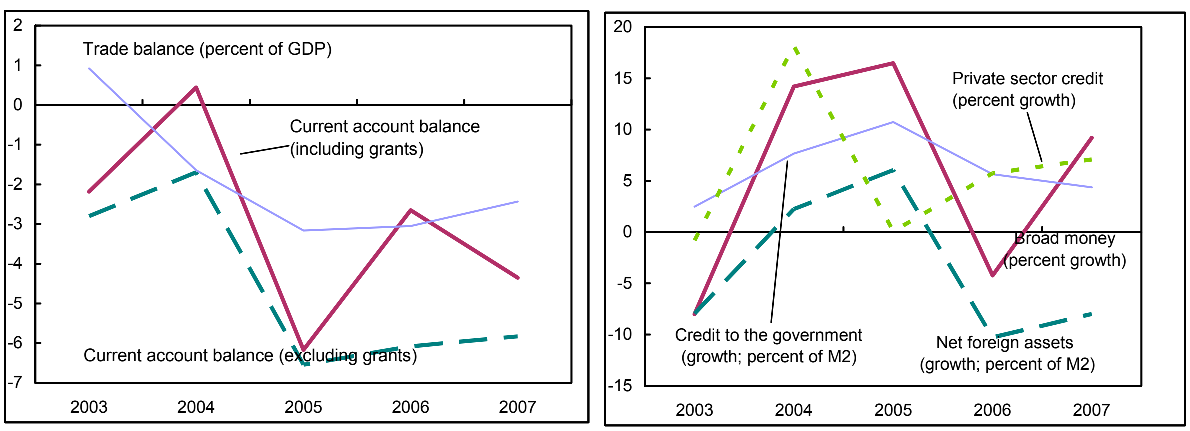


Source: C.A.R. authorities; and IMF staff estimates.

5. **The external current account deteriorated and foreign reserves declined.** Despite rising international oil prices, petroleum imports in 2007 were contained by both slow volume growth and exchange rate appreciation. However, although the trade balance improved (Figure 2), the current account deficit rose to 4.4 percent of GDP in 2007 (from 2.7 percent in 2006), mainly because official grants fell back from the exceptionally high 2006 level. As a result, gross official foreign reserves declined from 7.3 months of imports in 2006 to 4.3 months in 2007, contributing to a decline in broad money (Figure 2).

Figure 2. Central African Republic: External and Monetary Developments, 2003–07

The current account balance has deteriorated; credit to the private sector has grown moderately.



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

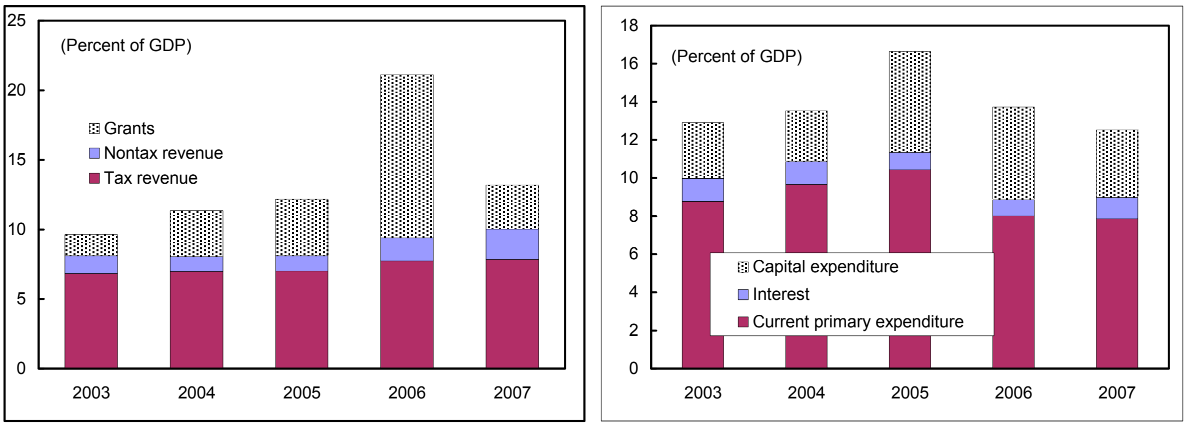
6. **Liquidity in the banking sector is improving markedly.** A recent Financial Sector Assessment Program (FSAP) mission reported that commercial bank deposits at the BEAC have increased as a result of excess liquidity. All banks were profitable in 2007, despite slow growth in lending to the private sector (Figure 2). The percentage of nonperforming loans is relatively high, however.

B. Program Performance in 2007

7. **Fiscal objectives for 2007 were generally achieved.** The performance criterion (PC) on revenues was met and the revenue-to-GDP ratio increased moderately compared to 2006 (Figure 3). Current expenditures were contained by reducing transfers and purchases of goods and services, and the domestic primary balance PC was met (Figure 4). Capital spending was marginally lower due to shortfalls in project grants and cuts in domestically financed capital spending.

Figure 3. Central African Republic: Revenue and Expenditure Developments, 2003–07

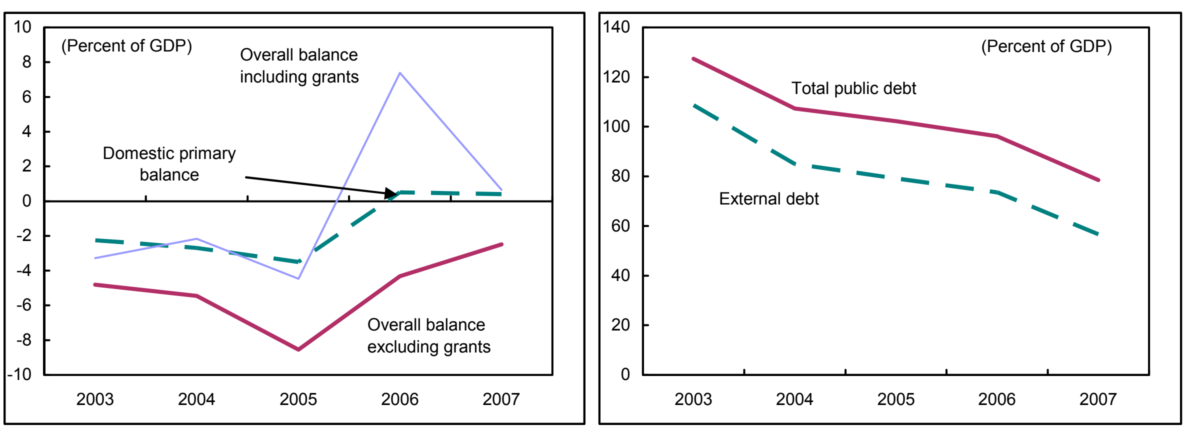
Efforts on both revenue and expenditure sides have contributed to fiscal consolidation.



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

Figure 4. Central African Republic: Fiscal Balance and Debt Developments, 2003–07

A prudent fiscal stance and debt relief have helped reduce debt.



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

8. **However, four of seven quantitative PCs and one of three quantitative benchmarks (QBs) were not observed (Text Table 1):**

- The ceiling on salaries was exceeded by a small margin (0.16 percent of GDP) because savings from a new salary database took longer than expected.

- Liquidity constraints and inadequate PFM procedures led to a small amount of domestic arrears to suppliers (0.2 percent of GDP).

- Arrears to the World Bank and to the AfDB accumulated in early 2008 (continuous PC) due to cash constraints, but were cleared.

- The PC on commercial bank credit was exceeded by CFAF 3 billion (0.3 percent of GDP) partly because of delays and shortfalls in donor financing.[1] This was addressed by a decree on restricting access to commercial bank accounts (MEFP ¶9).

- The QB on reducing domestic arrears was not met due to financing constraints.

9. **Implementation of the program's structural agenda was weak (Text Table 2).** The SPC related to external audits of the sources of government revenues was met, but:

- Adoption of a petroleum product price adjustment formula (SPC) to ensure recovery of all costs and taxes was delayed while the authorities considered measures to mitigate the social impact; it was implemented June 1, 2008 (see below).

- The SPC on reducing tax arrears was not met. Several state-owned enterprises (SOEs) run large quasi-fiscal deficits, as a result of which the SOEs are unable to pay taxes.

- The structural benchmark (SB) on debt collection and bankruptcy legal procedures was delayed by capacity limitations.

[1] Staff urged the authorities to improve compliance with donor conditionality and emphasized to donors the importance of timely disbursement of budget grants.

Text Table 1. Central African Republic: Quantitative Performance Criteria and Benchmarks Under the PRGF Arrangement, 2007

(CFAF billions; cumulative from December 31, 2006; ceilings, unless otherwise indicated)

	End-September Benchmarks			End-December Performance Criteria		
	Program	Adjusted Program	Actual	Program	Adjusted Program	Actual
Floor on total government revenue [1]	61.2	61.2	65.6	81.0	81.0	83.6
Wages, salaries, and bonuses [2]	26.3	26.3	27.3	35.0	35.0	36.3
Floor on domestic primary balance [3]	6.4	4.3	8.3	9.6	8.7	9.0
Accumulation of new government domestic arrears on wages and goods and services [4]	0.0	0.0	0.0	0.0	0.0	2.1
Change in net claims of the commercial banking system on the government	-3.0	-1.0	-0.8	-2.0	-2.0	1.0
New nonconcessional external debt [5,6]	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of government external payments arrears [6]	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets:						
NPV of external debt	...	...	...	457.9	457.9	325.2
Floor on poverty-related spending [7]	9.2	9.2	11.8	12.3	12.3	15.9
Domestic arrears [8]	-9.1	-9.1	-6.6	-18.1	-18.1	-8.6

[1] Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, TMU, for more details).
[2] Including withholding taxes on government salaries (see TMU).
[3] The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally financed capital expenditures.
[4] Wage arrears (including unpaid pensions and bonuses) and arrears on goods and services, excluding arrears on utility consumption. Arrears on goods and services include unpaid spending commitments to suppliers.
[5] Contracted or guaranteed by the government (see the TMU).
[6] These performance criteria will be monitored continuously.
[7] Total spending on health and education including wages and salaries and goods and services.
[8] Amount paid in first quarter of 2007 corresponds to arrears accrued in 2005. Targets for end-September and end-December consist of payment of arrears accumulated during 1998–2004 and predating 1998.

Text Table 2. Central African Republic: Structural Conditionality Implementation, 2007

Measure	Date/ Status	Corrective measures taken
Structural performance criteria		
Begin an external audit of all the sources of government revenue (collected through ministries and agencies) during the period July 2005 to end-December 2006, to help ensure that all revenue has been dutifully reported to the state treasury, and to help clarify where reporting can be strengthened.	End-September/ Implemented	
Implement a new petroleum product pricing formula with parameters set to ensure full recovery of all costs, distribution margins, and taxes, and that avoids the need for further budget subsidies.	End-December/ Not implemented	The petroleum product pricing formula was implemented as a prior action (MEFP ¶33).
Reduce the stock of tax arrears by at least CFAF 1 billion, net of uncollectible tax arrears.	End-December/ Not implemented	The authorities have appointed new heads for the enforced collections and tax audit departments (MEFP ¶8 and ¶27). Also monitored as a quantitative benchmark.
Structural benchmarks		
The government will refrain from providing resources to recapitalize the troubled commercial bank.	Continuous/ Observed	
Reform commercial laws and civil procedures relating to debt collection and bankruptcy in line with the recommendations in the regional Financial Stability Assessment Program completed in June 2006.	End-December/ Not implemented	Will be implemented as part of the authorities' agenda to apply the OHADA law.

Sources: C.A.R. authorities; and IMF staff assessments.

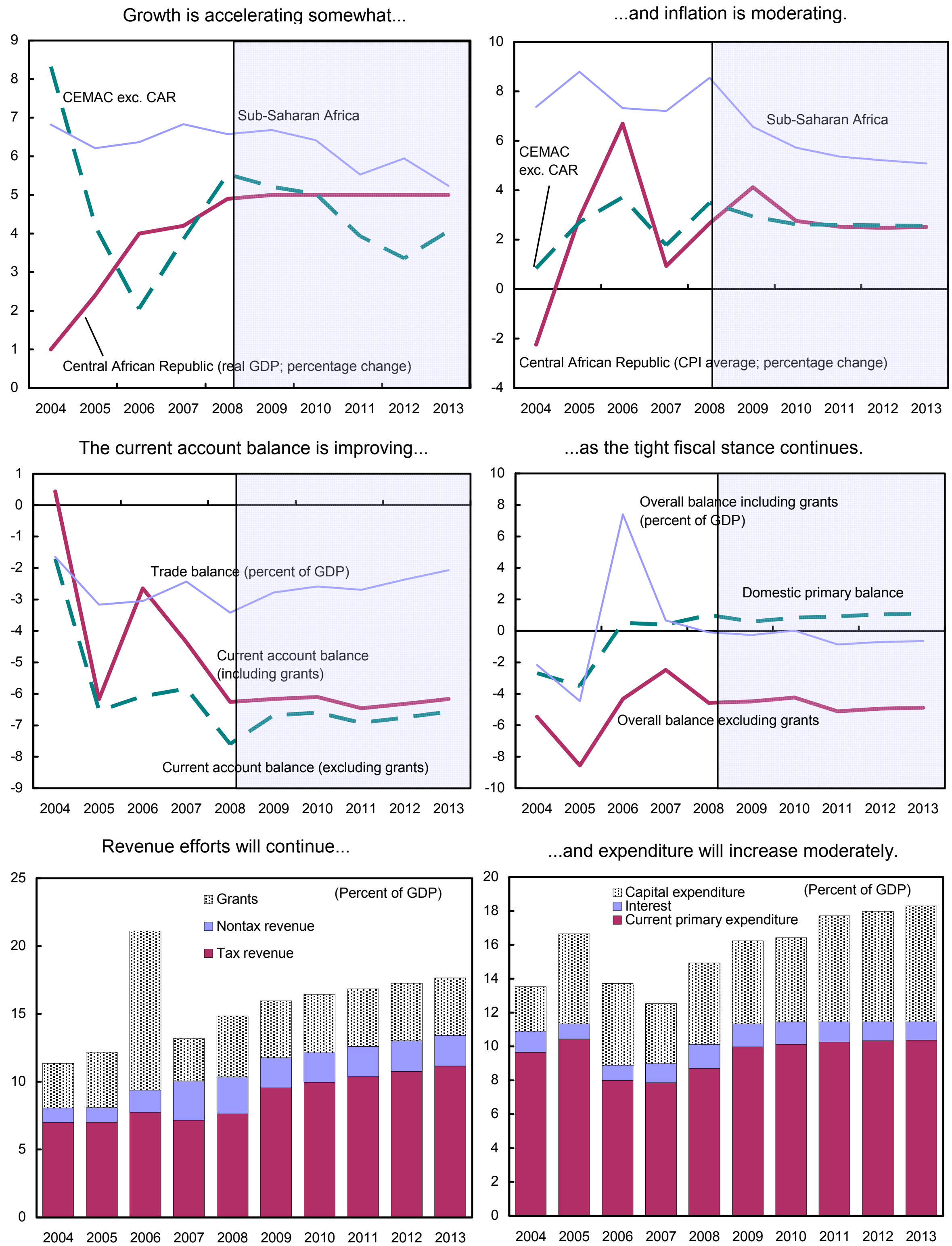
III. Outlook and Policies for 2008

10. **The outlook for 2008 is positive but fragile:** Real GDP is expected to grow by 4.9 percent (Figure 5), led by higher private and public investment; increased consumption due to employment gains in the industrial and service (e.g., telecommunications) sectors; and higher rural incomes linked to intensified agricultural and diamond activities.[2] Regular payment of civil servant wages and the positive effect on demand from planned repayment of arrears should also boost growth. Inflation is projected to increase to about 3 percent partly because fuel and food prices are rising.[3]

[2] The program is in line with the authorities' 2007 Poverty Reduction Strategy.

[3] The increase in food prices has been moderate so far due to a recovery in agricultural production.

Figure 5. Central African Republic: Macroeconomic Framework, 2004-13



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

11. **The external current account balance is expected to deteriorate further.** The trade deficit will increase because of higher oil prices, the global slowdown's effect on export demand, and further real exchange rate appreciation. Moreover, external interest payments increase. Thus, the current account deficit is projected to increase to 6.4 percent of GDP,[4] and without additional PRGF disbursements reserves would fall from 4 months to 2 months of imports. To stabilize international reserves at 3 months of imports, the authorities request an augmentation in access of 15 percent of quota under the PRGF arrangement.[5]

A. Fiscal Program

12. **Despite strong revenue efforts, the domestic primary fiscal surplus is projected to fall as expenditures return to more normal historical levels, but the debt-to-GDP ratio should still decline (Text Table 3).** The decline in the surplus is matched by additional program grants (0.8 percent of GDP) and reflects HIPC interim debt relief (0.3 percent of GDP). As a result, the debt sustainability analysis (DSA) shows an improvement over the last DSA (see Appendix).

Text Table 3. Central African Republic: Changes to the Fiscal Program, 2006–09

In 2008 expenditures return to more normal levels, domestic revenues continue to increase, and debt declines.

	2006	2007	2008		2009	
	Est.	Est.	First Review	Proj.	First Review	Proj.
	(Percent of GDP)					
Total revenue	22.8	14.3	14.1	15.0	14.3	15.9
Domestic revenue	9.5	10.2	10.8	10.5	11.3	11.7
Grants	13.3	4.1	3.3	4.6	3.0	4.2
Total expenditure	13.9	12.7	13.6	15.1	13.8	16.1
Current primary expenditure	8.1	8.0	8.3	8.8	8.4	9.9
Interest due	0.9	1.2	0.7	1.4	0.7	1.4
Capital expenditure	4.9	3.6	4.6	4.9	4.8	4.9
Overall balance including grants	9.0	1.6	0.6	-0.1	0.5	-0.1
Overall balance excluding grants	-4.4	-2.5	-2.7	-4.7	-2.5	-4.4
Domestic primary balance [1]	0.4	1.1	1.1	0.3	1.1	0.7
Total debt	89.5	79.7	71.1	71.7	65.0	64.8

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

[1] Excludes grants, interest payments, and externally financed capital expenditure.

13. **The revenue-to-GDP ratio is projected to rise by ½ percent of GDP over last year—it would decline by ½ percent of GDP if policies were unchanged.** The authorities will implement tax measures (0.7 percent of GDP), including increasing specific excises to eliminate subsidies for all fuel products except kerosene (0.3 percent of GDP);[6] and will improve revenue

[4] Higher oil prices account for ½ percentage points of GDP.

[5] The World Bank has increased its support to C.A.R. by about $8 million and the AfDB plans to increase its support by SDR 7 million.

[6] Included are the elimination of discretionary customs exemptions, a new turnover tax on small businesses, and higher forestry taxes, as well as other measures (MEFP ¶15).

administration (0.3 percent of GDP, MEFP ¶27). VAT rates on staple foods were reduced to mitigate the impact of the fuel price adjustments (CFAF 1 billion).

14. **Expenditures are somewhat higher than programmed.** This reflects a reversal of the liquidity-induced compression in 2007, in particular wages for new health and education workers, higher interest payments, and capital spending. Repayment of arrears will also be somewhat larger.

B. Petroleum Sector and Other Structural Reforms

15. **Net fuel subsidies will be eliminated by implementing a quarterly automatic price adjustment mechanism** (prior action and continuous structural performance criterion)**.** Thus, on June 1, 2008, weighted average fuel prices increased by 16 percent. Diesel increased by 12 percent, and gasoline increased by 15 percent; kerosene was raised by 32 percent to curb its use as a diesel substitute. By targeting excises by fuel product the quarterly automatic price adjustment mechanism will insulate the budget from further variations in world oil prices (MEFP ¶33-35).[7] The formula includes a further fuel excise increase for October 1, 2008.

16. **Other structural reforms focus on tax and customs administration, PFM, and SOE quasi-fiscal deficits**. Revenue should rise by strengthening the *Guichet Unique* in Douala, following the cancellation of the contract with UNITEC Benin (PA; MEFP ¶28);[8] fully staffing the tax and customs departments after reorganization (MEFP ¶26); and more and better-targeted tax audits (SB; MEFP ¶27). A liquidity committee with BEAC membership will align daily, weekly, and monthly cash flows with expenditure commitments (SB; MEFP ¶21). Reintroduction of the Treasury single account (TSA) will reduce interest costs and increase budget transparency (SB; MEFP ¶30).[9] A new chart of accounts and a government financial management information system will be introduced in 2008, enabling the government to track all stages of spending and measure arrears (MEFP ¶31). Moreover, tariffs for water and electricity will be increased to reduce SOE quasi-fiscal deficits and enable SOEs to pay taxes (SB; MEFP ¶27 and ¶38).

17. **The authorities are preparing to move to market financing of government operations (MEFP ¶20).** This is in line with recommendations made by the recent FSAP mission and with plans to create a CEMAC government securities market. This should help minimize financing from commercial banks, create room for liquidity management by reducing credit from BEAC, and allow for faster repayment of domestic arrears. Completion of a medium-term plan to repay all arrears is an SPC for end-September 2008 (MEFP ¶18). Current

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[7] Additional increases in fuel excises in 2009 would enable payment for goods and services provided by SOEs, which would be fully included in the 2009 budget.

[8] The contract with the private operator (UNITEC Benin), who charged high fees without producing results, will be terminated and the Guichet Unique will be staffed with customs personnel.

[9] These measures are in line with the draft Public Expenditure and Financial Accountability (PEFA) assessment, which found significant shortcomings.

projections assume that validated domestic arrears will be paid over 10 years. Staff projections assume the first bonds could be issued late in 2008.[10]

18. **The authorities recognize that their debt management capacity needs to be reinforced.** Weaknesses in this area were highlighted recently when the government signed what they believed to be guarantees, totaling some 30 percent of GDP, to cover locally-financed investment projects. These documents appeared subsequently to have the character of promissory notes, and their validity has now been disputed by the government, who assert that they were defrauded into signing them. Since the potential obligations are in dispute, they have no program implications, but the episode signaled the need for improved safeguards, which the government is now putting in place (MEFP ¶32). An AFRITAC mission provided advice on debt management guidelines in March 2008, and the authorities have requested TA from MCM on improving debt management and issuing government securities. The authorities will computerize the debt database and install software to run debt simulations (SB; MEFP ¶21).

C. Program Monitoring and Financing

19. **The next two reviews will be based on test dates for end-June and end-December 2008**. Quantitative and structural conditionality are defined in Tables 1 and 2 of the MEFP. Quantitative conditionality has been updated to give the authorities greater fiscal flexibility (Text Table 4, MEFP ¶41). The proposed augmentation is phased (Table 6) to correspond with C.A.R.'s balance of payments needs related to oil imports (MEFP ¶13). External debt service projections are conservative; and there is some uncertainty about budget grant projections.

[10] The projections assume issues of CFA 20.7 billion, with five-year maturity, one-year grace period, and 8 percent interest. There are adjusters for shortfalls in security issues that give priority to repayment of arrears.

Text Table 4. Central African Republic: Changes in Quantitative Program Design

Domestic primary balance (floor, PC)

- The program does not force the authorities to adjust for shortfalls in grants.

Wages and salaries (ceiling, PC)

- The computerization of the payroll is sufficiently operational to ensure control of wages, and the floor on the domestic primary balance controls overall spending. Thus, the PC on wages was dropped (MEFP ¶9).

New domestic arrears accumulation (ceiling, PC)

- The PC on the accumulation of new government arrears is dropped because the data used to monitor the accumulation of new government domestic arrears are not available (MEFP ¶31).
- The implementation of an expenditure system to track expenditures from the commitment to the payment stage is a trigger for the HIPC completion point (MEFP ¶31).

Net commercial bank credit to government (ceiling, PC)

- The PC on net commercial bank credit to government now has a limited upward adjuster for shortfalls in budget grants to insulate budgetary management from short-term fluctuations in external assistance.
- There is also a partial upward adjuster for shortfalls in government bond issues.

Reduction in domestic payments arrears (floor, QB)

- This QB has a partial downward adjuster for shortfalls in government bond issues.

Net accumulation of tax arrears (ceiling, QB)

- In order to monitor the tax administration's collection effort, a ceiling on the net accumulation in tax arrears was introduced as a new QB.

Sources: C.A.R. authorities; and IMF staff assessments.

IV. Staff Appraisal

20. **The authorities have preserved fiscal discipline in a challenging environment.** Careful expenditure control allowed them to meet the primary surplus target despite revenue shortfalls, unpredictable aid inflows, and unanticipated expenditures. The government has continued to stabilize the economy and thus created the basis for improved growth.

21. **The immediate challenge for the authorities is to continue fiscal consolidation under difficult external and domestic circumstances.** This will require an increase in the revenue-to-GDP ratio to reduce the overhang of domestic arrears and to consolidate social peace. Increasing excises on petroleum products and passing through changes in international oil prices will be crucial in 2008 and 2009, as will be social safety net measures. Spending should be reoriented to support growth-enhancing and poverty-reducing social policies. However, substantially higher aid inflows than projected would be needed to meet the authorities' goals for growth and poverty reduction. PFM should be reinforced and the quasi-fiscal deficits of SOEs reduced. A new financing strategy based on issuing government securities could support fiscal consolidation.

22. **Accessing the emerging CEMAC bond market is desirable but requires considerable preparatory work.** Restoring the credibility of C.A.R.'s fiscal management is crucial. This could be achieved by improving budget execution and reducing domestic arrears. The planned improvements in liquidity management and reintroduction of the TSA will provide solid support. Thus, all government monies should be deposited in treasury-controlled accounts and disbursed only to meet budgeted expenditure. Debt and cash management will need to be reinforced substantially before the markets are accessed.

23. **Major program risks are potential shortfalls in revenues; difficulties in implementing petroleum excise increases; the variability of foreign aid; and political instability.** Because administrative capacity is relatively weak, the success of the program will depend on well-coordinated technical assistance to build institutional capacity. More predictable aid inflows would help with fiscal management. Finally, growth and reform momentum depends heavily on political stability.

24. **Staff recommends completion of the second review of the PRGF arrangement and financing assurances review and supports the authorities' request for waivers for the nonobservance of PCs.** The deviations on the PCs for salaries and domestic arrears were small, and external payment arrears were temporary. The deviations of PCs on commercial bank credit, the petroleum price adjustment mechanism, and tax arrears are being addressed. In the face of sharply higher oil price, staff also recommends approval of the authorities' request of an augmentation of 15 percent of quota to safeguard reserves.

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2004–13 [1]

	2004	2005	2006	2007		2008		2009	2010	2011	2012	2013
			Est.	Prog.	Est.	Prog.	Proj.	Proj.	Proj	Proj	Proj	Proj
	(Annual percentage change, unless otherwise indicated)											
National income and prices												
GDP at constant prices	1.0	2.4	4.0	4.0	4.2	4.3	4.9	5.0	5.0	5.0	5.0	5.0
GDP at current prices	1.3	6.2	8.4	6.6	6.3	6.9	7.4	8.5	7.5	7.5	7.5	7.5
GDP deflator	0.3	3.8	4.4	2.5	2.1	2.5	2.5	3.5	2.5	2.5	2.5	2.5
CPI (annual average)	-2.2	2.9	6.7	3.0	0.9	2.3	2.6	5.1	3.3	2.5	2.5	2.5
CPI (end-of-period)	-0.3	1.7	7.1	3.1	-0.2	3.0	4.6	5.0	2.5	2.5	2.5	2.5
Central government finance												
Total revenue and grants	23.1	12.2	100.3	-20.2	-33.6	-4.3	13.3	15.0	9.7	9.5	9.4	9.4
Total expenditure	9.2	28.9	-11.0	0.8	-2.7	9.2	28.0	15.3	7.8	15.9	8.4	9.0
Money and credit												
Net domestic assets [2]	12.0	10.4	6.0	3.0	4.3	...	6.9	...	...	...	...	...
Domestic credit [2]	13.6	9.8	7.5	1.9	6.5	...	4.9	...	...	...	...	...
Broad money	14.2	16.5	-4.2	9.2	-3.7	...	-7.0	...	...	...	...	...
Velocity of broad money (end-of-period)	6.1	5.5	6.3	6.2	6.9	...	8.0	...	...	...	...	...
External sector												
Exports, f.o.b. (US$ basis)	-1.4	1.5	22.8	18.3	22.8	6.8	10.8	9.0	8.7	9.1	9.5	9.2
Export volume	-1.6	-8.1	15.1	14.8	13.5	6.1	7.8	9.0	8.7	8.8	9.2	8.2
Imports, f.o.b. (US$ basis)	25.7	16.2	18.3	7.1	16.1	12.4	19.9	3.5	7.0	9.7	6.6	6.7
Import volume	15.7	8.2	11.3	3.4	11.5	10.2	12.3	1.6	5.2	7.9	4.7	6.0
Terms of trade	-7.7	2.8	0.4	-0.5	4.0	-1.3	-3.7	-1.9	-1.6	-1.4	-1.5	0.3
Nominal effective exchange rate	1.7	-0.2	0.2	...	1.9	...	...	...	...	...	...	...
Real effective exchange rate	-0.9	0.7	5.7	...	0.1	...	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)											
Gross national savings	4.4	2.3	6.6	4.9	4.5	5.2	3.9	4.4	4.5	5.1	5.4	5.8
Of which: current official transfers	2.2	0.4	3.5	1.4	1.6	1.4	1.4	0.5	0.5	0.5	0.4	0.4
Gross domestic savings	0.0	0.1	1.4	2.2	1.5	2.3	1.6	2.7	2.9	3.6	4.1	4.6
Government	0.6	0.0	13.2	5.9	4.7	4.4	4.6	4.5	4.8	4.7	5.0	5.2
Private sector	-0.6	0.1	-11.8	-3.7	-3.2	-2.1	-3.0	-1.9	-1.9	-1.1	-0.9	-0.7
Consumption	100.0	99.9	98.6	97.8	98.5	97.7	98.4	97.3	97.1	96.4	95.9	95.4
Government	3.3	4.5	3.2	3.0	2.7	3.7	3.5	4.4	4.5	4.8	4.9	5.0
Private sector	96.7	95.4	95.4	94.9	95.9	94.0	94.9	92.9	92.6	91.6	91.1	90.5
Gross investment	6.2	8.9	9.2	9.1	8.9	10.1	10.3	10.5	10.5	11.4	11.6	11.8
Government	2.0	4.0	3.7	2.9	2.7	3.4	3.7	3.7	3.7	4.6	4.7	5.0
Private sector	4.1	4.9	5.6	6.2	6.2	6.6	6.6	6.9	6.9	6.9	6.9	6.9
Current transfers and factor income (net)	6.6	2.5	5.2	2.7	3.0	2.9	2.3	1.7	1.6	1.5	1.4	1.3
External current account balance	0.5	-6.3	-2.7	-4.1	-4.4	-4.8	-6.4	-6.2	-6.0	-6.3	-6.2	-6.0
Overall balance of payments	-2.9	-1.1	3.0	-0.3	-3.3	-1.7	-3.8	-1.7	-2.8	-1.9	-1.9	-1.6
Central government finance												
Total revenue	11.7	12.4	22.8	15.8	14.3	14.1	15.0	15.9	16.3	16.6	16.9	17.2
Total expenditure [3]	-13.9	-16.9	-13.9	-13.3	-12.7	-13.6	-15.1	-16.1	-16.1	-17.4	-17.5	-17.8
Overall balance [3]												
Excluding grants	-5.6	-8.7	-4.4	-2.7	-2.5	-2.7	-4.7	-4.4	-4.1	-5.0	-4.8	-4.7
Including grants	-2.2	-4.5	9.0	2.5	1.6	0.6	-0.1	-0.1	0.1	-0.8	-0.7	-0.6
Domestic primary balance [4]	-2.8	-3.6	0.4	1.2	1.1	1.1	0.3	0.7	0.9	0.9	1.0	1.1
NPV of external public and guaranteed debt	...	...	...	...	42.1	...	36.8	34.5	29.7	25.8	22.2	18.7
Public sector debt	109.2	95.6	89.5	77.8	79.7	71.1	71.7	64.8	56.7	50.9	45.6	40.6
Of which: domestic debt [5]	24.1	24.4	23.8	19.3	23.1	16.7	21.5	13.5	17.4	16.5	15.5	14.6
Gross official foreign reserves												
(millions of US$, end-of-period)	148.4	147.1	129.9	135.1	90.3	139.4	69.3	78.9	83.8	91.6	97.3	103.5
(months of imports, f.o.b.)	11.2	10.6	7.3	7.4	4.3	6.8	2.9	3.2	3.2	3.2	3.2	3.2
Nominal GDP (CFAF billions)	670.7	712.1	772.2	832.5	820.6	890.0	881.3	956.2	1,028	1,105	1,188	1,277
Exchange rate (average; CFA francs per US$)	528.3	527.5	522.9	...	478.7	...	...	...	...	...	...	...

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

[1] The macroeconomic framework assumes that the C.A.R. reaches the HIPC completion point in 2009; the balance of payments projections incorporate debt relief expected to be delivered at the completion point.

[2] Percent of broad money at beginning of the period.

[3] Expenditures are on a cash basis for current period expenditures.

[4] Excludes grants, interest payments, and externally financed capital expenditure.

[5] Comprises government debt to BEAC and commercial banks, government arrears and public enterprises' domestic debt.

Table 2. Central African Republic: Central Government Operations, 2004–13

(CFAF billions, unless otherwise indicated)

	2004	2005	2006	2007			2008			2009	2010	2011	2012	2013
			Est.	Prog.	Est	Est.	Prog.	Budget	Proj.	Proj.	Proj	Proj	Proj	Proj
	Old Classification[1]					New Cl.[1]	Old Cl.[1]	New Classification[1]						
Revenue	78.5	88.0	176.3	131.5	117.0	117.0	125.9	126.8	132.6	152.5	167.3	183.1	200.4	219.3
Domestic revenue	55.8	58.6	73.4	88.2	83.6	83.6	96.6	98.5	92.3	112.3	124.1	137.0	151.2	166.8
Tax revenue	48.3	50.6	60.4	71.2	65.3	59.5	81.3	77.1	67.8	91.2	101.5	112.7	125.1	138.7
Taxes on profits and property	15.6	14.7	17.5	19.7	21.9	14.4	22.9	15.2	17.7	18.7	21.2	23.9	26.8	30.1
Taxes on goods and services	32.7	35.9	42.9	51.5	43.5	45.1	58.5	61.9	50.2	72.5	80.3	88.8	98.2	108.5
Of which: taxes on international trade	10.6	9.5	15.3	17.4	13.0	14.5	20.4	21.6	18.2	20.6	23.1	26.0	29.1	32.6
Nontax revenue	7.5	8.0	12.9	17.0	18.3	24.1	15.3	21.4	24.4	21.0	22.6	24.3	26.1	28.1
Grants	22.7	29.5	102.9	43.3	33.4	33.4	29.3	28.3	40.4	40.3	43.2	46.1	49.2	52.5
Program	14.8	2.7	75.7	21.3	13.2	13.2	5.0	0.0	12.1	5.0	5.0	5.0	5.0	5.0
Project	7.9	26.7	27.2	22.0	20.2	20.2	24.3	28.3	28.3	35.3	38.2	41.1	44.2	47.5
Expenditure[2]	-93.4	-120.4	-107.2	-110.7	-104.3	-104.3	-120.9	-127.1	-133.5	-153.9	-166.0	-192.4	-208.5	-227.2
Current primary expenditure	-66.7	-75.4	-62.5	-68.6	-65.9	-65.4	-73.4	-76.7	-77.4	-94.2	-102.2	-111.6	-120.0	-129.0
Wages and salaries	-38.9	-39.2	-37.2	-35.0	-36.3	-36.3	-34.0	-37.5	-37.5	-41.1	-44.2	-47.5	-51.1	-54.9
Transfers and subsidies	-10.0	-14.0	-10.2	-16.9	-14.5	-14.7	-16.8	-20.1	-20.1	-22.5	-24.1	-27.6	-29.7	-31.9
Goods and services	-17.8	-22.2	-15.2	-16.7	-15.1	-14.4	-22.6	-19.1	-19.8	-30.6	-33.9	-36.5	-39.2	-42.1
Interest due	-8.5	-6.6	-6.9	-10.1	-9.5	-9.5	-6.6	-7.1	-12.8	-13.0	-13.2	-13.1	-13.4	-13.7
External	-5.5	-3.6	-4.2	-3.9	-3.7	-3.7	-3.6	-2.8	-9.2	-9.7	-10.1	-10.2	-10.8	-11.4
Domestic	-3.0	-3.0	-2.7	-6.2	-5.8	-5.8	-3.0	-4.3	-3.6	-3.3	-3.1	-2.9	-2.6	-2.3
Capital expenditure	-18.2	-38.4	-37.7	-32.0	-28.9	-29.4	-40.8	-43.2	-43.3	-46.7	-50.6	-67.6	-75.1	-84.5
Domestically financed	-7.7	-8.4	-7.5	-10.0	-8.7	-9.2	-13.7	-11.8	-11.8	-11.5	-12.3	-15.5	-19.0	-24.3
Externally financed	-10.5	-29.9	-30.2	-22.0	-20.2	-20.2	-27.1	-31.5	-31.5	-35.3	-38.2	-52.2	-56.1	-60.3
Overall balance[2]														
Excluding grants	-37.7	-61.8	-33.8	-22.5	-20.6	-20.6	-24.3	-28.6	-41.2	-41.7	-41.9	-55.4	-57.2	-60.4
Of which: domestic primary balance[3]	-18.6	-25.3	3.3	9.6	9.0	9.0	9.4	10.0	3.1	6.6	9.5	9.9	12.2	13.5
Including grants	-15.0	-32.4	69.1	20.8	12.8	12.8	5.0	-0.3	-0.8	-1.4	1.3	-9.2	-8.0	-7.9
Change in arrears (net; (-) = reduction)	21.1	26.9	-50.2	-18.1	-11.0	-11.0	-13.4	0.0	-15.0	-15.0	-10.0	-10.0	-10.0	-10.0
Domestic	2.9	9.4	-9.7	-18.1	-8.6	-8.6	-13.4	0.0	-15.0	-15.0	-10.0	-10.0	-10.0	-10.0
External[4]	18.2	17.5	-40.5	0.0	-2.4	-2.4	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	6.1	-5.5	18.9	2.7	1.8	1.8	-8.4	-0.3	-15.8	-16.4	-8.7	-19.2	-18.0	-17.9
Identified financing	-6.1	5.5	-8.8	-5.1	0.5	0.5	3.7	-6.0	6.1	9.8	8.7	19.2	18.0	17.9
External, net	-14.6	-4.5	-12.9	-5.0	-9.5	-9.5	6.6	-2.7	9.2	4.3	2.3	6.3	7.0	7.4
Project loans	2.6	3.2	3.0	0.0	0.0	0.0	2.8	3.2	3.2	0.0	0.0	11.0	11.9	12.8
Program loans	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-17.2	-11.8	-15.9	-13.1	-12.4	-12.4	-13.9	-5.9	-11.4	-12.0	-29.5	-29.6	-30.4	-30.5
Exceptional financing	0.0	0.0	0.0	8.1	2.9	2.9	17.7	0.0	17.4	16.3	31.8	24.8	25.5	25.2
Paris Club[5]	0.0	0.0	0.0	1.5	1.5	1.5	1.5	0.0	1.0	1.0	1.3	0.9	0.9	0.4
Other[6]	0.0	0.0	0.0	6.6	1.4	1.4	16.2	0.0	16.4	15.3	30.5	24.0	24.7	24.8
Domestic, net	8.5	10.0	4.1	-0.1	10.0	10.0	-2.9	-3.3	-3.2	5.6	6.4	13.0	11.0	10.5
Banking system	8.5	10.0	4.1	-0.1	10.0	10.0	-2.9	-3.3	-9.0	-2.3	-4.1	-4.4	-7.7	-9.4
Counterpart to IMF resources (BEAC)	3.1	-2.6	2.2	-4.2	2.4	2.4	-5.8	3.7	-3.5	-2.3	-1.1	-0.6	-1.2	-2.9
Central Bank	6.7	10.2	-2.3	6.1	6.6	6.6	3.7	-4.0	-5.6	0.0	0.0	-0.9	-3.5	-3.6
Commercial banks	-1.4	2.4	4.2	-2.0	1.0	1.0	-0.9	-3.0	0.0	0.0	-3.0	-3.0	-3.0	-3.0
Of which: bonds	...	...	...	...	...	...	...	...	14.8	0.0	-3.0	-3.0	-3.0	-3.0
Nonbank	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	5.9	7.9	10.5	17.3	18.7	19.9
Residual financing need[7]	0.0	0.0	0.0	2.4	0.0	0.0	4.7	6.3	9.8	6.6	0.0	0.0	0.0	0.0
Memorandum items:														
Government domestic debt	161.6	173.4	183.9	160.7	189.2	189.2	148.6	...	189.4	182.6	178.7	182.0	183.9	187.1
Of which: domestic arrears	109.7	109.7	109.7	...	109.7	109.7	96.3	...	94.7	79.7	69.7	59.7	49.7	39.7

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

[1] The new classification affects mainly revenues. Some fees originally recorded as taxes are now included as nontax revenue.

[2] Expenditures are on a cash basis for current period expenditures, except for interest, which is recorded on a due-basis.

[3] Excludes grants, interest payments, and externally financed capital expenditure.

[4] Figure for 2006 reflects arrears clearance by the World Bank and the AfDB (CFAF 47.5 billion) and the increase in arrears to bilateral and a few multilateral creditors (CFAF 6.9 billion).

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

[6] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, also includes debt service to non-Paris Club and commercial creditors.

[7] This gap is equivalent to the proposed PRGF disbursement, including the requested augmentation.

Table 3. Central African Republic: Central Government Operations, 2004–13
(Percent of GDP)

	2004	2005	2006	2007			2008			2009	2010	2011	2012	2013
			Est.	Prog.	Est	Est.	Prog.	Budget	Proj.	Proj.	Proj	Proj	Proj	Proj
	Old Classification[1]					New Cl.[1]	Old Cl.[1]			New Classification[1]				
Revenue	11.7	12.4	22.8	15.8	14.3	14.3	14.1	14.4	15.0	15.9	16.3	16.6	16.9	17.2
Domestic revenue	8.3	8.2	9.5	10.6	10.2	10.2	10.8	11.2	10.5	11.7	12.1	12.4	12.7	13.1
Tax revenue	7.2	7.1	7.8	8.6	8.0	7.3	9.1	8.7	7.7	9.5	9.9	10.2	10.5	10.9
Taxes on profits and property	2.3	2.1	2.3	2.4	2.7	1.8	2.6	1.7	2.0	2.0	2.1	2.2	2.3	2.4
Taxes on goods and services	4.9	5.0	5.6	4.1	5.3	5.5	4.3	7.0	5.7	7.6	7.8	8.0	8.3	8.5
Of which : taxes on international trade	1.6	1.3	2.0	2.1	1.6	1.8	2.3	2.5	2.1	2.2	2.3	2.4	2.5	2.6
Nontax revenue	1.1	1.1	1.7	2.0	2.2	2.9	1.7	2.4	2.8	2.2	2.2	2.2	2.2	2.2
Grants	3.4	4.1	13.3	5.2	4.1	4.1	3.3	3.2	4.6	4.2	4.2	4.2	4.1	4.1
Program	2.2	0.4	9.8	2.6	1.6	1.6	0.6	0.0	1.4	0.5	0.5	0.5	0.4	0.4
Project	1.2	3.8	3.5	2.6	2.5	2.5	2.7	3.2	3.2	3.7	3.7	3.7	3.7	3.7
Expenditure [2]	-13.9	-16.9	-13.9	-13.3	-12.7	-12.7	-13.6	-14.4	-15.1	-16.1	-16.1	-17.4	-17.5	-17.8
Current primary expenditure	-9.9	-10.6	-8.1	-8.2	-8.0	-8.0	-8.3	-8.7	-8.8	-9.9	-9.9	-10.1	-10.1	-10.1
Wages and salaries	-5.8	-5.5	-4.8	-4.2	-4.4	-4.4	-3.8	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3
Transfers and subsidies	-1.5	-2.0	-1.3	-2.0	-1.8	-1.8	-1.9	-2.3	-2.3	-2.4	-2.3	-2.5	-2.5	-2.5
Goods and services	-2.7	-3.1	-2.0	-2.0	-1.8	-1.8	-2.5	-2.2	-2.2	-3.2	-3.3	-3.3	-3.3	-3.3
Interest due	-1.3	-0.9	-0.9	-1.2	-1.2	-1.2	-0.7	-0.8	-1.4	-1.4	-1.3	-1.2	-1.1	-1.1
External	-0.8	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9
Domestic	-0.5	-0.4	-0.4	-0.7	-0.7	-0.7	-0.3	-0.5	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2
Capital expenditure	-2.7	-5.4	-4.9	-3.8	-3.5	-3.6	-4.6	-4.9	-4.9	-4.9	-4.9	-6.1	-6.3	-6.6
Domestically financed	-1.1	-1.2	-1.0	-1.2	-1.1	-1.1	-1.5	-1.3	-1.3	-1.2	-1.2	-1.4	-1.6	-1.9
Externally financed	-1.6	-4.2	-3.9	-2.6	-2.5	-2.5	-3.0	-3.6	-3.6	-3.7	-3.7	-4.7	-4.7	-4.7
Overall balance [2]														
Excluding grants	-5.6	-8.7	-4.4	-2.7	-2.5	-2.5	-2.7	-3.2	-4.7	-4.4	-4.1	-5.0	-4.8	-4.7
Of which: domestic primary balance [3]	-2.8	-3.6	0.4	1.2	1.1	1.1	1.1	1.1	0.3	0.7	0.9	0.9	1.0	1.1
Including grants	-2.2	-4.5	9.0	2.5	1.6	1.6	0.6	0.0	-0.1	-0.1	0.1	-0.8	-0.7	-0.6
Change in arrears (net; (-) = reduction)	3.1	3.8	-6.5	-2.2	-1.3	-1.3	-1.5	0.0	-1.7	-1.6	-1.0	-0.9	-0.8	-0.8
Domestic	0.4	1.3	-1.3	-2.2	-1.0	-1.0	-1.5	0.0	-1.7	-1.6	-1.0	-0.9	-0.8	-0.8
External [4]	2.7	2.5	-5.3	0.0	-0.3	-0.3	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	0.9	-0.8	2.4	0.3	0.2	0.2	-0.9	0.0	-1.8	-1.7	-0.8	-1.7	-1.5	-1.4
Identified financing	-0.9	0.8	-1.1	-0.6	0.1	0.1	0.4	-0.7	0.7	1.0	0.8	1.7	1.5	1.4
External, net	-2.2	-0.6	-1.7	-0.6	-1.2	-1.2	0.7	-0.3	1.0	0.4	0.2	0.6	0.6	0.6
Project loans	0.4	0.5	0.4	0.0	0.0	0.0	0.3	0.4	0.4	0.0	0.0	1.0	1.0	1.0
Program loans	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-2.6	-1.7	-2.1	-1.6	-1.5	-1.5	-1.6	0.0	-1.3	-1.3	-2.9	-2.7	-2.6	-2.4
Exceptional financing	0.0	0.0	0.0	1.0	0.4	0.4	2.0	0.0	2.0	1.7	3.1	2.2	2.1	2.0
Paris Club [5]	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Other [6]	0.0	0.0	0.0	0.8	0.2	0.2	1.8	0.0	1.9	1.6	3.0	2.2	2.1	1.9
Domestic, net	1.3	1.4	0.5	0.0	1.2	1.2	-0.3	-0.4	-0.4	0.6	0.6	1.2	0.9	0.8
Banking system	1.3	1.4	0.5	0.0	1.2	1.2	-0.3	-0.4	-1.0	-0.2	-0.4	-0.4	-0.6	-0.7
Counterpart to IMF resources (BEAC)	0.5	-0.4	0.3	-0.5	0.3	0.3	-0.7	0.4	-0.4	-0.2	-0.1	-0.1	-0.1	-0.2
Central Bank	1.0	1.4	-0.3	0.7	0.8	0.8	0.4	-0.5	-0.6	0.0	0.0	-0.1	-0.3	-0.3
Commercial banks	-0.2	0.3	0.5	-0.2	0.1	0.1	-0.1	-0.3	0.0	0.0	-0.3	-0.3	-0.2	-0.2
Of which: bonds	...	...	...	...	...	...	...	...	1.7	0.0	-0.3	-0.3	-0.2	-0.2
Nonbank	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.7	0.8	1.0	1.6	1.6	1.6
Residual financing need [7]	0.0	0.0	0.0	0.3	0.0	0.0	0.5	0.7	1.1	0.7	0.0	0.0	0.0	0.0
Memorandum items:														
Government domestic debt	24.1	24.4	23.8	19.3	23.1	23.1	16.7	...	21.5	19.1	17.4	16.5	15.5	14.6
Of which: domestic arrears	16.4	15.4	14.2	...	13.4	13.4	...	...	10.7	8.3	6.8	5.4	4.2	3.1

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] The new classification affects mainly revenues. Some fees originally recorded as taxes are now included as nontax revenue.
[2] Expenditures are on a cash basis for current period expenditures, except for interest, which is recorded on a due-basis.
[3] Excludes grants, interest payments, and externally financed capital expenditure.
[4] Figure for 2006 reflects arrears clearance by the World Bank and the AfDB (CFAF 47.5 billion) and the increase in arrears to bilateral and a few multilateral creditors (CFAF 6.9 billion).
[5] Reflects Paris Club rescheduling and moratorium agreement in April 2007.
[6] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, also includes debt service to non-Paris Club and commercial creditors.
[7] This gap is equivalent to the proposed PRGF disbursement, including the requested augmentation.

Table 4. Central African Republic: Balance of Payments, 2004–13 [1]

	2004	2005	2006	2007		2008		2009	2010	2011	2012	2013
			Est.	Prog.	Est.	Prog.	Proj.[2]	Proj.	Proj	Proj	Proj	Proj
						(CFAF billions)						
Current account	3.0	-44.6	-20.7	-34.5	-36.3	-38.1	-56.3	-58.8	-62.0	-70.0	-73.2	-76.4
Balance on goods	-11.3	-22.9	-23.8	-15.8	-20.3	-22.9	-30.8	-26.5	-26.4	-29.3	-27.4	-25.7
Exports, f.o.b., *of which:*	66.7	67.5	82.4	94.1	92.7	100.0	96.7	104.9	113.2	122.5	132.9	143.8
Diamonds	27.8	32.8	32.7	34.5	34.0	36.3	36.3	38.5	40.8	43.3	45.9	48.6
Wood products	28.8	25.8	39.9	45.9	45.2	48.9	46.6	49.5	52.6	55.7	58.9	62.1
Imports, f.o.b.	-78.1	-90.3	-106.2	-109.8	-113.0	-123.0	-127.5	-131.4	-139.6	-151.8	-160.3	-169.4
Petroleum products	-17.8	-17.7	-26.0	-26.3	-25.5	-29.5	-33.8	-34.9	-35.9	-37.1	-38.5	-40.1
Public investment program	-3.9	-11.2	-13.9	-11.5	-11.6	-17.2	-13.4	-14.0	-15.2	-20.7	-22.3	-23.9
Other	-56.3	-61.4	-66.3	-72.0	-75.9	-76.3	-80.3	-82.5	-88.5	-94.0	-99.5	-105.4
Services (net)	-30.1	-39.6	-37.0	-41.6	-40.7	-46.2	-45.8	-48.7	-52.1	-57.4	-62.2	-66.9
Income (net)	-0.9	-1.1	-2.1	-1.9	-4.9	-1.5	-10.6	-11.3	-11.8	-12.1	-12.9	-13.7
Credit	5.1	5.2	5.5	4.9	6.1	6.2	6.2	6.4	6.6	6.7	6.9	7.1
Debit	-6.0	-6.3	-7.6	-5.3	-11.0	-7.7	-16.8	-17.7	-18.3	-18.9	-19.8	-20.8
Of which: interest due on public debt	-5.6	-3.7	-4.5	-4.5	-3.8	-4.1	-9.3	-9.8	-10.1	-10.3	-10.8	-11.5
Current transfers (net)	45.3	18.9	42.2	24.8	29.6	32.5	30.8	27.7	28.3	28.8	29.3	29.9
Of which: official grants	14.8	2.7	26.8	...	13.2	5.0	12.1	5.0	5.0	5.0	5.0	5.0
Capital account	3.8	12.7	41.6	31.8	33.0	11.5	13.4	16.7	18.2	19.5	38.7	41.6
Project grants [3]	3.8	12.7	15.9	10.5	9.6	11.5	13.4	16.7	18.2	19.5	38.7	41.6
Capital grants and transfers	0.0	0.0	25.6	21.3	23.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-26.3	24.0	2.3	0.0	-23.5	11.7	9.6	25.7	15.1	29.3	12.3	14.8
Public sector (net)	-14.6	-4.5	-12.9	-13.1	-5.2	-11.1	-8.2	-12.0	-29.5	-18.6	-18.5	-17.8
Project disbursements	2.6	3.2	3.0	0.0	3.2	2.8	3.2	0.0	0.0	11.0	11.9	12.8
Program disbursements	0.0	4.0	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-17.2	-11.8	-15.9	-13.1	-12.4	-13.9	-11.4	-12.0	-29.5	-29.6	-30.4	-30.5
Private sector (net)	-11.7	28.6	15.2	13.0	-18.3	22.8	17.8	37.7	44.6	47.9	30.8	32.6
Of which : nonresident purchases of T-bills	...	...	...	...	...	...	5.9	7.9	10.5	17.3	18.7	19.9
Overall balance	-19.5	-7.9	23.2	-2.7	-26.8	-14.8	-33.3	-16.4	-28.7	-21.2	-22.2	-20.0
Identified financing	19.5	7.9	-23.2	0.3	26.8	10.1	23.5	9.8	28.7	21.2	22.2	20.0
Net official reserves movements	1.4	-9.6	17.3	-7.8	26.2	-7.6	6.1	-6.4	-3.1	-3.6	-3.4	-5.2
Net IMF credit	3.1	-2.6	2.2	-4.2	2.4	-5.8	-3.5	-2.3	-1.1	-0.6	-1.2	-2.9
Purchases and loans	4.4	0.0	5.4	0.0	15.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments (cash basis)	-1.3	-2.6	-3.1	-4.2	-12.8	-5.8	-3.5	-2.3	-1.1	-0.6	-1.2	-2.9
Other reserves (increase=–)	-1.8	-7.1	15.1	-3.5	23.8	-1.8	9.5	-4.1	-1.9	-3.1	-2.1	-2.3
Exceptional financing	18.2	17.5	-40.5	8.1	0.5	17.7	17.4	16.3	31.8	24.8	25.5	25.2
Debt rescheduling	...	...	...	8.1	2.9	17.7	17.4	16.3	31.8	24.8	25.5	25.2
Paris Club	...	...	...	1.5	1.5	1.5	1.0	1.0	1.3	3.6	4.6	5.6
Other exceptional financing [4]	...	...	...	6.6	1.4	16.2	16.4	15.3	30.5	21.2	20.9	19.6
Debt payments arrears (decrease=–) [5]	18.2	17.5	-40.5	0.0	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need [6]	0.0	0.0	0.0	2.4	0.0	4.7	9.8	6.6	0.0	0.0	0.0	0.0
Memorandum items:						(Annual percentage change, unless otherwise indicated)						
Terms of trade	-7.7	2.8	0.4	-0.5	4.0	-1.3	-3.7	-1.9	-1.6	-1.4	-1.5	0.3
Unit price of exports (US$ basis)	0.2	10.4	6.7	3.1	8.3	0.7	2.8	-0.1	0.0	0.3	0.3	0.9
Unit price of imports (US$ basis)	8.6	7.4	6.3	3.6	4.1	2.0	6.7	1.9	1.6	1.7	1.8	0.6
Export volumes	-1.6	-8.1	15.1	14.8	13.5	6.1	7.8	9.0	8.7	8.8	9.2	8.2
Import volumes	15.7	8.2	11.3	3.4	11.5	10.2	12.3	1.6	5.2	7.9	4.7	6.0
Export values in CFA francs	-10.3	1.1	22.2	14.2	12.5	7.8	4.3	8.5	7.9	8.2	8.5	8.2
Import values in CFA francs	14.3	15.7	17.6	3.4	6.4	8.9	12.8	3.1	6.2	8.7	5.6	5.7
Gross official reserves												
(CFAF billions, end-of-period)	72.6	79.6	64.5	68.0	40.7	69.9	31.1	35.3	37.2	40.3	42.4	44.7
(months of imports, f.o.b.)	11.2	10.6	7.3	7.4	4.3	6.8	2.9	3.2	3.2	3.2	3.2	3.2
Current account (percent of GDP)	0.5	-6.3	-2.7	-4.1	-4.4	-4.8	-6.4	-6.2	-6.0	-6.3	-6.2	-6.0
Trade balance (percent of GDP)	-1.7	-3.2	-3.1	-1.9	-2.5	-2.6	-3.5	-2.8	-2.6	-2.7	-2.3	-2.0
Capital account (percent of GDP)	0.6	1.8	5.4	3.8	4.0	1.3	1.5	1.8	1.8	1.8	3.3	3.3
Total external debt (percent of GDP)	85.0	79.2	73.5	58.5	56.6	54.4	50.2	45.7	39.3	34.5	30.1	26.0
Nominal GDP (CFAF billions)	670.7	712.1	772.2	832.5	820.6	890.0	881.3	956.2	1,028	1,105	1,188	1,277

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

[1] The macroeconomic framework assumes that the C.A.R. reaches the HIPC completion point in 2009; the balance of payments projections incorporate debt relief expected to be delivered at the completion point.

[2] The external debt service includes payments to some multilateral creditors.

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

[4] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, includes debt service to non-Paris Club and commercial creditors.

[5] Figure for 2006 reflects arrears clearance by the World Bank and the AfDB (CFAF 47.5 billion) and the increase in arrears to bilateral and a few multilateral creditors (CFAF 6.9 billion).

[6] This gap is equivalent to the proposed PRGF disbursement, including the requested augmentation.

Table 5. Central African Republic: Monetary Survey, 2004–08

	2004	2005	2006	2007		2008
			Est.	Prog.	Est.	Proj.
	(CFAF billions, end of period)					
Net foreign assets	49.5	56.2	43.0	50.6	33.2	16.8
Bank of Central African States (BEAC)	51.4	59.7	43.6	51.2	18.5	2.2
Operations account	69.6	77.0	61.6	63.5	35.8	28.7
Use of IMF credit	-21.2	-20.0	-21.0	-16.8	-22.2	-29.0
Other	3.0	2.6	2.9	4.5	4.9	2.5
Commercial banks	-1.9	-3.5	-0.6	-0.6	14.6	14.6
Net domestic assets	60.7	72.2	80.0	83.7	85.3	93.4
Domestic credit	115.4	126.1	135.7	138.0	143.8	149.5
Credit to the public sector	60.2	72.0	79.3	79.3	84.7	86.0
Credit to central government (net)	62.9	74.2	80.9	80.9	89.7	91.0
BEAC	58.7	67.7	70.1	72.1	78.0	79.2
Current account	25.1	32.1	36.2	40.3	16.1	10.4
Consolidated loans	14.6	17.2	18.4	18.4	41.1	41.1
IMF (net)	21.2	20.0	21.0	16.8	22.2	29.0
Deposits	-2.2	-1.6	-5.4	-3.4	-1.4	-1.3
Commercial banks	4.2	6.6	10.8	8.8	11.8	11.8
Credit to other public agencies (net)	-2.7	-2.2	-1.6	-1.6	-5.0	-5.0
Credit to the economy	55.2	54.1	56.4	58.8	59.1	63.6
Public enterprises	6.7	5.6	5.2	4.7	4.2	4.2
Private sector	48.4	48.5	51.3	54.1	54.9	59.4
Other items (net)	-54.6	-53.9	-55.7	-54.4	-58.5	-56.2
Money and quasi–money	110.2	128.4	123.0	134.3	118.4	110.2
Currency	81.3	89.9	80.9	84.0	58.9	52.1
Deposits	28.9	38.6	42.0	50.3	59.5	58.1
Demand deposits	16.4	23.8	24.5	31.1	38.3	33.9
Term and savings deposits	12.5	14.7	17.5	19.2	21.2	24.2
	(Annual change, percent of beginning period broad money)					
Net foreign assets	2.2	6.1	-10.3	6.2	-8.0	-13.8
Net domestic assets	12.0	10.4	6.0	3.0	4.3	6.9
Net domestic credit	13.6	9.8	7.5	1.9	6.5	4.9
Net credit to central government	7.9	10.3	5.2	0.0	7.2	1.1
Credit to the economy	6.0	-1.0	1.8	1.9	2.1	3.8
Money and quasi–money	14.2	16.5	-4.2	9.2	-3.7	-7.0
	(Annual percentage change)					
Monetary base	15.3	17.4	-14.8	3.6	-26.3	-11.1
Credit to the economy	11.6	-1.9	4.3	4.1	4.7	7.6
Public enterprises	-20.2	-16.2	-8.3	-10.0	-19.1	0.2
Private sector	18.2	0.1	5.8	5.6	7.1	8.2
Memorandum items:						
NDA of the central bank (CFAF billions)	32.3	38.6	40.1	37.1	44.8	52.7
Monetary base (CFAF billions)	83.7	98.3	83.7	86.7	61.7	54.9
Nominal GDP (CFAF billions)	670.7	712.1	772.2	832.5	820.6	881.3
Velocity (GDP/broad money)						
End of period	6.1	5.5	6.3	6.2	6.9	8.0

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

Table 6. Central African Republic: Proposed Access and Phasing Under the Three-Year PRGF Arrangement[1]

Availability date	Disbursements		Conditions
	(SDRs)	(Percent of quota)	
December 22, 2006	17,600,000	31.6	Approval of the arrangement
September 27, 2007	3,100,000	5.6	Disbursed upon completion of the first review
June 13, 2008	8,670,000	15.6	Completion of the second review (end-December 2007 test date)
Of which : augmentation	5,570,000	10.0	
November 1, 2008	5,885,000	10.6	Completion of the third review (end-June 2008 test date)
Of which : augmentation	2,785,000	5.0	
May 1, 2009	3,100,000	5.6	Completion of the fourth review (end-December 2008 test date)
August 31, 2009	3,100,000	5.6	Completion of the fifth review (end-June 2009 test date)
November 30, 2009	3,100,000	5.6	Completion of the sixth (final) review (end-September 2009 test date)[2]
Total	44,555,000	80.0	

[1] The C.A.R.'s quota is SDR 55.7 million.
[2] A test date of end-September 2009 is set to allow the final disbursement to take place before the arrangement expires.

Table 7. Central African Republic: Indicators of Capacity to Repay the Fund, 2007–17 [1]

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
		Projections									
Fund obligations based on existing credit											
Principal (SDR millions)	17.4	3.2	3.3	1.6	0.8	1.8	4.1	4.1	4.1	4.1	2.4
Charges and interest (SDR millions)	0.6	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Fund obligations based on existing and prospective credit											
Principal (SDR millions)	17.4	3.2	3.3	1.6	0.8	1.8	5.0	7.4	8.9	8.9	7.2
Charges and interest (SDR millions)	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.3
Total obligations based on existing and prospective credit											
SDR millions	18.0	3.6	3.7	2.1	1.3	2.2	5.5	7.8	9.3	9.3	7.5
CFAF billions	13.2	2.6	2.6	1.5	0.9	1.6	3.8	5.4	6.5	6.5	5.2
Percent of government revenue	15.8	2.7	2.3	1.2	0.7	1.0	2.3	3.0	3.2	2.9	2.1
Percent of exports of goods and services	10.8	2.0	1.9	1.0	0.6	0.9	2.1	2.8	3.1	2.9	2.2
Percent of debt service [2]	45.5	11.2	10.9	3.6	2.2	3.7	8.4	11.3	19.0	17.8	14.7
Percent of GDP	1.6	0.3	0.3	0.1	0.1	0.1	0.3	0.4	0.4	0.4	0.3
Percent of quota	32.3	6.5	6.7	3.8	2.3	4.0	9.8	14.0	16.7	16.6	13.4
Outstanding Fund credit [2]											
SDR millions	31.2	40.9	47.0	45.4	44.6	42.8	37.8	30.4	21.5	12.6	5.5
CFAF billions	22.9	29.0	33.3	32.0	31.4	30.0	26.4	21.3	15.0	8.8	3.8
Percent of government revenue	27.3	31.1	29.6	25.8	22.9	19.8	15.8	11.6	7.4	3.9	1.5
Percent of exports of goods and services	18.8	22.8	24.3	21.8	19.9	17.7	14.4	10.9	7.2	4.0	1.6
Percent of debt service [2]	79.0	126.7	138.0	78.6	77.5	70.7	58.0	44.0	43.9	24.3	10.8
Percent of GDP	2.8	3.3	3.5	3.1	2.8	2.5	2.1	1.5	1.0	0.6	0.2
Percent of quota	56.1	73.4	84.3	81.4	80.0	76.8	67.8	54.6	38.6	22.6	9.8
Net use of Fund credit (SDR millions)	3.3	11.4	6.1	-1.6	-0.8	-1.8	-5.0	-7.4	-8.9	-8.9	-7.2
Disbursements	20.7	14.6	9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	17.4	3.2	3.3	1.6	0.8	1.8	5.0	7.4	8.9	8.9	7.2
Memorandum items:											
Nominal GDP (in billions of CFA francs)	821	881	956	1,028	1,105	1,188	1,277	1,374	1,480	1,595	1,721
Exports of goods and services (in billions of CFA francs)	122	127	137	147	158	170	183	196	209	220	236
Government revenue (in billions of CFA francs)	84	93	112	124	137	151	167	184	203	224	248
Debt service (in billions of CFA francs) [2]	29.0	22.9	24.1	40.8	40.5	42.4	45.5	48.3	34.2	36.2	35.4

Sources: IMF staff estimates and projections.

[1] Assumes a PRGF augmentation of 15 percent of quota (SDR 8.355 million), of which 10 percent of quota (SDR 5.57 million) and 5 percent of quota (SDR 2.785 million) to be disbursed upon completion of the second and third PRGF reviews, respectively.

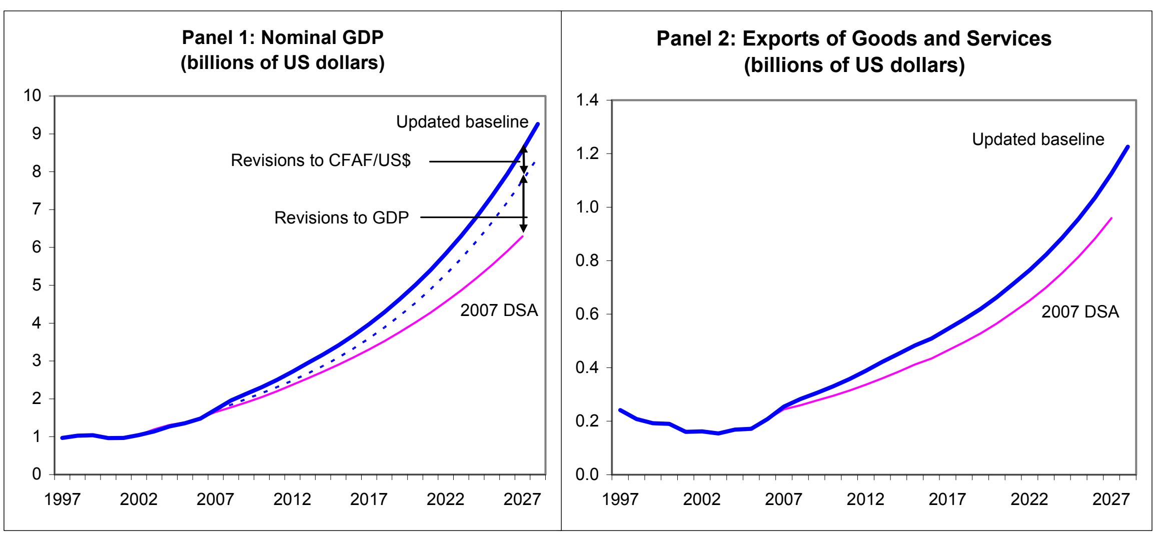
[2] Total debt service includes IMF repurchases and repayments.

Appendix I. Central African Republic—Debt Sustainability Analysis (Update)

This appendix updates the debt sustainability analysis (DSA) done for the decision point document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative.[11] *The update incorporates (i) upward revisions to long-run growth, reflecting the positive impact of higher public investment; and (ii) changes in exchange rate assumptions, following recent appreciation of the CFA franc against the U.S. dollar. The overall assessment remains unchanged: the C.A.R. is in debt distress; to restore debt sustainability, the country needs to receive HIPC Initiative debt relief and adhere to a strong fiscal policy.*

25. **The revised long-term growth assumption reflects several favorable factors.** Average real GDP growth rate for the projection period (over 20 years) is now 5.2 percent, up by 1 percentage point from the previous assumption (Figure I.1). Continued efforts to mobilize domestic revenues would stimulate a greater increase in the public investment-to-GDP ratio, which would help alleviate infrastructure bottlenecks. More specifically, in the short run, a predictable and transparent resolution of domestic arrears would improve social stability and private sector confidence, thus supporting growth of domestic consumption and investment. Generally, steadfast implementation of the economic and financial program supported by the PRGF and of the priority programs identified in the poverty reduction strategy paper should provide a basis for accelerated growth. Structural reforms and infrastructure investment would allow diversification of the export base and improve competitiveness; in turn, solid export performance would help accelerate growth.

Figure I.1. Central African Republic: Long-run Macroeconomic Assumptions

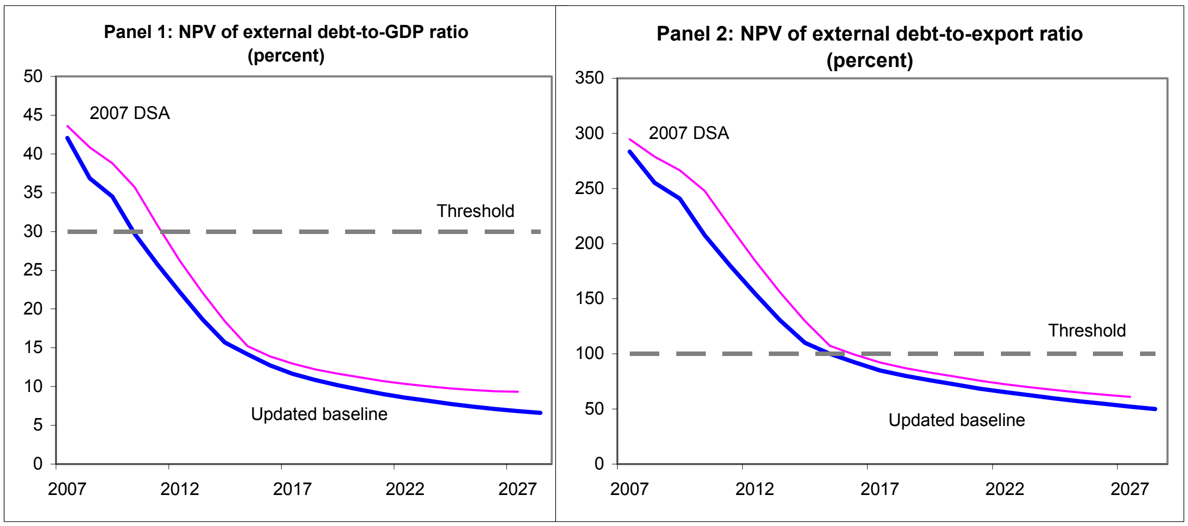


Sources: Central African authorities; and IMF staff projections.

[11] See Contry Report No. 08/14. A full annual Fund-Bank joint DSA will be prepared for the next review during the latter half of 2008.

26. **The recent appreciation of the CFA franc (pegged to the euro) against the U.S. dollar has helped improve the debt indicators.** The end-2007 exchange rate of the CFA franc to the U.S. dollar is about 12 percent more appreciated than in the previous DSA. Assuming that the exchange rate follows current *World Economic Outlook* projections (i.e., continues to appreciate mildly in the medium term and stabilizes in the long run), nominal GDP in U.S. dollar terms would be higher and the NPV of external debt-to-GDP ratio would be lower than in the previous DSA (Figure I.2).

Figure I.2. Central African Republic: External Vulnerability Ratios [1]

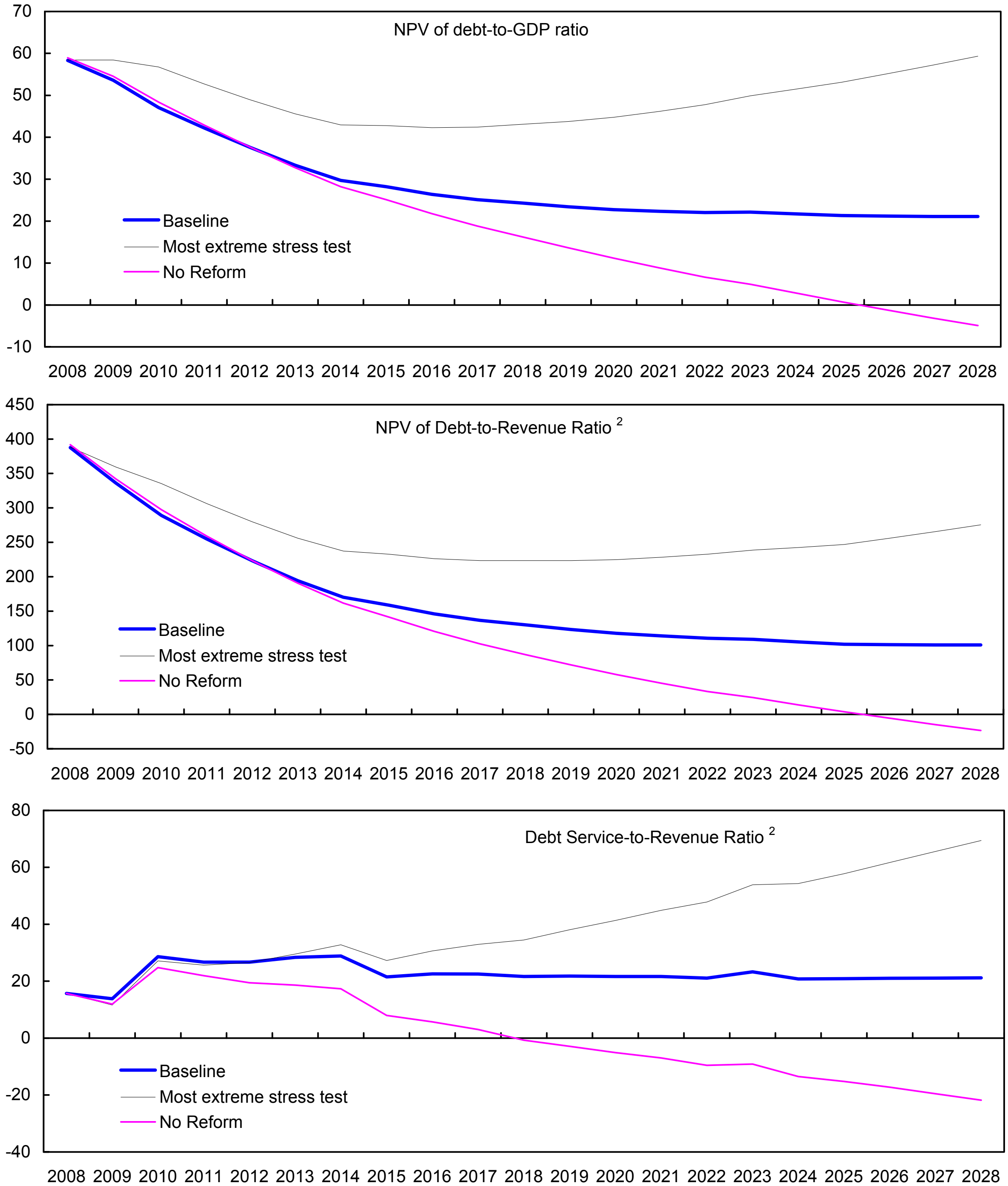


Sources: Central African authorities; and IMF staff projections.
[1] Includes HIPC interim debt relief, but not reaching the HIPC completion point and MDRI debt relief.

27. **The assessment that the C.A.R. is in debt distress remains unchanged.** Despite favorable revisions to macroeconomic assumptions, key external debt indicators will be above their thresholds for several years: the NPV of external debt-to-export ratio is projected to stay above the threshold (100 percent) until 2015 (Figure I.2). Quickly reaching the HIPC completion point is critical to restore debt sustainability. Maintaining a strong fiscal framework and addressing quasi-fiscal deficits are also necessary to improve public debt sustainability.

28. **Public debt levels in the baseline scenario would decline significantly.** The NPV of public debt-to-GDP ratio would drop from almost 60 percent in 2008 to about 20 percent in 2028 (Figure I.3). Similarly, debt-to-revenue and debt service-to-revenue ratios would decline in the baseline scenario, which assumes continuous fiscal consolidation. The no-reform scenario is perhaps too optimistic since it uses an exceptionally good year (2007) as the base. The risks to fiscal consolidation are exemplified by the most extreme stress test, which shows a potentially major deterioration over time.

Figure I.3. Central African Republic: Indicators of Public Debt Under Alternative Scenarios, 2008–28 [1]



Source: Fund staff projections and simulations.

[1] Most extreme stress test assumes that real gdp growth is at historical average minus one standard deviation in 2009–10. No reform test assumes that the primary balance is unchanged from 2007.

[2] Revenue including grants.

Appendix Table I.1. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2005–28 [1]
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average[6]	Standard Deviation[6]	Projections										
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2023	2028	2014-28 Average
External debt (nominal)[1]	**79.2**	**73.5**	**56.6**	**85.1**	**14.6**	**50.2**	**45.7**	**39.3**	**34.5**	**30.1**	**26.0**	**37.6**	**16.4**	**13.0**	**11.3**	**15.1**
Of which: public and publicly guaranteed (PPG)	79.2	73.5	56.6	85.1	14.6	50.2	45.7	39.3	34.5	30.1	26.0	37.6	16.4	13.0	11.3	15.1
Change in external debt	-5.8	-5.7	-16.9	-3.8	11.4	-6.4	-4.5	-6.5	-4.8	-4.4	-4.1	-5.1	-1.0	-0.5	-0.2	-1.0
Identified net debt-creating flows	-1.1	-6.2	-9.0	-3.5	6.1	0.6	0.5	0.6	1.2	1.3	1.3	0.9	2.4	3.2	2.7	2.6
Non-interest current account deficit	**5.5**	**2.2**	**3.9**	**1.7**	**2.3**	**5.6**	**5.7**	**5.2**	**5.7**	**5.6**	**5.6**	**5.6**	**6.4**	**7.1**	**6.5**	**6.6**
Deficit in balance of goods and services	8.8	7.9	7.4	6.0	1.7	8.7	7.9	7.6	7.8	7.5	7.2	7.8	7.1	7.2	6.4	7.0
Exports	12.6	14.0	14.8	15.9	2.8	14.4	14.3	14.3	14.3	14.3	14.3	14.3	13.5	13.0	13.2	13.4
Imports	21.4	21.9	22.3	21.9	2.7	23.1	22.2	21.9	22.1	21.9	21.6	22.1	20.6	20.3	19.6	20.4
Net current transfers (negative = inflow)	-2.7	-5.5	-3.6	-3.9	1.3	-3.5	-2.9	-2.7	-2.6	-2.5	-2.3	-2.8	-1.8	-1.4	-1.1	-1.6
o/w official	-2.4	-5.2	-3.4	-3.9	1.2	-2.9	-2.3	-2.2	-2.1	-2.0	-1.9	-2.2	-1.4	-1.1	-1.0	-1.3
Other current account flows (negative = net inflow)	-0.6	-0.2	0.1	-0.3	0.4	0.4	0.7	0.3	0.4	0.6	0.7	0.5	1.1	1.2	1.3	1.1
Net FDI (negative = inflow)	**-2.1**	**-2.3**	**-3.3**	**-1.3**	**1.1**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**
Endogenous debt dynamics[2]	**-4.5**	**-6.1**	**-9.6**	**-3.9**	**5.4**	**-1.7**	**-1.8**	**-1.3**	**-1.1**	**-1.1**	**-1.0**	**-1.3**	**-0.7**	**-0.6**	**-0.5**	**-0.6**
Contribution from nominal interest rate	0.8	0.5	0.5	1.0	0.3	0.7	0.5	0.8	0.7	0.5	0.4	0.6	0.2	0.1	0.1	0.2
Contribution from real GDP growth	-1.9	-2.9	-2.7	-0.9	3.1	-2.4	-2.3	-2.1	-1.8	-1.6	-1.4	-1.9	-0.9	-0.7	-0.6	-0.8
Contribution from price and exchange rate changes	-3.4	-3.7	-7.5	-4.0	6.6	…	…	…	…	…	…		…	…	…	…
Residual (3-4)[3]	**-4.6**	**0.6**	**-7.9**	**-0.3**	**9.9**	**-7.0**	**-5.1**	**-7.1**	**-6.0**	**-5.6**	**-5.4**	**-6.0**	**-3.4**	**-3.8**	**-2.9**	**-3.6**
Of which: exceptional financing	-6.7	-6.8	-4.1	-2.9	2.6	-3.3	-4.8	-5.9	-5.0	-4.7	-4.5	-4.7	-3.3	-3.6	-2.8	-3.4
NPV of external debt[4]	...	...	42.1	...	...	36.8	34.5	29.7	25.8	22.2	18.7	27.9	10.8	8.2	6.6	9.8
In percent of exports	...	...	283.4	...	...	255.2	240.9	207.6	180.3	154.9	130.6	194.9	80.1	62.5	50.0	72.4
NPV of PPG external debt	...	...	42.1	...	...	36.8	34.5	29.7	25.8	22.2	18.7	27.9	10.8	8.2	6.6	9.8
In percent of exports	...	...	283.4	...	...	255.2	240.9	207.6	180.3	154.9	130.6	194.9	80.1	62.5	50.0	72.4
In percent of government revenues	...	...	412.9	...	...	352.0	293.9	245.8	207.7	174.1	143.2	236.1	73.7	49.8	39.0	64.6
Debt service-to-exports ratio (in percent)	19.3	15.3	13.8	20.0	5.5	11.5	9.4	26.6	23.8	22.3	22.2	19.3	6.8	4.9	3.7	7.1
PPG debt service-to-exports ratio (in percent)	19.3	15.3	13.8	20.0	5.5	11.5	9.4	26.6	23.8	22.3	22.2	19.3	6.8	4.9	3.7	7.1
PPG debt service-to-revenue ratio (in percent)	29.6	22.6	20.2	34.4	9.0	15.9	11.4	31.5	27.4	25.0	24.4	22.6	6.3	3.9	2.9	6.5
Total gross financing need (billions of U.S. dollars)	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.3	0.2
Non-interest current account deficit that stabilizes debt ratio	11.3	7.9	20.8	5.6	11.9	12.0	10.2	11.7	10.5	10.0	9.7	10.7	7.4	7.6	6.7	7.6
Key macroeconomic assumptions																
Real GDP growth (in percent)	2.4	4.0	4.2	1.3	3.5	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.5	5.5	5.5	5.4
GDP deflator in US dollar terms (change in percent)	4.1	4.9	11.3	4.8	7.7	8.8	3.8	3.1	3.3	3.3	3.3	4.3	2.4	2.4	2.4	2.4
Effective interest rate (percent)[5]	1.0	0.7	0.9	1.1	0.3	1.5	1.1	2.0	1.8	1.7	1.5	1.6	1.1	1.1	1.0	1.1
Growth of exports of G&S (US dollar terms, in percent)	1.7	21.3	22.7	1.3	13.2	11.0	8.1	8.0	8.4	8.7	8.5	8.8	6.6	7.5	8.9	7.4
Growth of imports of G&S (US dollar terms, in percent)	17.6	11.7	17.9	4.2	12.6	18.5	4.5	7.0	9.5	7.2	7.0	8.9	7.1	7.7	7.3	7.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.2	25.9	0.0	56.9	56.9	56.9	38.3	55.1	55.1	55.1	55.5
Aid flows (in billions of US dollars)[7]	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.3	0.4	0.3
Of which: Grants	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.2
Of which: Concessional loans	0.0	0.0	0.0	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Grant-equivalent financing (in percent of GDP)[8]	...	...	...	...	...	5.1	4.3	4.2	4.7	4.7	4.7	4.6	4.5	4.5	4.5	4.5
Grant-equivalent financing (in percent of external financing)[8]	...	...	...	...	...	83.3	92.7	100.0	91.7	91.6	91.6	91.8	91.0	90.9	91.0	91.0
Memorandum items:																
Nominal GDP (billions of US dollars)	1.4	1.5	1.7	1.2	0.3	2.0	2.1	2.3	2.5	2.7	2.9	2.4	4.3	6.3	9.3	
(NPVt-NPVt-1)/GDPt-1 (in percent)	...	...	...	...	...	0.0	0.8	-2.4	-1.7	-1.7	-1.9	-1.2	0.1	0.2	0.3	0.0

Source: Staff projections and simulations.

[1] Includes both public and private sector external debt.

[2] Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

[3] Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

[4] Assumes that NPV of private sector debt is equivalent to its face value.

[5] Current-year interest payments divided by previous period debt stock.

[6] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

[7] Defined as grants, concessional loans, and debt relief.

[8] Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Appendix Table I.2. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-28
(In percent of GDP, unless otherwise indicated)

	Actual					Projections										
	2005	2006	2007	Historical Average[5]	Standard Deviation[5]	2008	2009	2010	2011	2012	2013	2008-13 average	2018	2023	2028	2014-28 average
Public sector debt[1]	95.6	89.5	79.7	103.9	16.9	71.7	64.8	56.7	50.9	45.6	40.6	55.1	29.8	27.0	25.8	28.8
Of which : foreign-currency denominated	80.2	65.7	56.6	86.2	18.8	50.2	45.7	39.3	34.5	30.1	26.0	37.6	16.4	13.0	11.3	15.1
Change in public sector debt	-13.7	-6.1	-9.8	-1.4	16.3	-7.9	-6.9	-8.2	-5.7	-5.3	-5.0	-6.5	-1.0	0.0	0.0	-1.0
Identified debt-creating flows	6.7	-22.6	-12.9	-4.3	12.2	-7.5	-7.4	-5.0	-3.5	-3.2	-2.8	-4.9	-0.5	0.4	0.2	-0.4
Primary deficit	3.6	-9.8	-2.7	-0.9	3.6	-1.4	-1.2	-1.4	-0.4	-0.5	-0.5	-0.9	0.6	0.8	0.9	0.6
Revenue and grants	12.4	22.8	14.3	14.7	3.8	15.0	15.9	16.3	16.6	16.9	17.2	16.3	18.7	20.3	20.9	19.5
Of which : grants	4.1	13.3	4.1	5.6	3.5	4.6	4.2	4.2	4.2	4.1	4.1	4.2	4.0	3.9	4.0	4.0
Primary (noninterest) expenditure	16.0	13.0	11.6	13.8	2.0	13.7	14.7	14.9	16.2	16.4	16.7	15.4	19.3	21.1	21.9	20.2
Automatic debt dynamics	3.1	-12.7	-9.9	-3.4	10.6	-4.2	-4.5	-3.6	-3.1	-2.7	-2.4	-3.4	-1.2	-0.4	-0.7	-1.0
Contribution from interest rate/growth differential, *of which*	-4.4	-4.2	-3.8	-1.4	3.6	-3.4	-3.5	-3.1	-2.7	-2.3	-2.0	-2.8	-1.1	-0.4	-0.7	-1.0
Contribution from average real interest rate	-1.8	-0.6	-0.2	-3.0	7.6	0.3	-0.1	0.0	0.0	0.1	0.2	0.1	0.5	1.0	0.6	0.5
Contribution from real GDP growth	-2.6	-3.7	-3.6	-1.1	3.6	-3.7	-3.4	-3.1	-2.7	-2.4	-2.2	-2.9	-1.6	-1.4	-1.3	-1.5
Contribution from real exchange rate depreciation	7.5	-8.5	-6.1	-2.0	11.1	-0.8	-1.0	-0.5	-0.4	-0.4	-0.4	-0.6	-0.1	0.0	0.0	-0.1
Other identified debt-creating flows	0.0	0.0	-0.4	0.0	0.1	-2.0	-1.7	0.0	0.0	0.0	0.0	-0.6	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	-0.4	0.0	0.1	-2.0	-1.7	0.0	0.0	0.0	0.0	-0.6	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	-20.4	16.5	3.1	2.8	12.9	-0.4	0.5	-3.2	-2.3	-2.2	-2.1	-1.6	-0.5	-0.4	-0.2	-0.6
NPV of public sector debt, *of which*	...	...	65.1	…	…	58.3	53.6	47.1	42.2	37.6	33.3	45.4	24.3	22.1	21.1	23.5
Foreign-currency denominated	...	...	42.1	…	…	36.8	34.5	29.7	25.8	22.2	18.7	27.9	10.8	8.2	6.6	9.8
External	...	...	42.1	…	…	36.8	34.5	29.7	25.8	22.2	18.7	27.9	10.8	8.2	6.6	9.8
NPV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing need[2]	2.6	-0.8	1.2	3.3	4.0	2.7	2.6	4.2	5.0	4.9	5.2	4.1	4.7	5.5	5.4	5.1
NPV of public sector debt-to-revenue and grants ratio (in percent)	...	...	456.6	164.8	166.6	387.7	336.1	289.1	254.8	223.1	194.2	280.8	130.1	109.1	100.8	121.8
NPV of public sector debt-to-revenue ratio (in percent)	...	...	639.2	…	…	557.3	456.6	389.9	340.5	295.7	255.3	382.6	165.3	135.3	124.4	190.4
Of which: external[3]	...	...	412.9	…	…	352.0	293.9	245.8	207.7	174.1	143.2	236.1	73.7	49.8	39.0	58.7
Debt service-to-revenue and grants ratio (in percent)[4]	22.7	11.2	18.1	25.2	8.8	15.7	13.8	28.6	26.7	26.7	28.4	23.3	21.7	23.3	21.2	22.1
Debt service-to-revenue ratio (in percent)[4]	34.1	27.0	25.3	38.1	8.1	22.6	18.8	38.6	35.7	35.4	37.3	31.4	27.5	28.9	26.1	27.1
Primary deficit that stabilizes the debt-to-GDP ratio	17.3	-3.8	7.1	6.9	10.5	6.6	5.7	6.8	5.4	4.9	4.5	5.6	1.7	0.8	1.0	1.6
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	2.4	4.0	4.2	1.3	3.5	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.5	5.5	5.5	5.4
Average nominal interest rate on forex debt (in percent)	0.7	0.8	0.8	1.1	0.4	1.4	1.1	1.9	1.8	1.6	1.5	1.6	1.1	1.1	1.0	1.1
Average real interest rate on domestic currency debt (in percent)	-1.9	-2.1	0.9	-2.4	9.1	0.9	1.0	0.2	0.9	1.5	2.2	1.1	5.0	9.0	5.5	5.2
Real exchange rate depreciation (in percent, + indicates depreciation)	9.3	-11.1	-9.7	-1.5	12.2	...	...	...	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	3.7	4.3	2.0	1.4	2.3	2.4	3.3	2.4	2.4	2.4	2.4	2.5	2.4	2.4	2.4	2.4
Growth of real primary spending (deflated by GDP deflator, in percent)	29.3	-15.5	-7.3	2.9	20.3	24.4	13.0	5.9	14.6	6.3	6.9	11.8	7.7	6.8	5.5	7.3

Sources: CAR authorities and staff projections

[1] Includes public and publicly-guaranteed external debt, domestic public debt, budgetary arrears, and domestic debt of state-owned enterprises.
[2] Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
[3] Revenues excluding grants.
[4] Debt service is defined as the sum of interest and amortization of medium and long-term debt.
[5] Historical averages and standard deviations are derived over the past 10 years, subject to data availability.

Appendix II. Letter of Intent

Translated from French

Bangui
June 3, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC, 20431
USA

Mr. Strauss-Kahn:

1. The government of the Central African Republic has successfully implemented the measures contained in the economic program it carried out with the support of the International Monetary Fund through the IMF Poverty Reduction and Growth Facility (PRGF).

2. The attached memorandum of economic and financial policies (MEFP) supplements previous memoranda attached to the letters to you dated November 30, 2006, and September 7, 2007. The latter set quantitative and structural performance criteria for end-December 2007 for completion of the second review of the PRGF arrangement.

3. The quantitative performance criteria for the completion of the second review under the PRGF arrangement were observed except for the ceilings on wages, domestic and external arrears, and credit from commercial banks. For the ceilings on wages and domestic arrears we request waivers because the deviations were minor. For the ceiling on credit from commercial banks, we request a waiver because we have taken corrective action (MEFP ¶9). For the ceiling on external arrears we request a waiver because the deviations were temporary. We are also requesting waivers for the structural performance criteria on implementation of a formula for petroleum price adjustment—that measure has been put in place on June 1, 2008 (MEFP ¶35)—and on reduction in the stock of tax arrears, because we have taken corrective action (MEFP ¶8 and ¶27). On the basis of our overall performance and on the strength of the policies set forth in the attached memorandum, we request completion of the second PRGF review.

4. The deterioration in Central African Republic's terms of trade caused by higher world oil prices has considerably weakened our external position. The government is determined to

address these challenges forcefully. To facilitate the adjustment while we deal with our additional balance of payments needs, the government also requests augmentation of access under the PRGF arrangement in an amount equivalent to SDR 8.355 million (15 percent of quota) to be disbursed in the context of the second review (10 percent of quota) and the third review (5 percent of quota). Upon completion of the second review, we request disbursement of the third loan in the amount of SDR 8.67 million.

5. The government believes that the policies set forth in the attached MEFP will enable it to meet its program objectives but is ready to take any other measures that might be necessary. The Central African Republic will, in accordance with Fund policy, consult with the Fund on adoption of any measures that may be appropriate and before revising the policies set out in the attached MEFP. The third review of the PRGF arrangement is expected to be completed no later than end-December 2008 and the fourth review by end-June 2009.

6. The government intends to make the contents of this letter, the attached MEFP, the Technical Memorandum of Understanding (TMU), and the related staff report available to the public. Therefore, it authorizes the IMF to post these documents on its web site once the Executive Board concludes the review.

7. The government has implemented two prior actions before Executive Board consideration of our request for completion of the second review of the PRGF-supported program. The first was adoption of an automatic petroleum pricing formula which includes an increase in fuel excises. The second was to cancel the contract with Unitec Benin and put in place customs personnel instead.

Sincerely yours,

/s/

Prof. Faustin Archange Touadéra

Prime Minister

Attachments: Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

APPENDIX II. ATTACHMENT I. CENTRAL AFRICAN REPUBLIC—

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2008

Translated from French

June 3, 2008

I. INTRODUCTION

1. Since the Government of the Central African Republic (C.A.R.) began implementing its medium-term macroeconomic and financial program in late 2006 with Fund support, economic conditions have improved noticeably, and the nation's living standards have started rising after a long period of decline. Our prudent macroeconomic management and ambitious structural reforms have begun to pay off. We believe that the foundation for accelerating growth and reducing poverty is now firmly in place, and we are moving, although more slowly than we would prefer, toward the Millennium Development Goals (MDGs).

2. Our economic and financial policies are guided by the Poverty Reduction Strategy Paper (PRSP) that the government adopted on June 30, 2007, after extensive consultations with major stakeholders. The main pillars—(i) restore security, consolidate peace, and prevent conflict; (ii) promote good governance and the rule of law; (iii) rebuild and diversify the economy; and (iv) develop human capital—are widely recognized by our people as the right way to promote sustained growth and reduce poverty. The current program will provide a solid economic and fiscal foundation for implementing our agenda.

3. With the support of the international community we have made significant progress in restoring debt sustainability. Following the agreement in April 2007 with Paris Club creditors to reschedule debt on highly favorable terms, C.A.R. in September 2007 reached the decision point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This was critical for bringing our debt service obligations in line with our tight resources. We are grateful for the interim assistance provided by the Fund and other multilateral creditors and the rescheduling agreements achieved with bilateral creditors. We continue to solicit the participation of all creditors in rescheduling our debts and had already reached a participation rate of over 70 percent in January 2008. With steadfast implementation of macroeconomic policies and structural reforms, we hope soon to reach the completion point.

4. Implementing our poverty reduction strategy will require not only firm economic management but also extensive financial and technical assistance from the international community. Donor conferences in June and October 2007 gave us opportunities to appeal to our development partners for support. Since then, a clearer picture has emerged about their

willingness and commitment to help us reach our goals. It is now apparent that the promised aid commitments are not sufficient to satisfy our vast development needs. We are hoping, though, that well-designed policies and forceful program implementation will help us attract a substantial increase in aid in the years ahead. We have therefore set up a framework for implementing the PRSP in close collaboration with our development partners.

II. Economic Performance and Policies in 2007

A. Macroeconomic Performance

5. The government is becoming more confident that our medium-term economic and financial program is bringing about economic recovery. In 2006 and 2007 real GDP growth exceeded 4 percent, which brought us much-needed gains in real per capita income. Economic activity has become more broad-based, spreading from our two main export commodities (timber and diamonds) to agriculture. Inflation, which accelerated temporarily in 2006, has since been brought below the 3 percent convergence target for members of the Central African Economic and Monetary Community (CEMAC). The current account worsened by 1¾ percent of GDP in 2007 mainly because current transfers were below the exceptionally high 2006 level.

6. Last year's fiscal performance was satisfactory. With special administrative efforts to mobilize more revenue, we did meet the performance criterion on total domestic revenues (CFAF 81 billion), and the revenue-to-GDP ratio increased relative to 2006. Nontax revenues exceeded expectations due to license payments by a new telecommunications operator, but budget grants were lower as expected. Recognizing the possibility of revenue shortfalls early, the government contained discretionary spending on goods and services. Although cutting expenditures during budget implementation was not desirable, it was necessary to preserve the overall fiscal framework; this is a clear demonstration that our expenditure control system has started to function properly. Thus, we were able to meet the adjusted floor on the domestic primary balance (performance criterion) of CFAF 8.7 billion (1 percentage point of GDP). We placed a high priority on containing the wage bill, which was capped at the same nominal level as in 2006. The related performance criterion was missed by a small margin, but the overrun did not affect the fiscal framework. We were also legally required to honor a government guarantee provided earlier for a commercial bank, which led us to make an unbudgeted capital transfer of CFAF 2.7 billion (0.3 percent of GDP), which was financed by a bank loan. Because of this transaction and shortfalls in external financing relative to projections, combined with difficulties in taking further compensatory measures--given the limited room for fiscal maneuver--we missed the performance criterion on commercial bank credit to the government. However, we exceeded the floor on social spending (quantitative benchmark).

7. One of the objectives of our fiscal program is to reduce the overhang of domestic debt, especially payment arrears on salaries and government suppliers. Last year we planned

to reduce the arrears by CFAF 18.1 billion (2.2 percent of GDP) but could realize only a much smaller reduction of CFAF 8.6 billion (1.0 percent of GDP), thus missing the related quantitative benchmark. This led us to recognize that our limited domestic resources, low and unpredictable budgetary support, undeveloped local financial markets, and general unavoidable uncertainties make it very difficult for us to clear domestic arrears in a predictable manner, as the population expects. Therefore, as we explain below, we have started to prepare a new financing strategy to support predictable arrears clearance as a fundamental way to preserve social cohesion and facilitate private sector operations.

B. Progress in Structural Reforms

8. Last year we implemented a number of structural reforms, primarily to support our fiscal program. In particular, we focused on improving revenue administration and enhancing public financial management. The 2007 external audit of the one-stop customs window (*Guichet Unique*) in Douala is expected to help improve its performance, which has so far been disappointing . We also restructured customs administration into a single entity that now reports to the Minister for Finance and Budget. To ensure that the government captures revenues from all sources, the Inspector General of Finance in 2007 audited all 13 revenue collecting agencies; six reports have been completed and the rest were expected to be ready in June. This work will be complemented by audits of the VAT and the treasury conducted by internationally renowned firms. Although the impact of these measures on actual revenue is difficult to quantify, we believe that they were essential to enhance our revenue-generating capacity. We had intended to reduce net tax arrears by CFAF 1 billion during 2007 (structural performance criterion for end-December 2007); instead they increased by CFAF 2.9 billion; the shortfall was mainly due to severe capacity constraints and arrears by public enterprises related to government failure to pay for consumption of services. So as to address the non-observance of the performance criterion, we have stepped up our audit and enforced collections programs including by appointing new head of the audit and enforced collections departments (see below).

9. To improve public expenditure management, a decree organizing the expenditure chain was adopted in April, and expenditure tracking has been reinforced by computerization of the payroll management system. The government has also taken initiatives to regularize unmet financial obligations. Domestic arrears accumulated through 2004 have been verified by an independent auditor. To improve control over expenditure commitments and cash outlays, the stock of treasury checks issued a few years ago was eliminated, and checks not backed by cash may no longer be issued. Moreover, a decree restricting methods of opening and managing government bank accounts was issued in December 2007; we consider this to be an important step toward reintroducing a treasury single account (TSA). Our cash management constraints were also the reason we temporarily accumulated arrears to the World Bank and the African Development Bank in early 2008, thus breaching the continuous performance criterion on external arrears, but we cleared them since.

10. Important reforms were also carried out in other sectors. In the financial sector, the government avoided becoming involved in recapitalization of a troubled commercial bank. And though progress in reforming commercial laws and procedures relating to debt collection and bankruptcy was slower than we had hoped (structural benchmark for end-December 2007), we are now appointing commercial court judges and revising the civil code. Implementation of a petroleum product pricing formula (structural performance criterion) was delayed because of concerns about the lack of an appropriate safety net to mitigate the impact of higher petroleum prices on the poorest and because of technical problems related to distribution margins. This measure has now been implemented (see below). In the year ahead we will build on this progress and keep the momentum of structural reforms going in critical areas.

III. The Program for 2008

11. The government will adhere to the medium-term objectives and policy framework that it laid out when it initiated this three-year economic and financial program late in 2006. Building on our recent achievements, we plan to reinforce the program in 2008 by preserving a prudent fiscal stance, introducing a new financing strategy to reduce arrears and make debt sustainable, reforming the petroleum sector to contain fiscal risks arising from government involvement in pricing, and raising domestic revenues sustainably to finance poverty-reducing expenditures.

12. We expect economic conditions to continue to be favorable this year. Real GDP growth is expected to accelerate further to about 5 percent, supported by buoyant exports of major commodities and continued recovery of the agricultural sector. Inflation will increase to almost 3 percent, mostly because of administered price increases for petroleum products and water and electricity tariffs; just below the convergence criterion specified by CEMAC. Credit growth to the private sector should be healthy and might rise if we succeed in reducing our reliance on commercial bank credit to finance government operations and in improving the business environment.

13. However, recent increases in international oil prices will cause the external current account balance to deteriorate further. To limit the drawdown of international reserves, we are requesting an increase in access of 15 percent of quota under the program, while we put into place measures to adjust to the external shock. The augmentation will help us to mitigate the projected loss in external reserves in 2008, and is phased to correspond to our balance of payments needs related to the importation of petroleum products, which takes place primarily in the summer months, when the river is navigable. Risks to the C.A.R. from the turmoil in international financial conditions are likely to be limited, although risks from conflicts in neighboring countries must be carefully monitored. We will be vigilant in implementing our economic and financial program and adjust policies as needed.

A. Fiscal Policy

Fiscal program 2008

14. A prudent fiscal policy will continue to be the cornerstone of our efforts to preserve economic and social stability. In 2008 we plan to achieve a domestic primary surplus—the anchor of our fiscal program—of CFAF 3 billion (0.3 percent of GDP). The targeted surplus had to be revised down from the level envisaged in the 2008 budget approved by parliament on January 20, 2008, as we adjusted domestic revenue to a more realistic level. The surplus is necessary to meet external and domestic debt service obligations and would allow us to repay a significant amount of domestic arrears. To reach our target for the primary domestic balance, we will intensify revenue mobilization efforts and tightly control spending—though we are determined to continue protecting propoor spending. Execution of the budget will thus crucially depend on the availability of grants in general and budget support in particular.

15. The revenue target is ambitious. We envisage the domestic revenue-to-GDP ratio to increase by ½ percentage point of GDP. If policies remained unchanged from 2007, however, revenues would have fallen by ½ percent of GDP, mainly because petroleum product taxes would have fallen by 1 percent of GDP. Thus, we will need 1 percent of GDP (CFAF 8½ billion) in measures to achieve our target. We estimate that administrative reforms could contribute some CFAF 3 billion (0.3 percent of GDP) and the rest will come from the following tax policy changes—some of which have already been incorporated into the 2008 budget:

- Increase excises on selected petroleum products and apply an automatic formula-based quarterly price adjustment mechanism (see below, CFAF 3 billion).
- Eliminate discretionary customs exemptions (CFAF 0.5 billion). As CEMAC requires, we will issue a decree that rescinds all previously granted discretionary exemptions and instructs customs to collect duties on these imports starting in May 2008.
- Apply VAT withholding for large taxpayers (CFAF 0.8 billion).
- Increase forestry taxes (CFAF 0.4 billion).
- Apply a turnover tax to small businesses (CFAF 0.5 billion).

16. Our development partners are supporting our reform program with grants. We expect to receive total budget support of about CFAF 11 billion, including $10 million from the World Bank, $10 million from the African Development Bank, and €4 million from the European Union. We are also discussing with a major bilateral donor the possibility of direct budget support. We expect project grant assistance amounting to CFAF 28 billion, mostly

from the European Union, the World Bank, and the African Development Bank. We are grateful for the support of our development partners and hope that our reinforced reform efforts might justify future increases in aid to overcome our considerable development needs after years of internal conflict.

17. Spending will rise as our resources increase but will still be compressed compared to our needs. We will be vigilant to ensure timely payment of all commitments, avoid spending overruns, and protect budget allocations in priority areas. This year's wage bill, at CFAF 37.5 billion, is a modest increase over the previous year and is needed to alleviate severe staffing constraints, particularly in health and education. We have also budgeted substantial increases in primary current expenditure to cover the costs of priority programs to reduce poverty. Thus, social spending is budgeted to increase by CFAF 3 billion to CFAF 19 billion. Capital spending will increase by CFAF 14 billion to CFAF 43 billion.

Arrears repayment, financing, and debt management strategy

18. A priority for the government will be to establish a credible plan to clear domestic arrears accumulated over many years. This is critical to restoring confidence in our fiscal management. To start paying arrears in a transparent and equitable manner, we need both a predictable timetable for payments and a financing strategy. We plan to work out the timetable for payments by the end of September 2008 and make it public (structural performance criterion). Our intention is to repay arrears in cash, with the possible exception of direct offsets of tax arrears and government expenditure for individual companies, particularly public companies which the finance ministry financial inspector (*inspecteur général de finances*) will audit. Together with the World Bank we will study the feasibility of settling expenditure arrears through land grants but will not resort to securitizing arrears due to governance concerns related to such transactions. A clear schedule for repaying arrears will be set. This will specify a minimum amount that is compatible with our projected primary fiscal surplus and rules for speeding up clearance of arrears as additional resources become available.

19. Another government priority is to improve financial management, which is highly constrained by the high cost of credit from domestic commercial banks (on average 18 percent). Reducing this expensive source of financing could result in considerable savings that would allow us to clear more arrears. There is also a need to reduce our credit from BEAC to reduce statutory advances below their mandatory limits and gain flexibility to finance short-term liquidity needs.

20. We are exploring other financing options, including the possibility of seeking donor assistance to repay domestic arrears and expensive commercial bank debt. We believe that our comprehensive reform program deserves donor support, and we intend to make the case to them that quickly disbursing grants could go a long way to preserve economic and social stability in the C.A.R. Grant financing would clearly be our preference. However, we need a

prompt solution to the problems of arrears and commercial bank debt so that we can preserve social peace and ensure that our limited resources are not wasted on interest costs. We are convinced that eventually accessing the CEMAC regional financial market would be an appropriate financing strategy. Given ample liquidity from oil money in the region, we expect there will be sufficient appetite for C.A.R. government securities at favorable rates if these securities are carefully and transparently structured and our economic policy is seen to be responsible. Although the C.A.R. might be among the first few countries in this region to take advantage of such a financing opportunity, several countries in the West African Economic and Monetary Union (WAEMU) have issued medium-term bonds in the regional market. As WAEMU member countries do, we would define nonconcessional securities denominated in CFA francs as domestic debt for program purposes.

21. We are well aware, however, that we will need to strengthen our debt management and expenditure control system as a precondition for accessing the regional market. As a first step, we will create a liquidity monitoring committee that includes members of the BEAC to strengthen coordination of cash flow projections and expenditure commitments over the short and medium term (structural benchmark for end-June 2008). Also, to increase transparency and allow the public to follow our fiscal efforts, we will start publishing quarterly budget execution reports with a delay of 45 days after the reporting period starting in August 2008. Moreover, by the end of 2008 we plan to have a fully computerized debt management unit in place that can provide accurate and timely debt service projections for various scenarios (structural benchmark). We have already acquired the necessary debt management software and hardware and plan to provide more resources to the debt management unit so that debt operations can be better integrated with treasury and budget functions. Additional technical assistance will be critical, and we have asked the Fund to advise us on accessing the government securities market. If our preparations proceed as planned, we envision issuing government securities for the first time in the 4th quarter of 2008 through a public auction.

B. Financial Sector Policies

22. Financial sector policies are designed to support credit expansion to accelerate private sector growth while containing systemic risks from concentration of commercial bank exposure to the public sector. Recently liquidity in the banking sector has improved markedly—from a near-crisis situation in 2006, at the time of the regional FSAP—owing to economic recovery, repatriation of earnings, and greater internal security. We believe that banks should be able to take advantage of their liquidity to expand credit to the private sector. If the government succeeds in issuing bonds in the regional markets and uses part of the proceeds to repay commercial bank credits, that should inject additional liquidity into the economy.

23. The systemic risks from concentration of commercial bank exposure to the public sector will also be addressed by better control of the finances of public enterprises. The government as a major shareholder will pursue more vigorous monitoring, especially timely

reporting and auditing of all public enterprises. Our arrears clearance plan will include government payments on commercial arrears, which should help improve the financial condition of the enterprises affected. Although the situation in the banking system has improved since an ailing bank was restructured, the level of nonperforming loans remains high and some prudential ratios may be violated, which could require further recapitalization. Should this happen, the government will refrain from making any capital contributions.

C. External Sector Policies

24. The recent brisk recovery in external trade after a significant decline over many years is encouraging; the government will support the trend by doing more to facilitate trade. In particular, we will follow up on the recommendations of the recent audit of *Guichet Unique* in Douala related to the transportation system. This, along with facilitating customs clearance by installing an upgraded data processing system, could considerably reduce trade-related costs. We will soon intensify our efforts to promote trade integration in the CEMAC area by aggressively implementing current trading arrangements and reducing nontariff barriers.

25. Since C.A.R. reached the decision point for the enhanced HIPC Initiative in September 2007, debt distress is substantially reduced and external debt service is now more manageable. We are approaching all remaining official bilateral and commercial creditors to seek HIPC debt relief from them and expect soon to reach a participation rate of 80 percent, which is required for the completion point. With better monitoring of the HIPC triggers, we are confident that we will reach the completion point before year-end.

D. Structural Reforms

Revenue administration and tax policy

26. We will implement new functional structures for the fiscal agencies and ensure that only the designated revenue collections agencies collect revenue. We have reorganized the Ministry of Finance, including the tax and customs departments, and will complete the reform by appointing personnel to 95 percent of the positions. We will allow only the customs and tax departments to collect revenue and, to reduce compliance costs for taxpayers, will limit other agencies, such as the inspector general of finances (IGF) and the mixed financial intervention cell (CEMIFI), to their proper activities.

27. On tax administration, given our limited capacity and resources, we will focus on cost-effective measures. We will revise the VAT registration threshold to CFAF 50 million and synchronize this with the thresholds for the formal tax system and for large taxpayers (structural benchmark for end-2008). We will work to increase the compliance of large taxpayers by increasing the number of audits (structural benchmark for end-2008). Specifically, we will audit 30 percent of the large taxpayer population, all stop-filers, and all filers with a negative or zero tax liability for VAT or the income tax. We intend to keep the

noncompliance rate of large taxpayers at 5 percent or below for VAT, excise taxes, and income tax. We are also undertaking a taxpayer census financed by UNDP to identify major potential taxpayers that are not registered. Moreover, we intend to keep the stock of tax arrears net of write-offs stable through enforced collections using liens on bank accounts and property seizure. This is an ambitious target considering the nonpayment of taxes by public enterprises; the target is a quantitative benchmark (QB) under the program. In order to ensure that this target will be achieved, we have already taken several measures including: (i) setting up a committee in charge of compiling the stock of tax arrears as of December 2007 and proposing measures to enhance recoveries; (ii) upgrading the control unit to directorate; and (iii) appointing a new director of the Large Taxpayer Unit.

28. We will also upgrade the efficiency of customs for revenue collections and trade facilitation. The ASYCUDA system is at the core of our operations in Douala and Bangui, and we will strive to implement additional ASYCUDA modules as soon as possible. In calculating duties, we will continue to apply the indicative values provided by the pre-inspection company, BIVAC. Moreover, we will strictly control exemptions granted to nongovernmental organizations to prevent any misuse of exemption status. Given the disappointing experience with Unitec Benin, operator of the *Guichet Unique* in Douala, we have decided to terminate the contract because the operator did not comply with the terms of the contract, and we will staff the Douala *Guichet Unique* with customs staff, which should make operations more efficient (prior action). We will work with our Cameroonian counterparts to interconnect both ASYCUDA systems, which is a precondition to implementing the ASYCUDA transit module. To improve coordination of the tax and customs departments we will make customs data available online to the tax department, and the departments will regularly review jointly the list of the 500 largest importers to verify whether they are registered as taxpayers and have complied with their tax liabilities. We hope to continue to benefit from technical assistance in both tax and customs administration and we intend to request technical assistance for this purpose.

29. Raising our revenue-to-GDP ratio sustainably over the medium term will require tax policy reform. In preparation for comprehensive reform we intend to unify all tax-related legislation into a single tax code that will be published on the Internet by June 2009 and kept updated. We will work on comprehensive tax reform during 2009 so as to implement major reforms as part of the 2010 budget. The basic objective of tax reform is to (i) broaden the tax base by reducing exemptions; (ii) simplify the tax system by eliminating nuisance taxes; and (iii) reduce compliance costs for taxpayers and administrators. This should allow us to raise revenues in a more efficient and equitable way. To help with this reform effort we intend to request technical assistance in tax policy and in legal drafting.

Public financial management

30. The government will significantly step up its efforts to enhance public financial management. Our focus has been on better controlling and monitoring budgetary outlays. We

have established a treasury committee, which decides on payments based on funds available. This extraordinary measure was needed to ensure firm control over cash flows, given very limited liquidity. As we modernize our commitment control and cash management systems with the help of technical assistance, and following up on the recommendations of the recent Public Expenditure and Financial Accountability (PEFA) report, treasury control will be done at the technical level. We closed all inactive accounts with commercial banks in March 2008 and will audit the remaining accounts to determine whether they are needed. We will also ask the banks to consolidate the balances of all government accounts for the purpose of calculating interest on the consolidated credit balance. This will reduce interest payments due to banks in 2008. Then we will establish a treasury single account (TSA) by closing all nonessential government accounts with commercial banks and operating the remaining ones on a zero-balance basis (structural benchmark for end-December 2008). The TSA would eliminate the current practice of *régies mixtes* for revenues and expenditures, completely separate the revenue and expenditure functions of ministries, and fully reflect budgeted revenues and expenditures. We will also move to ensure timely deposit of all government revenues in treasury accounts, particularly those collected by the *Guichet Unique* in Douala. In July 2008 we will also start depositing into treasury accounts petroleum excises collected for the fight against corruption; financing of a strategic stock; and financing of the fuel depot expansion.

31. We plan to more tightly control expenditure by adopting a government financial management information system (GFMIS) by mid-year. This system (Ges'co) will allow us to track expenditures from the commitment to the payment stage and should facilitate cooperation between the budget department and the treasury. To facilitate introduction of Ges'co we formally adopted in March 2008 a new budget classification (*nomenclature budgétaire*) in line with international standards, and a new expenditure chain (*circuit de dépenses budgétaires*). We will soon adopt the corresponding chart of accounts (*plan comptable*). The success of Ges'co will depend on additional resources and increased management attention. It will also require elimination of nonstandard expenditure procedures. The new system will facilitate the tracking of domestic expenditure arrears, which will need to be registered. Thus, by the end of the year we will be able to produce budget execution reports on a commitment (engagement), payment order (ordonnancement), and cash basis. For a comprehensive picture of our arrears the internal control agency (IGF) will audit domestic arrears for 2005–07 by end-July 2008.

32. We will strengthen our legal framework for issuing government guarantees. We have already issued regulations to clarify that all guarantees contracted by government entities need to be registered with the debt department and require the signature of the Minister of Finance and Budget. The beneficiary of a guarantee must pay guarantee fees in an amount equivalent to the risk the budget is taking by assuming a contingent liability. Moreover, all guarantees need to be disclosed to the public in the annual budget law with (i) a brief description of their nature, beneficiaries, and expected duration; (ii) the government's gross financial exposure; (iii) payments made; (iv) recoveries; and (v) guarantee fees received.

Petroleum sector

33. The government will move decisively to align petroleum product prices with market conditions. The current prices incorporate subsidies for several products that in 2008 would amount to about CFAF 3 billion if current policies continue. Because fixing petroleum prices thus seriously undermines the budget, on June 1 we have adopted an automatic quarterly petroleum product pricing formula that ensures full pass-through to the consumer of all costs, distribution margins, and taxes, including VAT at the regular rate (prior action) and we will continue to apply this formula (continuous structural performance criterion, see TMU ¶15). Within the formula we will apply VAT on all stages of production and distribution for diesel and gasoline starting on October 1, 2008. Moreover, we intend starting in 2009 to combine other taxes on petroleum products into a single excise that is applied on the quantity of product and is adjusted quarterly for changes in inflation. The choice of an excise is motivated by the fact that it will reduce fluctuations in volatile fuel prices and give the treasury a more stable revenue stream.

34. We have launched a communications strategy to explain the new petroleum pricing policy to the population, emphasizing that:

- There is clear evidence that subsidies on petroleum products are not propoor because subsidized products are mainly used as industrial inputs or consumed by relatively better-off households.
- There is substantial diversion of subsidized kerosene for transportation.
- The loss of petroleum revenues implies less arrears repayments and less spending on health, education, and infrastructure.
- The government is currently consuming more petroleum products than it receives in taxes from the petroleum importers, thus leading to arrears to these companies.
- Petroleum taxes are a particularly efficient way of raising revenues in a country that has limited revenue administration capacities.
- Thus, raising prices is a necessary trade-off even though we realize that this will be a politically contested issue. However, the automatic formula with a specified schedule of gradual excise tax increases should depoliticize the issue over time.

35. As a first step, on June 1, 2008, we adjusted the price of heavy fuel for industry to full cost recovery level. For kerosene, which is currently priced below cost recovery, eliminating subsidies would mean increasing prices considerably. To help the population adjust, we have decided to eliminate the subsidies on kerosene over two years, during which the specific excise will be negative, reflecting the subsidy. The price of gasoline now includes a positive

specific excise and the price for diesel will do so starting October 1, 2008. The excises will increase through quarterly adjustments to raise revenues for the treasury. In 2008 we expect these measures to generate additional revenues of CFAF 3 billion. In 2009 VAT will be applied on all petroleum products (except those for export) and we intend to consolidate the diverse taxes on petroleum products into a single specific excise and de-earmark them. Moreover, we will continue to increase excise rates on petroleum products moderately every quarter to generate additional revenues of CFAF 9.5 billion from petroleum product taxation (compared to 2008), which will help pay for government utility consumption (see below).

36. We are keenly aware that increasing petroleum prices will pose an additional financial burden for every household, particularly the poorest. Therefore, when adjusting petroleum product prices to full cost-recovery level, we will allocate CFAF 1 billion to measures mitigating the impact of price increases on poor households. In particular, we have decided to reduce VAT rates to 5 percent on basic goods such as edible oils, flour, frozen fish, and milk. In addition, to counteract the recent price increases on cement and metal sheets related to supply problems, we also lowered the VAT rate to 5 percent on these products. We are exploring further options for mitigating the impact on the poor of further price increases in conjunction with the World Bank and other donors. The repayment of government arrears, particularly on salaries and pensions should also help offset some of the additional costs.

Other structural reforms

37. The government will accelerate institutional reforms to facilitate private sector access to the banking sector and promote financial intermediation. We plan legal and regulatory reforms to enhance transparency in private sector accounting and to modernize the court system to make debt collection more reliable and efficient and less costly. For this purpose, we are cooperating intensively with the International Finance Corporation (IFC). We will also seek to stimulate financial intermediation by expanding use of the banking system for salary payments to civil servants.

38. We will improve the management of public enterprises to better reflect their true costs and adjust administered prices. Currently, many public enterprises do not pay taxes, and the government does not pay for the consumption of goods and services nor is the government consumption reflected in the budget. This situation leads to cross arrears. Public enterprises accumulate substantial quasi-fiscal losses that are financed by depleting their capital. This has become a macro-critical issue for the public sector and for growth, particularly since water and electricity infrastructure has become fragile. Thus, to pass on costs related to petroleum price increases, we will raise the tariffs for water by 5 percent and electricity by 5 percent (structural benchmark end-June 2008), which is a first step toward reaching long-term sustainable tariffs, which are still above the new tariff levels. Over time we intend to raise administered prices to reflect full cost recovery including investment spending, which will allow public enterprises to honor their tax obligations and the

government to pay for services used. At the same time, we are working with the World Bank to improve management of these companies to reduce technical losses and increase their efficiency. The 2009 budget will reflect full government consumption of public enterprise goods and services, which will be financed by higher revenues, including from petroleum product taxes.

39. Governance reform will support our efforts to improve the functioning of the public sector and the business climate. We have distilled the lessons learned from the justice roundtable in late 2007. We will provide more resources to law enforcement and in March 2008 created a permanent anticorruption committee at the prime ministry to enhance the coordination and accountability of all public institutions affected. Adoption of the procurement code by June is expected to improve transparency and effectiveness. A declaration of assets by senior government officials had already been required, but we will introduce a standardized declaration and penalties for noncompliance by June 2009. We will also continue our efforts to align the codes governing the natural resource sectors with international standards. We will not grant any new forestry licenses before the new forestry code is passed, and we have revoked two licenses that were not in line with current legislation. We will publish an audit report on the mining sector as a means of implementing the Extractive Industries Transparency Initiative (EITI). These reforms should help us realize the revenue generation potential of these sectors.

E. Program Monitoring for 2008

40. The program will be monitored through reviews based on biannual quantitative performance criteria (PCs) for end-June and end-December 2008 (Table 1) and structural PCs and benchmarks for 2008 (Table 2). Detailed definition and reporting requirements for all quantitative PCs and structural conditions are contained in the accompanying Technical Memorandum of Understanding (TMU, Attachment II). The government will make available to Fund staff all core data, appropriately reconciled, on a regular and timely basis, as specified in the TMU.

41. The program's quantitative conditionality has been updated:

- The PC on the domestic primary surplus allows any excess in budget support grants (relative to program projection) to be spent; this might facilitate our request for additional donor assistance. Shortfalls in budget grants no longer require fiscal adjustment.

- The PC on net commercial bank credit to government (net of government bond holdings by banks) has a limited upward adjuster for shortfalls (relative to program projection) in budget support grants to insulate budgetary management from short-term fluctuations in external assistance.

- Should there be a shortfall in bond issuance on the regional market relative to projections, this would result in (i) an increase in net credit from the BEAC up to its statutory ceilings; (ii) an increase in the ceiling on net commercial bank credit to government (PC); and (iii) a decrease in the floor on domestic arrears clearance (QB).

- The quantitative PC on new domestic payment arrears will be dropped, as will be the one on wages and salaries.

- A new quantitative benchmark will monitor the reduction of tax arrears net of write-offs.

Table II.1. Central African Republic: Quantitative Performance Criteria and Benchmarks Under the PRGF Arrangement, 2008

(billions of CFA francs; cumulative from December 31, 2007; ceilings, unless otherwise indicated)

	End-March Benchmark Proposed	End-June Performance Criteria Proposed	End-Sept. Benchmark Proposed	End-December Performance Criteria Proposed
Performance criteria				
Floor on total government revenue [1]	23.0	46.5	69.0	91.5
Floor on domestic primary balance [2]	0.5	1.0	3.0	2.5
Change in net claims of the commercial banking system on the government, excluding bonds	5.0	-0.5	-1.3	-12.8
New nonconcessional external debt [3 4]	0.0	0.0	0.0	0.0
Accumulation of government external payments arrears [4]	0.0	0.0	0.0	0.0
Indicative targets				
NPV of external debt	…	…	…	350
Floor on poverty-related spending [5]	4.5	9.5	14.0	18.5
Reduction in domestic payments arrears	2.0	5.0	8.0	14.0
Net accumulation of tax arrears	0.0	0.0	0.0	0.0
Memorandum items:				
Projected grants for budget support	0.3	7.4	11.9	12.1
Projected bonds issued in the regional market	0.0	0.0	0.0	20.7
Of which: held by domestic commercial banks	0.0	0.0	0.0	14.8
Maximum adjustor for government net claims on commercial banks in case of grants shortfalls	0.0	7.0	5.0	5.0

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

[1] Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, TMU, for more details).
[2] The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditures.
[3] Contracted or guaranteed by the government (see the TMU).
[4] These performance criteria will be monitored continuously.
[5] Total spending on health and education including wages and salaries and goods and services.

Table II.2. Central African Republic: Structural Conditionality, 2008

Measure	Conditionality/ Timeline	Macroeconomic Rationale
PETROLEUM PRICING AND PUBLIC ENTERPRISES		
Implement an automatic petroleum product pricing formula that ensures full pass-through to the consumer of all costs, distribution margins, VAT at the regular rate for gasoline and diesel, and a specific excise by product. The formula includes a timetable for petroleum taxation (MEFP ¶33 and TMU ¶15).	Prior action	Protect the budget from risks of fluctuating petroleum prices; creating room for well-targeted measures to mitigate the social impact of petroleum price changes.
Continue applying automatic quarterly petroleum product pricing formula (MEFP ¶33 and TMU ¶15).	Continuous structural performance criterion	Same as above.
Increase tariffs for water by 5 percent and for electricity by 5 percent for the upper tranches of consumption (MEFP ¶38).	Structural benchmark/ end-June 2008	Reduce quasi-fiscal losses of state-owned enterprises that are critical for C.A.R.'s growth; and protect the budget.
TAX, CUSTOMS AND PUBLIC ADMINISTRATION		
Revoke contract with Unitec Benin and staff the *Guichet Unique* in Douala with customs personnel (MEFP ¶28).	Prior action	Enhance revenue generation potential by removing ineffective and expensive operator.
Use turnover as the sole criterion for taxpayer classification with a turnover of CFAF 50 million as the minimum threshold for large taxpayers, VAT registration, and the standard tax system (MEFP ¶27).	Structural benchmark/ end-December 2008	Enhance revenue generation potential by focusing on large taxpayers and streamline the structure of VAT, the largest revenue source.
Increase the number of audits in 2008 to cover (i) at least 30 percent of large and medium-sized taxpayers per year; (ii) all stop-filers; and (iii) all filers with VAT credit claims or zero balance returns (MEFP ¶27).	Structural benchmark/ end-December 2008	Enhance revenue generation potential by reducing scope for tax evasion.
PUBLIC FINANCIAL MANAGEMENT		
Set up a liquidity committee including BEAC members to review monthly, weekly, and daily cash flow and expenditure commitment forecasts and assess liquidity needs (MEFP ¶21).	Structural benchmark/ end-June 2008	Reduce financing costs for the government and align government commitments with available resources to avoid arrears.
Set up and publish a plan to repay domestic arrears (MEFP ¶18 and TMU ¶16).	Structural PC/ end-September 2008	Reestablish credibility of the government with respect to the public; reduce debt overhang.
Implement a treasury single account (TSA) (MEFP ¶30).	Structural benchmark/ end-December 2008	Reduce financing costs for the government and increase transparency of government operations..
DEBT MANAGEMENT		
Fully computerize the debt management unit and enable it to provide debt service projections for various scenarios (MEFP ¶21).	Structural benchmark/ end-December 2008	Increase reliability of debt forecasts and develop ability to take early corrective actions to maintain medium-term debt sustainability.

Attachment II. Technical Memorandum of Understanding

Translated from French

June 3, 2008

1. This Technical Memorandum of Understanding describes the definitions that are intended to clarify the measurement of the quantitative performance criteria and indicators in Table 1 of the Memorandum of Economic and Financial Policies, 2008, attached to the authorities' Letter of Intent. It also specifies the periodicity and deadlines for transmission of data to the staff of the International Monetary Fund (IMF) for program monitoring purposes. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from December 31, 2007.

A. Provision of data to the Fund

2. Data with respect to all variables subject to performance criteria and indicative targets will be provided to Fund staff on a regular basis—with the data and timing indicated in Table 1—including any revisions, which will be transmitted in a timely manner. In addition, the authorities will consult with Fund staff on any information and data that become available, which are relevant for assessing or monitoring performance against the program's objectives but are not specifically defined in this memorandum.

B. Definitions

3. Unless otherwise indicated, the **government** is defined as the central government of the Central African Republic (C.A.R.) and does not include local governments, the central bank, or any public entity with autonomous legal personality (i.e., wholly- or partially-owned state enterprises) not currently covered by the government consolidated financial operations table (*Tableau des opérations financiers de l'État*—TOFE).

4. **Government expenditure**, on a cash basis (except for interest payments), is as reported in the TOFE and includes all earmarked spending, treasury operations, the domestic counterpart to foreign-financed projects, and offsetting operations. Poverty-related spending on health and education will be reported from the functional classification of government expenditure.

5. For the purposes of this memorandum, the definitions of "debt" and "concessional borrowing" are as follows:

- The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274-00/85, August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received. For purposes of these guidelines, the term “debt” is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

C. Quantitative Performance Criteria

Government domestic revenue (floor)

6. **Government domestic revenue** is as reported in the TOFE and it includes offsetting operations in revenue and current-period expenditure—between the government and all suppliers of goods and services—excluding foreign grants and divestiture receipts. Government revenue includes all tax and nontax revenue, as well as earmarked revenue, checks for project-related customs duties, and withholdings from civil service wages and salaries actually paid.

Domestic primary fiscal balance (floor)

7. The **domestic primary fiscal balance**, on a cash basis, is defined as the difference between **government domestic revenue** and **government expenditure**, excluding all

interest payments and externally-financed capital expenditure. The **domestic primary fiscal balance** will be calculated from above the line with the data provided in the TOFE.

Adjuster

8. The floor on the domestic primary fiscal balance will be adjusted downward for any excess in foreign budget support grants relative to program projections.

Change of net claims of the commercial banking system on the government (ceiling)

9. The end-of-period **stock of net claims of the commercial banking system on the government** as reported in the monetary survey is defined as the difference between deposits held by the government in commercial banks and outstanding loans and overdrafts.

Adjuster

10. The ceiling on the **change of net claims of the commercial banking system on the government** will be increased by

- (i) 100 percent of any cumulative shortfalls in external budget support grants compared to program projections up to the limit specified in Table 1 of the MEFP; and

- (ii) 55 percent of shortfall in regional bond issuance compared to program projections (see example in Table 2 attached to this TMU).

Nonconcessional external debt or guarantees (ceiling, continuous)

11. The performance criterion on the contracting of **new nonconcessional external debt** applies to both short (with an original maturity of one-year or less) and medium- and long-term (with an original maturity of more than one year) external debt, contracted or guaranteed by the government. Purchases from the IMF are excluded from this limit.

12. Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). A loan is said to be on concessional terms if, on the date the contract is signed, the ratio of the present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 65 percent (that is, a grant element of at least 35 percent, which does not apply to refinancing operations). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used. To both the 10-year and six-month averages of the reference rate, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more.

13. The concept of government for the purpose of the indicator on external debt includes government as defined in paragraph 3, administrative public institutions, public enterprises authorized to contract, guarantee, or accommodate nonconcessional borrowing, scientific and technical public institutions, professional public institutions, industrial and/or commercial public institutions, and local governments.

External payment arrears (ceiling, continuous)

14. **External payments arrears** are deemed to accrue when undisputed interest or amortization payments of the government are not made within the terms of the contract, or in conformity with any future deferral agreed with the Paris Club or other bilateral and commercial creditors.

D. Prior actions and structural performance criteria

Automatic petroleum product pricing formula (prior action and continuous structural performance criterion)

15. **The automatic petroleum product pricing formula** is designed to ensure full pass-through to the consumer of all costs, distribution margins, VAT at the regular rate for gasoline and diesel, and a specific excise inclusive of customs duties by product. The retail price for gasoline (*super*), kerosene (*pétrole lampant*), diesel (*gasoil*), and fuel oil (*fuel 1%*) will be calculated at the end of each quarter, using the average f.o.b. price for the previous 90 days for each product. The formula adds all costs, distribution margins, a specific excise by product, and, if applicable VAT. The final price will be calculated by using the price structure of petroleum products transported through the Democratic Republic of Congo by applying the specific excise as shown in Table 3.[12] The specific excise is defined to include the following items (i) *droit de douane*; (ii) *taxe communautaire d'intégration*; (iii) *redevance d'usage routier*; (iv) *redevance équipement informatique finances*; (v) C.C.I.; and (vi) negative or positive TUPP as the residual. VAT for gasoline and diesel will be applicable to all costs, distribution margins, and the specific excise starting October 1, 2008. For petroleum products imported through Cameroon, the same amount of VAT will be charged on gasoline and diesel, and specific excises will be adjusted to yield the same final price as specified above.

Domestic arrears clearance plan (structural performance criterion)

16. A plan to clear domestic arrears consists of (i) a list of all domestic payment arrears validated by audits for the period up to and including the year 2007, and differentiated by type; (ii) a schedule of minimum payments of each type of arrear by payment type to bring

[12] The specific excises shown in Table 3 for 2009 are indicative. They should be set so as to yield an additional 1 percent of GDP in petroleum taxation in 2009.

down arrears to zero (quarterly until 2010 and annual thereafter); (iii) a detailed description of how payments are prioritized within the plan; and (iii) a precise formula indicating additional payments to be made subject to availability of additional resources.

E. Quantitative benchmarks

Net-present-value of external debt (ceiling)

17. The **net-present-value of external debt** is estimated using the IMF's external Debt Sustainability template for Low-Income Countries.

Reduction in domestic payments arrears (floor)

18. The reduction in domestic payment arrears is reported as part of the TOFE. **Domestic payments arrears** are understood to include those validated by the external audit undertaken during the first part of 2007 which accrued during 1998-2004 and those which pre-date 1998. These domestic payments arrears include wages and salaries and supplier's credits.

Adjuster

19. The floor on the reduction in **domestic payments arrears** will be lowered by 24 percent of the shortfall in regional bond issuance compared to program projections (see example in Table 2 attached to this TMU).

Net accumulation of tax arrears (ceiling)

20. The net accumulation tax arrears is defined as the difference in the stock of tax arrears (excluding any amount under litigation) during the period plus any write-offs during that period. An example of the calculation is included in Table 4 below (Line 6).

Table 1. Central African Republic: Data Provision Under the PRGF Arrangement

Data description	Reporting lag
Quarterly evaluation report of quantitative and structural measures (particularly regarding structural conditionality, see Table 2 of the MEFP), including supporting documentation	Four weeks after each quarter's end
Monetary survey, central bank and commercial bank accounts on a monthly basis	Four weeks of the end of each month
Table on monthly treasury operations	Four weeks after the end of each quarter
Government budget operations (TOFE)	Four weeks after the end of each month
End-of-period stock of domestic arrears on goods and services and wages, including unpaid pensions and bonuses	Four weeks after the end of each month
End-of-period stock of external arrears	Four weeks after the end of each month
Breakdown of expenditures recorded in the TOFE (goods and services, wages, interest, etc.)	Four weeks after the end of each quarter
Summary report and actual spending in priority sectors, including health, education, and security	Four weeks after the end of each quarter
Breakdown of revenue by institution and economic classification	Four weeks after the end of each quarter
Revenues and expenditures offset against each other without cash payment (by expenditure and revenue type)	Four weeks after the end of each quarter
Breakdown of external debt-service and arrears, including by interest and principal, and by principal creditor	Four weeks after the end of each month
Amount of new nonconcessional and concessional external debt contracted or guaranteed by the government	Four weeks after the end of each month
Actual disbursements of project and program external financial assistance, and external debt relief granted by external creditors (including date, amount, and donor)	Four weeks after the end of each quarter
Stock of tax arrears and amount recovered	Four weeks after the end of each quarter
Indicators to assess overall economic trends, such as the consumer price index, and oil product sales.	Four weeks after the end of each month
Import/export flows (in volume and value), activity in the forestry and mining sector	Four weeks after the end of each quarter
A monthly report on the structure of petroleum prices	One week after the end of each month

Table 2. Central African Republic. Adjusters for Lower-Than-Projected Bond Issuance

	Adjustment factors [1]	Bond-related variables		
		(Billions of CFAF)		
Bond issuance		20.7	5.0	0.0
Shortfall relative to projections		0.0	15.7	20.7
Change in net claims of the commercial banking system on the government, excluding bonds	0.55	-13.8	-5.1	-2.4
Reduction in domestic payments arrears	0.24	14.0	10.2	9.0
Change in net credit from BEAC	0.21	-5.6	-2.3	-1.3

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

[1] If bonds issued were less than projected, the shortfall will be applied to the three types of domestic debt, according to the proportions of adjustment factors.

Table 3. Central African Republic: Excises and VAT on Petroleum Products, 2008-09

	2008 June	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Excises including customs revenues (via Kinshasa)			(CFAF per liter)			
Gasoline (Super)	156.5	140.3	154.3	168.3	182.3	196.3
Kerosene (Pétrole)	-142.2	-103.1	-148.1	-106.1	-64.1	-22.1
Diesel (Gasoil)	25.0	27.8	41.8	55.8	69.8	83.8
Fuel oil (Fuel 1%)	34.3	37.5	27.5	27.5	27.5	27.5
VAT [1]						
Gasoline (Super)	66.7	145.0	147.0	149.0	151.0	153.2
Kerosene (Pétrole)	0.0	0.0	106.0	113.2	120.4	127.8
Diesel (Gasoil)	83.2	140.7	142.6	144.5	146.4	148.4
Fuel oil (Fuel 1%)	0.0	0.0	103.4	102.9	102.4	102.0

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

[1] Estimates based on program projections for fob import prices.

Table 4. Central African Republic: Stock of Tax Arrears

		2006	2007	2008 (QB)
		(CFAF billions)		
1	Total stock	15.0	27.2	...
2	Under litigation	1.3	10.6	...
3	Total net of litigation (1-2)	13.7	16.6	...
	Flow items			
4	Change in stocks (3(t)-3(t-1))	...	2.9	...
5	Write-offs	...	0.0	...
6	Total change in tax arrears (4+5)	...	2.9	0.0
7	Recovery	...	3.4	...
8	New arrears (6+7)	...	6.3	...
	Memorandum item			
	Arrears of public enterprises	2.4	4.4	...

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

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers of Nonobservance of Performance Criteria and Augmentation of Access, and Financing Assurances Review — Informational Annex

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

Approved by Hugh Bredenkamp and Mark Plant

June 4, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange rate system. Outstanding Fund credit was SDR 28.80 million (51.70 percent of quota) as of April 30, 2008.

- **Relations with the World Bank Group.** Describes the World Bank Group strategy in lending and non-lending activities, the IMF-World Bank collaboration in specific areas, areas in which the IMF leads, areas in which the World Bank leads, and areas of shared responsibility.

- **Statistical Issues.** Assesses the quality of statistical data. Although economic data are generally adequate for surveillance, weaknesses hamper economic analysis.

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Appendixes

Tables

Appendix I. Central African Republic: Relations with the Fund

(As of April 30, 2008)

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

II. **General Resources Account**:

	SDR million	% Quota
Quota	55.70	100.00
Fund holdings of currency	55.55	99.73
Reserve position in Fund	0.16	0.29

III. **SDR Department**:

	SDR million	% Allocation
Net cumulative allocation	9.33	100.00
Holdings	0.11	1.23

IV. **Outstanding Purchases and Loans**:

	SDR million	% Quota
PRGF arrangements	28.80	51.70

V. **Latest Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
PRGF	Dec. 22, 2006	Dec. 21, 2009	36.20	20.70
PRGF	Jul. 20, 1998	Jan. 19, 2002	49.44	24.48
Stand-By	Mar. 28, 1994	Mar. 27, 1995	16.48	10.71

VI. **Projected Payments to the Fund (without HIPC Assistance)**[1]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal	2.45	3.25	1.60	0.80	1.76
Charges/interest	0.33	0.37	0.36	0.36	0.35
Total	2.78	3.62	1.96	1.16	2.11

[1]When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section,

Projected Payments to the Fund: (with Board-approved HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2008	2009	2010	2011	2012
Principal	0.71	3.25	1.60	0.80	1.76
Charges/interest	0.33	0.37	0.36	0.36	0.35
Total	1.04	3.62	1.96	1.16	2.11

VII. **Implementation of HIPC Initiative:**

	Enhanced Framework
I. Commitment of HIPC Assistance	
Decision point date	Sept. 2007
Assistance committed by all creditors (US$ million)[2]	583.00
Of which: IMF Assistance (US$ million)	26.98
(SDR equivalent in millions)	17.33
Completion point date	Floating
II. Disbursement of IMF Assistance (SDR million)	
Assistance disbursed to the member	3.47
Interim assistance	3.47
Completion point balance	--
Additional disbursement of interest income[3]	--
Total disbursements	3.47

VIII. **Implementation of Multilateral Debt Relief Initiative (MDRI):** Not applicable

IX. **Safeguards Assessments:** The Bank of the Central African States (BEAC) is the central bank for the Central African States, of which the Central African Republic is a member. A safeguards assessment of the BEAC was completed on August 30, 2004, and the main recommendations were reported in Country Report No. 05/424.

[2]Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.

[3]Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Exchange Rate Arrangement

The Central African Republic is a member of a monetary association with a common central bank, the BEAC. The exchange system common to all members operates without restrictions on the making of payments and transfers for current international transactions. The CFA franc is pegged to the euro at the fixed rate of CFAF 655.957 = €1. On April 30, 2008, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 685.410.

Article IV Consultations

The Central African Republic is currently on the standard 24-month cycle for Article IV consultations for program countries. The last Article IV consultation was concluded on September 28, 2007.

Resident Representative

The Fund's office in Bangui reopened in October 2007 (after being closed in September 2003). The Resident Representative is Mr. Joseph Ntamatungiro.

Table 1. Central African Republic: Recent Technical Assistance

Date	Department	Purpose
April 2001	FAD	To follow up on the introduction of the VAT and discuss measures to improve tax and customs revenue collection.
Jan–Feb 2004	STA	To assist the authorities in reviewing and updating the General Data Dissemination System (GDDS) and to provide technical assistance in government finance statistics.
March 2004	FAD	To assist the authorities in the area of revenue administration.
April 2004	FAD	To assist the authorities in the area of public expenditure management.
Aug-Oct 2004	FAD	To assist the authorities with tax administration.
Feb-Dec 2005	FAD	To assist the authorities with public expenditure management.
May 2005	FAD	To follow up on implementation of tax administration reforms and review progress made since the end of the three-month assignment of a FAD tax expert.
Jun-July 2005	STA	To assist the authorities with government finance statistics.
July 2005	STA	To assist the authorities with real sector data.
May 2006	FAD	To assist authorities in recovering tax arrears.
May 2006	FAD	To assist the authorities in tax administration reform.
Sept-Oct 2006	STA	To assist in the area of monetary and financial statistics.
January 2007-present	FAD	To assist the authorities with public financial management.
April-May 2007	FAD	To assist in the area of fiscal implications of alternative fuel pricing policies and their distributional impact on vulnerable household groups, including mitigating measures.
October 2007	AFRITAC Central/FAD	To assist in the area of custom administration and follow up on the new organizational structure.
October 2007	AFRITAC Central/FAD	To follow up on implementation of tax administration reforms and review progress made since the expert's previous visit in May 2006.
November-December 2007	FAD	To inspect FAD resident PFM advisor.
December 2007	AFRITAC Central/STA	To assist the authorities with national account data.
March 2008	AFRITAC Central /MCM	To assist in the area of debt management.

APPENDIX II. CENTRAL AFRICAN REPUBLIC: RELATIONS WITH THE WORLD BANK GROUP

(As of April 15, 2008)

1. World Bank assistance to the Central African Republic (CAR) was disrupted by the recurrent conflicts during much of the past decade as well as arrears to IDA from January 2002-November 2006. The presidential and parliamentary elections in March and May 2005 marked the end of a two-year political transition, following a coup d'état in March 2003, and were generally deemed to have been satisfactorily conducted. The Bank's objective over the past three years has been to help the CAR design and implement a framework to guide the country's recovery and longer-term development and poverty reduction efforts and pave the way for a coordinated settlement of external arrears by multilateral creditors and increased volumes of donor financing. This has now been done. The CAR finalized its PRSP in June 2007 and reached the HIPC decision Point in September 2007. The international community pledged an estimated amount of $US600 million over 2008-2010 to support the CAR's PRSP implementation. The Bank is now working with the international community to help the CAR move towards longer economic recovery and enhanced poverty reduction effort.

The Bank Group strategy in lending and non-lending activities

2. The World Bank and African Development Bank (AfDB) strategy and program in CAR is outlined in a joint Interim Strategy Note for FY07–08. A joint WB-AfDB Country Partnership Strategy (CPS) is under preparation with the Government, the launching of it took place in Bangui in March 2008. The new CPS will lay out the WB and AfDB strategy to support the PRSP implementation over the next three years (2008-2010).

3. The World Bank portfolio has become active as of November 2006 after five years of the country being in non-accrual status. So far, the portfolio is moving ahead well. A *Reengagement and Institution Building Support Program Grant* (US$82 million) approved in November 2006 closed in November 2007. The program helped the CAR cleared the country's arrears to the Bank, paving the way for resumed IDA assistance, and focused on strengthening Governance and Natural Resource Management. The World Bank currently has five active projects in its portfolio totaling US$67.8 million. The portfolio consists of an *Emergency Urban Infrastructure Rehabilitation and Maintenance* (US$18 million) approved in May 2007 to rapidly rehabilitate, restore, improve and expand sustainable access to basic infrastructure services for the population of the most deprived districts of Bangui. A *Regional Trade & Transportation Facilitation Project* (US$24 million) approved in June 2007 aims to facilitate regional trade between Chad, Cameroon and CAR and improve their access to world markets through improving the implementation of the CEMAC Customs Union, and reducing barriers along the Douala-Bangui corridor. An *HIV/AIDS project* (US$17 million) that was in the portfolio when the country went into non-accrual status was restructured in May 2007 to expand its scope to include health and education emergency

support. A *second project funded by the Low Income Countries Under Stress (LICUS) Trust Fund* (US$6.8 million) approved in October 2006 is also under implementation, covering Public Financial Management (PFM), Mining, Community Driven Development, HIV/AIDS and PFM aspects of Security. An emergency *Social Service Delivery Grant* funded by a LICUS Trust Fund (US$2 million) was approved in March 2008 to secure short-term, just-in-time support to protect social service workers' salaries in the period March-April 2008. The portfolio includes a Country Record and Country Environment flag.

4. An *Economic Management and Governance Reform Grant* ($US7.9 million) is being finalized and will be presented to the Board of the World Bank in May 2008 and aims to sustain government reforms in public finance, forestry, and in the downstream petroleum sector. In addition, a project "*Enhancing Governance and Economic Management System*" project funded by the LICUS Trust Fund ($US2 million) is under preparation to support the implementation of the HIPC triggers and the *Economic Management and Governance Reform Grant*, thereby sustaining the reform effort started under the second LICUS project.

5. The Bank is also providing several pieces of analytical and advisory assistance (AAA). AAA completed in FY07 include a Diagnostic Trade Integration Study; a Country Financial Accountability Assessment; Country Procurement Issues Paper; Poverty Report; and Education Country Status Report. The Bank is also providing support to the PRSP, TA on Customs and support for debt relief. A Public Expenditure Review and Rural Sector Strategy are planned.

IMF-World Bank collaboration in specific areas

6. The World Bank has worked closely with the IMF on the reform program in the CAR, and generally share the same views on policy issues. There is broad agreement on the core reform program in the CAR, namely: (i) reinforcement of public expenditure and public payroll management; (ii) revenue mobilization and improvement of tax and custom administration; (iii) improving governance and transparency; and (iv) improving the delivery of public services, including education and health. The IMF-World Bank collaboration is summarized in Table 2.

Areas in which the World Bank leads and there is no direct IMF involvement

7. To assist demobilization and socio-economic reintegration of ex-combatants into their home communities, the Bank approved the Reintegration of Ex-combatants and Support to Communities Special Project in an amount of US$9.8 million in April 2004. The project, funded through the Multi-Donor Trust Fund (MDTF) of the Multi-Country Demobilization and Reintegration Program (MDRP), closed in February 2007. Its objectives were to contribute to the overall stability of the country by (i) demobilizing ex-combatants and reintegrating them socially and economically back into their community; (ii) strengthening the capacity of communities of return to ensure the sustainable reintegration of the ex-combatants; and (iii) supporting projects on security and conflict prevention in communities that are most affected by security problems. This work is being followed up through the security component of LICUS2 and a multidonor effort in security sector reform.

8. To support the emergency rehabilitation of at least 80 communities in four prefectures (Kemo, Ouaka, Kemo, Basse Kotto and Mbomou), the Bank has signed a Grant agreement with an international NGO and with the Government in an amount of US$2.75 million. The project is funded entirely through the LICUS TF and is expected to establish a model for a community-driven approach that helps build social capital, provide critical social services, and restart some level of economic activity in the selected communities.

Table 2. Central African Republic: Bank-Fund Collaboration

Area	Lead Institution
1. Fiscal area	
Public expenditure management	IMF/World Bank
Tax administration	IMF/World Bank
2. Governance	
Transparency efforts	IMF/ World Bank
Natural resource management	World Bank
3. Other	
Monetary and credit policy	IMF
Social sector assessment	World Bank
Poverty reduction strategy	World Bank
External sector	IMF
Debt sustainability analysis	IMF/World Bank

Areas in which the World Bank leads and its analysis serves as input into the IMF-supported programs

9. The Bank is taking the lead on laying the groundwork for the preparation of a medium term structural reform framework in the context of the PRSP. In addition to the LICUS Trust Fund activities, the Bank has continued to engage in analytical and advisory work. In collaboration with other partners, it prepared a set of Policy Notes, focusing on key thematic areas including security, natural resource management, social sectors, procurement and public finance. The IMF has a strong interest in the financial sector from a macroeconomic perspective, including growth and the monitoring of quasi-fiscal deficits and contingent public liabilities, as well as an interest in governance and transparency issues in natural resources management.

10. During 2006, the Bank has prepared a report on public procurement (CPIP), on trade (DTIS) and on public finance management (CFAA). In the latter area, reports were prepared

on cash management and accounting nomenclature, and on civil service reform and payroll control. In end-2007, the Bank has led a PEFA mission in collaboration with development partners and a draft report to be reviewed by the Government and partners was released in April 2008. In the context of the LICUS2 grant, and the Reengagement and Institution-Building Support Program, the Bank funded and is supporting governance-enhancing activities in the sectors of mining, forestry and telecommunications and in the judicial area. The objective pursued is to create an environment conducive to private sector development and to ensure the respect of investors' rights. In the context of the upcoming LICUS grant, the Bank would finance activities supporting the production of quarterly budget execution report and the Execution Law as well as central government accounts.

Areas of shared responsibility

11. The Government finalized its PRSP in June 2007 with assistance from UNDP, the AfDB, and the World Bank to ensure that the PRSP will provide the requisite medium-term framework with sufficient depth and breadth of coverage of the country's recovery and longer term development and poverty reduction needs. The IMF-World Bank Joint Staff Advisory Note will be discussed at a World Bank Board meeting on May 27, 2008.

12. The Bank and the IMF are working together to assess debt sustainability and HIPC eligibility for the C.A.R. The Bank and the IMF are also active in the area of regional integration. The Bank has been implementing a Regional Assistance Strategy for the CEMAC countries, including a support to the payments systems, while the IMF has been active in regional macroeconomic surveillance. An FSAP was undertaken for CAR in February 2008.

Areas in which the IMF leads and its analysis serves as input into the World Bank-supported programs

13. The IMF has taken the lead on core macroeconomic and fiscal policies, revenue mobilization, and the management of aggregate expenditures. The Bank has been working with the IMF to ensure consistency between its own projects and policy advice and the overall fiscal framework. In the framework of a donor partnership, the Bank has provided training and technical assistance to strengthen the CAR public finance administration.

Areas in which the IMF leads and there is no direct World Bank involvement

14. The IMF has been leading the dialogue on monetary policy, exchange rate management, and balance of payments issues, although given the nature of the CFA franc arrangement, there is little scope for policy action in these areas at the national level.

Questions may be addressed to Eric Bell (202-458-7490) or Luc Razafimandimby (202-458-9539).

Appendix III. Central African Republic: Statistical Issues

15. Data are broadly adequate for surveillance purposes, but weaknesses persist. To help address these, efforts have been underway to improve the national statistical system including through adopting a statistics law and setting up a National Statistical Board in 2001 and technical assistance in national accounts and government finance statistics. Issues of source data, compilation, and dissemination affect all sectors, but are particularly severe in the areas of the real sector, government finance, and external trade statistics.

16. With the support of a statistics expert mission during January 26–February 13, 2004, the Central African Republic (CAR) became a participant in the GDDS and first posted metadata on the IMF's Dissemination Standards Bulletin Board (DSBB) on June 14, 2004.

Real sector

17. The compilation of national accounts is the responsibility of the General Directorate of Statistics and Economic and Social Studies (DGSEES) of the Ministry of Planning. The 1999 multisector mission found serious deficiencies in the institutional arrangements for compiling statistics as well as weaknesses in data collection procedures and compilation techniques. The authorities should continue efforts to improve the quality of national accounts estimates and the reporting of quarterly foreign trade data. At the same time, revisions are needed for the wholesale and the consumer price indices as the limited coverage and the obsolescence of the weights used in compiling these indices cast serious doubts on their accuracy.

18. An STA expert in national accounts visited Bangui in mid-2005 (and a follow-up AFRITAC visit in December 2007) found a serious resource gap at the DGSEES and recommended a number of measures, particularly the redeployment of resources to strengthen the national accounts area. There is an urgent need to develop source data, by conducting surveys, particularly for the subsistence agriculture sector which represents an estimated 30 percent of the economy. In addition, estimates of activity in the informal sector are still based on a 1982 survey. In the manufacturing sector, estimation is based on an outdated list of enterprises and likely overestimates activity, given that many of these enterprises either do not exist or have reduced their production considerably. There is the pressing need to update the business register through a survey of enterprises and to reinstate publication of the industrial production index.

Government finance

19. The 1999 multisector statistics mission noted that the Treasury accounts had in previous years served reasonably well as the principal data source for GFS, as is the case in most countries with a French-style public finance system. However, the coverage of the accounts no longer included all units of even budgetary central government, thus impeding

compilation of an analytically meaningful set of government finance statistics. Moreover, even the available, partial information was not communicated in a timely way to the Ministry of Finance. In February 2004, a follow-up mission underscored that, in order to re-establish a systematic compilation of government finance statistics, substantial additional assistance would be required, notably in the area of Treasury accounting and expenditure management, with a view to producing reliable source data and improving the accuracy of, among other things, domestic arrears. The mission made specific recommendations toward this objective, and a subsequent April 2004 FAD mission confirmed and reinforced these recommendations. Assistance is currently provided by a resident FAD public expenditure management advisor. A follow-up STA mission in mid-2005 reviewed recent developments and proposed further steps for improving the source data for the compilation of the government financial operations table (*Tableau des Opérations Financières de l'État,* TOFE) and for further development and use of the Treasury cash plan. The GFS are expected to benefit significantly from the ongoing work on a new chart of accounts.

Monetary accounts

20. Monthly data for the CAR, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are regularly reported to the Fund in electronic form by the Bank of Central African States (BEAC). Accuracy of data on currency in circulation is affected by large cross-border movements of currency among CEMAC member countries. Only 25 percent of banknotes issued in the CAR by the BEAC National Directorate remain in the territory, 51 percent circulate in Cameroon and about 17 percent in Chad, while currency in circulation in the CAR includes some 13 percent of banknotes from the Republic of Congo, 6 percent of banknotes from Cameroon, and 3 percent of banknotes from Gabon.

21. The monetary and financial statistics (MFS) mission in October 2006 assisted the authorities in assessing consistency between government finance statistics (bank financing) and monetary statistics (net position of the government). The mission also provided guidance in migrating to the new Standardized Report Forms (SRFs) for the submission of monetary statistics to STA, and helped update the metadata for the financial sector posted on the IMF website within the framework of the GDDS. However, the BEAC has yet to submit, for any of its member countries, test data using the SRFs. Key recommendations from the MFS mission included: (i) expansion of monetary statistics to include the largest microfinance institution in the country (*Crédit mutuel de Centrafrique*); (ii) finalization and implementation of the updated sectorized list of public entities to improve accuracy of monetary statistics and consistency with GFS; and (iii) verification of the reliability of source data reported by commercial banks through the new electronic reporting system.

22. The BEAC started in mid-2007 a project to migrate monetary statistics of member countries of the CEMAC to the methodology in the *Monetary and Financial Statistics Manual (MFSM)*. As a part of this project, a regional meeting was organized by the BEAC in

December 2007 to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework. An STA staff participated in the meeting to provide guidance and advice.

Balance of payments

23. As in other CEMAC countries, the agency responsible for the compilation of balance of payments statistics is the Balance of Payments Unit of the national agency of the BEAC. Past delays with data compilation and dissemination, which were mainly related to the transition from the fourth to the fifth edition of the *Balance of Payments Manual*, have been addressed through the recent implementation of methodological improvements. The last complete reporting, prepared by the national balance of payments committee, covered 2002 annual data. Preliminary statements for 2003–05 are available from the national BEAC office in Bangui, and have been transmitted to the African Department.

24. Efforts have been made to improve the compilation system, including the development of a flexible questionnaire. Nonetheless, problems remain and the main issues concern data sources, including the need to update the BOP survey (list of respondents, reporting forms, and codification). Various methodologies or statistical techniques need to be reviewed, such as the computation of freight and insurance and procedures for attributing banknote movements among transactions. The timeliness of the biannual balance of payments (presently 90 days) needs to be improved.

External and domestic debt

25. External and domestic debt statistics are compiled by the Debt Directorate of the Ministry of Finance. The quality of data needs to be significantly improved and efforts have been underway to verify with creditors the stock of external debt outstanding and of external arrears. Similarly, domestic debt data are of poor quality, due in part to the difficulty of monitoring public expenditure from commitment to payment. However, the actual stock of government domestic arrears (up to end-2004) has been verified by a working group, with the help of a World Bank consultant, and a census of arrears accumulated during 2005–07 will be undertaken soon. The planned introduction of a government financial management information system (GFMIS) should also help improve the monitoring of arrears. The reconciliation process with external creditors was completed in June 2007, with 99 percent of the multilateral, bilateral and commercial debt as of end-2006 reconciled. The Debt Directorate is currently seeking funding and technical expertise to upgrade their outdated debt data management software.

Table 3. Central African Republic: Table of Common Indicators Required for Surveillance

(As of May 8, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Apr. 2008	May 2008	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar 2007	May 2007	M	M	M
Reserve/Base Money	Dec. 2007	Mar. 2008	M	M	M
Broad Money	Dec. 2007	Mar. 2008	M	M	M
Central Bank Balance Sheet	Dec. 2007	Mar. 2008	M	M	M
Cons. Bal. Sheet of the Banking System	Dec. 2007	Mar. 2008	M	M	M
Interest Rates[2]	Dec. 2007	Mar. 2008	M	M	M
Consumer Price Index	Dec. 2007	Mar. 2008	M	M	M
Rev., Exp., Balance and Composition of Financing[3] – General Government[4]	Mar. 2007	May 2007	Q	Q	A
Rev., Exp., Balance and Composition of Financing[3] – Central Government	Mar 2007	May 2007	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar 2007	May 2007	M	O	M
External Current Account Balance	2006	May 2007	A	A	A
Exports and Imports of Goods and Services	2006	May 2007	A	A	A
GDP/GNP	2006	May 2007	A	A	A
Gross External Debt	Mar 2007	May 2007	M	O	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic non-bank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under the PRGF Arrangement with the Central African Republic, Increases Financial Assistance to Mitigate Food and Fuels Price Impact, and Approves US$14 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of the Central African Republic's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement and augmented access under the PRGF to help the country address the impact of rising food and oil prices. The Executive Board agreed to augment the SDR 36.2 million (about US$58.4 million) under the PRGF arrangement with SDR 8.355 million (about US$13.5 million) to be disbursed in the context of the second and third reviews. The completion of this review enables the disbursement of SDR 8.67 million (about US$14 million), including SDR 5.57 million (about US$9 million) from the augmentation.

In completing the review, the Executive Board granted waivers for the nonobservance of four quantitative performance criteria pertaining to the ceilings respectively on wages, government domestic arrears, the changes in net claims of the commercial banking system, and external payments arrears, and the nonobservance of structural performance criteria on petroleum product pricing formula and on the reduction in the stock of tax arrears.

The three-year PRGF arrangement was approved on December 22, 2006 (see Press Release No 06/299).

Following the Executive Board's discussion of the Central African Republic's IMF-supported economic program, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"During the past several years, the Central African authorities have made important progress in consolidating peace and security and in strengthening economic policies. This progress is being reflected in an economic recovery that is gathering strength, in particular in agriculture, which is crucial for poverty alleviation.

"The authorities are demonstrating a firm resolve to implement their PRGF arrangement, under difficult financial conditions and a challenging external environment. Fiscal consolidation will continue in 2008. This will entail enhancing public financial management, better targeting spending, improving treasury and debt management, and addressing the quasi-fiscal deficits of state-owned companies. Although there have been some slippages in program implementation in 2007, these have been transitory, minor, or were corrected. In this context, the Executive Board supported the authorities' request for waivers of nonobservance of program performance criteria. Directors also supported the authorities' request for an augmentation of access to the Fund's financial resources to cushion the impact of higher oil prices on the balance of payments, and urged the donor community to also provide additional financial assistance to the Central African Republic (C.A.R.).

"The recent adoption of a petroleum product pricing formula is a crucial step to insulate the budget from the impact of fluctuations in international oil prices and strengthen government revenue collection. Fuel excise increases are being implemented gradually to adjust to higher prices, and measures have been taken to help mitigate the impact of higher prices on the poorest households.

"The level of tax collections in the C.A.R. remains among the lowest in sub-Saharan Africa. In the near term, the government plans to raise domestic revenues by reorganizing customs administration and strengthening tax audits and collection enforcement. In the medium term, the emphasis will be placed on a comprehensive tax policy reform to raise the revenue-to-GDP ratio. Higher domestic and concessional external resources are needed to accelerate progress toward the Millennium Development Goals.

"The government plans to borrow from the regional financial markets to help resolve the domestic debt overhang. This would replace costly short-term financing from domestic banks; reduce the C.A.R.'s debt to the regional central bank so as to free resources for short-term liquidity management; and facilitate the payment of domestic arrears, most of which are salaries. The authorities intend to reinforce their debt and treasury management capacity before implementing this new borrowing strategy. The authorities are encouraged to increase their efforts to reach the HIPC completion point, which would provide further significant debt relief and support their fiscal consolidation efforts," Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Statement by Laurean Rutayisire, Executive Director for the Central African Republic
June 18, 2008

On behalf of my Central African Republic authorities, I would like to thank the Executive Board and management for their continued support to the Central African Republic (CAR) as they strive to consolidate peace and security, reduce poverty while maintaining macroeconomic stability. My authorities are appreciative of the candid policy discussion with staff and the valuable technical assistance provided. They welcome the well written reports by the staffs of the IMF and the World Bank and consent to their publication following the Board discussion.

My authorities are also thankful for the international community assistance in promoting security and regional stability, a key priority of their Poverty Reduction Strategy Paper. In particular, the support of Central African and French forces as well as the mediation of African leaders have been valuable in creating the space for national dialogue and reconciliation and in containing regional crisis. The new government of Prime Minister Touadéra has renewed President-elect Bozizé's commitment to the consolidation of peace, security and dialogue by making it the top priority of his governments' action.

I. RECENT ECONOMIC DEVELOPMENTS

Real GDP grew by 4.2 percent in 2007 driven by domestic absorption and the recovery in diamond and timber exports. Reflecting the recovery of the agriculture sector and the sharp contraction in broad money due to a lower than expected aid transfers, inflation declined to 1 percent in 2007, a level significantly below the regional convergence criteria of 3 percent. Although the decline of the dollar and the domestic demand in response to high oil prices cushioned the deterioration of the external sector, the current account nonetheless significantly deteriorated from 2.7 percent in 2006 to 4.4 percent of GDP in 2007 driven by higher energy import costs. Official reserves significantly declined as well.

My authorities' **fiscal policy** aimed at creating the space needed for poverty reducing and investment spending. For a second year in a row, CAR registered a positive domestic primary balance. The primary balance target of 1 percent of GDP was exceeded through a combination of increased revenue mobilization and improved expenditure allocation. In order to improve revenue collection, reforms aimed at improving fiscal agencies were implemented including reforms in custom administration. In spending, efforts were made to contain discretionary spending as well as the wage bill. Spending was also reallocated towards priority sectors such as education and health. However, due to limited internal resources, and a lower than expected budget support, the goal of reducing domestic debt by 2.2 percent of GDP could not be achieved. My authorities are well aware of the significant social costs of the domestic debt and their negative impact on poverty reduction and the development of the private sector. They are preparing a financing strategy in order to retire it.

Monetary policy, which is conducted at the regional level has been successful in reducing inflation to 1 percent. The financial system is healthier following the recapitalization of a troubled bank. My authorities welcome the completion of the FSAP which provides valuable input to their efforts to develop their financial system in order to harness its contribution to growth and poverty reduction.

In the area of **structural reforms**, my authorities sought to enhance the efficiency of the public sector especially in areas critical to the success of fiscal policy. With the view to improving revenue administration, an external audit of the *Guichet Unique* in Douala was undertaken. An audit of all other revenue collection agencies was also conducted and further audits are planed with the goal of improving their performance. In public expenditure management, my authorities have adopted laws aiming at rationalizing the expenditure chain and have computerized the payroll management system. Progress was also made towards the implementation of a treasury single account with measures such as the elimination of the stock of outstanding treasury checks. On the management of natural resources, my authorities ensured that no exceptional permits were given in forestry exploitation, and took steps to adopt international best practices in the mining sector and towards complying with the EITI requirements.

Notwithstanding my authorities' strong commitment, some program targets were not implemented on time due to capacity constraints and the lack of adequate resources. The performance criterion on the ceiling on wages and domestic arrears was missed by a small margin. Because of shortfalls in donor financing, the performance criteria on commercial bank credit was missed by 0.3 percent of GDP. My authorities took remedial action by enacting legislation restricting government access to commercial banks accounts. The continuous criteria on external arrears were briefly missed due to a miscommunication with creditors and cash constraints. These arrears have been swiftly cleared. As regards structural performance criteria, my authorities took corrective action on the reduction of the stock of tax arrears by state-owed- enterprises. They also implemented the criteria on petroleum product pricing although with a delay due to the need to take measures in order to mitigate the social impact of the measure and enlist the support of the civil society and trade unions for the reform. Given the remedial actions taken, my authorities are requesting waivers for the non-observance of these targets.

II. THE REFORM AGENDA IN 2008 AND BEYOND

Going forward, my authorities plan to build on the gains achieved so far to pursue policies aimed at reducing poverty and promote growth while consolidating macroeconomic stability. They welcome the JSAN which candidly highlights the strengths and weaknesses of the Poverty Reduction Strategy Paper. They have well taken the recommendations made by staff including the need for a proper costing of sector strategies and an operationalization of a simplified monitoring system. They share staff's view that the success of this plan hinges on a scaled up support from the international community.

The macro-framework underpinning the reform agenda for 2008 assumes a continued favorable outlook, with growth accelerating, driven by the recovery of the agricultural sector as well as the dynamism of exports. My authorities are nonetheless alert to the risks posed by increases in international oil and foodstuff prices and the risks of regional conflicts.

Fiscal Policy

My authorities plan to maintain a prudent fiscal stance, in order to anchor macro stability and create the fiscal space required for growth enhancing and poverty reducing spending. They aim at achieving further primary surplus which will help reduce both domestic debt arrears and external debt service. On the revenue side, my authorities envision an increase in revenue collections by ½ percent of GDP. To achieve this ambitious target, they plan to implement both administrative and tax policy reforms including with an elimination of discretionary custom exemptions and an increase in forestry taxes. On spending, they plan to reallocate scarce resource towards priority sectors such as education and health, and critical capital projects.

Efforts will also be made to improve public financial management in order to reduce the high cost of credit faced by the government and gain access to BEAC’s statutory advances as well as to the newly established CEMAC’s regional financial market which will ensures further flexibility to finance short term liquidity needs. My authorities recognize however the need to strengthen their expenditure controls mechanisms as well as their debt management capacities prior to accessing to the regional financial market and are requesting IMF’s technical assistance in these areas.

Given the significant impact of domestic arrears accumulated over the years, which now amounts to 23 percent of GDP on the poverty outlook as well as its dampening effect on private sector dynamism, my authorities plan to adopt a credible plan to clear domestic arrears.

With respect to external debt, my authorities are making promising efforts to secure the participation of the remaining official bilateral and commercial creditors to the HIPIC debt relief initiative. They seek to reach the completion point at the earliest in order to further reduce the risk of debt distress and reallocate valuable debt service resources towards the pursuit of development goals.

Monetary and Financial Sector policies

The goal of monetary policy will continue to be price stability, with the target level of inflation set to meet the regional convergence criteria of 3 percent. Within this boundary, credit to private sector will be expanded with the reduction in domestic debt arrears in order to accelerate a private sector-led growth while the exposure of commercial banks to the public sector will be reduced. My authorities welcome the completion of the FSAP which identified the commercial banks exposure to the public sector as a key systemic risk. They plan to address this risk through a better control of public enterprises finances including through audits of accounts, management reforms and the adoption of cost recovery pricing of state-owned companies services. In order to deal with the risk posed by the high level of nonperforming loans, my authorities plan to require further recapitalization of the banking system although they are committed not to contribute public resources towards this effort.

Structural reforms

My authorities plan to continue to implement an ambitious reform agenda in order to enhance administrative efficiency and reduce distortions with a view to promoting a private sector led growth and the resilience of the economy to exogenous shocks.

In fiscal structural reforms, it is my authorities' intention to build on the progress achieved so far to implement further reforms in revenue administration, tax policy reforms and public financial management in order to sustainably raise revenue collection over the medium term. In revenue administration, they plan to complete the re-organization of the fiscal agencies in order to reduce compliance costs for tax payers and enhance their effectiveness. In tax administration, my authorities will focus on increasing the compliance rate of large tax payers and public enterprises including through audits and enforced collections. As regard tax policy, my authorities will implement a comprehensive reform to unify all tax-related laws into a streamlined code with the view to broaden the tax base, simplify the tax system and further reduce compliance costs.

With respect to public financial management reforms, my authorities will focus on modernizing and strengthening the public expenditure control system in line with the recommendations of the latest *Public Expenditure and Financial Accountability* (PEFA) report. They also plan to strengthen the legal framework for issuing government guarantees to ensure that they are compliant with the budget law.

In the petroleum sector, my authorities plan to eliminate net fuel subsidies through the implementation of a quarterly price adjustment mechanism. In doing so they seek to insulate the budget from further oil prices increases. They recognize however that the pass-through of high world oil prices to the economy will result in increased hardship especially for the most vulnerable segments of the population. They therefore call for the support of the international community in setting up and operation of effective safety nets.

In natural resources management, my authorities will strive to adhere to international best practices, including by publishing an audit report on the mining sector as required by the Extractive Industries Transparency Initiative (EITI). They also plan to adopt a new forestry code before starting to issue any new forestry license.

On governance, my authorities plan further reforms with the view to improving the efficiency of the public sector, fighting corruption and improving the business climate by promoting transparency and the accountability of public servants. In this respect, adequate resources will be allocated for the functioning of the new anticorruption committee and to enforce the law requiring the disclosure of assets by senior government officials. The judicial system will also be reformed in line with the recommendations of the round table on Justice to modernize the court system and reduce the cost of collecting debts in order to improve the business climate.

III. CONCLUSION

My Central African Republic authorities are making significant progress in implementing the PRGF program with a view to reducing poverty and promoting growth while consolidating macro stability. As they seek to achieve these objectives, they are faced with the difficult challenges of consolidating peace and security, enormous reconstruction and developmental needs, and severe capacities constraints. They are committed to further reforms efforts and a continued policy dialogue with their development partners including the IMF as they strive to meet these challenges. They also request further assistance from the international community in this endeavor.

Based on the overall strong program implementation, under difficult circumstances, and the commitment to pursue a strong reform agenda going forward, I would like to request on behalf of my Central African Republic authorities the completion of the second review under the current PRGF arrangement. My authorities also seek waivers for the non completion of performance criteria, for which they took remedial action.

They also request an augmentation of access under the PRGF arrangement in an amount equivalent to 15 percent of quota to facilitate adjustment to the exogenous terms of trade and higher world oil prices shocks. Given the uncertainty as to the evolution of oil and food stuff prices they closely monitor developments and hope for further timely assistance from the Fund and development partners as needs arise. I would appreciate Executive Directors support of my authorities' requests.