February 2006
IMF Country Report No. 06/42

Central African Republic: Use of Fund Resources—Request for Emergency Post-Conflict Assistance—Staff Report; Press Release on the Executive Board Discussion;and Statement by the Executive Director for the Central African Republic

In the context of the Use of Fund Resources—Request for Post-Conflict Assistance, the following documents have been released and are included in this package:

- the staff report for the Use of Fund Resources—Request for Post Conflict Emergency Assistance, prepared by a staff team of the IMF, following discussions that ended on November 20, 2005, with the officials of the Central African Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 13, 2006. 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 discussed during its January 27, 2006 discussion of the staff report that concluded the 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 Arepublic*
Memorandum of Economic and Financial Policies by the authorities of the Central African Republic*
Technical Memorandum of Understanding*
*May also be 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
Washington, D.C.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Use of Fund Resources—Request for Emergency Post-Conflict Assistance

Prepared by the African Department

(In collaboration with other departments)

Approved by Saul Lizondo and Mark Plant

January 13, 2006

- The discussions took place in Bangui, Central African Republic (C.A.R.) during November 6–20, 2005. The staff met with the President, the Prime Minister, the Minister for Finance, the acting National Director of the central bank (BEAC), other senior officials, as well as representatives from the private sector, NGOs, labor unions, the donor community, and the local press. The staff team consisted of Messrs. Lewis (head), Bakhache, Kalonji, and Ould-Abdallah (all AFR). The team was joined by a parallel World Bank mission, and a representative from the African Development Bank (AfDB).

- The Executive Board approved a first purchase of SDR 5.57 million (10 percent of quota) under the Emergency Post-Conflict Assistance (EPCA) policy on July 23, 2004. The program aimed to support during the second half of 2004 the authorities' reconstruction and reform efforts following a long period of political and military disturbances. The authorities and staff also agreed on indicative targets and structural reform measures for the first half of 2005.

- The Executive Board concluded the 2005 Article IV consultation on October 24, 2005 (Country Report No. 05/424). Executive Directors commended the authorities for the peaceful completion of the recent elections and the continued improvement in the security situation. Directors emphasized that addressing the remaining challenges required stabilizing public finances, delivering public services more effectively, and establishing an environment conducive to private sector activity. They noted that determined action by the authorities should pave the way for greater international support, including further EPCA from the Fund.

- In the attached Letter of Intent and Memorandum of Economic and Financial Policies, the C.A.R. authorities request a second purchase under the EPCA policy for SDR 6.9625 million (12.5 percent of quota).

- The C.A.R.'s relations with the Fund and the World Bank Group are summarized in Appendices II and III, respectively.

Contents Page

EXECUTIVE SUMMARY

Recent Developments

The political situation has been generally peaceful since the conclusion of the presidential and parliamentary elections in March and May 2005. Security conditions have improved, although progress has been slow in containing banditry, which continues to be a major problem in rural areas.

The post-conflict economic recovery remains subdued. Real GDP growth is estimated to have risen slightly from just over 1 percent in 2004 to about 2 percent in 2005. Average inflation is estimated to have increased moderately to about 3 percent in 2005, mainly reflecting weak agricultural production.

Performance under the first EPCA-supported program was mixed, although a number of corrective measures have been implemented. Fiscal performance improved in the third quarter of 2005 following weak performance in the first half of the year. Corrective measures implemented include an adjustment in petroleum prices, an increase in the VAT rate, and strong steps to control the wage bill. These measures would have their full impact in 2006.

On the structural front, progress picked up in the second half of 2005. Measures were taken to strengthen tax and customs administration and, following long delays, important advances were made on improving the judiciary.

Program for 2006

The authorities' program aims to continue the efforts begun under the first EPCA-supported program to establish macroeconomic stability through strengthening public finances and improving governance. The public finance and governance objectives are set within a broader reconstruction strategy of improving security, providing direct support to the social sectors, and undertaking structural reforms.

The program envisages an increase in real GDP growth to just over 3 percent in 2006 and a moderation in inflation to about 2 percent, consistent with the regional trend.

Fiscal reforms will focus on boosting revenue and containing expenditure. Revenue measures will center on tightening controls in tax administration and fighting fraud at customs. Key expenditure objectives are containing current spending—including wages—within the existing resource envelope, and improving expenditure management.

Reforms in the governance area are directed at fighting corruption mainly through enhanced transparency and strengthening the judiciary with a view to improving the management of public resources and the climate for private sector development.

Social conditions remain dire. Donor financial assistance is needed to support the authorities' efforts to improve the delivery of services. Preparation of the PRSP has advanced.

The C.A.R.'s external debt situation is unsustainable. The authorities wish that the proposed EPCA-supported program quickly leads to a PRGF arrangement and a HIPC decision point.

The proposed purchase under the second EPCA-supported program is for SDR 6.9625 million (12.5 percent of quota). It would support the authorities' stabilization and reform efforts and catalyze international support. Reflecting potential repayment risks, the authorities have committed to set aside in their SDR account an amount sufficient to cover payments due to the Fund in 2006. Nonetheless, they have shown a strong commitment to honoring their obligations to the Fund.

I. INTRODUCTION

1. **The Central African Republic remains very fragile following many years of political and military disturbances.** As outlined during the 2005 Article IV consultation,[1] an economic rebound has yet to take place; the capacity of the public administration is only beginning to recover; and political tensions remain, despite significant improvements in the political and security environment.

2. **In the face of these challenges, strengthening economic management has been at the center of the authorities' reconstruction and rehabilitation strategy.** Starting in 2004, the authorities undertook to address the chronic public finance difficulties—notably the perennial revenue weaknesses and poor expenditure controls—as well as the weak institutions and pervasive corruption that have characterized public administration in the C.A.R. These efforts were supported by a number of donors, and by the Fund in the context of an Emergency Post-Conflict Assistance (EPCA)-supported program.

3. **The authorities have corrected some of the slippages which emerged under the EPCA-supported program, but looking forward, they recognize that significant obstacles remain.** Performance under the EPCA-supported program was mixed, and although recent actions by the authorities have brought greater stability to public finances, the fiscal position nonetheless remains in a perilous state. At about 8 percent of GDP, revenue is insufficient to finance the core functions of the state, while poor expenditure controls have led to unproductive spending, including on a high public sector wage bill. The C.A.R. has continued to accumulate external and domestic arrears, which together now total close to 60 percent of GDP. Also, rebuilding capacity in public institutions and containing the widespread corruption have proceeded slowly. In this setting, the prospects for achieving a durable economic recovery and a sustained reduction in poverty are uncertain and will require a committed effort by the authorities, supported by their development partners. With the presidential and legislative elections of March and May 2005 behind them, the authorities have turned their attention firmly to economic and financial policy issues, which raises the prospect of more successful program implementation in the period ahead.

4. **In the attached Letter of Intent and Memorandum on Economic and Financial Policies (MEFP) (Appendix I) the authorities are requesting the Fund's support as they move to address these challenges.** The proposed second EPCA-supported program,[2] part of

[1] Country Report No. 05/424.

[2] The C.A.R continues to meet the conditions for support under the Fund's EPCA policy. These conditions comprise: an urgent need for help in meeting essential current payments; a disruption to the country's institutional and administrative capacity so that it can not yet develop and implement a comprehensive program that could be supported by a Fund arrangement; sufficient capacity, nonetheless, for policy planning and implementation, as well as demonstrated commitment on the part of the authorities; and the presence of a concerted international effort to address the aftermath of the conflict in a comprehensive way.

a concerted international effort, would cover the period January-December 2006 and would be the next step in the gradual return of the C.A.R. to macroeconomic stability and normalized relations with its external creditors.

II. Recent Developments

A. Political and Security Situation

5. **The political situation has been generally peaceful since the conclusion of the elections, although tensions persist**. While there has been no political violence, growing impatience with the difficult economic situation, including the recurrent problem of government wage arrears, has been a source of friction. These arrears prompted much of the civil service to go on strike during the fourth quarter of 2005.

6. **Efforts to strengthen the security environment continue, but banditry remains a major problem in rural areas**. Troops from France and the Central African Economic and Monetary Community (CEMAC) continue to support the peace process, and initiatives to equip and train the C.A.R. armed forces are ongoing. Progress is being made in advancing the disarmament, demobilization, and reintegration (DDR) program, with a view to fully reintegrate the ex-combatants. So far, 600 out of about 5,500 identified ex-combatants have been reinserted into the communities, and the program is scheduled to be completed by mid-2007. The authorities are strengthening cooperation with neighboring countries to dismantle groups of bandits which have become entrenched in the northern and north-western border areas and continue to harass local populations and disrupt road transport. The authorities have expressed concern about regional security developments—notably in Chad and the Sudan—which could have spillover effects on the C.A.R.'s border regions.

B. Recent Economic Developments and Program Performance

7. **The post-conflict economic recovery has yet to take hold and the macroeconomic situation remains fragile (Table 1).**[3]

- **After the large contraction in 2003, real GDP grew by just over 1 percent in 2004, with growth estimated to have increased slightly to around 2 percent in 2005.** Growth in 2005 reflected greater activity in the secondary sector,

C.A.R.: Key Macroeconomic Indicators, 2001–05

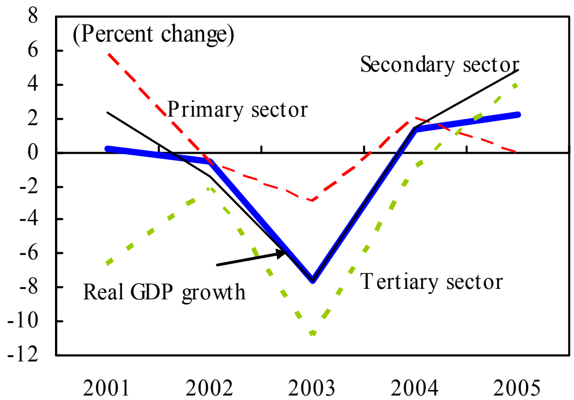
	2001	2002	2003	2004	2005 Est.
	(Annual percentage change)				
Real GDP growth	0.3	-0.6	-7.6	1.3	2.2
Inflation (annual average)	3.8	2.3	4.4	-2.2	3.0
Export value (CFAF basis)	-6.2	-2.7	-27.9	-9.5	1.7
Import value (CFAF basis)	-6.9	10.8	-20.5	6.5	5.3
Broad money	-1.1	-4.3	-8.0	14.2	1.2
	(In percent of GDP)				
Overall fiscal balance, commitment basis, incl. grants	-0.9	-1.2	-3.1	-2.2	-2.5
External current account balance	-2.5	-3.3	-4.6	-4.4	-4.1

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

[3] The discussion of economic developments reflects data through the third quarter of 2005.

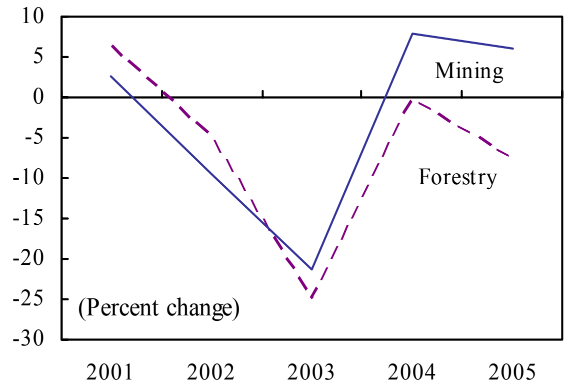
primarily the diamond sector,[4] and some increase in services related to the elections. This was partly offset by sluggish activity in cash and food crop production—which continues to be heavily burdened by the insecurity in rural areas and along transportation routes—and a further contraction in the forestry sector, due mostly to the financial difficulties of a few large operators in the sector.

The C.A.R.'s economic recovery is modest...



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

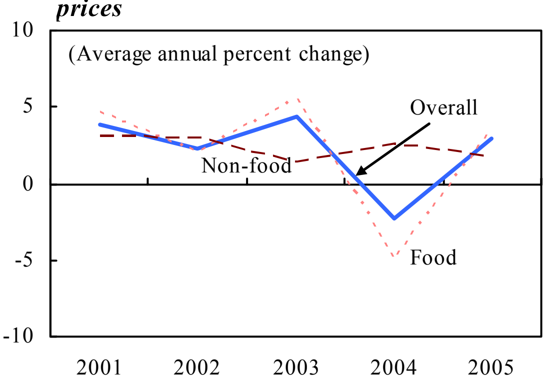
...with growth in mining offset by a decline in forestry.



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

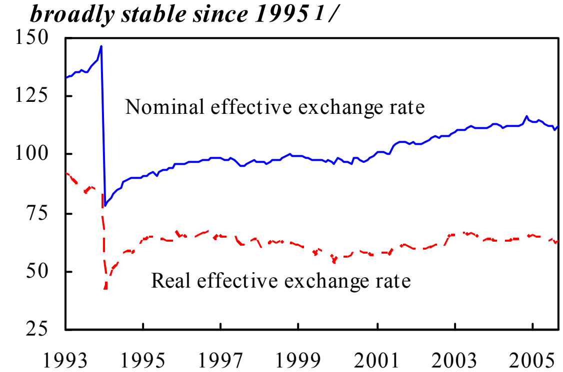
- **Inflation picked up modestly in 2005, and the real effective exchange rate increased slightly over the year.** The average price level, which declined in 2004, is estimated to have risen by about 3 percent in 2005, mainly as a result of weak agricultural production. The real effective exchange rate rose by 0.7 percent in 2005; its current level is close to that of 1995, one year after the devaluation of the CFA franc, reflecting low inflation over the period.

Inflation movements primarily reflect food prices



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

The real effective exchange rate has remained broadly stable since 1995 1/



Source: IMF, Information Notice System.
1/ 2005 data available up to September.

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[4] Official statistics of the C.A.R include mining activities in the secondary sector. The issue of sectoral classification of economic activities will be taken up in the context of the planned effort to upgrade the national accounts statistics.

- **The external current account deficit declined slightly to about 4 percent of GDP in 2005**. The value of imports increased more quickly than that of exports, with import growth driven in particular by higher petroleum prices, and exports affected by the decline in timber output. However, the deterioration in the trade balance was more than offset by an increase in remittances and higher current transfers associated with donor support to finance election expenditures.

- **The growth of broad money is estimated to have slowed to just under 3 percent in 2005, following a sharp rise in 2004.** Credit to the economy remained broadly stable in 2005, while net credit to the government rose. The liquidity position of Central African banks, which had been very tight, improved due to inflows related to regional peace-keeping operations.

8. **Performance under the EPCA-supported program was mixed, but the authorities introduced corrective measures to address public finance slippages and implemented structural reforms which had encountered delays (Tables 2 and 3).**

- **Most quantitative targets through end-June 2005 were missed,**[5] **although fiscal performance improved in the third quarter of 2005 following the elections**. The end-September 2005 target for the narrow primary deficit on a cash basis[6] was met, reflecting improved revenue (see below), but also the accumulation of additional salary arrears which restrained cash outlays. The end-September target for net bank credit to the government was missed by almost ½ of a percent of annual GDP. As envisaged under the first EPCA-supported program, and as part of the concerted international effort to support the C.A.R. (see para. 32 below), the authorities continued to accumulate arrears to external creditors in 2005.

- **After a disappointing outcome in the first half of 2005, overall revenue collection improved significantly during the third quarter.** The end-September target was met as third quarter revenue increased by 0.4 percent of annual GDP over the corresponding period in 2004, making up the shortfall from the first half of the year. Value-added tax (VAT) collections and import tax receipts picked up, the latter due in part to the various measures taken to curb fraud,[7] as well as a rise in taxable imports in the third quarter. This pick-up in import and VAT tax collections suggests that the revenue improvement could be sustained, although exceptional factors—in particular,

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[5] A fuller discussion of program performance in 2004 and the first half of 2005 is provided in the staff report for the 2005 Article IV consultation Country Report No. 05/424. Program outturns for end-2005 are not yet available.

[6] The measure of the fiscal balance used for program monitoring purposes is the narrow primary balance, which excludes interest payments, foreign-financed investment, and grants.

[7] See para. 11 of the MEFP.

license fees equivalent to 0.1 percent of GDP paid by a mobile phone company—also contributed to the strong outcome. The recent civil service strikes are expected to result in reduced revenue collection in the fourth quarter of 2005 as the tax agencies were not working full time.[8]

- **The authorities implemented a number of corrective revenue actions identified during the 2005 Article IV consultation discussions.** These include a set of tax policy measures to raise revenue on a sustainable basis (see para. 15 below), in particular adjustments in petroleum taxation and an increase in the VAT rate. Other reforms include implementing tax administration measures to boost verifications on domestic taxes, strengthening the customs post at the port of Douala (Cameroon), and narrowing the scope of exceptional tariff exemption regimes to minimize abuse and ensure that they are consistent with the CEMAC investment code.

- **The authorities also introduced a strong set of measures to address slippages in the wage bill, although the full financial impact of this package will only be felt starting in 2006.** As outlined in Box 1, the loss of control over payroll commitments led to rapidly rising wage commitments and arrears. In response, the authorities adopted a package of measures totaling 1 percent of GDP on an annual basis that will reduce the 2006 wage bill to 4.5 percent of GDP. This would be in line with the government's ability to stay current on its wage payment obligations while assuring that a minimum of funds is available to finance essential nonsalary spending. However, additional salary arrears were accumulated in the second half of 2005, given the lagged impact of some of the corrective measures. As a result, the targeted ceiling on wage bill commitments for 2005 is estimated to have been exceeded.

- **There were overruns on non-salary spending, and expenditure controls remain weak.** The spending overruns in 2005 were linked notably to the elections and to increased defense spending in the third quarter, as the government undertook operations against banditry in the north. Although expenditure monitoring has improved at the payment order stage, controls are weak and much of spending is done outside of normal budgetary controls. Treasury management improved somewhat regarding the recording on a timely basis of revenue from the tax agencies. However, a growing problem for treasury management has been the practice of allowing commercial banks to automatically debit government accounts at commercial banks for certain government expenditure without notifying the Treasury; at the urging of staff, the authorities have now eliminated this practice.[9]

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[8] Revenue data for the fourth quarter is not yet available, but the authorities have indicated that collection of domestic taxes in particular is likely to have suffered.

[9] Repayment of consolidated government debt to the banks will continue to be made via direct debit. These debts have repayment schedules of which the treasury is well aware and thus do not pose a problem for treasury management.

Box 1. Measures to Reduce the Government's Wage Bill

The authorities' control over payroll management slipped considerably in 2004-05, resulting in rising wage commitments and arrears on wage payments. As noted at the time of the 2005 Article IV consultation, wage commitments in 2005 were projected to exceed the budget appropriation by about 1 percent of GDP. These overruns reflected the rapid expansion of allowances and benefits, the creation of high-level posts carrying salary premiums, delays in retirements, and new recruitments in defense and contractual staff.

The authorities have taken several steps to address the wage overruns:

A census of employment in the civil service and the military was conducted with the aim of eliminating fraud in the government payroll. This census allowed the government to identify over 1,600 ghost workers (out of a total workforce of about 26,000) and more than 2,300 cases of payroll irregularities.[1]

The government accelerated the pace of retirements from the civil service and the military, with more than 1,400 people having left the ranks of the public service in 2005. These retirees will not be replaced, at least in the short term.

The authorities limited allowances, first by restricting child allowances to a maximum of five children per employee, and second, by reducing allowances and benefits for staff in higher salary bands.

Together these measures are expected to generate wage bill savings of 1 percent of GDP on an annual basis (see table).

C.A.R.: Impact of Measures to Reduce the Wage Bill
(On an annual basis; in percent of GDP)

Measures	Savings
Census	0.43
Removal of ghost workers	0.29
Fixing payroll irregularities	0.14
Accelerated retirements	0.29
Family allowances limits	0.13
Reduced allowances	0.17
Total	**1.01**

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

[1] Irregularities include incorrect grade assignments, double-counting of benefits, and payments of more than one salary to the same individual.

- **The authorities missed the zero ceiling on the contracting and/or guaranteeing of nonconcessional external debt.** They contracted a loan of CFAF 4 billion (0.6 percent of GDP) from the Cameroonian parent bank of a C.A.R. commercial bank on nonconcessional terms.[10]

[10] The loan is to be repaid over 13 months with a 5-month grace period, and carries an interest rate of 6.5 percent.

- **The authorities have continued to make progress in the governance area.** The new organizational structure for the Ministry of Justice is in place,[11] and the newly-established financial unit has taken up many of the cases of fraud identified in the civil service audit. Moreover, the authorities have begun publishing a list of ongoing corruption cases and their description. The government continues to publish on a regular basis information on fiscal revenue and expenditure as well as on the allocation of permits in the mining and forestry sectors.

III. The Program for 2006

A. Overview

9. **The authorities' program for 2006 focuses on establishing macroeconomic stability through strengthening public finances and improving economic governance, building on the incremental gains achieved since 2004.** Strengthening public finances will be central to achieving macroeconomic stability and improving the provision of public services. This will entail boosting revenue on a durable basis; ensuring the public sector wage bill remains within a manageable envelope; and improving public expenditure and treasury management. Progress on governance will likewise be critical to improving the management of public resources and providing a more hospitable climate for private sector activity. Key elements of this strategy will include increasing transparency in government operations and bolstering the fight against corruption.

10. **These public finance and governance objectives are set within a broader reconstruction strategy that also comprises improved security, direct support to the social sectors, and structural reforms, as outlined in the MEFP.** Efforts are ongoing in the security area and social sectors—notably to combat banditry and improve the delivery of social services in the rural areas, respectively—and these are supported by regional partners and donors. Reforms in other structural areas, such as improving the private sector climate, strengthening the financial sector, and deepening trade liberalization, are at a more preliminary stage, reflecting the authorities' limited capacity in a post-conflict setting and the urgent focus on stabilizing the fiscal situation.

11. **The authorities strongly hope that the proposed program would catalyze more donor support and greater technical assistance, both of which are essential to help the country reverse the sharp economic and institutional deterioration of the past 15 years.** A Fund-supported program would aid the authorities in developing their macroeconomic framework and policy priorities. It would also allow the release of additional donor budgetary support which will contribute to improving the functioning of the State. Moreover, the steady erosion over the last decade in administrative capacity and human capital

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[11] The new organizational structure includes two new legal units: a specialized financial unit in the Bangui prosecutor's office, and a State Judicial Agency responsible for defending the state in legal proceedings.

underscores the importance of technical assistance from development partners as a key tool to upgrade the policy implementation capacity of the country.

12. **Looking further ahead, the program is the next step in promoting a sustained economic recovery and reduction in poverty, for which a key element will be a normalization of relations with external creditors.** The authorities hope that the proposed EPCA-supported program would quickly lead to a PRGF arrangement and a decision point under the Highly-Indebted Poor Countries (HIPC) initiative, followed by a HIPC completion point and possible relief under the Multilateral Debt Relief initiative. In this setting of improved policy performance paired with greater international support, investment would pick up as higher donor support would "crowd in" private investment, while an improved public finance position would permit a boost in priority spending. As a result, real GDP growth would pick up noticeably, with a steady rise in per capita GDP, and substantial progress could be made in improving the C.A.R.'s very poor social indicators.

B. Macroeconomic Framework

13. **The macroeconomic framework for the program is based on the medium-term outlook presented in the 2005 Article IV consultation, which envisages a gradual recovery.** The return of political stability and a projected increase in donor assistance should support a gradual pick up in economic activity and investment.

C.A.R.: Medium-term Macroeconomic Framework, 2005–08

	2005	2006	2007	2008
	Est.	Projections		
	(Annual percentage change)			
Real GDP growth	2.2	3.2	3.8	3.9
Inflation (annual average)	3.0	2.3	2.1	2.0
Export value (CFAF basis)	1.7	10.9	7.7	5.8
Import value (CFAF basis)	5.3	11.0	7.7	5.9
Terms of trade (U.S. dollar basis)	2.9	1.5	0.3	-1.0
	(In percent of GDP)			
Gross domestic savings	0.6	1.9	2.8	3.4
Gross investment	7.2	8.3	9.1	9.7
Overall fiscal balance, commitment basis, incl. grants	-2.5	-1.3	-1.1	-1.1
Total revenue	8.2	8.7	9.1	9.4
External current account balance	-4.1	-3.9	-3.7	-3.8

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

- **The projections for 2006 envisage a modest rise in real GDP growth to just over 3 percent**. This takes into account the expected small rebound in the forestry sector, continued growth in mining, and a rise in construction linked to increased donor assistance. With an estimated population growth of 2.5 percent, real per capita income would rise for the first time since 1999, albeit only slightly.

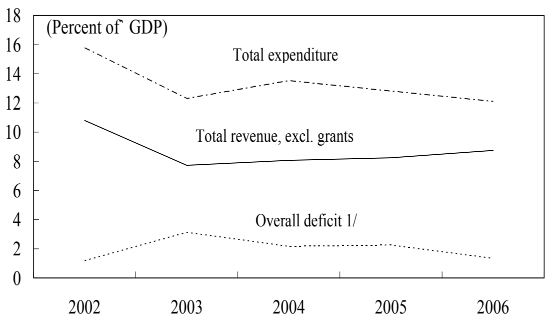
- **Average inflation is projected at around 2 percent**, in line with the CEMAC trend and greater stability in domestic food prices.

- **The external current account deficit is projected to decline slightly to just under 4 percent of GDP in 2006**, as a rise in exports and current transfers is expected to offset higher imports of petroleum products and goods linked to donor-supported public investment.

C. Public Finances

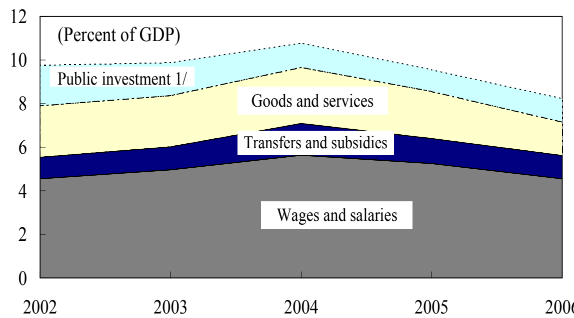
14. **The authorities envisage a return to greater stability in public finances, and this objective is reflected in the 2006 budget, which provides the basis for the financial targets of the program.**[12] The budget envisages an overall deficit, on a commitment basis and including grants, of 1.3 percent of GDP, an improvement of just over 1 percentage point of GDP over the estimated 2005 outturn. This target is predicated on an increase in revenue of 0.5 percent of GDP—reflecting the measures outlined below and an expected gradual improvement in tax administration—and restrained spending, notably regarding the public sector wage bill and expenditure on goods and services, which should enable the authorities to avoid the accumulation of domestic arrears. As discussed in para. 32 below, the expenditure envelope included in the 2006 budget is based on identified financing. Should additional budgetary grants from donors become available, they would be used to support priority spending needs identified by the authorities but not reflected in the budget.[13]

The C.A.R.'s overall deficit is expected to decline as revenue rises moderately...



Sources: C.A.R. authorities; and IMF staff estimates.
1/ Commitment basis, including grants.

...and spending on wages and goods and services declines.



Sources: C.A.R. authorities; and IMF staff estimates.
1/ Domestically-financed capital expenditure.

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[12] The 2006 budget was approved by the National Assembly in late-December 2005.

[13] The authorities would then issue a supplemental budget later this year incorporating the additional spending.

15. **The authorities have recently introduced a number of tax policy changes to boost government revenue and provide greater assurances that the 2006 revenue target will be achieved.** These measures are projected to result in additional revenue of 0.4 percent of annual GDP on a permanent basis. They include an increase in the VAT rate from 18 to 19 percent and the introduction of a deposit paid on goods imported by small and informal sector enterprises that would be applied to their domestic tax obligations.[14] However, the most important measure from a revenue standpoint is that the specific tax on petroleum products was increased, which is expected to yield about CFAF 2 billion (0.25 percent of GDP) in revenue annually.[15] With a view to contain the impact of the measure on the poor, the increase in the price of kerosene—widely used by the poor for lighting—was limited to 10 percent.[16] In the same vein, the authorities are working with donors to identify appropriate targeted social spending which they consider to be the most effective means to support the poor. Looking forward, the staff urged the authorities to adopt a more automatic system for adjusting petroleum prices, and to this end, the authorities are considering introducing a system of frequent price adjustments which will help accustom economic agents to oil price fluctuations.

C.A.R.: Annual Impact of Revenue Measures
(In percent of GDP)

Upward adjustment to domestic oil prices	0.25
Increase of VAT rate to 19%	0.05
Measures to tax the informal sector	0.06
New taxes (on real estate)	0.02
Total	**0.39**

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

16. **The authorities will continue to pursue administrative reforms to strengthen domestic tax collection procedures and curb customs fraud:**[17]

- Regarding tax administration, the government will improve tax audits by increasing their number and the verification of documentation filed by taxpayers, and will

[14] See para. 19 of the MEFP.

[15] Since 2000, the authorities had been adjusting the specific tax on petroleum products to fully offset any movement in world prices and keep domestic prices constant. The recent increase in the specific tax passes through to domestic prices most of the increase in 2005 in world oil prices. The specific tax and retail price vary by product; with the recent increase, the retail prices rose by 17 percent for diesel, 8 percent for gasoline, and 10 percent for kerosene.

[16] The authorities considered that further limiting the price increase of kerosene could lead to revenue losses given that the retail price for kerosene is already substantially below that of diesel, and kerosene can be substituted for diesel in a number of uses.

[17] See para. 20-21 of the MEFP.

bolster tax recoveries, notably by fully enforcing sanctions and penalties on delinquent taxpayers.

- At customs, the authorities will continue to reinforce customs border posts and their customs branch in Douala, Cameroon. They will also initiate the migration to a new customs information system, which should permit a more comprehensive tracking and reconciliation of customs data.

17. **A major objective of the authorities is to ensure control over the wage bill.** They recognize that efforts will be needed to preserve the gains achieved in reducing the wage bill by 1 percent of GDP, including by ensuring that the irregularities identified in the civil service census are not reintroduced. To this end, and building on the efforts to date to clean up the public sector payroll, the authorities will shortly conduct a thorough verification of civil servants' credentials, notably the authenticity of diplomas, which will help in identifying incorrect salary grades.[18] Furthermore, the government will, in cooperation with donors, put in place a consolidated civil servant and military personnel file to ensure that a single payroll file is used by all parts of the administration,[19] which is expected to reduce fraud in payroll management. Additionally, the authorities will conduct a census of civil service retirees with the aim of correcting irregularities in pension payments. Savings from this exercise should ensure that the government's pension obligations remain well within the envelope in the 2006 budget, which already incorporates the increase in pension obligations due to the large number of retirements in 2005. The authorities have imposed a hiring freeze in 2006 and indicated that they would strongly resist the likely political pressures to relax this freeze.

18. **Strengthening expenditure and treasury management will be central to improving the efficiency of public spending and the management of public resources.** To this end, the government will strictly limit spending outside the normal expenditure process, restrict the issuance of Treasury checks, and close all remaining nonessential Treasury accounts in the banking system.[20] The authorities will also take actions to streamline and computerize the cumbersome expenditure commitment procedures to make them more transparent and efficient. This should allow the authorities to build on the gains to date in identifying expenditure at the payment order stage, enabling them to better monitor expenditure commitments.

[18] Salary grades are determined in large part on the basis of education credentials. False credentials are apparently widespread, but were not verified in the recent civil service census.

[19] This consolidated payroll file is known as the FURCA—see para. 26 of the MEFP.

[20] See MEFP para. 23-24. Of the total of about 300 government accounts at commercial banks, 24 are treasury accounts, 48 are accounts required by donors for project-related activities, and the remainder are accounts belonging to parts of the public administration and para-public entities. The closing of the treasury accounts will be carried out in line with IMF technical assistance.

19. **The staff expressed serious concern about the authorities' nonconcessional borrowing, and urged them to rely on grant financing as much as possible.** The authorities agreed on the importance of grant financing, but stressed that their recourse to the loan from the Cameroonian bank reflected urgent priority expenditure needs following the elections in the context of a shortfall of external assistance and the weak revenue outturn in the first half of the year. The authorities indicated that any additional borrowing from the BEAC—which is nonconcessional domestic borrowing—would only be used to finance expenditure within the existing expenditure envelope, and to repay more expensive borrowing from commercial banks.[21]

20. **The government will continue its efforts to find a lasting solution to its domestic arrears, which are now estimated at about 30 percent of GDP** (external arrears are discussed in para. 28 below). The committee formed to verify the stock of arrears has made significant progress in determining the validity of the claims on the government.[22] The government will submit by June 2006 the results of this verification to an internationally recognized auditing firm for further validation in order to provide full assurances to donors who might finance the reimbursement of some claims. While this implies that the authorities will not be able to finalize a domestic arrears clearance plan by their original target of mid-2006, they will initiate in the coming months discussions with claimants on possible mechanisms to clear the arrears. In the meantime, the government will strive to honor its current obligations and avoid the accumulation of new arrears in 2006.

D. Governance and Transparency

21. **The authorities are committed to improving governance, which they consider crucial for strengthening the functioning of the public administration and the development of the private sector.** Their efforts in this regard will focus on enhancing transparency and strengthening the judiciary.

22. **Boosting transparency is central to the authorities' approach to improving governance.** They share the staff's view that enhanced transparency engenders accountability and confidence in the public sector, and are committed to strengthening their efforts in this regard (see Box 2). As part of the broader effort to combat corruption, Transparency International and the UNDP have conducted a survey on the perception of corruption in the country. The results of this survey have been made public and show that

[21] In December 2005, the authorities signed an agreement with the BEAC extending an additional credit line of up to 12 billion CFA (1⅔ percent of GDP) at an interest rate of 10 percent per annum. Reimbursement of any advance against this credit line is guaranteed by the other member states of the CEMAC in case of default by the C.A.R. A similar exceptional advance was extended by the BEAC in 2004.

[22] Preliminary results from this verification indicate that about one-third of the arrears are salary arrears, another third are owed to suppliers of goods and services, and the rest are split between domestic financial institutions, and outstanding pension and social security obligations.

corruption is perceived to be widespread and most entrenched in the police force and gendarmerie, the customs administration, and the judiciary.

Box 2. Transparency in the C.A.R.

The authorities have been making commendable efforts to inform the public through the local media about government operations. Key areas include budget execution and the attribution and revocation of permits in the mining and forestry sectors. As well, permits in the forestry sector have been awarded through a transparent tender process. To further these efforts, the authorities will establish in the first quarter of 2006 a government web site where information can be systemically disseminated. They will also widen the scope of information made public to include:

- More detailed data on the composition of public expenditure (quarterly).
- Template on the pending corruption cases, which will include a description of the cases, their status in courts, and execution of court decisions (quarterly).
- Activity in the forestry and mining sectors by company: production, export, local sale, and revenue generated by type of tax (monthly).
- Attribution and revocation of permits in the mining sector (monthly).
- Information on awarded public contracts (monthly).

23. **The authorities are determined to strengthen further the ability of the Ministry of Justice to defend the interest of the state and prosecute corruption cases.** In this regard, they have appointed the state legal agent and intend to redirect resources within the administration to better equip and staff that office and the newly-established specialized unit to investigate financial crimes. Furthermore, they plan to tighten sanctions against public servants who are implicated in misconduct and corrupt practices.

24. **The authorities are well aware of the need to reform the existing public procurement practices, which are open to abuse and undermine private investors' confidence**. In consultation with their development partners, including the World Bank, they will ensure that the new procurement code, currently under preparation, will foster transparency and predictability in the process and be in line with international best practices. In the meantime, the authorities will ensure that existing bidding procedures are adhered to in the awarding of all public contracts and that the public is informed of all awarded contracts.

E. Structural Reforms

25. **The authorities share the staff's view regarding the importance of relaunching structural reforms to foster an economic rebound and support macroeconomic stability, while encouraging a shift of activity back into the formal sector.** While progress is just beginning in some of the structural areas discussed below, the authorities intend to take them up more forcefully as they build up capacity to implement a broader set of reforms, perhaps in the context of a successor PRGF arrangement. The authorities agreed with staff that

reforms in these areas—complementing their ongoing governance reforms—will be essential for boosting the competitiveness of the C.A.R. economy.[23] Key areas include:

- **Improving the climate for the private sector**. This will hinge on strengthening contract enforcement and ensuring a stable and predictable regulatory framework. Reforming the judicial system will be a key focus of the authorities in this regard. In addition, the authorities agreed that the Labor Code in the C.A.R. undermines the flexibility of the labor market and indicated their commitment to reform it in order to support an expansion in employment.

- **Strengthening the management of the country's natural resources sector**.[24] In the forestry sector, efforts have been reinforced to control smuggling and improve the payment of stumpage fees and taxes. In the mining sector, the authorities will continue to look into ways to reform the mining code to ensure that permits are awarded in a fully rules-based system, further attract private sector investors, and improve the medium-term prospects for industrial mining. The authorities remain committed to the Kimberley certification process. The staff expressed strong reservations about the recently-imposed export floors for diamond exporters.[25] The authorities indicated that these floors were introduced to boost diamond exports through formal channels, but concurred with staff that there is a risk that they could seriously curtail competition in the sector and push export activities further into the informal sector. On this basis, the authorities agreed to rescind the floors if the level of exports and government receipts are found to have declined.

- **Liberalizing trade and advancing regional integration,** which are essential for the medium-term prospects for landlocked C.A.R. Substantive reforms will depend on action at the regional level, and the authorities are committed to pursing these efforts. In the short-term, the authorities will fully implement the CEMAC common external tariff and the Organization for the Harmonization of Business Law in Africa treaty (OHADA).

- **Deepening financial intermediation**. Bank deposits represent only 4 percent of GDP in the C.A.R., which is very low by African and international standards. The authorities and staff agreed that deepening financial intermediation would help

[23] A fuller discussion of competitiveness issues and the difficult climate for the private sector in the C.A.R. is included in Country Report No. 05/424.

[24] See para. 39-40 of the MEFP.

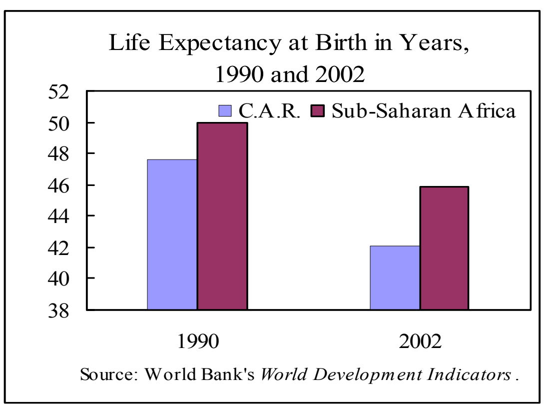
[25] Export floors of $1 million and $2 million per month are applied to diamond exporters who have been in business for less than five years and those in business for over 5 years, respectively (in 2005, monthly exports per exporter averaged about $500,000). Exporters who do not achieve the minimum level of exports are subject to heavy penalties.

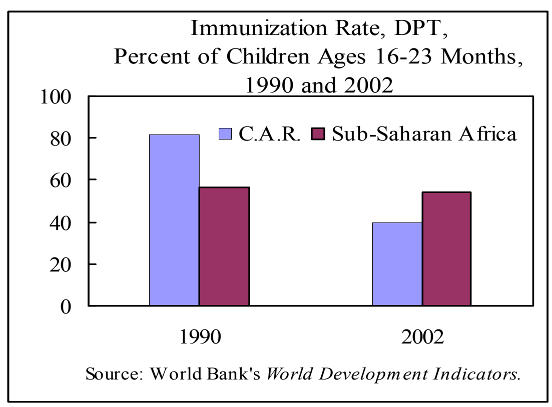
support the economic recovery, and will hinge in particular on improving the judicial climate. The authorities will remain vigilant in supervising banks' compliance with prudential ratios, and will monitor closely the one problem bank which does not meet most of the prudential ratios.[26] The management of this latter bank has made some progress in identifying possible investors to purchase and recapitalize the bank (the capital shortfall is estimated at about 0.4 percent of GDP). Deepening financial intermediation will also entail continued efforts to boost microfinance, including through enforcement of compliance with the new regional regulatory framework for microfinance institutions.

- **Reversing the very difficult financial and operational situation of key public enterprises.** The authorities envisage the privatization of the billing and collection services of the water and electricity utilities (the largest public enterprises) by mid-2006 for which the combined deficit was about ½ a percent of GDP in 2004.

F. Social Sector Issues

26. **With a minimal level of social services, the C.A.R.'s social indicators rank among the lowest in Sub-Saharan Africa.** In spite of some progress made with the support of non-governmental organizations and the United Nations (UN) system to extend social services across the country, the situation remains dire, particularly as regards the health, education and basic infrastructure sectors. The authorities are firmly committed to improve this situation which also requires a significant scaling-up of financial support from donors.





27. **The authorities have made significant progress in the preparation of the Poverty Reduction Strategy Paper (PRSP)**. They are aware of the importance of a well-designed strategy to help them reverse the serious deterioration in social indicators and to buttress

[26] Of the three commercial banks in the C.A.R., one bank has been regularly meeting all of the prudential ratios; one bank has been meeting most of the ratios, except those related primarily to the concentration of risks; and one bank has been missing almost all of the prudential ratios, in large part due to insufficient capital.

donor support for anti-poverty programs. Toward this end, with assistance from the UNDP and other development partners, in particular the World Bank and the European Union, they will consolidate the sectoral work done so far, elaborate the macroeconomic framework for the strategy in consultation with Fund staff, and put in place a monitoring and evaluation mechanism. They intend to finalize the PRSP in 2006.

G. External Debt

28. **The conclusions from the debt sustainability analysis presented during the 2005 Article IV consultation remain valid, and indicate that the debt burden faced by the C.A.R. is unsustainable.** [27] The ratio of the net present value of debt to exports is estimated at about 515 percent, and reflecting the country's difficult fiscal position, the authorities have continued to accumulate arrears to their external creditors, except the Fund.[28] The stock of external arrears at end-2005 is estimated at about US$370 million (27 percent of GDP). The authorities have continued to reconcile their data on the stock of debt outstanding and arrears with their creditors, and the government has started discussing the general aspects of a possible global arrears clearance operation. The C.A.R. could be eligible for debt relief under the HIPC initiative, but would have to establish a track record of policy performance and make satisfactory progress in its poverty reduction strategy.

H. Donor Coordination and Technical Assistance

29. **The donor community, working with the C.A.R. authorities, has identified areas for budgetary and project support (Box 3).** Through the first 9 months of 2005, France and China have provided about CFAF 3 billion and 0.5 billion, respectively, in budgetary support. In addition, China, the UN agencies, the European Union, and France will provide project financing to priority sectors. With the return to constitutional order, the donor circle is widening, and other donors such as Japan and Germany are resuming project support. The presence of arrears to both the World Bank and the AfDB precludes these institutions from providing financing through their normal instruments. However, the World Bank will continue to provide assistance in the context of the Low-Income Countries Under Stress (LICUS) framework to finance technical assistance and support reform efforts; and the AfDB is undertaking an operation to provide extensive support in the statistics area.

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[27] The debt sustainability analysis for the C.A.R. is presented in Appendix IV of Country Report No. 05/424.

[28] The authorities signed in 2005 an arrears clearance agreement with the Banque de Développement des États d'Afrique Centrale (BDEAC), a regional development bank, on which they have begun small monthly payments (totaling less than 0.1 percent of GDP on an annual basis). While underlining their serious concerns about this departure from the principles agreed for the treatment of the arrears of HIPC countries, the World Bank and the AfDB stressed the importance of the BDEAC providing positive net transfers to the C.A.R. during 2006.

Box 3. Areas of Donor Involvement, 2006

World Bank (contingent on approval of a second LICUS allocation)	• DDR (Funds committed and implementation by the UNDP) • PRSP preparation: participation, prioritization, monitoring, and evaluation • Technical assistance in economic policy making areas and statistics • Health and education • Public finance and governance • Census of domestic arrears and payroll control • Justice and mining sectors
European Union	• Transportation • Health • Technical assistance in the agencies of the ministry of finance • Governance • Budget support
France	• Military assistance and training • Transportation • Infrastructure (water and electricity) • Health • Technical assistance in ministry of finance, treasury department, and statistics • Budget support
Germany	• Health
China	• Infrastructure • Budget support • Agriculture
Japan	• Transportation
United Nations	• DDR implementation • PRSP preparation • Governance and transparency • Social sectors
African Development Bank	• Institutional support for economic management and the PRSP • Support for economic and social statistics

30. **The authorities and the staff agree that faster delivery and better coordination of technical assistance (TA) remain essential to meet the C.A.R.'s still vast needs in almost all areas of economic management and governance.** The priority needs are tax and customs administration, public expenditure management (PEM), the judicial system, statistics, and the PRSP process. The Fund intends to continue to be active in the key public finance areas that are critical for program implementation and monitoring.

I. Program Issues

Access

31. **The proposed access under the program is for SDR 6.9625 million, equivalent to 12.5 percent of quota (about CFAF 5.5 billion).** The rate of charge on the proposed purchase would be subsidized to an annual rate of 0.5 percent. To provide assurances against potential repayment risks, the authorities have voluntarily committed to setting aside 5.46 percent of quota in their SDR account to cover payments to the Fund due during the remainder of 2006. The proposed level of access is consistent with the Fund's revised EPCA policy,[29] and total access under the EPCA policy would rise to 22.5 percent of quota.[30] The C.A.R. could request additional assistance in the context of a third EPCA-supported program later in 2006 if performance under the proposed program is satisfactory, but weak capacity still precludes moving to a PRGF program.

Financing

32. **The financing gap for 2006 (about 3 percent of GDP) would be met through the continued accumulation of external arrears, except to the Fund**. Proceeding with the proposed EPCA-supported program on this basis is supported by all of the C.A.R.'s key external partners, including the World Bank and the AfDB, as the authorities rebuild policy implementation capacity and preparations continue for an eventual external arrears clearance operation.

33. **The 2006 financing gap, however, is based on a compressed expenditure envelope in the 2006 budget; accordingly access under the EPCA-supported program would support additional priority spending.** The 2006 budget was prepared on the basis of identified financing, and as a result, the expenditure ceilings are very constrained. Higher allocations for core government operations, basic infrastructure, and priority spending in the health and education sectors as identified by the authorities would be necessary to help restore public services. This additional spending, which is not included in the budget, would be expected to amount to about CFAF 10 billion (SDR 12.3 million, or 1¼ percent of GDP), and would be covered by the net disbursement from the Fund, plus budgetary grants from the EU and France totaling CFAF 8 billion (about SDR 10 million) that are conditioned on a Fund-supported program. The program target on the budget deficit would be adjusted to accommodate fully this additional spending.

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[29] Summarized in The Fund's Support of Low-Income Member Countrries: Considerations on Instruments and Financing, February 24, 2004 (IMF at Work page, IMF web).

[30] This would bring the C.A.R.'s outstanding use of Fund credit to SDR 30.42 million (54.6 percent of quota). Debt service to the Fund, including obligations under the proposed EPCA, would peak in 2009 and would represent 7.1 percent of total revenue.

Monitoring

34. **The staff will monitor program implementation on the basis of quarterly indicative targets and structural measures through December 2006 (see Tables 1 and 2 of the MEFP).** The definitions for the indicative targets are described in the Technical Memorandum of Understanding (Appendix I, Attachment II). Monitoring of the fiscal balance and spending performance will be done on a cash basis while the authorities are taking measures to improve the monitoring and control of commitment-based transactions.

Risks

35. **The C.A.R. poses some repayment risk for the Fund.** The authorities have continued to meet their obligations to the Fund in a timely manner, and stressed their commitment to continue doing so. Nonetheless, given the weak financial position and the accumulation of arrears to other external creditors, repayment risks are still present. Accordingly, the amounts set aside would provide an assurance that the authorities will not encounter repayment difficulties during the period of the program.

36. **The program also entails some risk of poor policy implementation**. Political stability in the C.A.R. is not assured, and insecurity remains a problem in some areas of the country. Disruptions on these fronts could undermine policy performance. In addition, despite the recent gains, the very weak institutions and widespread corruption in the C.A.R. could present difficulties as the authorities push forward their reform agenda. However, these risks should be assessed against the fact that with the elections behind them, the authorities have turned more firmly to economic and financial reforms, which has been demonstrated by the improved fiscal performance and corrective measures introduced in recent months. As well, the authorities have indicated a strong interest in moving to a PRGF program, which will depend in large part on satisfactory performance under the proposed EPCA-supported program and financing assurances being in place.

IV. Staff Appraisal

37. **The C.A.R. authorities have demonstrated their commitment to address the country's deep-seated economic and governance problems.** In a political setting which provides some hope for greater stability in the period ahead, the authorities have recently implemented important corrective actions to reverse some of the policy slippages associated with the election period. The positive results that emerged in recent months, particularly in public finances, serve to build on the modest gains achieved under the first EPCA-supported program.

38. **The authorities' focus on stabilizing public finances and improving economic governance reflects a sober and sound view of the urgent priorities facing the country**. The proposed program aims at supporting these efforts and catalyzing both financial and technical assistance from donors, which are indispensable for lifting the country out of its predicament.

39. **The challenges ahead are enormous.** The weakness in economic activity, erosion of the country's capital base, and deterioration in institutional capacity pose sizable obstacles to strengthening macroeconomic management and supporting an economic recovery. Moreover, while the election process was successful, the political situation remains fragile, reflecting the population's impatience with the difficult financial situation of the country, and security problems in the rural areas persist. Likewise, the regional security environment is a source of concern.

40. **Achieving steady improvements in revenue will be central to stabilizing public finances and ensuring the sustainability of reforms.** The increase in petroleum taxes and VAT provide a much needed boost to revenues. Better tax administration and strengthening the fight against customs fraud are necessary to widen the chronically weak tax base, and ensure that the state has the resources to meet its core expenditure needs and provide basic public services. The recent improvements are encouraging and should be continued.

41. **Tightening expenditure controls, particularly on the wage bill, is urgently needed to allow a better targeting of spending in priority areas in an environment of scarce public resources.** The measures to contain public sector salaries are essential to the stability of public finances and—recognizing the link in the past between salary arrears and political instability—the sustainability of reforms. The authorities will need to resist the inevitable political pressure to backtrack on efforts to control the wage bill. Follow-up measures will be crucial to ensure that the payroll management problems do not reemerge, and that the weight of wages in public expenditure gradually decreases. Controls on non-salary spending also need to be enhanced to ensure that public spending better achieves its desired outcomes. In addition, it will be important to improve treasury management by closing unnecessary government accounts at commercial banks, effectively using the cash flow plan, and ending the practice of automatic debits of government accounts in favor of a transparent use of formal spending procedures.

42. **Improving economic governance and fighting corruption is also crucial for strengthening the management of public resources and the climate for the private sector**. Greater transparency will be essential in this regard by raising accountability and confidence in the public sector. The authorities have made important strides in this area and their plans for establishing a government internet site and widening the scope of publication are welcome. Strengthening the judicial system will also be crucial, including to bolster contract enforcement for the private sector.

43. **Moving ahead on structural reforms will be essential for fostering an economic rebound, boosting competitiveness, and supporting macroeconomic stability.** Recent reforms in the forestry sector are welcome and attention should turn toward further encouraging activity in the mining sector. The authorities also need to move forward rapidly on liberalizing trade, supporting the development of the financial sector, and reforming public enterprises, all of which are critical areas for a sustainable economic recovery.

44. **The C.A.R.'s debt burden is unsustainable**. The authorities should establish the necessary track record to reach the HIPC decision point in order to start benefiting from HIPC assistance, and strive to ensure equal treatment of creditors. The authorities should also continue their discussions with external creditors on debt data questions and possible arrears clearance plans. While low levels of donor support have restricted their financing options, the authorities' recourse to nonconcessional domestic and external financing is a cause for concern. To this end, the authorities should rely on grant financing as much as possible and avoid all nonconcessional borrowing.

45. **The situation in the social sectors remains very troubling**. The authorities are encouraged to accelerate efforts to improve social services; this will also depend on an increase in assistance from the C.A.R.'s international partners. The progress achieved on the PRSP is welcome, and the authorities are encouraged to work closely with donors in finalizing the strategy during 2006.

46. **The staff considers that the C.A.R. meets the requirements for assistance under the Fund's EPCA policy.** There is an urgent need for help in meeting current payments, and the disruption to the country's capacity is such that the authorities are not yet able to carry out a comprehensive program that could be supported by a Fund arrangement. Nonetheless, recent policy performance and corrective actions demonstrate that the authorities have the capacity to implement the proposed program, which would be fully part of a concerted international effort. Moreover, the political transition is now complete, which should permit a greater focus on macroeconomic issues. For these reasons, policy implementation should improve under the proposed program, including in the fiscal area. On this basis, and recognizing the role that the proposed program would play in stabilizing the macroeconomic situation and catalyzing international support, the staff recommends approval of the authorities' request for additional emergency post-conflict assistance.

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2001–08

	2001	2002	2003	2004 Prog. 1/	2004 Est.	2005 Prel.	2006 Proj.	2007 Proj.	2008 Proj.
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
GDP at constant prices	0.3	-0.6	-7.6	0.8	1.3	2.2	3.2	3.8	3.9
GDP at current prices	3.8	2.4	-4.3	0.6	-0.6	5.0	6.1	6.4	6.6
GDP deflator	3.6	3.0	3.6	-0.2	-1.9	2.8	2.7	2.5	2.6
Consumer prices									
Yearly average	3.8	2.3	4.4	-2.1	-2.2	3.0	2.3	2.1	2.0
Central government finance									
Total revenue	4.3	24.2	-31.6	2.5	3.9	7.2	12.6	10.7	9.5
Total expenditure	-11.5	22.4	-25.4	1.3	9.2	-0.5	0.1	6.9	8.7
Money and credit									
Net domestic assets 2/	13.2	2.9	-0.1	...	12.0	0.9	1.3	2.1	2.1
Domestic credit 2/	16.9	2.2	2.5	...	13.6	0.9	1.3	2.1	2.1
Broad money	-1.1	-4.3	-8.0	...	14.2	1.2	6.0	7.7	8.4
Velocity of broad money (end of period)	6.5	6.9	7.2	...	6.3	6.5	6.5	6.4	6.3
External sector									
Exports, f.o.b. (U.S. dollar basis)	-9.0	2.5	-13.7	6.0	-0.5	2.2	7.7	7.9	6.1
Export volume	4.8	0.2	-26.7	5.3	-1.1	-8.6	3.8	6.4	6.1
Imports, f.o.b. (U.S. dollar basis)	-9.8	16.8	-4.8	18.4	17.0	5.8	8.0	7.9	6.3
Import volume	-8.1	13.9	-15.1	11.8	7.7	-2.7	5.7	6.8	5.2
Terms of trade (U.S. dollar basis)	-11.5	-0.2	5.1	-4.9	-7.5	2.9	1.5	0.3	-1.0
Nominal effective exchange rate 3/	5.3	3.4	4.3	...	1.7	0.0	...	...	...
Real effective exchange rate 3/	3.3	3.3	6.3	...	-2.4	0.7	...	...	...
	(In percent of GDP, unless otherwise indicated)								
Gross national savings	5.8	5.7	1.4	2.2	1.7	3.1	4.4	5.4	6.0
Of which: current official transfers	1.6	1.9	0.5	0.7	0.6	0.8	1.1	1.0	1.0
Gross domestic savings	3.9	3.7	0.3	0.1	-0.5	0.6	1.9	2.8	3.4
Government	0.4	0.8	-1.8	-1.3	-2.7	-1.5	0.2	0.6	0.7
Private sector	3.5	3.0	2.1	1.4	2.2	2.1	1.7	2.2	2.7
Consumption	96.1	96.3	99.7	99.9	100.5	99.4	98.1	97.2	96.6
Government	3.2	3.9	3.1	2.6	3.2	2.9	2.5	2.7	3.0
Private sector	92.9	92.3	96.6	97.2	97.3	96.4	95.6	94.4	93.6
Gross investment	8.4	9.0	6.0	6.8	6.1	7.2	8.3	9.1	9.7
Government	3.5	4.8	2.1	2.4	2.0	2.3	2.8	2.9	3.1
Private sector	4.9	4.2	3.9	4.4	4.1	4.9	5.6	6.2	6.6
Resource gap	-4.5	-5.2	-5.7	-6.7	-6.6	-6.6	-6.4	-6.3	-6.3
Current transfers and factor income (net)	2.0	1.9	1.1	2.0	2.2	2.4	2.5	2.6	2.5
External current account balance	-2.5	-3.3	-4.6	-4.7	-4.4	-4.1	-3.9	-3.7	-3.8
Overall balance of payments	-3.9	-5.0	-4.7	-3.1	-2.8	-2.0	-2.0	-2.2	-2.0
Central government finance									
Total revenue	8.9	10.8	7.7	7.8	8.1	8.2	8.7	9.1	9.4
Total expenditure	-13.2	-15.8	-12.3	-12.3	-13.5	-12.8	-12.1	-12.1	-12.4
Overall balance (commitment basis)									
Excluding grants 4/	-4.3	-5.0	-4.6	-4.5	-5.5	-4.6	-3.3	-3.0	-3.0
Including grants	-0.9	-1.2	-3.1	-1.6	-2.2	-2.5	-1.3	-1.1	-1.1
Narrow primary balance 4/ 5/	0.3	1.0	-2.1	-1.3	-2.7	-1.3	0.5	0.7	0.7
Basic balance 4/ 6/	-1.0	-0.5	-3.3	-2.5	-3.9	-2.5	-0.7	-0.4	-0.3
External public debt before debt relief	97.0	94.1	96.5	95.4	82.5	78.8	77.0	72.7	68.4
Net present value of total debt 7/	375.8	374.8	486.1	438.6	531.6	515.6	500.5	482.3	469.2
Scheduled debt-service ratio 7/	14.8	25.0	29.8	27.9	21.8	22.3	21.5	21.6	22.3
Actual debt-service ratio 7/	7.3	0.8	0.3	1.7	1.7	3.1	21.5	21.6	22.3
Gross official foreign reserves									
(in millions of U.S. dollars, end-of-period)	119.8	121.0	131.0	148.8	148.4	136.5	140.6	145.1	149.2
(in months of imports, f.o.b.)	13.6	10.9	12.3	12.0	11.8	11.5	10.6	10.1	9.8
Nominal GDP (in billions of CFA francs)	709.2	726.2	694.7	703.6	690.6	725.2	769.3	818.8	872.6
Exchange rate (average; CFA francs per U.S. dollar)	732.4	694.8	580.1	...	527.6	...	...	...	...

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

1/ Reflects revisions to original program on the basis of October 2004 staff visit.
2/ In percent of broad money at beginning of the period.
3/ Figures for 2005 reflect data through September.
4/ In line with the program the projections for 2004 include 1 percent of GDP in additional priority spending.
5/ Excludes interest payments, foreign-financed investment, and grants.
6/ Excludes foreign-financed investment and grants.
7/ In percent of exports of goods and services.

Table 2. Central African Republic: Authorities' Indicative Targets,
March 1– December 31, 2005
(In billions of CFA francs; cumulative from January 1, 2005; ceilings, unless otherwise indicated)

	End-March			End-June			End-September			End-December
	Obj.	Act.	Target met	Obj.	Act.	Target met	Obj.	Act.	Target met	Objective
Floor on total government revenue 1/	15.0	15.8	Yes	31.0	29.4	No	42.8	43.3	Yes	59.8
Wages and salaries 2/	8.5	9.6	No	16.8	19.1	No	24.9	28.7	No	33.1
Floor on narrow primary balance (cash) 3/	-1.5	0.1	Yes	-1.5	1.4	Yes	-3.4	-0.1	Yes	0.0
Net change in domestic arrears	0.0	1.6	No	0.0	6.0	No	0.0	10.0	No	0.0
Change in net claims of the banking system on the government	1.0	2.7	No	0.7	2.0	No	0.0	3.4	No	-0.8
New nonconcessional external debt 4/	0.0	0.0	Yes	0.0	0.0	Yes	0.0	4.0	No	0.0
Memorandum items										
Customs receipts (cash basis)	6.2	4.9	...	11.9	9.6	...	17.5	15.1	...	23.8
Floor on narrow primary balance (commitment) 5/	-1.5	-2.5	...	-1.5	-6.4	...	-1.2	-12.0	...	0.0

1/ Including withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports.
2/ Including withholding taxes on government salaries.
3/ The narrow primary balance compares revenue on a cash basis (that is, excluding withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports) with total expenditure on a **cash** basis, excluding interest payments and foreign-financed investment and including treasury operations. Targets will be adjusted downward if external grants allocated to priority spending are above the projected amounts. On this basis, targets for June and September have been adjusted by CFAF 0.5 billion and CFAF 1.2 billion, respectively.
4/ Contracted or guaranteed by the government.
5/ The narrow primary balance compares revenue on a cash basis (that is, excluding withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports) with total expenditure on a **commitment** basis, excluding interest payments and foreign-financed investment and including treasury operations. Targets will be adjusted downward if external grants allocated to priority spending are above the projected amounts. On this basis, targets for June and September have been adjusted by CFAF 0.5 billion and CFAF 1.2 billion, respectively.

Table 3. Structural Reform Measures Implemented in 2004 and 2005

Measures under the 2004 Emergency Post-Conflict Assistance Program	Status
Revenue	
• Introduce a procedure requiring that the customs posts on the Central African Republic borders record on bills of lading the detailed and precise identification on merchandises not clearing customs at the border.	Implemented
• Require the posting of a financial guarantee at the revenue office of the destination to cover the amount of duties pending the transportation within the national territory of any merchandise not clearing customs at the border.	Implemented
• Give the Large Taxpayers Unit sole authority for the general auditing of all taxpayers included in its portfolio, and give its revenue office responsibility for the entire collection process.	Implemented
Governance and transparency	
• Introduce a new organizational structure for the Ministry of Justice, including a specialized financial unit within the Bangui Prosecutor's Office and a State Legal Agency.	Implemented
• Write, disseminate, and explain to all customs personnel a code of conduct on professional ethics based on the model prepared by the World Customs Organization (WCO) and inform the public of this measure.	Implemented
• Publish each month the forecasts and outcome for the Treasury cash-flow plan, as well as all awards of permits in the forestry and mining sectors.	Implemented
Additional Corrective Measures 1/	
Expenditure	
• Reduce the monthly wage bill by CFAF 600 million.	Implemented
• Eliminate the recruitment of contractual staff and do not extend the term of existing contracts	Implemented
• Transfer the management of contractual staff to the Payroll Office.	Implemented
• Transfer the processing of electronic civil service data from the national computer agency (ONI) to the Payroll Office.	Implemented
• Strengthen the monitoring of expenditure on a commitment and payment order basis.	Implemented
• Instruct mobile phone operators to suspend service on all lines except those of the Head of State and members of the government, and restore service on a case-by-case basis. With respect to the national telecommunications company, government consumption should respect the budgeted monthly ceiling.	Implemented

Revenue	
• Increase Petroleum prices to achieve a CFAF 2 billion increase in revenue	Implemented
• Increase VAT rate to 19 percent	Implemented
• Prohibit from operating in the C.A.R. all customs clearing agents that have not paid the CFAF 50 million bond.	Implemented
• Eliminate the suspended clearance procedures and the practice of using fictional warehouses that makes it possible to evade the payment of import duties except for enterprises with long production cycles	Implemented
• Suspend the application of the reduced rate on imports for investments except for enterprises that already meet the eligibility criteria and submit all requests for preferential tariff treatment to a review committee comprising the Ministry of Commerce, the tax and customs departments, and the import verification group BIVAC.	Implemented
• Adopt the measures recommended in the report of the General Inspector of Finances concerning fraudulent CEMAC certificates of origin.	Implemented
• Increase the number of controls carried out by tax auditors and update the specific goals for each verification team.	Implemented
• Establish a computer link between the single taxpayer number system software at the Tax Department and the information system of the Customs Department	Implemented
Budget management	
• Prohibit the Treasury from disbursing public funds without a prior payment authorization, with the exception of wages, pensions, legal expenses, and other specified exemptions.	Implemented
• Prepare a monthly cash-flow plan covering the entire year and update the plan on a weekly basis.	Implemented
Governance and transparency	
• Appoint staff to the Special Section (financial unit) of the Bangui Court and the State Legal Agency which are responsible for pursuing corruption cases.	Implemented
• Make public the information on anti-corruption cases initiated by these entities.	Implemented

1/ Identified by missions in October 2004, February 2005, and July 2005.

Table 4. Central African Republic: Central Government Operations, 2001–08

	2001	2002	2003	2004		2005	2006	2007	2008
				Prog. 1/	Est.	Prel.		Proj.	
				(In billions of CFA francs)					
Revenue	63.2	78.4	53.7	55.1	55.8	59.8	67.3	74.5	81.6
Tax revenue	51.8	61.4	45.3	46.1	48.3	51.2	57.7	64.2	70.6
Direct taxes	15.2	17.2	14.0	14.0	15.6	14.6	16.3	17.4	19.0
Indirect domestic taxes	24.8	33.3	20.5	22.4	22.1	25.4	28.4	32.0	34.9
Taxes on international trade	11.8	10.9	10.7	9.7	10.6	11.2	12.9	14.7	16.7
Of which: taxes on imports	7.0	7.6	7.7	6.8	7.1	7.4	8.5	9.1	9.7
Nontax revenue	11.4	17.0	8.4	9.0	7.5	8.6	9.6	10.3	11.0
Of which: MONUC receipts 2/	4.4	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	-93.6	-114.6	-85.5	-86.7	-93.4	-92.9	-93.1	-99.4	-108.1
Current primary expenditure	-51.0	-57.3	-58.1	-55.4	-66.7	-62.0	-55.0	-58.9	-63.4
Wages and salaries	-29.2	-33.1	-34.5	-33.0	-38.9	-38.1	-35.0	-35.7	-36.5
Transfers and subsidies	-7.2	-7.1	-7.3	-9.4	-10.0	-8.3	-8.2	-8.9	-9.7
Goods and services	-14.6	-17.1	-16.3	-13.0	-17.8	-15.7	-11.8	-14.3	-17.2
Interest due	-9.8	-11.3	-7.9	-8.5	-8.5	-8.4	-9.7	-8.5	-8.7
External	-8.5	-7.3	-5.0	-5.5	-5.5	-5.4	-6.0	-5.9	-6.0
Domestic	-1.3	-3.9	-2.9	-3.0	-3.0	-3.0	-3.7	-2.6	-2.8
Capital expenditure	-32.8	-46.0	-19.5	-22.8	-18.2	-22.5	-28.4	-32.0	-36.0
Domestically financed	-9.7	-13.5	-10.5	-8.8	-7.7	-7.3	-8.3	-10.0	-11.9
Externally financed	-23.1	-32.5	-9.0	-14.0	-10.5	-15.2	-20.1	-22.0	-24.0
Overall balance, commitment basis									
Excluding grants	-30.5	-36.2	-31.8	-31.7	-37.7	-33.2	-25.8	-24.9	-26.5
Of which: narrow primary balance 3/	2.5	7.6	-14.9	-9.2	-18.6	-9.5	4.0	5.6	6.3
Including grants	-6.2	-8.6	-21.8	-10.9	-15.0	-17.9	-10.2	-8.8	-9.7
Change in arrears (net; reduction -)	-7.3	21.3	30.5	20.4	21.1	23.1	0.0	-3.0	-4.0
Domestic	-15.1	-4.7	6.2	-2.3	2.9	4.5	0.0	-3.0	-4.0
External	7.8	26.1	24.3	22.7	18.2	18.6	0.0	0.0	0.0
Overall balance (cash basis)	-37.7	-14.8	-1.4	-11.3	-16.6	-10.1	-25.8	-27.9	-30.5
Identified financing	37.7	14.8	1.4	11.3	16.6	10.1	4.7	3.3	4.6
External, net	26.5	14.5	-1.3	7.5	8.1	9.9	5.0	3.3	4.2
Projects	23.1	32.5	9.0	14.0	10.5	15.2	20.1	22.0	24.0
Grants	21.8	26.5	6.0	10.0	7.9	11.4	15.5	16.1	16.8
Loans	1.3	6.0	3.0	4.0	2.6	3.8	4.6	5.9	7.2
Program	12.2	2.3	9.1	10.7	14.8	7.8	0.0	0.0	0.0
Grants	2.5	1.0	4.1	10.7	14.8	3.8	0.0	0.0	0.0
Loans	9.7	1.3	5.0	0.0	0.0	4.0	0.0	0.0	0.0
Amortization due	-15.2	-20.4	-19.4	-17.2	-17.2	-13.2	-15.0	-18.7	-19.9
External debt relief	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	11.2	0.4	2.7	3.8	8.5	0.2	-0.3	0.0	0.5
Banking system	9.1	1.0	2.9	3.8	8.5	0.2	-0.3	0.0	0.5
Bank of Central African States	8.9	2.1	2.9	4.8	9.9	-2.0	-0.2	0.7	-0.2
Counterpart to IMF resources	7.3	0.0	0.0	3.1	3.1	-2.6	-3.2	-4.4	-6.0
Other	1.7	2.1	2.9	1.7	6.7	0.6	3.1	5.1	5.9
Commercial banks	0.2	-1.1	0.0	-1.0	-1.4	2.2	-0.1	-0.7	0.6
Nonbank	2.1	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	0.0	21.0	24.7	25.8
Memorandum items:				(In percent of GDP)					
Revenue	8.9	10.8	7.7	7.8	8.1	8.2	8.7	9.1	9.4
Expenditure	-13.2	-15.8	-12.3	-12.3	-13.5	-12.8	-12.1	-12.1	-12.4
Of which: wages and salaries	-4.1	-4.6	-5.0	-4.7	-5.6	-5.2	-4.5	-4.4	-4.2
transfers and subsidies	-1.0	-1.0	-1.1	-1.3	-1.4	-1.1	-1.1	-1.1	-1.1
goods and services	-2.1	-2.4	-2.4	-1.8	-2.6	-2.2	-1.5	-1.7	-2.0
domestically financed investment	-1.4	-1.9	-1.5	-1.3	-1.1	-1.0	-1.1	-1.2	-1.4
Balance, commitment basis (deficit -)									
Excluding grants	-4.3	-5.0	-4.6	-4.5	-5.5	-4.6	-3.3	-3.0	-3.0
Including grants	-0.9	-1.2	-3.1	-1.6	-2.2	-2.5	-1.3	-1.1	-1.1
Narrow primary budget balance 3/	0.3	1.0	-2.1	-1.3	-2.7	-1.3	0.5	0.7	0.7
Basic balance 4/	-1.0	-0.5	-3.3	-2.5	-3.9	-2.5	-0.7	-0.4	-0.3

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

1/ Reflects revisions to original program on the basis of October 2004 staff visit. The projection for 2004 includes 1 percent of GDP in priority spending financed by grants.

2/ United Nations Mission in C.A.R.

3/ Excludes interest payments, foreign-financed investment, and grants.

4/ Excludes foreign-financed investment and grants.

Table 5. Central African Republic : Balance of Payments , 2001–08

	2001	2002	2003	2004		2005	2006	2007	2008
				Prog. 1/	Est.	Prel.		Proj.	
				(In billions of CFA francs)					
Current account	-17.8	-24.0	-32.0	-32.9	-30.5	-29.9	-30.1	-30.2	-33.1
Balance on goods	25.6	14.3	3.9	-4.8	-7.5	-10.3	-11.6	-12.6	-13.5
Exports, f.o.b.	104.1	101.3	73.0	68.1	66.0	67.2	74.5	80.3	84.9
Of which : diamonds	41.2	36.3	28.3	28.8	27.8	31.7	34.3	36.7	38.2
wood products	45.3	49.6	35.4	29.0	28.7	25.5	28.7	30.1	31.6
Imports, f.o.b.	-78.5	-86.9	-69.1	-72.9	-73.6	-77.5	-86.2	-92.8	-98.3
Petroleum products	-13.5	-11.0	-7.7	-13.4	-17.0	-18.5	-21.8	-23.4	-25.1
Public investment program	-4.4	-8.4	-5.1	-4.0	-1.9	-3.0	-3.8	-4.1	-7.5
Other	-60.6	-67.5	-56.3	-55.5	-54.7	-56.0	-60.6	-65.3	-65.7
Services (net)	-57.4	-52.2	-43.4	-42.4	-38.2	-37.3	-37.8	-38.9	-41.5
Income (net)	-7.5	-5.1	-3.5	-4.2	-3.0	-1.8	-2.3	-2.2	-2.1
Of which: interest due on public debt	-8.6	-7.5	-5.1	-5.6	-5.6	-5.5	-6.2	-6.2	-6.1
Current transfers (net)	21.4	18.9	10.9	18.5	18.2	19.5	21.6	23.5	24.0
Capital account	13.1	13.6	6.9	15.5	18.5	9.3	7.4	7.7	8.0
Project grants 2/	10.4	12.6	2.8	4.8	3.8	5.4	7.4	7.7	8.0
Program grants	2.5	1.0	4.1	10.7	14.8	3.8	0.0	0.0	0.0
Debt cancellation	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-8.0	-30.2	-7.3	-4.5	-7.6	6.0	7.0	4.5	7.3
Public sector (net)	-4.2	-13.1	-11.4	-13.2	-14.6	-5.4	-10.5	-12.8	-12.6
Project disbursements	1.3	6.0	3.0	4.0	2.6	3.8	4.6	5.9	7.2
Program disbursements	9.7	1.3	5.0	0.0	0.0	4.0	0.0	0.0	0.0
Scheduled amortization	-15.2	-20.4	-19.4	-17.2	-17.2	-13.2	-15.0	-18.7	-19.9
Private sector (net)	-3.8	-17.1	4.1	8.8	7.0	11.4	17.5	17.3	19.9
Errors and omissions	-15.0	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-27.7	-36.3	-32.4	-21.9	-19.5	-14.7	-15.7	-18.0	-17.8
Identified financing	27.7	36.3	32.4	21.9	19.5	14.7	-5.3	-6.6	-8.0
Net official reserves movements 3/	13.7	10.3	8.1	1.1	1.4	-3.9	-5.3	-6.6	-8.0
Net IMF credit	7.3	0.0	0.0	3.1	3.1	-2.6	-3.2	-4.4	-6.0
Purchases and loans	7.3	0.0	0.0	4.4	4.4	0.0	0.0	0.0	0.0
Repayments (cash basis)	0.0	0.0	0.0	-1.3	-1.3	-2.6	-3.2	-4.4	-6.0
Other reserves (increase -)	6.5	10.3	8.1	-2.0	-1.8	-1.4	-2.1	-2.2	-2.0
Exceptional financing	14.0	26.1	24.3	22.7	18.2	18.6	0.0	0.0	0.0
Debt rescheduling 4/	6.2	0.0	0.0	...	...	...	...	...	...
Debt payments arrears (reduction -)	7.8	26.1	24.3	22.7	18.2	18.6	0.0	0.0	0.0
Residual financing need (+)	0.0	0.0	0.0	0.0	0.0	0.0	21.0	24.7	25.8
Memorandum items:				(Annual percentage change, unless otherwise indicated)					
Terms of trade (U.S. dollar basis)	-11.5	-0.2	5.1	-4.9	-7.5	2.9	1.5	0.3	-1.0
Unit price of exports (U.S. dollar basis)	-13.2	2.3	17.7	0.7	0.6	11.8	3.7	1.4	0.1
Unit price of imports (U.S. dollar basis)	-1.8	2.5	12.1	5.9	8.7	8.7	2.2	1.1	1.0
Net resource transfer	33.0	33.1	17.9	23.3	23.9	20.4	16.6	17.4	17.9
Net resource transfer (in percent of GDP)	4.7	4.6	2.6	3.3	3.5	2.8	2.2	2.1	2.0
Gross official reserves									
(in billions of CFA francs, end-of-period)	89.2	78.9	70.8	72.8	72.6	73.9	76.0	78.2	80.2
(in months of imports, f.o.b.)	13.6	10.9	12.3	12.0	11.8	11.5	10.6	10.1	9.8
Current account (in percent of GDP)	-2.5	-3.3	-4.6	-4.7	-4.4	-4.1	-3.9	-3.7	-3.8
Total stock of external arrears (in billions of CFA francs)	133.4	160.4	182.1	...	177.0	193.5	...	...	...
Of which: arrears to multilateral creditors	31.2	44.1	57.5	...	55.5	65.7	...	...	...

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

1/ Reflects revisions to original program on the basis of October 2004 staff visit.

2/ A portion of project grants is included under current transfers.

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

4/ Includes debt relief under the 1998 Paris Club rescheduling agreement, as well as agreements reached with other creditors in 1999.

Table 6. Central African Republic : Monetary Survey , 2001–08

	2001	2002	2003	2004		2005	2006	2007	2008
				Prog. 1/	Est.	Prel.		Proj.	
	(In billions of CFA francs at end of period, unless otherwise indicated)								
Net foreign assets	63.7	55.7	47.4	...	49.5	49.8	55.1	61.7	69.8
Bank of Central African States (BEAC)	66.3	58.1	51.9	...	51.4	54.2	59.5	66.1	74.2
Operations account	87.6	76.9	67.9	...	69.6	72.3	74.2	76.1	78.0
Use of IMF credit	-22.9	-20.9	-18.9	...	-21.2	-19.8	-16.5	-12.1	-6.1
Other	1.6	2.1	2.9	...	3.0	1.6	1.8	2.1	2.2
Commercial banks	-2.7	-2.4	-4.6	...	-1.9	-4.4	-4.4	-4.4	-4.4
Net domestic assets	46.0	49.2	49.2	...	60.7	61.7	63.1	65.5	68.2
Domestic credit	97.1	99.6	102.2	...	115.4	116.3	117.7	120.2	122.8
Credit to the public sector	54.6	50.2	52.8	...	60.2	61.5	60.8	60.8	61.3
Credit to central government (net)	55.3	54.3	55.2	...	62.9	64.2	63.9	63.9	64.3
BEAC	48.7	48.7	49.7	...	58.7	57.9	57.7	58.4	58.2
Current account	17.2	14.1	17.1	...	25.1	27.3	30.4	35.4	41.3
Consolidated loans	14.6	14.6	14.6	...	14.6	13.0	13.0	13.0	13.0
IMF (net)	22.9	20.9	18.9	...	21.2	19.8	16.5	12.1	6.1
Deposits	-6.0	-0.8	-0.8	...	-2.2	-2.2	-2.2	-2.2	-2.2
Commercial banks	6.7	5.6	5.6	...	4.2	6.4	6.2	5.5	6.1
Credit to other public agencies (net)	-0.7	-4.1	-2.4	...	-2.7	-2.7	-3.1	-3.1	-3.1
Credit to the economy	42.5	49.4	49.4	...	55.2	54.8	56.9	59.4	61.5
Public enterprises	8.0	8.1	8.4	...	6.7	6.7	6.7	6.7	6.7
Private sector	34.5	41.3	41.0	...	48.4	48.0	50.2	52.6	54.8
Other items (net)	-51.1	-50.3	-53.1	...	-54.6	-54.6	-54.6	-54.6	-54.6
Money and quasi money	109.7	104.9	96.5	...	110.2	111.5	118.2	127.3	138.0
Currency	82.6	77.4	70.4	...	81.3	80.6	81.2	83.1	85.6
Deposits	27.1	27.5	26.1	...	28.9	30.9	37.0	44.2	52.4
Demand deposits	16.6	17.3	15.1	...	16.4	17.4	21.0	24.9	29.7
Term and savings deposits	10.5	10.2	11.1	...	12.5	13.5	16.0	19.3	22.7
Memorandum items:									
Net domestic assets of the central bank	17.7	20.9	20.7	...	32.3	29.4	25.1	20.4	14.8
Monetary base	84.0	79.0	72.6	...	83.7	83.5	84.6	86.5	89.0
Nominal GDP	709.2	726.2	694.7	...	690.6	725.2	769.3	818.8	872.6
Velocity (GDP/broad money)									
End of period	6.5	6.9	7.2	...	6.3	6.5	6.5	6.4	6.3
	(Annual change, in percent of broad money at beginning of period)								
Net foreign assets	-14.3	-7.3	-8.0	...	2.2	0.3	4.7	5.6	6.3
Net domestic assets	13.2	2.9	-0.1	...	12.0	0.9	1.3	2.1	2.1
Net domestic credit	16.9	2.2	2.5	...	13.6	0.9	1.3	2.1	2.1
Net credit to central government	8.7	-0.9	0.9	...	7.9	1.2	-0.3	0.0	0.4
Credit to the economy	3.2	6.3	0.0	...	6.0	-0.4	1.9	2.1	1.7
Money and quasi money	-1.1	-4.3	-8.0	...	14.2	1.2	6.0	7.7	8.4
	(Annual percentage change)								
Monetary base	-6.2	-6.0	-8.0	...	15.3	-0.2	1.3	2.2	2.9
Credit to the economy	9.2	16.3	0.1	...	11.6	-0.7	3.9	4.3	3.7
Public enterprises	-0.5	1.4	4.7	...	-20.2	0.0	0.0	0.0	0.0
Private sector	11.6	19.7	-0.8	...	18.2	-0.8	4.4	4.9	4.1

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

1/ Reflects revisions to original program on the basis of October 2004 staff visit.

Table 7. Central African Republic: Indicators of Fund Credit, 2001–2008

	2001	2002	2003	2004	2005	2006	2007	2008
							Proj.	
Outstanding use of Fund credit								
In millions of SDRs	24.5	24.5	24.5	28.4	25.1	21.0	15.4	7.7
In billions of CFA francs	22.8	22.0	19.9	22.2	19.5	16.5	12.1	6.1
In percent of government revenue	36.1	28.1	37.0	39.8	32.7	24.6	16.3	7.4
In percent of exports, f.o.b.	21.9	21.8	27.2	33.6	29.1	22.2	15.1	7.2
In percent of external public debt	3.3	3.2	3.0	3.3	2.8	2.4	1.7	0.9
In percent of GDP	3.2	3.0	2.9	3.2	2.7	2.2	1.5	0.7
In percent of quota	43.9	43.9	43.9	51.0	45.1	37.7	27.7	13.9
Repurchases, repayments, charges and interest due 1/								
In millions of SDRs	0.1	0.1	0.1	1.8	3.4	4.4	5.9	7.9
In billions of CFA francs	0.1	0.1	0.1	1.4	2.7	3.5	4.6	6.2
In percent of government revenue	0.1	0.1	0.2	2.5	4.5	5.2	6.2	7.6
In percent of exports, f.o.b.	0.1	0.1	0.1	2.1	4.0	4.7	5.8	7.3
In percent of debt-service payments	0.4	0.4	0.4	5.7	12.5	14.2	15.8	19.3
In percent of GDP	0.0	0.0	0.0	0.2	0.4	0.5	0.6	0.7
In percent of quota	0.1	0.2	0.2	3.2	6.2	7.9	10.6	14.1
Net use of Fund credit								
(in millions of SDRs)	8.0	0.0	0.0	3.9	-3.3	-4.1	-5.6	-7.7
Disbursements	8.0	0.0	0.0	5.6	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	1.6	3.3	4.1	5.6	7.7

Sources: IMF, Finance Department; and staff estimates and projections.

1/ Excluding SDR charges and assessments.

Table 8. Central African Republic: Millennium Development Goals, 1990–2015

	1990	1995	2001	2002	2003	2015 Target
Goal 1. Eradicate extreme poverty and hunger						
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.						
1. Population below US$1 a day (percent)	...	66.6	...	...	...	
2. Poverty gap ratio at US$1 a day (percent)	...	38.1	...	...	...	
3. Share of income or consumption held by poorest 20 percent (percent)	...	2.0	...	...	2.0	
Target 2: Halve, between 1990 and 2015, the proportion of people suffering from hunger						
4. Prevalence of child malnutrition (percent of children under 5)	...	23.2	...	...	...	
5. Population below minimum level of dietary energy consumption (percent)	49.0	51.0	...	44.0	...	24.5
Goal 2. Achieve universal primary education						
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling						
6. Net primary enrollment ratio (percent of relevant age group)	53.1	...	54.7	...	...	100.0
7. Percent of cohort reaching grade 5	23.9	...	...	...		100.0
8. Youth literacy rate (percent ages 15-24)	52.1	60.0	58.5	...	58.5	100.0
Goal 3. Promote gender equality and empower women						
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education by 2015						
9. Ratio of girls to boys in primary and secondary education (percent)	58.9	...	...	...	...	
10. Ratio of young literate females to males (percent, ages 15-24)	60.1	69.3	66.7	...	70.0	
11. Share of women employed in the nonagricultural sector (percent)	...	...	...	...	...	
12. Proportion of seats held by women in the national parliament (percent)	4.0	4.0	...	...	...	
Goal 4. Reduce child mortality						
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate						
13. Under-5 mortality rate (per 1,000)	180.0	180.0	180.0	180.0	180.0	60.0
14. Infant mortality rate (per 1,000 live births)	115.0	115.0	115.0	115.0	115.0	
15. Immunization against measles (percent of children under 12 months)	62.0	46.0	29.0	...	...	
Goal 5. Improve maternal health						
Target 6: Reduce by three-fourth, between 1990 and 2015, the maternal mortality ratio						
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	1,200.0	...	...	
17. Proportion of births attended by skilled health personnel	...	45.9	44.0	...	44.0	
Goal 6. Combat HIV/AIDS, malaria, and other diseases						
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS						
18. HIV prevalence among females (percent, ages 15-24)	...	...	13.5	...	13.5	
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	14.8	...	...	28.0	
20. Number of children orphaned by HIV/AIDS	...	...	110,000.0	...	...	

Table 8. Central African Republic: Millennium Development Goals, 1990–2015 (cconcluded)

	1990	1995	2001	2002	2003	2015 Target
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases						
21. Prevalence of death associated with malaria	...	...	...	...	...	
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	...	
23. Incidence of tuberculosis (per 100,000 people)	...	...	339.0	337.8	493.0	
24. Tuberculosis cases detected under DOTS (percent)	...	45.0	28.0	...	6.0	
Goal 7. Ensure environmental sustainability						
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.						
25. Forest area (percent of total land area)	37.3	...	36.8	...	...	
26. Nationality protected areas (percent of total land area)	...	8.2	8.2	8.2	...	
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	...	...	...	...	...	
28. CO2 emissions (metric tons per capita)	0.1	0.1	0.1	...	...	
29. Proportion of population using solid fuels	...	...	...	...	...	
Target 10: Halve by 2015 proportion of people without access to safe drinking water						
30. Access to improved water source (percent of population)	48.0	...	70.0	75.0	...	74.0
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers						
31. Access to improved sanitation (percent of population)	24.0	...	25.0	27.0	...	
32. Access to secure tenure (percent of population)	...	...	...	...	...	
Goal 8. Develop a Global Partnership for Development 1/						
Target 16. Develop and implement strategies for productive work for youth						
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	...	
Target 17: Provide access to affordable essential drugs						
46. Proportion of population with access to affordable essential drugs	...	...	...	...	...	
Target 18: Make available new technologies, especially information and communications						
47. Fixed line and mobile telephones (per 1,000 people)	...	2.5	5.3	...	...	
48. Personal computers (per 1,000 people)	...	...	1.9	...	...	

Sources: World Bank, World Development Indicators database, 2003; and UNDP, Human Development Report 2005.

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

Bangui, January 13, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, DC, 20431
USA

Dear Sir:

1. After a long period of political and military disturbances which took a heavy toll on the economy of the Central African Republic, the political change of March 15, 2003, marked the start of a transition toward constitutional order and democracy and culminated in the presidential and legislative elections in March and May of 2005. With the support of international and regional partners, the elections were the most peaceful, democratic and inclusive the country has seen in years. The democratically elected government has shifted the country's policy priorities from political transition issues that dominated the previous 18 months to rehabilitation, economic recovery, and reconstruction issues while continuing to further strengthen security.

2. The approval in July 2004 by the IMF's Executive Board of a drawing under the emergency post-conflict assistance (EPCA) policy marked the resumption of Fund financial support after an absence of several years. With its focus on key governance and public finance issues, including capacity building, the EPCA provided an important impetus for the economic reform program during the transition period. It also helped catalyze much needed support from the international community, which increased in 2004.

3. Considerable progress has been made under the program in improving governance, fiscal management, and security. Nevertheless, the authorities recognize that the road to recovery remains long given the country's deep rooted economic problems, and the government's continuing difficulties in honoring its domestic and foreign obligations. Economic activity continues to be stagnant, fiscal performance has lagged, and the climate for an export rebound—including security and transportation—remains unfavorable. In these conditions, the government has reiterated its determination to pursue sound policies aimed at improving the overall environment necessary to underpin a sustainable and equitable economic recovery.

4. The attached memorandum sets out the authorities' updated economic and financial program for 2006. The program continues to address the country's immediate needs: (i) security and humanitarian aid; (ii) the restoration of macroeconomic stability; (iii) improved governance; and (iv) rehabilitation of basic infrastructure and the social

sectors. The program rests on two pillars: (a) fiscal consolidation, through concrete measures to strengthen revenues and maintain better control of expenditures, including the wage bill; and (b) improving governance and fighting corruption, in particular through greater transparency by making more information public and disseminating it more widely. Improving relations with foreign creditors also remains a key objective. The government is convinced that the policies and measures laid out in the memorandum will make it possible to achieve the program's objectives. Nevertheless, in consultation with the IMF, it will take any additional measures that may be required to this end.

5. In support of this program, the government of the Central African Republic hereby requests a second drawing from the IMF under the emergency post-conflict assistance policy in the amount of SDR 6,962,500 (equivalent to 12.5 percent of quota). The government strongly hopes that, as with the first drawing, it will benefit from an interest subsidy on the purchase. In addition, the government of the Central African Republic hereby commits to set aside—following Executive Board approval of this request—SDR 3,042,734 (equivalent to 5.463 percent of quota) out of the amount requested in its account with the IMF to cover obligations falling due during the remainder of the 2006 calendar year. Successful implementation of the program should bring the government closer to undertaking a medium-term program aimed at more comprehensively addressing the acute poverty situation in the country and promoting sustainable growth. To receive support under the Poverty Reduction and Growth Facility (PRGF), we expect by that point to have built our economic policy planning and implementation capacities sufficiently for such a program.

6. The government of the Central African Republic will provide the IMF with any information it may request on the implementation of the program.

Very truly yours,

/s/
Théodore Dabanga
Minister of Finance and Budget

Attachments: Memorandum on Economic and Financial Policies for 2006
Technical Memorandum of Understanding

Memorandum on Economic and Financial Policies for 2006

January 13, 2006

I. Introduction

1. From the mid-1990s to 2003, a series of political and military conflicts in the Central African Republic (C.A.R.) resulted in substantial loss of human life, destruction of basic infrastructure, and a severe erosion of administrative capacity as well as of the nation's economic fabric. Social conditions in the country deteriorated steadily, particularly in recent years when the conflict escalated, as the weak security conditions in rural areas prevented the delivery of basic services to the population.

2. The transitional government that followed the political change of March 2003 worked closely with regional and international partners, who provided significant technical and financial support, including support from the IMF in 2004 under its emergency post-conflict assistance (EPCA) policy. Domestically, a consensus-building approach, particularly through the National Dialogue, helped restore peace, democracy, and constitutional order. These efforts were very successful and resulted in the holding of presidential and parliamentary elections in March and May 2005. The broad acceptance of the election process and its outcome augurs well for solidifying peace and security and should therefore contribute to macroeconomic stabilization.

3. The newly-elected C.A.R. government is committed to continuing the reform process. It is well aware of the many challenges it faces, particularly with regard to the country's weak institutional and administrative capacity. With this in mind, the C.A.R. authorities request additional assistance from the IMF and all development partners to support its reform program, including further emergency post-conflict assistance from the IMF.

II. Recent Economic Developments and Performance under the First EPCA Program

4. Since the recent conflict, economic recovery has been modest. After the significant contraction in economic activity in 2002-2003, real GDP growth reached approximately 1 percent in 2004 and is estimated at about 2 percent in 2005. This modest growth has been supported by a rebound in the diamond sector and, in 2005, by a strengthening of industrial activity. In the agricultural sector, food crop production increased in 2004 before stagnating in 2005. In addition, the lack of security in the countryside and along certain roads continued to undermine a recovery in coffee and cotton production. Production in the forestry sector declined during this period as a result of heavy rains in 2004 and problems affecting a few companies in 2005. Moreover, private investors maintained a wait-and-see attitude, particularly during the early part of 2005, because of the elections. With regard to inflation, the increase in agricultural production along with the decline in transport costs led to a

2.2 percent decline in the average price level in 2004, following a relatively sizable increase in 2003. In 2005, inflation increased moderately as agricultural production stagnated.

5. The external current account deficit improved modestly in 2005. Gains in the services account offset the worsening of the trade deficit during the period, which was largely due to a decline in timber exports and the increase in oil prices in 2005.

6. On the monetary front, after a strong increase in credit to the economy in December 2004, the money supply remained stable during 2005. The liquidity situation in the banking sector improved modestly due in part to the strengthening of the export receipts repatriation requirement and the inflow of resources from regional peacekeeping organizations.

7. Performance under the first post-conflict program and during the first nine months of 2005 was characterized by some delays in implementation due in part to the political environment, notably the electoral process. Although most of the quantitative objectives were not achieved—particularly in regard to the fiscal balance on a commitment basis, changes in domestic arrears, the wage bill, and the government's net position vis-à-vis the banking system—the progress made has been generally encouraging, largely as a result of the corrective measures implemented since the last quarter of 2004.

8. One of the key elements of the authorities' strategy to improve government finances was the strengthening of expenditure and cash flow management. To that end, the authorities closed a number of bank accounts held by the central government and government agencies, consolidated government debt held by local commercial banks, and integrated virtually all the special earmarked accounts into the Treasury by appointing Treasury officials to manage these accounts (*régies de recettes*). The Treasury will no longer pay any public expenditure without a prior payment order, with certain specified exceptions.

9. [1] Moreover, spending under exceptional procedures must be regularized before the end of the 2005 budgetary exercise. An improved monthly cash-flow plan has been adopted and approved by the Minister of Finance. It should make it possible for spending to be better monitored throughout the fiscal year, and will be published regularly. Although expenditure oversight is still not adequate, there has been notable improvement in the tracking of expenditures at the level of payment orders.

10. Regarding the public sector wage bill, the government's total payroll continued to grow despite the pay cuts instituted in 2004, and reached CFAF 3.5 billion a month, an amount that considerably exceeds the budget appropriation and the government's capacity to

[1] The exceptions are wages and salaries, pensions, legal expenses, embassies, medical evacuations, contributions to international organizations, official travel of the President of the Republic and members of the government, and certain unforeseeable, urgent expenditures, not exceeding 10 percent of overall monthly expenditure.

pay it. Consequently, significant arrears once again accumulated. This increase was due to a number of factors, including a lack of controls on the files of the civil service and those of the Payroll Office. In addition, the very slow implementation of the consolidated civil service database (FURCA) delayed the cleaning up of these records. However, the government has started to tackle the problem on several fronts with the aim of realizing savings of approximately CFAF 600 million a month. The pace of retirements increased, and over 1,400 public officials and government employees were removed from civil service rolls in 2005. These officials will not be replaced in the foreseeable future. In addition, a civil service census and payment exercise has been conducted in order to identify irregularities in the payroll management: it turned up over 2,300 cases of irregularities and identified more than 1,600 government employees who no longer occupy their positions, out of a total of about 26,000 total employees. It is also worth noting that family allowances are now limited to a maximum of five children per employee and bonuses and allowances have been cut by CFAF 100 million a month. Also, with a view to reducing the government's total wage bill and ensuring that further slippages do not arise, other steps have been taken such as a freeze on hiring new public officials and government employees, the transfer of the management of contractual staff to the Payroll Office, and the transfer of civil service payroll data processing from the National Information Technology Office (ONI) to the Payroll Office.

11. With regard to revenue, several measures have been taken to improve tax administration. In particular, the government has consolidated the various units responsible for auditing and collecting taxes from large taxpayers. Use of the single taxpayer identification number (NIF) has been extended, and any economic agent failing to use it is subject to penalties. On the audit side, the number of inspections has been increased (21 desk audits were performed in 2005 to detect businesses incorrectly subject to the small enterprise flat tax (*impôt libératoire*)), and the number of audit teams was enlarged to 10, with two auditors in each team.

12. In the area of customs reform, some progress has been made, albeit after significant delays. Customs border posts are now required to record on bills of lading a detailed and accurate description of merchandise not cleared through customs. Moreover, in order to better combat fraud, the government has expanded the list of imported products for which CEMAC origin is questionable, and will communicate it to the customs offices; for goods on this list, a deposit equivalent to the amount of the applicable duties must be paid. In addition, any transit agent who has not paid the CFAF 50 million bond is no longer authorized to operate on Central African territory. Also, suspended clearance procedures and the practice of using fictional warehouses have been sharply curtailed, and application of the reduced tariff rate on imports for investments has been suspended (except for businesses that already meet the eligibility criteria) in order to eliminate abuse of this mechanism. In the future, all requests for preferential tariff treatment in this regard will be submitted to a review committee consisting of the Ministry of Trade and Commerce, the customs department, the tax department, and the import inspection agency BIVAC. Other new measures that have been put in place to increase customs revenues include, in particular: the elimination of provisional customs clearance release for imports of used vehicles, and the setting up of a bonded warehouse at the highway terminal customs collection office, which would serve to

process bulk merchandise and systematically measure the respective quantities. Lastly, a transit management unit (CELGETRANS) has been established within the customs department to back up the activity of the Central African customs post in Douala with regard to the transit of forest products between Bangui and Douala for export.

13. Despite all these reforms, fiscal performance has fallen short of expectations. Some factors, such as the wait-and-see attitude of economic agents during the electoral period as well as the delays in the implementation of some measures,[2] partially explain the low revenue levels. It should also be emphasized that weaknesses in the public administration and a lack of effective mechanisms to combat corruption have adversely affected the collection of government revenues. As well, expenditure controls and cash-flow management continue to be inadequate.

14. With regard to external debt, contrary to the quantitative indicator on nonconcessional external borrowing, the authorities took out in July 2005 a loan for CFAF 4 billion on nonconcessional terms from a subregional financial group (based in Cameroon).

15. On governance, the focus has been on improving transparency and strengthening government institutions so that they are better able to detect and prevent corruption. To that end, a new organizational structure for the Ministry of Justice was introduced, albeit with delays, including a specialized financial unit to better investigate financial crimes and a state legal officer to strengthen the government's ability to defend its interests. The authorities have published a code of ethics and conduct based on a model provided by the World Customs Organization for customs personnel and explained it to them.

III. Objectives and Strategies of the 2006 Post-Conflict Program

16. The government's post-conflict program for 2006 is built on the reform progress to date, with a view to strengthening the economic recovery and improving living standards in the country. The main objectives are to restore macroeconomic stability through fiscal consolidation and to improve governance and transparency. These efforts are set in the context of a broader program that aims at strengthening security and improving basic infrastructure and the social sectors. The government is counting on its international and regional partners for their support in all these areas and is committed to improving its relations with external creditors.

17. With the return of democracy, the gradual reestablishment of security in the country, and the implementation of deeper reforms, economic growth should gradually strengthen to slightly above 3 percent in 2006. This assumes an increase in private sector activity as well as in donor support. Inflation is expected to return to its historical range of 2 to 3 percent, in

[2] These measures include the collection of a bond at the revenue collection office at the destination point to cover customs charges for merchandise not cleared at the border, and the effective implementation of the procedure to combat fraudulent CEMAC certificates of origin.

line with the CEMAC trend. Over the medium term, stronger economic growth is projected as improved security takes hold, the fiscal position strengthens, and significant donor assistance resumes, allowing for the rehabilitation of long-neglected or destroyed infrastructure.

A. Strengthening Security

18. The security situation has been steadily improving since March 2003, with the support of CEMAC peacekeepers and assistance from France. Outside the main cities, however, banditry remains a serious problem and lawless elements continue to harass the rural population, particularly in the north and northwest of the country. The government is committed to addressing this problem on two fronts. First, it is implementing the Special Project for the Reinsertion of Former Combatants and Community Support. The reinsertion process which is underway is scheduled to be completed by mid 2007. Second, with the support of France, the government is continuing to build up the country's armed forces. The government is strengthening military cooperation with its neighbors in order to be able to undertake joint operations against armed bands operating in border areas.

B. Improvement of the Economic and Financial Situation

Fiscal policy

19. The government is committed to fiscal consolidation, and has set an objective for the overall deficit on a commitment basis (including grants) in 2006 of 1.3 percent of GDP, which represents an improvement of about 1 percent over the result expected for 2005. This reflects a revenue increase of 0.5 percent of GDP in 2006 and strict control of the wage bill and outlays on goods and services. In addition, the government is committed to spending more on education, health, and basic infrastructure, provided that donor financing materializes.

20. On the revenue side, new tax provisions are now in force aimed at broadening the tax base. They are contained either in the 2005 Supplementary Budget or in the 2006 Budget Law. Among the key provisions are the following:

- increasing the VAT rate from 18 percent to 19 percent;
- establishing a withholding requirement that a 10 percent deposit on income tax or corporate tax owed by individuals or companies be paid at the time of import and/or purchase from domestic suppliers;
- introducing a licensing requirement for operators of motorcycle taxis;
- establishing a commercial rent tax, applicable to any business that pays rent;
- establishing a special tax on gambling;

- establishing a requirement that any sale of goods or services be recorded on an invoice.

21. The government emphasized strengthening the fiscal agencies to make them more effective. In the area of tax administration, the government will implement the following measures:

- Management of large taxpayers will be strengthened by systematically following up on delinquent taxpayers, and, in particular, ensuring effective tracking of taxpayers who have been sent a reminder and applying deterrent penalties to non-filers.

- Tax audits will be intensified, and more ambitious goals will be established as to the quantity and quality of audits. For 2006, a target has been set of at least 40 full audits and 200 ad hoc inspections (of which half are to be done by June 2006).

- Management of small and medium-sized businesses will be strengthened by updating tracking records in order to verify more effectively that these businesses have complied with all tax obligations, including VAT, and by bolstering the recovery procedure, while focusing on those businesses most likely to yield substantial tax revenues.

- Examination of returns will be enhanced to identify businesses to which the small enterprise flat tax (*impôt libératoire*) has been wrongly applied, by maintaining the target of at least 20 off-site examinations a year.

- The reliability and usefulness of the central taxpayer database will be improved by updating it, in particular by systematically retrieving "inactive" files in order to facilitate the automatic identification of noncompliant taxpayers and provide other financial agencies with a database that is updated regularly.

22. In the customs area, the government is committed to speeding up the pace of reforms, particularly those that were planned for 2004-05 but have still not been fully implemented. Additional efforts by the customs department in 2006 will include the following:

- continuing to strengthen the Douala office, particularly by providing a computer link with the Cameroonian one-stop window, by conducting ad hoc inspections in collaboration with Cameroonian customs, and by ensuring good communication between the Douala office and the transit management unit (CELGETRANS);

- migrating from the SYDONIA customs computer software to the SYDONIA++ software, in accordance with UNCTAD recommendations;

- building customs clearance zones at border posts, for clearing goods imported overland; and

- strengthening provisions related to the customs clearance of used vehicles to improve the collection of taxes on these imports.

23. Rising world oil prices have cut deeply into government revenues, since they have been absorbed entirely by the government's budget. Because this could compromise government finance objectives for 2006, including the regular payment of civil service wages and salaries, as well as priority spending, the authorities have raised prices at the pump with a view to increasing revenues by some CFAF 2 billion. The government will make every effort to reduce consumption of oil products by the public administration. The authorities are aware of the importance of mitigating the consequences of these price increases on the most vulnerable segments of the population, and to this end are committed to increasing social spending in a targeted fashion. As well, the increase in the price of kerosene, an important item for the poor, has been limited to 10 percent. The government is looking to introduce a system whereby prices at the pump will vary in line with world prices, which will help accustom economic agents to fluctuations in oil prices.

24. On the spending side, the focus is on improving public expenditure monitoring and controls. To that end, the government will further limit spending effected outside the normal expenditure process. Given the excessively cumbersome expenditure commitment procedures, the authorities will make every effort to streamline them and enhance their transparency and efficiency. This will include the following measures:

- The issuance of Treasury promissory notes against deposit accounts of suppliers at the Treasury will be limited and made secure, notes in circulation will be tracked, and the prohibition on certain expenses not allocated to line items will be monitored closely.

- All payments of expenses by means of automatic debits from Treasury accounts held with banks not initiated by the Treasury will be prohibited, except for repayments of bank debt of the government.

- The final accounting for the 2004 fiscal year will be completed; and, more generally, the Treasury budget accounts for each year are to be closed not later than February of the following year, with all expenses not authorized during the fiscal year being regularized.

- Mobile telephone operators will be instructed to freeze all government cell phone services except those of the Head of State and members of the government, and to reactivate them on a case-by-case basis. A system of prepaid meters will be put in place to ration the public administration's use of electricity and telephone services.

- Simplified expenditure procedures will be introduced.

25. To promote the concept of a unified Treasury, the government will continue to close government bank accounts that are deemed unnecessary and will provide justification for those that are kept open. The balances of the closed accounts will be deposited in a Treasury account opened at the central bank, which will facilitate monitoring, ensure good governance, and better safeguard resources.

26. Containing the wage bill is central to the authorities' fiscal consolidation strategy. The measures mentioned in paragraph 12 should result in the total wage bill being reduced

by an amount equal to approximately 1 percent of GDP, which would bring it down to a level consistent with the government's available resources. The government is committed to implementing reforms aimed at maintaining better control of the wage bill, particularly regarding the cleaning up of civil service records. The census findings will be verified, with UNDP support, to identify other potential anomalies. By March 2006, civil servants' academic credentials will also be verified, to help identify instances in which civil servants may have been assigned improper grades. As far as retired staff are concerned, a census is under way to identify by March 2006 errors in pension benefits. The resulting savings in pension payments should help offset the increase in the total pension bill following the retirement of 1,400 government employees in 2005.

27. With regard to the management of the Payroll Office and civil service records, an assessment has been carried out of the work already done on the FURCA. The differences found between the FURCA database and the ONI database were not insignificant. Therefore—with the support of donors, chiefly the UNDP and the World Bank, and making use of the findings of the recent census—the authorities, working on the basis of an international consultant's recommendations, will undertake the necessary measures to clean up and secure the records. The authorities are asking donors urgently to continue their technical assistance so that this work can be done. In the meantime, the authorities will ensure that data processing for these files will be carried out by the Payroll Office, and no longer by the ONI. The authorities will maintain the hiring freeze through 2006.

28. The government is committed to finding a lasting solution to the problem of its domestic arrears, particularly those owed to the civil service and the private sector. A committee has been formed to verify the stock of arrears and its composition. With the assistance of an international consultant financed by the World Bank, progress has been made in determining which claims on the government are legitimate and which are unfounded. By June 2006, the authorities will submit the results of this verification to an internationally recognized auditing firm for validation; and in the middle of 2006, following dialogue with the various social partners, the government will aim to take a decision on an explicit strategy for clearing these arrears. In the meantime, the government will strive to honor its current obligations and avoid the accumulation of new arrears in 2006.

Monetary and Financial Policies

29. The government has agreed with the Bank of Central African States (BEAC) on postponing until January 2006 the first repayment of the exceptional advance granted in 2004 with the guarantee of other member countries of the CEMAC. In order to avoid increasing the net credit of government to the banking system and augmenting the government's debt burden, the government will endeavor to ensure that any new support from member states of the BEAC will be in the form of a grant. Should it be in the form of a loan, however, support from donors should be used in part to reimburse the amount of the loan.

30. The authorities are closely monitoring the situation of the banks, especially their observance of the prudential ratios established by the Central African Banking Commission

(COBAC). More specifically, one local bank has significant weaknesses in its balance sheet and is in compliance with only one prudential ratio. The authorities will ensure that this bank is recapitalized by existing and new shareholders, and is brought into compliance with prudential standards Overall, the government commits itself to improving the legal environment so that banks can recover loans. Weaknesses in the banking system also affect the microfinance sector, which is dominated by the credit cooperative CMCA (Crédit Mutuel de la Centrafrique). To minimize the risk associated with CMCA deposits, the monetary authorities will consider mechanisms to allow the CMCA to open an account with the central bank. Efforts are under way, with UNDP support, to rehabilitate other microfinance structures with a view to developing the sector, particularly outside the main cities.

External Sector and Debt

31. The Central African Republic continues to face serious financial constraints and is not servicing its external debt, with the result that external arrears continue to accumulate, including to multilateral creditors. The government is holding discussions with its creditors with the aim of consolidating its debt and finding a global solution to the arrears problem. Efforts with creditors are continuing to reconcile data on the stock of debt outstanding and arrears, and significant progress has been made to date. The government will no longer contract or guarantee any nonconcessional debt and is aware of the need to obtain financial assistance in the form of grants. It is determined to improve its debt management capacity and in this connection is seeking donor assistance for new debt management software, as the program it is currently using has become obsolete.

32. The government is committed to removing obstacles to international trade. In this regard, it will ensure compliance with all CEMAC trade regulations, in particular those relating to the regional Common External Tariff (CET). The government will enforce strict compliance with the tariff classification for imported goods according to the four categories of the CET. Recognizing the importance of further trade liberalization, particularly for a land-locked country, the government will take up the issue of the reduction of external tariffs at the regional level.

33. The government recognizes the considerable obstacles faced by exporters in accessing seaports in neighboring countries. Transport costs are amplified by the deterioration of infrastructure, banditry, and illegal roadblocks set up by military personnel on the main highways. The government intends to eliminate the roadblocks, restore the rule of law on the roads, and rehabilitate the transportation infrastructure, with financial backing from donors and, in the case of regional highways, in cooperation with other CEMAC countries.

C. Governance, Transparency, and Structural Reforms

34. The government is committed to tackling corruption and promoting good economic governance in order to create a more favorable business climate for the private sector and lay

the necessary foundations for economic recovery. One of the pillars of this strategy will be assuring greater transparency in the government's activities.

Public Administration

35. The government intends to equip the recently established State Legal Agent and the special section (financial unit) in the Ministry of Justice with the necessary resources to accelerate the prosecution of corruption cases. A full list of the corruption cases now underway has already been published. The government will strengthen the administrative penalties imposed on government employees who are implicated in cases of misconduct and corruption. In the spirit of increasing transparency, the government will, by March 2006, set up a website on which it will regularly publish budget execution data under the cash-flow plan, indicators of activity in the forestry and diamond sectors, information on the awarding of public contracts, and information on progress made in the fight against corruption. In addition, Transparency International and the UNDP recently conducted a survey on the perception of corruption in the country. The findings have been made public and show that corruption is widespread and most entrenched in the police force and gendarmerie, the customs administration, and the judiciary.

36. The government is committed to reforming the legal system and correcting its severe weaknesses. The priority is to improve the business climate for the formal private sector, including in the financial system where problems in enforcing contracts have contributed the prevailing high rate of nonperforming loans. The government will make every effort to ensure that the legal system is better able to guarantee the respect and the application of contracts.

37. To develop the private sector and attract investment, the authorities realize that it is essential to have a stable regulatory framework in place, particularly for business activity in the formal sector. The government is committed to consulting with economic agents before amending regulations, and not to cancel licenses granted to operators except in cases where the terms of the license have not been fulfilled (notably concerning the telecommunications sector). In addition, the authorities intend to revise the Labor Code to modernize it and make it more flexible.

38. The government has undertaken a review of the rules governing public procurement, which suffer from serious deficiencies, engender poor governance, and risk undermining investor confidence. In consultation with donors, the authorities are updating the Procurement Code, and will ensure that it fosters transparency and predictability and is in line with international best practices, while reducing the government's discretionary power. In the meantime, the government is committed to awarding all public contracts in conformity with current procurement procedures. In addition, the authorities will by April 2006 undertake an assessment of the work done by the firm responsible for the security of C.A.R. port revenue at Douala, and if the findings are unsatisfactory, will issue a call for tenders so that a new contract for doing this work can be awarded.

Sectoral Policies

39. Improving the management of the country's natural resources is a priority for the government. In the forestry sector, a new inspection company with an expanded mandate to secure government receipts commenced its work in May 2005. In an effort to better monitor revenue from the sector, the government has implemented a system of automatic issuance of revenue collection orders. The government has also begun the systematic application of penalties to companies that fail to submit their monthly report on production and export volumes by the due date specified in the Forestry Code.

40. In the mining sector, the government has awarded more than 50 exploration licenses in 2005, which should improve the prospects for the sector in the medium term. The government will continue to consider ways to reform the Mining Code to encourage potential investors in this sector. Recognizing that the significant undervaluation of diamond production and undeclared diamond exports are problems that have an impact on Treasury receipts, the government is determined to combat fraud while safeguarding competition in this sector. The authorities will suspend the minimum export levels applied to purchasing offices if, after three months, exports by the formal sector and tax receipts show a decline. The government is also committed to strengthening the practices of the Office of Diamond and Gold Valuation and Control (BECDOR), including the obtaining of information on the volume and value of C.A.R. diamonds traded in Antwerp. A revision of the valuation mechanism for diamonds is envisaged for early 2006. With regard to the Kimberley Process, the government is committed to strengthening its capacity in order to transfer the verification process to the public sector as soon as possible.

41. The government will continue to enhance transparency in the forestry and diamond sectors. It is committed to publishing monthly data on all companies doing business in these sectors, indicating the volumes produced and exported and the public receipts generated. Information will continue to be published on the awarding and cancellation of licenses.

42. The agricultural sectors suffered greatly during the conflict years and because of unfavorable developments in the world market. In light of their importance for economic growth, employment, and poverty reduction, the government intends to step up its support for these sectors. This support will focus on integrated rural development, in partnership with donors, without aiming to benefit any particular sector.

43. The authorities will endeavor to rehabilitate public enterprises whose financial and operational position has seriously deteriorated. To that end, they plan, by early 2006, to issue a call for bids for awarding the commercial management of the water authority SODECA to a private operator; a similar operation is planned for the electric power authority ENERCA by June 2006.

D. Social Sectors and Poverty Reduction Strategy

44. The health, education, and basic infrastructure sectors have been in dire straits for many years. As a result of support from nongovernmental organizations, the government has

initiated the resumption of services in rural areas by rehabilitating health clinics and schools and promoting the return of qualified social personnel. The government recognizes that much more is needed to achieve tangible improvement in social indicators. The participation of all donors is essential to mobilize the necessary resources in this regard.

45. The government has made significant progress in the preparation of the poverty reduction strategy paper (PRSP), notably since March 2004. With the support of the World Bank and other partners, the government will move forward on the work of consolidating the initial draft PRSP, which identified the high-priority sectors. A macroeconomic framework for the strategy, as well as details on participation and on monitoring and evaluation, still need to be worked out. The authorities believe that the PRSP must be a clear document with a limited number of programs, whose costs have been assessed and whose objectives have been fixed, in order to focus the attention of the government and donors on the country's priorities. The authorities are determined to finalize the PRSP in 2006.

IV. Technical Assistance

46. The technical assistance needs of the Central African Republic are enormous. The government will continue to work closely with its multilateral and bilateral partners to improve its administrative capacity in priority sectors, which include strengthening the tax and customs administrations, expenditure management and government accounting, and the verification of domestic arrears. Assistance will be urgently needed to better control and monitor the public sector wage bill. Given the weaknesses of the statistical apparatus in the C.A.R., the government will seek technical assistance in this area. For their part, the authorities have begun to redeploy staff internally in the Department of Economic and Social Statistics and Research to the units responsible for the national accounts, economic and social indicators, and government finances. In the social sectors, the government will need assistance to support the work of finalizing the PRSP.

V. Program Financing and Monitoring

47. Under the program projections, the financing gap for 2006 corresponds to the level of external debt obligations. The government is in close contact with its creditors to reach an arrears clearance agreement: in the meantime, external arrears continue to accumulate, with the exception of payments to the IMF which the government is firmly committed to honoring. However, in order to support the rehabilitation and economic recovery efforts, the authorities are asking the donor community—particularly the World Bank, the African Development Bank, United Nations agencies, the European Union, France, the United States, the People's Republic of China, and others—to finance investment projects in the infrastructure and social sectors, as well as to provide technical assistance. Given the dire situation in the country, the government has also requested budgetary support for priority spending in the social sectors to help restore public services. These expenditures have not been included in the budget and will only be effected if the requested assistance materializes , particularly from the European Union and France, as well as the resources available in the context of the IMF's emergency post-conflict assistance.

48. The quantitative objectives set for 2006 are summarized in Table 1, and the monitoring of fiscal, governance, and structural reforms will be carried out on the basis of Table 2. The quantitative indicators are defined in the attached Technical Memorandum of Understanding. The government will provide all necessary data to monitor the program, as indicated in the Memorandum. An IMF mission could visit Bangui, if necessary, in the first half of 2006 to assess progress under the program. If performance under the program during the first half of 2006 is satisfactory, the government will ask IMF staff to return in the third quarter of the year to begin negotiations on a successor program.

Table 1. Central African Republic: Authorities' Indicative Targets,
March 1– December 31, 2006
(In billions of CFA francs; cumulative from January 1, 2006; ceilings, unless otherwise indicated)

	End-March	End-June	End-September	End-December
	Objective			
Floor on total government revenue 1/	16.6	33.7	50.5	67.3
Wages and salaries 2/	8.8	17.5	26.3	35.0
Floor on narrow primary balance (cash) 3/	1.2	2.5	3.5	4.0
Net change in domestic arrears on wages and on goods and services 4/	0.0	0.0	0.0	0.0
Change in net claims of the banking system on the government	0.0	0.0	0.0	0.0
New nonconcessional external debt 5/	0.0	0.0	0.0	0.0
Memorandum items				
Customs receipts (cash basis)	5.9	12.2	18.9	25.8
Floor on narrow primary balance (payment order) 6/	1.2	2.5	3.5	4.0
Net change in domestic arrears 7/	0.0	0.0	0.0	0.0

1/ Including withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports.
2/ Including withholding taxes on government salaries.
3/ The narrow primary balance compares revenue on a cash basis (that is, excluding withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports) with total expenditure on a **cash** basis, excluding interest payments and foreign-financed investment and including treasury operations. Targets will be adjusted downward if external grants allocated to priority spending are above the projected amounts.
4/ Wage arrears (including unpaid pensions and bonuses) and arrears on goods and services excluding arrears on utility consumption. Arrears on goods and services include unpaid spending commitments vis-à-vis suppliers as well as deposit accounts of enterprises at the Treasury.
5/ Contracted or guaranteed by the government.
6/ The narrow primary balance compares revenue on a cash basis (that is, excluding withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports) with total expenditure on a **payment order** basis, excluding interest payments and foreign-financed investment and including treasury operations. Targets will be adjusted downward if external grants allocated to priority spending are above the projected amounts.
7/ Arrears on spending measured on a commitment basis.

Table 2. Structural Measures for 2006

Measure	Date
Revenue	
Strengthen the management of large taxpayers by systematically following up on delinquent taxpayers, and, in particular, ensuring effective tracking of taxpayers who have been sent a reminder and applying deterrent penalties to non-filers.	March 2006
Step up tax audits by setting more ambitious goals as to the quantity and quality of audits, to cover the taxpayer base more thoroughly. For June 2006, a target has been set of at least 20 full audits and 100 ad hoc inspections.	June 2006
Continue to strengthen the Douala office, particularly by providing a computer link with the Cameroonian one-stop window and by conducting ad hoc inspections in collaboration with Cameroonian customs.	June 2006
Install a copy of the SYDONIA++ customs computer software on a pilot basis, in preparation for a full migration from the SYDONIA software to the SYDONIA++ software.	June 2006
Strengthen the examination of returns to identify businesses to which the flat tax (*impôt libératoire*) has been wrongly applied, by maintaining the target of at least 20 off-site examinations a year.	December 2006
Cash-flow management	
Limit and secure the issuance of Treasury checks against deposit accounts.	March 2006
Close government bank accounts that are deemed unnecessary and provide justification for those that are kept open.	April 2006
Expenditure	
Identify any false academic qualifications presented by civil servants; detect any instances in which civil servants may have been assigned improper grades; and finalize the census of retired staff and adjust the payments database on the basis of the findings from the census.	March 2006
Fully implement the unified civil service database (FURCA), so that both the Ministry of the Civil Service and the Payroll Office are using the same database.	June 2006
Simplify the expenditure process including greater use of computerization.	June 2006

Measure	Date
Governance and transparency	
Publish monthly data, with a time lag of not more than six weeks, on (i) the volume and value of forestry sector output produced, exported, and sold locally, together with the corresponding government revenue, and (ii) all licenses awarded or cancelled, the volume and value of diamonds produced and exported, and the corresponding government revenue.	Beginning in February 2006
Set up a website for publishing, on a regular basis, the government cash-flow plan, activity indicators in the forestry and diamond sectors, progress in the fight against corruption, and information on the awarding of procurement contracts based on the template agreed with the staff.	March 2006
Assess the work done by the firm responsible for the security of transit revenues at the port of Douala, and if the findings are unsatisfactory, issue a call for tenders so that a new contract can be awarded for doing this work.	April 2006
Submit the results of the verification of domestic arrears to an internationally recognized auditing firm for validation.	June 2006

CENTRAL AFRICAN REPUBLIC

Technical Memorandum of Understanding

January 12, 2006

49. This memorandum describes the quantitative and structural indicators for the program supported by the Fund's emergency post-conflict assistance policy. It also specifies the periodicity and deadlines for transmission of data to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

I. Quantitative Indicators and Adjusters

Quantitative indicators

50. The quantitative indicators are the following:

a. cumulative floors on total government revenue, including taxes on wages, earmarked revenues, and duties and taxes on projects;

b. cumulative ceilings on the government wage bill, including withholding taxes;

c. cumulative floors on the narrow primary fiscal balance (cash basis);

d. cumulative ceilings on the net change in government domestic payment arrears on wages and goods and services;

e. cumulative ceilings set on the change in net banking system claims on the government, excluding the counterpart of the use of Fund resources; and

f. cumulative ceilings set on new nonconcessional external debt contracted or guaranteed by the government.

Memorandum items

g. cumulative floor on customs receipts (cash basis);

h. cumulative floors on the narrow primary fiscal balance (payment order basis); and

i. cumulative ceilings on the net change in government domestic payments arrears.

Definitions and computation

51. Unless otherwise indicated, the government is defined as the central government of the Central African Republic and does not include local governments, the central bank, or any public entity with autonomous legal personality not covered by the government consolidated financial operations table (*tableau des operations financiers de l'État*—TOFE).

52. Government revenue is valued on a cash basis and includes offsetting operations in current revenue and expenditure. Revenue is shown in the TOFE and includes earmarked revenue, checks for project-related customs duties, and withholdings from civil service wages and salaries actually paid. Revenue for 2004 was estimated at CFAF 55.8 billion, broken down as follows:

Fiscal revenue (TOFE basis, in billions of CFA francs)	55.8
Cash receipts, including offsets (customs, tax, and treasury directorates)	47.4
Other revenue	8.4
Earmarked revenue (road fund, contributions to the Central African Economic and Monetary Community (CEMAC), hospitals, and livestock fund (FIDE))	2.5
Withholding taxes on government salaries and wages	4.4
Customs duties on projects (treasury checks)	1.5

53. The government wage bill is valued on a commitment basis for all staff (permanent and temporary) of the civil service and the armed forces, including withholdings on behalf of the tax general directorate. The wage bill covers wages, salaries, and bonuses for the current period, even when pay advices for the period are not issued by the payroll directorate, owing to the payment lag. The 2004 wage bill was estimated at CFAF 38.9 billion.

54. The narrow primary fiscal balance on a cash basis is calculated as the difference between government revenue valued on a cash basis (excluding earmarked revenue, withholding taxes on government salaries and wages, and project-related customs duties) and primary government expenditure, which is total government expenditure excluding interest payments and externally financed investment, and including treasury operations, valued on a cash basis.

55. The net change in government domestic payments arrears on wages and purchases of goods and services corresponds to unpaid salaries, wages, pensions, and bonuses of civil servants and other government employees and to unpaid payment orders to suppliers of goods and services during the period. This change corresponds to a net reduction of arrears when the amount is negative and a net accumulation of arrears when the amount is positive.

The net change in government domestic payments arrears on purchases of goods and services includes the deposit accounts of enterprises at the treasury resulting from unpaid expenses on goods and services supplied, and excludes unpaid government's utility consumption.

56. The end-of-period stock of net claims of the banking system on the government, excluding the counterpart of the use of Fund resources, is valued in accordance with the accounting framework currently used by the Bank of Central African States (BEAC). As of December 31, 2004, these claims amounted to CFAF 41.670 billion, broken down as follows:

Net banking system claims on the government, excluding the counterpart of the use of Fund resources (in billions of CFA francs)	41.670
Statutory advances from the BEAC	15.540
Extraordinary advances from the BEAC	9.574
Consolidated debt owed to the BEAC	14.552
Minus: deposits held with the BEAC	2.171
Debt owed to commercial banks	5.009
Minus: deposits with commercial banks	0.834

The change in net claims of the banking system on the government as of the date for the quantitative indicator is defined as the difference between the stock at the date indicated and the stock on December 31, 2005. The coverage implies a definition of government that is broader than the definition given in paragraph 3 and includes public institutions.

57. The indicators for external debt are cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government.

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

a. This indicator applies not only to debt as defined 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) 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.

b. Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the initial date of disbursement, 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 50 percent (that is, a grant element of at least 50 percent). 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. Purchases from the IMF are excluded from this limit.

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

60. Customs receipts are defined as revenue collected by the customs general directorate on a cash basis, and including offsetting operations in current revenue and expenditure, but excluding earmarked revenue, and customs checks for project-related customs duties.

61. The narrow primary fiscal balance on a payment order basis is calculated as the difference between government revenue valued on a cash basis (excluding earmarked revenue, withholding taxes on government salaries and wages, and project-related customs duties) and primary government expenditure, which is total government expenditure excluding interest payments and externally financed investment, and including treasury operations, valued on a payment order basis. Government expenditure on a payment order basis includes all expenditure for which payment orders have been issued by the budget general directorate in the Ministry of Finance and Budget; automatic expenditure (such as wages and salaries, pensions, utilities, and other expenditure for which payment is

centralized); expenditure by means of offsetting operations; and budgetary contributions in the form of treasury checks in payment of project-related customs duties. In the absence of appropriate documentation indicating the amount of expenditure for which payment orders have been issued, the amount indicated in the cash-flow plan by way of a projection of payment orders will be used for program assessment. Nonetheless, if the primary expenditure on a cash basis is higher than the amount indicated in the cash-flow plan, the former will be used in the computation of the narrow primary balance. Narrow primary expenditure for 2004 was estimated at CFAF 74.4 billion, broken down as follows:

Narrow primary government expenditure (TOFE basis; in billions of CFA francs)	74.4
Current expenditure	66.7
Wages and salaries	38.9
Goods and services	17.8
Subsidies and transfers	10.0
Domestically financed capital expenditure	7.7

62. As a consequence, the narrow primary fiscal balance for 2004 was CFAF-18.6 billion.

63. The net change in government domestic payments arrears corresponds to the difference during the period between payment orders agreed by the government, excluding external debt operations, and payments made. This change corresponds to a net reduction of arrears when the amount is negative and a net accumulation of arrears when the amount is positive. Government payment orders include all expenditure for which payment orders have been approved by the budget general directorate in the Ministry of Finance, automatic expenditures (such as wages and salaries, pensions, utilities, and other expenditures for which payment is centralized), and payment orders approved by project managers. Government payments include cash payments by the treasury and offsetting operations.[33] The net change in government domestic payments arrears is estimated by its components, including the net balance of central government accounts, excluding the treasury accounts; this amount should also ensure a balanced supply and use of funds in the consolidated government flow of funds table (TOFE). For 2004, the net change in arrears was CFAF 2.9 billion (that is, a net increase), broken down as follows:

[33] The net change in arrears does not necessarily correspond to arrears in the legal sense. The calculation described here also takes into account temporary operations, such as net flows of cash operations, as well as temporary discrepancies in the data on net banking system claims on the government as reported by the government and by the BEAC.

Net change in domestic payments arrears (in billion of CFA francs)	2.9
On current expenditures	7.1
Of which: wages and salaries	3.8
On domestic debt	-3.7
Treasury operations	-0.5

Adjusters

The following adjusters will be in effect:

64. To the extent that additional (nonprogrammed) external budgetary assistance becomes available, the authorities will use these resources to:

a. reduce the government's external payments arrears; and/or

b. reduce net claims of the banking system on the government, excluding the counterpart of the use of Fund resources; and/or

c. execute priority public expenditure.

65. The floors on the narrow primary balance (both cash and payment order basis) will be adjusted downward to reflect budgetary support from donors used for executing priority expenditure. The ceiling on the change in net claims of the banking system on the government will be adjusted downward in the event that external budgetary assistance is not used for the amounts specified in paragraph 17.

66. The ceiling on the change in net claims of the banking system on the government will be adjusted downward to reflect borrowing from banks or other financial institutions outside the Central African Republic, or domestic financial institutions that do not appear in net claims of the banking system on the government.

II. Structural Indicators

67. The structural indicators are listed in Table 2 of the memorandum of economic and financial policies. The definition of the terms in the table are as follows:

- Following up on delinquent taxpayers involves sending the appropriate notices and applying and collecting the appropriate penalties according to the relevant regulations.

- Inspection and examination (in relation to the effort to strengthen the Douala office and to strengthen the examination of tax returns) are defined as critical reviews of existing practices in order to identify and correct anomalies.

- Limit and secure the issuance of Treasury checks against deposit accounts refers to i) controlling and tracking the stock of Treasury checks including by prohibiting payment of these checks outside the capital Bangui, and ii) monitoring the deposit accounts to ensure that the balance remains below a ceiling agreed with staff. The issuance of checks against these accounts will stop when the ceiling is broken and until the balance declines under the ceiling.

- Unnecessary government bank accounts are those that are not in place for statutory reasons or because of agreements with external donors.

- Simplifying the expenditure process entails measures to streamline the process by better defining the commitment and payment stages of the process and clearly separating them, and reducing redundancies of controls in each stage.

- Publication is defined as making information available to the public i) via a functional internet site accessible to the press, news agencies, and non-governmental organizations or directly to those entities in the absence of a functional internet site, ii) according to a pre-determined calendar and, iii) using templates agreed with IMF staff. This can include information made available by the General Secretariat of the government.

III. Program Monitoring

68. Monitoring of the quantitative and structural indicators will be the subject of a monthly evaluation report, prepared within six weeks of the end of each month. This document, which will be based on information available within the shortest timeframe as indicated below, will assist with assessing performance in terms of the program's quantitative and structural objectives.

69. The Standing Technical Committee responsible for program monitoring (CTP-PAS) will regularly report the data and other information required for program monitoring to the IMF's African Department by fax or e-mail, including the following information:

a. a comprehensive monetary survey, central bank survey, and commercial bank accounts (within six weeks);

b. the net claims of the banking system on the government (within ten days of the end of the month);

c. table on budgetary cash flow (within four weeks);

d. table on operational cash flow (within four weeks);

e. government budget operations (TOFE);

f. end-of-period stock of domestic arrears (within four weeks);

g. end-of-period stock of external arrears (within four weeks);

h. breakdown of cash outlays for current expenditure and for domestically financed capital expenditure (within six weeks);

i. report on government spending in the priority sectors (health, education, social affairs, and rural development) through to cash payments by the treasury (within six weeks);

j. monthly table with data on budgetary commitments, payments orders, and cash payments (with a view to reinforcing budget execution and the monitoring of arrears); the first table will start on February 15 with the data for January 2006. Starting from February, the maximum period between the base month and the date at which the table is provided will be four weeks;

k. breakdown of revenue office receipts, including the monthly report on the reconciliation of customs payments with data from the import certification agency (within four weeks); and details of any prepaid tax receipts (within six weeks);

l. breakdown of external debt-service and external debt arrears, including by interest and principal, and by principal creditor (within four weeks);

m. the amount of new nonconcessional external debt contracted or guaranteed by the government (within four weeks);

n. actual disbursements of nonproject external financial assistance, and external debt relief granted by external creditors (within four weeks);

o. indicators to assess overall economic trends, such as the household consumer price index (within four weeks);

p. import and export flows (in volume and value), activity in the forestry sector and industry on a quarterly basis (within six weeks);

q. a review of the implementation of structural measures, including explanatory notes and supporting documentation on each of the measures in table 2 (within six weeks); and

r. A copy of all information published in line with paragraph 19 (within four weeks).

70. In addition, the Ministry of Finance will provide the IMF's African Department with the following specific information, to be sent not later than 21 days after the end of the respective month:

a. a monthly report on the structure of petroleum prices; and

b. a bimonthly report on the implementation of specific measures at the tax, customs, budget, and treasury general directorates, as recommended by technical assistance missions of the IMF.

71. The Ministry of Finance will also provide the IMF's African Department with any information deemed necessary or required by Fund staff for program-monitoring purposes.

Central African Republic: Relations with the Fund

(As of November 30, 2005)

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	61.12	109.73
	Reserve position in Fund	0.16	0.29

III.	**SDR Department**:	SDR million	%Allocation
	Net cumulative allocation	9.32	100.00
	Holdings	0.13	1.40

IV.	**Outstanding Purchases and Loans**:	SDR million	%Quota
	PRGF arrangements	19.54	35.07
	Emergency Post-Conflict Assistance	5.57	10.00

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (In millions of SDRs)	Amount drawn
ESAF/PRGF	07/20/1998	01/19/2002	49.44	24.48
Stand-By Arrangement	03/28/1994	03/27/1995	16.48	10.71
SAF	06/01/1987	05/31/1990	21.28	21.28

VI. **Projected Obligations to the Fund**
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	0.00	4.10	5.59	7.68	5.34
Charges/interest	0.05	0.59	0.57	0.47	0.34
Total	0.05	4.69	6.16	8.15	5.67

VII. **Implementation of HIPC Initiative:** Not Applicable

VIII. **Safeguards Assessments:**
The Bank of the Central African States (BEAC) is the regional central bank of 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.

Exchange Rate Arrangement

The Central African Republic is a member of a monetary association with a common central bank, the Bank of Central African States (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 Jan 9, 2006, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 786.33.

Article IV Consultations

The Central African Republic is on the standard 12-month cycle for Article IV consultations. The last Article IV consultation was concluded on October 24, 2005.

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 improve tax administration.
Feb-Dec 2005	FAD	To assist the authorities improve public expenditure management.
May 2005	FAD	To follow up on implementation of tax administration reforms and review the progress made since the end of the three-month assignment of FAD tax expert.
Jun-July 2005	STA	To assist the authorities improve government finance statistics.
July 2005	STA	To assist the authorities improve real sector data.

Resident Representative

The Fund's office in Bangui was closed in September 2003.

Central African Republic: Relations with the World Bank Group

(As of January 10, 2006)

1. World Bank assistance to the Central African Republic (C.A.R.) has been disrupted by the recurrent conflicts during much of the past decade. The C.A.R. has been under suspension of IDA disbursements since January 2002, with protracted arrears of approximately US$49 million as of December 15, 2005. The presidential and parliamentary elections in 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 coming months is to help the C.A.R. 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 and increased volumes of donor financing.

The Bank Group strategy in lending and technical assistance

2. Currently, there is one approved operation in the portfolio in support of HIV/AIDS prevention and control. The Bank approved a US$17 million credit in December 2001, to support combating the spread of HIV/AIDS in a country where the prevalence rate is estimated at 13.5 percent.[34] An exception on suspension of disbursements was made for the project preparation facility (PPF) of the HIV/AIDS project. To date, three PPFs totaling US$1.35 million have been fully disbursed. The Bank has approved a fourth PPF advance (US$650,000) and the effectiveness date for the IDA credit has been extended until March 2006. Implementation of the PPFs has continued satisfactorily.

3. A Country Re-Engagement Note was presented to the Board in July 2004. It is centered on two building-blocks: (i) supporting a smooth transition by addressing urgent governance and security issues; and (ii) improving delivery of social services. The first building-block focuses on economic management, demobilization and reintegration of ex-combatants, and providing support for leadership capacity-building. The second building-block focuses on activities on HIV/AIDS, and assistance in the education and health sectors. Activities in these areas during the transition were supported through a grant of US$4 million from the LICUS Trust Fund.

4. The above LICUS Trust Fund allocation has already been fully committed and implementation will be completed soon. A second LICUS grant will be envisaged in the first semester of 2006, that would deepen the reforms and activities already undertaken in the area of public finance management and governance, and enhance the delivery of social services to rural populations, including through community driven development initiatives.

[34] The 2005 UNDP Human Development Report.

IMF-World Bank collaboration in specific areas

5. The World Bank has worked closely with the IMF on the reform program in the C.A.R., and generally shares the same views on policy issues. There is broad agreement on the core reform program in the C.A.R., 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.

Table 1: Bank-Fund Collaboration

Area	Lead Institution
1. Fiscal area	
Public expenditure management	IMF/World Bank
Tax administration	IMF
2. Governance	
Transparency efforts	IMF
Natural resources 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 there is no direct IMF involvement

6. The Government has advanced in its preparation of the full PRSP, with assistance from UNDP. The Bank is working closely with the UNDP and Government on the PRSP process, and has scaled up its support 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.

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 $9.6 million in April 2004. The project is funded entirely through the Multi-Donor Trust Fund (MDTF) of the Multi-Country Demobilization and Reintegration Program (MDRP), and is expected 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. Project implementation was slowed by the election process, but supervision will be stepped up to ensure concrete results in the field.

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

8. 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 has prepared a set of Policy Notes, focusing on key thematic areas including security, natural resource management, social sectors and public finance. A draft of the Policy Notes has been shared with the authorities, and provides an assessment of the current situation with a view of designing a framework for the country's recovery and longer-term development. The IMF has a strong interest in the financial sector from a macroeconomic perspective, 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.

Areas of shared responsibility

9. 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.

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

10. The IMF has taken the lead on core macroeconomic and fiscal policies, on 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 C.A.R. public finance administration.

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

11. 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 Brendan Horton (202-473-5587) or Ali Khadr (202-458-7860).

Central African Republic: Statistical Issues

(As of December 29, 2005)

A. Outstanding Statistical Issues

1. The statistical database is minimally adequate for surveillance purposes, suffering from severe weaknesses due to years of negligence, inadequate resources, and destruction linked to various conflicts. On the basis of a 1999 multisector statistical mission, efforts were initiated to improve the national statistical system including through adopting the statistics law and setting up a National Statistical Board in 2001. The authorities also decided to participate in the General Data Dissemination System (GDDS). The conflicts of 2002 and 2003 prevented these efforts from bearing fruit, and the statistical production and dissemination deteriorated further.

2. Efforts were renewed more recently to revive statistical improvement plans. With the support of a statistics expert mission during January 26-February 13, 2004, the Central African Republic became a participant in the GDDS. Its metadata were first posted on the IMF's Dissemination Standards Bulletin Board (DSBB) on June 14, 2004. Plans for improvement are currently being updated by the authorities. Issues of source data, compilation, and dissemination affect all sectors, but are particularly severe in the real, government finance, and external trade areas.

Real sector

3. The compilation of national accounts is the responsibility of the Division of Statistics and Economic Studies (DSEE) of the Ministry of the Economy, Finance, Planning, and International Cooperation. A 1999 STA multisector mission found serious deficiencies in the institutional arrangements for compiling statistics which have likely worsened in recent years. There were several 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, there is a need to revise the wholesale and the consumer price indices because the limited coverage and the obsolescence of the weights used in compiling these indices cast serious doubts on their accuracy.

4. A statistical expert visited Bangui during July 11-22, 2005 and found a serious resource gap at the DSEE and recommended a number of measures, particularly redeployment of resources to strengthen the national accounts services. There is an urgent need to develop source data, by conducting surveys, particularly for the subsistence agriculture sector which represents almost 30 percent of the economy. In addition, estimates of activity in the informal sector are still based on a survey of the sector conducted in 1982. In the manufacturing sector, the estimation is based on an old and outdated list of enterprises, which likely overestimates activity given that many of these enterprises either do not exist anymore or have reduced their production considerably. There is also an urgent need to

update this list through a survey of enterprises and to reestablish the industrial production index.

Government finance

5. The Central African Republic does not report government finance statistics for publication in the *Government Finance Statistics* (*GFS) Yearbook* or *International Financial Statistics* (*IFS*). The 1999 multisector statistics mission noted that there was no single primary data source that could be used for the production of government finance statistics and that the available information was not communicated to the Ministry of Finance. This situation was confirmed by the government finance statistics mission that visited Bangui during January 26-February 13, 2004. The mission underscored that, in order to establish a systematic compilation of government finance statistics, substantial additional assistance will 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 the measures of domestic arrears. The mission made specific recommendations toward this objective, and a subsequent March 2004 FAD mission confirmed and reinforced these recommendations. Support in this area is provided by an FAD public expenditure management advisor currently stationed in the Central African Republic. The GFS mission that visited Bangui during June 19-July 7, 2005 reviewed recent developments and proposed an action plan for improving the Tableau des Opérations financières de l'État and the Treasury cash plan.

Monetary accounts

6. Monthly data for the Central African Republic, 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 31 percent of banknotes issued in the Central African Republic by the BEAC National Directorate remain in the territory, 47 percent circulate in Cameroon and about 16 percent in Chad, while currency in circulation in the Central African Republic includes some 10 percent of banknotes from Cameroon and 4 percent of banknotes from each of the Republic of Congo and Gabon.

7. Priorities include the need to adopt the new format for monthly reporting by the banks. Other perennial issues concern the accrual recording of interest, the treatment of nonperforming loans, and proper sectorization of public entities.

Balance of payments

8. 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 2003-04 are available from the national direction of the BEAC office in Bangui, and have been transmitted to the African Department. However, no data are transmitted to the Statistics Department, with balance of payments data published in the *International Financial Statistics Yearbook* only through 1994.

9. The October 1999 STA multisector mission provided a thorough assessment of the statistical needs in balance of payments statistics. Efforts have been made to address some of the problems identified by the mission, including training, compilation system, and 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 form, codification, etc). 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

10. External and domestic debt statistics are compiled by the Debt Directorate of the Ministry of Finance and Budget. The quality of data needs to be significantly improved and efforts are underway to verify with creditors the stock of external debt outstanding and of external arrears. To date, most of the multilateral debt data and 10 percent of the bilateral debt data have been reconciled. Similarly, domestic debt data are of very poor quality, in part linked to the difficulty of monitoring public expenditure on a commitment basis. A working group has been set up to establish, with the help of a World Bank consultant, the actual stock of domestic arrears. The Debt Directorate is currently seeking the funding and technical expertise to upgrade their debt data management software which has become severely outdated.

B. Technical Assistance Missions in Statistics (2000–Present)

Subject	**Date**
Government finance statistics	January–February, 2004
GDDS	January–February, 2004
Government finance statistics	June–July, 2005
Real Sector	July, 2005

CENTRAL AFRICAN REPUBLIC: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF DECEMBER 14, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Dec 2005	Dec 2005	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec 2005	Dec 2005	M	M	M
Reserve/Base Money	Oct 2005	Nov 2005	M	M	M
Broad Money	Oct 2005	Nov 2005	M	M	M
Central Bank Balance Sheet	Oct 2005	Nov 2005	M	M	M
Consolidated Balance Sheet of the Banking System	Oct 2005	Nov 2005	M	M	M
Interest Rates[2]	Oct 2005	Nov 2005	M	M	M
Consumer Price Index	Oct 2005	Nov 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Sept 2005	Nov 2005	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Sept 2005	Nov 2005	M	O	M
External Current Account Balance	Dec 2004	Nov 2005	A	A	A
Exports and Imports of Goods and Services	Dec 2004	Nov 2005	A	A	A
GDP/GNP	Dec 2004	Feb 2005	A	A	A
Gross External Debt	Sept 2005	Nov 2005	M	O	

[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 nonbank 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)

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/18
FOR IMMEDIATE RELEASE
January 30, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US$10.2 Million in Emergency Post-Conflict Assistance for the Central African Republic

The Executive Board of the International Monetary Fund (IMF) has approved a credit of SDR 6.962 million (about US$10.2 million) in Emergency Post-Conflict Assistance for the Central African Republic to continue the efforts begun under the first Emergency Post-Conflict Assistance-supported program (see press release 04/158 of July 23, 2004) to stabilize the macroeconomic situation, support the ongoing reform process, and catalyze external assistance.

Following the Executive Board's discussion of the request by the Central African Republic, on January 27, 2006, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, said:

"The stable political and security situation in the Central African Republic (C.A.R.) since the conclusion of the presidential and legislative elections last year is encouraging for the economic prospects of the country. The authorities are now in a position to focus firmly on economic and financial policy issues, which should enhance policy implementation in the period ahead. In this setting, the authorities have undertaken recently a set of strong corrective actions, particularly in the fiscal and governance areas.

"The government's program for 2006, supported by Emergency Post-Conflict Assistance (EPCA) from the Fund, focuses on the priorities of stabilizing public finances and strengthening governance. It is an important step in putting the country on the path of sustainable economic growth and normalizing relations with external creditors. It is to be hoped that the program will catalyze much-needed financial support and technical assistance from the donor community.

"Steady improvements in revenue performance will be central to stabilizing public finances. The measures already taken to increase revenue, notably the increase in petroleum taxes, and the value added tax rate, are commendable. Further actions to strengthen tax administration and combat customs fraud are necessary to broaden the currently thin tax base, and ensure that the state has the resources to meet its core expenditure needs. On the expenditure side of the budget, the measures to control the wage bill are encouraging, but it will be important to continue with efforts to contain wages, and strengthen public expenditure and treasury management.
The objective is to ensure that scarce public resources are channeled toward the country's priority sectors.

"The authorities' focus on improving transparency and further strengthening the judiciary is well placed. Progress in these areas is needed to enhance accountability in the public sector, and support private sector development. Continued progress on structural reforms, including liberalizing trade, helping the development of the financial sector, and reforming public enterprises, will also be essential to support the economic recovery over the medium term.

"The authorities have undertaken efforts to address the dire situation in the social sectors. Further actions by the authorities and substantial support from the international community will be needed to make significant gains in this area," Mr. Carstens said.

Statement by Damian Ondo Mañe, Executive Director for Central African Republic
January 27, 2006

I. Introduction

On behalf of my Central African authorities, I would like to express their deep appreciation to Management and staff for continued support and policy advice. In particular since July 2004, the Central African Republic has received valuable financial and technical assistance under the Emergency Post-Conflict Assistance (EPCA) policy that has contributed to bring back peace and improve the security conditions. Albeit with delays, commendable progress has been made during this period in the implementation of the program, especially in public finance management and structural reforms. Since last year's elections, which were widely recognized as peaceful and transparent, my authorities have redirected their priorities towards the rehabilitation and reconstruction objectives, and the achievement of macroeconomic stability, while continuing to enhance security. My authorities expect strong support from the international community to achieve these objectives.

My authorities recognize that the political and social situation remains fragile. They believe that the population's impatience with the difficult economic situation shown through recurrent strikes points out the need for tackling the challenges facing the country. Encouraged by the progress made during the last EPCA, in particular in the areas of public finance management and structural reforms, my authorities are fully committed to address the numerous challenges, including strong support for the rehabilitation of the private sector environment.

Recent Social and Economic Developments

Progress is being made in the implementation of disarmament, demobilization, and reintegration (DDR) program with the assistance of France and the Central African Economic and Monetary Community (CEMAC). In order to improve the security situation and stop residual banditry in northern and north-western borders, actions are being undertaken, including a better cooperation with neighboring countries and the reinsertion of identified ex-combatants.

It is worth noting that economic development has been positive in 2005, despite the capacity constraints and the difficult social environment. While still low, real GDP is estimated at 2.2 percent, against 1.3 percent in 2004 and -7.6 percent in 2003. Inflation remains subdued, and the external current account declined and the liquidity position of Central African banks improved.

Despite the improvement in the economic situation, program performance has been difficult and my authorities have taken additional measures to keep the program on track. On the revenue side, the VAT rate was increased by 1 percentage point and a deposit paid on goods imported by small and informal sector has been introduced. The most significant measure in this area is an increase in the specific tax on petroleum products which is expected to yield

0.25 percent of GDP annually. Also, several other reforms aimed at boosting verifications on domestic taxes, strengthening customs at the port of Douala in Cameroun and minimizing abuse related to the exemptions regimes have been introduced. In order to address the recurrent slippages and render the level of payroll consistent with the government's ability to honor its current domestic engagements, my authorities have undertaken many actions aimed at ensuring better control of the wage bill. The savings resulting from the implementation of these measures is expected to reach 1 percent of GDP on an annual basis. In addition, efforts to enhance transparency have been made through regular publication of information on fiscal revenue and expenditure, as well as on the allocation of permits in the mining and forestry sector.

II. The Program for 2006

The program for 2006 is focused on the consolidation of the favorable trend resulting from the implementation of EPCA program put in place in July 2004. The objectives aim to restore the macroeconomic stability through strengthening public finance and improving governance. Economic growth is projected at 3.2 percent, while inflation is projected to be in line with the CEMAC trend of 2 percent. Likewise, the external current account deficit is expected to decline slightly under 4 percent of GDP, confirming the progressive improvement observed since the start of EPCA in 2004.

Fiscal Policy

On the revenue side, the permanent measures adopted in 2005, in particular those pertaining to the VAT and petroleum products are expected to have their full annual impact in 2006. In addition to these actions, the authorities envisage administrative reforms aimed at improving tax audits, by increasing their number and ensuring the verification of documents filed by taxpayers. They also plan to strengthen tax recoveries, by enforcing sanctions and penalties. In addition, they will increase the control at customs border posts while focusing a greater attention on activities in Douala port.

Regarding expenditure, my authorities are convinced that, to be successful in their goal of solving the country's long standing macroeconomic instability, a key actions remains the strict control over the wage bill. In this connection, the authorities intend to consolidate the gains resulting from the wage bill reduction that occurred in the wake of civil census in 2005. Furthermore, the government has made the decision to freeze any recruitment in 2006. Other measures aimed at limiting spending outside the normal process, closing all remaining nonessential treasury accounts, and exerting a better control over the issuance of treasury checks, are planned.

My authorities believe that the implementation of these measures would enable them to meet the target of 1.3 percent GDP overall deficit which is consistent with the objective of restoring stability in public finance.

Governance, Transparency, and other Structural Reforms

My Central African authorities are committed to improving governance. The Selected Issues Paper of October 2005 pointed out that the quality of governance is a key-driving factor explaining the large drop in economic activity since 1960 in CAR as well as the poor performance of private sector. Taking into account this fact as well as the Board's recommendations, my authorities are making efforts to improve governance, through regular publication on budget execution, and awarding and revocation of permits in the mining and forestry sectors. In order to enhance transparency, the authorities are planning to establish in 2006 a government web site where information can be disseminated. With regard to the prosecution of corruption cases and the defense of the interest of the state, they have already appointed the state legal agent. Furthermore, they plan to tighten sanctions against public civil servants implicated in corruption. Finally, in consultation with their developments partners, including World Bank, they are preparing a new procurement code which would be consistent with international standards.

As regards other reforms, my authorities share the staff's view on the importance of structural reforms to enhance growth prospects. They are well convinced that the implementation of these reforms would help break with the past and put the economy on the path of macroeconomic stability and growth. In this context, several measures oriented towards the improvement of the climate for private sector development, the management of the country's natural resources, trade liberalization, and the deepening of financial intermediation are being adopted. Actions are also envisaged to increase control over smuggling in the forestry sector, and the enforcement of contracts.

Social Sectors

Despite the efforts made by the authorities in recent years to tackle the major problems hindering the improvement of economic conditions, the CAR's social indicators remain among the lowest in Sub-Saharan Africa. The authorities are well aware of the need for reversing this situation. They are focusing their efforts to finalize the PRSP in 2006, in collaboration with World Bank. They remain grateful to the NGOs and United Nations system for their invaluable assistance which has already contributed to improve the profile of these indicators.

External Debt

With the ratio of net present value of debt to exports estimated at 515 percent and the stock of external arrears reaching 27 percent of GDP, the debt burden **is** unsustainable. While continuing to make efforts to reconcile their data of debt outstanding and arrears with their creditors, the government is implementing its strategy with the view to restore macroeconomic stability, establish a strong track record of policy reform, and make progress on poverty reduction so as to pave the way to a future PRGF program and eligibility for debt relief under the HIPC initiative.

Donor Coordination and Technical Assistance

Given the extent of needs which all require an urgent response, my authorities have focused their priorities on tax and customs administration, public expenditure management (PEM), the judicial system, statistics, and the PRSP process. Taking into account the progressive improvement of the political and economic situation, the donor circle is widening steadily. While my Central African authorities welcome this evolution which reflects partly the improvement of its own credibility, they appeal for an acceleration of financial and technical assistance devoted to the CAR.

III. Conclusion

The Central African Republic has made progress since 2004 under the EPCA program. The authorities wish to focus their full attention on the economic recovery, with the aim of restoring macroeconomic stability. They have shown their commitment to move forward by pursuing sound macroeconomic policies, in particular in public finance management and the implementation of governance reforms.

My authorities also recognize that the economic and social conditions of the CAR economy are fragile and require the concerted efforts of the international community to move the country forward. The prospects for recovery in the CAR depend not only on the restoration of peace and security, but also on the acceleration of donor support. My authorities are aware of the enormous challenges facing the economy and are committed to implement firmly all the measures needed to reverse the situation. In this regard, the Fund's role will be critical. My authorities are hopeful that the post-conflict program would pave the way to a PRGF-program and lead to debt relief under HIPC initiative.