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Central African Republic: Staff Report for the 2009 Article IV Consultation and Fifth Review Under the Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waiver of Nonobservance and Modification of Performance Criteria, and Financing Assurances Review−Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Central African Republic.

The following documents have been released and are included in this package:

- The staff report Article IV Consultation for the Fifth Review Under the Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waiver of Nonobservance and Modification of Performance Criteria, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on October 1, 2009, with the officials of Central African Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 18, 2009. 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 Public Information Notice (Article IV).
- A Press Release summarizing the views of the Executive Board as expressed during its December 4, 2009 discussion of the staff report that completed the review.
- A statement by the Executive Director for Central African Republic.

The document(s) listed below have been released:

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

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

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Staff Report for the 2009 Article IV Consultation and Fifth Review Under the Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waiver of Nonobservance and Modification of Performance Criteria, and Financing Assurances Review

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

Approved by Seán Nolan and Dhaneshwar Ghura

November 18, 2009

Fund relations:	In December 2006 the Executive Board approved a three-year PRGF arrangement for the Central African Republic (C.A.R.) in an amount equivalent to SDR 36.2 million (65 percent of quota). C.A.R. reached the completion point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in June 2009. The Executive Board approved an access augmentation of an amount equivalent to SDR 8.355 million (15 percent of quota) in June 2008 and an amount equivalent to SDR 25.065 million (45 percent of quota) in June 2009. The fourth review under the PRGF arrangement was completed on June 29, 2009.
Mission discussions:	Program performance in 2009 was broadly satisfactory. An amount equivalent to SDR 11.455 million (20.6 percent of quota) will become available upon completion of this review.
Mission team:	Mr. Petri (head), Mr. Keller, Mr. Kinoshita, and Mr. Hitakatsu (all AFR). Mr. Ntamatungiro (resident representative) assisted, and a World Bank team participated.
Location and dates:	Bangui, September 17–October 1, 2009
Interlocutors:	President of the Republic General Bozizé; Prime Minister Touadéra; Minister of Finance and Budget Besse; Minister Delegate for Resource Mobilization Kadre; Minister Delegate in charge of Energy Mekondongo; National Director of BEAC Kéléfio; other senior officials; parliamentarians; and representatives of civil society, the press, donors, and the business community.

Contents Page

Tables

Appendix

Attachments

Appendix Tables

ACRONYMS

AfDB	African Development Bank
BEAC	*Banque des États de l'Afrique Centrale* (Bank of Central African States)
CEMAC	*Communauté Économique et Monétaire de l'Afrique Centrale* (Economic and Monetary Community of Central Africa)
DDR	Disarmament, demobilization, and reintegration
DSA	Debt Sustainability Analysis
EU	European Union
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program
GFMIS	Government Financial Management Information System
HIPC	Heavily indebted poor countries
LIC	Low-income countries
MEFP	Memorandum of Economic and Financial Policies
NFA	Net foreign assets
QB	Quantitative benchmark
PEFA	Public expenditure and financial accountability
PFM	Public financial management
PRGF	Poverty Reduction and Growth Facility
PC	Performance criterion
SB	Structural benchmark
SOE	State-owned enterprise
TMU	Technical Memorandum of Understanding
TSA	Treasury Single Account

Executive Summary

The Central African Republic (C.A.R.) has recorded modest economic growth in the post-conflict period (after 2004). Income per capita is starting to recover after years of decline. In 2008 and early 2009, a series of domestic and external shocks—unstable power supply, higher prices for imported commodities, and the global recession—slowed growth, accelerated inflation, and led to higher current account deficits.

Recent performance suggests a modest recovery, owing in part to the implementation of the government's reform program. Real GDP growth is projected to increase from 2 percent in 2009 to 3½ percent in 2010 with average CPI inflation slowing toward 2¼ percent. Recovery in external demand may take time, but the current account balance will improve in 2010 as aid flows rise.

Fiscal performance was broadly on track. The government continued its domestic revenue mobilization efforts, controlled spending, and cleared arrears, and largely refrained from expensive domestic borrowing. Fiscal structural reforms progressed, though with delays in some areas. Given pending elections and the challenging peace process, it will be important to sustain the reform momentum.

The 2009–10 fiscal program is still designed to support domestic demand, finance the peace process and the election, and mobilize more revenue. Domestic revenue in 2010 is expected to be stable at 10.5 percent of GDP, but expenditure is projected to increase moderately, resulting in a primary domestic deficit of 1.2 percent of GDP, up from 0.4 percent in 2009. Structural reform measures are targeted to supporting the macro-fiscal framework through better public financial management (PFM), strengthening policy implementation capacity, and addressing infrastructure supply bottlenecks.

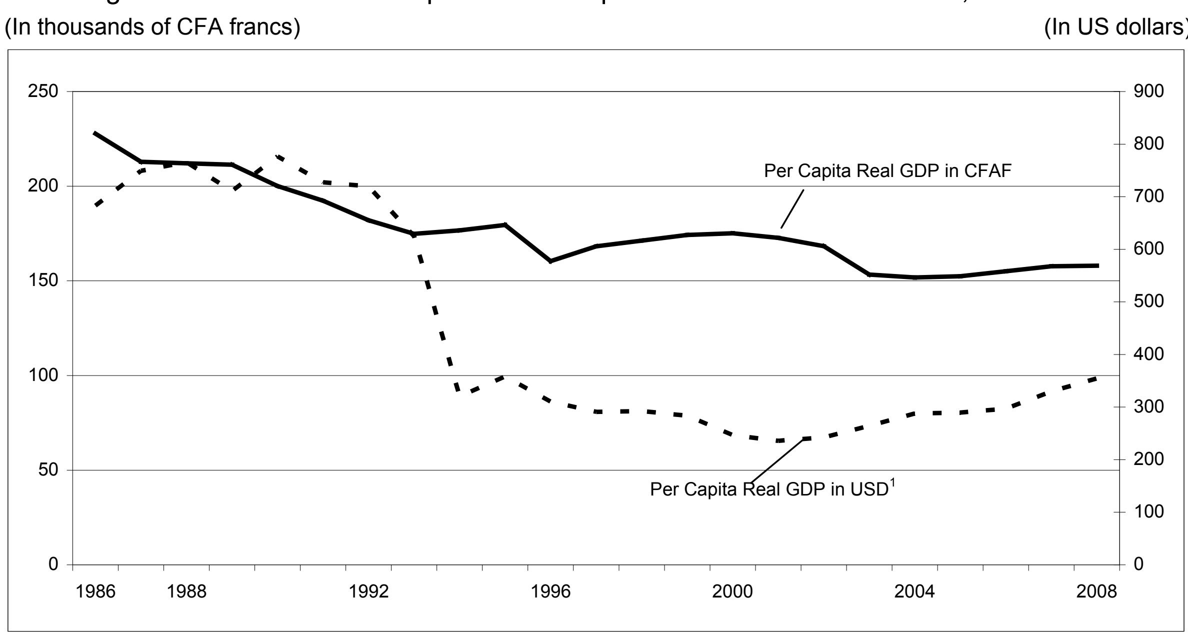
Medium-term policy should focus on measures to accelerate economic growth and strengthen competitiveness while keeping debt sustainable. Alleviating infrastructure bottlenecks and security concerns, improving the investment climate, and enhancing private sector access to credit are vital to growth prospects. Meeting the large infrastructure and development spending needs will require greater efforts to mobilize domestic revenues, prudent debt management, and increased donor support on concessional terms.

Staff recommends completion of the fifth review of the PRGF arrangement. Program implementation has been broadly satisfactory; implementation capacity is improving; and the policy framework is appropriate. Staff supports a waiver for the performance criterion (PC) on commercial bank credit to the government based on the corrective action taken.

I. INTRODUCTION

1. **The C.A.R. has recorded modest economic growth since conflict ended, but the economy remains vulnerable to a variety of shocks**. Despite CAR's rich endowment in natural resources and arable land, political instability since independence is still affecting economic performance. After declining for nearly two decades, per-capita real GDP only started to recover in 2003 when the conflict ended (Figure 1). Fund financial assistance and policy advice under the two Emergency Post-Conflict Assistance and the current Poverty Reduction and Growth Facility (PRGF) arrangements have helped economic recovery. In 2008, the economy was affected by both external and domestic shocks, and growth slowed, inflation accelerated, and the current account balance deteriorated (Text Table 1). Despite these shocks, however, the government has pursued its fiscal program of mobilizing domestic revenues, controlling spending, and clearing arrears. Improving the credibility of public financial management (PFM) has been a major achievement of the government's economic reform program.

Figure 1. Central African Republic: Per Capita Real GDP in 2000 Prices, 1986–2008



Sources: IMF staff estimates.
[1] Per Capita Real GDP in CFAF divided by the average exchange rate of the year.

2. **C.A.R. is slowly recovering from the global economic crisis.** Exports initially declined significantly, but demand for wood products and diamonds appears to be picking up. Tax revenue growth has slowed, but the tax-to-GDP ratio continues to head upward. Insufficient resources, particularly in the form of grants, make it hard for C.A.R. to implement its poverty reduction strategy.

Text Table 1. Central African Republic: Selected Macroeconomic Indicators, 2004–08
(Percent of GDP, unless otherwise indicated)

	2004	2005	2006	2007	2008
Real and external sectors					
Real GDP (annual percentage change)	1.0	2.4	3.8	3.7	2.2
Consumer prices (period average, annual percentage change)	-2.2	2.9	6.7	0.9	9.3
Current account (excluding grants)	-6.9	-8.6	-8.3	-9.8	-13.8
Fiscal aggregates					
Total revenue (excluding grants)	8.3	8.2	9.5	10.3	10.4
Total expenditure, *of which:*	-13.9	-16.9	-13.9	-13.1	-15.5
Capital expenditure	-2.7	-5.4	-4.9	-3.6	-4.5
Accumulation of domestic arrears (- equals repayment)	0.4	1.3	-2.6	-1.7	-1.2
Overall budget balance (excluding grants)	-5.6	-8.7	-4.4	-2.8	-5.1
Of which: domestic primary balance	-2.8	-3.6	0.4	1.1	0.1

Sources: Central African authorities; and IMF staff estimates.

3. **Peace and the electoral process are advancing**. However, the disarmament, demobilization, and reintegration (DDR) program to consolidate the peace process following the inclusive political dialogue has been slow to start, and appointment of the Independent Electoral Commission was delayed. Some external financing from the UN and CEMAC has been secured and integrated into the revised 2009 budget; more is needed to fully finance the DDR process and the general elections in early 2010.

4. **The government intends to step up structural reforms to foster medium-term growth**. Better PFM, reduced customs exemptions, streamlined VAT refund procedures, and strengthened tax audits are among the reform priorities. The next reform phase will focus on full implementation of the government financial management information system (GFMIS) and on liquidity management. To enhance growth prospects, the authorities need to promote private sector development and mobilize additional donor support for infrastructure rehabilitation, particularly in the energy sector.

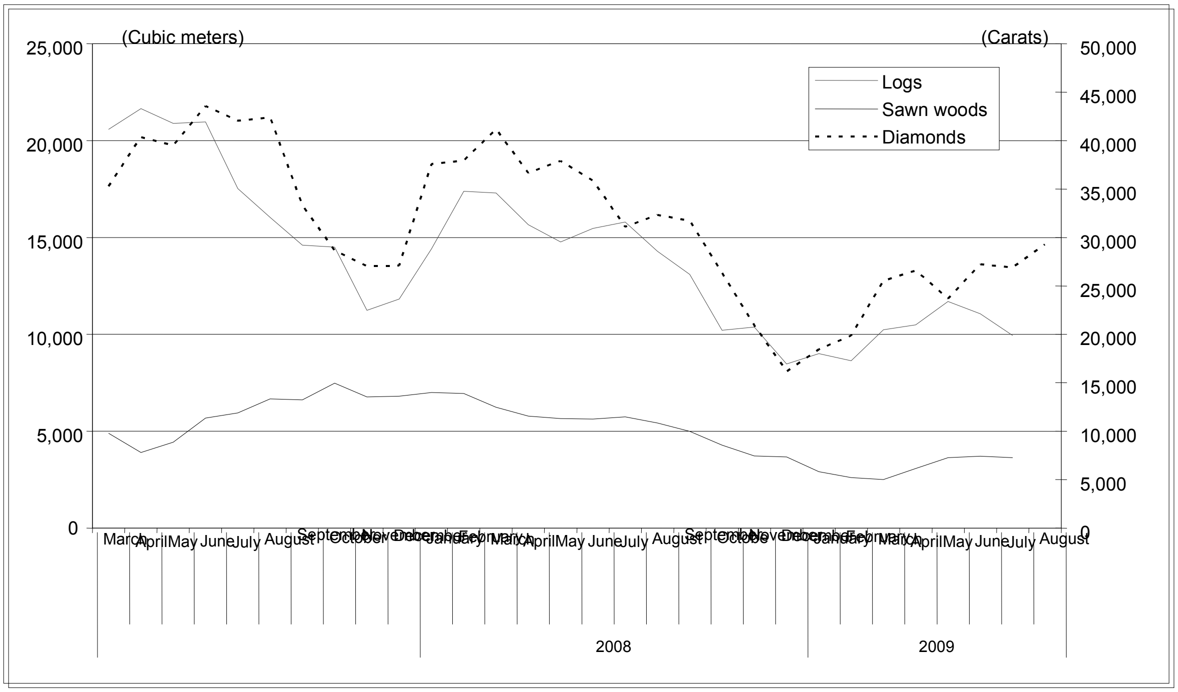
II. Economic Developments and Program Performance

A. Recent Developments

5. **The C.A.R. economy is now bottoming out**. Exports for wood products and diamonds are pointing upward, although volumes are still far below those of 2008 (Figure 2). Thanks in part to lower timber taxes, all forestry companies stayed in business, helping to sustain production capacity and employment. Real GDP growth in 2009 is expected to be 2 percent; it was 2.2 percent in 2008 (Figure 3). Inflation year-on-year fell to 1.7 percent in September as food price increases moderated; the average CPI is expected to slow to 3½ percent in 2009, from 9¼ percent in 2008.

Figure 2. Central African Republic: Export Volume of Main Commodities, March 2007—2009[1]

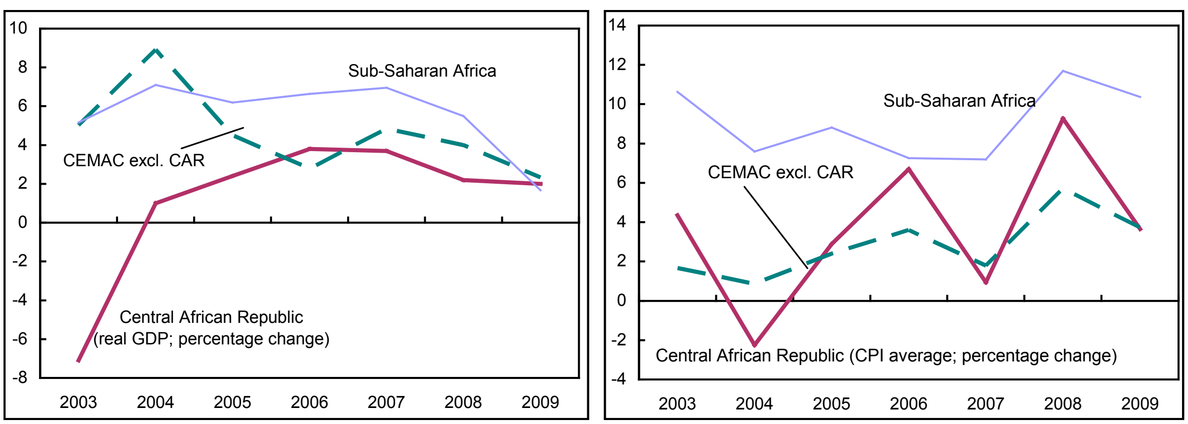
Exports of wood products and diamonds fell by more than one-third year-on-year in volume terms in early 2009, but diamonds are now picking up.



Source: C.A.R. authorities; and IMF staff estimates.
[1] 3 month average.

Figure 3. Central African Republic: Growth and Inflation Developments, 2003–09

Growth is stabilizing at a lower level following the global crisis; and inflation abates in line with CEMAC.



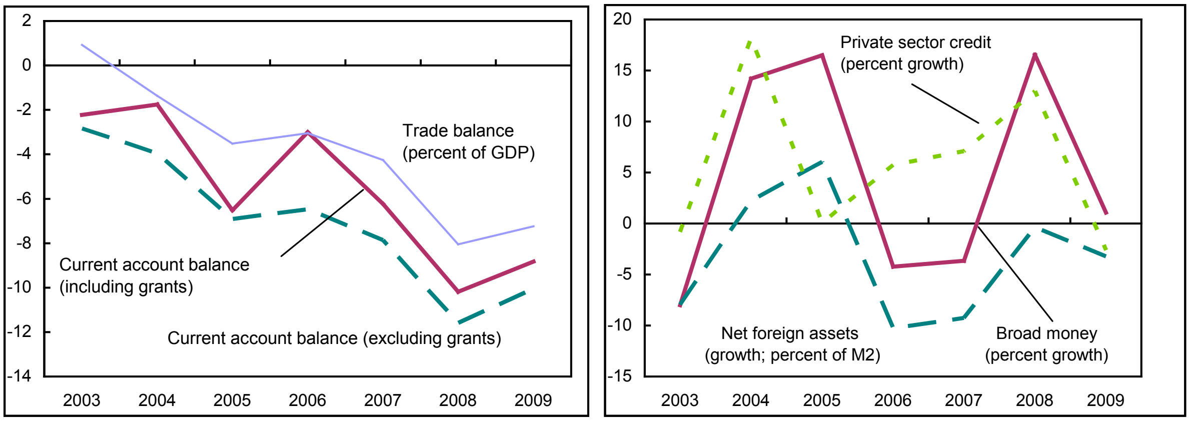
Sources: C.A.R. authorities; and IMF staff estimates.

6. **The external current account is expected to improve in 2009**. The current account deficit worsened by about 4 percentage points to 10 percent of GDP in 2008. It is expected to reverse moderately in 2009, reflecting improvements in the terms of trade—favored by rebounding diamond prices—and lower oil import volume following the sale of the large oil

reserves accumulated last year (Figure 4). Gross official reserves are projected to increase as a result of the SDR allocation and the augmentation of PRGF access. Broad money is expected to increase by 1 percent because private sector credit demand is weak.

Figure 4. Central African Republic: External and Monetary Developments, 2003–09

The current account deteriorated in 2008, but is strengthening now; money demand reflects weak private sector credit.



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

B. Program Performance and Outlook for 2009

7. **Fiscal performance was in line with the program**. All performance criteria (PCs) but one were met (Text Table 2). Total domestic revenues increased despite the difficult environment; revenue reforms are working, and the revenue-to-GDP ratio is projected to increase to 10.5 percent of GDP, up from 8.2 percent in 2005 (Figure 5). The domestic primary surplus target was met with a sizable margin, mainly because DDR expenditure was postponed and there were delays in capital projects but also due to tight controls on expenditures (Figure 6). The PC on net credit from commercial banks was not met, mainly because of a delay in the transfer of government resources from the BEAC to commercial banks. As a corrective action the authorities have started requiring weekly recommendations by the liquidity commission on how to adjust fiscal policy to meet this quantitative target (MEFP ¶8). The quantitative benchmarks (QBs) on the net accumulation of tax arrears, reduction of expenditure arrears, and social spending were met. The QB on fully paying for government utility consumption was missed; because those bills were unpaid until late November, the three major utility companies narrowly missed the QB on the cash collection-to-billing ratio.

Text Table 2. Central African Republic: Quantitative Performance Criteria and Benchmarks under the PRGF Arrangement, 2009

(billions of CFA francs; cumulative from December 31, 2008; ceilings, unless otherwise indicated)

	End-Dec. 2008	End-March 2009			End-June 2009		
	Performance Criteria	Benchmark			Performance Criteria		
	Prel.	Program	Program with adjustors	Prel.	Program	Program with adjustors	Prel.
Performance criteria							
Floor on total government revenue [1]	92.5	26.0	26.0	24.8	47.6	47.6	53.3
Floor on domestic primary balance [2]	0.7	2.9	2.9	7.4	1.5	1.5	12.3
Change in net claims of the commercial banking system on the government, excluding bonds issued on the regional market	6.9	0.6	3.0	-0.5	-2.6	-1.9	0.6
New nonconcessional external debt [3 4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of government external payments arrears [4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets							
NPV of external debt	336	...	...	...	...	...	...
Floor on poverty-related spending [5]	19.7	5.0	5.0	5.0	10.0	10.0	11.1
Floor on reduction in domestic payments arrears	10.5	2.0	2.0	2.0	1.0	1.0	3.3
Net accumulation of tax arrears	2.1	0.0	0.0	-0.4	0.0	0.0	-0.8
Floor on cash collections of utility companies (in percent)	67.4	69.4	69.4	61.7	73.4	73.4	73.1
Floor on government payment of utility bills (in percent)	...	98.0	98.0	0.0	98.0	98.0	9.0
Memorandum items:							
Projected grants for budget support	12.6	2.4	1.0	1.0	6.8	4.5	4.5
Projected bonds issued in the regional market	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: held by domestic commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maximum adjustor for government net claims on commercial banks in case of grants shortfalls	...	2.4	2.4	2.4	5.0	5.0	5.0
External financing without project loan disbursement	5.8	2.0	1.0	1.0	3.9	1.4	1.4
Repayments to oil companies and on commercial loans [6]		...	…	...	6.1	2.0	2.0

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

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

[2] The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditures.

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

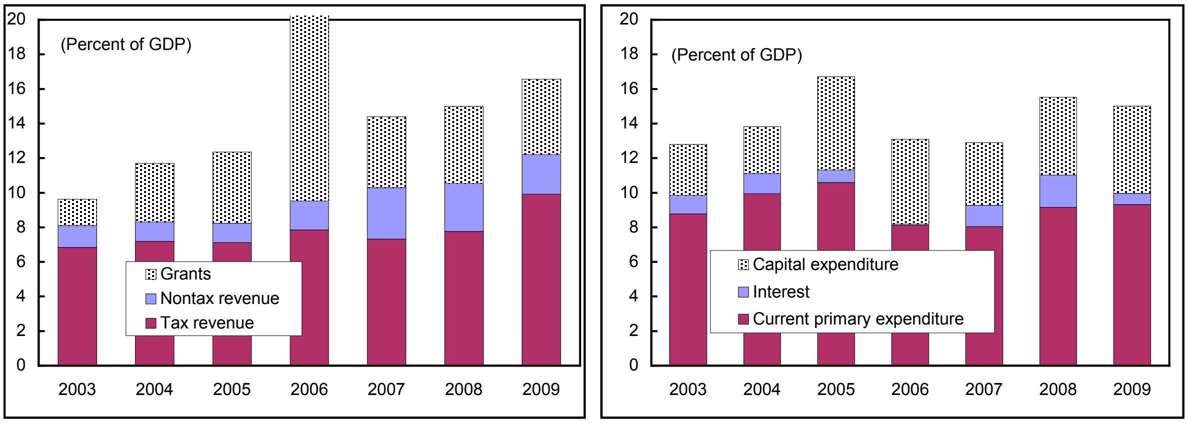
[4] These performance criteria will be monitored continuously.

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

[6] Debt owed to oil companies and loan covenants with financial groups domiciliated in the CEMAC, classified as nonbanks.

Figure 5. Central African Republic: Revenue and Expenditure Developments, 2003–09

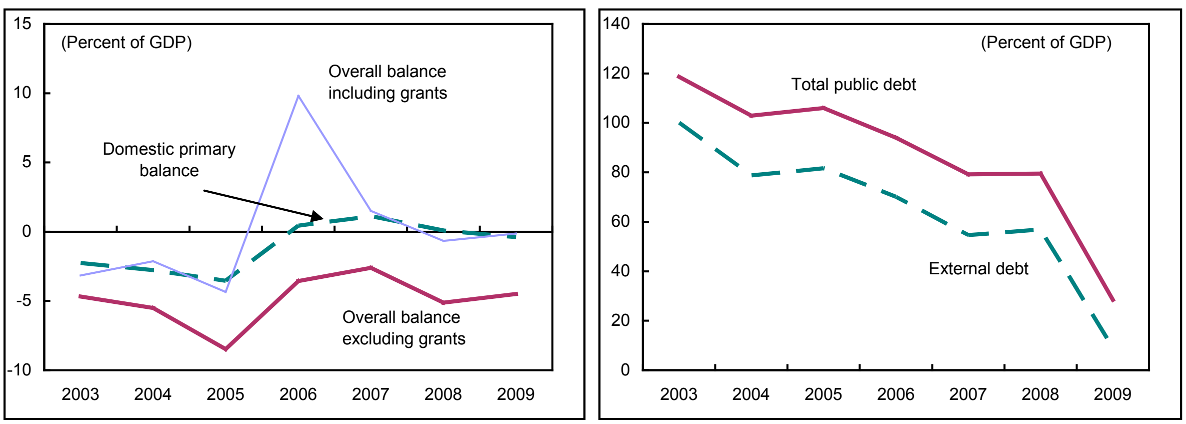
Domestic revenue is on an upward path; budget spending is still tight despite increasing capital expenditure.



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

Figure 6. Central African Republic: Fiscal Balance and Debt Developments, 2003–09

The domestic primary balance is around zero; debt continues to decline thanks to debt relief.



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

8. **The authorities have made progress in integrating revenue administration and computerizing expenditure management**. The tax administration computer system, SYSTEMIF, was connected to the customs administration's ASYCUDA++ system to share taxpayer information (end-June 2009 SB, Text Table 3), and efforts are under way to enhance the usage and usefulness of data exchange. Introducing the integrated GFMIS, Gesco, is still a major PFM endeavor. The authorities have now secured the World Bank technical and financial support and are expected to extend Gesco to all stages of the expenditure process (end-2009 SB). More efforts are needed to train all users and to work toward generalized use of the system.

9. **Government's relations with the banking sector were streamlined**. All government receipts are now deposited in the main treasury account at the BEAC, thus meeting the end-June SB. The revised conventions with commercial banks consolidated government liabilities, established a repayment schedule, and lowered the average interest rate on the debt. On the advice of the November 2009 FAD PFM review mission, the authorities are expected to complete implementation of a treasury single account (TSA) at the BEAC by year-end (SB). All

government guarantees issued now need to be signed by the Minister of Finance and be fully recorded as debt, but the legal basis for government guarantees will be adjusted only after the 2010 budget law is adopted.

Text Table 3. Central African Republic: Structural Conditionality Implementation, 2009

Measure	Conditionality Timeline	Macroeconomic Rationale	Implementation status
REVENUE ADMINISTRATION AND TAX POLICY			
Continue applying the automatic quarterly petroleum pricing formula that ensures full pass-through to the consumer of all costs, distribution margins, VAT, and a specific excise by product. The formula includes a timetable for petroleum taxation.	Continuous structural benchmark	Protect the budget from risks of fluctuating petroleum prices; create room for measures to mitigate the social impact of petroleum price changes.	Effectively met with respect to revenue targets in June and October. In October, a selective increase of certain product prices allowed to fully eliminate subsidies for kerosene and meet revenue objectives.
Interconnect the tax administration's SYSTEMIF and customs administration's ASYCUDA++ computer system to share relevant taxpayer information	Structural benchmark/ end-June 2009	Enhance revenue-generation potential	Met. Joint working group to define information sharing and protection set up.
PUBLIC FINANCIAL MANAGEMENT			
Revise the 1988 law and decree on government guarantees to strengthen our legal framework for issuing government guarantees by requiring that the recipient pay a fee for any guarantee. Clarify that all domestic and external guarantees need to be signed by the Minister of Finance after consultation with the debt department, and recorded in the debt statistics.	Structural benchmark/ end-September 2009	Limit contingent liabilities for the budget and provide better incentives for public or private enterprises.	Partially met. Ministerial decree issued in August has established the practice. Adjustment of the legal and regulatory basis will be done with the adoption of the 2010 budget.
Revise conventions with commercial banks to ensure that they no longer have control over government money. Thus, all government receipts will be deposited in the main treasury account at the central bank (BEAC).	Structural benchmark/ end-June 2009	Reestablish government control over its finances and increase the transparency of government operations	Met. All government receipts are deposited with BEAC and banks no longer control government money. Government debt with three banks was consolidated and a repayment schedule established.

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

10. **The authorities applied the petroleum price adjustment mechanism in line with program revenue objectives**. In July, they kept individual petroleum prices unchanged because they thought that they would meet the benchmark in terms of revenues. However, in retrospect, they lost a marginal 0.004 percent of GDP in revenue for that month compared to what was programmed (MEFP ¶9). Nevertheless, they met the fuel-related revenue target for the first half of the year thanks to above-minimum excises in the second quarter, higher consumption and a larger proportion of fuel imported by river rather than road. In October 2009 the authorities

increased some petroleum product prices and ended subsidies on kerosene. Although the price increases did not satisfy the minimum excise for every single product, the deviation was very small and the projected revenue meets the programmed 2009 revenue target. Staff therefore considers the SB to have been effectively met.

III. Economic Outlook and Program Objectives

A. Macroeconomic Outlook and Article IV Issues

11. **The global slowdown has jeopardized C.A.R.'s short-term growth prospects**. The authorities agreed that chances for external demand to recover quickly are limited, although longer-term growth prospects seem favorable (Box 1). Domestic supply will remain constrained by infrastructure bottlenecks, security concerns, and an uncertain business climate. Real GDP growth is projected to increase to 3½ percent in 2010, and with stable food and fuel prices average CPI inflation should fall to about 2½ percent (Figure 7).

Box 1. Central African Republic: Long-Term Growth and its Determinants

Authorities and staff agreed that C.A.R. has the potential to accelerate growth to 5–6 percent over the long term (2010–30) consistent with the results of a growth accounting exercise (Box Table 1). This tracks the experience of other post-conflict countries. Alternative scenarios, which suggest some risks to growth, underscore the importance of building up the capital stock by increasing public investment and attracting foreign investment. The baseline scenario assumes that:

- Real capital stock growth would average 5.1 percent based on a depreciation rate of 10 percent and investment as in the last DSA. A depreciation rate of 5 percent would raise average real growth of the economy by 0.6 percent; a rate of 15 percent would lower it by 0.4 percent.
- C.A.R.'s labor growth rate could average 4.2 percent during 2010–30 compared with a UN population projection of growth of the 15-59 age group at 2.1 percent due to a decline in under- and unemployment. The unemployment rate is assumed to gradually fall from 40 percent now to 10 percent in 2030.
- Total factor productivity growth will be 1 percent.

While in the baseline scenario C.A.R.'s GDP growth is 5.5 percent, there are risks related to the labor force and capital stock growth (see Box Table 1). Alternative scenarios for labor growth assume that the unemployment rate declines to 20 percent (Lower 1) and to 30 percent (Lower 2). Regarding capital growth, scenario (i) assumes that the C.A.R. can achieve only the historical capital stock growth of the past 10 years (7.2 percent for public capital information and 11.6 percent for private capital formation). Scenario (ii) assumes that the capital growth is only 5.0 percent each for public and private capital formation growth, respectively. These scenarios are not necessarily unrealistic given C.A.R.'s poor business regulatory environment. To achieve higher growth, more efforts will be needed to improve the investment climate and to finance infrastructure domestically or through external grants.

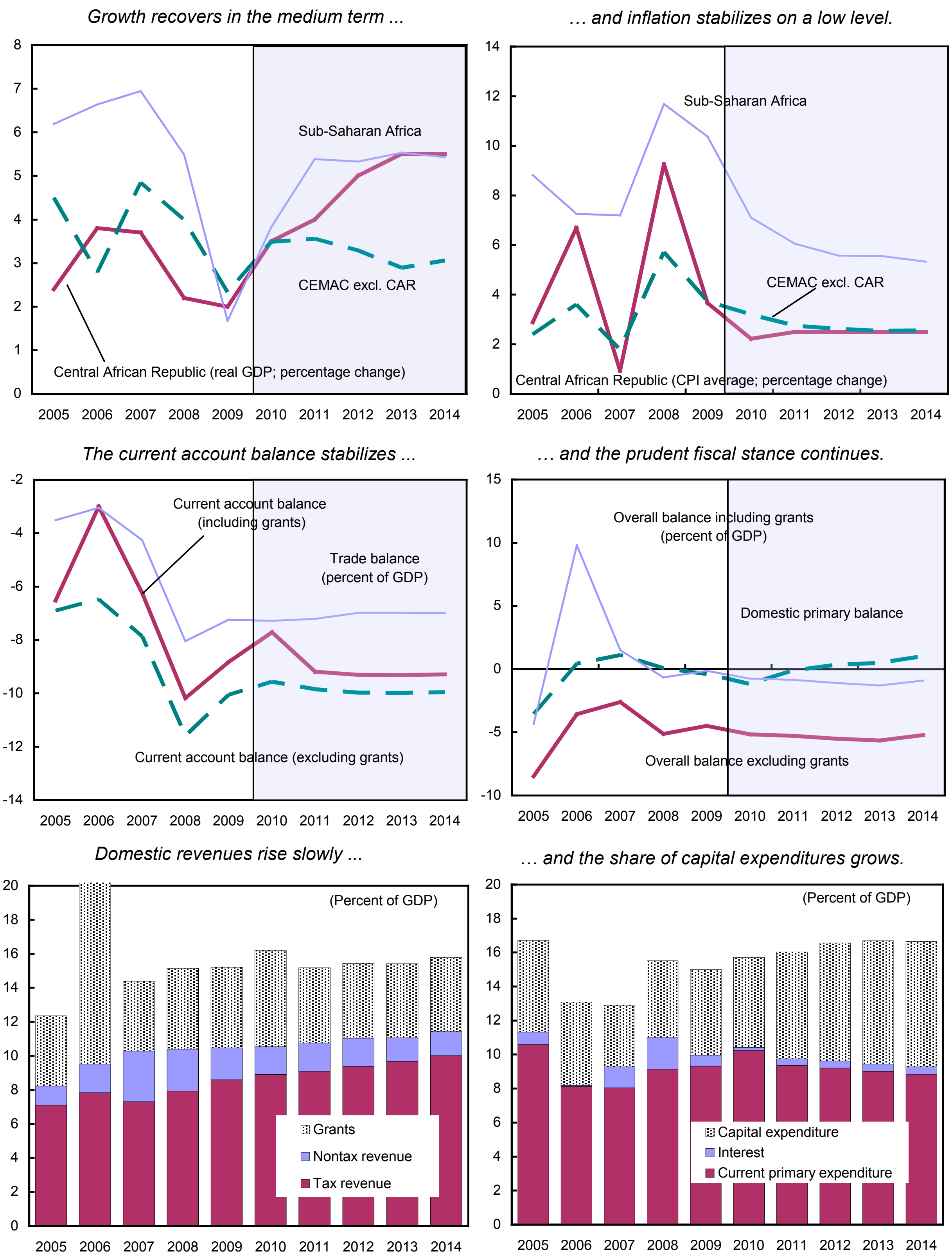
Box Table 1. C.A.R.: Long-Term Growth [1]

	Labor growth		
	Baseline	Lower 1	Lower 2
Capital growth			
Baseline	5.5	5.1	4.7
Scenario (i)	4.8	4.4	3.9
Scenario (ii)	4.6	4.2	3.7

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

[1] The depreciation rate is assumed to be 10 percent.

Figure 7. Central African Republic: Macroeconomic Framework, 2005–14



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

12. **The external current account deficit is expected to improve to 7½ percent of GDP in 2010**. Export volumes should rebound gradually. However, with imports increasing because of higher international oil prices and volumes, an accelerating public investment, and increased current fiscal spending on the peace program and the elections, the trade deficit is projected to increase, though only moderately. Net private inflows are projected to decline relative to what was programmed because of the delayed start of major mining investments. The resulting balance of payments deficit will mean a loss of official foreign reserves in 2010.

13. **In recent years inflation has been higher in C.A.R. than in trading partners, leading to an appreciation of the real exchange rate**. C.A.R. is a member of the CEMAC currency union, and the real exchange rate for CEMAC is considered appropriately valued. However, there is some concern about C.A.R.'s external competitiveness that is related more to the business climate than the real exchange rate, which could also be considered as broadly in line with fundamentals. Foreign investment and domestic supply are constrained by infrastructure bottlenecks, security concerns, and an uncertain business climate, which have been the subject of advice in previous and present Article IV discussions (Text Table 4), particularly with respect to improving the investment climate, by strengthening the legal framework and security of contracts.

Text Table 4 Central African Republic: Response to Previous Fund Policy Advice

Policy Area	Recommendations from the 2007 Article IV Consultation	Implementation/Outcome
International competitiveness	Intensify regional integration; liberalization of trade; and diversification of the economy.	Trade policy reform depends on regional initiatives and regional integration is complex. The Economic Partnership Agreement with the EU has stalled. Diversification requires greater private sector and foreign investment. Infrastructure bottlenecks are widespread and transportation costs high.
Private sector development	Reduce costs of doing business; enhance governance; and update key legislation.	Limited progress in improving the business environment largely due to capacity constraints, persistent institutional weaknesses, and deficient infrastructure. Difficulties in implementing legal provisions remain and the judiciary is weak. New forestry and mining codes were adopted. Improvement in investment climate will require stronger efforts.
Fiscal policy and management	Reduce the overhang of domestic debt; accelerate efforts to mobilize domestic revenues; caution against issuing bonds in the regional markets on commercial terms to finance higher expenditure.	Recourse to commercial bank borrowing has been limited. Domestic arrears have been reduced with donor assistance. The domestic revenue-to-GDP ratio is on the rise despite adverse economic conditions. The authorities have maintained a prudent fiscal stance in recent years. Limited financing in the regional markets is intended to replace expensive commercial borrowing and repay domestic arrears.

Source: IMF staff assessment.

14. **The banking system and private sector access to bank financing need to be strengthened**. Financial intermediation in C.A.R. is among the lowest in the world. Private sector credit represents only 6½ percent of GDP, though it should expand moderately in 2010 and beyond as the banks shift from financing the government to financing the private sector. Based on positive experience with paying salaries through banks, the government will work toward progressively replacing cash and check payments with bank transactions, which should also encourage expansion of the formal economy. The mission also discussed ways to sustainably increase private sector access to credit (see Box 2).

Box 2. Central African Republic: Improving Access to Bank Financing

The lack of adequate financing institutions in C.A.R. is a major constraint on private sector development:

1. **Financial intermediation is shallow**. The consolidated balance sheet of banks amounts to the equivalent of 12½ percent of GDP, while bank deposits represent only 8½ percent of GDP. Bank credit to the private sector represents 42 percent of broad money, as compared to 75.9 percent for sub-Saharan Africa as a whole.

2. **Bank lending activities are constrained** by legal and regulatory weaknesses and the short-term structure of deposits. Bank credit is mainly channeled to short-term operations and is seldom offered to small and medium-size enterprises.

3. **Bank loan portfolios are of poor quality**. Nonperforming loans (NPLs) represent 30 percent of total bank credit, and only 52 percent of NPLs are provisioned. As a result, bank profitability is reduced and bank loan conditions are stringent.

4. **Large deficit financing operations have crowded out private sector borrowing.**

The following could help increase the contribution of local banks to growth:

- Improve the legal and court systems to guarantee property ownership and speed up resolution of business conflicts and enforcement of collateral.
- Strengthen bank capital and provisioning for NPLs and continue reducing government demand for bank credit.
- Foster payment of taxes and government outlays through the banking system.
- Adopt a national strategy for microfinance development and establish licensing of certified public accountants.

15. **Keeping debt sustainable will require prudent debt management and stronger external sector performance**. The debt sustainability analysis (DSA) conducted in the context of the HIPC completion point shows that the main risk of debt distress is associated with a relatively high net present value (NPV) of external debt-to-export ratio. Based on simulations using the DSA, staff showed that even relatively modest external borrowing (e.g., concessional external borrowings of 2 percent of GDP a year) would bring this ratio close to the relevant threshold for C.A.R. Staff and the authorities agreed that, post-HIPC relief, there is a need to raise more domestic revenue, strengthen external sector performance through diversification and an improved investment climate, and raise policy performance and institutional capacity.

B. Program Objectives

Fiscal framework

16. **The fiscal program for the rest of 2009 is essentially unchanged except for moving some peace-related expenditures into 2010 (Text Table 5)**. The revised 2009 budget, approved in September, is consistent with the fiscal program. Domestic revenues are unchanged as a percent of GDP, but higher tax revenues resulting from improved tax administration are offsetting projected declines in nontax revenues. Most DDR expenditure will be postponed to 2010, lowering current primary expenditures. Payment of all government utility bills received until August 2009 is a prior action. Investment spending is projected to be lower because of implementation delays. Thus with spending shifted into 2010, the primary domestic balance deficit in 2009 compared to program is expected to improve by 0.5 percentage points of GDP, to 0.4 percent of GDP.

Text Table 5. Central African Republic: Key Fiscal Variables and Program Revisions, 2008–10
(in percent of GDP)

	2008	2009 [1]		2010	
	Est.	Prog.	Proj.	Prog.	Proj.
Total revenue, *of which:*	15.1	16.0	15.2	16.6	16.2
Domestic revenue	10.4	10.5	10.5	10.6	10.5
Of which: tax revenue	7.9	8.3	8.6	8.6	8.9
Program grants	1.4	1.8	1.2	1.2	1.9
Total expenditure, *of which:*	-15.5	-16.9	-15.1	-16.9	-15.9
Current primary	-9.2	-9.9	-9.3	-9.6	-10.2
Capital spending	-4.5	-5.3	-5.0	-6.3	-5.3
Domestic primary balance	0.1	-0.9	-0.4	-0.5	-1.2
Change in arrears (- =reduction)	-1.2	-1.1	-1.4	-1.5	-2.0
Overall balance including grants (cash basis)	-2.2	-2.0	-1.9	-1.8	-1.7
Memorandum item:					
Spending for DDR	0.0	-1.1	-0.2	0.0	-0.6

Sources: C.A.R. authorities; and IMF staff projections.
[1] Excludes HIPC debt relief.

17. **Fiscal policy in 2010 continues to be geared to stabilizing demand through government spending while preserving medium-term fiscal discipline**. Current primary spending will increase temporarily in conjunction with the delayed implementation (mostly donor-financed) of the peace process and the elections. The domestic primary deficit will increase to 1.2 percent of GDP (0.5 percent of GDP was initially programmed), which is more than fully explained by the 2009 overperformance and additional program grants. The overall deficit including grants on a cash basis is slightly smaller despite larger projected arrears repayments in 2010.

18. **Domestic revenue in 2010, as in 2009, is projected at 10.5 percent of GDP**. With planned improvements in tax administration—publication of a tax administration reform strategy is an SB for end-March 2010—the tax revenue ratio is projected to increase by 0.3 percentage point of GDP in 2010. However, nontax revenue is reduced by a similar amount because several extraordinary receipts will not reoccur. Revenue in 2010 is projected to increase by 1 percentage

point of GDP, mainly because of program grants (higher by 0.7 percentage points) from the European Union (EU) that were expected for 2009. The EU might provide further grant resources in 2010, but other donor support appears unlikely because multilateral donors have already exhausted their country allocations.

19. **Priority spending will increase in the 2010 budget**. Priorities are implementation of the peace process, organization of elections, and acceleration of public investment, which should help alleviate the infrastructure bottlenecks that are crippling growth prospects.[1] The government is trying to identify additional donor resources to finance not yet covered needs for the peace process and the elections.[2] It will continue its policy of full payment of government utility consumption and budgets a real increase in poverty-reducing spending. Staff cautioned that despite increased resources, the government's spending program may require difficult trade-offs considering the tight constraints on external financing in 2010.

20. **Domestic payment arrears and commercial bank debt will be further reduced**. The authorities intend to repay about 2 percent of GDP in domestic arrears (giving priority to salary arrears and the unpaid bills of small and medium enterprises), which is partially financed by €8 million from the EU. They have also decided to use part of the SDR allocation, lent through BEAC, to replace expensive commercial bank financing, make a first mandated repayment of central bank credit, and partially substitute for the uncertainty of access to the regional bond market.[3] Using this credit to reduce more expensive sources of financing—commercial bank interest rates are about 15 percent—rather than increase spending, should improve C.A.R.'s debt sustainability; and the interest savings could be used for additional social spending. Still, C.A.R. intends to issue a minimal amount of government paper in 2010 to test its access to the nascent regional securities market; Fund technical assistance has been requested to advance preparations.

21. **C.A.R.'s debt has become more manageable since HIPC debt relief, but there is still no room for nonconcessional debt**. The country's moderate risk of debt distress, rooted in its low revenue and export ratios, implies continued vulnerability to shocks, especially shocks to the financial system. It is thus essential that nonconcessional debt be avoided. The medium-term objective remains a domestic primary surplus of about 1 percent of GDP, which should be consistent with fiscal sustainability (Figure 7). Reflecting mainly debt relief since the completion point, the public debt-to-GDP ratio is projected to fall from 80 percent in 2008 to 29 percent in 2009, and 25 percent in 2010.

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[1] Project grants are reduced compared to program because of a delay in the implementation of the Boali electricity project, which is now envisioned to be financed on grant resources by the Chinese government.

[2] A new military law projects expenditure on the security sectors of about 1 percent of GDP per year, which has no identified financing. The World Bank will help the government prioritize spending in the context of an upcoming Public Expenditure Review (PER).

[3] The exact terms of the credit to be extended by the BEAC to member countries are still under discussion.

Safeguarding Fund resources

22. **Recent developments have revealed serious governance problems at the regional central bank (BEAC), raising questions about its ability to safeguard Fund resources.**[4] As a result of weaknesses in BEAC's governance structure, as well as high-level override of controls, BEAC suffered significant losses due to fraud in the operations of its Paris office. Staff informed the authorities that this fraud raised serious questions about BEAC's ability to safeguard Fund resources; as a result, staff would need to be satisfied that the authorities were taking appropriate measures to resolve governance problems in order to recommend the completion of reviews or approval of new programs for CEMAC members.

23. **The BEAC and CEMAC authorities continue to cooperate closely with Fund staff in their efforts to resolve the safeguards concerns raised by staff, and have implemented the initial actions deemed to be essential by Fund staff**. The authorities have also committed to design and implement, in consultation with Fund staff, a comprehensive action plan to address the safeguard concerns, and to have an independent audit of the implementation of this action plan and its effectiveness in resolving the problems.

24. **Based on these actions, and the continued determination of the authorities to effectively resolve the safeguard concerns in cooperation with the Fund, staff is of the view that the BEAC has shown a sufficient willingness to address safeguards issues to allow CEMAC country reviews and new programs to be presented to the Board between now and December 31, 2009**. At the same time, if important new information becomes available, or if the authorities cease their cooperation with the Fund on these issues, this position would need to be reconsidered.

Structural reforms

25. **Structural reforms are designed to support economic stability and the recovery of growth**. Building on progress already achieved, the authorities agreed with the mission on future reforms that are intended to enhance revenue mobilization, further strengthen fiscal management capacity and PFM practices, reform public enterprises, and support private economic activity through investment sector reform and an improved business climate.

26. **The authorities agreed with the mission that revenue collection is the core of fiscal reform efforts**. Despite recent gains, the domestic revenue ratio is still one of the lowest in sub-Saharan Africa. The authorities have restructured tax administration, segmenting taxpayers on the basis of their turnover, but revision of the law to use the current turnover threshold for the VAT as the sole basis for deciding whether taxpayers are subject to VAT has been postponed to the 2010 budget law. Publication of a revenue administration reform strategy designed with Fund

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[4] See *Central African Economic and Monetary Community—Staff Report on Common Policies of Member Countries* and the associated supplement for details on the governance problems that emerged at BEAC, the ensuing dialogue between the authorities and Fund staff, and the measures the authorities have taken and intend to take to investigate the fraud, strengthen controls, and reform BEAC's governance.

technical assistance is an important component of these efforts (SB, March 2010). The main elements are enlarging the domestic tax base, enhancing tax efficiency and transparency, and improving compliance (Table 7). Over the next few years, the authorities expect to increase the tax-to-GDP ratio by about 0.3 percent annually, and the domestic revenue ratio by about 0.2 percent of GDP. The authorities intend to implement a comprehensive tax policy reform with technical assistance from the Fund, before the 2012 budget (MEFP ¶26). The new tax audit unit should expand risk-based tools for detecting fraud and directing audits to the largest revenue risks; it should also assure more systematic follow-up on identified collection delays.

27. **Timely VAT reimbursement and reduction of customs exemptions will support competitiveness**. VAT reimbursement procedures need to be better monitored to ensure speedy verification and timely payment, with half the amount paid within 30 days and the rest within 90 days (end-2009 SB). The authorities are making progress in reducing customs exemptions (end-2009 SB), and they are reviewing current conventions with the view to further limiting exemptions.

28. **PFM is the second core priority of the authorities' fiscal reform program**. Staff concurred that PFM reforms are needed to improve the efficiency and transparency of government financial operations. Gesco is being extended to the payment stage (end-2009 SB), and in 2010 will be extended further to cover revenues and integrate the resources of spending agencies. Preparations are also under way to link the debt management system and the simplified wage management system to Gesco. Eventually the integrated system should enable the government to have daily information about its fiscal position and serve as a fully integrated information base for budget implementation.

29. **The liquidity commission should become the linchpin for cash management**. The authorities intend to enhance the role of the committee and move away from managing payments on an ad hoc basis. The committee will provide written weekly recommendations to the Treasury committee—chaired by the President—on the basis of rolling resource and expenditure forecasts, to align expenditure commitments with the resources available (SB, end-March 2010).

30. **The debt database will become the central tool for debt management**. The domestic debt database is being enhanced through detailed recording of all verified domestic arrears in the computerized debt database (end-2009 SB). It will become a comprehensive database for all public debt by covering public sector cross-debts (see paragraph 31).

31. **The authorities are determined to reduce public enterprise losses**. Further efforts are needed to fully clarify financial relations and improve service delivery and billing practices between state-owned enterprises (SOEs) and the government. As part of this effort, the government will record all SOE debt in its own debt database, inventory cross-debt between SOEs and local and central governments, and establish a schedule for clearing cross-debts (SB, end-March 2010). Moreover, as a prior action, the authorities have paid all utility bills issued to the government from November 2008 through August 2009. They have renewed their commitment to comply with the QB on paying for government utility consumption within two months after the receipt of the bill. The SOEs, for their part, will continue to increase their cash collection-to-billing ratio each quarter, for an annual improvement of 15 percentage points by

end-2009 (QB). A reform program for the public utility companies, to be elaborated with World Bank assistance, should target improvements in their financial, operational, and technical performance. Notably, the recent commitment by the Chinese government to grant finance rehabilitation of the electricity generation system should also provide a much-needed impetus for a fresh look at operational and financial issues for the electricity company, ENERCA.

32. **Strengthening the capital base of the banking system is important for financial stability**. The banking sector is fragile and overly exposed to the government. The planned reduction in the government's dependence on commercial bank financing may reduce banks profitability but should help the banks meet single customer exposure limits; it may also push them to expand lending to the private sector. Following the regional regulator's (COBAC) decision to increase the minimum capital of all banks operating in the CEMAC region to CFAF 10 billion (1 percent of GDP), the authorities need to decide whether to participate in bank capital increases (the government holds minority shares in three of the four local commercial banks). They agreed with staff recommendations to participate in a recapitalization only in conjunction with a fit and proper major strategic investor and, if required, a COBAC-approved restructuring strategy. COBAC recently installed a provisional administrator in one of the banks to work out a timely restructuring plan. A contingency to finance the government's participation through a long-term interest bearing bond will be included in the 2010 budget (MEFP ¶28). While agreeing with the need to strengthen banks' capital base, the authorities stressed that the new COBAC capital requirement is high for C.A.R.'s relatively small financial sector and should be applied with flexibility because banks will have difficulties in meeting it in the short term.

33. **It is essential to improve the investment climate beyond maintaining political and social stability and to enhance governance and the judiciary system**. The new forestry and mining codes were intended to help attract FDI, but investor response has been mitigated so far by depressed sectoral prospects. Early assessment of the competitiveness of the tax system under the new mining code is warranted to address private sector concerns. More generally, firm legal enforcement practices and a clear and stable regulation are vital to stimulating private investment and relaunching economic growth. Also, the high trade costs could be lowered by simplifying customs procedures, improving transportation infrastructure, and streamlining surcharges levied on top of the common external tariff.

IV. Program Access, Financing, and Monitoring

34. **The sixth PRGF review will be based on test dates for end-December 2009**. The last review of this PRGF arrangement will take place before June 30, 2010. Quantitative and structural conditionality are defined in Tables 1 and 2 of the MEFP. The program is fully financed through the end of the program period in June 2010. The authorities have expressed their interest in a successor arrangement; preparations for the successor arrangement will begin at the time of the sixth review mission in March 2010.

V. Staff Appraisal

35. **Progress in program implementation and structural reform is steady but slow**. Faced with the challenging realities of a post-conflict situation and scarce financial and human resources, the authorities are nevertheless making progress toward economic consolidation and financial stabilization. Macrofiscal policy management has been prudent throughout.

36. **The fiscal stance in 2009 was designed to be moderately countercyclical but implementation has been delayed**. Within the tight constraints of resource availability and prudent fiscal policy, the program allowed for a moderate fiscal stimulus by maintaining domestic expenditure programs, including domestic arrears reduction, and initiating donor-financed DDR expenditure. The authorities are advised to speed up capital spending and to firm up liquidity management—bunching of project implementation could lead to a tight liquidity situation by year-end.

37. **Better fiscal management is the main reform priority**. Fully integrating the expenditure management chain and linking it with revenue administration in a well-functioning computerized system is the real challenge. The Fund is prepared to provide more technical assistance in these areas, with a view to further strengthening revenue collection and enhancing the PFM effectiveness and fiscal transparency.

38. **Security reform will present a difficult challenge**. Security concerns are a major impediment to national economic integration and accelerating growth; reform of security systems should make them more effective and consolidate peace. It is important that cost implications—and benefits—be analyzed transparently, bearing in mind the difficult expenditure trade-offs that this may imply, especially for poverty-reducing expenditure.

39. **Enhanced donor involvement is more critical than ever**. Given the political uncertainties, donors' responses to C.A.R.'s progress in the program have so far been cautious, and their financial contributions have increased only slowly. The authorities need to better communicate their successes, intentions, and programs, most notably in the security and political reform areas. There is also a need to strengthen program implementation by improving donor coordination and streamlining of procedures.

40. **There is unfinished debt relief business**. Achieving the completion point for the enhanced HIPC initiative and MDRI just five years after conflict ended is a major achievement. The authorities are now encouraged to forcefully pursue debt relief agreements with all bilateral and commercial creditors to make HIPC debt reduction fully effective. Negotiations with non-Paris Club creditors may be difficult; the authorities are urged to seek treatment of all external debt on terms comparable to those granted by the Paris Club. C.A.R. is engaged in good faith efforts to reach collaborative agreements with external private creditors and relations with those creditors have not undermined program implementation.

41. **Government action is critical to reducing the vulnerability of the banking system**. The establishment of clear relations between the government and commercial banks is welcome; staff encourages the authorities to accelerate repayment of expensive bank debt. Staff also recommends that the authorities closely monitor developments in domestic banking and carefully

consider how to fulfill their role as shareholder and grantor of banking licenses when faced with the need to increase bank capital.

42. **The authorities are advised to sustain their reform efforts now that they have achieved the HIPC completion point**. The year ahead will be a particularly difficult for program implementation; the present PRGF-supported program is coming to an end just as a heavy political agenda may distract attention from steadfast economic management. Staff encourages the authorities to diligently persevere in their economic policy stance, consolidate their achievements, and build on their progress by strengthening program monitoring and continuing to pursue prudent economic and financial policies.

43. **Sustained economic growth critically hinges on private investment**. Much work remains to be done to improve the investment climate, which is perceived as one of the least attractive in the world. Mending infrastructure weaknesses through public investment is key. The financial and technical rehabilitation of public utility companies, including the rapid installation of additional electricity generation, should help address a major concern for productivity growth and social development. Streamlining the tax system and reducing informal business practices, including the pervasive use of cash, should also be beneficial.

44. **Staff supports completion of the review and the waiver for the PC on commercial bank credit based on the corrective action taken**. Staff supports the authorities' request to modify end-December performance criteria to reflect better fiscal performance and less external financing. The authorities' intention to use the provision of special credit by the BEAC, introduced on the back of the SDR allocation, to pay off more expensive domestic debt is cost-effective and in line with program objectives. The authorities' interest in a successor Fund-supported program is welcome.

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2005–14

	2005	2006	2007	2008	2009		2010		2011	2012	2013	2014
				Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
National income and prices												
GDP at constant prices	2.4	3.8	3.7	2.2	2.4	2.0	3.1	3.5	4.0	5.0	5.5	5.5
GDP at current prices	6.2	8.2	5.6	9.3	6.4	5.9	5.5	6.0	6.5	7.5	8.0	8.0
GDP deflator	3.7	4.2	1.8	7.0	3.9	3.8	2.3	2.4	2.4	2.4	2.4	2.4
Consumer prices												
CPI (annual average)	2.9	6.7	0.9	9.3	4.7	3.7	2.7	2.4	2.4	2.5	2.5	2.5
CPI (end-of-period)	1.7	7.1	-0.2	14.5	1.0	-0.8	2.5	2.9	2.5	2.5	2.5	2.5
Central government finance												
Total revenue and grants	12.2	100.3	-33.6	15.1	12.8	6.3	9.1	13.0	-0.3	9.3	7.9	10.6
Total expenditure	28.9	-11.0	-0.6	29.6	15.9	3.1	5.4	11.2	8.4	11.5	9.0	7.7
Money and credit												
Net domestic assets[1]	10.4	6.0	5.6	16.9	2.8	4.4	...	...	...	...	...	...
Domestic credit[1]	9.8	7.5	6.7	13.4	6.0	8.9	...	...	...	...	...	...
Broad money	16.5	-4.2	-3.7	16.5	-7.1	1.1	...	...	...	...	...	...
Velocity of broad money (end-of-period)	5.5	6.3	6.9	6.4	7.4	6.7	...	...	...	...	...	...
External sector												
Exports, f.o.b. (US$ basis)	-4.3	22.9	13.2	-19.1	-25.9	-24.5	15.9	23.2	18.3	19.2	11.4	7.5
Export volume of goods[2]	-4.6	16.1	5.1	-16.2	-16.5	-23.8	18.8	22.1	18.2	17.1	10.5	6.8
Imports, f.o.b. (US$ basis)	16.2	15.3	23.8	21.6	-16.6	-17.6	13.8	15.3	11.2	11.1	9.3	7.3
Import volume of goods[2]	9.4	5.7	2.8	-0.1	1.4	-4.9	9.6	4.7	6.7	7.6	7.4	5.5
Terms of trade	-3.6	-3.1	-10.6	-20.4	7.4	15.3	-6.9	-9.0	-4.0	-1.5	-1.0	-0.9
Nominal effective exchange rate	-0.2	0.2	1.9	1.7	...	...	...	...	...	...	...	...
Real effective exchange rate	0.6	4.9	0.6	7.5	...	...	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)											
Gross national savings	3.2	7.1	3.8	1.4	1.3	1.8	2.6	3.5	3.6	4.8	5.6	6.2
Of which: current official transfers	0.4	3.5	1.6	1.4	1.8	1.2	1.2	1.9	0.7	0.7	0.7	0.7
Gross domestic savings	1.7	2.4	0.7	-1.3	-1.6	-1.4	-0.6	-0.6	0.8	2.2	3.1	3.6
Government	-2.9	1.1	1.5	0.4	-0.1	0.7	0.3	0.0	1.1	1.5	1.7	2.3
Private sector	4.7	1.4	-0.8	-1.7	-1.5	-2.1	-0.9	-0.6	-0.3	0.7	1.3	1.3
Consumption	98.3	97.6	99.3	101.3	101.6	101.4	100.6	100.6	99.2	97.8	96.9	96.4
Government	8.6	6.8	6.2	6.6	7.3	6.8	7.6	7.4	7.0	6.7	6.7	6.6
Private sector	89.6	90.8	93.1	94.7	94.4	94.6	93.0	93.3	92.2	91.1	90.3	89.8
Gross investment	9.8	10.1	10.0	11.6	10.9	10.6	12.4	11.2	12.7	14.0	14.9	15.4
Government	5.2	4.9	3.8	4.5	5.3	5.0	6.3	5.3	6.2	6.9	7.2	7.4
Private sector	4.5	5.2	6.2	7.1	5.6	5.5	6.0	5.9	6.5	7.1	7.7	8.0
Current transfers and factor income (net)	1.5	4.7	3.1	2.7	3.0	3.2	3.1	4.2	2.8	2.6	2.6	2.6
External current account balance	-6.5	-3.0	-6.2	-10.2	-9.6	-8.8	-9.8	-7.7	-9.1	-9.3	-9.3	-9.2
Overall balance of payments	-1.1	3.0	-3.5	-0.7	-3.5	1.5	-0.4	-2.3	-1.6	-1.5	0.4	1.1
Central government finance												
Total revenue	12.4	22.9	14.4	15.1	16.0	15.2	16.7	16.2	15.2	15.4	15.4	15.8
Total expenditure[3]	-16.9	-13.9	-13.1	-15.5	-16.9	-15.1	-16.9	-15.9	-16.1	-16.7	-16.9	-16.8
Overall balance[3]												
Excluding grants	-8.7	-4.4	-2.8	-5.1	-6.4	-4.6	-6.3	-5.3	-5.4	-5.7	-5.8	-5.4
Including grants	-4.5	9.0	1.3	-0.4	-0.9	0.1	-0.3	0.3	-1.0	-1.3	-1.5	-1.1
Domestic primary balance[4]	-3.6	0.4	1.1	0.1	-0.9	-0.4	-0.5	-1.2	-0.1	0.3	0.5	1.0
NPV of external public and guaranteed debt	...	...	41.0	36.2	8.2	7.4	8.2	8.7	9.1	9.1	9.1	9.1
Public sector debt	106.0	93.9	79.2	79.5	29.5	28.4	28.1	27.0	26.0	25.1	24.3	23.7
Of which: domestic debt[5]	24.4	23.9	24.5	22.7	19.7	19.3	18.4	15.8	14.0	12.3	10.9	9.7
Gross official foreign reserves												
(millions of US$, end-of-period)	147.1	129.9	86.5	118.2	87.5	175.8	93.1	168.2	152.1	138.9	159.6	185.2
(months of imports, f.o.b.)	6.5	4.6	2.4	3.3	2.6	5.0	2.5	4.4	3.7	3.0	3.2	3.5
CEMAC Regional gross official foreign reserves												
(billions of US$, end-of-period)	5.2	9.0	12.1	15.7	...	...	...	...	...	...	...	...
(months of imports, f.o.b.)	3.4	4.7	5.1	7.3	...	...	...	...	...	...	...	...
Nominal GDP (CFAF billions)	712	770	813	889	947	941	999	998	1,063	1,142	1,234	1,333
Exchange rate (average; CFAF per US$)	527.5	522.9	478.7	445.7	...	...	...	...	...	...	...	...

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

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

[2] Historical volume data were recalculated using a new methodology. For comparability purposes, the program numbers for 2009 were also recalculated.

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

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

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

Table 2. Central African Republic: Central Government Operations, 2005–14 [1]

(CFAF billions)

	2005	2006	2007	2008		2009					2010		2011	2012	2013	2014
				H1	Prel.	H1		Prog.	Proj.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
						Prog.	Prel.		HIPC							
Revenue	88.0	176.3	117.0	59.1	134.7	70.1	65.8	151.9	520.2	143.1	165.8	161.7	161.3	176.3	190.3	210.5
Domestic revenue	58.6	73.4	83.6	46.9	92.5	49.6	53.3	99.1	98.9	98.9	106.1	105.2	114.3	126.3	136.4	152.3
Tax revenue	50.6	60.4	59.5	38.2	70.7	40.0	42.1	78.3	80.9	80.9	85.5	88.9	96.7	107.2	119.5	133.4
Taxes on profits and property	14.7	17.5	14.4	8.3	14.6	7.5	9.4	14.9	17.8	17.8	16.2	19.9	21.8	24.3	27.5	30.5
Taxes on goods and services	35.9	42.9	45.1	29.9	56.0	32.5	32.7	63.4	63.1	63.1	69.2	68.9	74.9	82.9	92.0	102.9
Of which : international trade	9.5	15.3	14.5	8.0	16.5	9.3	8.9	18.6	17.8	17.8	19.8	19.5	22.0	23.8	25.8	28.8
Nontax revenue	8.0	12.9	24.1	8.6	21.8	9.6	11.2	20.8	18.0	18.0	20.6	16.4	17.6	19.1	16.9	18.9
Grants	29.5	102.9	33.4	12.3	42.2	20.5	12.5	52.8	421.3	44.2	59.7	56.5	47.0	50.1	53.9	58.2
Program	2.7	75.7	13.2	0.8	12.6	6.8	4.5	17.2	11.6	11.6	11.8	18.5	7.0	7.6	8.2	8.8
Debt forgiveness	…	…	…	...	…	...	...	...	361.1	…	…	...	...	...	...	...
HIPC and MDRI grants from IMF	…	…	…	...	…	...	...	...	16.0	…	…	...	...	...	...	...
Project	26.7	27.2	20.2	11.4	29.7	13.7	8.0	35.6	32.6	32.6	47.9	38.0	39.9	42.5	45.7	49.4
Expenditure [2]	-120.4	-107.2	-106.5	-55.5	-138.0	-64.5	-55.4	-160.1	-142.4	-142.4	-168.8	-158.2	-171.5	-191.3	-208.5	-224.5
Current primary expenditure	-75.4	-62.5	-65.4	-35.8	-81.4	-36.1	-36.9	-93.6	-87.7	-87.7	-95.7	-102.1	-99.5	-105.1	-111.3	-117.9
Wages and salaries	-39.2	-37.2	-36.3	-18.2	-36.9	-19.8	-19.3	-41.8	-40.3	-40.3	-44.1	-42.7	-45.5	-48.9	-52.8	-57.1
Transfers and subsidies [3]	-14.0	-10.2	-14.7	-7.2	-22.4	-6.7	-7.2	-24.7	-23.6	-23.6	-19.4	-28.7	-25.2	-28.2	-29.2	-30.2
Goods and Services	-22.2	-15.2	-14.4	-10.5	-22.0	-9.6	-10.3	-27.1	-23.7	-23.7	-32.1	-30.7	-28.8	-28.0	-29.3	-30.6
Interest due	-6.6	-6.9	-11.7	-5.0	-16.6	-8.4	-6.4	-16.7	-7.3	-7.3	-9.8	-3.3	-5.7	-7.0	-7.7	-8.5
External	-3.6	-4.2	-3.7	-2.8	-9.0	-4.8	-2.5	-9.8	-2.6	-2.6	-2.4	-0.3	-2.5	-3.5	-3.9	-4.0
Domestic	-3.0	-2.7	-8.0	-2.2	-7.7	-3.6	-3.9	-6.9	-4.6	-4.6	-7.4	-3.0	-3.2	-3.5	-3.8	-4.4
Capital expenditure	-38.4	-37.7	-29.4	-14.7	-40.0	-20.0	-12.2	-49.8	-47.4	-47.4	-63.4	-52.8	-66.4	-79.2	-89.5	-98.2
Domestically financed	-8.4	-7.5	-9.2	-3.3	-10.4	-6.3	-4.2	-14.2	-14.9	-14.9	-15.5	-14.9	-15.8	-17.3	-19.1	-20.8
Externally financed	-29.9	-30.2	-20.2	-11.4	-29.7	-13.7	-8.0	-35.6	-32.6	-32.6	-47.9	-38.0	-50.5	-61.9	-70.4	-77.3
Overall balance [3]																
Excluding grants	-61.8	-33.8	-22.9	-8.7	-45.6	-14.9	-2.1	-61.0	-43.4	-43.4	-62.8	-53.0	-57.2	-65.1	-72.0	-72.2
Of which: domestic primary balance [4]	-25.3	3.3	9.0	7.7	0.7	7.2	12.3	-8.7	-3.6	-3.6	-5.1	-11.7	-1.0	3.8	6.0	13.6
Including grants	-32.4	69.1	10.6	3.6	-3.4	5.6	10.4	-8.2	377.9	0.8	-3.1	3.5	-10.3	-15.0	-18.2	-14.0
Change in arrears (net; (-) = reduction)	26.9	-60.3	-16.1	-4.4	-10.5	-2.0	-3.3	-10.0	-13.1	-13.1	-15.0	-20.0	-15.0	-15.0	-15.0	-15.0
Domestic	9.4	-19.8	-13.7	-4.4	-10.5	-2.0	-3.3	-10.0	-13.1	-13.1	-15.0	-20.0	-15.0	-15.0	-15.0	-15.0
External [5]	17.5	-40.5	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash adjustment [6]		…	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Errors and omissions	0.0	-5.0	4.5	0.0	-5.6	-0.8	-5.4	-0.9	-5.4	-5.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-5.5	3.8	-1.0	-0.7	-19.4	2.8	1.7	-19.1	359.3	-17.8	-18.1	-16.5	-25.3	-30.0	-33.2	-29.0
Identified financing	5.5	-3.8	1.0	0.7	19.4	-2.8	-1.6	4.6	-359.3	17.8	13.9	3.0	15.4	18.8	28.0	28.6
External, net	-4.5	-12.9	-9.5	2.1	5.8	3.9	1.4	7.9	-361.5	-0.4	-1.5	-0.4	9.1	12.0	17.0	20.1
Project loans	3.2	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.6	19.4	24.7	28.0
Program loans	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-11.8	-15.9	-12.4	-6.6	-11.3	-6.1	-6.4	-12.6	-369.3	-8.2	-1.5	-0.4	-1.5	-7.5	-7.7	-7.9
Exceptional financing	0.0	0.0	2.9	8.7	17.1	10.0	7.8	20.5	7.8	7.8	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club [7]	0.0	0.0	1.5	…	1.0	0.0	0.6	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Other [8]	0.0	0.0	1.4	…	16.1	6.5	7.2	19.4	7.2	7.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	10.0	9.1	10.5	-1.3	13.6	-6.7	-3.0	-3.3	2.2	18.2	15.4	3.4	6.3	6.8	11.0	8.5
Banking system	10.0	4.1	10.0	0.9	9.0	-0.6	-1.1	6.8	12.1	28.1	2.3	3.4	3.8	3.8	2.9	2.3
Counterpart to IMF resources (BEAC)	-2.6	2.2	2.4	-2.5	5.2	0.4	-1.4	3.8	2.8	18.8	2.3	6.3	0.0	0.0	0.0	-1.4
Use of SDR allocation		…	…	…	…	…	…	…	…	…	…	20.0	6.0	6.0	0.0	0.0
Central Bank	10.2	-2.3	6.6	0.4	-3.0	3.6	-0.3	9.0	9.5	9.5	0.0	-4.2	-4.6	-5.1	-5.2	-2.4
Commercial banks	2.4	4.2	1.0	2.9	6.9	-4.6	0.6	-6.0	-0.1	-0.1	0.0	-18.7	2.5	3.0	8.1	6.2
Of which: new bond issues	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	13.9	1.0	2.5	3.0	8.6	7.2
Nonbank [9]	0.0	5.0	0.5	-2.2	4.6	-6.1	-2.0	-10.1	-9.9	-9.9	13.1	0.0	2.5	3.0	8.1	6.2
Of which: new bond issues		...	...	...	...	...	...	...	...	…	…	…	2.5	3.0	8.6	7.2
Residual financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.5	0.0	0.0	4.1	13.5	9.8	11.2	5.1	0.5
Memorandum items:																
Government domestic debt	173.4	183.9	199.7	…	201.5	…	…	186.7	182.0	182.0	183.4	157.7	148.7	140.2	135.0	129.7
Of which: domestic arrears	109.7	109.7	114.7	…	104.2	…	…	94.2	91.0	91.0	79.2	71.0	56.0	41.0	26.0	11.0
Spending for DDR	…	…	…	…		…	…	10.0	2.0	2.0	0.0	6.0	0.0	…	…	…
Nominal GDP	712	770	813	889	889	941	947	947	941	941	999	998	1,063	1,142	1,234	1,333

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

[1] The new classification starts in 2007. It affects mainly revenues. Some fees originally recorded as taxes are now included as nontax revenue.

[2] Expenditures are on a commitment basis starting in 2009; previously, they were on a cash basis for current period expenditures, except for interest, which was recorded on a due-basis.

[3] In 2009 and 2010, includes outlays for the peace process (DDR).

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

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

[6] Reflects changes in expenditure committed but not ordered (*engagées non-ordonnancées*) and expenditure ordered but not paid (*ordonnancées non-payées*).

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

[8] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, also includes debt service to non-Paris Club and commercial creditors. From mid-2009 onward, reflects full delivery of HIPC and MDRI relief on a flow basis.

[9] Includes repayments to commercial banks domiciliated in CEMAC countries and on debt with oil suppliers in 2009, and on expected future bond issues.

Table 3. Central African Republic: Central Government Operations, 2005–14 [1]

(Percent of GDP)

	2005	2006	2007	2008		2009					2010		2011	2012	2013	2014
				H1	Prel.	H1		Prog.	Proj.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
						Prog.	Prel.	excl. HIPC								
Revenue	12.4	22.9	14.4	6.7	15.1	7.4	6.9	16.0	55.3	15.2	16.6	16.2	15.2	15.4	15.4	15.8
Domestic revenue	8.2	9.5	10.3	5.3	10.4	5.3	5.6	10.5	10.5	10.5	10.6	10.5	10.8	11.1	11.1	11.4
Tax revenue	7.1	7.8	7.3	4.3	7.9	4.2	4.4	8.3	8.6	8.6	8.6	8.9	9.1	9.4	9.7	10.0
Taxes on profits and property	2.1	2.3	1.8	0.9	1.6	0.8	1.0	1.6	1.9	1.9	1.6	2.0	2.1	2.1	2.2	2.3
Taxes on goods and services	5.0	5.6	5.5	3.4	6.3	3.5	3.5	6.7	6.7	6.7	6.9	6.9	7.0	7.3	7.5	7.7
Of which : taxes on international trade	1.3	2.0	1.8	0.9	1.9	1.0	0.9	2.0	1.9	1.9	2.0	1.9	2.1	2.1	2.1	2.2
Nontax revenue	1.1	1.7	3.0	1.0	2.5	1.0	1.2	2.2	1.9	1.9	2.1	1.6	1.7	1.7	1.4	1.4
Grants	4.1	13.4	4.1	1.4	4.7	2.2	1.3	5.6	44.8	4.7	6.0	5.7	4.4	4.4	4.4	4.4
Program	0.4	9.8	1.6	0.1	1.4	0.7	0.5	1.8	1.2	1.2	1.2	1.9	0.7	0.7	0.7	0.7
Debt forgiveness	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	
HIPC and MDRI grants from IMF	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Project	3.8	3.5	2.5	1.3	3.3	1.5	0.8	3.8	3.5	3.5	4.8	3.8	3.8	3.7	3.7	3.7
Expenditure [2]	-16.9	-13.9	-13.1	-6.2	-15.5	-6.9	-5.8	-16.9	-15.1	-15.1	-16.9	-15.9	-16.1	-16.7	-16.9	-16.8
Current primary expenditure	-10.6	-8.1	-8.0	-4.0	-9.2	-3.8	-3.9	-9.9	-9.3	-9.3	-9.6	-10.2	-9.4	-9.2	-9.0	-8.8
Wages and salaries	-5.5	-4.8	-4.5	-2.0	-4.2	-2.1	-2.0	-4.4	-4.3	-4.3	-4.4	-4.3	-4.3	-4.3	-4.3	-4.3
Transfers and subsidies [3]	-2.0	-1.3	-1.8	-0.8	-2.5	-0.7	-0.8	-2.6	-2.5	-2.5	-1.9	-2.9	-2.4	-2.5	-2.4	-2.3
Goods and Services	-3.1	-2.0	-1.8	-1.2	-2.5	-1.0	-1.1	-2.9	-2.5	-2.5	-3.2	-3.1	-2.7	-2.5	-2.4	-2.3
Interest due	-0.9	-0.9	-1.4	-0.6	-1.9	-0.9	-0.7	-1.8	-0.8	-0.8	-1.0	-0.3	-0.5	-0.6	-0.6	-0.6
External	-0.5	-0.5	-0.4	-0.3	-1.0	-0.5	-0.3	-1.0	-0.3	-0.3	-0.2	0.0	-0.2	-0.3	-0.3	-0.3
Domestic	-0.4	-0.4	-1.0	-0.2	-0.9	-0.4	-0.4	-0.7	-0.5	-0.5	-0.7	-0.3	-0.3	-0.3	-0.3	-0.3
Capital expenditure	-5.4	-4.9	-3.6	-1.7	-4.5	-2.1	-1.3	-5.3	-5.0	-5.0	-6.3	-5.3	-6.2	-6.9	-7.2	-7.4
Domestically financed	-1.2	-1.0	-1.1	-0.4	-1.2	-0.7	-0.4	-1.5	-1.6	-1.6	-1.6	-1.5	-1.5	-1.5	-1.5	-1.6
Externally financed	-4.2	-3.9	-2.5	-1.3	-3.3	-1.5	-0.8	-3.8	-3.5	-3.5	-4.8	-3.8	-4.8	-5.4	-5.7	-5.8
Overall balance [3]																
Excluding grants	-8.7	-4.4	-2.8	-1.0	-5.1	-1.6	-0.2	-6.4	-4.6	-4.6	-6.3	-5.3	-5.4	-5.7	-5.8	-5.4
Of which: domestic primary balance [4]	-3.6	0.4	1.1	0.9	0.1	0.8	1.3	-0.9	-0.4	-0.4	-0.5	-1.2	-0.1	0.3	0.5	1.0
Including grants	-4.5	9.0	1.3	0.4	-0.4	0.6	1.1	-0.9	40.1	0.1	-0.3	0.3	-1.0	-1.3	-1.5	-1.1
Change in arrears (net; (-) = reduction)	3.8	-7.8	-2.0	-0.5	-1.2	-0.2	-0.4	-1.1	-1.4	-1.4	-1.5	-2.0	-1.4	-1.3	-1.2	-1.1
Domestic	1.3	-2.6	-1.7	-0.5	-1.2	-0.2	-0.4	-1.1	-1.4	-1.4	-1.5	-2.0	-1.4	-1.3	-1.2	-1.1
External [5]	2.5	-5.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash adjustment [6]		…	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Errors and omissions		-0.6	0.6	0.0	-0.6	-0.1	-0.6	-0.1	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-0.8	0.5	-0.1	-0.1	-2.2	0.3	0.2	-2.0	38.2	-1.9	-1.8	-1.7	-2.4	-2.6	-2.7	-2.2
Identified financing	0.8	-0.5	0.1	0.1	2.2	-0.3	-0.2	0.5	-38.2	1.9	1.4	0.3	1.5	1.6	2.3	2.1
External, net	-0.6	-1.7	-1.2	0.2	0.7	0.4	0.1	0.8	-38.4	0.0	-0.2	0.0	0.9	1.0	1.4	1.5
Project loans	0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.7	2.0	2.1
Program loans	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-1.7	-2.1	-1.5	-0.7	-1.3	-0.6	-0.7	-1.3	-39.2	-0.9	-0.2	0.0	-0.1	-0.7	-0.6	-0.6
Exceptional financing	0.0	0.0	0.4	1.0	1.9	1.1	0.8	2.2	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club [7]	0.0	0.0	0.2	0.0	0.1	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other [8]	0.0	0.0	0.2	0.0	1.8	0.7	0.8	2.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	1.4	1.2	1.3	-0.1	1.5	-0.7	-0.3	-0.3	0.2	1.9	1.5	0.3	0.6	0.6	0.9	0.6
Banking system	1.4	0.5	1.2	0.1	1.0	-0.1	-0.1	0.7	1.3	3.0	0.2	0.3	0.4	0.3	0.2	0.2
Counterpart to IMF resources (BEAC)	-0.4	0.3	0.3	-0.3	0.6	0.0	-0.1	0.4	0.3	2.0	0.2	0.6	0.0	0.0	0.0	-0.1
Use of SDR allocation		…	…	…	…	…	…	…	…	…	…	2.0	0.6	0.5	0.0	0.0
Central Bank	1.4	-0.3	0.8	0.1	-0.3	0.4	0.0	1.0	1.0	1.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.2
Commercial banks	0.3	0.5	0.1	0.3	0.8	-0.5	0.1	-0.6	0.0	0.0	0.0	-1.9	0.2	0.3	0.7	0.5
Of which: new bond issues	0.0	…	…	…	…	…	…	…	…	…	1.4	0.1	0.2	0.3	0.7	0.5
Nonbank [9]	0.0	0.6	0.1	-0.2	0.5	-0.6	-0.2	-1.1	-1.1	-1.1	1.3	0.0	0.2	0.3	0.7	0.5
Of which: new bond issues		…	…	…	…	…	…	…	…	…	…					
Residual financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.4	1.4	0.9	1.0	0.4	0.0
Memorandum items:																
Government domestic debt	24.4	23.9	24.5	...	22.7	...	...	22.6	22.6	19.3	18.4	15.8	14.0	12.3	10.9	9.7
Of which: domestic arrears	15.4	14.2	14.1	...	11.7	...	...	11.7	11.7	9.7	7.9	7.1	5.3	3.6	2.1	0.8
Spending for DDR	…	…	…	...	…	...	...	1.1	1.1	0.2	0.0	0.6	0.0	…	…	…

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

[1] The new classification starts in 2007. It affects mainly revenues. Some fees originally recorded as taxes are now included as nontax revenue.

[2] Expenditures are on a commitment basis starting in 2009; previously, they were on a cash basis for current period expenditures, except for interest, which was recorded on a due-basis.

[3] In 2009 and 2010, includes outlays for the peace process (DDR).

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

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

[6] Reflects changes in expenditure committed but not ordered (*engagées non-ordonnancées*) and expenditure ordered but not paid (*ordonnancées non-payées*).

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

[8] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, also includes debt service to non-Paris Club and commercial creditors. From mid-2009 onward, reflects full delivery of HIPC and MDRI relief on a flow basis.

[9] Includes repayments to commercial banks domiciliated in CEMAC countries and on debt with oil suppliers in 2009, and on expected future bond issues.

Table 4. Central African Republic: Balance of Payments, 2005–14

	2005	2006	2007	2008	2009		2010		2011	2012	2013	2014
				Prel.	Prog.	Proj.[1]	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(CFAF billions)											
Current account	-46.5	-23.1	-50.7	-90.5	-90.5	-82.7	-98.2	-76.5	-97.1	-105.8	-114.4	-123.2
Balance on goods	-25.0	-23.5	-34.6	-71.5	-71.5	-67.9	-80.4	-72.3	-76.3	-79.4	-85.7	-92.7
Exports, f.o.b.	67.3	82.3	85.4	64.3	54.7	52.1	63.7	62.6	74.3	89.3	100.3	109.1
Diamonds	32.8	32.7	29.8	22.2	21.2	19.6	23.8	23.3	27.6	32.8	35.1	37.9
Wood products	25.7	39.8	41.9	31.8	22.8	21.7	28.9	27.5	34.2	42.1	47.2	50.9
Other	8.8	9.8	13.7	10.3	10.8	10.7	10.9	11.8	12.5	14.4	18.0	20.2
Imports, f.o.b.	-92.3	-105.8	-120.0	-135.9	-126.2	-119.9	-144.1	-134.8	-150.6	-168.6	-186.0	-201.8
Petroleum products	-17.7	-26.0	-32.7	-45.1	-23.4	-23.4	-31.0	-33.5	-38.6	-43.8	-47.8	-52.4
Public investment program	-14.4	-13.7	-11.8	-13.5	-20.6	-16.0	-26.2	-17.8	-22.4	-26.7	-30.2	-33.1
Other	-60.2	-66.1	-75.6	-77.2	-82.3	-80.5	-86.9	-83.5	-89.7	-98.1	-108.0	-116.3
Services (net)	-32.3	-35.8	-41.5	-43.2	-47.3	-44.5	-49.1	-45.7	-50.3	-55.6	-60.4	-64.9
Credit	23.3	27.0	29.4	30.4	31.1	31.0	32.1	32.1	33.4	35.0	37.0	39.0
Debit	-55.6	-62.8	-70.9	-73.6	-78.4	-75.5	-81.2	-77.8	-83.7	-90.6	-97.4	-103.9
Income (net)	-5.4	-6.0	-5.1	-9.9	-10.7	-3.6	-3.3	-1.1	-2.7	-2.6	-2.4	-2.1
Credit	5.0	5.5	6.1	6.7	6.9	6.8	7.1	7.1	7.4	7.7	8.1	8.6
Debit	-10.4	-11.5	-11.2	-16.6	-17.5	-10.4	-10.4	-8.2	-10.0	-10.3	-10.5	-10.7
Of which: interest due on public debt	-3.9	-4.7	-6.3	-5.6	-9.8	-2.8	-2.5	-0.2	-1.8	-1.7	-1.4	-1.1
Current transfers (net)	16.2	42.2	30.5	34.1	38.9	33.2	34.7	42.6	32.1	31.8	34.0	36.4
Of which: program grants	2.7	26.8	13.2	12.6	17.2	11.6	11.8	18.5	7.0	7.6	8.2	8.8
Capital account	26.7	67.7	25.4	29.7	428.7	409.7	47.9	38.0	39.9	42.5	45.7	49.4
Project grants	26.7	27.2	20.2	29.7	35.6	32.6	47.9	38.0	39.9	42.5	45.7	49.4
Capital grants and transfers	0.0	40.5	5.2	0.0	393.1	377.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness	...	40.5	5.2	...	376.3	361.1	...	...	...	...	...	...
Other transfers (MDRI grants)	...	...	...	...	16.7	16.0	...	...	...	...	...	...
Financial account	11.9	-21.4	-3.1	55.0	-371.7	-312.9	46.8	15.5	40.3	46.4	74.1	88.0
Public sector (net)	-4.5	-12.9	-12.4	-17.3	-388.9	-336.0	-1.5	-0.4	9.1	12.0	17.0	20.1
Project disbursements	3.2	3.0	0.0	0.0	0.0	0.0	0.0	0.0	10.6	19.4	24.7	28.0
Program disbursements	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-11.8	-15.9	-12.4	-17.3	-388.9	-367.8	-1.5	-0.4	-1.5	-7.5	-7.7	-7.9
Others (SDR allocation)	...	...	...	...	...	31.8	...	...	...	...	...	...
Private sector (net)	16.4	-8.5	9.3	72.3	17.2	23.1	48.3	15.8	31.2	34.5	57.1	68.0
Overall balance	-7.9	23.2	-28.5	-5.9	-33.5	14.1	-3.5	-23.0	-16.9	-16.9	5.4	14.2
Identified financing	7.9	-23.2	28.5	5.9	19.0	-14.1	-0.6	9.5	7.1	5.6	-10.5	-14.6
Net official reserves movements	-9.6	17.3	27.9	-11.2	-1.5	-22.0	-0.6	9.5	7.1	5.6	-10.5	-14.6
Net IMF credit	-2.6	2.2	2.4	6.8	-14.5	2.8	2.3	6.3	0.0	0.0	0.0	-1.4
Purchases and loans	0.0	5.4	15.2	10.2	4.6	18.8	2.3	6.3	0.0	0.0	0.0	0.0
Repayments (cash basis)	-2.6	-3.1	-12.8	-3.4	-19.1	-16.0	0.0	0.0	0.0	0.0	0.0	-1.4
SDR allocation[2]	...	...	...	...	...	-31.8	...	...	...	...	...	...
Other reserves (increase=–)	-7.1	15.1	25.5	-17.9	13.0	7.1	-2.9	3.2	7.1	5.6	-10.5	-13.2
Exceptional financing	17.5	-40.5	0.5	17.1	20.5	7.9	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	...	...	2.9	17.1	20.5	7.9	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club	...	...	1.5	1.0	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing [3]	...	...	1.4	16.1	19.4	7.4	0.0	0.0	0.0	0.0	0.0	0.0
Debt payments arrears (decrease=–) [4]	17.5	-40.5	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	14.5	0.0	4.1	13.5	9.8	11.2	5.1	0.5
Memorandum items:	(Annual percentage change, unless otherwise indicated)											
Terms of trade [5]	-3.6	-3.1	-10.6	-20.4	7.4	15.3	-6.9	-9.0	-4.0	-1.5	-1.0	-0.9
Unit price of exports (US$ basis) [5]	0.9	5.2	7.1	-2.4	-10.7	-0.4	-1.9	1.4	0.2	1.8	0.8	0.7
Unit price of imports (US$ basis) [5]	6.4	8.8	20.3	21.4	-19.6	-15.5	4.8	10.2	4.3	3.3	1.8	1.6
Export volumes of goods [5]	-4.6	16.1	5.1	-16.2	-16.5	-23.8	18.8	22.1	18.2	17.1	10.5	6.8
Import volumes of goods [5]	9.4	5.7	2.8	-0.1	1.4	-4.9	9.6	4.7	6.7	7.6	7.4	5.5
Export values of goods in CFA francs	-4.7	22.3	3.7	-24.7	-16.7	-19.1	16.3	20.1	18.8	20.1	12.4	8.7
Import values of goods in CFA francs	15.7	14.6	13.4	13.2	-6.3	-11.7	14.2	12.4	11.7	12.0	10.3	8.5
Gross official foreign reserves												
(CFAF billions, end-of-period)	79.6	64.5	39.0	56.9	43.9	81.6	46.8	78.4	71.4	65.8	76.3	89.5
(months of imports, f.o.b.)	6.5	4.6	2.4	3.3	2.6	5.0	2.5	4.4	3.7	3.0	3.2	3.5
CEMAC regional gross official foreign reserves												
(US$ billions, end-of-period)	5.2	9.0	12.1	15.7	...	...	...	...	...	...	...	...
(months of imports, f.o.b.)	3.4	4.7	5.1	7.3	...	...	...	...	...	...	...	...
Current account (percent of GDP)	-6.5	-3.0	-6.2	-10.2	-9.6	-8.8	-9.8	-7.7	-9.1	-9.3	-9.3	-9.2
Trade balance (percent of GDP)	-3.5	-3.1	-4.3	-8.0	-7.5	-7.2	-8.1	-7.2	-7.2	-6.9	-6.9	-7.0
Capital account (percent of GDP)	3.8	8.8	3.1	3.3	45.3	43.5	4.8	3.8	3.8	3.7	3.7	3.7
Total external debt (percent of GDP)	81.6	70.1	54.6	56.9	9.8	9.1	9.8	11.2	12.0	12.8	13.4	13.9
Nominal GDP (CFAF billions)	712	770	813	889	947	941	999	998	1,063	1,142	1,234	1,333

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

[1] SDR allocation (CAF 31.8 billion) is recorded as an inflow under "Financial account/Public sector (net)". The corresponding increase in official reserves is reflected as a line item in net official reserves movements.

[2] Reflected in other liabilities of the monetary authorities.

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

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

[5] Historical price and volume data were recalculated using a new methodology. For comparability purposes, the program numbers for 2009–10 were also recalculated.

Table 5. Central African Republic: Monetary Survey, 2005–10

	2005	2006	2007	2008		2009			2010	
				H1	Est.	H1	Prog.	Proj.	Prog.	Proj.
				(CFAF billions, end of period)						
Net foreign assets	56.2	43.0	31.6	46.4	31.2	41.0	17.5	26.6	13.6	16.9
Bank of Central African States (BEAC)	59.7	43.6	17.0	36.3	27.2	30.1	13.5	15.6	9.7	5.8
Operations account	77.0	61.6	35.8	27.7	51.5	48.5	38.4	76.2	40.7	73.0
Use of IMF credit	-20.0	-21.0	-22.0	-19.6	-29.7	-28.3	-30.3	-34.3	-36.5	-40.7
Other[1]	2.6	2.9	3.2	28.2	5.5	9.9	5.5	-26.4	5.5	-26.5
Commercial banks	-3.5	-0.6	14.6	10.1	3.9	11.0	3.9	11.0	3.9	11.0
Net domestic assets	72.2	80.0	86.9	91.1	106.9	98.5	110.8	112.9	121.6	135.4
Domestic credit	126.1	135.7	143.9	152.3	159.8	155.3	168.1	172.1	183.1	195.6
Credit to the public sector	72.0	79.3	84.9	84.9	95.7	94.5	99.3	109.6	110.9	118.6
Credit to central government (net)	74.2	80.9	89.6	91.1	101.1	100.5	104.8	115.0	110.9	118.6
BEAC	67.7	70.1	77.8	76.5	82.4	80.8	92.1	96.5	98.2	118.7
Current account	32.1	36.2	16.2	16.6	17.6	18.0	20.6	16.7	20.6	32.5
Consolidated loans	17.2	18.4	41.1	41.4	42.0	45.6	42.0	46.4	42.0	46.4
IMF (net)	20.0	21.0	22.0	19.6	29.7	28.3	30.4	34.3	36.5	40.7
Deposits	-1.6	-5.4	-1.5	-1.1	-6.8	-11.1	-0.8	-0.8	-0.8	-0.8
Commercial banks	6.6	10.8	11.8	14.7	18.7	19.7	12.7	18.6	12.7	-0.2
Credit to other public agencies (net)	-2.2	-1.6	-4.7	-6.2	-5.5	-6.0	-5.5	-5.5	0.0	0.0
Credit to the economy	54.1	56.4	59.1	67.4	64.2	60.8	68.7	62.5	72.2	77.0
Public enterprises	5.6	5.2	4.2	4.4	2.1	2.3	2.1	2.1	4.2	2.1
Private sector	48.5	51.3	54.9	63.0	62.0	58.5	66.6	60.4	68.0	74.9
Other items (net)	-53.9	-55.7	-57.1	-61.2	-52.9	-56.8	-57.3	-59.2	-61.5	-60.1
Money and quasi-money	128.4	123.0	118.5	137.6	138.1	139.5	128.2	139.5	135.2	152.3
Currency	89.9	80.9	59.0	74.1	72.9	72.1	61.5	71.2	64.9	72.5
Deposits	38.6	42.0	59.5	63.4	65.2	67.4	66.7	68.3	70.4	79.8
Demand deposits	23.8	24.5	38.3	40.8	40.8	43.9	41.8	44.3	44.1	49.9
Term and savings deposits	14.7	17.5	21.2	22.7	24.3	23.5	24.9	24.0	26.3	29.9
				(Annual change, percent of beginning period broad money)						
Net foreign assets	6.1	-10.3	-9.3	12.5	-0.4	7.1	-9.9	-3.3	-3.0	-7.0
Net domestic assets	10.4	6.0	5.6	3.6	16.9	-6.1	2.8	4.4	8.5	16.1
Net domestic credit	9.8	7.5	6.7	7.1	13.4	-3.3	6.0	8.9	11.8	16.8
Net credit to central government	10.3	5.2	7.0	1.3	9.7	-0.4	2.7	10.1	4.9	2.5
Credit to the economy	-1.0	1.8	2.1	7.0	4.3	-2.4	3.3	-1.2	2.7	10.4
Money and quasi–money	16.5	-4.2	-3.7	16.1	16.5	1.1	-7.1	1.1	5.5	9.2
				(Annual percentage change)						
Monetary base	17.4	-14.8	-18.4	1.8	19.8	0.2	-14.0	-2.1	4.8	1.6
Credit to the economy	-1.9	4.3	4.7	15.2	8.6	-5.2	7.1	-2.5	5.0	23.1
Public enterprises	-16.2	-8.3	-19.1	-18.9	-48.8	5.6	0.0	0.0	95.8	0.0
Private sector	0.1	5.8	7.1	18.6	13.0	-5.6	7.4	-2.6	2.1	24.0
Memorandum items:										
NDA of the central bank (CFAF billions)	38.6	40.1	51.3	47.4	54.6	51.9	56.9	32.7	64.1	43.6
Monetary base (CFAF billions)	98.3	83.7	68.3	83.7	81.8	82.0	70.4	80.1	73.7	81.3
Nominal GDP (CFAF billions)	712	770	813	889	889	941	947	941	999	998
Velocity (GDP/broad money)										
End of period	5.5	6.3	6.9	6.5	6.4	6.7	7.4	6.7	7.4	6.6

Sources: C.A.R. authorities; and IMF staff estimates and projections.
[1] Includes SDR allocation.

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

Availability date	Disbursements (SDRs)	Disbursements (Percent of quota)	Conditions
December 22, 2006	17,600,000	31.6	Approval of the arrangement
September 27, 2007	3,100,000	5.6	Disbursed upon completion of the first review
June 18, 2008[2]	8,670,000	15.6	Disbursed upon completion of the second review
December 22, 2008[2]	5,885,000	10.6	Disbursed upon completion of the third review
June 29, 2009[3]	14,240,000	25.6	Disbursed upon completion of the fourth review
October 1, 2009[3]	11,455,000	20.6	Completion of the fifth review (end-June 2009 test date)
April 1, 2010[3]	8,670,000	15.6	Completion of the sixth (final) review (end-December 2009 test date)[4]
Total	69,620,000	125.0	

[1] The C.A.R.'s quota is SDR 55.7 million.
[2] Includes augmentation approved at the time of the second review.
[3] Includes augmentation approved at the time of the fourth review.
[4] Reflects extension of the PRGF arrangement approved at the time of the fourth review.

Table 7. Central African Republic: Indicators of Capacity to Repay the Fund, 2009–19 [1]

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					Projections						
Fund obligations based on existing credit											
(SDR millions)											
Principal	0.0	0.0	0.0	0.0	1.5	3.5	7.8	9.9	8.1	4.9	2.9
Charges and interest	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0
Fund obligations based on existing and prospective credit											
(SDR millions)											
Principal	0.0	0.0	0.0	0.0	1.5	3.5	10.9	13.9	12.2	8.9	6.9
Charges and interest	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.1
Total obligations based on existing and prospective credit											
SDR millions	0.1	0.3	0.3	0.3	1.8	3.8	11.2	14.1	12.3	9.0	6.9
CFAF billions	0.1	0.2	0.2	0.2	1.3	2.9	8.2	10.4	9.0	6.6	5.1
Percent of government revenue	0.1	0.2	0.2	0.2	1.0	1.9	4.9	5.7	4.5	3.0	2.1
Percent of exports of goods and services	0.1	0.2	0.2	0.2	1.0	1.9	5.1	6.0	4.8	3.3	2.3
Percent of debt service 2/	0.7	0.9	1.0	0.6	3.1	6.4	18.9	24.4	44.6	37.5	31.5
Percent of GDP	0.0	0.0	0.0	0.0	0.1	0.2	0.6	0.7	0.5	0.4	0.3
Percent of quota	0.2	0.5	0.6	0.6	3.2	6.9	20.1	25.4	22.1	16.2	12.4
Outstanding Fund credit 2/											
SDR millions	50.0	58.7	58.7	58.7	57.2	53.7	42.8	28.8	16.7	7.7	0.9
CFAF billions	36.6	42.5	42.6	42.9	42.2	40.0	31.4	21.1	12.2	5.7	0.6
Percent of government revenue	37.0	40.4	37.3	34.0	30.9	26.2	18.8	11.6	6.1	2.6	0.3
Percent of exports of goods and services	44.1	44.9	39.6	34.5	30.7	27.0	19.5	12.2	6.5	2.8	0.3
Percent of debt service 2/	311.5	180.8	187.6	103.3	97.1	89.4	72.1	49.7	60.3	32.2	4.0
Percent of GDP	3.9	4.3	4.0	3.8	3.4	3.0	2.2	1.4	0.7	0.3	0.0
Percent of quota	89.8	105.4	105.4	105.4	102.7	96.3	76.8	51.7	29.9	13.9	1.6
Net use of Fund credit (SDR millions)	25.7	8.7	0.0	0.0	-1.5	-3.5	-10.9	-13.9	-12.2	-8.9	-6.9
Disbursements	25.7	8.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	0.0	0.0	1.5	3.5	10.9	13.9	12.2	8.9	6.9
Memorandum items:											
Nominal GDP (in billions of CFA francs)	941	998	1,063	1,142	1,234	1,333	1,440	1,547	1,662	1,781	1,905
Exports of goods and services (in billions of CFA francs)	83	95	108	124	137	148	161	174	188	203	219
Government revenue (in billions of CFA francs)	99	105	114	126	136	152	167	183	202	222	244
Debt service (in billions of CFA francs) [2]	12	24	23	42	43	45	44	43	20	18	16

Sources: IMF staff estimates and projections.

[1] Assumes disbursements of SDR 11.455 million and SDR 8.67 million upon completion of the fifth and sixth PRGF reviews, respectively.

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

APPENDIX I
TRANSLATED FROM FRENCH

CENTRAL AFRICAN REPUBLIC
LETTER OF INTENT

Bangui, November 18, 2009

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

Mr. Strauss-Kahn:

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

2. The attached memorandum of economic and financial policies (MEFP) supplements previous memoranda attached to the letters dated November 30, 2006, September 7, 2007, June 3, 2008, December 4, 2008, and June 5, 2009. The last sets out quantitative performance criteria for end-June 2009 for completion of the fifth review (sixth disbursement) of the PRGF arrangement.

3. All quantitative performance criteria for completion of the fifth review under the PRGF arrangement were observed except for the government credit from commercial banks. On the basis of our overall performance and on the strength of the policies set forth in the attached memorandum, we request a waiver on the performance criterion related to commercial bank credit based on the corrective action taken, and completion of the fifth PRGF review. We request disbursement of the sixth loan in the amount of SDR 11.455 million (20.6 percent of quota).

4. The government believes that the policies set forth in the attached MEFP will enable it to meet its program objectives, but is ready to take any other measures that might be necessary. The Central African Republic will, in accordance with Fund policy, consult with the Fund on the adoption of any measures that may be appropriate and before revising the policies set out in the attached MEFP. The sixth and last review (seventh disbursement) of the PRGF arrangement is expected to be completed no later than the end of June 2010.

5. The government intends to explore the possibility of a successor arrangement, possibly starting in July 2010.

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

7. We fully recognize that the Fund is appropriately concerned about safeguarding its resources and, in this regard, understand that it would not be in a position to complete this review unless related concerns are being addressed satisfactorily. To this end, we emphasize that the Central African authorities will work closely with the BEAC and fellow BEAC member countries to ensure the timely implementation of the remedial measures discussed with Fund staff as necessary to demonstrate satisfactory progress in resolving safeguards concerns at the BEAC. The BEAC has implemented the agreed initial actions; BEAC authorities are in close contact with Fund staff to discuss further measures designed to safeguard Fund and BEAC resources.

8. The government implemented one prior action before Executive Board consideration of our request for completion of the fifth review of the PRGF arrangement, namely the full payment of all government utility bills from ENERCA, SODECA, and SOCATEL received from the beginning of November 2008 through end-August 2009.

Sincerely yours,

________/s/________	________/s/________
Prof. Faustin Archange Touadéra Prime Minister	Albert Besse Minister of Finance and Budget

Attachments: - Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

APPENDIX I
ATTACHMENT I
TRANSLATED FROM FRENCH

CENTRAL AFRICAN REPUBLIC
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2009–10

Bangui, November 18, 2009

I. INTRODUCTION

1. Economic conditions have improved noticeably since the government of the Central African Republic (C.A.R.) began implementing its medium-term macroeconomic and financial program in late 2006 with Fund support. Political and social stability has been strengthened as a result of the Inclusive Political Dialogue (IPD) held in December 2008. New expenditures related to the Demobilization, Disarmament and Reintegration (DDR) program have been initiated and should contribute to national reconciliation ahead of the general elections to be held in early 2010.

2. The approval by the Boards of Executive Directors of the Fund and World Bank of the completion point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in June 2009 has significantly improved debt sustainability. The total debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) amounted to around CFAF 560 billion in nominal terms (59 percent of GDP), a large part of which was provided upon reaching the completion point, allowing a reduction of our external debt to about CFAF 90 billion by the end of 2009. We are very grateful to the international community, including the IMF, for granting this debt relief, which allows us to make additional spending aiming at poverty reduction.

3. The global economic slowdown has seriously affected our economy. Our major exports dropped significantly, leading to the lowest economic growth since 2005 and shortfalls on government revenues. With support from the international community, we have stepped up our efforts to pursue strong policies and program implementation to stabilize our economy and create the basis for sustainable economic growth.

4. This memorandum presents the government's economic and financial policies until June 30, 2010. The measures and objectives of the program are consistent with the Poverty Reduction and Strategy Paper (PRSP) adopted on June 30, 2007, and the first annual report of the implementation of the PRSP adopted in early 2009, respectively, both after extensive consultations with major stakeholders. We are aware of our shortcomings toward reaching the Millennium Development Goals, which are compounded by the fact that financing is insufficient to meet our needs and that foreign aid has gone mainly to humanitarian assistance.

II. Recent Economic Performance and Policies

A. Macroeconomic Performance and Program Implementation

5. Economic growth slowed further with GDP growing at an expected rate of only 2.0 percent in 2009, after 2.2 percent in 2008. The most important contribution to economic growth is expected from agriculture, which accounts for almost a third of GDP, whereas our export sectors are continuing to perform poorly under current world market conditions. Average inflation has fallen to 7.1 percent in September after reaching 9.3 percent in 2008 mainly thanks to food prices that decelerated, thus also providing welcome social relief to consumers. Year-on-year inflation in September declined to 1.7 percent, which provides evidence that inflation should decline to 4 percent on average in 2009.

6. Our two main export commodities were affected by a collapse in external demand: wood products and diamond exports dropped by 38 percent and 27 percent, respectively, in volume terms in the 12 months to July 2009. Sustained domestic economic activity in the primary sector, especially subsistence and animal farming, compensated somewhat for the negative external shocks thanks to the international community's support to this sector and improved security in the production areas. Credit to the private sector declined by 7 percent in June, in part reflecting weak activity in the forestry sector and the unwinding of stock building by oil importing companies. The banking system has not been directly affected by the global financial crisis, and the liquidity position of commercial banks appears intact. However, second round effects on major economic operators and repercussions on our banks cannot entirely be ruled out.

7. Macro-fiscal performance in the first half of 2009 was in line with the program. We met the performance criteria (PC) on total domestic revenue. Revenue from profits and property taxes was substantially higher than expected, whereas tax revenue on goods and services, including international trade taxes, was slightly below target, reflecting the effects of the economic crisis. We are well under way toward reaching our revenue target for the year, despite the adverse economic environment. We exceeded our target for the reduction of tax arrears by CFAF 0.8 billion, and we were able to clean up the stock of tax arrears, which included many claims that can no longer be recovered.

8. Thanks to our tight control on expenditures we met the PC on the domestic primary balance at end-June. We are aware that this result has also been achieved due to lower-than-programmed domestically-financed capital expenditure. However, we managed to increase spending in priority areas, notably health and education, and reached the related quantitative benchmark. There was a deviation on the PC on net claims of the commercial banking system on the government due to a miscommunication between the treasury and the central bank which led to a delayed transfer of funds from the treasury account to the commercial banks. As a corrective action, the liquidity commission has started providing weekly written recommendations to the treasury committee on the actions required to adhere to the PC on net commercial bank credit (in anticipation of the more comprehensive related structural benchmark for end-March 2010). Due to a technical problem related to the implementation of

Gesco, we are not yet in a position to calculate the stock of domestic expenditure arrears (measured as expenditures approved for payment that have not been paid for 60 days). Thus, we used the previous definition for this objective according to which expenditure arrears declined by CFAF 3.4 billion in the first semester of 2009, in line with the relevant quantitative benchmark.

B. Progress in Structural Reforms

9. The government has implemented important structural reform measures. The quarterly petroleum product pricing mechanism adopted on June 1, 2008, has contributed to strong revenue from the petroleum sector in the first half of 2009, ensuring pass-through to consumers of all costs, distribution margins, and taxes, including VAT at the regular rate. Moreover, we have created a difference in the margin for importation of petroleum products by river versus by road of CFAF 20 per liter to provide a greater incentive to import by river, which is much less costly for the budget and less environmentally risky. We applied the formula in January and in April 2009, and all subsidies but the one on kerosene transported by road were eliminated. In July 2009, we anticipated that not changing the existing price structure would not result in revenue losses. Calculations based on the methodology specified in the Technical Memorandum of Understanding (TMU) made subsequently for July 2009 revealed a small loss of fiscal revenue in the order of CFAF 36 million (0.004 percent of GDP). We recognize the importance of the principle of passing-through to consumers world oil price changes regularly and safeguarding our domestic tax revenues from petroleum products. In this spirit, in October 2009 we adjusted domestic fuel prices on kerosene by CFAF 50 per liter (thus eliminating any subsidy element on this product) and the price of fuel oil by CFAF 24 per liter. This resulted in an average increase of 1.3 percent. Moreover, we unified the price for kerosene, but we were not in a position to increase the price of gasoline as required by the formula, but the revenue loss for the month again was only CFAF 86 million (0.009 percent of GDP). Moreover, with the current excise structure we will be able to meet the annual target for petroleum revenues under the program. Considering that a criterion for meeting the structural benchmark on adjusting domestic fuel prices hinges on no net reduction of fiscal revenues, we believe that we have met the spirit of the relevant structural benchmark.

10. More progress has been made in revenue administration reform. We intend to meet the end-December 2009 structural benchmark related to improving the payment of VAT refund requests for reliable taxpayers. In this regard, the special VAT account with BEAC is being used exclusively for VAT refunds. We have nominated a director of the audit department and related personnel in June 2009 and the audit plan for 2010 will be adopted before end-2009. In the first semester of 2009, we audited 30 percent of large taxpayers and, with a delay of not more than 30 days, all stop-filers and all VAT declarations with a credit or zero balance. This has allowed us to achieve a non-filer rate of 5 percent, and we intend to maintain this rate for all of 2009. We interconnected the tax and customs administrations' information systems (SYSTEMIF and ASYCUDA++), thus observing the related structural benchmark. Furthermore, we have stepped up the training of staff and established a working

group to define mutual data exchange needs to use these systems widely and effectively. In order to increase effectiveness of our customs controls and operations, we have abolished the state agency CEMIFI and limited the activities of the private company SODIF to ex-post controls to avoid the duplication of collection and enforcement work. Changes to the VAT (Article 247 of the tax code) to make turnover the only criterion for whether taxpayers are subject to the VAT will be considered in the context of the 2010 budget law, as modifications in the context of the revised 2009 budget law were likely to be disruptive for taxpayers. In line with IMF TA recommendations, tax administration has been restructured through a revised segmentation of the Large Taxpayer Unit (LTU), the Medium Taxpayer Unit (MTU), and the Small Taxpayer Unit (STU).

11. In the area of public financial management (PFM), we are making important progress in the computerization of the expenditure chain with the extension of the Gesco system based on the new budget classification adopted in 2008. Firm instructions to limit the authority to sign conventions that financially commit the government were issued. We submitted to parliament the legal amendments to revise the 1988 law and decree on government guarantees and strengthen our legal framework for issuing such guarantees together with the revised 2009 budget law (end-September 2009 structural benchmark). However, parliament decided to amend the relevant legislation together with the 2010 budget and we will resubmit this legislation in this context. We have clarified our financial relations with commercial banks by signing new conventions between the government and each domestic commercial banks. These conventions consolidate past loans into one new loan with a lower interest rate, a grace period of 6 months, and 3-year to 3½-year maturities. All government receipts are deposited in the main treasury account at the central bank (BEAC) (end-June 2009 structural benchmark).

III. The Program for 2009 and 2010

12. Despite sustained growth in agricultural production, real GDP growth in 2009 is expected at 2 percent due to several negative shocks to the economy. Lower demand and good harvests are expected to reduce price pressures and result in a year-on-year inflation of minus 0.8 percent at end-2009. However, because of price increases in late 2008, average inflation in 2009 is expected to be higher at 3.7 percent. The trade sector remains under the effect of the external shocks. Total exports of goods are projected to fall by CFAF 12 billion to CFAF 52 billion in 2009, slightly below program. Imports remain compressed and are projected to fall by 5 percent in volume terms, which is CFAF 6 billion lower than programmed. The current account deficit is projected to fall to around 9 percent of GDP, 1 percentage point lower than in 2008 result mainly due to overall favorable developments in world oil prices, recovery of diamonds prices, and higher aid inflows. With significant additional inflows from donors toward the end of the year and the Special Drawing Rights (SDR) allocation from the Fund, the overall balance of payments is expected to improve as official foreign reserves are expected to rise to 5 months of import cover in 2009 from 3.3 months in 2008.

13. Our priorities for the remainder of 2009 and 2010 are to stabilize the economy and prepare the basis for reverting to a path of economic growth by consolidating our export sectors while preserving a prudent fiscal stance. Specifically, we will continue (i) improving our domestic revenue collection; (ii) consolidating domestic demand by maintaining budgeted expenditures, paying domestic arrears, and accelerating the implementation of expenditure programs related to the DDR process; (iii) paying all current government obligations and improving its financial standing; and (iv) maintaining the momentum in public financial management reforms. Moreover, we are working toward safeguarding the stability of our banking system.

A. Fiscal Policy for the Remainder of 2009

14. Domestic revenue in 2009 is projected to rise by 0.1 percentage points to 10.5 percent of GDP on the basis of the encouraging results of the first half of the year. In particular, the reforms of the petroleum sector taxation, VAT collection procedures, and more effective revenue administration are having positive effects. Nontax revenue will fall by 0.3 percent of GDP, mainly because one-off receipts in 2008 related to the sale of telecommunication licenses will not be repeated. The revised budget reflects the revenue projections in line with the updated program projections.

15. The revised budget, adopted in September, includes some additional expenditure for the peace process. We have decided to shift a substantial part of spending on the DDR to 2010, partly because of bottlenecks in implementation capacity. In 2009, we have allocated CFAF 2 billion for such spending, significantly less than our initial projection of CFAF 10 billion (1.1 percent of GDP); we are also spending the planned CFAF 1 billion to prepare for the 2010 elections, as expected in the program. We have allocated CFAF 56 million to repair damage caused by exceptional flooding of extended neighborhoods in Bangui in July. In addition, we received donor assistance outside the budget in relation to this natural catastrophe, and we are grateful for this spontaneous expression of international solidarity. We intend to put in place an effective program to reduce the impact of recurrent floods in Bangui. Given the delays incurred in capital budget execution, we are making every effort to avoid undue strains on our treasury at the end of the year.

16. In response to these recent developments, the domestic primary balance is substantially improved compared to program with a deficit of 0.4 percent of GDP. The available financing would allow for further repayment of arrears (1.4 percent of GDP) and reduction of the most onerous credits from commercial banks. Public debt should decline from 80 percent of GDP in 2008 to about 29 percent of GDP in 2009, mostly related to HIPC completion point debt relief. We will negotiate agreement on final debt relief with our bilateral creditors and will ensure comparable treatment for the debt renegotiations.

B. Macroeconomic Objectives for 2010

17. Growth is expected to revert to a more expansionary path in 2010, as the effects of the global economic crisis ebb and the electricity infrastructure is rehabilitated. Improved growth prospects at 3½ percent and lower inflation around 2.2 percent will be important to support the peace process and maintain political stability in the run-up to the 2010 elections. The current account deficit is expected to decline to around 7½ percent of GDP on account of higher aid inflows, and with moderate private sector inflows, the overall balance of payments will record a significant deficit and we expect to loose a limited amount of reserves in the absence of additional external support.

18. Fiscal policy will continue to support demand while raising our low tax revenue ratio. We intend to increase our tax revenue ratio by 0.3 percent of GDP through improved revenue administration; however, due to nonrecurring nontax revenue items the total revenue ratio is expected to remain unchanged at 10.5 percent of GDP. On the expenditure side, we will continue to unfreeze civil servant salaries and eliminate fuel subsidies. The overall level of primary current expenditures will rise by 0.9 percentage point of GDP, mainly due to a carry over of DDR expenditure from the previous year. We will continue to allocate more to health and education and less to wasteful subsidies. Social expenditures are expected to increase by at least 5 percent in real terms; domestically financed capital expenditures would be unchanged. The 2010 budget will include an allocation of CFAF 6 billion for the DDR, which will be disbursed in consultation with the DDR Monitoring Committee, as well as spending for the elections. The latter include contributions from the UN and the European Union (€4 million).

19. We intend to further improve the efficiency of our spending and have asked the World Bank to undertake a Public Expenditure Review, which is expected for early 2010. In this context, the government also intends to review defense expenditure with a view to improving the efficiency of this spending while safeguarding security. We expect to receive additional budget support from the European Union of CFAF 5 billion, which we will use to make additional repayments of social arrears (salary arrears, pensions, and scholarships) so as to increase the arrears clearance target to CFAF 20 billion in 2010.

20. As a result of shifting expenditure for the DDR from 2009 to 2010, the domestic primary deficit will rise by 0.8 percentage points to 1.2 percent of GDP in 2010. Budget-support grants are projected to increase by 0.7 percentage points to 1.9 percent of GDP, which will help to reduce arrears and finance poverty reducing spending. We intend to use part of the SDR 44 million (CFAF 30 billion) allocation received from the Fund to reduce expensive domestic bank debt and to reduce reliance on expensive market financing. This would provide us with further valuable savings on debt service that we intend to spend on our social programs. Total public sector debt would decline from 29 percent of GDP in 2009 to 25 percent of GDP in 2010.

C. Structural Reforms

21. The government will coordinate with the donors operating in C.A.R. to harmonize the structural reform program. We expect that the General Framework for Budget Support to the PRSP (CGAB-DSRP) agreed in October will improve the predictability of aid and facilitate administration of donor support. The donors participating in this process are the African Development Bank, the European Union, France, and the World Bank, with the Fund participating as an observer. The strategic goal of the harmonized program is to agree on a streamlined and better focused reform agenda and support it by technical assistance. We will work with the above donors on common programs for rapid adoption and implementation. Under this framework, we are preparing a reform program for public finances, with the financial support of the European Union.

Revenue administration reforms and tax policy

22. We continue to make the tax system work better. We have started levying VAT on all petroleum products in January 2009, and we will continue to increase excises on kerosene by some CFAF 40 per liter every quarter until we completely eliminate any residual subsidies and essentially equalize its excise with that of diesel, which is a close substitute for and often mixed with kerosene in transportation. As a result, the gross increase in petroleum-related resources for the government budget in 2009, including VAT, is projected at CFAF 13 billion. To facilitate the implementation of the quarterly petroleum product price adjustment mechanism, the price structure committee, which includes Ministry of Mining and Energy, Ministry of Finance and Budget, and the oil agency (A.S.R.P.), will provide price recommendations to the cabinet in line with the mechanism at the latest 5 calendar days before the end of a quarter. Finally, we will review the competitiveness of mining sector taxation with external assistance.

23. The emphasis of tax administration is audit selection, taxpayer registration, and VAT refund processing. We will continue to perform issue-oriented audits for nonfilers or VAT tax declarations with a negative VAT liability. Moreover, we intend to develop risk-based indicators to select large taxpayers for audit and those large taxpayers whose declarations are inconsistent with their import records. Moreover, we will incorporate large and medium taxpayers identified during the recent taxpayer census. We will step up security in granting the tax identification number (TIN) to ensure that each taxpayer is uniquely identified by this TIN. We will continue to pay VAT refund requests on a timely basis after verification (December 2009 structural benchmark). Moreover, we will require that all transactions between the government and large and medium taxpayers be made by bank transfer.

24. We intend to reinforce our policy and administrative efforts in the area of customs administration. Making good use of the ASYCUDA system and its connection with SYSTEMIF will help improve customs administration, and we intend to expand its use and capabilities forcefully in cooperation with our technical assistance partners. In addition, we will further increase the efficiency of customs administration by providing adequate

resources by making sure the customs fee for computerization is fully available for the use of the customs IT system. In this context, we will transfer the capacity for the development of ASYCUDA to customs, and we will extend ASYCUDA to our main offices and the external inspection company BIVAC. We will also step up efforts to train personnel in various priority areas, and ensure that the customs service has operational independence and independence in human resource management. We will work toward facilitating transit procedures between the Douala port and the final destination. In this context, we request a technical assistance mission to assess the effectiveness of our bureau in Douala. We are striving to better control fraud on transit and re-exports by introducing appropriate administrative controls to ensure that exports are effectively consumed abroad. The customs and tax departments will undertake detailed assessments of the operational effectiveness and financial performance of the private company SODIF on a quarterly basis. This will provide the basis for determining in the second quarter of 2010 how the government's relationship with the company should be defined.

25. Customs exemptions will be reduced further by reviewing existing conventions with a view to eliminating discretionary exemptions altogether and to limiting statutory exemptions only to those with a clear economic rationale. Thus, we expect to reduce the total amount of exemptions from CFAF 11 billion in 2008 to CFAF 9 billion in 2009 (structural benchmark end-December 2009). Moreover, we will study eliminating customs exemptions for the government. The idea would be to increase the budgetary allocations of the respective ministries to pay for the duties in the hope that this would simplify the work of the customs administration and reduce abuse of exemption privileges.

26. We have received technical assistance from the IMF's Fiscal Affairs Department in May 2009, which proceeded to a comprehensive review of our tax administration and made recommendations for operational and institutional reforms. We will prepare and publish a detailed reform strategy for revenue administration, based on the Fund's diagnosis by end-March 2010 (structural benchmark), and we have requested follow-up technical assistance from FAD and AFRITAC for this purpose. In the area of tax documentation, we have compiled the relevant legislation into a single tax code, which is updated, and will be published on the internet together with the relevant regulations issued by the tax administration. We hope to receive technical assistance from the Fund for a comprehensive tax policy reform in early 2010 so as to implement the new tax code with the 2012 budget. The objective of the reform would be to further reduce exemptions and nuisance taxes, streamlining tax payment procedures, and shifting from trade taxes to domestic consumption and income taxation, with a view to enhancing revenue and administrative efficiency, and improving the investment climate. Already in preparation for this reform, we requested technical assistance from the European Union.

Public financial and debt management reforms

27. The government's priorities for public financial management reforms continue to be to (i) strengthen liquidity management; (ii) improve expenditure tracking and budget

monitoring; (iii) enhance debt management; and (iv) increase fiscal transparency. To this end, we intend to take the following steps:

- We will strengthen the work of the liquidity commission. The commission will prepare rolling budget projections of expenditure commitments, revenues, and debt service requirements for the forthcoming week, month, quarter, and remainder of the year. To improve the work of the commission, we will conduct a review of the commission and make recommendations to enhance its role. Specifically, at the latest starting in January 2010, we will require weekly written recommendations on adjusting expenditure commitments in line with the rolling forecasts. These recommendations will be presented in a timely manner to the treasury committee, which is in charge of strategic policy decisions related to budget implementation (structural benchmark, end-March 2010).

- We are reestablishing the treasury single account (TSA). We have reduced treasury accounts at commercial banks to one per bank (with exception of two transfer accounts and donor-mandated accounts required for project management), which is the minimum required to maintain transactions through banks, namely wage payments. We are confident that the TSA will be operational by end-December 2009 (structural benchmark). We have received technical assistance from the Fund to operate the remaining treasury commercial bank accounts on a zero-balance basis. The monthly reconciliation of government accounts between the treasury and the central bank already ensures that data regarding the net treasury position are consistent. We will work to extend payments by bank transfers to pensioners and regular suppliers.

- We are making important progress in the computerization of the expenditure chain, and we have now secured financing from the World Bank for the extension of the Gesco system, the compilation of the final accounts for 2008 and the corresponding budget execution law. With respect to Gesco, the World Bank is financing its finalization and its integration with other information management systems. We expect to fully integrate all stages of the expenditure process into the Gesco system (end-December 2009 structural benchmark). This will require implementing a feedback mechanism between the budget department and treasury computer systems to link payments to the corresponding budget categories so as to allow detailed and comprehensive reports on budget execution. In addition, Gesco will include all expenditures without prior commitment or payment orders (for example those for debt service, salaries, travel advances, utility bills, and government petroleum product consumption), budget agencies' expenditures financed by own resources, and other payments not following the standard expenditure procedures. We will measure delays in processing expenditure at all stages after commitment. A further extension of Gesco, which will include the recording of transactions by the revenue agencies, is planned for mid-2010. We will further link to Gesco the debt management system (SYGADE) and the simplified system for wage management.

- We continue to work on recording all verified domestic arrears from previous years in the computerized debt database of the debt department on an arrear by arrear basis (structural benchmark, end-December 2009). We will also create an inventory of public sector cross debt, establish a schedule for the clearance of cross debt between State-Owned Enterprises (SOEs) and local and central governments (end-March 2010 structural benchmark). As part of the benchmark, all the debts of SOEs will be recorded in the government debt database to have readily accessible information on total public sector debt. The actions under the benchmark are an essential step to put financial relations within the public sector on a transparent and sound basis.

- Effective implementation of our financial strategy including arrears clearance will require issuance of government securities in the nascent regional market. In 2010, we expect to place only a limited amount to test the market. In the meantime, we will accelerate our preparations for market access and improve the credibility of our financial management. We expect to receive Fund technical assistance in this process in late 2009/early 2010.
- We have started publishing quarterly budget execution reports to increase transparency and better communicate government fiscal policies. In addition, we have published the revised 2009 budget and intend to publish the 2010 budget after its adoption by parliament.
- We intend to complete the preparation of the 2008 budget execution law before end-2009, and to start applying the new chart of accounts from the beginning of 2010 by (i) customizing the Gesco system, and (ii) conducting a series of tests before the final transfer into Gesco.

Banking system, public utilities, and municipalities

28. There is a need to improve the prudential ratios of local commercial banks. Following COBAC's decision to set the minimum capital requirements of commercial banks at CFAF 10 billion, the four local commercial banks have to raise their capital. The government has minority participations in three of the four commercial banks. Our preferred approach is not to participate in the capital increase, but should there be a need to participate we would do so only if there is at least one fit and proper major strategic investor envisioned for the bank and, if required, a restructuring strategy approved by COBAC is in place. If necessary, the government would recapitalize by issuing a long-term interest bearing government bond, and this contingency will be reflected in the 2010 budget. It is expected, that the government's contribution to the recapitalization would be less than CFAF 4 billion (0.4 percent of GDP). Moreover, the government's strategy to reduce borrowing from commercial banks will help them meet the regulation on exposure to a single customer, which some banks had not respected due to their government loans.

29. We will continue to improve the financial performance of the public utility companies. The combined collection ratio (cash collections divided by amount billed) for the three major utility companies (electricity, water, and telecommunications) was 73 percent in the quarter ending in June, up from 67 percent at end-2008, thus narrowly missing the relevant quantitative benchmark, mainly because of the nonpayment of government utility bills during that period. We continue to target a gradual increase of 15 percentage points during 2009 (quantitative benchmark). Full payment of current utility bills by the

government is an essential element of our strategy to improve the financial and overall performance of utility companies and will help achieve this improvement (quantitative benchmark). To this end, as a prior action, we have paid all utility bills that were submitted to the government from November 2008 through end-August 2009 in the amount of CFAF 1.2 billion. The improvement of the financial situation of the public utility companies will enable them to repay their tax arrears. The precise repayment of these tax arrears will be determined in the context of the public sector cross debts clearance schedule.

30. Securitizing and increasing electricity supply is essential for growth. For ENERCA's generating plant in Boali, our main hydro-generation facility, we are benefiting from technical and financial support from the World Bank (US$10 million) and the French Development Agency (€4.2 million) for rehabilitation of the system and maintenance of the currently installed capacity of 18 megawatts of electricity. We have signed an agreement with the Chinese authorities to rebuild our electricity generating capacity including, in the short run, the supply of two turbines for Boali III, which would increase electricity production by 10 megawatts. This would solve the short-term supply problems and produce large economic benefits since electricity is currently only provided about 16 hours per day, interrupted by rolling black-outs. This project will be financed by grants and should start its implementation in 2010.

31. We also envisage normalizing our financial relations with the municipality of Bangui. The central government will clear its debt to the municipality by paying ENERCA directly for municipality arrears. We will continue to fully transfer any shared revenues and disburse the regular transfers to the municipality of Bangui. We intend to clarify the assignment of the responsibility for paying the public lighting in Bangui based on the results of a study expected for early 2010.

D. Program Monitoring

32. The program will be monitored through biannual reviews of quantitative performance criteria (PCs) for end-December 2009 (Table I.1), and structural benchmarks for 2009/10 (Table I.2). Detailed definitions and reporting requirements for all quantitative PCs and structural conditions are contained in the accompanying Technical Memorandum of Understanding (TMU, Attachment II). The government will make available to Fund staff all core data, appropriately reconciled, on a regular and timely basis, as specified in the TMU.

Table I.1. Central African Republic: Quantitative Performance Criteria and Benchmarks under the PRGF Arrangement, December 2008 - December 2009

(billions of CFA francs; cumulative from December 31, 2008 for 2009; ceilings, unless otherwise indicated)

	End-Dec. 2008	End-Jun. 2009		End-Sep. 2009	End-Dec. 2009		
	Outcome	Performance Criteria		Benchmark	Performance Criteria		
		Program	Prel.	Program	Program	Revised program [1]	Proj. [1]
Performance criteria							
Floor on total government revenue [2]	92.5	47.6	53.3	73.5	98.1	97.9	98.9
Floor on domestic primary balance [3]	0.7	1.5	12.3	-1.6	-9.7	-4.6	-3.6
Change in net claims of the commercial banking system on the government, excluding bonds issued on the regional market	6.9	-2.6	0.6	-7.9	-5.0	0.9	-0.1
New nonconcessional external debt [4,5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of government external payments arrears [5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets							
NPV of external debt	336	...	...	...	114	111	111
Floor on poverty-related spending [6]	19.7	10.0	11.1	15.0	21.0	21.0	21.0
Floor on reduction in domestic payments arrears	10.5	1.0	3.3	6.0	9.0	12.1	13.1
Net accumulation of tax arrears	2.1	0.0	-0.8	0.0	0.0	0.0	0.0
Floor on cash collections of utility companies (in percent)	67.4	73.4	78.5	77.4	82.4	82.4	82.4
Floor on government payment of utility bills (in percent)	...	98.0	17.8	98.0	98.0	98.0	98.0
Memorandum items:							
Projected grants for budget support	12.6	6.8	4.5	14.2	17.2	11.6	11.6
Projected bonds issued in the regional market	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: held by domestic commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maximum adjustor for government net claims on commercial banks in case of grants shortfalls	...	5.0	…	6.0	6.0	6.0	6.0
External financing without project loan disbursement	5.8	3.9	1.4	6.3	7.9	-0.4	-0.4
Repayments to oil companies and on commercial loans [7]	...	6.1	2.0	8.1	10.1	9.9	9.9

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

[1] The difference between the revised program column and the projections column is explained by a margin, if applicable.

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

[3] The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditures.

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

[5] These performance criteria will be monitored continuously.

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

[7] Debt owed to oil companies and loan covenants with financial groups domiciliated in the CEMAC, classified as nonbanks.

Table I.2. Central African Republic: Structural Conditionality, 2009–10

Measure	Macroeconomic Rationale	Timeline
	Prior Action	
Pay all government utility bills from ENERCA, SODECA, and SOCATEL received from the beginning of November 2008 through end-August 2009.	Improve the financial performance of the public utility companies.	Implemented.
	Structural Benchmarks	
REVENUE ADMINISTRATION AND TAX POLICY		
Continue applying the automatic quarterly petroleum product pricing formula that ensures full pass-through to the consumer of all costs, distribution margins, VAT, and a specific excise by product. The formula includes a timetable for petroleum taxation.	Protect the budget from risks of fluctuating petroleum prices; create room for measures to mitigate the social impact of petroleum price changes.	Continuous.
For taxpayers that demand VAT refund requests, verify requests within 30 days, pay 50 percent of the verified amount within 30 days, and the remainder after 90 days.	Make exports more competitive by allowing zero rating of VAT liabilities in line with international best practice.	End-December 2009
Reduce customs exemptions from CFAF 11 billion in 2008 to CFAF 9 billion in 2009.	Enhance revenue-generation potential.	End-December 2009
Publish a detailed reform strategy for the revenue administration, based on the diagnosis of reform needs of the Tax Department.	Modernize and enhance effectiveness of tax administration to increase revenue and taxpayer services.	End-March 2010
PUBLIC FINANCIAL MANAGEMENT		
Implement a treasury single account (TSA).	Reduce financing costs for government and increase transparency of government operations.	End-December 2009
Finalize the implementation of the government financial management system by fully applying Gesco to all stages of the expenditure process from commitment to payment.	Improve fiscal control and avoid arrears.	End-December 2009
Review the work of the liquidity commission and require it to prepare rolling budget projections. Prepare detailed weekly recommendations based on rolling projections of revenues, financing and expenditures.	Allow the liquidity commission to play a permanent leading policy-setting role; enable it to respond quickly and adjust flexibly to changes in the fiscal position.	End-March 2010
DEBT MANAGEMENT		
Integrate all domestic arrears from previous years in the computerized debt database of the debt department.	Enhance capacity to manage domestic debt.	End-December 2009
Create an inventory of all cross-debts between SOEs and local and central governments and among SOEs, establish a schedule for the clearance of cross- debts, and include public enterprise debts into the debt database.	Facilitate the operation of SOEs on purely commercial terms Extend centralized debt management to all public sector debt.	End-March 2010

APPENDIX I
ATTACHMENT II
TRANSLATED FROM FRENCH

CENTRAL AFRICAN REPUBLIC
TECHNICAL MEMORANDUM OF UNDERSTANDING

Bangui, November 18, 2009

1. This Technical Memorandum of Understanding describes the definitions that are intended to clarify the measurement of the quantitative performance criteria and indicators in Table 1 of the Memorandum of Economic and Financial Policies, November 2009, attached to the authorities' Letter of Intent. It also specifies the periodicity and deadlines for transmission of data to the staff of the International Monetary Fund (IMF) for program monitoring purposes. Unless otherwise specified, all 2009 quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from December 31, 2008.

A. Provision of Data to the Fund

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

B. Definitions

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

4. **Government expenditure** on a commitment (*engagement*) basis (except for interest payments, which are on a due basis) includes all earmarked spending, treasury operations, the domestic counterparts to foreign-financed projects, and offsetting operations. Poverty-related spending on health and education will be reported from the functional classification of government expenditure. Starting in 2009, detailed government expenditure in the TOFE will be reported on a commitment (*engagement*) basis, and this information will be complemented not later than January 2010 by the change in the aggregate stock of expenditures committed without payment order (*dépenses engagées non-ordonnancées*) and

the change in the aggregate stock of expenditures with payment orders not paid (*dépenses ordonnancées non-payées*), which would be divided into those younger than 60 days and those older than 60 days.

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

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

C. Quantitative Performance Criteria

Government domestic revenue (floor)

6. **Government domestic revenue** is as reported in the TOFE, and it includes offsetting operations in revenue and current-period expenditure—between the government and all suppliers of goods and services—excluding foreign grants and divestiture receipts. Government revenue includes all tax and nontax revenue, as well as earmarked revenue,

checks for project-related customs duties, and withholdings from civil service wages and salaries actually paid.

Domestic primary fiscal balance (floor)

7. The **domestic primary fiscal balance**, on a cash basis, is defined as the difference between **government domestic revenue** and **government expenditure**, excluding all interest payments and externally financed capital expenditure. Starting in 2009, the domestic primary balance will be measured on a commitment basis (*base engagement*). The **domestic primary fiscal balance** will be calculated from above the line with the data provided in the TOFE.

Adjuster

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

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

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

Adjuster

10. The ceiling on the change of net claims of the commercial banking system on the government (net of purchases of government securities) will be:

i. increased by 100 percent of any cumulative shortfalls in external budget support grants compared to program projections up to the limit specified in Table 1 of the MEFP;

ii. decreased by 57 percent of regional bond issuances;

iii. decreased (increased) by 100 percent of any cumulative excess (shortfall) compared to program projections in external financing (without project loan disbursements); and

iv. decreased (increased) by 100 percent of any cumulative shortfall (excess) repayments of debt to domestic petroleum companies and/or CEMAC-based commercial banks (for borrowing before December 31, 2008).

Nonconcessional external debt or guarantees (ceiling, continuous)

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

12. Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). A loan is said to be on concessional terms if, on the date the contract is signed, the ratio of the present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 65 percent (that is, a grant element of at least 35 percent, which does not apply to refinancing operations). For debts with a maturity exceeding 15 years, the 10-year CIRR published by the OECD is used to calculate the grant element. For shorter maturities, the 6-month market reference rate is used. To both the 10-year and 6-month averages of the reference rate, the following margins will be added 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more.

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

External payment arrears (ceiling, continuous)

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

D. Structural Benchmarks

Automatic petroleum product pricing formula (continuous structural benchmark)

15. The automatic petroleum product pricing formula is designed to ensure full pass-through to the consumer of all costs, distribution margins, a minimum specific excise inclusive of customs duties by product, and VAT at the regular rate.

- The minimum retail price for gasoline (*super*), kerosene (*pétrole lampant*), diesel (*gasoil*), and fuel oil (*fuel 1%*) will be calculated by using the price structure of petroleum products transported by river through the Democratic Republic of the Congo by applying the specific excise as shown in Table 2.
- The formula will be calculated at the end of each quarter, using the average f.o.b. price for the previous 90 days for each product (see Table 2), and this retail price will apply for the 3 months of the next quarter.
- The formula adds all costs, distribution margins, a specific excise by product, and VAT. Thus, the minimum retail price will be the sum of (i) the f.o.b. import price, (ii) all costs and margins, (iii) the minimum specific excise, and (iv) VAT, which is applied at the regular rate to the sum of (i)–(iii).

- The minimum specific excise is defined to include the following items:
  - (i) *droit de douane*;
  - (ii) *taxe communautaire d'intégration*;
  - (iii) *redevance d'usage routier*;
  - (iv) *redevance équipement informatique finances*;
  - (v) C.C.I.;
  - (vi) *constitution du stock de sécurité*;
  - (vii) *financement extension capacités de stockage*;
  - (viii) *péréquation sur le transport*;
  - (ix) *redevance ASRP*;
  - (x) *contrôle qualité et quantité des produits*, and
  - (xi) *soutien ou reversement de l'État*, which was previously called negative or positive TUPP, as the residual.
- In January 2010, the program minimum excises for gasoline, diesel, and fuel oil will be adjusted by the inflation rate to safeguard government revenue in real terms (Table 2). The inflation rate to be used will be the November 2009 12-month CPI. The programmed excises were specified in the TMU attached in the Letter of Intent dated June 5, 2009 as follows:
  - 249.2 CFAF per liter for gasoline,
  - 175.2 CFAF per litter for diesel, and
  - 73.1 CFAF per liter for fuel oil.
- Should one or more actual fuel excises as defined in the preceding bullet fall below the minimum excise specified in Table 2 but the projected excise revenue for all fuel products for the relevant month exceeds the monthly program target, then for program purposes, the continuous SB on the automatic adjustment would be considered met.
- The same amount of VAT will be charged for petroleum products imported by road via Cameroon or by river via Kinshasa because the retail price is the same; the specific excise will be adjusted to yield the same final price as specified above.
- The retail price for each product would remain fixed for the quarter; however, the price structure would be issued on a monthly basis with the excise adjusting as a function of the changes in other costs. The VAT would remain unchanged.

E. Prior Action

Payment of government utility bills

16. A prior action for the Fifth Review under PRGF arrangement the payment of all utilities bills submitted to the government by ENERCA, SODECA, and SOCATEL from November 1, 2008 through August 31, 2009. In the case of disputes about the validity of bills, they will have to be settled to all involved parties' satisfaction. A letter of confirmation

regarding the full payment of all utility bills submitted during this period signed by the Ministry of Finance and all 3 utility companies will serve as evidence for the prior action.

F. Quantitative Benchmarks

Net present value of external debt (ceiling)

17. The NPV **of external debt** is estimated using the IMF's external debt sustainability analysis template for low-income countries.

Reduction in domestic payments arrears (floor)

18. The reduction in domestic payment arrears measures the change in the stock of total arrears during the period. Thus, a repayment of existing arrears reduces the stock of arrears whereas the accumulation of new arrears adds to the stock. For purposes of the program new arrears are defined on a payment order basis, i.e., as an expenditure for which a payment order has been issued (*dépense ordonnancée),* that has not been paid after 60 days. It is expected that data on the stock of arrears measured according to this definition becomes available for the assessment of the December 2009. Should there be a delay in the availability of data, the payment of existing arrears will be used as in previous reviews.

Adjuster

19. The floor on the reduction in **domestic payments arrears** will be increased by 29 percent of the regional bond issuance.

Net accumulation of tax arrears (ceiling)

20. **Net accumulation of tax arrears** is defined as the difference in the stock of tax arrears (excluding any amount in litigation) during the period plus any write-offs during that period.

Poverty-related spending (floor)

21. **Poverty-related spending** comprises spending on the following sectors: education, health, rural development, and social affairs, both spending for the current year and arrears repayment related to these sectors.

Government payment of utility bills (floor, cumulative)

22. The quantitative benchmark applies to utility bills issued by public enterprises Enerca, Socatel, and Sodeca, and is deemed met when at least 98 percent of the combined utility bills issued by these companies are paid within 60 days of the bill issue date. For example, the benchmark for end-March 2009 would measure payments on utility bills from January to March 2009 divided by the utility bills issued November 2008 through January 2009. The benchmark for end-June would measure the payments on utility bills from

January to June divided by the utility bills issued November through April. Cash payments by the government will be required for all bills issued after August 31, 2009.

Collection ratio of utility companies (floor, cumulative)

23. The target is measured as the cumulative ratio of total period-t cash collections to total bills issued during the period with a two-month lag. The target is defined jointly for ENERCA, SOCATEL, and SODECA. For example, the target for the third quarter would be the sum of cash collections for the three companies for July–September, 2009, divided by the value of bills issued May–July 2009. The benchmark for end-December would measure the sum of cash collections from January to December 2009 divided by the value of bills issued November 2008 through October 2009.

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

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

Table 2. Central African Republic: Minimum Excises, Estimated VAT and Minimum Retail Prices of Petroleum Products, 2009–10

	2009 Oct.	2010 Jan.[1]	2010 Apr.	2010 Jul.	2010 Oct.
	(CFAF per liter)				
Fob price (via Kinshasa)[2] (1)					
Gasoline (*Super*)	245.5	249.5	256.1	260.9	265.0
Kerosene (*Pétrole*)	242.3	246.1	252.7	257.4	261.3
Diesel (*Gasoil*)	242.1	245.9	253.0	257.6	261.7
Fuel oil (*Fuel 1%*)	204.0	207.1	212.9	216.6	220.0
Distribution margin[2] (2)					
Gasoline (*Super)*	208.6	208.9	209.3	209.6	209.8
Kerosene (*Pétrole*)	205.6	205.8	206.1	206.3	206.5
Diesel (*Gasoil*)	211.0	211.2	211.5	211.8	212.0
Fuel oil (*Fuel 1%*)	217.2	217.4	217.6	217.8	218.0
Minimum excises including customs revenues (via Kinshasa) (3)					
Gasoline (*Super*)	201.3	251.7	251.7	251.7	251.7
Kerosene (*Pétrole*)	39.5	98.0	156.4	156.4	156.4
Diesel (*Gasoil*)	177.1	177.0	177.0	177.0	177.0
Fuel oil (*Fuel 1%*)	61.9	73.8	73.8	73.8	73.8
VAT (estimate)[2] (4)					
Gasoline (*Super*)	124.5	134.9	136.3	137.2	138.0
Kerosene (*Pétrole*)	92.6	104.5	116.9	117.8	118.6
Diesel (*Gasoil*)	119.7	120.5	121.9	122.8	123.6
Fuel oil (*Fuel 1%*)	91.8	94.7	95.8	96.6	97.2
Minimum retail price (estimate)[2] (5) = (1)+(2)+(3)+(4)					
Gasoline (*Super*)	780.0	845.0	853.4	859.4	864.5
Kerosene (*Pétrole*)	580.0	654.4	732.1	737.9	742.9
Diesel (*Gasoil*)	750.0	754.6	763.4	769.1	774.2
Fuel oil (*Fuel 1%*)	575.0	592.9	600.1	604.8	609.0
Memorandum items:					
Minimum excises for first month of the quarter (CFAF million)	---	884.9	1486.8	983.4	1022.0
WEO oil price ($/barrel)	72.5	74.5	76.0	77.3	78.3

Sources: C.A.R. authorities; and IMF staff estimates.
[1] Minimum excises will be increased by the November 2009 12-month CPI change.
[2] Estimates based on program projections for fob import prices based on a 90-day moving average.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Staff Report for the 2009 Article IV Consultation and Fifth Review Under the Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waiver of Nonobservance and Modification of Performance Criteria, and Financing Assurances Review

INFORMATIONAL ANNEX

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

Approved by Seán Nolan and Dhaneshwar Ghura

November 18, 2009

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange rate system. Outstanding Fund credit was SDR 38.55 million (69.21 percent of quota) as of September 30, 2009.

- **Joint Bank-Fund Work Program.** Summarizes joint Bank-Fund Work Program for 2009–10.

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

Contents Page

Appendix I. Central African Republic: Relations with the Fund

(As of September 30, 2009)

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

II. **General Resources Account**:

	SDR million	% Quota
Quota	55.70	100.00
Fund holdings of currency	55.51	99.66
Reserve position in Fund	0.19	0.34

III. **SDR Department**:

	SDR million	% Allocation
Net cumulative allocation	53.37	100.00
Holdings	44.15	82.72

IV. **Outstanding Purchases and Loans**:

	SDR million	% Quota
PRGF arrangements	38.55	69.22

V. **Latest Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
PRGF	Dec. 22, 2006	Jun. 30, 2010	69.62	49.50
PRGF	Jul. 20, 1998	Jan. 19, 2002	49.44	24.48
Stand-By	Mar. 28, 1994	Mar. 27, 1995	16.48	10.71

VI. **Projected Payments to the Fund (without HIPC Assistance)**[5]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal					1.49
Charges/interest	0.10	0.22	0.22	0.22	0.22
Total	0.10	0.22	0.22	0.22	1.71

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

VII. **Implementation of HIPC Initiative:**

	Enhanced Framework
I. Commitment of HIPC Assistance	
Decision point date	September 2007
Assistance committed by all creditors (US$ million)[6]	578.00
Of which: IMF Assistance (US$ million)	26.77
(SDR equivalent in millions)	17.19
Completion point date	June 2009
II. Disbursement of IMF Assistance (SDR million)	
Assistance disbursed to the member	17.19
Interim assistance	6.59
Completion point balance	10.60
Additional disbursement of interest income[7]	0.90
Total disbursements	18.09

VIII. **Implementation of Multilateral Debt Relief Initiative (MDRI):**

I. MDRI-eligible debt (SDR Million)[8]	4.02
Financed by: MDRI Trust	1.90
Remaining HIPC resources	2.13

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGF	Total
July 2009	N/A	4.02	4.02

IX. **Safeguards Assessments:** The Bank of the Central African States (BEAC) is the central bank of the CEMAC region. The most recent safeguards assessment of the BEAC was completed on July 6, 2009. The findings indicate that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control has been limited, and that the changing risk profile of BEAC's foreign exchange holdings

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

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

[8] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

requires further actions to strengthen safeguards. Furthermore, BEAC initiated a number of structural and internal reforms during 2007 aimed at increasing member representation on governance bodies, strengthening management, and enhancing risk management and controls. Several of these reforms remain work in progress, and should be impacted by the ongoing investigations into the Paris fraud case and the measures taken after the conclusions of these investigations.

Exchange Rate Arrangement

The Central African Republic participates in a currency union with five other members of the CAEMC and has no separate legal tender. The de facto exchange rate arrangement is conventional peg; the CFA franc is officially pegged to the euro, the intervention currency, at a fixed rate of CFAF 655.957 per €1. On September 30, 2009, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 709.74. The exchange system common to all members operates without restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations

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

Resident Representative

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

Table 1. Central African Republic: Recent Technical Assistance

Date	Department	Purpose
Apr. 2001	FAD	Follow-up on the introduction of the VAT and discuss measures to improve tax and customs revenue collection.
Jan. —Feb. 2004	STA	Review and follow-up of the General Data Dissemination System (GDDS); TA in government finance statistics.
March 2004	FAD	To assist the authorities in the area of revenue administration.
Apr. 2004	FAD	Public financial management.
Aug. —Oct. 2004	FAD	Tax administration.
Feb. —Dec. 2005	FAD	Public financial management.
May 2005	FAD	Follow-up on implementation of tax administration reforms; review of progress made since the end of the three-month assignment of an FAD tax expert.
June—July 2005	STA	Government finance statistics.
July 2005	STA	Real sector data.
May 2006	FAD	Recovery of tax arrears.
May 2006	FAD	Fax administration reform.
Sep.–Oct. 2006	STA	Monetary and financial statistics.
Jan. 2007—Aug. 2008	FAD	Public financial management.
Apr.—May 2007	FAD	Fiscal implications of alternative fuel pricing policies and their distributional impact on vulnerable household groups, including mitigating measures.
Oct. 2007	AFRITAC/FAD	Custom administration; and follow-up on the new customs organizational structure.
Oct. 2007	AFRITAC/FAD	Follow up on implementation of tax administration reforms and review of progress made since the expert's previous visit in May 2006.
Nov.—Dec. 2007	FAD	Inspection of FAD resident PFM advisor.
Dec. 2007	AFRITAC/STA	National account data.
March 2008	AFRITAC /MCM	Debt management.
June 2008	AFRITAC	Follow-up on implementation of tax administration
June 2008	AFRITAC	Follow-up on implementation of customs administration
Aug. 2008	AFRITAC/STA	National account data.
Sep. 2008	AFRITAC	Public financial management.
Sep.–Oct. 2008	AFRITAC/FAD	Introduction of new accounting framework and budget classification system.
Oct. 2008	AFRITAC	Tax collection and use of tax administration information.
Jan. 2009	AFRITAC	Follow-up on implementation of tax collection reform measures.
March 2009	AFRITAC/FAD	Accounting procedures reforms.
March 2009	AFRITAC	Elaboration of public debt management manual.
March 2009	AFRITAC	Improvement in the coordination of customs procedures.
May 2009	AFRITAC/FAD	Assessment of tax administration and outline for new reforms.
May 2009	AFRITAC	Reform of debt administration.
May—Sept. 2009	AFRITAC	Modernizing compilation of national account data.
July 2009	AFRITAC	Rebasing of price statistics.
Sep.—Oct. 2009	AFRITAC	Assessment of customs administration and new reforms.

Appendix II. Central African Republic: Joint Bank-Fund Work Program, 2009–10

Title	Products	Provisional timing of missions	Actual or Expected delivery date
A. Mutual information on relevant work programs			
World Bank work program in the next 12months	• **Emergency Urban Infrastructure Rehabilitation and Maintenance Project.** Additional financing to support the reconstruction and recovery after flooding and to mitigate the frequency and impact of future flooding. • **Public Expenditure Review (FY11)** Review of budget implementation • **Country Environmental Analysis** This project is designed to (i) estimate the principle sources, costs and trends of environmental degradation, (ii) to analyze institutional capacity for environmental management, and (iii) to analyze priority environmental issues for policy recommendations. • **Technical assistance on Mining sector** Technical Assistance on experience with mining codes and standard mining agreements.	November 2009 December 2009 November 2009	March 2010 September 2010 March 2010 June 2010
IMF work program in the next 12 months	**Macroeconomic policy analysis and advice** • Sixth PRGF review	March 2010	June 2010
	Technical assistance • Public debt management • Public financial management • Statistics	November 2009 November 2009 December 2009 January 2009	
B. Requests for work program inputs			
Fund request to Bank	Periodic update on progress		
Bank request to Fund	Regular update of medium-term macroeconomic framework covering the period until 2014		
C. Agreement on joint products and missions			
Joint products in the next 12 months	• Joint Debt Sustainability Analysis	June 2009	June 2010

Appendix III. Central African Republic: Statistical Issues

As of November 13, 2009

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Issues with source data and compilation affect most datasets, but are particularly problematic in the real sector.
National Accounts: There is a high degree of uncertainty attached to estimates of the level and growth rate of real GDP, as estimates for informal sector activity are still based on a 1982 survey. Furthermore, developments in the subsistence agriculture sector, accounting for an estimated 30 percent of the economy, are not tracked well and would benefit from the development of source data through surveys. STA is providing technical assistance in national accounts.
Price statistics: The measurement of inflation is also subject to a high degree of uncertainty since the CPI is based on expenditure weights that are thirty years old and the index covers only a limited number of items for the capital city. STA is providing technical assistance in this area.
Government finance statistics: Data provision is broadly satisfactory for surveillance purposes, although coverage is not complete. The main shortcomings relate to expenditures financed by line ministries' own resources and foreign-financed expenditures, which are estimated by the Ministry of Finance and are considered to be broadly satisfactory. Budget accounting procedures continue to suffer from serious shortcomings and delays, which are addressed though various reforms, including through technical assistance programs, including the Fund. General government statistics are not available
Monetary statistics: Data provision is broadly satisfactory for surveillance purposes. In mid-2007, the BEAC started a project to migrate monetary statistics of CEMAC member countries to the methodology in the *Monetary and Financial Statistics Manual (2000)*.

Balance of payments statistics: Key shortcomings affect the accuracy and reliability of balance of payments estimates and relate to source data and the need maintain an up-to-date business register for surveys (list of respondents, reporting forms, and codification). Methodologies and statistical techniques also need to be reviewed, particularly the computation of freight and insurance and procedures for attributing banknote movements among transactions, while more detail on imports and exports is desirable. For surveillance purposes, IMF staff must estimate certain items using its own methodologies, including for freight and insurance, and imports and exports for which details are not available. STA is providing technical assistance in balance of payments statistics.	
External and domestic debt statistics: The quality of external debt data has improved following reconciliation with external creditors in April 2009 conducted in the context of reaching the Completion Point under the HIPC initiative. Domestic debt data are of poor quality, due in part to the difficulty of monitoring all stages of the public expenditure chain from commitment to payment. On the other hand, the stock of government domestic arrears has been verified up to end-2007. On remedial measures, the IMF set the introduction of a government financial management information system as a structural conditionality under the PRGF, and the system is now operational although it does not cover all payments yet.	
II. Data Standards and Quality	
The Central African Republic has participated in the General Data Dissemination System (GDDS) since June 2004.	No data ROSC is available.

Table 2. Central African Republic: Table of Common Indicators Required for Surveillance
(As of November 13, 2009)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June. 2009	Sep. 2009	M	M	M
Reserve/Base Money	June. 2009	Sep. 2009	M	M	M
Broad Money	June. 2009	Sep. 2009	M	M	M
Central Bank Balance Sheet	June 2009	Sep. 2009	M	M	M
Cons. Bal. Sheet of the Banking System	June. 2009	Sep. 2009	M	M	M
Interest Rates[2]	Sep. 2009	Sep. 2009	M	M	M
Consumer Price Index	Sep. 2009	Oct. 2009	M	M	M
Rev., Exp., Balance and Composition of Financing[3] – General Government[4]	June. 2009	Sep. 2009	NA	NA	NA
Rev., Exp., Balance and Composition of Financing[3] – Central Government	June. 2009	Sep. 2009	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	June. 2009	Sep. 2009	A	A	A
External Current Account Balance	2008	Sep. 2009	A	A	A
Exports and Imports of Goods and Services	2008	Sep. 2009	A	A	A
GDP/GNP	2008	Sep. 2009	A	A	A
Gross External Debt	2008	June. 2009	A	I	A
International Investment Position			NA	NA	NA

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

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/1
FOR IMMEDIATE RELEASE
December 4, 2009

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes Article IV Consultation with the Central African Republic

On December 4, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Central African Republic.[9]

Background

The Central African Republic has recorded modest economic growth since the end of internal conflict in 2003, recovering from decades of decline in living standards. Real GDP grew by 2½ percent a year on average during 2004–08. In 2008 and early 2009, a series of domestic and external shocks hit the economy, beginning with unstable power supply, followed by price rises in imported commodities, and later the global recession, which led to slower growth, accelerated inflation, and a higher current account deficit. Recent performance suggests continued slow growth and moderating inflation. Real GDP growth is expected to decrease from 2.2 percent in 2008 to 2.0 percent in 2009 while average inflation is forecast to slow from 9.3 percent in 2008 to 3.7 percent in 2009. The current account balance is expected to improve in 2009 due to improvements in the terms of trade and lower oil import volumes.

Over the last few years the government has been implementing an economic reform program with the support of the international community. To restore credibility in public finance and help achieve the objectives of the poverty reduction strategy, a prudent fiscal stance has been maintained—by recording a small domestic primary surpluses over 2006–08—and structural reforms have been pursued. The program covers a broad range of areas including public financial management, debt management, and other key areas of economic management. Based on these reform efforts, the Central African

[9] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Republic reached completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiatives in June 2009.

In the period ahead, the government needs to continue its reform efforts to accelerate growth and to mobilize resources required for poverty reduction while maintaining debt sustainability. The main areas of focus are improvement in business and investment climate, promotion of private sector activities through facilitating access to credits, efficient mobilization of government revenues, prudent debt management, and strengthening external sector performance through diversification of export base.

Executive Board Assessment

Executive Directors commended the authorities of the Central African Republic (C.A.R.) for their continued commitment to prudent macroeconomic management and essential structural reforms, against the backdrop of a challenging domestic and external environment. Directors stressed the importance of accelerating economic growth and boosting competitiveness, while keeping debt sustainable, and of mobilizing the resources needed for the country's large peace building and development needs. Improved security and political stability, particularly in the run-up to the 2010 elections, are critical to encourage private sector development and realize the authorities' poverty reduction strategy.

Directors underscored the importance of further strengthening fiscal management. They supported the government's focus on improving revenue administration and widening the tax base, controlling and monitoring expenditure, boosting priority sector spending, and better managing expenditure commitments to ensure that they are aligned with available resources. Continuous implementation of the automatic petroleum pricing formula will also be important.

Directors stressed the importance of increased donor support on concessional terms to help the authorities improve the security situation in the short term and, over the medium term, build the economic management capacity and infrastructure essential to achieve their poverty reduction and the Millennium Development Goals. They encouraged the authorities to work closely with donors to ensure a clear understanding of the country's financing needs and reform efforts.

Directors welcomed the recent measures to strengthen the financial performance of public utility enterprises. They called for continued adherence to the program targets on government payment of utility bills and cash collections of the utility companies so that these enterprises are provided with adequate resources to maintain key infrastructure.

Directors encouraged the authorities to reduce vulnerabilities in the banking system and to increase the level of financial intermediation. Progressively replacing government cash and check payments with bank transactions and less government recourse to bank financing should help spur private sector access to credit and help diversify the economy. Directors stressed the need to closely monitor developments in the domestic banking sector and to take necessary remedial measures for the undercapitalized bank.

Directors welcomed the authorities' intention to intensify structural reforms aimed at improving the business climate, removing infrastructure bottlenecks, and enhancing governance, the judiciary, and the delivery of public services.

Directors stressed the importance for the authorities to seek full debt relief from all bilateral and commercial creditors on terms consistent with the HIPC and MDRI Initiatives. They encouraged the authorities to continue enhancing their debt management capacity, and avoid the contracting of nonconcessional debt. Directors noted the authorities' intention to partially draw on the SDR allocation, which will allow them to replace more expensive commercial bank financing without increasing spending.

Directors expressed concern about the governance issues at a foreign office of the regional central bank, BEAC, and welcomed the bank's decision to adopt a comprehensive action plan to address them. They encouraged the C.A.R. authorities to continue to support the BEAC to resolve these issues and strengthen its governance in a timely manner.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Central African Republic: Selected Economic Indicators, 2005–09

	2005	2006	2007	2008 Est.	2009 Proj.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
GDP at constant prices	2.4	3.8	3.7	2.2	2.0
GDP at current prices	6.2	8.2	5.6	9.3	5.9
GDP deflator	3.7	4.2	1.8	7.0	3.8
Consumer prices (annual average)	2.9	6.7	0.9	9.3	3.7
Money and credit					
Net domestic assets [1]	10.4	6.0	5.6	16.9	4.4
Domestic credit [1]	9.8	7.5	6.7	13.4	8.9
Broad money	16.5	-4.2	-3.7	16.5	1.1
External sector					
Exports, f.o.b. (US$ basis)	-4.3	22.9	13.2	-19.1	-24.5
Imports, f.o.b. (US$ basis)	16.2	15.3	23.8	21.6	-17.6
Terms of trade	-3.6	-3.1	-10.6	-20.4	15.3
Nominal effective exchange rate	-0.2	0.2	1.9	1.7	...
Real effective exchange rate	0.6	4.9	0.6	7.5	...
	(Percent of GDP, unless otherwise indicated)				
Gross national savings	3.2	7.1	3.8	1.4	1.8
Gross domestic savings	1.7	2.4	0.7	-1.3	-1.4
Consumption	98.3	97.6	99.3	101.3	101.4
Gross investment	9.8	10.1	10.0	11.6	10.6
Current transfers and factor income (net)	1.5	4.7	3.1	2.7	3.2
External current account balance	-6.5	-3.0	-6.2	-10.2	-8.8
Overall balance of payments	-1.1	3.0	-3.5	-0.7	1.5
Central government finance					
Total revenue	12.4	22.9	14.4	15.1	15.2
Total expenditure	-16.9	-13.9	-13.1	-15.5	-15.1
Overall balance					
Excluding grants	-8.7	-4.4	-2.8	-5.1	-4.6
Including grants	-4.5	9.0	1.3	-0.4	0.1
Domestic primary balance [2]	-3.6	0.4	1.1	0.1	-0.4
Public sector debt	106.0	93.9	79.2	79.5	28.4
Of which: domestic debt [3]	24.4	23.9	24.5	22.7	19.3
CEMAC regional gross official foreign reserves					
(billions of US$, end-of-period)	5.2	9.0	12.1	15.7	...
(months of imports, f.o.b.)	3.4	4.7	5.1	7.3	...
Nominal GDP (CFAF billions)	712	770	813	889	941
Exchange rate (average; CFAF per US$)	527.5	522.9	478.7	445.7	...

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

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

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

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/445
FOR IMMEDIATE RELEASE
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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under the PRGF Arrangement for the Central African Republic and Approves US$18.5 Million disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fifth review of the Central African Republic's economic performance under a program supported by the arrangement under the Poverty Reduction and Growth Facility (PRGF) for an amount equivalent to SDR 69.62 million (about US$112.21 million). Completion of the review enables the disbursement of an amount equivalent to SDR 11.455 million (about US$18.46 million).

The Central African Republic (C.A.R.) has recorded modest economic growth in the post- conflict period, and income per capita is starting to recover after years of decline. In 2008 and early 2009, a series of domestic and external shocks—beginning with unstable power supply, followed by higher prices for imported commodities, and later the global recession—slowed growth, accelerated inflation, and led to higher current account deficits. However, recent performance suggests a modest recovery, owing in part to the implementation of the government's reform program. Real GDP growth is projected to increase from 2 percent in 2009 to 3½ percent in 2010 with average CPI inflation slowing toward 2½ percent in 2010.

Implementation of the C.A.R. authorities' economic program was deemed satisfactory and in completing the review, the Executive Board approved a request for a waiver of the nonobservance of the end-June 2009 quantitative performance criterion on the ceiling on change in net claims on the government by the commercial banking system. The Executive Board also approved the modification of all quantitative performance criteria for end-December 2009.

After the Executive Board's discussion of the C.A.R.'s economic performance on Friday, December 4, 2009, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, issued the following statement:

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"The Central African Republic (C.A.R.) authorities are to be commended for the satisfactory implementation of the program supported by the arrangement under the Poverty Reduction and Growth Facility (PRGF)

"The C.A.R. authorities have made significant progress in improving economic management. The credibility in public finances has been improved through domestic revenue mobilization and prudent budget execution. The petroleum product price adjustment mechanism has been implemented consistently, and taxes on petroleum products have become a significant and stable source for government revenues. The authorities now have credible plans to reduce domestic arrears and commercial bank debt. As a result of these reform measures, the economy is on a sounder basis for sustaining higher growth.

"The C.A.R. authorities need to continue their reform efforts to accelerate growth and to mobilize resources required for poverty reduction, while maintaining debt sustainability. The main areas of focus are efficient mobilization of government revenues, prudent expenditure and debt management, improvement in business and investment climate, promotion of private sector activities through facilitating access to credit, and strengthening external sector performance through diversification of the export base. The assistance that has been delivered under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative should provide significant help to the authorities' efforts to achieve the Millennium Development Goals. In addition, the authorities intend to partly draw on their SDR allocation, which will allow them to replace more expensive commercial bank financing without increasing spending.

"The C.A.R. authorities recognize the importance of improving the security situation and maintaining political stability in the period ahead of next year's elections. Funding is being provided by donors for the peace building process and elections. Enhanced donor financial and technical support is also needed to help the authorities strengthen economic management capacity and address critical infrastructure bottlenecks. The ongoing measures to strengthen financial performance of public utility enterprises are expected to help catalyze donor funding in these areas."

The Executive Board approved a three-year, SDR 36.2 million PRGF arrangement for the C.A.R. in December 2006 (see Press Release No. 06/299). The Executive Board approved augmentations of SDR 8.355 million in June 2008 (see Press Release No. 08/142) and SDR 25.065 million in June 2009, when it also approved a six-month extension of the arrangement (see Press Release No. 09/242). The augmented arrangement totaling SDR 69.62 million (about US$112.21 million) represents 125 percent of the country's quota in the Fund.

Statement by Mr. Rutayisire, Executive Director
for Central African Republic
December 4, 2009

On behalf of my Central African Republic authorities, I would like to thank staff for the constructive and fruitful discussions held during the recent Fund mission in Bangui in connection with the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement, and the 2009 Article IV consultations. My authorities are also thankful for the continued support of the Executive Board and Management.

Since assuming power, the Central African Republic (CAR) authorities have made steady progress in consolidating peace and security, and in rebuilding the economy. To consolidate peace and security, the authorities implemented governance and security sector reforms in line with the recommendations of the Poverty Reduction Strategy and the resolutions of the inclusive national dialogue conference held in 2008, and pursued further disarmament, demobilization, and the reinsertion in civilian activities of former soldiers and rebels. They are appreciative of the support provided by the international community in this endeavor, including in particular from the CEMAC, France, and the United Nation's peace building mission. These efforts will culminate next year with another cycle of elections which would further strengthen democratic institutions.

On the economic front, my authorities built on the momentum generated by the attainment of the completion point to move forward their growth and poverty reduction agenda, and steadfastly adhered to the PRGF supported economic program in spite of a particularly challenging environment marked by the global economic crisis and a series of domestic shocks including recent flooding in Bangui, and electricity power outages. They met all the quantitative performance criteria except for the criterion restricting credit to the government from commercial banks. This criterion was not met because of a delayed transfer of resources from the regional Central Bank, BEAC, to the commercial banks. The authorities took corrective measures, including by requiring weekly reporting by the liquidity Commission on the matter. All structural and quantitative benchmarks were met, except for the benchmarks related to the payments of the government's public utilities consumption which has been implemented as a prior action, and the revision of the law on the issuance of sovereign guaranties which is scheduled to be discussed by the parliament in the context of the adoption of the 2010 budget.

On the basis of this strong implementation of the program and their commitment to sound policies as they seek to implement their economic objectives, they request the completion of the 2009 Article IV consultations, and the fifth review under the PRGF. They also request a waiver of non observance and modification of performance criteria, and financing assurances review.

IV. RECENT ECONOMIC DEVELOPMENTS

In spite of the domestic and external shocks, the Central African Republic's authorities managed to realize a 2.2 percent GDP growth in 2008. CAR's GDP growth rate is projected to remain positive going forward, at a level above the average growth performance of Sub-Saharan Africa, as the economy recovers from the shocks, specially with the restoration of electric power supply, and the upturn in exports. The rate of inflation declined, and the current account position improved following terms of trade improvements.

In fiscal policy, the authorities aimed at creating the fiscal space required to respond to the crisis and support demand, while ensuring of fiscal sustainability. On the revenue side, the authorities implemented customs and tax administration reforms, adhered to the petroleum pricing mechanism and reformed tax policy with a view to improving revenue collection. On spending, they implemented measures aimed at increasing spending efficiency and reallocating scarce resources towards priority spending. They also intensified their efforts towards strengthening their capabilities to monitor and control the expenditure chain, and increase the transparency of government operations. In result, they achieved their fiscal surplus target while increasing social spending outlays particularly in the education and health sectors.

After reaching the completion point and benefiting from debt relief under the HIPC initiative and MDRI, the authorities intensified their efforts to further reduce public debt and use the savings thus realized to increase priority spending. They sought to secure the participation of the remaining bilateral and commercial creditors to the debt relief effort, and with donors' support, cleared a part of the public sector's domestic debt arrears.

Monetary and exchange rate policies which are set in the context of the CEMAC monetary union aimed at controlling inflation following increases in fuel and basic commodities prices. The authorities welcome the finding that the real exchange rate is in equilibrium. They are also appreciative of the recent allocation of SDR which they plan to use to bolster their reserves holdings, and retire expensive indebtedness with commercial banks. A share of the SDR allocations will be used to retire outstanding claims to the regional Central Bank which will increase the monetary policy authorities' options to flexibly respond to future shocks.

As regards structural reforms, the authorities have maintained reforms aimed at increasing the economy's resilience to exogenous shocks and promoting a private sector led growth. They took steps to improve the finances of the public utilities companies, including by improving the collection ratios on their receivables, and paying for the government's consumption of utilities. The authorities also implemented reforms aimed at improving the business climate, the management of natural resources, and governance.

V. Challenges Ahead and Medium Term Policies

The authorities immediate priority is the stabilization of the economy in the face of a challenging external and domestic economic environment, while laying the foundation for a sustainable and broad based growth path in line with their Poverty Reduction Strategy.

Fiscal Policy

The authorities will pursue a prudent fiscal stance going forward with the view to creating the fiscal space needed to stabilize demand in the short run, and increase poverty reducing and growth enhancing outlays. In the medium term, their policies will aim at strengthening the economy's resilience to shocks, and preserving fiscal sustainability post MDRI and HIPC initiative's debt relief. To that end, they will target a medium term fiscal surplus of 1 percent of GDP. To achieve this objective, they will implement reforms aimed at further increasing revenue collection, including through tax and customs administration reforms, and reforms of the petroleum products taxation. They will also step up efforts aimed at ensuring that spending is directed towards priority sectors such as the rehabilitation of the electricity infrastructure, the implementation of the peace process, and the mitigation of the impact of recent flooding in Bangui. They plan to intensify public financial management reforms, and with the assistance of the World Bank, conduct a public expenditure review in order to improve spending efficiency.

After benefiting from debt relief under the HIPC initiative and MDRI, my authorities are determined to preserve the hard achieved debt sustainability. They will continue efforts towards securing final debt relief from the remaining bilateral creditors at terms comparable to HIPC's. They will further endeavor to improve their debt management capabilities including by completing the build up of a comprehensive debt database with the inclusion of domestic debt, and claims on public utilities companies. The debt database will become a central tool in monitoring and managing public sector indebtedness.

Monetary and Financial Sector Policies

My authorities are committed to the development of the financial sector, through reforms of the judiciary, the reduction of the government's reliance on the banking sector which would enable increased private sector borrowing, and the strengthening of the banking sector's balance sheets.

Although CAR's banking system remains sound, an assessment which is shared by staff, the authorities are closely monitoring a commercial bank which is under stress. The difficulties of this bank which had been lingering for many years, was recently exacerbated by the global financial crisis and difficulties experienced by a major shareholder of the bank. The authorities ability to contribute to the resolution of the troubled bank had been limited by conditionality in the PRGF supported program, which was modified recently. Going forward, the authorities are committed to continue working conjointly with the regional regulatory and supervisory body, COBAC, to monitor the situation and are prepared to swiftly act to preserve the stability and soundness of CAR's financial system. In doing so they will closely consult with the Fund and the stakeholders involved.

Structural Reforms

The authorities structural reforms agenda aims at laying the foundation of a robust and diversified private sector-led economic recovery. To achieve this goal, they plan to intensify reforms aimed at improving the business climate, removing infrastructure bottlenecks, and enhancing governance and the delivery of public services.

In order to alleviate the acute shortages in public utilities, the authorities will invest in increasing production capacity, particularly in the electricity sector. They will also strive to improve the balance sheets of major public enterprises through timely payments of government's utility consumption, and the clearance of debt arrears owed to these companies.

The authorities will also take steps to improve the management of the natural resources sector in order to harness their sizable potential, including through continued compliance with the EITI initiative, and a review of the mining sector's legal framework to improve its competitiveness.

VI. Conclusion

Despite severe domestic and external shocks, the CAR authorities have made significant progress under the Fund supported program in stabilizing their economy, and implementing their poverty reduction and growth strategy.

As they strive to achieve their development objectives, they face daunting challenges including limited capacities and significant resources constraints. In particular, the peace and reconciliation process, and the realization of priority infrastructure projects are beset by significant funding shortfalls. A strong support from the international community, including the IMF's financial and technical assistance, will be critical in sustaining the momentum for reforms.

In light of the strong program implementation and the authorities commitment to sound policies going forward, I call on Directors to support my authorities requests.