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Central African Republic: 2004 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Central African Republic

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with the Central African Republic, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **February 1, 2004,** with the officials of the Central African Republic on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on March 9, 2004.** 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 staff supplement of **April 1, 2004** updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its April 2, 2004 discussion** of the staff report that concluded the Article IV consultation.

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

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

Selected Issues and Statistical Appendix Paper

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with the Central African Republic

Approved by Amor Tahari and Matthew Fisher

March 9, 2004

- The 2004 Article IV consultation discussions were held in Bangui, Central African Republic (C.A.R.) during January 19–February 1, 2004. The staff met with the President, the Vice-President, the Prime Minister, the Minister for Finance and other members of the government, and the acting National Director of the Bank of Central African States (BEAC), as well as representatives from the private sector, NGOs, labor unions, the donor community, the political opposition, and the press.
- The staff team consisted of Mr. Lewis (head), Ms. Albertin (EP), Mr. Callier, Ms. Denis, and Mr. Gudmundsson (all AFR). World Bank and African Development Bank representatives also participated in the discussions.
- In concluding the last Article IV consultation on July 12, 2000 (6/28/00), Directors noted that progress in economic and financial management in the C.A.R. had been limited, in part owing to the difficult political situation, and that the main objectives of the Fund-supported program had not been achieved. They urged the authorities to strengthen fiscal management and avoid a further buildup of domestic arrears. Some policy measures recommended by the IMF have been implemented since then, including implementation of a single-rate VAT in 2001 and creation of a large taxpayer unit, as well as the privatization of the sugar company and the preparation of an anticorruption law. However, the authorities made little progress with regard to budget monitoring and spending in the social sectors. In addition, progress made by the authorities was reversed or undermined by the destruction and instability linked to the numerous military events that have affected the C.A.R. since 2000. An Article IV consultation has not been completed since 2000 initially because of delays in program negotiations with which the Article IV was to have been paired, and then because of political instability. Formal contacts between the Fund and the C.A.R. were suspended from March to December 2003 because of insufficient international recognition of the new government following the coup d'état.
- The C.A.R. has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Outstanding obligations to the Fund totaled SDR 24.5 million (44 percent of quota) at end-December 2003. The C.A.R.'s relations with the Fund are summarized in Appendix II.

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EXECUTIVE SUMMARY

- **Since the mid-1990s, the political situation in the C.A.R. has been marked by recurrent military disturbances,** fed by a vicious cycle of weak governance, poor revenue mobilization, and arrears to civil servants and military personnel. The conflict escalated in the period from October 2002 to the coup d'état in March 2003, and was accompanied by sizable human casualties, substantial destruction, and a collapse of public administration. Since the coup, the political situation has been generally calm. A constitutional referendum is scheduled for October 2004, and elections in January 2005.

- **The conflict that ended in March 2003 shattered the economy.** In 2003, real GDP contracted by 7 percent, exports and imports fell sharply, and the drying up of international assistance contributed to a further deterioration of the balance of payments. Public finances are in a very distressed position. Revenue (only 7½ percent of GDP) fell by more than 30 percent in nominal terms in 2003. By early 2004, the government had failed to pay November and December wages. The C.A.R. has been making almost no payments on its external debt.

- **The C.A.R. finds itself in a very precarious position.** As it recovers from the conflict, the C.A.R. must reverse the low growth, poor fiscal performance, corruption, and accumulation of arrears that have plagued the country for a number of years. The immediate challenge is to improve the fiscal position, which if not successfully addressed could further undermine the functioning of the state. A combination of measures to improve revenue collection and restrain spending are needed. Some encouraging steps have been taken to reduce the public sector wage bill and these should be sustained.

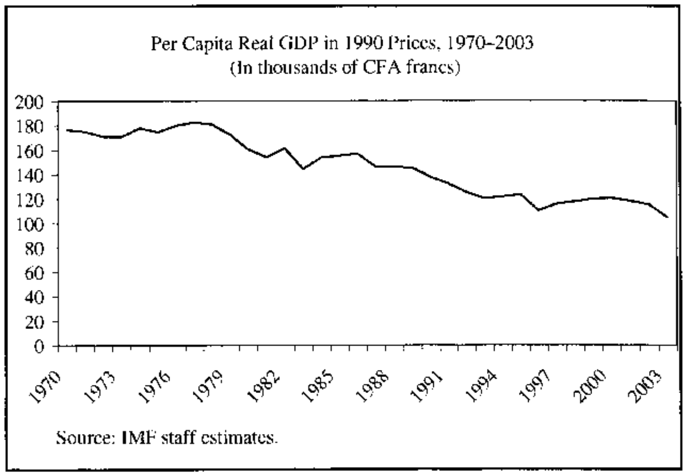
- **Improved governance is also essential**, both to enable the state to provide a minimum of essential public goods and to promote growth by attracting investment. Structural reforms, notably in the mining and forestry sectors, are necessary to strengthen governance and stimulate economic activity.

- **The situation in the social sectors is very disquieting.** A reallocation of expenditure toward these sectors will be essential if the authorities are to make a serious dent in poverty. Substantial support from the international community will also be critical.

- **The C.A.R.'s external debt situation is difficult, with a sizable stock of arrears and a very heavy burden over the medium term.** The C.A.R. could be in a position to benefit from the HIPC initiative, but would need to establish a track record of policy implementation under a PRGF and prepare a full PRSP before reaching the HIPC decision point. The CAR presents a payment risk for the Fund.

- **Action by the authorities is urgently needed to tackle the difficult economic and financial situation, and to send a strong signal to the international community, including the Fund, that the authorities can effectively implement economic reforms.** Implementation of the priority actions agreed with the staff and achievement of the authorities' quantitative financial targets in the period ahead will be an important signal.

I. Background



1. **The landlocked Central African Republic (C.A.R.) is one of the poorest countries in the world.** Despite a rich endowment in natural resources and arable land, political instability since independence has undermined economic development and led to a steady erosion in living standards. Since the mid-1990s, the political situation in the C.A.R. has been marked by recurrent military disturbances, often accompanied by substantial pillaging. These events, following years of decay, have led to a destruction of the country's capital stock, an unraveling of public administration and collapse of the formal private sector, and a growing impoverishment of the population. Despite periodic efforts at reform, the instability has likewise undercut the C.A.R.'s efforts to mobilize support from the international community, including the Fund (Box 1).

2. **The instability has been fueled by a vicious cycle of weak governance, poor revenue mobilization, and resulting wage arrears to civil servants and military personnel.** These problems became increasingly pronounced in the last few years: starting with an attempted coup in May 2001, active military opposition to the government increased, as did the associated property destruction, looting, and displacement of the civilian population. The period from an attempted coup in October 2002 to the coup d'état in March 2003 was marked by a further escalation of the conflict, with at least one-third of the country a battle zone. This period was accompanied by sizable human casualties, substantial destruction, and a collapse of public administration in most areas of the country.

3. **Since the March 2003 coup, the political situation has been generally calm. Greater political stability was furthered by a national forum in September and October that discussed proposals for resolving the country's political difficulties.** The new transitional government appointed in December 2003 is more technocratic in the economic and financial areas than the one it replaced. The electoral season will begin in earnest later this year, with a constitutional referendum in October 2004, to be followed by legislative and presidential elections in January 2005.

Box 1. Discussions with the Fund, 2000–03

Subsequent to the 2000 Article IV consultation, discussions between the C.A.R. authorities and Fund staff aimed at getting the authorities' program back on track. The Executive Board approved a second annual arrangement under the existing Poverty Reduction and Growth Facility (PRGF) on January 10, 2001 (12/28/00). However, the program again went off track, and a six-month staff-monitored program (SMP) was then put in place for the period October 2001–March 2002 (11/26/01). The first quarterly review of the SMP was completed in May 2002 (5/22/02). Implementation improved in the second quarter (January–March 2002), and the continued satisfactory performance beyond the period of the SMP provided a good basis for a possible three-year successor program. However, difficulties in finalizing an arrears settlement with the C.A.R.'s multilateral creditors, followed by the attempted coup in October 2002, prevented the staff from proceeding further with presenting the authorities' request for a three-year PRGF arrangement.

Following the attempted coup and the derailment of program discussions, the authorities agreed to proceed with a stand-alone Article IV consultation, but this was precluded by the March 2003 coup d'état. Technical discussions on recent economic and financial developments were held in Paris over the period October 30–November 7, 2003.

4. **The security situation, supported by the stationing of several hundred troops each from France and the countries of the Central African Economic and Monetary Community (CEMAC), has likewise improved markedly since the March coup.** The strengthening regional security environment has also played a role, notably as regards the advancement of the peace process in the Democratic Republic of the Congo (DRC). However, many rural areas continue to be plagued by banditry, and the authorities have had some difficulty controlling the affiliated forces that helped bring them to power. The authorities, with the support of donors, are putting together a major demobilization and reintegration program, although this effort is only just getting under way.

5. **These political and military developments have had a dire impact on social conditions**, which, on the basis of anecdotal information, worsened further during the October 2002–March 2003 period. Public health and education services in particular have suffered, and are only starting to return in many areas of the country. The incidence of HIV/AIDS

Social Indicators, 1970–2001

	Latest Single Year		
	1970-75	1980-85	1995-2001
Public expenditure			
Health (percent of GDP)	..	..	1
Education (percent of GDP)	5	2	2
Net primary school enrollment rate			
Total (percent of age group)	50	61	55
Life expectancy at birth (years)			
Total	44	47	43
Prevalence of HIV (female, percent ages 15-24)	...	...	14
Mortality			
Infant (per 1,000 live births)	135	118	115
Under 5 (per 1,000 live births)	219	185	180
Maternal (modeled, per 100,000 live births)	..	..	1,200

Source: World Bank, *World Development Indicators*, 2003.

continues to rise, and according to recent surveys may now be more than 15 percent in the adult population. The northern regions were particularly hard hit, suffering from military occupation and isolation during the conflict, as well as destruction of medical and educational infrastructure. There has also been a worrisome reappearance in these areas of certain epidemics such as measles.

II. Recent Economic and Financial Developments

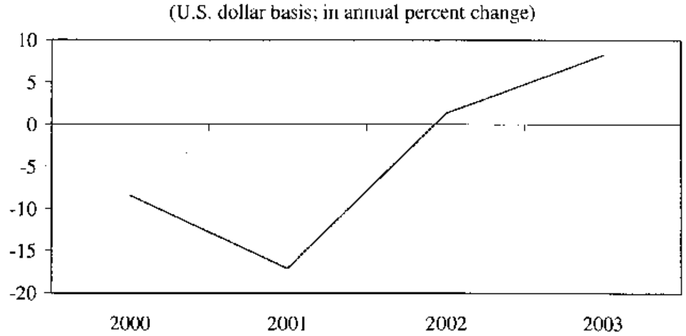
6. **The period since 2000 has been marked by poor economic performance owing in large part to the military disturbances, but also to labor strikes, corruption, and poor program implementation.**[1] Real GDP growth slowed to about ½ of 1 percent on average during 2000–02, in contrast to average growth of about 3½ percent during 1998–99 (Table 1). Although the external current account deficit remained largely unchanged, both exports and imports contracted sharply. The fall in exports was due mainly to sharp world price downturns in 2000–01, followed by a decline in the volume of diamonds, as well as a collapse in cash crop exports; the fall in imports was primarily related to the drop in public investment. The real effective exchange rate appreciated by about 1½ percent during 2000–02 (period average), reflecting a small upward trend in the nominal exchange rate.

Key Macroeconomic Indicators, 2000–03

	2000	2001	2002	2003 Est.
	(In annual percentage change)			
Real GDP growth	1.8	0.3	-0.6	-7.3
Inflation (annual average)	3.2	3.8	2.3	4.2
	(In percent of GDP)			
Overall fiscal balance, commitment basis, incl. grants	-1.8	-0.9	-1.2	-3.1
External current account balance	-3.0	-2.5	-2.4	-4.8

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

Terms of trade, 2000–03
(U.S. dollar basis; in annual percent change)



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

[1] Section I in the selected issues paper discusses recent economic developments in more detail.

7. **The conflict that ended in March 2003 shattered the C.A.R.'s economy. Real GDP contracted by 7 percent in 2003, with cash—or nonsubsistence—activities performing even more poorly.** The formal sector of the economy is in a particularly dire state: with the exception of a brewery, a cigarette plant, and a few sawmills, there are no private formal sector manufacturing enterprises still functioning. Cotton production has largely ceased. Output in the subsistence and livestock sectors, for which data are very thin, appears to have been stagnant.

Real Growth in Subsistence GDP , 2001–03
(In annual percent change)

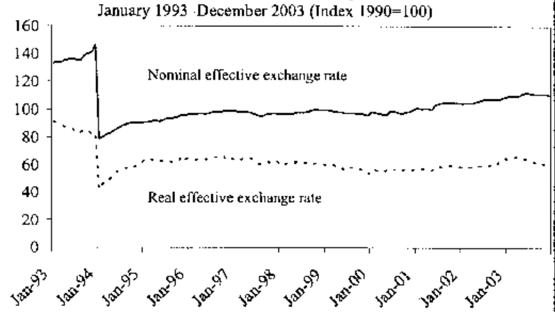
	2001	2002	2003 Est.
Real growth in subsistence GDP 1/	6.6	2.1	1.8
Real growth in overall GDP, excl. subsistence	-1.3	-1.3	-9.8

Source: IMF staff estimates.

1/ Subsistence is calculated as the sum of noncommercialized subsistence agriculture, fishing, and hunting.

8. **Exports and imports fell dramatically in 2003**, although the drop in exports was in part due to the suspension of mining and forestry permits following the March coup, as the authorities attempted to clean up activity in these sectors. The weakened trade balance and a low level of international assistance led to a further deterioration of the overall balance of payments, despite the C.A.R. making almost no payments on its external debt. Monetary aggregates—with the exception of net credit to government—also fell. Average inflation in 2003 increased and was slightly higher than in most other CEMAC countries, largely owing to higher food prices resulting from transport disruptions. The real effective exchange rate is estimated to have appreciated by about 5 percent in 2003, reflecting mainly the appreciation of the euro, to which the CFA franc is pegged.

Effective Exchange Rate Developments,
January 1993 -December 2003 (Index 1990=100)



Source: IMF, Information Notice System (INS).

9. **Public finances are in a very distressed position,** and the overall budget deficit (on a commitment basis, and including grants) widened by about 2 percent of GDP in 2003 (Table 2). Revenue fell by more than 30 percent in nominal terms, from almost 11 percent of GDP in 2002 to about 7½ percent in 2003, due in part to the economic downturn and a collapse of the private formal sector.[2] In addition, the looting and dislocations from the conflict disrupted the activities of tax agencies, as did an increase in fraud and continued rampant corruption.

[2] 2002 revenues were inflated by a growing recourse to advance tax payments and a large increase in mining and forestry licenses provided on a discretionary basis.

10. **As a result, the authorities were not able to implement their budget for 2003.** Current primary expenditures were about 20 percent lower than initially budgeted, domestically financed capital expenditure was sharply curtailed, by about 40 percent compared to the budget, and the authorities were unable to service their debt to most external creditors. Moreover, given the lack of an adequate system for the monitoring of expenditures, there is uncertainty whether some of the payments made in 2003 effectively corresponded to expenditure commitments in the 2003 budget. This is especially the case with regard to payments for goods and services, where it appears both that suppliers have been paid for services corresponding to expenditure commitments of previous budgets, and that unbudgeted expenditures, in particular related to security, have been made. Because of the presence of a sizable stock of domestic arrears (Box 2), many suppliers provide goods only after payment in full or even settlement of existing arrears. Mostly as a result of the conflict, externally financed investment expenditure represented less than a third of its level in 2002.

11. **The government continued accumulating domestic arrears, notably on civil servant salaries, a key source of political instability in the recent past.** In spite of the government's declared objective to ensure the regular payment of salaries starting in April 2003, the government had, as of January 2004, failed to pay November and December wages. Government overdrafts from the commercial banks are subject to real interest rates of about 15 percent—very high by CEMAC standards—and the BEAC now applies penalty rates since the C.A.R. has exceeded its limit on statutory advances.

12. **In this context, the financial system has been drained of liquidity,** to the extent that banks have had difficulties executing in a timely fashion payment orders on behalf of their depositors. To help the liquidity situation, the BEAC in May 2003 temporarily suspended reserve requirements for C.A.R. banks. Furthermore, the deadline for repayment by the banks of part of the credit under the aborted 2001–02 cotton campaign, which was refinanced by the central bank (and guaranteed by the government), has repeatedly been extended. Reflecting its very weak portfolio, one of the three banks, the Banque Internationale pour la Centrafrique (BICA), currently has negative equity.

13. **Administrative capacity has suffered enormously from the political instability, most notably from the destruction during October 2002–March 2003, further undermining the authorities' ability to provide public services.** Administrative buildings, in particular of the tax agencies, were sacked in both Bangui and the provinces, while public officials fled from many conflict areas, further damaging the productivity of most government institutions. According to the authorities' estimates, the events led to a loss by the Ministry of Equipment and Transport alone of machines and equipment amounting to about 2 percent of GDP. The private sector was directly affected as well: a survey by the Tax Directorate of 158 enterprises operating in Bangui before the March events showed that 23 had been entirely looted and 36 partially looted, leading to a significant decline in tax receipts. A number of the looted enterprises have ceased their activities. The Customs Directorate indicated that, in addition to the loss of equipment, the conflict had led to a

Box 2. Domestic Arrears

According to the authorities, the stock of domestic arrears at end- December 2003 amounted to CFAF 215 billion (31 percent of GDP), divided among the categories shown below. The amounts are preliminary estimates, and for certain categories, the totals could be much higher.

Domestic Arrears, as of December 31, 2003
(In billions of CFA francs, unless otherwise indicated)

Nature of Domestic Arrears	Stock	In Percent of Total
Frozen salaries	61.1	28.4
2003 salaries	10.0	4.7
Scholarship and university vacation fees	2.2	1.0
Pensions	11.5	5.4
OCSS	24.0	11.2
Commercial banks 1/	7.8	3.6
BEAC	5.1	2.4
Suppliers of goods and services	93.2	43.4
Total	214.9	100.0
As a percent of GDP	31.0	...

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

1/ This figure does not contain the amount of overdrafts exceeding the agreed levels.

Arrears to **suppliers of goods and services** represent the largest share. These arrears weigh heavily on firms and the financial sector, with the public utilities particularly hard hit. Owing to corruption, weaknesses in public expenditure management, and looting of treasury offices, there is significant uncertainty as to the amount of these arrears.

Salary arrears include amounts from 1992, 1993, 2001, 2002, and 2003, and total more than two years of the wage bill. Lack of harmonization between the payroll office and the civil service ministry results in uncertainty about the size of the civil service and difficulties in eliminating "ghost workers." A census of civil servants, organizational and functional audits of the main ministries, and the introduction of a harmonized file for civil servants would help rationalize wage management.

Arrears to **the private and parapublic sector pension agency (OCSS)** mainly reflect unpaid social security contributions of the government and municipalities for noncivil servant public employees (e.g., consultants and day laborers), as well as advances of the OCSS to the government and parastatals, unpaid rent to the OCSS, and frozen assets of the OCSS at the treasury. As a result, the OCSS is about two years in arrears on pension payments to the retirees in its system.

Arrears to the **BEAC** reflect amounts overdue on statutory advances, consolidated loans, and exceptional advances from the Mission of the United Nations in the Democratic Republic of the Congo (MONUC). Arrears to the **banking system** consist mainly of overdue loans to public enterprises guaranteed by the government.

Domestic arrears were audited in late 2002 by an auditor financed by the European Union (EU). One conclusion of the audit was that many arrears, particularly for goods and services, may not be verifiable, due to the weak management and recording of public expenditure.

marked slowdown in trade flows, an increase in fraud, and thus a reduction in customs receipts.

14. **Regarding foreign assistance, many donors pulled out of the C.A.R. in the wake of the conflict.** Since then, donors' support has been limited. However, China, France, and the C.A.R.'s CEMAC neighbors provided some budgetary support during 2003, and France and the European Union (EU) are now providing technical assistance. A number of UN agencies are engaged in providing humanitarian assistance and support to the social sectors in the C.A.R. The World Bank has restarted its analytical and advisory work, but because of the C.A.R.'s outstanding arrears to the Bank, has very little ongoing project activity (Appendix III). Several international nongovernmental organizations are also present.

III. Policy Discussions

15. **The discussions took place as the C.A.R. embarked upon an immensely difficult reconstruction phase, faced with the challenge of reversing the declining output, poor fiscal performance, corruption, and accumulation of arrears that had plagued the country for a number of years.** The authorities underlined that, since coming to power in March 2003, their priorities had been to restore security to the country, undertake the electoral process, and address the pressing economic and financial situation. They emphasized that significant progress had been made in improving security and furthering a peaceful political transition, but recognized that the economy remained in a dismal state and public finances had deteriorated sharply in 2003. For 2004, they emphasized that their attention would turn firmly toward redressing the pressing economic and financial problems.

16. **A central theme of the discussions was the authorities' conviction that a return of international assistance, including Fund financial support, was necessary to improve the economic situation.**[3] In their view, Fund support—and budgetary assistance conditional on an IMF-financed program—is needed to help return the state to a better functioning level, thereby ensuring the provision of public services, improvements in tax collection, and stronger economic management. Fund support would also, the authorities stressed, foster expectations of a more robust financial environment, thereby promoting private sector investment. In this context, the authorities requested that the C.A.R. be considered at an early date for support under the Fund's post-conflict emergency assistance (PCEA) policy.[4]

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[3] A donors meeting is expected to be held sometime in the second quarter of 2004.

[4] The main requirements for support under the PCEA policy are an urgent need for help in meeting essential current payments; a disruption to the country's institutional and administrative capacity so that the member is not yet able to develop and implement a comprehensive program that could be supported by a Fund arrangement; a concerted international effort to address the aftermath of the conflict in a comprehensive way; and

(continued…)

17. **The staff recognized the pressing economic and social challenges, but underlined that Fund financial support would be ineffective in the absence of concerted action by the authorities to redress the current economic difficulties.** The staff also stressed that it was crucial that the authorities demonstrate some capacity to implement economic reforms and attack corruption, so as to send a signal to the C.A.R.'s external partners. The C.A.R.'s credibility on economic reform is low, given the past history, and even though the country is emerging from a period of conflict with a new government, the credibility problem remains. In this spirit, the authorities and the mission agreed on a set of quantitative targets and priority measures that would serve as the basis for evaluating the authorities' ability to implement economic reforms and attack corruption (Appendix I).

18. **In this context, the discussions focused on the following:**

- macroeconomic prospects in the period ahead;
- measures in the fiscal area that would help stabilize the public finance situation and allow some provision of public services;
- steps to improve governance and fight corruption; and
- technical assistance needs.

A. Macroeconomic Outlook

19. **The authorities and staff agreed that only a mild pickup in real GDP was expected in 2004.** A small increase in subsistence agricultural output is projected as security gradually returns to rural areas, accompanied by increased production in the mining and forestry sectors as activity recovers to a normal level. However, the widespread destruction to the capital stock and institutional base, as well as continued political uncertainty and security problems, limits the room for any strong supply response in the short term. Inflation will likely be muted in 2004, given the higher expected output of food products and more normal transport conditions.

20. **The external current account is expected to improve in 2004, owing in large part to the significant rebound in mining and forestry exports (Table 3).** Moreover, cotton exports should resume, reflecting the export of inventories from previous harvests. Imports, notably those related to the public investment program, are expected to rise moderately as international assistance picks up gradually in 2004. The terms of trade are projected to improve, owing primarily to the anticipated rise in the world price of diamonds, hardwood, and sawn wood.

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sufficient capacity, nonetheless, for policy planning and implementation, and demonstrated commitment on the part of the authorities.

Comparison of Scenarios, 2004–06

	Baseline			Low-case		
	2004	2005	2006	2004	2005	2006
Real GDP growth, in percent	2.5	4.4	4.2	1.0	1.3	1.0
			(In percent of GDP)			
Overall fiscal balance, commitment basis, incl. grants	-1.0	-0.4	-0.1	-3.4	-4.1	-4.8
Total revenue	8.7	9.0	9.5	8.0	8.1	8.2
External current account balance	-2.7	-1.5	-0.9	-2.6	-2.6	-3.1

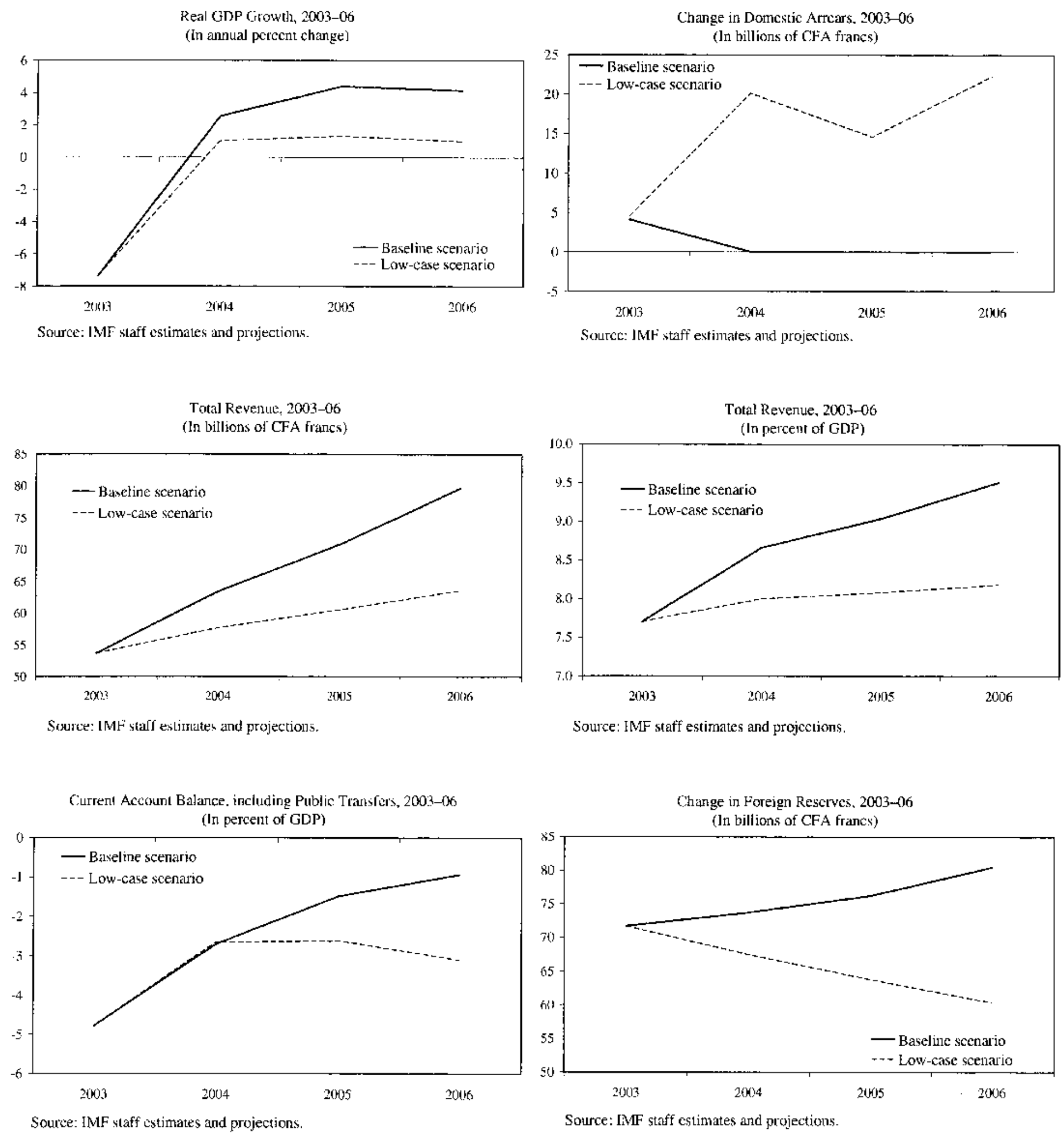
Sources: C.A.R. authorities; and Fund staff estimates and projections.

21. **Over the medium term, on the assumption that the political transition proceeds smoothly and macroeconomic management improves, real GDP growth is expected to pick up to an annual rate of about 4 percent.** Savings and investment are anticipated to recover, while foreign assistance is projected to rise more rapidly in 2005, which should lead to a boost in public investment, particularly in infrastructure. Capacity constraints in the agriculture and natural resources sectors will limit growth, while the poor state of the capital stock will dampen the supply response in manufacturing. The balance of payments should improve as exports grow and foreign assistance picks up. Imports are also expected to rise considerably, in line with the increase in donor-financed investment projects.

22. **The key risks concern the maintenance of political stability and the ability of the authorities to implement sufficiently strong policies.** The staff discussed with the authorities a low-case scenario under which the authorities would not be successful in implementing corrective measures, with the result that in 2004, revenue would be 10 percent lower than under the baseline scenario, and expenditures would be 13 percent higher (in line with the initial draft budget prepared before the discussions). As a result, the public finance situation would continue to deteriorate and domestic arrears would accumulate rapidly (there is no accumulation of domestic arrears in the baseline scenario). Because of these arrears and the uncertainty concerning the payment of wages, the expected pick-up in private consumption would not materialize; the growing uncertainty would prevent the return of activity in the mining and forestry sectors to pre-crisis levels. The lack of external support would imply a lower level of externally financed capital expenditures. There is no assumption about budgetary support in either scenario, but the residual financing need would be about 3 percent of GDP higher under the pessimistic scenario. Real GDP growth, although positive, would be on the order of 1 percent (as opposed to 2.5 percent in the baseline scenario). Both imports and exports would fall, as would the level of international reserves.

More importantly, over the medium term, real GDP would remain stagnant, with a fall in per capita income, and the financial position of the state would deteriorate further. Social conditions would inevitably worsen. The authorities and staff agreed that such a scenario would not be conducive to national political consensus and the consolidation of peace and security.

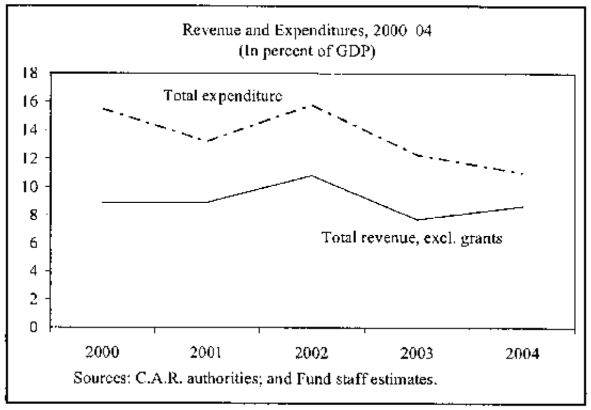
Figure 1. Alternative Macroeconomic Scenarios, 2003–06



B. Fiscal Policies

23. **The authorities agreed that progress in redressing fiscal imbalances was central to restoring macroeconomic stability and reestablishing a functioning state.** Action is urgent, given the worsening revenue performance in late 2003 and the bleak prospects for international assistance in the coming months.

24. **The authorities' draft 2004 budget, expected to be adopted in March, envisions an improvement of about 2 percent of GDP in the overall balance, an adjustment based equally on stronger revenue and restrained spending.** The authorities considered that the revenue projections were ambitious but realistic, reflecting their intention to combat fraud, strengthen administrative capacity, and bring economic activities back into the formal tax net. The expected resumption of normal activity in the mining and forestry sectors will also boost revenue. The authorities indicated that they intended to strengthen customs posts at the key entry and transit points into the country, improve controls of value-added tax (VAT) declarations, pursue more frequent audits of businesses benefiting from preferential small business taxation, and reduce exemptions.



25. **The staff considered that the budget target was feasible but would require reversing the slide in fiscal management of recent years.** In the revenue area, implementation of the authorities' measures and some return of administrative capacity in the tax agencies—combined with a full year of more stable economic activity—should yield a substantial improvement in revenue performance. As a share of GDP, the target is still below levels achieved in 2000–02. The staff underlined that some of the measures the authorities proposed had been planned for several years, but were never satisfactorily implemented. In particular, improving fiscal performance would require more resolute efforts regarding tax controls, a particular weakness in the past. Also, while recognizing the severe constraints facing the authorities in terms of equipment, the staff noted that, in order to improve tax collection, it would be essential for the Customs and Tax Directorates to systematically share their information on taxpayers via a computerized system.

26. **The 2004 draft budget is very tight on spending, with a reduction in nominal terms of 6 percent from the 2003 outturn.** The anticipated spending cuts would primarily affect current expenditure on goods and services, as well as domestically-financed capital expenditure. The staff agreed that this effort would be needed not only because of the limited resources available and the absence at this stage of external budgetary support, but also to generate the narrow primary surplus necessary for meeting, at a minimum, the C.A.R.'s interest payments to the domestic banking system and its obligations to the Fund. However,

the staff also noted that the expenditure restraint would severely test the authorities' ability to manage spending. If not handled carefully, the low level of spending could further undermine the functioning of the state, and lead to greater public disaffection.

27. **The staff underlined that the spending restraint required in 2004 should not rest on cash rationing by the treasury and the consequent accumulation of arrears**, which had been the case until now. Improvements to the public expenditure management system, now in disarray, are urgently needed: expenditure control mechanisms are lax, as recourse to exceptional spending procedures, now the norm, prevents an adequate monitoring of the spending process from the commitment to the payment stages. The mission also emphasized that the nomenclatures of the budget and the treasury should be harmonized as quickly as possible. The authorities were well aware of the problems, but noted the obstacle that many suppliers provide goods and services only on the basis of up-front cash payments. They also stressed that technical assistance in this area would be essential, in light of the complexities of reforming the expenditure management system (Box 3). In the short term, the authorities are putting in place a monthly cash-flow plan and will halt the payment of arrears from the previous budgetary exercise, pending a more systematic examination of the arrears. The authorities noted that some additional effort at verification of arrears of goods and services would be necessary, although this would be very difficult, given the destruction of some treasury offices and the sizable amount of claims supported by fraudulent documentation. Salary arrears would likely be addressed through discussions with the labor unions. The staff encouraged the authorities to initiate discussions with their social partners on salary arrears as soon as possible, and to request support from donors for studies to verify, to the extent possible, the outstanding stock of domestic arrears.

28. **The staff stressed that, since April 2003, the public sector wage bill had absorbed more than 90 percent of liquid government revenue and more than 60 percent of total government revenue.**[5] Such a disproportionate share allocated to wages cripples the functioning of state services and leaves few resources for the priority social sectors; this problem risks becoming even more pronounced in 2004.[6] The authorities shared this view, noting that the wage bill was always at risk of running into arrears; when it did, civil servants either did not work or supplemented their income through corruption. The authorities indicated their intention to freeze recruitment—outside the education and health sectors, and for some security functions—and to restrict allowances, before pursuing a thorough civil service reform agenda in the medium term, based on a comprehensive census of civil

[5] Liquid revenue excludes withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports.

[6] Based on information provided by the authorities for the first three quarters of 2003, it appears that spending on public health and education during that period represented about 18 percent of total government expenditure, and a much smaller share of nonwage spending.

servants. The short-term measures were expected to reduce the wage bill by about 5 percent from initial projections. As a first step, the authorities in mid-February 2004 reduced the salaries of the ministers and top officials by 30 percent, which will lower the overall wage bill by about 2 percent. They have also submitted a much more far-reaching proposal to the quasi-legislative body, the National Transition Council, whereby all salaries would be reduced by 10–30 percent, depending on the grade.

29. **Regarding treasury management, the staff shared the authorities' concern about the increasing share of illiquid tax receipts,** as enterprises were offsetting taxes against payments arrears and tax payments passing through the banking system were being seized by the commercial banks to settle interest arrears on outstanding government debt. Also, a sizable fraction of revenues transiting through the treasury are earmarked for the accounts of specific ministries, including, in particular the mining and forestry ministries. The staff noted that the multiplicity of government accounts in the commercial banks hindered sound cash management. In this regard, the staff welcomed the authorities' intention to eliminate most of the earmarked accounts and to ensure that all related revenues would effectively be placed in a unified account at the treasury. The staff noted that the reporting of advance tax payments had improved considerably, but cautioned about continued reliance on such schemes and questioned whether companies received any advantages for advance payments. The authorities noted that recourse to advance tax payments—the stock of which was about 0.2 percent of GDP at end-2003—was unlikely to grow, if only because of the tight liquidity position of enterprises and banks. They also stressed that companies paying taxes in advance received no advantages for doing so.

Box 3. Technical Assistance Needs in the Fiscal Area

The C.A.R. will need considerable technical assistance (TA) in the fiscal area to strengthen fiscal management and implement economic reforms. Since November 2003, France has been providing TA in the areas of revenue administration and public expenditure management, and has indicated it would provide up to EUR 1.4 million to support efforts to enhance macroeconomic management. The EU will also be providing TA for the implementation of a public finance road map adopted by the government on November 19, 2003. The EU's support will include the assignment to Bangui of 18 technical experts. The Fund's Fiscal Affairs Department plans to provide TA in the first quarter of 2004 through two diagnostic missions, one on tax and customs administration, and the other on public expenditure management; both of these missions will also identify future TA needs. Some of the authorities' priority measures may be modified in light of the missions' findings. Coordination of all these efforts will be necessary, in order to ensure consistency with regard to recommendations, avoid redundancy, and prevent excessive demands being placed on the administration's limited resources.

C. Monetary and Financial Sector Policies

30. **Monetary policy is carried out at the regional level by the BEAC, with little scope for action at the national level.** In this context, the authorities' main objective has been to support the maintenance of the current fixed exchange rate regime. The authorities expected money demand to recover slightly in 2004 as the security situation gradually improves, and, with the mild upturn in economic activity in 2004, the banks should be able to mobilize additional resources, thereby alleviating the liquidity shortage (Table 4). No increase in net credit to government is projected, which would allow growth in both credit to the economy and net foreign assets.

31. **While the staff considered this scenario realistic, it encouraged the authorities to reestablish the conditions for ensuring a stronger liquidity position of the financial sector.** In particular, an improved fiscal position would be central to boosting the liquidity of the banks. The staff agreed that, under the current conditions, it would be sensible to extend further the deadline for repayment of the balance of earlier cotton refinancing provided by the BEAC. Efforts to increase the share of bank credits eligible for central bank refinancing might also be warranted. Eventually, as the liquidity position of the banks improves, the authorities should consider a return to regional reserve requirements.

32. **The authorities explained that efforts were being made to identify a qualified investor who would be willing to help recapitalize the BICA**, which is not meeting the prudential ratios.[7] The staff emphasized that any investor must be accepted by the regional supervisory agency (COBAC) before being allowed to participate in the capital of the bank, in accordance with existing regulations, and that, in the meantime, existing shareholders should be responsible for restoring net equity to positive levels and meeting prudential standards.

33. **The staff was encouraged by the authorities' expressed determination to implement the new regional regulatory framework for the microfinance sector enacted in 2002 by the COBAC, and thereby foster the development of the sector.** The institutional arrangements are being put in place, including the establishment in December 2003 of a monitoring unit at the Ministry of Finance. The microfinance institutions—the biggest of which is by far the Crédit Mutuel de Centrafrique (CMCA)—have two years to adjust their structures and balance sheets to conform to the new regulations and meet the prudential ratios.[8] To reduce opportunities for corruption generated by cash payments of civil service wages (almost 40 percent of these wages are paid in cash), the authorities intend to

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[7] Section II of the selected issues paper discusses recent financial sector developments.

[8] The CMCA, created in 1994, has 48,000 members, with 10 branches in Bangui and 8 in the provinces. The CMCA suffered extensive looting and destruction during the recent conflict.

negotiate an arrangement with the CMCA to process the payment of salaries to civil servants who do not have a bank account.

D. The External Sector and Regional Integration

34. **The C.A.R. has for the most part not been servicing its external debt for almost two years and will most likely continue to accumulate arrears, at least through the first part of 2004.**[9] Total arrears on external debt stood at about $335 million, 26 percent of GDP, with arrears to multilateral creditors alone at close to $95 million, about 8 percent of GDP, as of end-December 2003. The staff encouraged the authorities to initiate discussions on arrears settlement plans with their multilateral and bilateral creditors. It stressed that any newly contracted debt should be on highly concessional terms, and that assistance should preferably be in the form of grants.

Arrears Due to Multilateral Creditors,
As of end-December 2003

	In millions of U.S. dollars	In billions of CFA francs
World Bank	26.1	14.1
AfDB	31.3	16.9
BADEA	11.3	6.4
OPEC Fund	12.5	6.7
BDEAC	5.2	2.8
IFAD	3.7	2.0
EIB	2.9	1.6
EU	1.5	0.8
Total	94.5	51.4

Source: Fund staff estimates.

35. **A preliminary debt sustainability analysis conducted in 2002 pointed to an unsustainable external debt situation, with the net present value (NPV) of debt-to-exports ratio projected at about 350 percent in 2002.** Updated data indicate that, even after clearance of arrears to multilateral creditors and debt relief from bilateral creditors, the C.A.R.'s debt indicators would be very high, suggesting an unsustainable burden. The ratio of the NPV of public debt to exports would remain well over 300 percent over the medium term (Table 7), while the ratio of debt service to revenue and grants would be above 30 percent in most years (Table 8). In this respect, the C.A.R. could be in position to benefit from debt relief under the HIPC initiative, but would need to establish a track record of policy implementation under a PRGF arrangement and prepare a full PRSP before reaching the HIPC decision point.

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[9] The total financing gap for 2004 is estimated at CFAF 24 billion (3 percent of GDP), which, in the absence of balance of payments assistance, would be covered by the accumulation of external arrears. While the medium-term outlook likewise implies a further accumulation of external arrears, a solid track record of implementation would allow the C.A.R. to eventually reach agreement on an arrangement under the Poverty Reduction and Growth Facility (PRGF), which could lead to debt relief from Paris Club creditors. By that time, it would be expected that a settlement plan on arrears with multilateral creditors would be reached.

36. **The staff emphasized the importance of the C.A.R.'s meeting its obligations to the Fund in a timely manner to demonstrate the authorities' willingness to help safeguard the revolving character of Fund resources.** Although the C.A.R. has been servicing its outstanding obligations, repayments on the previously disbursed PRGF arrangement commenced in January 2004; and this first repayment was met with difficulty. The C.A.R.'s obligations to the Fund pick up further in 2005, which will place an additional strain on resources for the authorities.

37. **The staff observed that the C.A.R. economy had become increasingly isolated in recent years, as measured by international trade indicators.** The economic and security situation has dampened export production and demand for imports, and led to a deterioration of infrastructure and transport links. In addition, the very large number of checkpoints on the roads has raised—primarily because of extortion—the already high transport costs, further hampering trade and economic activity. The staff stressed that, in this respect, the external competitiveness of the C.A.R. had been severely compromised; reportedly, road transport costs were among the highest in sub-Saharan Africa. The authorities noted that they had tried to suppress many of the checkpoints, but that these subsequently reappeared, particularly when the security services were not receiving their salaries. The authorities also stated that they would, in cooperation with donors, be undertaking a study of transport costs in the C.A.R. and how these could be reduced.

Imports and Exports, 2000–03
(In percent of GDP)

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

38. **The authorities agreed with the staff that continued trade liberalization and regional integration would be a necessary component of an economic rebound.** The C.A.R. is currently rated 3 (on a standard 1–10 scale) on the Fund's Restrictiveness Index, on the basis of an 18 percent unweighted average tariff level, and a few non-tariff barriers. Since the last Article IV consultation, the C.A.R. has made significant progress in the implementation of the CEMAC's regulations, with the result that its current trade regime is mostly determined at the regional level.[10] In this context, customs duty rates have been progressively reduced, and the C.A.R. is currently fully compliant with the implementation of the regional common external tariff and value-added tax. Furthermore the authorities indicated that although the roadblocks remain a problem, the C.A.R. has dismantled internal tariff barriers, quantitative restrictions, and the temporary surcharge introduced to protect

[10] Section III of the selected issues paper examines the C.A.R.'s regional integration efforts in the context of the CEMAC.

local industrial products. However some distortions remain in the process of classification of the imported goods in the four common external tariff categories, and quantitative restrictions on sugar are still in place.

39. **The authorities noted that, as a member of the CEMAC, the C.A.R. was committed to complying with the regional macroeconomic convergence criteria,** although the past record had been disappointing. The authorities expected that two of the four criteria would be met in 2004: the projected easing of inflation in 2004 should allow that criterion to be met, and if the fiscal adjustment were implemented fully as planned, the C.A.R. would also meet the criterion on the nonaccumulation of external and domestic arrears.

CEMAC Convergence Criteria, 2001–04
(Ratios in percent, unless otherwise indicated)

	2001	2002	2003 Est.	2004 Proj.
Basic fiscal balance, in percent of GDP 1/ (criterion: non-negative)	-1.0	-0.5	-3.2	-0.4
Consumer price inflation, annual percent change (criterion: not higher than 3 percent)	3.8	2.3	4.2	2.2
Total public debt, in percent of GDP 2/ (criterion: not higher than 70 percent of GDP)	97.0	94.1	96.3	92.2
Accumulation in arrears, in billions of CFA francs 3/ (criterion: non-positive)	-7.3	21.3	28.4	0.0
Total number of criteria violations	*3*	*3*	*4*	*2*

Sources: CEMAC; Central African authorities; and Fund staff estimates and projections.

1/ Excludes foreign-financed investment.
2/ External and domestic debt.
3/ External and domestic arrears.

40. **The staff welcomed the authorities' commitment to the CEMAC institutional framework.** In addition, it underlined that greater trade with non-CEMAC neighbors, most notably with the DRC, was also important. Closure of the border has only boosted fraud and informal trade, dampening formal sector exports and reexports from the C.A.R. The staff urged the authorities to open the border with the DRC as soon as security conditions permitted.

E. Structural Policies

41. **The staff emphasized that efforts to restore security, promote economic growth, and reduce poverty would be in vain without progress on structural reforms and good governance.** Corruption is a major problem in the C.A.R., often rendering the state ineffective and, at the limit, parasitic. The authorities were candid in stating that corruption was endemic to much of the administration. Rooting it out has proved very difficult in the past, and they noted that it was not always clear what specific measures would succeed. Nonetheless, several key steps have been taken. The suspension of mining and forestry licenses following the March coup—with enterprises then obliged to reapply—was aimed at weeding out firms that had received discretionary licenses on a nontransparent basis under the previous regime or were not paying taxes. In February 2004, the authorities dissolved a special tax brigade that, although set up in late 2003 to strengthen tax enforcement, had in practice undermined the existing tax agencies, harassed taxpayers, and been accused of corruption. They agreed with the staff on the importance of transparency in fighting corruption, and to that end, planned to introduce greater openness into the process of applying for mining and forestry permits and, more generally, in overall fiscal operations. They noted

that the judicial system had been a weak link in pursuing corruption cases and to this end, intended to boost training on financial matters for judicial officials.

42. **The authorities expressed their determination to reform the mining sector, which accounted for over one-third of exports and was a major source of employment.** Their aim is to fight fraud, modernize the sector, and increase the share of value added accruing to the C.A.R. To this end, they have recently adopted a revised mining code, which they hope will spur mining activity and investment. However, the World Bank considers the code to have some important shortcomings as regards leaving the state both discretionary powers and room for participation in industrial activities of the sector. While acknowledging the authorities' desire to quickly enact a new mining code, the staff strongly advised them to take the time necessary to ensure that the code was consistent with best practice and to take full advantage of the expertise of the World Bank in that area. The staff emphasized that the new code should avoid granting the state discretionary powers, which had been a problem in the past, prescribe strict limits on—or ban the participation of—the state in industrial and commercial activities in the sector, and refrain from introducing tax exemptions beyond those that are already included in the common CEMAC framework. The staff welcomed the authorities' participation in the Kimberley process and encouraged them to participate in the Extractive Industries Transparency Initiative.[11]

43. **In the forestry sector, the authorities plan to reallocate through open tenders the forestry permits that were returned to the state following the 2003 controls.** In the coming months, they will, in cooperation with donors, including the World Bank, examine possible reforms to forestry taxation, as well as the regulatory framework for the sector. The staff cautioned against introducing distortions to promote related processing industries.

44. **The staff expressed concern about the perilous state of the public enterprise sector.** The combined total debt of the three public utilities (electricity, water, and telecommunications) is now close to 8 percent of GDP, most of which is foreign borrowing guaranteed by the state. These enterprises continue to accumulate financial losses and have very high technical losses in their operations, due both to their decayed infrastructure and fraud. The authorities noted that efforts were under way to improve the financial position of these entities, including for example, a census of subscribers and the introduction of a prepayment system for telecommunications. The authorities confirmed their intention to privatize the public utilities, although they pointed out that, until recently, the environment for privatization had been poor, and there was little donor support for carrying out the required preparations. The staff emphasized that including realistic budget allocations in the 2004 budget for the state's utility consumption would help improve the companies' financial

[11] Section IV of the selected issues paper discusses the diamond sector in the C.A.R. An appendix examines the C.A.R.'s participation in the Kimberley process.

position and agreed that involving the private sector in these sectors would ultimately be necessary to ensure greater investment.

F. Social Sectors

45. **The authorities, and representatives from civil society, underlined that the civil conflict had dramatically worsened the already insufficient provision of public health, education, and HIV/AIDS treatment and prevention.** The authorities expressed their commitment to improve social conditions in the C.A.R., including, notably, by increasing health and education services in the provinces. They pointed to recent progress in access to public health services in the capital Bangui, and in the creation of specialized infrastructure for HIV/AIDS treatment.

46. **The staff and the authorities reviewed recent progress in the preparation of the poverty reduction strategy paper (PRSP).** The authorities emphasized that, since the presentation of the C.A.R.'s interim PRSP in January 2001, the government had continued the preparation of the full PRSP, even if the process had been slowed by political instability.[12] They intend to complete the full PRSP by December 2004, although they agreed with staff that this schedule was very ambitious. To this end, the authorities have undertaken household surveys in rural and urban areas. They made clear that much work remained, including the analysis of the household surveys, the preparation of the notes on the determinants of poverty and economic growth, the costing of the programs and strategies for poverty reduction, and the preparation of an integrated macroeconomic framework incorporating the poverty strategy.

G. Statistics

47. **The authorities and staff observed that, with the exception of the monetary statistics (normally available with a six-week lag) the economic and financial database suffered from substantial weaknesses, which had worsened as a result of the conflicts.** A number of public agencies were subject to widespread looting and destruction, further undermining the ability of the authorities to collect and disseminate data. Real sector data collection is very weak at present; aggregates are now prepared on the basis of limited anecdotal information, with much of the reporting system having broken down. Public finance data suffer from significant compilation and classification problems, although the aggregates provide a generally meaningful view of the fiscal situation. The authorities currently provide the staff with information on the execution of their cash-flow plan on a regular basis. Looking forward, the authorities noted that, to improve surveillance and program monitoring, they should be in a position to produce on a quarterly basis a table on the financial operations of the government. This exercise will benefit from ongoing efforts to

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[12] Section V of the selected issues paper discusses the preparation of the PRSP in more detail.

improve the monitoring of the budget execution process. A mission from the Statistics Department (STA) was in Bangui in January–February, 2004 to make recommendations and assess future technical assistance needs on government finance statistics, the national accounts, and the General Data Dissemination System. With regard to government finance statistics, the mission underscored that, in order to establish a systematic compilation, substantial additional assistance will be required, notably in the area of treasury accounting and expenditure management.

IV. Staff Appraisal

48. **The political instability of recent years has devastated the C.A.R.'s economy, weakened public administration, and dramatically eroded living standards.** Looking forward, the C.A.R. finds itself in a very precarious position. The problems of the past remain—endemic corruption and administrative weaknesses, paired with the physical constraints of a landlocked country and poor infrastructure—to which are added the destruction and dislocations from the recent conflict. This legacy imposes a huge burden on the authorities as they attempt to extricate the economy from the vicious cycle of weak governance and poor fiscal performance that is at the root of the instability.

49. **The political transition thus far has been encouraging, but if the financial situation does not improve, negative underlying tensions could become more dominant.** The central challenge for the authorities is to maintain the political consensus for economic reform. At the same time, it is essential that the authorities move ahead, with appropriate international support, on their demobilization and reintegration program for former combatants to ensure that these forces do not pose further security risks or continue to harass the population.

50. **In this setting, the authorities will have to step forward and take the actions desperately needed to address the grave economic and financial situation.** International assistance, including potential Fund financial support, could play an important role in helping to reverse the C.A.R.'s difficult situation. However, until recently the C.A.R.'s track record on reform has been poor and the country has long depended excessively on the international community to sort out its problems. In the context of a concerted international effort, the C.A.R. could be an eventual candidate for support under the Fund's EPCA policy rather than a PRGF, as the administrative capacity has been sufficiently damaged to inhibit the implementation of a comprehensive Fund-supported program. However, the authorities first need to demonstrate, by breaking decisively with past policies, that they are a credible partner, and that aid resources will not be wasted. Implementation of the priority actions agreed with the staff and achievement of the authorities' quantitative financial targets in the period ahead will be an important signal in this regard.

51. **Failure to adequately address the fiscal situation will further imperil the functioning of the state, and, if the past is any guide, additional salary arrears could put political stability at risk.** In the revenue area, vigorous efforts are needed to bring informal

sector activities into the tax net and combat fraud. In this respect, better utilization of material and human resources in the tax agencies and more effective controls will be essential. Regarding spending, the authorities will need to maintain very tight expenditure controls in the immediate period ahead if they are to meet their current obligations and not accumulate additional domestic arrears. Restoring some integrity to the expenditure management system will be important and would also provide a greater check against corruption. Ultimately, a reduction in the weight of the public sector wage bill in relation to total spending and revenue will be fundamental to placing public finances on a sustainable path. The authorities' initial actions in this area are an important start and will have to be sustained.

52. **Actions to strengthen the financial sector will rest in large part on improving the fiscal position; in turn, these efforts should help the liquidity position of the banks.** Given the risks of doing business in the C.A.R., it is unlikely that bank lending will shift significantly any time soon from the short-term lending that is currently the norm. However, as security improves and economic activity gradually picks up, lending activities should increase. For the one problem bank, close cooperation with the regional supervisory authorities will be essential. Prudential regulation needs to be enforced forcefully. Continued efforts to strengthen the microfinance sector will be important to help relaunch small-and medium-sized businesses.

53. **Improving governance and fighting endemic corruption in the public administration may be the single most difficult challenge facing the authorities.** The authorities' initial steps on this front should be continued, and they should work closely with their external partners to identify ways in which more progress can be made. Efforts to redynamize and upgrade the judicial system will be very important in fighting corruption and in establishing the institutional underpinnings of a market economy.

54. **Likewise, reform efforts in the mining and forestry sectors will be central to strengthening governance and stimulating economic activity.** The authorities should avoid the mistakes of the past, when excessive discretion by the state in the management of these resources resulted in major abuses. Although the new mining code has weaknesses in this regard, other actions—the suspension of permits last year, and the recent steps to improve transparency—are very positive and should have an important impact.

55. **The existing exchange rate regime has served the C.A.R. well, and the moderate appreciation of the trade-weighted real exchange rate in 2003 does not appear to have damaged the C.A.R.'s competitiveness.** The more immediate concerns regarding competitiveness are to continue strengthening the security environment, thereby ensuring a stable business environment, while taking measures to reduce transport costs. The authorities are well advised to press on with their efforts toward regional integration with their CEMAC and other neighbors. The C.A.R.'s economic isolation, which has increased in recent years, underscores the importance of progress in this area.

56. **A resolution of the C.A.R.'s external debt problem will be difficult, given the current very sizable stock of arrears and the very heavy debt burden over the medium term.** It is important that the authorities maintain close contact with their external creditors on possible settlement plans. The regular payment of the C.A.R.'s obligations to the Fund will be necessary to demonstrate the authorities' commitment to help safeguard the revolving character of Fund resources, and will be crucial for any future consideration of a new Fund-supported program.

57. **Substantial progress in improving the statistical database will be important for the monitoring of economic and financial developments, and for policy formulation.** Although it provides sufficient information for surveillance purposes, the database suffers from substantial weaknesses, which have worsened as a result of the conflict. Production, on a quarterly basis, of a table on the financial operations of the government will be an important step forward. More broadly, the authorities should aggressively pursue technical assistance to improve the database.

58. **The situation in the social sectors is very disquieting.** While the improved security and gradual restoration of public administration in the rural areas should facilitate the provision of services, public spending on the social sectors is inadequate. A reallocation of expenditure toward these sectors will be essential if the authorities are to make a serious dent in poverty. Substantial support from the international community will also be critical. The C.A.R will need to develop a medium-term strategy for making progress toward the Millennium Development Goals.

59. **There are sizable risks to improved policy performance in the C.A.R., including a return of political instability and a deterioration in the security situation.** The legacy of administrative weaknesses, compounded by the impact of the conflict, may prove too difficult for the authorities to overcome in the short run, with the possible outcome that little progress would be made in redressing fiscal imbalances, and arrears would continue to accumulate. In this context, the C.A.R. presents a payment risk to the Fund. At a minimum, the authorities are counting on some return of project and technical assistance from the international community. The absence of such donor support could undermine the recovery and the reestablishment of public services.

60. It is proposed that the next Article IV consultation be held on the standard 12-month cycle. http://www.imf.org/

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2000–06

	2000	2001	2002	2003 Est.	2004 Proj.	2005 Proj.	2006 Proj.
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
GDP at constant prices	1.8	0.3	-0.6	-7.3	2.5	4.4	4.2
GDP at current prices	7.0	3.8	2.4	-4.1	5.1	7.1	7.0
GDP deflator	5.0	3.6	3.0	3.5	2.5	2.5	2.7
Consumer prices							
Yearly average	3.2	3.8	2.3	4.2	2.2	3.3	2.1
Central government finance							
Total revenue	1.4	4.3	24.2	-31.6	18.1	11.7	12.5
Total expenditure	-8.9	-11.5	22.4	-25.4	-5.7	11.7	12.3
Money and credit							
Net domestic assets 1/	0.1	13.2	2.9	1.9	1.3	2.2	0.4
Domestic credit 1/	3.1	16.9	2.2	3.4	1.4	...	...
Broad money	5.4	-1.1	-4.3	-4.8	6.1	...	...
Velocity of broad money (trailing five-quarter average)	6.2	6.3	6.6	6.9	6.9	...	...
External sector							
Exports, f.o.b. (U.S. dollar basis)	5.4	-9.0	2.6	-19.6	42.0	14.7	7.9
Export volume	14.2	4.8	0.3	-32.1	32.5	12.4	5.4
Imports, f.o.b. (U.S. dollar basis)	-9.6	-9.8	9.7	-7.8	14.1	10.0	4.7
Import volume	-10.3	-13.8	8.6	-15.6	12.0	8.7	5.1
Terms of trade (U.S. dollar basis)	-8.4	-17.1	1.3	8.2	5.1	0.9	2.8
Nominal effective exchange rate	0.1	5.3	3.4	4.1	...	...	...
Real effective exchange rate	-2.6	3.3	3.5	5.1	...	...	...
	(In percent of GDP, unless otherwise indicated)						
Gross national savings	6.5	5.8	6.6	1.2	4.0	7.2	8.8
Of which: current official transfers	2.4	1.6	1.9	0.5	0.7	1.1	1.3
Gross domestic savings	4.7	3.9	4.6	0.5	3.1	5.7	7.6
Government	-0.4	0.4	0.8	-1.8	0.6	1.1	1.6
Private sector	5.1	3.5	3.9	2.3	2.5	4.6	5.9
Consumption	95.3	96.1	95.4	99.5	96.9	94.3	92.4
Government	3.7	3.2	3.9	3.0	2.3	2.5	2.6
Private sector	91.6	92.9	91.4	96.4	94.5	91.8	89.9
Gross investment	9.5	8.4	9.0	6.0	6.7	8.6	9.7
Government	4.7	3.5	4.8	2.1	2.3	2.9	3.4
Private sector	4.8	4.9	4.2	3.9	4.5	5.7	6.3
Resource gap	-4.8	-4.5	-4.3	-5.5	-3.6	-3.0	-2.2
Current transfers and factor income (net)	1.8	2.0	1.9	0.7	0.9	1.5	1.3
External current account balance	-3.0	-2.5	-2.4	-4.8	-2.7	-1.5	-0.9
Overall balance of payments	-1.9	-3.9	-5.0	-4.5	-2.8	-2.9	-1.4
Central government finance							
Total revenue	8.9	8.9	10.8	7.7	8.7	9.0	9.5
Total expenditure	-15.5	-13.2	-15.8	-12.3	-11.0	-11.5	-12.1
Overall balance (commitment basis)							
Excluding grants	-6.6	-4.3	-5.0	-4.6	-2.4	-2.5	-2.6
Including grants	-1.8	-0.9	-1.2	-3.1	-1.0	-0.4	-0.1
Narrow primary balance 2/	-0.2	0.3	1.0	-2.1	0.6	1.1	1.6
Basic balance 3/	-1.9	-1.0	-0.5	-3.3	-0.4	0.2	0.5
External public debt before debt relief	82.3	97.0	94.1	96.3	92.2	87.0	81.8
Net present value of total debt 4/	250.3	376.2	455.6	557.9	409.4	360.9	342.3
Scheduled debt-service ratio 4/	10.4	14.8	24.6	31.4	24.9	25.5	20.0
Actual debt-service ratio 4/	5.6	7.3	0.8	0.3	24.9	25.5	20.0
Gross official foreign reserves 5/							
(in millions of U.S. dollars)	135.7	119.8	121.0	132.7	140.6	145.8	153.9
(in months of imports, f.o.b.)	13.6	13.6	11.6	13.7	13.8	13.0	13.1
Nominal GDP (in billions of CFA francs)	683.1	709.2	726.2	696.4	731.9	783.5	838.2
Exchange rate (average; CFA francs per U.S. dollar)	710.1	732.4	694.8	580.1	...	...	...

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

1/ In percent of broad money at beginning of the period.

2/ Excludes interest payments and foreign-financed investment.

3/ Excludes foreign-financed investment.

4/ In percent of exports of goods and services.

5/ Position at end-2003 reflects the accumulation of external arrears during the course of 2003.

Table 2. Central African Republic: Central Government Operations, 2000–06

	2000	2001	2002	2003 Est.	2004 Draft budget	2005 Proj.	2006 Proj.
			(In billions of CFA francs)				
Revenue	60.5	63.2	78.4	53.7	63.4	70.8	79.7
Tax revenue	53.4	51.8	61.4	45.3	51.9	58.0	65.3
Direct taxes	12.6	15.2	17.2	14.0	16.8	18.8	21.1
Indirect domestic taxes	30.3	24.8	33.3	20.5	24.4	26.8	30.1
Taxes on international trade	10.5	11.8	10.9	10.7	10.7	12.3	14.1
Of which: taxes on imports	6.6	7.0	7.6	7.7	7.8	9.0	10.3
Nontax revenue	7.1	11.4	17.0	8.4	11.5	12.8	14.4
Of which: MONUC receipts	0.0	4.4	2.8	0.0	0.0	0.0	0.0
Expenditure	-105.7	-93.6	-114.6	-85.5	-80.6	-90.1	-101.1
Current primary expenditure	-51.6	-51.0	-57.3	-58.1	-50.5	-52.0	-53.6
Wages and salaries	-28.9	-29.2	-33.1	-34.5	-33.0	-33.6	-34.3
Transfers and subsidies	-8.2	-7.2	-7.1	-7.3	-6.0	-6.6	-7.3
Goods and services	-14.5	-14.6	-17.1	-16.3	-11.4	-11.8	-12.0
Interest due	-11.5	-9.8	-11.3	-7.9	-8.0	-7.5	-9.1
External	-10.2	-8.5	-7.3	-5.0	-4.9	-5.0	-6.4
Domestic	-1.3	-1.3	-3.9	-2.9	-3.0	-2.5	-2.7
Capital expenditure	-42.6	-32.8	-46.0	-19.5	-22.2	-30.5	-38.4
Domestically financed	-10.3	-9.7	-13.5	-10.5	-8.2	-10.0	-12.5
Externally financed	-32.3	-23.1	-32.5	-9.0	-14.0	-20.5	-25.9
Overall balance, commitment basis							
Excluding grants	-45.2	-30.5	-36.2	-31.8	-17.2	-19.3	-21.4
Of which: narrow primary balance 1/	-1.4	2.5	7.6	-14.9	4.7	8.7	13.6
Including grants	-12.4	-6.2	-8.6	-21.8	-7.2	-3.2	-0.8
Change in arrears (net; reduction -)	-2.9	-7.3	21.3	28.4	0.0	0.0	0.0
Domestic	-8.7	-15.1	-4.7	4.1	...	...	...
External	5.9	7.8	26.1	24.3	0.0	0.0	0.0
Overall balance (cash basis)	-48.1	-37.7	-14.8	-3.5	-17.2	-19.3	-21.4
Identified financing	48.1	37.7	14.8	3.5	-6.5	-8.7	2.0
External, net	39.3	26.5	14.5	-1.3	-5.2	-2.4	8.8
Projects	32.3	23.1	32.5	9.0	14.0	20.5	25.9
Grants	31.6	21.8	26.5	6.0	10.0	16.1	20.6
Loans	0.7	1.3	6.0	3.0	4.0	4.4	5.3
Program	9.9	12.2	2.3	9.1	0.0	0.0	0.0
Grants	1.2	2.5	1.0	4.1	0.0	0.0	0.0
Loans	8.7	9.7	1.3	5.0	0.0	0.0	0.0
Amortization due	-15.9	-15.2	-20.4	-19.4	-19.2	-22.9	-17.1
External debt relief	12.9	6.4	0.0	0.0	0.0	0.0	0.0
Domestic, net	8.8	11.2	0.4	4.8	-1.3	-6.4	-6.8
Banking system	6.9	9.1	1.0	5.2	-1.3	-6.4	-6.8
Bank of Central African States	1.4	8.9	2.1	3.1	-1.3	-5.4	-6.8
Counterpart to IMF resources	-0.6	7.3	0.0	0.0	-1.3	-2.6	-3.2
Other	2.0	1.7	2.1	3.1	0.0	-2.8	-3.6
Commercial banks	5.4	0.2	-1.1	2.1	0.0	-1.0	0.0
Nonbank	1.9	2.1	-0.6	-0.4	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	23.7	28.0	19.5
Memorandum items:			(In percent of GDP)				
Revenue	8.9	8.9	10.8	7.7	8.7	9.0	9.5
Expenditure	-15.5	-13.2	-15.8	-12.3	-11.0	-11.5	-12.1
Of which: wages and salaries	-4.2	-4.1	-4.6	-4.9	-4.5	-4.3	-4.1
transfers and subsidies	-1.2	-1.0	-1.0	-1.1	-0.8	-0.8	-0.9
goods and services	-2.1	-2.1	-2.4	-2.3	-1.6	-1.5	-1.4
domestically financed investment	-1.5	-1.4	-1.9	-1.5	-1.1	-1.3	-1.5
Balance, commitment basis (deficit -)							
Excluding grants	-6.6	-4.3	-5.0	-4.6	-2.4	-2.5	-2.6
Including grants	-1.8	-0.9	-1.2	-3.1	-1.0	-0.4	-0.1
Narrow primary budget balance 1/	-0.2	0.3	1.0	-2.1	0.6	1.1	1.6
Basic balance 2/	-1.9	-1.0	-0.5	-3.3	-0.4	0.2	0.5

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

1/ Excludes interest payments and foreign-financed investment.

2/ Excludes foreign-financed investment.

Table 3. Central African Republic: Balance of Payments, 2000–08

	2000	2001	2002	2003 Est.	2004	2005	2006 Projections	2007	2008
				(In billions of CFA francs)					
Current account	-20.7	-17.9	-17.4	-33.3	-19.8	-11.6	-7.8	-6.2	-7.2
Balance on goods	26.6	25.6	19.6	5.0	22.1	28.2	32.7	36.3	38.1
Exports, f.o.b.	110.9	104.1	101.3	67.9	86.2	98.6	106.3	112.3	116.4
Of which : diamonds	43.9	41.2	36.3	28.4	35.6	40.5	43.2	45.4	46.6
wood products	45.5	45.3	49.6	33.5	39.6	45.4	48.5	51.1	52.8
Imports, f.o.b.	-84.3	-78.5	-81.7	-62.9	-64.1	-70.3	-73.5	-76.0	-78.3
Petroleum products	-6.4	-13.5	-8.0	-4.9	-4.2	-4.2	-4.7	-5.3	-5.7
Public investment program	-14.6	-4.4	-13.0	-3.2	-5.0	-8.0	-9.2	-10.0	-10.8
Other	-63.3	-60.6	-60.7	-54.8	-55.0	-58.1	-59.7	-60.8	-61.9
Services (net)	-59.6	-57.4	-50.9	-43.4	-48.4	-51.4	-51.1	-53.5	-56.6
Income (net)	-11.9	-7.5	-5.1	-2.2	-2.5	-2.6	-3.9	-3.8	-3.7
Of which: interest due on public debt	-10.3	-8.6	-7.5	-5.1	-5.0	-5.1	-6.5	-6.4	-6.4
Current transfers (net)	24.3	21.3	19.0	7.2	9.1	14.1	14.4	14.7	15.0
Capital account	16.7	13.1	13.6	6.9	4.8	7.6	9.8	10.2	10.6
Project grants	15.0	10.4	12.6	2.8	4.8	7.6	9.8	10.2	10.6
Program grants	1.2	2.5	1.0	4.1	0.0	0.0	0.0	0.0	0.0
Debt cancellation	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-31.1	-8.0	-30.2	-13.3	-5.4	-18.9	-14.1	-13.6	-13.3
Public sector (net)	-6.5	-4.2	-13.1	-11.4	-15.2	-18.5	-11.8	-12.1	-12.0
Project disbursements	0.7	1.3	6.0	3.0	4.0	4.4	5.3	6.6	8.0
Program disbursements	8.7	9.7	1.3	5.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-15.9	-15.2	-20.4	-19.4	-19.2	-22.9	-17.1	-18.7	-20.0
Private sector (net)	-24.6	-3.8	-17.1	-1.9	9.8	-0.4	-2.2	-1.5	-1.3
Errors and omissions	22.2	-14.9	-2.3	8.2	0.0	0.0	0.0	0.0	0.0
Overall balance	-12.8	-27.7	-36.3	-31.5	-20.4	-22.9	-12.1	-9.7	-9.9
Identified financing	12.8	27.7	36.3	31.5	-3.3	-5.1	-7.4	-9.0	-8.7
Net official reserves movements 1/	-5.5	13.7	10.3	7.2	-3.3	-5.1	-7.4	-9.0	-8.7
Net Fund credit	-0.6	7.3	0.0	0.0	-1.3	-2.6	-3.2	-3.8	-3.8
Purchases and loans	0.0	7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments (cash basis)	-0.6	0.0	0.0	0.0	-1.3	-2.6	-3.2	-3.8	-3.8
Other reserves (increase -)	-5.0	6.5	10.3	7.2	-2.0	-2.6	-4.2	-5.2	-4.9
Exceptional financing	18.3	14.0	26.1	24.3	0.0	0.0	0.0	0.0	0.0
Debt rescheduling 2/	12.4	6.2	0.0	0.0	...	...	...	...	...
Debt payments arrears (reduction -)	5.9	7.8	26.1	24.3	0.0	0.0	0.0	0.0	0.0
Residual financing need (+)	0.0	0.0	0.0	0.0	23.7	28.0	19.5	18.6	18.6
Memorandum items:				(Annual percentage change, unless otherwise indicated)					
Terms of trade (U.S. dollar basis)	-8.4	-17.1	1.3	8.2	5.1	0.9	2.8	2.2	0.8
Unit price of exports (U.S. dollar basis)	-7.7	-13.2	2.3	18.3	7.1	2.0	2.4	2.3	1.2
Unit price of imports (U.S. dollar basis)	0.8	4.7	1.0	9.3	1.9	1.2	-0.4	0.2	0.3
Net resource transfer	34.3	33.0	33.1	17.9	12.2	17.9	18.6	17.8	18.8
Net resource transfer (in percent of GDP)	5.0	4.7	4.6	2.6	1.7	2.3	2.2	2.0	2.0
Gross official reserves (in billions of CFA francs, end-of-period	95.7	89.2	78.9	71.7	73.7	76.3	80.5	85.6	90.6
Gross official reserves (in months of imports, f.o.b.)	13.6	13.6	11.6	13.7	13.8	13.0	13.1	13.5	13.9
Current account (in percent of GDP)	-3.0	-2.5	-2.4	-4.8	-2.7	-1.5	-0.9	-0.7	-0.8
Total stock of external arrears (in billions of CFA francs)	25.2	133.4	160.4	182.1	...	...	...	...	...
Of which: arrears to multilateral creditors	...	31.2	44.1	57.5	...	...	...	...	...

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

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

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

Table 4. Central African Republic: Monetary Survey, 2000–04

	2000	2001	2002	2003 Est.	2004 Proj.
	(In billions of CFA francs at end of period, unless otherwise indicated)				
Net foreign assets	79.5	63.7	55.7	48.7	53.5
Bank of Central African States (BEAC)	80.5	66.3	58.1	52.0	55.8
Operations account	93.4	87.6	76.9	68.7	70.7
Use of IMF credit	-15.1	-22.9	-20.9	-19.7	-17.9
Other	2.2	1.6	2.1	3.0	3.0
Commercial banks	-1.0	-2.7	-2.4	-3.3	-2.3
Net domestic assets	31.4	46.0	49.2	51.2	52.5
Domestic credit	78.4	97.1	99.6	103.2	104.5
Credit to the public sector	39.5	54.6	50.2	55.2	53.4
Credit to central government (net)	45.7	55.3	54.3	58.4	56.6
BEAC	39.3	48.7	48.7	50.7	48.9
Current account	11.9	17.2	14.1	17.1	17.1
Consolidated loans	14.6	14.6	14.6	14.6	14.6
IMF (net)	15.1	22.9	20.9	19.7	17.9
Deposits	-2.4	-6.0	-0.8	-0.6	-0.6
Commercial banks	6.4	6.7	5.6	7.7	7.7
Credit to other public agencies (net)	-6.2	-0.7	-4.1	-3.2	-3.2
Credit to the economy	38.9	42.5	49.4	48.0	51.2
Public enterprises	8.0	8.0	8.1	8.9	8.9
Private sector	30.9	34.5	41.3	39.1	42.3
Other items (net)	-47.0	-51.1	-50.3	-52.0	-52.0
Money and quasi money	110.9	109.7	104.9	99.9	106.0
Currency	88.6	82.6	77.4	71.4	73.7
Deposits	22.3	27.1	27.5	28.5	32.3
Demand deposits	13.2	16.6	17.3	17.6	20.3
Term and savings deposits	9.1	10.5	10.2	10.9	12.0
Memorandum items:					
Net domestic assets of the central bank	9.1	17.7	20.9	21.0	19.5
Monetary base	89.6	84.0	79.0	73.0	75.3
Nominal GDP	683.1	709.2	726.2	696.4	731.9
Velocity (GDP/broad money)					
Average (five quarters)	6.2	6.3	6.6	6.9	6.9
End of period	6.2	6.5	6.9	7.0	6.9
	(Annual change, in percent of broad money at beginning of period)				
Net foreign assets	5.3	-14.3	-7.3	-6.7	4.8
Net domestic assets	0.1	13.2	2.9	1.9	1.3
Net domestic credit	3.1	16.9	2.2	3.4	1.4
Net credit to central government	6.9	8.7	-0.9	3.9	-1.8
Credit to the economy	-1.3	3.2	6.3	-1.3	3.2
Money and quasi money	5.4	-1.1	-4.3	-4.8	6.1
	(Annual percentage change)				
Monetary base	9.3	-6.2	-6.0	-7.6	3.2
Credit to the economy	-3.5	9.2	16.3	-2.8	6.6
Public enterprises	-43.6	-0.5	1.4	10.4	0.0
Private sector	18.2	11.6	19.7	-5.4	8.1

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

Table 5. Central African Republic: Indicators of Fund Credit, 2000–08

	2000	2001	2002	2003	2004	2005	2006	2007	2008
					Projections				
Outstanding use of Fund credit									
In millions of SDRs	16.5	24.5	24.5	24.5	22.8	19.5	15.4	10.5	5.6
In percent of government revenue	25.0	36.3	27.7	36.6	28.3	21.7	15.2	9.5	4.7
In percent of exports, f.o.b.	13.6	22.0	21.4	28.9	20.8	15.6	11.4	7.4	3.8
In percent of external public debt	2.7	3.3	3.2	2.9	2.7	2.3	1.8	1.2	0.6
In percent of GDP	2.2	3.2	3.0	2.8	2.4	2.0	1.4	0.9	0.5
In percent of quota	29.6	43.9	43.9	43.9	41.0	35.1	27.7	18.9	10.1
Repurchases and charges due 1/									
In millions of SDRs	0.7	0.1	0.1	0.1	1.8	3.4	4.2	5.0	4.9
In percent of government revenue	1.1	0.1	0.1	0.2	2.2	3.8	4.1	4.5	4.1
In percent of exports, f.o.b.	0.6	0.1	0.1	0.1	1.6	2.7	3.1	3.5	3.3
In percent of external public debt	0.1	0.0	0.0	0.0	0.2	0.4	0.5	0.6	0.6
In percent of GDP	0.1	0.0	0.0	0.0	0.2	0.3	0.4	0.4	0.4
In percent of quota	1.2	0.1	0.2	0.2	3.2	6.1	7.5	8.9	8.9
Net use of Fund credit									
(in millions of SDRs)	-0.6	8.0	0.0	0.0	-1.6	-3.3	-4.1	-4.9	-4.9
Disbursements	0.0	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.6	0.0	0.0	0.0	1.6	3.3	4.1	4.9	4.9
				(In percent)					
Memorandum items:									
Real GDP growth	1.8	0.3	-0.6	-7.3	2.5	4.4	4.2	3.8	3.3
Government revenue-GDP ratio	8.9	8.9	10.8	7.7	8.7	9.0	9.5	9.8	10.0
Export volume growth (U.S. dollar basis)	14.2	4.8	0.3	-32.1	32.5	12.4	5.4	3.3	2.5
Import volume growth (U.S. dollar basis)	-10.3	-13.8	8.6	-15.6	12.0	8.7	5.1	3.2	2.8

Sources: International Monetary Fund, Finance Department; and Fund staff estimates and projections.

1/ Excluding SDR charges.

Table 6. Central African Republic: Income and Social Indicators, 1970–2001

	Latest Single Year			Same Region/Income Group	
	1970-75	1980-85	1995-2001	Sub-Saharan Africa	Low-income
Population			(In units indicated)		
Total population, midyear (millions)	2.1	2.7	3.8	673.9	2,505.9
Growth rate (annual average, in percent)	2.1	2.7	2.0	2.5	1.9
Urban population (in percent of population)	33.7	36.3	41.7	32.3	30.8
Total fertility rate (births per woman)	5.8	5.7	4.7	5.1	3.5
Income					
GNP per capita (U.S. dollars)	180	280	260	460	430
Consumer price index (1995=100)	..	78.4	109.2	131	122
Food price index (1995=100)	..	81.7	104.3	131	...
Social indicators			(In percent of GDP)		
Public expenditure					
Health	..	..	1.4	4	5
Education	4.8	2.1	1.9	4	5
Social security and welfare	..	1.4	..	..	..
Gross school enrollment rates			(In percent of age group)		
Primary	70.8	75.1	75.2	78	107
Secondary	13.6	16.1	...	25	64
Tertiary	0.9	1.2	...	3	14
Immunization rate			(In percent of children under 12 months)		
Measles	..	23	29	58	60
DPT	..	20	23	53	61
Life expectancy at birth			(In years)		
Total	44	47	43	46	59
Male	41	45	42	45	58
Female	46	50	43	47	60
Mortality			(In units indicated)		
Infant (per 1,000 live births)	135	118	115	105	80
Under 5 (per 1,000 live births)	219	185	180	171	121
Adult (15-59)					
Male (per 1,000 population)	571	540	620	520	312
Female (per 1,000 population)	440	424	573	461	256
Maternal (per 100,000 live births)	..	..	1,200	..	..

Source: World Bank, *World Development Indicators,* 2003.

Table 7. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2002–22 1/

(In percent of GDP, unless otherwise indicated)

	Actual	Est.	Projections												
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2022
I. Baseline Medium-Term Projections															
External debt (nominal) 1/	94.1	96.3	92.2	87.0	81.8	77.2	73.2	69.6	64.4	60.8	57.4	54.2	51.2	48.4	42.0
o/w public and publicly guaranteed (PPG)	94.1	96.3	92.2	87.0	81.8	77.2	73.2	69.6	64.4	60.8	57.4	54.2	51.2	48.4	42.0
Change in external debt	-2.9	2.2	-4.1	-5.2	-5.1	-4.7	-3.9	-3.6	-5.1	-3.6	-3.4	-3.2	-3.0	-2.8	-0.9
Identified net debt-creating flows (5+11+12)	3.8	12.3	0.2	-2.7	-2.8	-2.5	-1.9	-1.4	-1.2	-0.7	-0.1	0.6	1.3	2.2	5.0
Current account deficit, excluding interest payments	1.4	4.1	2.0	0.8	0.2	0.0	0.1	0.6	0.8	1.2	1.7	2.2	2.9	3.7	6.3
Deficit in balance of goods and services	4.3	5.5	3.6	3.0	2.2	1.9	2.0	2.4	2.5	2.9	3.3	3.8	4.3	5.1	7.1
Exports	15.5	11.1	13.2	14.0	14.0	13.9	13.6	13.5	13.4	13.3	13.2	13.1	13.0	12.9	12.1
Imports	19.9	16.6	16.8	16.9	16.2	15.8	15.5	15.8	15.9	16.1	16.5	16.8	17.4	18.0	19.2
Net current transfers (negative = inflow)	-2.6	-1.0	-1.2	-1.8	-1.7	-1.7	-1.6	-1.5	-1.5	-1.4	-1.4	-1.3	-1.3	-1.2	-0.9
Other current account flows (negative = net inflow)	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	0.1
Net FDI (negative = inflow)	-0.7	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Endogenous debt dynamics 2/	3.1	8.4	-1.6	-3.3	-2.7	-2.2	-1.8	-1.7	-1.7	-1.6	-1.5	-1.4	-1.4	-1.3	-1.1
Contribution from nominal interest rate	1.1	0.9	0.8	0.7	0.8	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.4	0.4
Contribution from real GDP growth	0.6	7.5	-2.4	-3.9	-3.5	-3.0	-2.4	-2.4	-2.4	-2.2	-2.1	-1.9	-1.8	-1.7	-1.5
Contribution from price and exchange rate changes	1.4	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Residual (3-4) 3/	-6.7	-10.1	-4.4	-2.5	-2.3	-2.2	-2.0	-2.2	-3.9	-3.0	-3.3	-3.8	-4.3	-5.0	-5.9
o/w exceptional financing	-3.6	-3.5	-3.2	-3.6	-2.3	-2.1	-2.0	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPV of external debt	70.8	62.1	54.2	50.5	48.0	45.9	44.1	42.4	38.3	36.3	34.2	32.2	30.1	28.1	22.5
In percent of exports	455.6	557.9	409.4	360.9	342.3	330.8	325.5	314.7	286.7	273.8	260.2	246.1	231.4	217.8	186.3
NPV of PPG external debt	70.8	62.1	54.2	50.5	48.0	45.9	44.1	42.4	38.3	36.3	34.2	32.2	30.1	28.1	22.5
In percent of exports	455.6	557.9	409.4	360.9	342.3	330.8	325.5	314.7	286.7	273.8	260.2	246.1	231.4	217.8	186.3
Debt service-to-exports ratio (in percent)	24.6	31.4	24.9	25.5	20.0	20.3	20.5	20.7	21.0	21.6	21.3	20.2	19.8	19.3	15.5
PPG debt service-to-exports ratio (in percent)	24.6	31.4	24.9	25.5	20.0	20.3	20.5	20.7	21.0	21.6	21.3	20.2	19.8	19.3	15.5
Total gross financing need (billions of U.S. dollars)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3
II. Key macroeconomic assumptions															
Real GDP growth (in percent)	-0.6	-7.3	2.5	4.4	4.2	3.8	3.3	3.3	3.5	3.5	3.5	3.5	3.5	3.5	3.5
GDP deflator in US dollar terms (change in percent)	-1.4	-0.5	0.5	-1.0	0.1	0.1	0.0	-0.2	-0.1	0.0	0.2	0.0	-0.1	0.0	-0.1
Effective interest rate (percent) 4/	1.1	0.9	0.8	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8
Growth of exports of G&S (US dollar terms, in percent)	1.5	-17.7	39.9	13.4	7.3	5.4	3.5	5.1	5.3	5.3	5.3	5.4	5.6	5.0	5.3
Growth of imports of G&S (US dollar terms, in percent)	2.0	-3.7	19.0	8.0	2.4	3.8	4.1	7.9	6.5	7.8	8.2	8.6	9.2	9.9	5.5
Net transfers, in percent of GDP	2.6	1.0	1.2	1.8	1.7	1.7	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.2	0.9
Net FDI, in percent of GDP	0.7	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grant element of new public sector borrowing (in percent)	...	39.7	39.3	39.3	39.3	39.2	39.2	39.1	39.1	39.1	39.0	38.9	38.9	38.9	38.9
Memorandum item:															
Nominal GDP (billions of US dollars)	1.0	1.2	1.4	1.5	1.6	1.7	1.8	1.9	2.1	2.2	2.3	2.5	2.6	2.8	4.1

Source: Staff simulations.

1/ Data currently unavailable for private sector external debt.

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

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

4/ Current-year interest payments devided by previous period debt stock.

Table 8. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2002–22
(In percent of GDP, unless otherwise indicated)

	Actual	Est.	Projections													
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2022
Public sector debt 1/	94.1	96.3	92.2	87.0	81.8	77.2	73.2	69.6	64.4	60.8	57.4	54.2	51.2	48.4	42.0
o/w foreign-currency denominated	94.1	96.3	92.2	87.0	81.8	77.2	73.2	69.6	64.4	60.8	57.4	54.2	51.2	48.4	42.0
Change in public sector debt	-2.9	2.2	-4.1	-5.2	-5.1	-4.7	-3.9	-3.6	-5.1	-3.6	-3.4	-3.2	-3.0	-2.8	-0.9
Identified debt-creating flows	-14.1	-8.9	-6.6	-5.8	-5.6	-5.1	-4.4	-4.1	-3.9	-3.7	-3.5	-3.2	-3.0	-2.8	-2.1
Primary deficit	-0.2	2.6	-0.1	-0.6	-1.0	-1.0	-0.9	-0.8	-0.7	-0.6	-0.6	-0.5	-0.5	-0.4	-0.3
Revenue and grants	14.5	8.6	10.0	11.1	12.0	12.2	12.4	12.6	12.8	13.0	13.2	13.4	13.6	13.8	15.3
of which : grants	3.7	0.9	1.4	2.1	2.5	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.1	2.1	1.8
Primary (noninterest) expenditure	14.2	11.1	9.9	10.5	11.0	11.2	11.5	11.8	12.1	12.4	12.7	12.9	13.2	13.4	15.0
Automatic debt dynamics	-13.8	-11.5	-6.3	-5.3	-4.6	-4.2	-3.5	-3.3	-3.2	-3.1	-2.9	-2.7	-2.6	-2.4	-1.8
Contribution from interest rate/growth differential	-0.4	7.2	-2.4	-4.4	-4.1	-3.7	-3.2	-3.0	-3.0	-2.8	-2.6	-2.5	-2.3	-2.2	-1.7
of which : contribution from average real interest rate	-1.0	-0.3	0.0	-0.5	-0.6	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.2
of which : contribution from real GDP growth	0.6	7.5	-2.4	-3.9	-3.5	-3.0	-2.4	-2.4	-2.4	-2.2	-2.1	-1.9	-1.8	-1.7	-1.5
Contribution from real exchange rate depreciation	-13.4	-18.6	-3.9	-0.9	-0.6	-0.4	-0.3	-0.3	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1
Other identified debt-creating flows	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	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
Bank recapitalization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	11.1	11.1	2.5	0.7	0.5	0.4	0.4	0.5	-1.2	0.1	0.1	0.0	0.0	0.0	1.2
Other Sustainability Indicators															
NPV of public sector debt	70.8	62.1	54.2	50.5	48.0	45.9	44.1	42.4	38.3	36.3	34.2	32.2	30.1	28.1	22.5
o/w foreign-currency denominated	70.8	62.1	54.2	50.5	48.0	45.9	44.1	42.4	38.3	36.3	34.2	32.2	30.1	28.1	22.5
Gross financing need 2/	8.0	7.5	5.0	5.4	4.6	4.4	4.4	4.4	4.5	4.5	4.5	4.4	4.3	4.2	4.8
Public sector debt-to-revenue-and-grants ratio (in percent)	651.0	1,123.9	919.4	784.1	684.1	632.7	590.5	551.8	502.8	467.3	434.6	404.1	375.8	350.0	275.0
Debt service-to-revenue-and-grants ratio (in percent) 3/	35.5	45.6	40.3	43.1	33.6	33.1	31.8	29.6	27.8	27.0	25.4	23.4	22.4	21.1	13.9
Primary deficit that stabilizes the debt-to-GDP ratio	2.7	0.4	4.0	4.6	4.1	3.7	3.0	2.8	4.4	3.0	2.8	2.7	2.6	2.4	0.6
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-0.6	-7.3	2.5	4.4	4.2	3.8	3.3	3.3	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Average nominal interest rate on forex debt (in percent)	0.1	1.2	1.2	1.1	1.3	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.5
Inflation rate (GDP deflator, in percent)	3.0	3.5	2.5	2.5	2.7	2.7	2.5	2.4	2.4	2.5	2.5	2.5	2.5	2.4	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	24.0	-25.3	-5.5	13.6	11.3	8.9	8.6	8.7	8.7	8.5	8.6	8.5	8.0	8.0	7.4
Major commodity price, Hardwood Logs (U.S. dollar per metric cube)	162.4	187.1	200.0	205.0	215.0	225.0	230.0	235.0	235.0	235.0	235.0	235.0	235.0	235.0	235.0

Sources: Central African authorities; and Fund staff estimates and projections.

1/ Total gross central government public debt.

2/ Gross financing need is defined as the primary deficit plus debt service.

3/ Debt service is defined as the sum of interest, amortization of medium and long-term debt, and the stock of short-debt at the end of the previous period.

Priority Actions of the Central African Authorities

	Action	Date
Revenue		
	Adopt the guidelines on tax audits and the guidelines regarding the treatment of defaulting VAT taxpayers.	End-February
	Establish two customs corridors on the main roads from Cameroon.	March 15
	Reinforce customs border posts; strengthen customs offices in Douala and Pointe Noire for payment of customs duties.	End-March
	Step up audits on eligibility for the flat tax discharging all profit tax obligations (*impôt libératoire*).	End-April
	Eliminate all customs and tax exemptions not provided under the CEMAC.	End-April
Expenditure		
	Suspend all new civil service recruitment, with the exception of recruitment in the education and health sectors, which will be limited to replacing retirees.	End-February
	Include realistic appropriations for electricity and telephone consumption in the 2004 Budget Law; put in place a control system with monthly ceilings.	End-February
	Suspend some allowances included in the wage bill (to be specified).	March 15
	Conduct a census of civil servants in Bangui.	End-March
Cash-flow management		
	Suspend payments of domestic arrears (with the exception of arrears on wages for November and December 2003) until finalization of an agreement on the clearance of arrears and treasury deposit accounts.	End-February
	Eliminate all special earmarked accounts and ensure that all earmarked revenues are paid to the treasury, with the exception of the revenues of the Road Fund, Forestry Fund, hospitals, the community integration tax, and the Livestock Development Fund.	End-February
Governance		
	Publish without delay all applications for licenses in the forestry and mining sectors.	End-February
	Publish on a monthly basis forecast and actual cash-flow plan figures.	End-February
	Dismantle the Special Financial Brigade.	March 15
	Eliminate room for discretionary decisions from the draft new mining code, as well as tax and customs exemptions not envisaged under the CEMAC.	End-March
	Establish a list of contracts that will be subject to the strict application of the public procurement code; if necessary, raise the procurement threshold and introduce a simpler competitive procedure (three bids) below this threshold.	End-March
	Organize the necessary technical assistance to enhance the verification and valuation of diamond exports.	End-March
	Implement a pilot program in Bangui for the payment of wages via microfinance institutions (currently paid in cash).	End-April

Table 1. Central African Republic: Authorities' Quantitative Objectives, January 1– June 30, 2004

(In billions of CFA francs; cumulative from January 1st, 2004; ceilings, unless otherwise indicated)

	End-January	End-February	End-March	End-April	End-May	End-June
	Objective					
Floor on total government revenue 1/	4.7	10.1	16.5	22.5	27.6	32.9
Wages and salaries 2/	2.8	5.5	8.3	11.0	13.8	16.5
Floor on narrow primary balance 3/	...	...	1.1	...	...	1.6
Net change in domestic arrears	...	...	0.0	...	...	0.0
Change in net claims of the banking system on the government 4/	...	...	0.0	...	...	0.0

Source: CAR authorities.

1/ Including withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports.

2/ Including withholding taxes on government salaries.

3/ Excluding withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports; the narrow primary balance compares total revenue to total expenditure, excluding interest payments and foreign-financed investment.

4/ Should untied budgetary support become available, these resources will be used to reduce the stock of net claims of the banking system on the government.

Central African Republic: Relations with the Fund
(As of December 31, 2003)

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

II. **General Resources Account**:	SDR million	%Quota
Quota	55.70	100.00
Fund holdings of currency	55.55	99.73
Reserve position in Fund	0.15	0.27

III. **SDR Department**:	SDR million	%Allocation
Net cumulative allocation	9.32	100.00
Holdings	0.01	0.06

IV. **Outstanding Purchases and Loans**:	SDR million	%Quota
PRGF arrangements	24.48	43.95

V. **Financial Arrangements**:

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

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

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	1.65	3.30	4.10	4.90	4.90
Charges/interest	0.26	0.25	0.23	0.21	0.18
Total	1.91	3.54	4.33	5.1	5.08

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

VIII. **Safeguards Assessments:**
Under the Fund's safeguards assessment policy, the Bank of the Central African States (BEAC), of which the Central African Republic is a member, was subject to an on-site safeguards assessment, which was completed on on July 20, 2001. The assessment concluded that high risks may exist in the financial reporting framework and internal audit mechanism. A follow-up safeguards assessment of the BEAC has been initited on February 20, 2004.

Exchange Rate Arrangement

The Central African Republic is a member of a monetary association with a common central bank, the Bank of Central African States (BEAC). The exchange system, common to all members, has operated without restrictions on the making of payments and transfers for current international transactions. The CFA franc is pegged to the euro at the fixed rate of CFAF 655.957 = € 1. On February 10, 2004, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 773.104.

Article IV Consultations

The Central African Republic is on the standard 12-month cycle for Article IV consultations. The last Article IV consultation was concluded on July 12, 2000. The last Article IV consultation discussions took place in Bangui during the period January 19-February 1, 2004.

Recent Technical Assistance

Date	Department	Purpose
February 1990	FAD	To study customs administration and to formulate recommendations aimed at increasing efficiency and contribution to the resource mobilization effort.
July 1991	FAD	To assist the authorities in drawing up an action plan to curtail customs duty exemptions.
Nov.–Dec. 1992	STA	To assist the central bank (BEAC) in improving the methodology for the compilation of the accounts of its national office as well as those of the commercial banks.
February 1993	FAD	To establish an action plan to improve tax administration.
June 1994	FAD	To introduce tax reform under the UDEAC Treaty.
October 1995	FAD	To follow-up on indirect tax reform under the UDEAC Treaty.
December 1995	STA	To establish a system for compiling government finance statistics.
March 1998	FAD	To recommend budgetary measures to bolster revenue collection performance in the context of an ESAF-supported program.
March 1999	FAD	To assist the authorities in preparing for the introduction of a value-added tax (VAT) in 2000.
October 1999	STA	To asses the situation in the fiscal, monetary, external, and real sectors.

December 1999	FAD	To prepare the introduction of the VAT system planned for July 2000 and discuss specific measures to improve customs revenue collection.
April 2000	FAD	To monitor preparations for the introduction of the VAT and help strengthen the tax directorate.
June 2000	FAD	To monitor preparations for the introduction of the VAT and help strengthen the tax directorate.
October 2000	FAD	To monitor preparations for the introduction of the VAT and help strengthen the tax directorate.
Oct.–Nov. 2000	FAD	To prepare the introduction of the VAT system and discuss specific measures to improve customs revenue collection.
December 2000	FAD	To prepare the introduction of the VAT system (planned for January 2001) and discuss specific measures to improve tax revenue collection.
April 2001	FAD	To follow up on the introduction of the VAT and discuss specific measures to improve tax and customs revenue. collection.
Jan.–Feb. 2004	STA	To assist the authorities in reviewing and updating the General Data Dissemination System (GDDS) and to provide technical assistance in government finance statistics.
March 2004	FAD	To assist the authorities in the areas of revenue administration and public expenditure management.

Resident Representative

The Fund office in Bangui was opened in October 1998 with Mr. Fiator as Resident Representative residing in N'Djamena, Chad, and covering both countries. Mr. Kuoh took up the position as full-time Resident Representative with residence in Bangui in December 2000. Due to the unsatisfactory security situation in the Central African Republic after the attempted coup of May 2001, Mr. Kuoh was sent to Abuja, Nigeria, as Acting Resident Representative in September 2001. While he was based in Nigeria as Deputy Resident Representative until mid-October 2002, he maintained his responsibilities with respect to the Central African Republic, participating in program review discussions and visiting Bangui. After the coup d'état during the period March 14-15, 2003, Management decided to close the Fund's office in Bangui, which was completed in September 2003.

Central African Republic: Relations with the World Bank Group

(Draft; as of March 9, 2004)

1. World Bank assistance to the Central African Republic has been disrupted by the recurrent conflicts which characterized the C.A.R. since 1996. Following the coup d'état in March 2003, the situation seems to have stabilized, and security maintained with the assistance of regional peace keeping troops, as well as troops from Chad and France. Assistance has been also limited by protracted arrears payments to IDA. The C.A.R. has been under IDA suspension since January 2002, with arrears now exceeding US$24 million.

The Bank Group strategy and lending operations

2. The latest assistance strategy to the Central African Republic was discussed by the Board on November 24, 1999. The two-year strategy was centered on fiscal consolidation, improving governance and laying the foundations for a poverty alleviation program. In 2002, the Bank developed the LICUS (Low Income Country Under Stress).[1] This initiative aims at rethinking assistance to low-income countries whose policies and institutions offer limited scope for poverty reduction through donor-supported programs and projects. The LICUS Initiative stresses knowledge and capacity building to facilitate policy and institutional change while improving basic social outcomes. The C.A.R. has been selected as a pilot country under the LICUS Initiative, and in that context, the Bank plans to work with the donor community to build knowledge and capacity, improve governance and strengthen institutions in The C.A.R.

3. As a first effort to build country knowledge, the Bank is preparing a series of policy papers on selected key issues focusing on the consolidation of peace, the recovery of the economy and the improvement of governance and services delivery in the C.A.R.. These policy papers will :(a) update economic conditions, policies and prospects, in the C.A.R.; (b) share knowledge and analysis with the government and civil society to support a country-driven process of broadening the constituency for reform and formulating a longer-term development strategy, notably a Poverty Reduction Strategy (PRS); (c) serve as a basis for policy dialogue between the C.A.R. and the donor community; and (d) assist in defining the Bank's assistance strategy for the C.A.R., and underpinning lending operations and capacity building programs.

4. At present, there are two approved operations in the portfolio, one in support of economic reform, and one to fund HIV/AIDS prevention and control. The implementation of these projects has been impeded by successive suspension of disbursements as a result of the accumulation of debt arrears. The C.A.R. has been on non-accrual status since June 2002.

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1 For the LICUS framework see: World Bank Group Work in Low-Income Countries Under Stress: A task Force Report, September 2002, http://www1.worldbank.org/operations/licus/

5. A Policy Support Project for US$8.0 million was approved in May 2000 and became effective in April 2001. It aims at helping with the implementation of public enterprise reform; assisting the government in preparing its poverty reduction strategy; rebuilding the statistical database; strengthening the management of the mining sector; and improving the functioning of the technical committee in charge of the reform program.

6. In December 2001, the Bank approved a US$17 million credit to support the country in combating the spread of HIV/AIDS, for which the prevalence rate is alarmingly high (estimated at about 15 percent). An exception on suspension was made for the project preparation facility (PPF) of the HIV/AIDS project. Implementation of the PPF has continued satisfactorily, despite the conflict situation that has prevailed over the past several months. This project is ready to be made effective once arrears to IDA are cleared. Given the suspension of IDA disbursements, the Bank is coordinating its efforts with other donors and the Global Fund. THE C.A.R. recently received US$25 million from the Global Fund to support treatment.

Table 1. Bank-Fund Collaboration

Area of Structural Reform	Lead Institution
1. Fiscal area	
Public expenditure management	IMF / World Bank
Tax administration	IMF
2. Governance	
Adoption by the government of an anti-corruption law	IMF
Natural resources management	World Bank
4. Private sector development	
Support to the Privatization Commission	World Bank
Privatization	World Bank
5. Other	
Monetary and credit policy	IMF
Social sector assessment	World Bank
Poverty reduction strategy	World Bank
External sector	IMF
Infrastructure	World Bank

IMF-World Bank collaboration in specific areas

7. The Bank has worked closely with the Fund on the reform program in the C.A.R.. The two institutions co-chaired the C.A.R. donor meeting in Paris in March 2003, and the Bank has participated in all Fund missions. There are no major differences of views

on policy issues. The staffs are in broad agreement on the core reform program in THE C.A.R., namely: (i) reinforcement of public expenditure management; (ii) revenue mobilization and improvement of tax and custom administration; (iii) improving governance, in particular in the forestry and mining sectors; and (v) improving the delivery of public services, including education and health.

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

8. The WB is assisting the authorities in THE C.A.R. with the preparation of the full PRSP, within the context of the Policy Support Project. There are three components: (i) updating of knowledge through preparation of diagnostic studies on social sectors and productive sectors where growth is most likely to benefit the poor. The sectors concerned are education, health (including HIV/AIDS), cotton, livestock, forestry, rural transportation and mining; (ii) updating the poverty profile; and (iii) broadening the participatory base. Unfortunately, due to the situation of arrears, this assistance has not been entirely effective. The assistance will be revived under the LICUS initiative, irrespective of the arrears situation.

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

9. The WB has taken the lead in the reform of the parapublic sector (petroleum distribution, the electricity and water companies, the telecommunications company and the banking sector). The IMF has a strong interest in the same area from a macroeconomic perspective, including economic growth and the monitoring of quasi-fiscal deficits. The Bank has also assisted the Government in assessing trade policies in the sugar sector, which figured in IMF policy advice to the authorities. The IMF is also interested in the outcome of Bank-led analytical work in the mining and forestry sectors.

Areas of shared responsibility

10. The WB and IMF have worked together in assessing debt sustainability and HIPC eligibility for THE C.A.R. A draft DSA and a preliminary HIPC document were prepared in the summer of 2002 but presentation to their respective Boards was overtaken by the attempted coup in October 2002. The WB and IMF are also active in the area of regional integration. The Bank is implementing a Regional assistance strategy for the CEMAC countries, including a support to the payments systems, while the IMF has been active in regional macroeconomic surveillance.

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

11. The IMF has taken the lead on revenue mobilization and the management of aggregate expenditures. The Bank is working with the IMF to ensure consistency between its own programs and the overall fiscal framework.

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

12. The IMF has led the dialogue on core macroeconomic policies, including monetary policy, exchange rate management, and balance of payments issues.

The C.A.R. Country Director: Mr. Ali Mahmoud Khadr – contact number: (202) 458-7860

Central African Republic: Statistical Issues
(As of February 10, 2004)

A. Outstanding Statistical Issues

To address weaknesses in the Central African Republic's economic and financial databases, a multisector statistical mission visited Bangui in October 1999. The mission examined the institutional framework, the data sources, and the methodologies employed to compile the data, as well as the medium utilized to disseminate the major macroeconomic data. On the basis of the mission's diagnosis, the authorities developed a statistical development plan designed to improve the national statistical system, adopted a statistics law in July 2001, and set up a National Statistical Board in October 2001, with the first meeting taking place in May 2002. The authorities have decided to participate in the General Data Dissemination System (GDDS), and four local managers have received relevant training to this end. It appears likely that the Central African Republic's economic and financial databases have weakened further following the conflicts that affected the country in October 2002 and March 2003. The impact of those conflicts will need to be assessed as soon as conditions permit. To assist the authorities in reviewing and updating the GDDS metadata a statistical mission visited Bangui in the period January 26-February 13, 2004. A government finance statistics expert also visited Bangui in the same period.

Real sector

The compilation of national accounts is the responsibility of the Division of Statistics and Economic Studies (DSEE) of the Ministry of the Economy, Finance, Planning, and International Cooperation. Gross domestic product data have been reported to STA through 2002, including a breakdown by expenditure. Annual data on foreign trade statistics have been reported through 2002. The latest data reported to STA for the consumer and wholesale price indices refer to fourth quarter of 2003 and calendar year 2000, respectively.

A 1999 STA multisector mission found serious deficiencies in the institutional arrangements for compiling statistics. There were several weaknesses in data collection procedures and compilation techniques. The authorities should continue efforts to improve the national accounts and the reporting of quarterly foreign trade data. At the same time, there is a need to revise the wholesale and the consumer price indices; the limited coverage and the obsolescence of the weights used in compiling these indices cast serious doubts on their accuracy.

Government finance

The Central African Republic does not report government finance statistics for publication in the *Government Finance Statistics (GFS) Yearbook* or *International Financial Statistics (IFS)*. The 1999 multisector statistics mission noted that there was no single primary data source that could be used for the production of government finance statistics and that the available information was not communicated to the Ministry of Finance. This situation was confirmed recently by a government finance statistics mission that visited Bangui during

January 26-February 13, 2004. The mission underscored that, in order to establish a systematic compilation of government finance statistics, substantial additional assistance will be required, notably in the area of Treasury accounting and expenditure management, with a view to producing reliable source data. The mission made specific recommendations toward this objective, and an FAD mission scheduled for March 2004 has been asked to look into some of these recommendations.

Monetary accounts

Monthly data for the Central African Republic, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are regularly reported to the Fund in electronic form by the regional central bank (BEAC). Accuracy of data on currency in circulation is affected by large cross-border movements of currency among CEMAC member countries.

The monetary and financial statistics mission which visited the headquarters of the BEAC in April 2001 reviewed procedures for collecting and compiling monetary statistics, and addressed the outstanding methodological and timeliness issues that concern the member countries of the CEMAC. The mission discussed an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *International Financial Statistics* for the CEMAC. In May 2002, the BEAC organized a workshop for compilers of monetary statistics on how to incorporate reforms introduced in the IMF *Monetary and Financial Statistics Manual* into the methodology used by the Central Bank. The new page for CEMAC was published in the January 2003 issue of IFS.

Balance of payments

As in other CEMAC countries, the agency responsible for the compilation of balance of payments statistics is the Balance of Payments Unit of the national agency of the BEAC. Past delays with data compilation and dissemination, which were mainly related to the transition from the Fourth to the Fifth Edition of the *Balance of Payments Manual*, have been addressed by recent reforms undertaken by BEAC staff. The last complete reporting, prepared by the national balance of payments committee, covered 2002 annual data. Preliminary statements for 2003 are available from the national direction of the BEAC office in Bangui, and have been transmitted to Fund staff.

The October 1999 STA multisector mission provided a thorough assessment of the statistical needs in balance of payments statistics. It found that the compilation system and procedures for balance of payments statistics were flawed, owing to the absence of documented sources and methods, understaffing, and lack of training. Measures taken by the BEAC since that time have permitted to update the automated compilation system, the training of staff involved in data collection and compilation, and the development of a new questionnaire that is more flexible and allows for a more timely collection of information. A regional workshop on the latter was held in June 2002 in Douala, Cameroon. Starting January 2003, a new codification has become effective that defines the new data collection and dissemination methodology, and that will be used for the compilation of the balance of payments statistics for the year 2003. In addition, the BEAC is in the process of implementing a new questionnaire for the purpose of collecting data on capital flows within the CEMAC member countries.

B. Technical Assistance Missions in Statistics (1993–Present)

Subject	**Staff Member**	**Date**
Government finance statistics	K.W. Abadallah	Nov. 29–Dec. 13, 1995
Multisector statistics	Thiet Luu	Oct. 28–Nov.12, 1999
Government finance statistics	Mohamed Maiga	Jan. 26–Feb. 13, 2004
GDDS	Eric Métreau	Jan. 26–Feb. 13, 2004

Central African Republic: Core Statistical Indicators [1] (As of February 10, 2004)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve Money/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Export/ Imports	Current Account Balance	Overall Government Balance	External Debt/Debt Service	GDP/GNP
Date of latest observation	01/04	11/03	11/03	11/03	11/03	01/04	12/03	12/03	12/03	12/03	12/03	12/03
Date received	02/01/04	01/04	01/04	01/04	01/04	02/01/04	01/04	01/04	01/04	01/04	01/04	01/04
Frequency ofdata [2]	D	M	M	M	M	M	M	A	A	M	M	A
Frequency of reporting [2]	D	M	M	M	M	M	M	A	A	M	O	A
Source of data	IMF	BEAC	BEAC	BEAC	BEAC	BEAC	Statistics directorate	BEAC	BEAC	Treasury	Debt directorate	Statistics directorate
Mode ofreporting [3]	E	E	E	E	E	E	M	M/V	M/V	M/V	E/V	M/V
Confidentiality [4]	P	P	P	P	P	P	P	P	P	U	U	P
Frequency ofpublication [2]	M	M	M	M	M	M	M	A	A			A

[1] As available to AFR staff.
[2] A = annually; D = daily; M = monthly; O = occasionally; Q = quarterly.
[3] C = cable or facsimile; E = electronic data transfer; M = mail; V = staff visits.
[4] P = publicly released information; U= unpublished.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Staff Report for the 2004 Article IV Consultation

Supplementary Information

Prepared by the African Department

(In consultation with the Legal and Policy Development and Review Departments)

Approved by Amor Tahari and Mark Plant

April 1, 2004

1. **This statement provides information that has become available since the issuance of the staff report.** The information updates the status, as reported by the authorities, of their priority measures and quantitative targets (Tables 1 and 2). Overall, the authorities have picked up the pace of reform and strengthened revenue performance in the first months of 2004. However, little progress has been made in several areas, and substantial weaknesses remain on the fiscal front. The thrust of the staff appraisal remains unchanged.

2. **Recent developments suggest that the new team in the economic and financial areas, which was appointed in December 2003 and began work in mid-January, has demonstrated a greater willingness to implement economic reforms.** In this setting, discussions on the 2004 budget are continuing, with the main obstacle being agreement with labor unions on public sector wage policy.

3. **The authorities have taken a number of policy measures on the fiscal side.** As noted in Table 1, steps have been taken to strengthen customs posts, improve tax audits, and tighten the eligibility for preferential tax regimes. In addition, the authorities have taken additional measures, including tightening the monitoring of tax payments by timber exporters and improving the information flow to the Customs Directorate. Several measures—notably the creation of customs corridors and the elimination of certain exemptions—are on hold, pending adoption of the 2004 budget.

4. **On expenditure measures, the government's proposal for reductions in civil service salaries—an average cut of about 20 percent, which would generalize the salary reductions for senior officials that was already implemented—has been fiercely resisted by labor unions.** In the meantime, the authorities have now frozen recruitment of civil servants and taken steps to verify those on the public payroll. Other measures, including the elimination of earmarked accounts and the provision of realistic appropriations for utility services have not been implemented, pending adoption of the 2004 budget.

5. **Fiscal performance improved moderately in the first two months of 2004, but remains very weak.** Revenue increased by 17 percent in January/February 2004 over October/November 2003, but fell short of the authorities' target. Encouragingly, collections rose noticeably in February, almost matching the monthly target. The shortfall to date suggests the cumulative target for the first quarter of 2004 will most likely not be met, although performance should exceed that for the last quarter of 2003, as well as the first quarter of the same year. Several of the revenue measures noted above took effect only in March, and should help to strengthen receipts in the coming months.

6. **The authorities have had less success in meeting their public sector salary obligations, having paid only one month's salaries in 2004 (and thus now running three months behind on current salary obligations).** Very preliminary monetary data suggest a reduction in net credit to the government by the banking system as banks seize revenue passing through the banking system to settle overdue borrowing by the government. In this context, domestic arrears have risen, contrary to the authorities' intentions, which had been to stabilize domestic arrears.

7. **The authorities have taken several measures on the governance front.** Forestry licenses are now being allocated on the basis of transparent bidding procedures, and the Special Financial Brigade was abolished. However, in the mining sector, as noted in SM/04/83, the new Mining Code leaves discretion in the attribution of permits, and several mining permits have been granted thus far this year without publication of the results.

Table 1. Priority Actions of the Central African Authorities

Action	Date	Status
Revenue		
Adopt the guidelines on tax audits and the guidelines regarding the treatment of defaulting VAT taxpayers.	End-February	Implemented.
Establish two customs corridors on the main roads from Cameroon.	March 15	Introduced in the draft budget for 2004.
Reinforce customs border posts; strengthen customs offices in Douala and Pointe Noire for payment of customs duties.	End-March	Ongoing. Donor financing has been identified for financing of the customs border posts' infrastructure.
Step up audits on eligibility for the flat tax discharging all profit tax obligations (*impôt libératoire*).	End-April	Ongoing.
Eliminate all customs and tax exemptions not provided under the CEMAC.	End-April	Introduced in the draft budget for 2004.
Expenditure		
Suspend all new civil service recruitment, with the exception of recruitment in the education and health sectors, which will be limited to replacing retirees.	End-February	Implemented.
Include realistic appropriations for electricity and telephone consumption in the 2004 Budget Law; put in place a control system with monthly ceilings.	End-February	Introduced in the draft budget for 2004.
Suspend some allowances included in the wage bill (to be specified).	March 15	Ongoing. Wages and allowances of top officials have been cut by 30 percent.
Conduct a census of civil servants in Bangui.	End-March	Implemented.
Cash-flow management		
Suspend payments of domestic arrears (with the exception of arrears on wages for November and December 2003) until finalization of an agreement on the clearance of arrears and treasury deposit accounts.	End-February	Some payments made on 2003 arrears.
Eliminate all special earmarked accounts and ensure that all earmarked revenues are paid to the treasury, with the exception of the revenues of the Road Fund, Forestry Fund, hospitals, the community integration tax, and the Livestock Development Fund.	End-February	Introduced in the draft budget for 2004.

Table 1. Priority Actions of the Central African Authorities

Action	Date	Status
Governance		
Publish without delay all applications for licenses in the forestry and mining sectors.	End-February	The calls for bids for the 4 remaining licenses in the forestry sector were published in February 2004. Recent applications for mining permits have not been published.
Publish on a monthly basis forecast and actual cash-flow plan figures.	End-February	Cash-flow plans have been drawn up for January and February, but have not yet been published.
Dismantle the Special Financial Brigade.	March 15	Implemented.
Eliminate room for discretionary decisions from the draft new mining code, as well as tax and customs exemptions not envisaged under the CEMAC.	End-March	A study on possible changes to the new mining code is in progress.
Establish a list of contracts that will be subject to the strict application of the public procurement code; if necessary, raise the procurement threshold and introduce a simpler competitive procedure (three bids) below this threshold.	End-March	---
Organize the necessary technical assistance to enhance the verification and valuation of diamond exports.	End-March	---
Implement a pilot program in Bangui for the payment of wages via microfinance institutions (currently paid in cash).	End-April	---.

Table 2. Central African Republic: Authorities' Quantitative Objectives, January 1– June 30, 2004

(In billions of CFA francs; cumulative from January 1st, 2004; ceilings, unless otherwise indicated)

	End–January		End–February		End–March	End–April	End–May	End–June
	Obj.	Prel. 1/	Obj.	Prel. 1/	Objective			
Floor on total government revenue 2/	4.7	3.9	10.1	8.9	16.5	22.5	27.6	32.9
Wages and salaries 3/	2.8	1.4	5.5	2.7	8.3	11.0	13.8	16.5
Floor on narrow primary balance 4/	...	...	...	...	1.1	...	...	1.6
Net change in domestic arrears	...	...	...	...	0.0	...	...	0.0
Change in net claims of the banking system on the government 5/	...	...	...	...	0.0	...	...	0.0

Source: CAR authorities.

1/ On the basis of preliminary data provided by the authorities.
2/ Including withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports.
3/ Including withholding taxes on government salaries. Some payments indicated for February made in March.
4/ Excluding withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports; the narrow primary balance compares total revenue to total expenditure, excluding interest payments and foreign-financed investment.
5/ Should untied budgetary support become available, these resources will be used to reduce the stock of net claims of the banking system on the government.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 04/39
FOR IMMEDIATE RELEASE
April 14, 2004

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

IMF Concludes 2003 Article IV Consultation with the Central African Republic

On April 2, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Central African Republic.[1]

Background

The period since 2000 has been marked by poor economic performance, due in large part to military disturbances, but also weak administration and poor program implementation, and the conflict that ended in March 2003 shattered the Central African Republic's economy. Real GDP contracted by 7 percent in 2003, with the formal sector of the economy in a particularly dire state. Exports and imports fell dramatically in 2003, although the drop in exports was in part due to the suspension of mining and forestry permits following the March 2003 coup as the authorities attempted to clean up activity in these sectors. The weakened trade balance and a low level of international assistance led to a further deterioration of the overall balance of payments, despite the Central African Republic making almost no payments on its external debt. Monetary aggregates—with the exception of net credit to government—also fell. Average inflation in 2003 increased slightly and was higher than in most other countries belonging to the Economic and Monetary Community of Central Africa (CEMAC), largely due to higher food prices resulting from transport disruptions.

[1] 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.

Public finances are likewise in a very distressed position. The deficit in the overall budget balance including grants widended by about 2 percent of GDP in 2003. Revenue fell by more than 30 percent in nominal terms, dropping from almost 11 percent of GDP in 2002 to 7½ percent in 2003, due in part to the economic downturn and a collapse of the private formal sector (although 2002 revenues were inflated by a growing recourse to advance tax payments and a large increase in mining and forestry licenses provided on a discretionary basis). In addition, the looting and dislocations from the conflict disrupted the tax agencies, as did an increase in fraud and continued rampant corruption.

The government continued accumulating domestic arrears, notably on civil servant salaries. In spite of the government's declared objective to ensure the regular payment of salaries starting in April 2003, by year-end, the government had failed to pay November and December wages. In this context, the financial system has been drained of liquidity. To help the liquidity situation, in May 2003 the Bank of the States of Central Africa (BEAC) temporarily suspended reserves requirements for Central African Republic banks. Furthermore, the deadline for repayment by the banks of part of the credit under the 2001-2002 aborted cotton campaign, which was refinanced by the central bank (and guaranteed by the government), has repeatedly been extended.

Administrative capacity has suffered enormously from the political instability, most notably from the destruction during the October 2002 to March 2003 conflict, further undermining the authorities' ability to provide public services. Administrative buildings, in particular of the tax agencies, were sacked in both Bangui and the provinces, while public officials fled from many conflict areas, further undermining the productivity of most government institutions. The private sector was directly affected as well, and a number of looted enterprises have ceased their activities.

Regarding foreign assistance, many donors pulled out of the Central African Republic in the wake of the conflict. Since then, donor support has been limited. However, China, France, and the Central African Republic's CEMAC neighbors provided some budgetary support during 2003, and France and the European Union (EU) are now providing technical assistance. A number of United Nations agencies are present in the Central African Republic and active with humanitarian assistance and support to the social sectors. Several international non-governmental organizations are also present.

The political and military developments in the Central African Republic in recent years have had a dire impact on social conditions, which, on the basis of anecdotal information, worsened further during the October 2002-March 2003 period. Public health and education services in particular have suffered, and are only starting to return in many areas of the country, and the incidence of HIV/AIDS continues to rise.

Executive Board Assessment

Executive Directors welcomed the gradual return of peace and security in the Central African Republic and the ongoing transition toward free elections. They noted that the country faces major challenges in the period ahead, including de-mobilization and re-integration of former combatants, the consolidation of peace and political stability, economic and social recovery from the devastation of years of military strife, and the reconstruction of public sector institutions and the government's administrative capacity. Directors agreed that timely and appropriate support from the international community, including technical and financial assistance and debt relief, will be crucial to the Central African Republic's reconstruction efforts. In this regard, they stressed that the authorities will need to demonstrate their ability and commitment to undertake a comprehensive economic recovery program to lay the basis for sustained economic growth and poverty reduction.

Against this background, Directors commended the authorities' initial steps to address the economic difficulties, and their intention to give high priority to the most pressing economic and social issues in 2004. They encouraged firm implementation of the set of priority actions agreed with the Fund staff, some of which have already been met. This will send a strong signal to the international community that the government is capable of implementing economic reforms effectively, and will help prepare the ground for an increase in international assistance to the Central African Republic

Directors stressed that fiscal consolidation is urgently needed to restore macroeconomic stability, put the public finances on a sustainable path, and enable public institutions to function effectively. They noted that the deteriorating public finances have led to continued accumulation of external and domestic payments arrears, including wage arrears. Directors agreed that an excessively low level of spending risks undermining the effective functioning of the state, and considered that public expenditure will need to be increased substantially in the coming years as part of the reconstruction effort. Therefore, Directors stressed that a strong effort will need to be made to mobilize revenue collection, and welcomed the measures introduced this year in that regard. They urged continued efforts to widen the tax base—including by bringing the informal sector into the tax net—and to strengthen tax administration and combat tax fraud.

Directors noted that, given the limited budgetary resources, fiscal adjustment will continue to rely on expenditure restraint in the short term. They thus commended the initial measures taken to improve expenditure control and fiscal transparency—particularly those to contain the public sector wage bill. They suggested that a comprehensive medium-term civil service reform to reduce the wage bill relative to total revenue and spending will be fundamental to achieving fiscal sustainability. Directors urged that public expenditure management be strengthened, tight control be maintained on non-essential spending, and public spending be re-directed toward the social sectors and poverty reduction. They welcomed the authorities' efforts to ensure that all related revenue would be placed in a unified account at the Treasury.

Directors observed that the regional monetary and exchange rate arrangement has served the Central African Republic well, by keeping inflation low and maintaining external competitiveness. They encouraged the authorities to observe the monetary union's macroeconomic convergence criteria and to enforce vigorously the regional prudential banking norms. They welcomed the authorities' determination to implement the new regional regulatory framework for the microfinance sector. Directors stressed that an improved fiscal position will be critical to alleviating the liquidity shortage in the banking sector and permitting adequate growth of credit to the private sector. Directors commended the authorities' commitment to trade liberalization and regional integration, and encouraged further progress in this area.

Directors underlined the importance of strengthening governance to improve public administration and the business climate. They were encouraged by the measures recently taken to address corruption, including the enhancement of transparency in the forestry and mining sectors. Directors also urged the authorities to strengthen the judicial system's competencies in financial and commercial matters to reduce corruption as well as to underpin the efficient functioning of the economic system.

Directors encouraged the authorities to push ahead with structural reforms to help stimulate economic activity, particularly in the mining and forestry sectors. They welcomed the authorities' efforts to improve the financial position of the public enterprises, and urged stronger efforts in this regard to reduce the drain on the budget. They encouraged private sector participation in the operations of the public utilities.

Directors noted that the Central African Republic will need considerable technical assistance from the donor community in the period ahead, including the Fund, particularly in fiscal management and reform and in the production of economic and social statistics. They considered that the quality, coverage, and timeliness of the statistics produced require substantial improvement to meet the needs of surveillance and program design and monitoring, especially in the fiscal and real sectors.

Directors urged the authorities to aim at normalizing financial relations with their external creditors to resolve the large stock of external arrears and the heavy debt burden. They also recommended that the government seek agreement with its social partners and suppliers of goods and services regarding the settlement of its domestic arrears.

Directors indicated that the Central African Republic is a candidate for support under the Fund's Emergency Post Conflict Assistance policy, in the context of a concerted international effort, with a number of Directors underlining that the authorities need to continue to demonstrate their capacity to put in place and sustain the elements of an economic recovery program. They stressed that a solid track record of policy implementation would allow the Central African Republic to move toward a medium-term economic program supported by the Poverty Reduction Growth Facility (PRGF). Directors also noted that, given its heavy debt burden, the Central African Republic could be in a position to benefit from debt relief under the Heavily Indebted Poor Country (HIPC) initiative. Against this background, Directors welcomed the authorities' commitment to completing the preparation of a well thought-out Poverty Reduction Strategy Paper in a timely manner.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Central African Republic: Selected Economic Indicators 2000–06

	2000	2001	2002	2003 Est.	2004	2005	2006
					Projections		
	(Annual percentage change, unless otherwise indicated)						
Production							
Real GDP	1.8	0.3	-0.6	-7.3	2.5	4.4	4.2
Consumer price (yearly average)	3.2	3.8	2.3	4.2	2.2	3.3	2.1
	(In percent of GDP, unless otherwise indicated)						
Public finance (central government)							
Overall balance (cash, excluding grants)	-7.0	-5.3	-2.0	-0.5	-2.4	-2.5	-2.6
Overall balance (commitments, excluding grants)	-6.6	-4.3	-5.0	-4.6	-2.4	-2.5	-2.6
Narrow primary balance 1/	-0.2	0.3	1.0	-2.1	0.6	1.1	1.6
	(Annual change in percent of beginning period broad money)						
Money and credit							
Net foreign assets	5.3	-14.3	-7.3	-6.7	4.8	...	...
Broad money (M2)	5.4	-1.1	-4.3	-4.8	6.1	...	...
Credit to the economy	-1.3	3.2	6.3	-1.3	3.2	...	...
Net credit to central government	6.9	8.7	-0.9	3.9	-1.8	...	...
External sector							
Current account balance (in percent of GDP)	-3.0	-2.5	-2.4	-4.8	-2.7	2.0	-1.5
NPV of debt/exports of nonfactor goods and services	250.3	376.2	455.6	557.9	409.4	360.9	342.3
Actual debt -service ratio 2/	5.6	7.3	0.8	0.3	24.9	25.5	20.0
Exchange rate (CFA francs per U.S. dollars)	710.1	732.4	694.8	580.1	...	...	...

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

1/ Excludes interest payments and foreign-financed investment.
2/ In percent of exports of goods and services.

Statement by Damian Ondo Mañe, Executive Director for Central African Republic
April 2, 2004

1. Introduction

I would like to thank the staff for a well focused report on the 2004 Article IV Consultation, and Management for its continued efforts, through various means, at helping the Central African Republic (CAR) improve its performance over the years.

The CAR has faced extremely difficult conditions since the mid-1990s including repetitive military disturbances, which were fueled by insufficient revenue mobilization, and resulting wage arrears to civil servants and military personnel. These conflicts have hindered the country's economic development as well as its prospects for financial support from international community. They have also led to sizable human casualties, and the destruction of administrative and key industrial infrastructure. In this context, reduced administrative capacity, difficult government finance, the landlocked position of the country and the decaying infrastructure, and unfavorable security situation have also contributed to the dislocation of the economy and a further worsening of social indicators.

Since 2003, the country is recovering from the conflict, security conditions started to improve with the support of peacekeeping troops from France and countries of the Central African Economic and Monetary Community (CEMAC). Improvement in regional security environment has also played a key role. Moreover, in order to enhance security, the authorities, with the support of donors, have initiated the demobilization and reintegration program. Also, they have scheduled parliamentary and presidential elections for January 2005.

The challenges facing the authorities are considerable, which include the need to rebuild the institutional capacity and improve governance, reverse the low growth, poor fiscal performance, and accumulation of arrears. Moreover, they have to provide basic social infrastructures, create jobs, thus reducing poverty. My authorities would need a timely and predictable external financial assistance, in the form of budgetary assistance, as well as technical assistance, which would help consolidate peace and security conditions in the country.

2. Recent economic developments

As Directors would recall, the Central African Republic implemented a SMP for the period October 2001-March 2002. The first quarterly review of the SMP was completed in May 2002. The satisfactory performance under the SMP in the second quarter and beyond the period of the SMP has provided a good basis for a possible three-year successor program PRGF arrangement. This could be considered as a test of the CAR's ability to implement a Fund supported program.

In the real sector, GDP suffered a record decline in 2003 to a negative 7.3 percent, against a negative rate of 0.6 percent in 2002, exacerbating the economic, financial, and social effects of the unfavorable performance of the previous years. The rate of real growth in the subsistence sector decelerated, thus reducing further the already low living standards of the population.

In the fiscal area, the CAR public finances were in a very distressed position. The overall deficit widened considerably in 2003, as revenue declined by more than 30 percent to 7½ percent of the GDP, due to economic downturn and the collapse of the private sector. Under these circumstances, despite the deep cuts in current and domestically financed capital expenditure, the authorities accumulated further external and domestic arrears. The level of the stock of domestic arrears was estimated to have increased to 31 percent of GDP.

The **financial sector** was drained of its liquidity. The regional central bank (BEAC) suspended temporarily the reserve requirements for the CAR banks, and extended repeatedly the deadlines for repayment by the banks of cotton-campaign-related advances which were refinanced by BEAC with government guarantee.

The **external sector** also suffered major setbacks in 2003 in part due to the suppression of mining and forestry permits following the change in government, as the new authorities attempted to clean up abuses in these sectors. Imports fell as domestically-financed public investment outlays were slashed, and international assistance was halted as external arrears increased.

3. Actions for 2004 and medium-term outlook

The CAR economy remains fragile, as such my CAR authorities are determined to continuing their reform effort and creating an environment in which growth can be sustained and poverty reduced. Consequently, the program for 2004 aims at increasing GDP growth, reducing inflation and strengthening the external position.

On the economic front, my authorities view Fund's financial and technical support as an indispensable signal for external budgetary assistance and for the resumption of private sector activity. In this vein, they have been implementing, in earnest, a set of priority actions agreed upon with Fund staff that will demonstrate their resolve to carry out an emergency post conflict program which would be followed later by a PRGF arrangement and the use of HIPC resources.
My authorities are implementing necessary measures to achieve a positive real GDP growth in 2004. Mining and forestry sectors' activities are expected to resume and reach their normal activity level; subsistence agriculture is expected to rise gradually as security improves.

Fiscal policy

Fiscal policy, the cornerstone of my authorities' recovery program, will be improved through an ambitious but attainable revenue performance, coupled with strict expenditure restraint. Measures aimed at increasing fiscal revenue include the strengthening of customs administration, improving control of the value-added tax declarations, carrying out frequent tax audits and streamlining exemptions, strengthening administrative capacity and combating fraud. Furthermore, my authorities have agreed to set up a new computerized system that will allow the customs and tax administrations to share information instantly on taxpayers.

With respect to spending, the 2004 draft budget provides for a nominal reduction of 6 percent from the 2003 outturn, primarily on current expenditures on goods and services, as well as in domestically financed capital expenditures. The expected small primary surplus that will be generated as a result, will be used to meet part of the interest payments to the domestic banking system and CAR's obligations to the Fund. My authorities will improve the expenditure management system, and will strengthen the monitoring of the spending process from the commitment to the payment stages. Consequently, my authorities would welcome technical assistance from the Fund, the World Bank and other donors.

As agreed upon with Fund' staff, my authorities are already implementing the expenditure-reducing measures shown in Appendix 1 of the staff report. These measures include the freezing of new civil service recruitment, with exception to recruitment in the education and health sectors, limiting this action to replacing outgoing retirees in those sectors. Moreover, my authorities will suspend some allowances in the wage bill. With respect to the wage bill arrears, my authorities will halt the payment of arrears from the previous budget exercise, pending systematic verification of these arrears. Measures related to cash-flow management are also being carried out, inclusive of the establishment of a monthly cash-flow plan.

My authorities stress that some of the measures introduced thus far are already having an impact. As part of their decision to reduce the wage bill by 5 percent from initial projections, they have reduced salaries of top officials by 30 percent in February 2004, and have tabled with the National Transition Council a far-reaching proposal to reduce civil servants salaries by 10-30 percent overall.

Banking sector issues

In the monetary and financial policies, no credit will be granted to the government. With the economic upturn, banks will be able to mobilize additional resources, thereby alleviating liquidity shortages. The regional bank supervision agency (COBAC) will strengthen its supervision to ensure compliance with prudential ratios by banks and will be involved in the selection of a partner to recapitalize BICA, a commercial bank which is not meeting prudential ratios. My authorities are also determined to implement the new regulatory framework for the microfinance sector and will strengthen the monitoring through a unit established at the ministry of finance. In this connection, they have set a two-year deadline for the microfinance institutions to adjust their structures and balance sheets to conform to the new regulations and to meet prudential ratios.

External sector

Dealing with the large stock of external arrears is essential to my authorities' external policy in 2004. While noting the difficulties in not accumulating arrears during the first half of

2004, they will soon initiate discussions on arrears settlement plans with multilateral and bilateral creditors. CAR's external debt is unsustainable; therefore, my authorities view it as important to secure foreign assistance on highly concessional terms.

Regional integration

My CAR authorities will pursue the implementation of regional integration within CEMAC's guidelines. Moreover, my authorities will also improve their compliance with CEMAC's regional convergence criteria.

Structural reforms

My authorities are taking measures to implement a number of key structural actions and to improve governance, particularly in the mining, forestry, and public enterprise areas, in order to promote growth, raise employment and reduce poverty. In the mining sector, they intend to seek technical assistance from the World Bank to review the remaining discretionary powers of the state and its participation in industrial activities as listed in their new mining code. With respect to forestry, they plan to reallocate, through open tenders, the forestry permits that were returned to the state following the 2003 government withdrawal of operators' permits in its bid to clean up the sector.

In the public enterprise sector (electricity, water and telecommunications), my authorities have confirmed their intention to privatize utilities when the environment for privatization is improved, however, in the meantime, they will help improve their sector's financial situation: a first step will be realistic budget allocations for government utility consumption that will avoid accumulation of arrears towards the sector.

4. Poverty reduction

Social indicators have deteriorated significantly in recent years and, notably, HIV/AIDS pandemic has afflicted an important segment of the population. These problems will be addressed in the government's full PRSP, which is expected to be completed by December 2004. However, my authorities will need technical and financial assistance from CAR's development partners, to cover the associated cost, namely the financing of various households' surveys, the preparation of notes on poverty and other activities.

In view of lack of resources to effectively carry out the demobilization and the reinsertion of former combatants and turn them into productive citizens and thus enhance security, my authorities hope that international financial support for this endeavor could be provided.

5. Conclusion

I would like to convey to the Fund the gratitude of my CAR authorities for its past technical and financial assistance. They view Fund' support as indispensable for the economic recovery of their country's economy as it is catalytic in gathering the much needed international support. They would also welcome continued Fund's policy advice and technical assistance will cover numerous areas in order to help rebuild institutional and management capacity. The authorities hope that Fund financial support, initially in the form of post conflict assistance, would evolve into a full-fledged PRGF which would enable the country to gain access to HIPC resources. They hope that the Fund would coordinate its assistance with that of the donor community, and thus help the CAR make progress towards the MDGs.

Finally, my authorities would like to request special support from the international community to help the country resume normal relations with creditors through a realistic approach on debt settlement with donors. As previously stated in this statement, past experience shows that CAR has built a sufficient track record on various SMPs and other understanding with Staff. However the critical issue of arrears settlement hinders the country's access to a PRGF facility.