International Monetary Fund

Central African Republic and the IMF

Press Release:
IMF Executive Board Completes First Review Under the PRGF Arrangement with the Central African Republic and Approves US$4.8 Million Disbursement
October 5, 2007

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Central African Republic: Letter of Intent

September 7, 2007

The following item is a Letter of Intent of the government of Central African Republic, which describes the policies that Central African Republic intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Central African Republic, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Bangui, September 7, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431
USA

Dear Managing Director:

1. The authorities of the Central African Republic appreciate the international financial community's ongoing efforts to provide much needed financial and technical assistance in a coordinated effort to consolidate peace and security, support our economic and financial reform program, and rehabilitate the economic infrastructure.

2. The Fund's assistance under the Poverty Reduction and Growth Facility (PRGF) arrangement has been particularly helpful; in facilitating a recent debt rescheduling with Paris Club creditors on highly favorable terms, and paving the way for the Central African Republic to reach the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This initiative is critical to alleviating the external debt burden, which is weighing heavily on our financial position.

3. The implementation of our program has been challenging so far, partly because it will take time to strengthen institutional and administrative capacity. Furthermore, a lower level of programmed aid inflows has had adverse implications for program performance, although we have taken the necessary measures to try to offset the decline in these resources to ensure that our overall fiscal policy objectives continue to be achieved.

4. To complete the first review of our Fund-supported program, we are requesting the waiver of three quantitative performance criteria at end-June 2007.

- Wages and salaries exceeded slightly the program target (CFAF 17.7 billion, compared with CFAF 17.5 billion), because of some unbudgeted compensation payments to retirees. We anticipate further retirements and additional compensation payments, implying a further small increase in the wage bill over the rest of this year. To ensure that we remain within the annual budgeted wage ceiling, we will accelerate the process of job reclassification to resolve improper grading, reduce salaries where credentials cannot be justified, and eliminate unjustified benefits, which should lead to the required savings of about CFAF 440 million.

- The envisaged (net) repayment by the government to the commercial banking system did not materialize and instead further borrowing occurred through end-June. This was due to (i) the government's decision to facilitate the recapitalization by a foreign investor of a troubled commercial bank by paying government-guaranteed liabilities of wholly state-owned enterprises to that bank (equivalent to about 0.3 percent of GDP); and (ii) the use of a small amount of commercial bank financing to make up for a delay in foreign assistance, to begin the planned clearance of domestic payments arrears in the cotton sector.

- Also, because the recapitalization of the commercial bank is recorded as a transfer in the budget, this transaction led to a slightly lower domestic primary surplus than programmed (by about 0.1 percent of GDP). The government continued to maintain tight control over spending, but was not able to fully offset this transaction because the budget is already compressed, and only provides for a minimal level of public services.

5. To accommodate the fiscal impact of the government's decision to facilitate the recapitalization of the commercial bank and account for additional domestic interest payments on domestic debt (equivalent to CFAF 3.5 billion)─partly caused by the delay in foreign financing and the recourse to relatively costly commercial bank borrowing─we request the modification of the performance criterion at end-December 2007 on (i) the floor on the domestic primary balance and (ii) the change in net claims of the commercial banking system on the government. The revised targets are presented in Table 1 (attached). A key priority of our economic program is to regularize relations with all of our creditors; in this connection, we have raised the floor on the domestic primary surplus by a small amount (CFAF 900 million, or about 0.1 percent of GDP) to ensure timely payment of our domestic debt service. An unanticipated increase in non-tax revenue (from telecommunication fees) has provided sufficient resources to accommodate the higher debt service. In the same vein, we continue to place priority on reducing our liabilities to commercial banks, although recent developments have slowed the envisaged repayment, which is now targeted at 2 billion CFAF at end-December 2007 (0.2 percent of GDP), compared with CFAF 4.4 billion earlier.

6. We continued to make progress in structural reform and the program's five structural performance criteria were completed, although two with a slight delay. For one measure─concerning the external audit of the operations of the one-stop customs window in Douala─the delay was caused by donor coordination problems, which led the government to finance the audit itself to avoid further slippage. For the other measure─concerning the validation of domestic payments arrears, which accrued during the period 1998-2004─the delay was due to our limited understanding of some donor procurement procedures. In this regard, we request the waiver of these two structural performance criteria. In addition, since the recapitalization of the troubled bank is now completed, the structural benchmark refraining the government from providing further resources is no longer relevant, and we request its removal from the program.

7. We have made determined efforts to implement our PRGF arrangement under difficult financial conditions. Given our tight budget constraint, the unpredictability of aid inflows pose the main risk to our program, as this would result in a decline in public investment with adverse consequences for medium-term growth and poverty reduction. Nonetheless, we will not take any actions inconsistent with our program, including accessing

the sub-regional financial market to finance development at this time. We hope that completing the first program review and reaching the HIPC decision point will provide a further catalyst for a scaling up of aid inflows, and we expect that additional highly-concessional assistance should be forthcoming during a donor roundtable planned for end-October 2007. During this roundtable, we will present our key policies and priorities to enhance growth and alleviate poverty, as described in the Poverty Reduction Strategy Paper, which is now being finalized.

8. The government of the Central African Republic believes that the policies and measures set forth in the Memorandum of Economic and Financial Policies of November 30, 2006 continue to be adequate to achieve the objectives of the program, but we will take any further measures that may become appropriate for that purpose. During the implementation of the arrangement, we will consult with Fund staff on the adoption of any measures that may be appropriate, at the initiative of the government or whenever the Fund staff requests such a consultation.

9. The government intends to make the contents of this letter as well as the staff report accompanying its request for completion of the first review of the program, available to the public and authorizes the IMF to arrange for them to be posted on the IMF website, subsequent to Executive Board approval of its request.

10. The second review under the PRGF arrangement is expected to be completed by April 30, 2008.

11. Yours sincerely,

/s/

Elie Doté
Prime Minister

Table 1. Revised Quantitative Performance Criteria and Benchmarks under the PRGF Arrangement, 2007

(In billions of CFA francs; cumulative from December 31, 2006; ceilings, unless otherwise indicated)

	End-Sept. Benchmark	End-Dec. Performance Criteria
Floor on total government revenue 1/	61.2	81.0
Wages, salaries, and bonuses 2/	26.3	35.0
Floor on domestic primary balance 3/	7.6	9.6
Accumulation of new government domestic arrears on wages and goods and services 4/	0.0	0.0
Change in net claims of the commercial banking system on the government	-1.0	-2.0
New nonconcessional external debt 5/ 6/	0.0	0.0
Accumulation of government external payments arrears 6/	0.0	0.0
Indicative targets:		
NPV of external debt	...	457.9
Floor on poverty-related spending 7/	9.2	12.3
Domestic payments arrears 8/ 9/	-9.1	-18.1

1/ Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, TMU, for more details).
2/ Including withholding taxes on government salaries (see TMU).
3/ The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditures. An adjustor applies for any unplanned/or shortfalls of grants and loans (see the TMU).
4/ Wage arrears (including unpaid pensions and bonuses) and arrears on goods and services, excluding arrears on utility consumption. Arrears on goods and services include unpaid spending commitments vis-à-vis suppliers as well as deposit accounts of enterprises in the Treasury.
5/ Contracted or guaranteed by the government (see the TMU).
6/ These performance criteria will be monitored on a continuous basis.
7/ Total spending on health and education including wages and salaries and goods and services.
8/ End-2006 stock corresponds to the amount validated by the Domestic Arrears Validation Committee and is subject to an external audit; they include arrears which accrued during 1998-2004 and those which pre-date 1998.
9/ Amount paid in first quarter of 2007 corresponds to arrears accrued in 2005.