October 2010
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Central African Republic: Sixth Review Under the Arrangement Under the Extended Credit Facility and Financing Assurances Review—Staff Report; Debt Sustainability Analysis; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Central African Republic.

In the context of the Sixth Review Under the Arrangement Under the Extended Credit Facility and Financing Assurances Review, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Arrangement Under the Extended Credit Facility and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on April 1, 2010, with the officials of Central African Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 12, 2010. 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 consisting of a joint IMF/World Bank debt sustainability analysis.

- A staff supplement of August 23, 2010 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its August 25, 2010 discussion of the staff report that completed the request and/or review.

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

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

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Sixth Review Under the Arrangement Under the Extended Credit Facility and Financing Assurances Review

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

Approved by Michael Atingi-Ego and Dhaneshwar Ghura

May 12, 2010

Fund relations:	In December 2006 the Executive Board approved a three-year Extended Credit Facility (ECF) arrangement for the Central African Republic (C.A.R.) in an amount equivalent to SDR 36.2 million (65 percent of quota). C.A.R. reached the completion point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in June 2009. The Executive Board approved an access augmentation of an amount equivalent to SDR 8.355 million (15 percent of quota) in June 2008 and an amount equivalent to SDR 25.065 million (45 percent of quota) in June 2009. The fifth review under the ECF arrangement was completed on December 4, 2009.
Mission discussions:	Program performance in 2009 was broadly satisfactory. An amount equivalent to SDR 8.67 million (15.6 percent of quota) will become available upon completion of this review.
Mission team:	Mr. Petri (head), Messrs. Hitakatsu, Keller, and Rayner (all AFR). Mr. Ntamatungiro (resident representative) assisted and a World Bank team participated. Mr. Tall (OED) participated in the policy discussions.
Location and dates:	Bangui, March 18–April 1, 2010
Interlocutors:	President of the Republic General Bozizé; Prime Minister Touadéra; Minister of State for Mines, Energy, and Hydrology Ndoutingaï, Minister of Finance and Budget Besse; Minister Delegate for Resource Mobilization Kadre; Deputy National Director of BEAC Wallot; other senior officials; parliamentarians; and members of trade unions, the press, donors, and the business community.

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Acronyms

AfDB	African Development Bank
BEAC	*Banque des États de l'Afrique Centrale* (Bank of Central African States)
CEMAC	*Communauté Économique et Monétaire de l'Afrique Centrale* (Economic and Monetary Community of Central Africa)
DDR	Disarmament, Demobilization, and Reintegration
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility (replaced PRGF)
EU	European Union
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GFMIS	Government Financial Management Information System
HIPC	Heavily Indebted Poor Countries
IPD	Inclusive Political Dialogue
LIC	Low-Income Countries
MEFP	Memorandum of Economic and Financial Policies
NFA	Net Foreign Assets
QB	Quantitative Benchmark
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PC	Performance Criterion
SB	Structural Benchmark
SOE	State-owned Enterprise
TIN	Tax Identification Number
TSA	Treasury Single Account
TUPP	Taxe Unitaire sur Produits Pétroliers
VAT	Value Added Tax

EXECUTIVE SUMMARY

Recent performance suggests further economic stabilization, but uncertainties remain related to the 2010 general elections. Real GDP growth is projected to increase to 3.3 percent in 2010, with average CPI inflation slowing to 2 percent. Recovery in external demand is slow, but improving export prices and higher current transfers will offset increasing imports to stabilize the current account balance.

Fiscal performance in 2009 was broadly on track. The government continued its domestic revenue mobilization efforts, controlled spending, cleared arrears, and further reduced expensive domestic bank credit. Investment spending was constrained by implementation capacity. Fiscal structural reforms progressed, though with delays in some areas.

The fiscal program for 2010 aims at supporting domestic demand, financing the peace process and the elections, and mobilizing more revenue. Tax revenue is expected to increase by 0.2 percent of GDP; current expenditure is projected to increase allowing for postponed spending on the peace process, the elections, and more realistic allocations for priority spending categories. Capital spending is larger reflecting better project implementation capacity and bank recapitalization, resulting in a primary domestic deficit of 1.5 percent of GDP. Structural reform measures are targeted to support the macro-fiscal framework through revenue administration reform, better public financial management (PFM), and strengthened policy implementation capacity.

Staff recommends completion of the sixth review of the ECF arrangement. Program implementation has been broadly satisfactory with all quantitative conditionality having been met. A prior action to address delays in implementing the structural reform agenda has been implemented.

The current ECF program is ending at end-June 2010. The authorities intend to request a successor ECF arrangement later in 2010. Medium-term policy should focus on measures to accelerate economic growth and strengthen competitiveness while keeping debt sustainable. Meeting the large development spending needs will require greater efforts to mobilize domestic revenues, prudent public financial management, and increased donor support on concessional terms.

I. Introduction

1. **C.A.R. has recorded modest economic growth since conflict ended, but the economy remains vulnerable to a variety of shocks**. The economy has been severely affected in 2008/09 by external and domestic shocks, but real economic growth has now bottomed out. Inflation has abated, but growth is still slow, and the current account balance weak. The government has met some success in pursuing its fiscal program of mobilizing domestic revenues, controlling spending, clearing domestic arrears, and reducing exposure to commercial credit. There has been progress in improving public financial management (PFM), but much remains to be done. Insufficient resources make it hard for C.A.R. to implement its poverty reduction strategy.

2. **The peace process has suffered delays and uncertainties over the general elections persist**. The disarmament, demobilization, and reintegration (DDR) program has suffered important delays, and weaknesses in preparing the elections—postponed from April to a later date—have encountered skepticism from donors and the opposition.

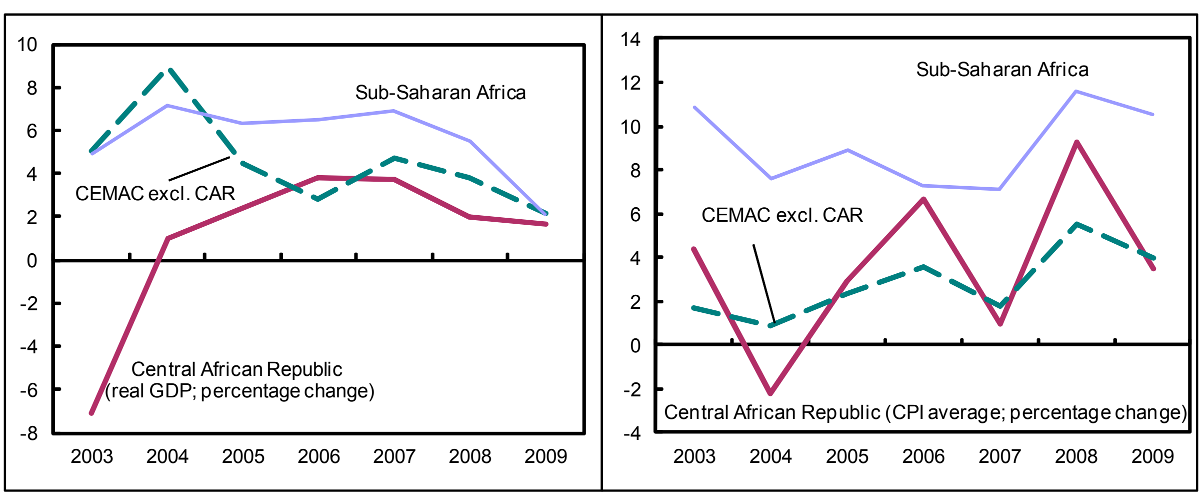
II. Economic Developments and Program Performance in 2009

A. Recent Developments

3. **The C.A.R. economy bottomed out in 2009**. Exports for wood products and diamonds are pointing upward, with lower timber taxation helping to sustain production capacity and employment. Real GDP growth in 2009 was 1.7 percent (Figure 1). Inflation year-on-year fell by 1.1 percent in March as food prices have normalized after their peak in 2008, resulting in average CPI of 3.5 percent for 2009.

Figure 1. Central African Republic: Growth and Inflation Developments, 2003–09

Growth fell as a result of the global crisis; and inflation was easing in line with CEMAC countries.

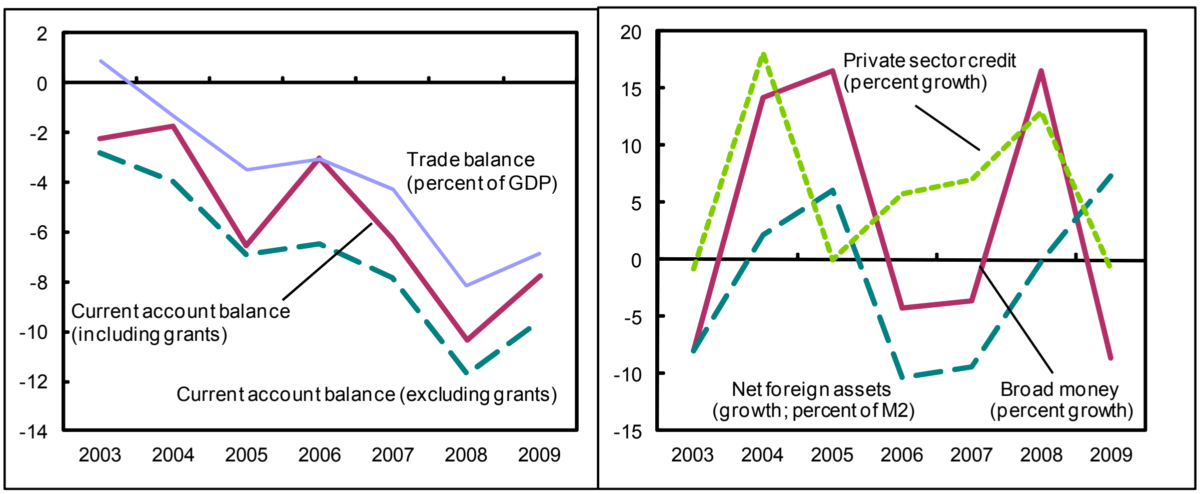


Sources: C.A.R. authorities; and IMF staff estimates.

4. **The external current account improved in 2009**. After a deficit of 10 percent of GDP in 2008, the current account has firmed to 8 percent of GDP in 2009, reflecting better terms of trade—higher diamond and gold and lower oil prices—and lower oil import volumes, following the sale of stocks accumulated in 2008 (Figure 2). The external financial position at year-end was bolstered by augmented ECF access and the SDR allocation, although less than expected because part of the SDR allocation was used to reduce commercial bank credit ahead of schedule. Broad money decreased by 8.6 percent as credit to the economy shrank marginally.

Figure 2. Central African Republic: External and Monetary Developments, 2003–09

The deterioration of current account came to a halt; and money demand reflected weak private sector credit.



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

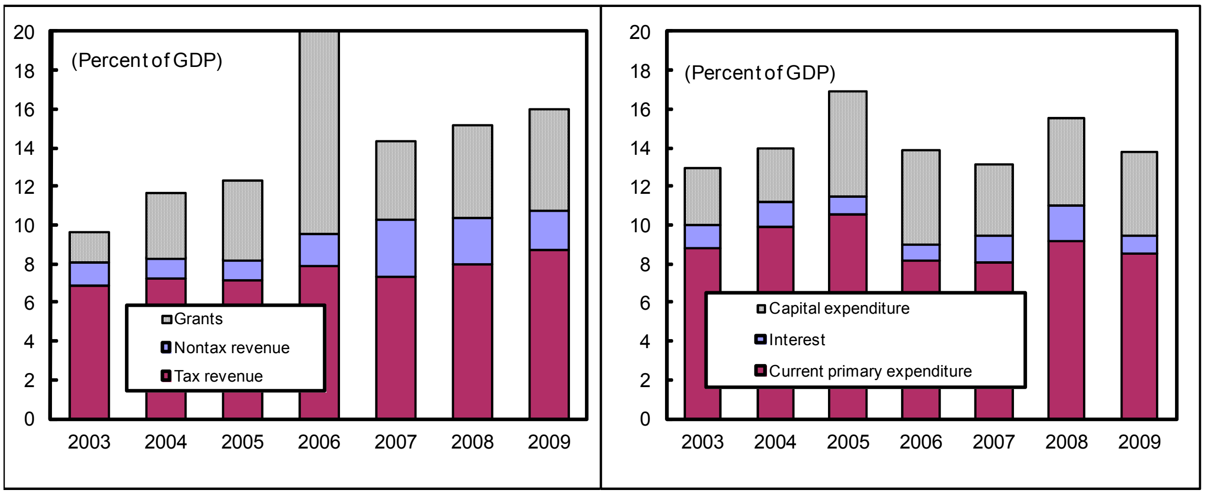
B. Program Performance

5. **Fiscal performance was in line with the program**. All performance criteria (PCs) were met (Text Table 1). Despite the difficult environment, domestic revenues increased to 10.8 percent of GDP (Figure 3); 0.3 percentage points of GDP above program. The domestic primary surplus of 1.5 percent of GDP exceeded target by 1.9 percentage point of GDP, partly because of delayed DDR expenditure and lower-than-programmed investment spending, as well as tight controls on cash expenditure (Figure 4). However, arrears of about 0.4 percent of GDP accumulated in 2009, resulting partly from difficulties in reforming the expenditure management system. Though less counter-cyclical than programmed, fiscal policy contributed to stabilizing domestic demand by keeping total primary spending including arrears repayments broadly constant as a share of GDP in 2009. The PC on net credit from commercial banks was exceeded by using the bulk of the SDR allocation, thus freeing up interest payments for social spending. The SDR allocation also contributed to the higher-than-programmed reduction of domestic arrears (quantitative benchmark (QB)) in addition to support from the EU's V-Flex. The QBs on the net accumulation of tax arrears,

social spending, the collection ratio of the utility companies, and payments for government utility consumption were met; the latter partly because of low billing by some companies.

Figure 3. Central African Republic: Revenue and Expenditure Developments, 2003–09

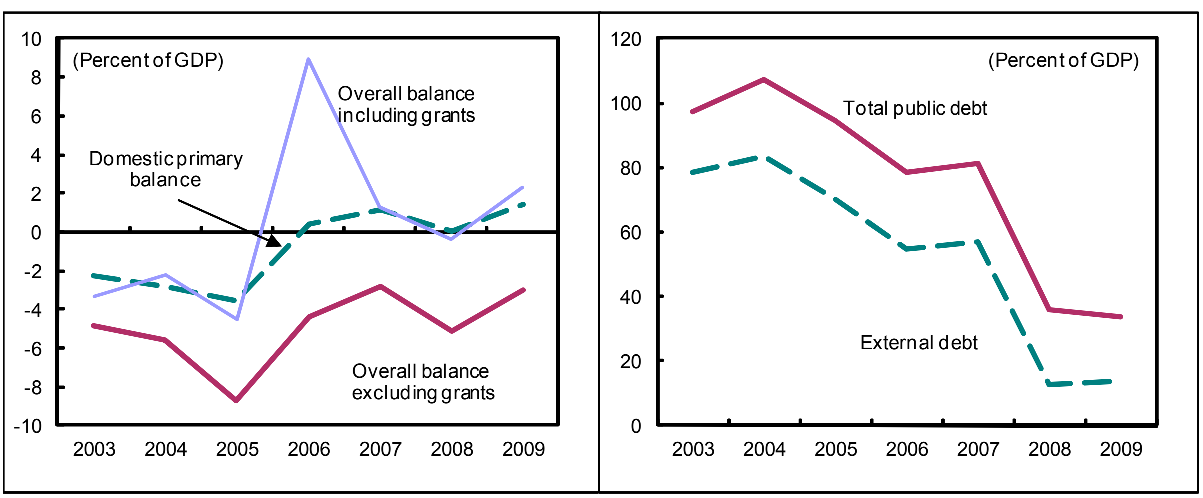
Domestic revenue is on an upward path; and spending is tight with constrained capital expenditure.



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

Figure 4. Central African Republic: Fiscal Balance and Debt Developments, 2003–09

The domestic primary balance was better than expected; and total debt fell thanks to HIPC/MDRI debt relief.



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

Text Table 1. Central African Republic: Quantitative Performance Criteria and Benchmarks under the ECF Arrangement, 2009

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

	End-Dec. 2008	End-September 2009			End-December 2009		
	Prel.	Benchmarks			Performance Criteria		
		Program	Program with adjustors	Prel.	Program	Program with adjustors	Prel.
Performance criteria							
Floor on total government revenue [1]	92.5	73.5	73.5	78.0	97.9	97.9	100.8
Floor on domestic primary balance [2]	0.8	-1.6	-1.6	14.0	-4.6	-9.6	13.6
Change in net claims of the commercial banking system on the government, excluding bonds issued on the regional market	6.9	-7.9	-2.5	0.2	0.9	0.6	-12.1
New nonconcessional external debt [3 4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of government external payments arrears [4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets							
NPV of external debt	336	…	…	…	111	111	99.8
Floor on poverty-related spending [5]	19.7	15.0	15.0	20.3	21.0	21.0	30.1
Floor on reduction in domestic payments arrears	15.5	6.0	6.0	9.0	12.1	12.1	19.2
Net accumulation of tax arrears	2.1	0.0	0.0	-1.5	0.0	0.0	-1.7
Floor on cash collections of utility companies (in percent)	67.4	77.4	77.4	90.4	82.4	82.4	90.4
Floor on government payment of utility bills (in percent)	…	98.0	98.0	25.1	98.0	98.0	112.4
Memorandum items:							
Projected grants for budget support	12.6	14.2	10.4	10.4	11.6	16.6	16.6
Projected bonds issued in the regional market	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: held by domestic commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maximum adjustor for government net claims on				0.0			
commercial banks in case of grants shortfalls	…	6.0	6.0	6.0	6.0	6.0	6.0
External financing without project loan disbursement	5.8	6.3	1.4	1.4	-0.4	-0.5	-0.5
Repayments to oil companies and on commercial loans [6]	…	8.1	4.7	4.7	9.9	9.6	9.6

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

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

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

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

[4] These performance criteria will be monitored continuously.

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

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

6. **Progress on the structural reform program was mixed** (MEFP ¶9–18). The government financial management system was extended to all stages of the expenditure process, but the payment stage was fully integrated only in mid-January, thus narrowly missing the end-2009 structural benchmark (SB), (Text Table 2). However, technical and organizational difficulties persist and encumber the expenditure process as well as the precise measurement of arrears. All domestic arrears from previous years (up to 2007) have been integrated into the computerized debt database, which now also includes state-owned enterprise debt, thus meeting the end-2009 SB. Moreover, the authorities reconciled in April all cross-debts between the main public enterprises and the government and established a clearance plan (narrowly missing the end-March 2010 SB). Repayments of validated requests for VAT reimbursement were delayed, thus missing the end-2009 SB. The authorities discovered some inconsistencies in their procedures for validating refund requests that are being addressed, and they remain committed to paying validated requests (MEFP ¶10). The authorities reduced customs exemptions (end-2009 SB) and should now proceed to reviewing current conventions with the view to further limit exemptions.

7. **Government's relations with the banking sector have been further clarified**. The treasury single account (TSA) is now operational (end-2009 SB, MEFP ¶15). A number of decentralized accounts, including of revenue-generating agencies, are still maintained at commercial banks, in line with new regulations on fiscal decentralization that provide for decentralized revenue to only partially transit through the TSA. The government has started paying salaries through banks and requiring tax payments to be made through banks in February 2010, thus increasing bank intermediation and formalization of the economy.

8. **The application of the petroleum price adjustment mechanism has been deficient**. Introducing an automatic petroleum adjustment formula provided a boon for public finances in 2009 and clarified relations among the actors in the sector. However, adjustments have lately been implemented only partially, if at all (MEFP ¶9). There was no price adjustment in January 2010, resulting in a revenue loss of CFAF 0.6 billion in the first quarter. However, on May 1, with a one-month delay, the authorities increased product prices by 5.3 percent on average as a prior action, and they are fully committed to applying the formula again starting on July 1, 2010. The price increase was less than required by the formula, which called for an adjustment of about 12 percent, but the authorities explained that a higher increase would not be possible shortly before the elections.

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

Measure	Timeline	Rationale	Status
REVENUE ADMINISTRATION AND TAX POLICY			
Continue applying the automatic quarterly petroleum *product* pricing formula that ensures full pass-through to the consumer of all costs, distribution margins, VAT, and a specific excise by product. The formula includes a timetable for petroleum taxation.	Continuous structural benchmark.	Protect the budget from risks of fluctuating petroleum prices; create room for measures to mitigate the social impact of petroleum price changes.	Not met.
Adjust petroleum product prices to ensure pass-through to the consumer of costs, distribution margins, VAT, and a specific excise by product, as agreed with Fund staff (MEFP ¶9).	Prior action	Protect the budget from risks of fluctuating petroleum prices; create room for measures to mitigate the social impact of petroleum price changes.	Implemented.
For taxpayers that demand VAT refund requests, verify requests within 30 days, pay 50 percent of the verified amount within 30 days, and the remainder after 90 days.	Structural benchmark/ end-December 2009	Make exports more competitive by allowing zero rating of VAT liabilities in line with international best practice.	Not met.
Reduce customs exemptions from CFAF 11 billion in 2008 to CFAF 9 billion in 2009.	Structural benchmark/ end-December 2009	Enhance revenue-generation potential.	Met.
Publish a detailed reform strategy for the revenue administration, based on the diagnosis of reform needs of the Tax Department.	Structural benchmark/ end-March 2010	Modernize and enhance effectiveness of tax administration to increase revenue and improve taxpayer services.	Not met. Publication took place in April because of web-site difficulties.
PUBLIC FINANCIAL MANAGEMENT			
Implement a treasury single account (TSA).	Structural benchmark/ end-December 2009	Reduce financing costs for government and increase transparency of government operations.	Met.
Finalize the implementation of the government financial management system by fully applying Gesco to all stages of the expenditure process from commitment to payment.	Structural benchmark/ end-December 2009	Improve fiscal control and avoid arrears.	Not met. The payment stage was integrated only in mid-January.
Review the work of the liquidity commission and require it to prepare rolling budget projections. Prepare detailed weekly recommendations based on rolling projections of revenues, financing and expenditures.	Structural benchmark/ end-March 2010	Allow the liquidity commission to play a permanent leading policy-setting role; enable it to respond quickly and adjust flexibly to changes in the fiscal position.	Not met. The first report in line with the SB was done in May.
DEBT MANAGEMENT			
Integrate all domestic arrears from previous years in the computerized debt database of the debt department.	Structural benchmark/ end-December 2009	Enhance capacity to manage domestic debt.	Met.
Create an inventory of all cross-debts between SOEs and local and central governments and among SOEs, establish a schedule for the clearance of cross-debts, and include public enterprise debts into the debt database.	Structural benchmark/ end-March 2010	Facilitate the operation of SOEs on purely commercial terms and extend centralized debt management to all public sector debt.	Not met. Debt was consolidated in April and a clearance schedule established.

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

III. Economic Outlook and Program Objectives for 2010

A. Macroeconomic Outlook

9. **C.A.R.'s growth prospects are improving**. External demand is recovering slowly, and there are reasonably good prospects for mining. Helped by countercyclical fiscal policies and improved export demand, real GDP growth is projected to increase to 3.3 percent in 2010, and with stable food and moderate fuel price developments, average CPI inflation should stabilize at around 2½ percent over the medium term (Figure 5). However, domestic supply and productivity is constrained by infrastructure bottlenecks, political uncertainty, and security concerns, and an unfavorable business climate.

10. **The external current account deficit is expected to stabilize at around 8 percent of GDP in 2010 and beyond**. Export volumes are picking up gradually, and imports are expected to increase with temporarily increased fiscal spending on the peace program and the elections, and accelerating public investment. Although the trade deficit is projected to increase, current transfers for the peace program and election financing should stabilize the current account. Increasing donor financing and net private inflows from delayed mining investments should strengthen the external position on a flow basis.

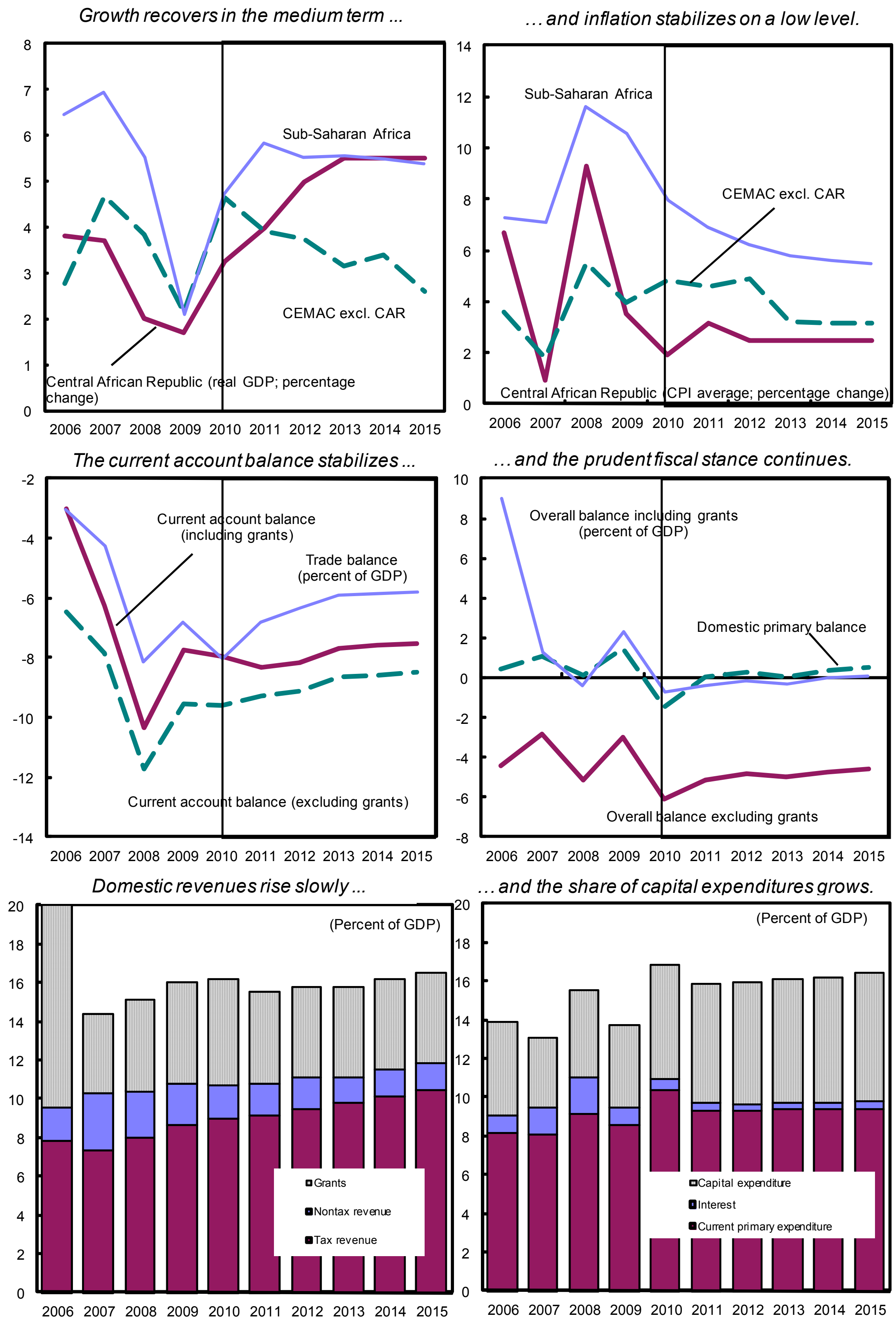
B. The 2010 Macrofiscal Objectives

Fiscal framework

11. **Fiscal policy in 2010 remains focused on supporting economic growth and political and financial consolidation**. The fiscal program is designed to stabilize demand through government spending while preserving medium-term fiscal discipline (MEFP ¶21–26). The tax revenue ratio is projected to increase by 0.2 percentage point of GDP in 2010, in line with the tax administration reform strategy (end-March 2010 SB; published in April), but nontax revenue will be lower. Reflecting the 2009 overperformance, domestic revenues are projected at 10.7 percent of GDP, 0.2 percentage points of GDP higher than programmed. Current primary spending will increase temporarily due to the delayed DDR implementation and the elections. In addition, there are allocations to mitigate the oil price adjustment, pay all public utility bills, and avoid reoccurrence of arrears. Capital spending is expected to be higher because of reduced constraints on management and absorptive capacity. Due to the recapitalization of a domestic bank, the domestic primary deficit is projected to increase to 1.5 percent of GDP, 0.3 percentage points of GDP higher than programmed. The fiscal program includes reducing domestic arrears and commercial bank debt, and a real increase in poverty-reducing spending.

12. **Donors play a central role in financing the 2010 budget**. Difficulties in effectively preparing the elections have put some strain on relations with donors, who are being called upon to finance most of the election-related expenditure and the DDR process. The EU is considering additional assistance (V-Flex) to help support budget implementation.

Figure 5. Central African Republic: Macroeconomic Framework, 2006–15



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

13. **The 2010 fiscal framework includes several one-off items that will not recur in 2011**. Spending on elections and most of the peace process will take place in 2010. These expenditures amount to 1.4 percent of GDP in 2010, and given that they will not be repeated, the reduction in primary current spending in 2011 by 1.1 percentage points of GDP should leave some room to expand priority spending. Given uncertainties about access to the nascent regional market for government securities, no financing is assumed from this source in 2010 and only limited access in the following years. Should access be available on reasonable terms, the arrears repayment schedule could be accelerated subject to adherence to the overall fiscal program.

14. **The joint IMF-World Bank debt sustainability analysis shows a moderate risk of debt distress**. Although the C.A.R. is classified as a low vulnerability/low capacity country under the new debt limits policy, C.A.R. continues to be vulnerable to external shocks particularly with respect to the external debt-to-exports ratio because of the low export and revenue base. Thus, C.A.R. should maintain the minimum concessionality requirement for future borrowing (MEFP ¶26).

Structural reforms

15. **Strengthening the banking system is necessary for financial stability**. The ongoing repayment of government loans should help banks meet single customer exposure limits, enhance their liquidity position, and expand lending to the private sector although it may affect banks' short-term profitability. One local bank—part of a regional group and in which the government holds a 10 percent stake—has been placed under provisional administration in November 2009 and needs to be recapitalized by end-June 2010. The government intends to participate in the recapitalization if the strategy includes finding a majority strategic investor and the capital stock is written down to its residual value before recapitalization (MEFP ¶18). In case no strategic investor can be found in time, the government would be prepared to temporarily increase its share, but would not support shareholders that do not meet international standards or finance the participation of other shareholders in the recapitalization. The program includes a contingency for the government's temporarily increased participation up to about 70 percent of shares.

16. **Revenue collection is a core of the authorities' reform efforts** (MEFP ¶28–30). Despite recent gains, the domestic revenue ratio remains one of the lowest in sub-Saharan Africa. Over the next few years, the authorities expect to increase the tax-to-GDP ratio sustainably through revenue administration reforms and the implementation of a comprehensive tax policy reform strategy. The latter will necessitate technical assistance from the Fund and other donors before being adopted for the 2012 budget.

17. **PFM is the second core priority of the fiscal program** (MEFP ¶31). Although progress has been achieved, more aggressive efforts in extending and systematically using Gesco are needed to improve the efficiency and transparency of government financial

operations, limit the use of non-standard expenditure procedures, and accelerate the regularization of arrears. The objective is to have an integrated system with comprehensive daily information about the government's fiscal position. The work of the liquidity commission (end-March 2010 SB; implemented in May) should be at the center of fiscal policy implementation. The authorities intend to move away from managing payments on an ad hoc basis by aligning expenditure commitments with available resources.

Box 1. Central African Republic: Achievements under the ECF program

Despite a difficult post-conflict environment, the C.A.R. has established a consistent record of satisfactory performance under Fund-supported programs. After two successful programs under the Fund's emergency lending facility, completion of this 3-year ECF program—a first in its history with the Fund—adds to the achievement of reaching the HIPC completion point in June 2009. Notwithstanding these achievements, external and internal constraints made it difficult to attract more investment and step up economic growth in line with expectations.

Achievements under the ECF program most notably include:

- Increased domestic revenue mobilization, from 9.5 percent in 2006 to 10.7 percent in 2010, thanks to improved tax collection and the petroleum price adjustment mechanism; taxpayer segmentation and stepped-up monitoring and audit procedures;
- Computerized and integrated the expenditure chain;
- Connected computer systems of revenue services;
- Halved domestic payment arrears, from 14.2 percent of GDP in 2006 to 7.7 percent in 2010, and essentially eliminated dependence on expensive commercial bank financing;
- Reduced public sector debt from 94 percent of GDP in 2006 to 28 percent in 2010, although risk of debt distress remains moderate;
- Improved the control and integrity of debt management systems;
- Enhanced financial performance of public utilities; and
- Increased domestically-financed investment and poverty-related spending.

Lessons learned are to give priority to:

- Tax administration reforms, to be complimented by tax policy changes, to render tax system more simple and effective for raising the revenue-to-GDP ratio;
- Fundamentally review organization of customs services;
- Make petroleum product price adjustment mechanism truly automatic;
- Improve forward-looking macro-fiscal management through preparation of in-year fiscal plans, by trained public servants, based on reliable financial management systems;
- Strengthen the treasury and public accounting and maintain updated debt records;
- Strengthen resilience and effectiveness of domestic banking system; and
- Step up public utility reforms at all stages, from production to billing.

18. **Financial rehabilitation of state-owned enterprises (SOEs) needs continued attention** (MEFP ¶32–33). In particular, more consistent efforts are necessary to improve service delivery and billing practices. The government remains committed to timely pay for its utility consumption, and the SOEs intend to maintain their cash collection-to-billing ratio at the high level achieved at end-2009. However, a reform program with clear targets for the operational and financial performance of SOEs will need to be developed in conjunction with donors in order to reliably rehabilitate critical provision of utility services.

IV. Program Financing and Monitoring

19. **The authorities have expressed their interest in a successor arrangement**. The present ECF arrangement ending on June 30, 2010 is fully financed. Projected financing gaps for the second half of 2010 could be closed by a new arrangement and additional donor contributions. The authorities are engaged in good faith negotiations with their external private creditors, and developments in debtor-creditor relations are not expected to undermine program implementation. Discussions on a new program are expected for the third quarter of 2010; quantitative targets for the remainder of 2010 have been established by the authorities to help monitor their performance. A successor program would build on the main objectives of the present program, namely (i) maintaining macroeconomic stability and debt sustainability; (ii) enhancing fiscal and economic management capacity by further raising the revenue-to-GDP ratio and strengthening PFM; (iii) improving public investment program implementation; (iv) reforming key utility companies; and (v) improving the business environment.

20. In the wake of a serious fraud in its Paris Office, BEAC is committed to strengthening governance and key safeguards. It has adopted an action plan in this regard and has been implementing a series of initial measures agreed with the Fund. BEAC also agreed to conduct a number of special audits as part of the action plan in the letter of Intent (LOI ¶6).

V. Staff Appraisal

21. **The authorities are to be commended for completing their first 3–year Fund-supported program without interruption**. They have maintained prudent macrofiscal management, which has helped the C.A.R. economy to withstand and overcome combined external and internal shocks. This achievement was difficult in the context of the enduring post-conflict situation characterized by weak policy implementation capacity and human capital development.

22. **Fiscal policy implementation in 2009 was satisfactory**. All quantitative conditionality was met. Higher revenues than targeted were welcome, but lower-than-projected expenditure not only reflected prudent cash expenditure control, but also weak control over expenditure procedures, which led to undue delays in priority spending—including for the peace process—and to a limited accumulation of new arrears, despite an

overall reduction in the stock of arrears. The reduction in government credit from commercial banks was important to reduce further interest charges.

23. **Results in the structural reform agenda were mixed**. The efforts in progressively increasing domestic revenue are encouraging, and the recently published reform strategy sets the agenda for further improvements in revenue administration. An enhanced focus on public financial management is needed. Problems in operating the computerized expenditure management Gesco have to be decisively addressed and non-standard expenditure procedures should be severely limited. Also, deficient investment project management needs to be improved in the face of overwhelming social and infrastructure needs. Effective liquidity management by aligning expenditure commitments with projected resource availability is key for improving fiscal credibility. Transparent principles for arrears repayments will also help enhance fiscal credibility. Also, first steps to better cooperate and communicate with the business community are welcome and should be sustained to help improve the tax and investment climate.

24. **Budget execution in 2010 is subject to risks**. The uncertainties and risks related to the elections and the peace process warrant additional caution. Renewed commitment to reform and strengthened leadership for policy implementation should help mobilize sufficient resources from donors to support budget implementation. In this context, it will be important to effectively use the liquidity management mechanism to avoid a possible liquidity squeeze at end-2010.

25. **Staff supports the restructuring strategy for the commercial bank under temporary administration**. The government proposes to support a COBAC-approved bank restructuring strategy, which would write down capital to the remaining value of net assets; find a strategic investor to take a majority stake in the restructured entity; and recapitalize the bank without loaning public money to finance the participation by existing shareholders. A temporary increase in government participation may be necessary with the view of finding a strategic investor.

26. **Payment of government utility bills will help rehabilitate SOEs and improve their services**. However, additional reforms of management and operations are necessary to relief crippling delivery bottlenecks for the economy and social development and will likely require with enhanced donor collaboration.

27. **Staff encourages the authorities to secure bilateral agreements with all its external creditors at terms comparable to those granted by Paris Club creditors**.

28. **Staff supports completion of the review**. All PC's were met; slippages in structural issues were addressed by increasing petroleum prices as of May 1 (prior action). Staff welcomes the authorities' interest in a successor ECF program and agrees with the thrust of the structural reform policies outlined in the MEFP. These objectives appear appropriate to further consolidate stabilization gains achieved, strengthen policy implementation capacity, and foster enhanced donor support.

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2006–15

	2006	2007	2008	2009		2010		2011		2012	2013	2014	2015
			Prel.	Prog.	Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)												
National income and prices													
GDP at constant prices	3.8	3.7	2.0	2.0	1.7	3.5	3.3	4.0	4.0	5.0	5.5	5.5	5.5
GDP at current prices	8.2	5.6	9.2	5.9	5.3	6.0	6.6	6.5	6.5	7.5	8.0	8.0	8.0
GDP deflator	4.2	1.8	7.0	3.8	3.6	2.4	3.3	2.4	2.4	2.4	2.4	2.4	2.4
Consumer prices													
CPI (annual average)	6.7	0.9	9.3	3.7	3.5	2.4	2.0	2.4	3.1	2.5	2.5	2.5	2.5
CPI (end-of-period)	7.1	-0.2	14.5	-0.8	-1.2	2.9	3.5	2.5	2.5	2.5	2.5	2.5	2.5
Central government finance													
Total revenue and grants	100.3	-33.6	15.1	6.3	11.5	13.0	7.4	-0.3	2.2	9.3	8.0	10.7	10.2
Total expenditure	-11.0	-0.6	29.6	3.1	-6.7	11.2	30.6	8.4	0.3	7.8	9.1	8.8	9.5
Money and credit													
Net domestic assets [1]	6.0	5.6	16.8	4.4	5.2	16.8	6.7	…	…	…	…	…	…
Domestic credit [1]	7.5	6.7	13.4	8.9	-10.7	16.8	16.3	…	…	…	…	…	…
Broad money	-4.2	-3.7	16.5	1.1	-8.6	9.2	10.9	…	…	…	…	…	…
Velocity of broad money (end-of-period)	6.3	6.9	6.4	6.7	7.4	6.6	7.1	…	…	…	…	…	…
External sector													
Exports, f.o.b. (US$ basis)	22.9	13.2	-17.1	-24.5	-17.4	23.2	18.2	18.3	19.0	18.7	14.7	8.2	10.0
Export volume of goods	16.1	5.1	-16.2	-23.8	-18.2	22.1	18.1	18.2	16.3	16.9	13.8	7.5	6.3
Imports, f.o.b. (US$ basis)	15.3	23.8	23.7	-17.6	-16.9	15.3	21.7	11.2	3.3	9.5	8.3	7.6	8.8
Import volume of goods	5.3	3.1	-1.1	-4.9	-4.8	4.7	13.1	6.7	-0.1	6.2	6.9	6.0	5.9
Terms of trade	-3.4	-10.4	-20.4	15.3	17.0	-9.0	-7.8	-4.0	-1.1	-1.6	-0.5	-0.8	0.6
Nominal effective exchange rate	0.2	1.9	1.7	…	-0.7	…	…	…	…	…	…	…	…
Real effective exchange rate	4.9	0.6	7.5	…	2.8	…	…	…	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)												
Gross national savings	7.1	3.8	1.3	1.8	3.7	3.5	3.9	3.6	4.4	5.2	6.3	6.9	7.2
Of which: current official transfers	3.5	1.6	1.4	1.2	1.8	1.9	1.6	0.7	1.0	1.0	1.0	1.0	1.0
Gross domestic savings	2.4	0.7	-1.4	-1.4	-0.1	-0.6	-0.8	0.8	1.3	2.4	3.5	4.0	4.3
Government	1.1	1.5	0.4	0.7	1.7	0.0	0.0	1.1	1.3	1.6	1.5	1.9	2.2
Private sector	1.4	-0.8	-1.8	-2.1	-1.8	-0.6	-0.8	-0.3	0.0	0.8	2.0	2.1	2.1
Consumption	97.6	99.3	101.4	101.4	100.1	100.6	100.8	99.2	98.7	97.6	96.5	96.0	95.7
Government	6.8	6.2	6.6	6.8	6.7	7.4	7.9	7.0	7.2	7.2	7.2	7.2	7.2
Private sector	90.8	93.1	94.8	94.6	93.4	93.3	93.0	92.2	91.5	90.4	89.3	88.7	88.5
Gross investment	10.1	10.0	11.6	10.6	11.4	11.2	11.8	12.7	12.7	13.4	14.0	14.5	14.7
Government	4.9	3.8	4.5	5.0	4.3	5.3	5.9	6.2	6.2	6.3	6.4	6.5	6.7
Private sector	5.2	6.2	7.1	5.5	7.1	5.9	5.9	6.5	6.5	7.1	7.7	8.0	8.0
Current transfers and factor income (net)	4.7	3.1	2.7	3.2	3.7	4.2	4.7	2.8	3.1	2.8	2.8	2.9	2.9
External current account balance	-3.0	-6.2	-10.3	-8.8	-7.7	-7.7	-7.9	-9.1	-8.3	-8.1	-7.7	-7.6	-7.5
Overall balance of payments	3.0	-3.5	-0.6	1.5	3.0	-2.3	-0.9	-1.6	-0.5	-0.4	0.1	1.0	1.3
Central government finance													
Total revenue	22.9	14.4	15.2	15.2	16.1	16.2	16.2	15.2	15.5	15.8	15.8	16.2	16.5
Total expenditure [2]	-13.9	-13.1	-15.5	-15.1	-13.8	-15.9	-16.9	-16.1	-15.9	-15.9	-16.1	-16.2	-16.4
Overall balance [2]													
Excluding grants	-4.4	-2.8	-5.1	-4.6	-3.0	-5.3	-6.1	-5.4	-5.1	-4.8	-5.0	-4.7	-4.6
Including grants	9.0	1.3	-0.4	0.1	2.3	0.3	-0.7	-1.0	-0.4	-0.2	-0.3	0.0	0.1
Domestic primary balance [3]	0.4	1.1	0.1	-0.4	1.5	-1.2	-1.5	-0.1	0.1	0.3	0.1	0.4	0.5
NPV of external public and guaranteed debt	…	41.0	36.2	7.4	10.7	8.7	11.7	9.1	11.6	11.0	10.2	9.5	8.6
Public sector debt	93.9	79.1	80.2	28.4	32.4	27.0	29.2	26.0	26.7	23.6	21.4	19.9	18.6
Of which: domestic debt [4]	23.9	24.5	23.2	19.3	19.7	15.8	15.1	14.0	12.5	10.0	8.5	7.7	7.1
Gross official foreign reserves													
(US$ millions, end-of-period)	129.9	86.3	118.4	175.8	148.4	168.2	169.6	152.1	179.2	196.2	216.4	237.4	255.1
(months of imports, f.o.b.)	4.6	2.4	3.2	5.0	4.1	4.4	4.3	3.7	4.3	4.4	4.5	4.6	4.7
Nominal GDP (CFAF billions)	770	813	888	941	936	998	997	1,063	1,062	1,142	1,234	1,332	1,439
Exchange rate (average; CFAF per US$)	522.9	478.7	445.7	…	471.0	…	…	…	…	…	…	…	…

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

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

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

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

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

Table 2. Central African Republic: Central Government Operations, 2006–15 [1]

(CFAF billions)

	2006	2007	2008	2009		2010		2011		2012	2013	2014	2015
			Prel.	Prog.	Prel.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	176.3	117.0	134.7	143.1	150.3	161.7	161.3	161.3	164.9	180.2	194.6	215.5	237.5
Domestic revenue	73.4	83.6	92.5	98.9	100.8	105.2	107.2	114.3	114.6	126.7	137.1	153.4	170.3
Tax revenue	60.4	59.5	70.7	80.9	81.1	88.9	89.2	96.7	97.3	107.9	120.5	135.0	149.9
Taxes on profits and property	17.5	14.4	14.6	17.8	18.4	19.9	20.3	21.8	22.5	25.1	28.5	31.7	33.9
Taxes on goods and services	42.9	45.1	56.0	63.1	62.7	68.9	68.8	74.9	74.9	82.9	92.0	103.3	116.0
Of which: international trade	15.3	14.5	16.5	17.8	18.2	19.5	20.8	22.0	23.6	25.4	27.4	30.8	34.5
Nontax revenue	12.9	24.1	21.8	18.0	19.8	16.4	18.0	17.6	17.3	18.8	16.6	18.4	20.4
Grants	102.9	33.4	42.3	44.2	49.4	56.5	54.2	47.0	50.3	53.5	57.6	62.2	67.2
Program	75.7	13.2	12.6	11.6	16.6	18.5	16.2	7.0	10.4	11.0	11.9	12.8	13.9
Project	27.2	20.2	29.7	32.6	32.8	38.0	38.0	39.9	39.9	42.5	45.7	49.3	53.3
Expenditure [2]	-107.2	-106.5	-138.0	-142.4	-128.8	-158.2	-168.2	-171.5	-168.8	-182.0	-198.5	-215.9	-236.5
Current primary expenditure	-62.5	-65.4	-81.3	-87.7	-79.8	-102.1	-103.4	-99.5	-98.6	-106.0	-115.8	-125.0	-135.1
Wages and salaries	-37.2	-36.3	-36.9	-40.3	-39.6	-42.7	-46.0	-45.5	-49.0	-52.7	-56.9	-61.5	-66.4
Transfers and subsidies [3]	-10.2	-14.7	-22.4	-23.6	-17.5	-28.7	-25.0	-25.2	-21.7	-23.4	-26.5	-28.6	-30.9
Goods and Services	-15.2	-14.4	-22.0	-23.7	-22.8	-30.7	-32.3	-28.8	-27.9	-30.0	-32.4	-34.9	-37.7
Interest due	-6.9	-11.7	-16.6	-7.3	-8.7	-3.3	-5.7	-5.7	-4.2	-4.3	-4.4	-4.9	-5.6
External	-4.2	-3.7	-9.0	-2.6	-4.1	-0.3	-1.9	-2.5	-1.9	-2.0	-2.0	-2.0	-2.0
Domestic	-2.7	-8.0	-7.7	-4.6	-4.6	-3.0	-3.8	-3.2	-2.3	-2.3	-2.4	-2.9	-3.6
Capital expenditure	-37.7	-29.4	-40.1	-47.4	-40.3	-52.8	-59.2	-66.4	-65.9	-71.6	-78.4	-86.0	-95.8
Domestically financed	-7.5	-9.2	-10.4	-14.9	-7.4	-14.9	-18.4	-15.8	-15.4	-17.7	-20.4	-23.3	-28.1
Externally financed	-30.2	-20.2	-29.7	-32.6	-32.8	-38.0	-40.8	-50.5	-50.5	-53.9	-58.0	-62.7	-67.7
Overall balance													
Excluding grants	-33.8	-22.9	-45.6	-43.4	-28.0	-53.0	-61.1	-57.2	-54.1	-55.3	-61.5	-62.6	-66.2
Of which: domestic primary balance [4]	3.3	9.0	0.8	-3.6	13.6	-11.7	-14.6	-1.0	0.6	2.9	0.9	5.0	7.2
Including grants	69.1	10.6	-3.3	0.8	21.5	3.5	-6.9	-10.3	-3.9	-1.8	-3.9	-0.4	1.0
Change in arrears ((-) = reduction)	-60.3	-16.1	-15.5	-13.1	-19.2	-20.0	-20.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
Domestic	-19.8	-13.7	-15.5	-13.1	-19.2	-20.0	-20.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
External [5]	-40.5	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-5.8	4.5	-0.6	-5.4	8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	3.0	-1.0	-19.4	-17.8	11.1	-16.5	-26.9	-25.3	-18.9	-16.8	-18.9	-15.4	-14.0
Identified financing	-3.0	1.0	19.4	17.8	-11.1	3.0	10.2	15.4	7.9	3.9	9.0	15.4	14.0
External, net	-15.9	-9.5	5.8	-0.4	-0.5	-0.4	1.6	9.1	9.1	3.8	4.6	5.3	6.6
Project loans	3.0	0.0	0.0	0.0	0.0	0.0	2.8	10.6	10.6	11.4	12.3	13.3	14.4
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-18.9	-12.4	-11.3	-8.2	-6.6	-0.4	-1.2	-1.5	-1.5	-7.6	-7.8	-8.0	-7.8
Exceptional financing	0.0	2.9	17.1	7.8	6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club [6]	0.0	1.5	1.0	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [7]	0.0	1.4	16.1	7.2	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	12.9	10.5	13.6	18.2	-10.6	3.4	8.7	6.3	-1.2	0.0	4.5	10.0	7.5
Banking system	7.9	10.0	9.0	28.1	-1.0	3.4	5.2	3.8	-2.2	-1.1	-1.0	0.3	-2.0
Counterpart to IMF resources (BEAC)	2.2	2.4	5.2	18.8	18.7	6.3	6.3	0.0	0.0	0.0	-1.1	-2.6	-7.5
Central Bank	1.5	6.6	-3.0	9.5	-7.6	15.8	10.8	1.3	-3.2	-2.3	-5.3	-6.7	-3.8
Of which: Use of SDR allocation	…	…	…	…	29.2	20.0	1.8	6.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	4.2	1.0	6.9	-0.1	-12.1	-18.7	-12.0	2.5	1.0	1.2	5.5	9.7	9.4
Of which: new bond issues	…	…	0.0	0.0	0.0	1.0	0.0	2.5	1.0	1.5	6.0	10.5	11.5
Nonbank [8]	5.0	0.5	4.6	-9.9	-9.6	0.0	3.5	2.5	1.0	1.2	5.5	9.7	9.4
Of which: new bond issues	…	…	…	…	…	…	3.5	2.5	1.0	1.5	6.0	10.5	11.5
Residual financing need	0.0	0.0	0.0	0.0	0.0	13.5	16.7	9.8	11.0	12.9	9.8	0.0	0.0
Memorandum items:													
Government domestic debt	183.9	199.7	206.5	182.0	184.7	157.7	150.6	148.7	132.4	114.2	104.5	102.0	101.9
Of which: domestic arrears	109.7	114.7	109.2	91.0	96.6	71.0	76.6	56.0	61.6	46.6	31.6	16.6	1.6
Spending for DDR	…	…	0.0	2.0	0.4	6.0	7.3	0.0	0.0	…	…	…	…
Nominal GDP	770	813	888	941	936	998	997	1,063	1,062	1,142	1,234	1,332	1,439

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

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

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

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

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

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

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

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

[8] Includes repayments to CEMAC commercial banks and domestic oil suppliers in 2009, and on expected future bond issues.

Table 3. Central African Republic: Central Government Operations, 2006–15 [1]

(Percent of GDP)

	2006	2007	2008	2009		2010		2011		2012	2013	2014	2015
			Prel.	Prog.	Prel.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	22.9	14.4	15.2	15.2	16.1	16.2	16.2	15.2	15.5	15.8	15.8	16.2	16.5
Domestic revenue	9.5	10.3	10.4	10.5	10.8	10.5	10.7	10.8	10.8	11.1	11.1	11.5	11.8
Tax revenue	7.8	7.3	8.0	8.6	8.7	8.9	8.9	9.1	9.2	9.5	9.8	10.1	10.4
Taxes on profits and property	2.3	1.8	1.6	1.9	2.0	2.0	2.0	2.1	2.1	2.2	2.3	2.4	2.4
Taxes on goods and services	5.6	5.5	6.3	6.7	6.7	6.9	6.9	7.0	7.0	7.3	7.5	7.8	8.1
Of which: taxes on international trade	2.0	1.8	1.9	1.9	1.9	1.9	2.1	2.1	2.2	2.2	2.2	2.3	2.4
Nontax revenue	1.7	3.0	2.5	1.9	2.1	1.6	1.8	1.7	1.6	1.6	1.3	1.4	1.4
Grants	13.4	4.1	4.8	4.7	5.3	5.7	5.4	4.4	4.7	4.7	4.7	4.7	4.7
Program	9.8	1.6	1.4	1.2	1.8	1.9	1.6	0.7	1.0	1.0	1.0	1.0	1.0
Project	3.5	2.5	3.3	3.5	3.5	3.8	3.8	3.8	3.8	3.7	3.7	3.7	3.7
Expenditure [2]	-13.9	-13.1	-15.5	-15.1	-13.8	-15.9	-16.9	-16.1	-15.9	-15.9	-16.1	-16.2	-16.4
Current primary expenditure	-8.1	-8.0	-9.2	-9.3	-8.5	-10.2	-10.4	-9.4	-9.3	-9.3	-9.4	-9.4	-9.4
Wages and salaries	-4.8	-4.5	-4.2	-4.3	-4.2	-4.3	-4.6	-4.3	-4.6	-4.6	-4.6	-4.6	-4.6
Transfers and subsidies [3]	-1.3	-1.8	-2.5	-2.5	-1.9	-2.9	-2.5	-2.4	-2.0	-2.0	-2.1	-2.1	-2.1
Goods and Services	-2.0	-1.8	-2.5	-2.5	-2.4	-3.1	-3.2	-2.7	-2.6	-2.6	-2.6	-2.6	-2.6
Interest due	-0.9	-1.4	-1.9	-0.8	-0.9	-0.3	-0.6	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4
External	-0.5	-0.4	-1.0	-0.3	-0.4	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Domestic	-0.4	-1.0	-0.9	-0.5	-0.5	-0.3	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2	-0.3
Capital expenditure	-4.9	-3.6	-4.5	-5.0	-4.3	-5.3	-5.9	-6.2	-6.2	-6.3	-6.4	-6.5	-6.7
Domestically financed	-1.0	-1.1	-1.2	-1.6	-0.8	-1.5	-1.8	-1.5	-1.5	-1.6	-1.7	-1.8	-2.0
Externally financed	-3.9	-2.5	-3.3	-3.5	-3.5	-3.8	-4.1	-4.8	-4.8	-4.7	-4.7	-4.7	-4.7
Overall balance													
Excluding grants	-4.4	-2.8	-5.1	-4.6	-3.0	-5.3	-6.1	-5.4	-5.1	-4.8	-5.0	-4.7	-4.6
Of which: domestic primary balance [4]	0.4	1.1	0.1	-0.4	1.5	-1.2	-1.5	-0.1	0.1	0.3	0.1	0.4	0.5
Including grants	9.0	1.3	-0.4	0.1	2.3	0.3	-0.7	-1.0	-0.4	-0.2	-0.3	0.0	0.1
Change in arrears ((-) = reduction)	-7.8	-2.0	-1.7	-1.4	-2.1	-2.0	-2.0	-1.4	-1.4	-1.3	-1.2	-1.1	-1.0
Domestic	-2.6	-1.7	-1.7	-1.4	-2.1	-2.0	-2.0	-1.4	-1.4	-1.3	-1.2	-1.1	-1.0
External [5]	-5.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.7	0.6	-0.1	-0.6	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	0.4	-0.1	-2.2	-1.9	1.2	-1.7	-2.7	-2.4	-1.8	-1.5	-1.5	-1.2	-1.0
Identified financing	-0.4	0.1	2.2	1.9	-1.2	0.3	1.0	1.5	0.7	0.3	0.7	1.2	1.0
External, net	-2.1	-1.2	0.7	0.0	-0.1	0.0	0.2	0.9	0.9	0.3	0.4	0.4	0.5
Project loans	0.4	0.0	0.0	0.0	0.0	0.0	0.3	1.0	1.0	1.0	1.0	1.0	1.0
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-2.5	-1.5	-1.3	-0.9	-0.7	0.0	-0.1	-0.1	-0.1	-0.7	-0.6	-0.6	-0.5
Exceptional financing	0.0	0.4	1.9	0.8	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club [6]	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [7]	0.0	0.2	1.8	0.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic, net	1.7	1.3	1.5	1.9	-1.1	0.3	0.9	0.6	-0.1	0.0	0.4	0.8	0.5
Banking system	1.0	1.2	1.0	3.0	-0.1	0.3	0.5	0.4	-0.2	-0.1	-0.1	0.0	-0.1
Counterpart to IMF resources (BEAC)	0.3	0.3	0.6	2.0	2.0	0.6	0.6	0.0	0.0	0.0	-0.1	-0.2	-0.5
Central Bank	0.2	0.8	-0.3	1.0	-0.8	1.6	1.1	-0.4	-0.3	-0.2	-0.4	-0.5	-0.3
Of which: Use of SDR allocation	…	… .	… .	…	3.1	2.0	0.2	0.6	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.5	0.1	0.8	0.0	-1.3	-1.9	-1.2	0.2	0.1	0.1	0.4	0.7	0.7
Of which: new bond issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.5	0.8	0.8
Nonbank [8]	0.6	0.1	0.5	-1.1	-1.0	0.0	0.4	0.2	0.1	0.1	0.4	0.7	0.7
Of which: new bond issues	…	…	…	…	…	…	0.4	0.2	0.1	0.1	0.5	0.8	0.8
Residual financing need	0.0	0.0	0.0	0.0	0.0	1.4	1.7	0.9	1.0	1.1	0.8	0.0	0.0
Memorandum items:													
Government domestic debt	23.9	24.5	23.2	23.2	19.7	13.8	15.1	11.5	12.5	10.0	8.5	7.7	7.1
Of which: domestic arrears	14.2	14.1	12.3	12.3	10.3	7.1	7.7	5.3	5.8	4.1	2.6	1.2	0.1
Spending for DDR	…	…	…	0.2	0.0	0.6	0.7	0.0	0.0	…	…	…	…

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

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

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

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

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

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

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

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

[8] Includes repayments to CEMAC commercial banks and domestic oil suppliers in 2009, and on expected future bond issues.

Table 4. Central African Republic: Balance of Payments, 2006–15

	2006	2007	2008	2009		2010		2011		2012	2013	2014	2015
			Prel.	Prog.[1]	Est.[1]	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(CFAF billions)												
Current account	-23.1	-50.7	-91.6	-82.7	-72.4	-76.5	-79.2	-97.1	-88.4	-92.9	-94.6	-101.2	-108.5
Balance on goods	-23.5	-34.6	-72.3	-67.9	-63.9	-72.3	-79.8	-76.3	-72.5	-72.3	-72.5	-77.8	-83.3
Exports, f.o.b.	82.3	85.4	65.9	52.1	57.5	62.6	67.9	74.3	81.7	97.5	112.6	122.6	134.8
Diamonds	32.7	29.8	22.2	19.6	23.3	23.3	26.2	27.6	29.5	33.1	35.5	38.3	42.2
Wood products	39.8	41.9	33.4	21.7	23.6	27.5	31.0	34.2	40.6	49.6	55.2	58.9	64.5
Other	9.8	13.7	10.3	10.7	10.6	11.8	10.8	12.5	11.7	14.8	21.9	25.4	28.2
Imports, f.o.b.	-105.8	-120.0	-138.2	-119.9	-121.4	-134.8	-147.7	-150.6	-154.2	-169.8	-185.1	-200.4	-218.2
Petroleum products	-26.0	-32.7	-45.1	-23.4	-24.6	-33.5	-35.1	-38.6	-40.7	-46.0	-49.3	-53.2	-55.9
Public investment program	-13.7	-11.8	-12.0	-16.0	-12.0	-17.8	-17.7	-22.4	-19.7	-21.4	-23.5	-25.3	-27.4
Other	-66.1	-75.6	-81.1	-80.5	-84.7	-83.5	-94.9	-89.7	-93.8	-102.4	-112.3	-121.9	-134.9
Services (net)	-35.8	-41.5	-43.5	-44.5	-43.3	-45.7	-46.4	-50.3	-48.6	-53.1	-57.2	-61.5	-66.3
Credit	27.0	29.4	30.4	31.0	30.9	32.1	31.9	33.4	33.2	34.9	36.8	38.8	40.9
Debit	-62.8	-70.9	-73.9	-75.5	-74.2	-77.8	-78.4	-83.7	-81.8	-87.9	-94.0	-100.3	-107.3
Income (net)	-6.0	-5.1	-9.9	-3.6	-3.4	-1.1	-2.8	-2.7	-2.8	-2.8	-2.7	-2.5	-2.3
Credit	5.5	6.1	6.7	6.8	6.8	7.1	7.0	7.4	7.3	7.7	8.1	8.6	9.0
Debit	-11.5	-11.2	-16.6	-10.4	-10.2	-8.2	-9.8	-10.0	-10.2	-10.5	-10.8	-11.0	-11.3
Of which: interest due on public debt	-4.7	-6.3	-5.6	-2.8	-2.6	-0.2	-2.0	-1.8	-2.0	-1.9	-1.7	-1.5	-1.2
Current transfers (net)	42.2	30.5	34.1	33.2	38.1	42.6	49.8	32.1	35.4	35.2	37.8	40.5	43.4
Of which: program grants	26.8	13.2	12.6	11.6	16.6	18.5	16.2	7.0	10.4	11.0	11.9	12.8	13.9
Capital account	67.7	25.4	29.7	409.7	406.0	38.0	38.0	39.9	39.9	42.5	45.7	49.3	53.3
Project grants	27.2	20.2	29.7	32.6	32.8	38.0	38.0	39.9	39.9	42.5	45.7	49.3	53.3
Capital grants and transfers	40.5	5.2	0.0	377.1	373.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness	40.5	5.2	…	361.1	361.1	…	…	…	…	…	…	…	…
Other transfers (MDRI grants)	…	…	…	16.0	12.1	…	…	…	…	…	…	…	…
Financial account	-21.4	-3.2	56.2	-312.9	-305.4	15.5	31.9	40.3	42.8	46.2	50.5	65.4	74.3
Public sector (net)	-12.9	-12.4	-17.3	-336.0	-336.4	-0.4	1.6	12.0	9.1	3.8	4.6	5.3	6.6
Project disbursements	3.0	0.0	0.0	0.0	0.0	0.0	2.8	19.4	10.6	11.4	12.3	13.3	14.4
Program disbursements	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
Scheduled amortization	-15.9	-12.4	-17.3	-367.8	-367.7	-0.4	-1.2	-7.5	-1.5	-7.6	-7.8	-8.0	-7.8
Others (SDR allocation)	…	…	…	31.8	31.3	…	…	…	…	…	…	…	
Private sector (net)	-8.5	9.2	73.5	23.1	31.0	15.8	30.3	34.5	33.7	42.4	46.0	60.1	67.7
Overall balance	23.2	-28.5	-5.7	14.1	28.2	-23.0	-9.3	-16.9	-5.8	-4.3	1.6	13.5	19.1
Identified financing	-23.2	28.5	5.7	-14.1	-28.2	9.5	-7.3	5.6	-5.2	-8.7	-11.5	-13.6	-19.1
Net official reserves movements	17.3	28.0	-11.3	-22.0	-34.3	9.5	-7.3	5.6	-5.2	-8.7	-11.5	-13.6	-19.1
Net IMF credit	2.2	2.4	6.8	2.8	6.6	6.3	6.3	0.0	0.0	0.0	-1.1	-2.6	-7.5
Purchases and loans	5.4	15.2	10.2	18.8	18.7	6.3	6.3	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-3.1	-12.8	-3.4	-16.0	-12.1	0.0	0.0	0.0	0.0	0.0	-1.1	-2.6	-7.5
SDR allocation				-31.8	-31.3	…		…					
Other reserves (increase=–)	15.1	25.6	-18.1	7.1	-9.7	3.2	-13.6	5.6	-5.2	-8.7	-10.4	-10.9	-11.5
Exceptional financing	-40.5	0.5	17.1	7.9	6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	…	2.9	17.1	7.9	6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club	…	1.5	1.0	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing [2]	…	1.4	16.1	7.4	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt payments arrears (decrease=–) [3]	-40.5	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	13.5	16.7	11.2	11.0	12.9	9.8	0.0	0.0
	(Annual percentage change, unless otherwise indicated)												
Terms of trade	-3.4	-10.4	-20.4	15.3	17.0	-9.0	-7.8	-4.0	-1.1	-1.6	-0.5	-0.8	0.6
Unit price of exports (US$ basis)	5.2	7.1	0.1	-0.4	1.9	1.4	0.7	0.2	2.3	1.5	0.7	0.7	3.4
Unit price of imports (US$ basis)	9.2	19.9	24.8	-15.5	-14.3	10.2	8.3	4.3	3.3	3.2	1.3	1.5	2.8
Export volumes of goods	16.1	5.1	-16.2	-23.8	-18.2	22.1	18.1	18.2	16.3	16.9	13.8	7.5	6.3
Import volumes of goods	5.3	3.1	-1.1	-4.9	-4.8	4.7	13.1	6.7	-0.1	6.2	6.9	6.0	5.9
Export values of goods in CFA francs	22.3	3.7	-22.8	-19.1	-12.7	20.1	18.2	18.8	20.2	19.4	15.4	8.9	10.0
Import values of goods in CFA francs	14.6	13.4	15.2	-11.7	-12.2	12.4	21.7	11.7	4.4	10.2	9.0	8.3	8.8
Gross official foreign reserves													
(CFAF billions, end-of-period)	64.5	38.9	57.0	81.6	66.7	78.4	80.3	71.4	85.5	94.2	104.6	115.5	127.0
(months of imports, f.o.b.)	4.6	2.4	3.2	5.0	4.1	4.4	4.3	3.7	4.3	4.4	4.5	4.6	4.7
Current account (percent of GDP)	-3.0	-6.2	-10.3	-8.8	-7.7	-7.7	-7.9	-9.1	-8.3	-8.1	-7.7	-7.6	-7.5
Trade balance (percent of GDP)	-3.1	-4.3	-8.1	-7.2	-6.8	-7.2	-8.0	-7.2	-6.8	-6.3	-5.9	-5.8	-5.8
Capital account (percent of GDP)	8.8	3.1	3.3	43.5	43.4	3.8	3.8	3.8	3.8	3.7	3.7	3.7	3.7
Total external debt (percent of GDP)	70.1	54.5	56.9	9.1	12.7	11.2	14.1	12.0	14.2	13.6	13.6	13.6	13.6
Nominal GDP (CFAF billions)	770	813	888	941	936	998	997	1,063	1,062	1,142	1,234	1,332	1,439

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

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

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

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

Table 5. Central African Republic: Monetary Survey, 2006–11

	2006	2007	2008	2009		2010		2011	
			Prel.	Prog.	Est.	Prog.	Proj.	Prog.	Proj.
	(CFAF billions, end of period)								
Net foreign assets	43.0	31.6	31.3	26.6	12.3	16.9	17.5	9.5	22.2
Bank of Central African States (BEAC)	43.6	16.9	27.3	15.6	-1.3	5.8	3.9	-1.6	8.7
Operations account	61.6	35.8	51.6	76.2	48.9	73.0	62.5	65.9	67.7
Use of IMF credit	-21.0	-22.0	-29.7	-34.3	-35.6	-40.7	-43.0	-40.9	-43.3
Other	2.9	3.2	5.4	-26.4	-14.6	-26.5	-15.6	-26.6	-15.8
Commercial banks	-0.6	14.6	3.9	11.0	13.6	11.0	13.6	11.0	13.6
Net domestic assets	80.0	86.9	106.8	112.9	113.9	135.4	122.4	152.7	126.8
Domestic credit	135.7	143.9	159.8	172.1	145.1	195.6	165.7	212.7	175.9
Credit to the public sector	79.3	84.9	95.7	109.6	81.9	118.6	93.5	122.6	91.6
Credit to central government (net)	80.9	89.6	101.1	115.0	87.3	118.6	93.5	122.6	91.6
BEAC	70.1	77.8	82.4	96.5	80.7	118.7	98.9	120.3	96.1
Current account	36.2	16.2	17.6	16.7	24.5	32.5	20.2	34.4	15.4
Consolidated loans	18.4	41.1	42.0	46.4	43.4	46.4	43.4	45.9	43.4
IMF (net)	21.0	22.0	29.7	34.3	35.6	40.7	43.0	40.9	43.3
Deposits	-5.4	-1.5	-6.8	-0.8	-22.7	-0.8	-7.6	-0.8	-6.0
Commercial banks	10.8	11.8	18.7	18.6	6.6	-0.2	-5.4	2.3	-4.4
Credit to other public agencies (net)	-1.6	-4.7	-5.5	-5.5	-5.4	0.0	0.0	0.0	0.0
Credit to the economy	56.4	59.1	64.2	62.5	63.2	77.0	72.1	90.1	84.3
Public enterprises	5.2	4.2	2.1	2.1	1.7	2.1	1.7	2.1	1.7
Private sector	51.3	54.9	62.0	60.4	61.5	74.9	70.4	88.0	82.5
Other items (net)	-55.7	-57.0	-53.0	-59.2	-31.1	-60.1	-43.3	-60.0	-49.1
Money and quasi-money	123.0	118.5	138.1	139.5	126.2	152.3	139.9	162.2	149.0
Currency	80.9	59.0	72.9	71.2	78.5	72.5	80.2	77.2	85.4
Deposits	42.0	59.5	65.2	68.3	47.7	79.8	59.7	85.0	63.6
Demand deposits	24.5	38.3	40.8	44.3	35.7	49.9	41.7	53.2	44.4
Term and savings deposits	17.5	21.2	24.3	24.0	12.0	29.9	18.0	31.8	19.2
	(Annual change, in percent of beginning period broad money)								
Net foreign assets	-10.3	-9.3	-0.2	-3.3	-13.8	-7.0	4.2	-4.9	3.4
Net domestic assets	6.0	5.6	16.8	4.4	5.2	16.1	6.7	11.4	3.1
Net domestic credit	7.5	6.7	13.4	8.9	-10.7	16.8	16.3	11.3	7.3
Net credit to central government	5.2	7.0	9.7	10.1	-10.0	2.5	5.0	2.6	-1.4
Credit to the economy	1.8	2.1	4.3	-1.2	-0.7	10.4	7.1	8.6	8.7
Money and quasi–money	-4.2	-3.7	16.5	1.1	-8.6	9.2	10.9	6.5	6.5
	(Annual percentage change)								
Monetary base	-14.8	-18.4	20.9	-2.1	-10.4	1.6	2.3	5.8	6.9
Credit to the economy	4.3	4.7	8.6	-2.5	-1.5	23.1	14.1	17.1	16.8
Public enterprises	-8.3	-19.1	-48.8	0.0	-20.3	0.0	0.0	0.0	0.0
Private sector	5.8	7.1	13.0	-2.6	-0.8	24.0	14.5	17.5	17.2
Memorandum items:									
Gross official foreign reserves (CFAF billions)	64.5	38.9	57.0	81.6	66.7	78.4	80.3	71.4	85.5
NDA of the central bank (CFAF billions)	40.1	51.4	55.3	64.5	75.3	75.5	71.7	87.6	72.3
Monetary base (CFAF billions)	83.7	68.3	82.6	80.1	74.0	81.3	75.7	86.1	80.9
Nominal GDP (CFAF billions)	770	813	888	941	936	998	997	1,063	1,062
Velocity (GDP/broad money)									
End of period	6.3	6.9	6.4	6.7	7.4	6.6	7.1	6.6	7.1

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

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

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

Source: IMF staff calculations

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

APPENDIX I
TRANSLATED FROM FRENCH

CENTRAL AFRICAN REPUBLIC
LETTER OF INTENT

Bangui, May 10, 2010

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

Dear Mr. Strauss-Kahn:

The government of the Central African Republic has successfully implemented the measures contained in the economic and financial program with the support of the International Monetary Fund through its Extended Credit Facility (ECF).

The attached memorandum of economic and financial policies (MEFP) supplements previous memoranda attached to the letters dated November 30, 2006, September 7, 2007, June 3, 2008, December 4, 2008, June 5, 2009, and November 18, 2009. The latest sets out quantitative performance criteria for end-December 2009 for completion of the sixth review (seventh and last disbursement) of the ECF arrangement.

All quantitative performance criteria for completion of the sixth review under the ECF arrangement were observed. On the basis of our overall performance and on the strength of the policies set forth in the attached memorandum, we request completion of the sixth and last ECF review. We request disbursement of the seventh loan in the amount of SDR 8.67 million (15.6 percent of quota).

The government believes that the policies set forth in the attached MEFP will enable it to meet its program objectives but is ready to take any other measures that might be necessary. The Central African Republic will, in accordance with Fund policy, consult with the Fund on the adoption of any measures that may be appropriate and before revising the policies set out in the attached MEFP.

The government intends to reach understandings on a successor arrangement under the new ECF in the second half of 2010.

We recognize that the Fund is concerned about safeguarding its resources and, in this regard, understand that it would not be in a position to complete this review unless it is satisfied that related concerns are being addressed. To this end, we emphasize that the Central African authorities will continue to work closely with the BEAC and fellow BEAC member countries to ensure the timely implementation of the remedial measures that are necessary to demonstrate satisfactory progress in resolving safeguards concerns at the BEAC. BEAC has recently reaffirmed to Fund Management its intention to work closely with the Fund in resolving these problems. BEAC has implemented the initial remedial actions called for by the Fund to allow reviews to be completed through end May 2010. We understand that the next round of remedial measures that would be applicable for reviews after that date will be determined based on the findings of the special audit of BEAC's accounting and budgetary practices.

The government implemented one prior action before Executive Board consideration of our request for completion of the sixth and last review of the ECF-supported arrangement, namely the adjustment of all petroleum prices as described in paragraph 9 of the MEFP.

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

Sincerely yours,

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

Attachment: Memorandum of Economic and Financial Policies

APPENDIX I
ATTACHMENT I
TRANSLATED FROM FRENCH

CENTRAL AFRICAN REPUBLIC
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2010

Bangui, May 10, 2010

I. INTRODUCTION

1. Economic conditions have been improving since the government of the Central African Republic (C.A.R.) began implementing its medium-term macroeconomic and financial program in late 2006 with Fund support. Political and social stability has been strengthened as a result of the Inclusive Political Dialogue (IPD) held in December 2008. Expenditures related to the Demobilization, Disarmament and Reintegration (DDR) program have been initiated, albeit with some delay, and have been accelerated since the beginning of the year to contribute to national reconciliation ahead of the general elections scheduled for 2010.

2. Debt relief secured by reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in June 2009 has significantly improved debt sustainability, reducing our external debt to about CFAF 90 billion by the end of 2009, and we work strenuously with our Paris Club and non-Paris Club creditors to conclude consistent bilateral agreements.

3. We are slowly recovering from the effects of the global economic slowdown, which has seriously affected our economy. We have taken early measures to strengthen our economic management and prevent the consequences of the crisis from spreading to the most vulnerable segments of our population. With continued support from the international community, we are committed to intensify our efforts and pursue strong policies to further stabilize our economy and create the basis for sustainable economic growth.

4. This memorandum presents the government's economic and financial policies for the rest of 2010. Our policies are consistent with the Poverty Reduction and Strategy Paper (PRSP) of June 2007 and the first PRSP implementation report of 2009, both adopted after extensive consultations with major stakeholders. We remain committed to increase expenditure aimed at poverty reduction and enhanced security and peace.

II. Recent Economic Performance and Policies

A. Macroeconomic Performance and Program Implementation

5. Economic growth bottomed out at 1.7 percent in 2009, despite an important contribution from agriculture, which accounts for almost a third of GDP. Export sectors remained weak but have started to respond to improving world market conditions. Average annual inflation has fallen to 3.5 percent after reaching 9.3 percent in 2008. End-2009 prices were 1.2 percent lower than one year earlier, mainly thanks to decelerating food prices, which provided substantial social relief to consumers.

6. Our two main export commodities, diamonds and wood products, decreased by 18 percent and 31 percent, respectively, in volume terms in 2009. Recent data, however, show clear signs of recovery in external demand. Sustained domestic economic activity in the primary sector, especially subsistence and animal farming, compensated somewhat for the negative external shocks thanks to good weather and improving security in the production areas. Credit to the private sector declined slightly in 2009 probably reflecting contraction in trade. The banking system has not been directly affected by the global financial crisis, and commercial banks' liquidity position was strengthened by early repayments of government loans at the end of 2009.

7. Macro-fiscal performance in 2009 was broadly in line with the program. We met performance criteria (PC) on total domestic revenue, collecting CFAF 100.8 billion, CFAF 1.9 billion more than programmed, despite the adverse economic environment, sustained by revenue from taxes on profits and on international trade and property taxes—partly compensating for lower revenue on other taxes on goods and services—and from nontax sources. We also managed to reduce tax arrears by CFAF 1.7 billion, thus meeting the related quantitative benchmark (QB).

8. We met the PC on the domestic primary balance by a large margin by tightly controlling cash expenditures, but also as a result of delayed expenditure on the peace process and lower-than-expected domestically-financed capital spending. We still managed to increase spending in priority social areas, notably health and education, and reached the related QB. The PC on net claims of the commercial banking system on the government was also met by a substantial amount following the early use of funds from the SDR allocation to reduce our exposure to commercial bank loans. Expenditure arrears from previous years were reduced by CFAF 19.2 billion in 2009, including a reduction of social debt (arrears in salary, pension and stipends) and payment to small suppliers, in line with the relevant QB. However, we accumulated new arrears in 2009 because our expenditure management system, Gesco, was not yet fully operational, which we intend to correct in 2010; we will also determine the precise amount of arrears through an audit by the *Inspection générale des finances*. Nonetheless, we met our main fiscal targets. We met the end-December 2009 QBs related to the collection ratio of the utility companies and payment of government utility bills. Already

we have paid all utility bills submitted to the government before end-December 2009 for an amount of CFAF 1.2 billion. These improvements should contribute to the strengthening of the financial performance of these companies.

B. Progress in Structural Reforms

9. The government has implemented important structural reform measures. The quarterly petroleum product pricing mechanism has contributed to strong revenue from the petroleum sector in 2009. The mechanism ensures full pass-through to consumers of all costs, distribution margins, and taxes, including value added tax (VAT) at the regular rate. We recognize the importance of the principle of regularly passing-through to consumers world oil price changes and safeguarding our domestic tax revenues from petroleum products. Also, we appreciate the fact that petroleum product taxation falls mainly on the non-poor because fuel products are predominantly consumed by the non-poor, although the relatively minor consumption by the poor still places a heavy burden on them. We were not in a position to align petroleum product prices fully with those required by the formula in January, resulting in a revenue loss of some CFAF 0.5 billion for the first quarter of 2010. However, we have increased prices by 5.3 percent on average on May 1. Specifically, we raised the per-liter prices of kerosene (by CFAF 20), diesel (CFAF 50), gasoline (CFAF 30), and heavy fuel oil (CFAF 57). We thus eliminated subsidies on all these products, although kerosene and diesel still show a negative residual tax (*Taxe unitaire sur produits pétroliers*, (TUPP)) in the price structure for the importation by road—which is relevant for the coming months. The price increases were not fully in line with the relevant structural benchmark (SB), which would have called for a weighted average increase of about 12 percent. However already this adjustment was extremely difficult politically given the upcoming elections, and we therefore decided to undertake the necessary adjustment in two steps. The loss for the second quarter is estimated at CFAF 0.3 billion. By also reapplying the adjustment formula fully again from July 2010 onwards, the government will avoid losing CFAF 4½ billion in revenues for the remainder of the year in case of non-adjustment, which would not have been affordable. To minimize the impact of the price adjustment for kerosene on the poor, we intend to provide for a better distribution of this product, particularly in the country-side.

10. More progress has been made in revenue administration reform. We have further reduced customs exemptions to CFAF 8.9 billion in 2009, thus meeting the structural benchmark (SB). We have also met the end-March SB related to publishing a detailed reform strategy for the revenue administration, which lays out the priorities and next steps for our ongoing reforms aimed at mobilizing more domestic revenue and making tax administration more effective. In 2009, we audited 60 percent of large taxpayers and, with a delay of not more than 30 days, all stop-filers and VAT declarations with a credit or zero balance. This allowed us to achieve a non-filer rate of 7 percent for 2009. Furthermore, we have stepped up the training of staff and established a working group to define mutual data exchange needs to use these systems widely and effectively. The end-December SB related to paying validated VAT refund requests by taxpayers could not be met. In the process of validating the requests

received through end-February 2010, we discovered that previous requests had not included the proper documentation, in particular proof of exportation and repatriation of export receipts. We therefore informed the companies that had submitted requests to furnish the required documentation. We intend to process the requests and pay any validated amounts expeditiously and to adhere to the objectives of the benchmark in the future. In addition, we have clarified the procedures regarding VAT payments for major investment projects in the context of the CEMAC investment code. In this context, the tax administration will put into place a procedure, which allows for such deferrals for reliable taxpayers to help with their cash flow without a loss to the treasury over the life of the investment project.

11. In the area of public financial management (PFM), we are making progress, and we are working hard to compile the final accounts for 2008 and for 2009, with a view to issue C.A.R.'s first budget execution law. The government financial management system Gesco has been applied to all stages of the expenditure process, but the treasury department's payment stage was only integrated in early January, thus narrowly missing the related end-December SB. With a feedback mechanism between the budget and the treasury departments' computer systems established to link payments to the corresponding budget categories, we can now generate detailed and comprehensive reports on budget execution, more easily regularize expenditures initiated by the treasury, and automatically establish accruing payment arrears. However, the full use of the new system's potential will need to be achieved by overcoming persistent capacity and organizational constraints, including by ensuring that the system has the necessary hardware support with data backup capabilities and an independent electricity supply.

12. Gesco will eventually include all expenditures without prior commitment or payment orders (for example those for debt service, salaries, travel advances, utility bills, and government petroleum product consumption), and other payments not following the standard expenditure procedures. We intend to regularize all non-standard expenditure procedures with a delay of less than 30 days, and to keep these spending categories at about 5 percent of primary current expenditures in 2010. We will continue to further develop Gesco and intend, in 2010, to extend it to cover all revenues registered by the Treasury. We intend to finalize a plan for the incorporation into Gesco of the expenditures executed by public agencies with their own resources before end-December 2010, and operationalize it for the 2011 budget. This would require all earmarked and own revenues of public agencies to be integrated into the treasury single account. We will also establish a link between Gesco and the debt management database (SYGADE) and the simplified wage management system.

13. Our objective is to have an integrated system that enables the government to have daily information about its fiscal position and serve as a fully integrated information base for budget implementation and liquidity management. Already, we can produce reports on expenditure commitments to help project upcoming payment obligations. The work of the liquidity commission has a central role to play in this respect, preparing rolling budget projections of expenditure commitments, revenues, and debt service requirements for the

forthcoming week, month, quarter, and remainder of the year. Unfortunately, we were unable to conduct a full-fledged review of the committee, and we have encountered some delay in producing the required detailed written recommendations on adjusting expenditure commitments in line with the rolling forecasts (end-March SB). However, we did produce weekly recommendations on required payments since end-2009. Moreover, presidential instructions are about to be signed clarifying the necessary elements for the liquidity commission report, and we have prepared detailed recommendations in line with the benchmark beginning in May 2010, thus meeting the SB with a delay.

14. Our debt database has become a central tool for debt management, since we have recorded all verified domestic arrears until end-2007 in the computerized debt database of the debt department on an arrear by arrear basis, thus meeting the relevant end-December SB. It will serve as a comprehensive database for all public debt by including also public sector cross-debts. Once the link to Gesco is established, payment arrears will automatically be recorded in the debt database. We continue to record all verified domestic arrears in the computerized debt database, and in April 2010, we have created an inventory of public sector cross-debt, established a schedule for the clearance of cross-debt between the three main State-Owned Enterprises (SOEs) and local and central governments, thus meeting the end-March structural benchmark with a delay. All debts of SOEs have also been recorded in the government debt database as an essential step to put financial relations within the public sector on a transparent and sound basis.

15. We have implemented the treasury single account (TSA). We have reduced treasury accounts to one in each commercial bank (and two transfer accounts and donor-mandated accounts required for project management), which is the minimum necessary to maintain transactions through banks. We are striving to operate these accounts on a zero-balance basis and reconcile their positions daily. Also, we have reclassified the account for reimbursements of VAT refund requests as a subaccount of the main account, but we have maintained the account for the CEMAC-financed DDR spending as a project account. In line with our new regulations on fiscal decentralization, which provides for part of the provincial revenue to be spent locally, and revenue-generating agencies' rights to manage part of the fees they collect for current expenditure directly, a limited number of decentralized accounts were also maintained at commercial banks for the time being. We make all wage payments through our bank accounts and have made good progress in extending the system to pensioners and regular suppliers. Furthermore, taxpayers are now also required to use bank transfers for payments, with positive initial results. To take account of these new bank services, we intend to negotiate comprehensive agreements with the commercial banks to clearly establish banking fees and interest payments with a view to encouraging competition between banks.

16. We are publishing quarterly budget execution reports to increase transparency and better communicate government fiscal policies. In addition, we have published the 2010 budget.

17. We have strengthened commercial banks' liquidity positions by making early repayments of CFAF 9 billion in commercial bank loans which allowed them to reduce their single-customer exposure to the government, and we hope that banks now will enhance their lending to the economy. In addition, we have eliminated our debts with the petroleum companies and with banks domiciled in the CEMAC region for a total of CFAF 9.6 billion and we have repaid domestic expenditure arrears in the amount of CFAF 19.2 billion. For these repayments, we have used funding made available, through BEAC, from the general SDR allocation. We have included another CFAF 12 billion in our financial program to further reduce our costly exposure to commercial bank financing during 2010. We intend to use resulting savings on our interest bill for additional expenditure in priority sectors.

18. We are committed to preserving the stability of our banking system and are working with one commercial bank to fully restore its financial viability. The bank is committed to follow through on a restructuring strategy, which requires recapitalization of some CFAF 5 billion. The strategy will need to be approved by COBAC before end-June 2010. We intend to participate in the bank's recapitalization, but only in conjunction with a fit-and-proper strategic investor, who should be able to obtain at least 51 percent of the shares. In light of the binding time constraint, it might not be possible to find such an investor immediately, in which case we would temporarily increase our present 10 percent stake to around 70 percent to facilitate an eventual sale to a long-term investor. We will not support shareholders that do not currently have the financial resources to fully participate in the recapitalization. Before recapitalization we will insist on writing down the capital of the bank to its residual value and then bringing it up to the required CFAF 5 billion. We are also considering the advantages and disadvantages of creating a new bank in the restructuring process. A contingency of CFAF 3.5 billion to finance the government's participation through a long-term interest-bearing bond has been added to our 2010 financial program.

III. THE PROGRAM FOR 2010

19. Our priorities for 2010 and beyond remain essentially unchanged, namely to stabilize the economy and prepare the basis for increased economic growth by consolidating our export sectors and facilitating internal demand while preserving a prudent fiscal stance. Specifically, we will continue (i) improving our domestic revenue collection; (ii) supporting domestic demand and enhancing growth and investment prospects by maintaining budgeted expenditures, paying domestic arrears, accelerating the implementation of expenditure programs related to the DDR process and the investment budget; (iii) paying all current government obligations and improving its financial standing; and (iv) maintaining the momentum in public financial management reforms. Moreover, we are working toward further enhancing the stability of our banking system.

A. Macroeconomic Objectives for 2010

20. We expect real GDP growth to pick up on the basis of sustained agricultural production, strengthened domestic demand, and increased exports to about 3¼ percent compared to 1.7 percent in 2009. Price pressures have all but subsided and inflation is expected to return to a more stable long-term path of 2½ percent, with average inflation at around 2 percent. External trade should revert to more normal levels of exports. Total exports of goods are projected to increase by CFAF 10 billion to CFAF 68 billion, in line with program. Imports will moderately expand and are projected to increase by 13 percent in volume terms, or CFAF 13 billion compared to program mainly due to the increased import relating to donor aid inflows. The current account deficit is projected to remain at around 8 percent of GDP, broadly the same level as in 2009, as the recovery of diamond prices and forestry exports and higher aid inflows is offset by higher oil imports and imports for the public investment program. The overall balance of payments is expected to improve somewhat compared to 2009, leading to a small gain in C.A.R.'s gross international reserves in dollar terms and in terms of imports, which are projected at 4.2 months. C.A.R.'s share in CEMAC common currency reserves is likely to be broadly stable.

B. Fiscal Policy

21. Fiscal policy will continue to support demand while raising our low tax revenue ratio. Domestic revenue in 2010 is projected to consolidate the gains of the strong 2009 outcome of 10.8 percent of GDP—0.3 percentage point higher than programmed. We intend to increase our tax revenue ratio by 0.2 percent of GDP through improved revenue administration and better VAT collection procedures. However, nontax revenue will be 0.3 percent of GDP lower than in 2009, mainly because of the non-recurrence of one-off receipts related to telecommunication licenses and a public land sale. Due to the large impact of nontax revenues, our domestic revenue ratio will decline by 0.1 percentage points of GDP in 2010 relative to 2009, but will still be 0.2 percentage points of GDP higher than programmed.

22. The 2010 budget, adopted on December 31, 2009, reflects a prudent stance on current expenditure, including the wage bill. Relative to the budget, we have identified some areas where additional spending is needed, but which remains in line with the expenditure envelope defined by the program. The overall level of primary current expenditures will thus rise by 1.9 percentage point of GDP, mainly due to the carry-over of DDR expenditure from 2009 and election-related spending (1.4 percent of GDP on budget). To improve the fairness and incentives of our civil servants' remuneration system, we intend to unfreeze civil servant salaries and we have allocated an additional CFAF 3 billion to the budgeted wage bill for this purpose. In addition, we have added CFAF 1 billion to expenditures on goods and services to ensure sufficient allocations for utility consumption. Social expenditures are expected to increase by more than 5 percent in real terms both for domestically and foreign financed social spending. In particular, we have allocated more to health and education, where we intend to hire some additional 500 health and education workers.

23. We had to shift a substantial part of spending on the DDR to 2010 for a variety of reasons, including bottlenecks in implementation capacity. In 2009, of the CFAF 2 billion allocated for such spending, we only used CFAF 420 million. We expect to spend CFAF 7.3 billion on the DDR in 2010. This amount includes CFAF 5 billion earmarked from CEMAC contributions. In addition, we intend to advance CFAF 2 billion from our own resources while we wait for the remaining CFAF 3 billion in grants from CEMAC countries to be disbursed. Total planned expenditure for the DDR is still estimated at CFAF 10 billion (1.1 percent of GDP). We expect to receive additional donor assistance both inside and outside the budget in relation for the peace process, including first measures related to the security systems' reform and the elections, as an expression of international solidarity and confidence, which we acknowledge. For example, we recently received US$20 million from the UN system to be administered off-budget, of which $1.5 million was for security and elections. We had already budgeted CFAF 5.1 billion for the elections. The program will now add an additional amount of CFAF 1.6 billion financed by the European Union. In addition, we include a contingency for CFAF 1 billion from own resources in case the elections turn out to be more costly, for example, due to the recent depreciation of the CFA franc with respect to the US dollar. In total the program thus includes CFAF 7.7 billion for the 2010 elections with CFAF 3.5 billion from own resources, although we hope to be reimbursed by donors for a large share of what we spend on our own resources.

24. Our capital budget is ambitious in the face of urgent needs to rehabilitate and extend basic infrastructure, upgrade public services, and enhance social investment. First and foremost, we intend to improve our capacity to implement investment projects through better collaboration between the line ministries and the ministries of finance and planning. For this purpose, we also intend to put in place an access platform in all spending ministries and to accelerate training for using Gesco in all ministries. The ministry of planning commits to communicating data on the implementation of the investment budget to the ministry of finance—and to the public through its internet site—with a delay of not more than 15 working days. Considering the administrative and logistic challenges to handle our investment program, we would like to call on our financial and technical partners to continue their efforts to harmonize their procedures and better coordinate their assistance, and help us reduce delays in capital budget execution to avoid uncertainties and undue strains on our treasury function.

25. In sum, after the much better-than-programmed outcome of the domestic primary balance in 2009, we expect a deficit of 1.5 percent of GDP, which is slightly higher than programmed reflecting the bank recapitalization costs and despite substantial shifts of non-implemented spending from last year and additional spending needs related to the elections. Identified financing, including a reduction to more normal levels of the comfortable government deposit position at the BEAC, partly representing treasury balances originating from the SDR allocation, would allow for repayment of arrears (2 percent of GDP), in addition to the complete elimination of all outstanding loans from commercial banks over the year 2010. The allocation for repaying arrears was increased by CFAF 5 billion on top of the

regular arrears repayment plan. To this effect, the clearance of these arrears was made more transparent by establishing clear criteria for their repayment. Including scheduled ECF disbursements, our program for the first half of 2010 is financed, but a financing gap of around CFAF 17 billion (1.6 percent of GDP) exists for the remainder of the year.

26. Public debt should decline from 32 percent of GDP in 2009 to about 28 percent of GDP at end-2010. We maintain all efforts to come to agreements with all our bilateral creditors on debt relief consistent with the terms of the HIPC completion point and comparable to Paris Club treatment. In line with our debt strategy after the HIPC completion point, we will keep a zero ceiling on new non-concessional debt to avoid excessive debt accumulation.

C. Future Structural Reforms

27. The government intends to work with the Fund toward a new ECF program, as a backstop for its reform efforts and a means to further strengthen donor relations. Efforts to improve coordination with the donors operating in C.A.R. have proven fruitful so far and progress has been achieved to harmonize the structural reform and technical assistance programs. The General Framework for Budget Support to the PRSP (CGAB-DSRP), agreed last October, should improve the predictability of aid and facilitate administration of donor support. In particular, we continue to work with our donors on a common technical assistance program for the public finance reform.

28. We continue to make the tax system work better. We are committed to the full and automatic implementation of the quarterly petroleum product price adjustment mechanism, which has proved successful to increase revenue and make industry relations more transparent. The emphasis of tax administration is on audit selection, taxpayer registration and collection follow-through, and VAT refund processing. We will step up security in granting the tax identification number (TIN) to ensure that each taxpayer is uniquely identified by his TIN.

29. We intend to reinforce our policy and administrative efforts in the area of customs administration. The main challenge of reform will be the decision on how to best reorganize the customs clearance and transit procedures while reassessing the role and the effectiveness of the Guichet unique in Douala. We will make good use of the ASYCUDA system and its connection with SYSTEMIF and expand its use and capabilities forcefully in cooperation with our technical assistance partners. We will also step up efforts to train personnel in various priority areas. The *Inspection générale des finances* will undertake detailed assessments of the operational effectiveness and financial performance of the private company SODIF on a quarterly basis, and we intend to clearly define the role of this company and reduce its role as the effectiveness of the customs and tax administration increases. Finally, the exemptions review committee will proceed in tightening operational

procedures for exemptions and review legislation with a view to eliminating further categories of exemptions.

30. We hope to receive technical assistance from the Fund for a comprehensive tax policy reform later in 2010 so as to implement a new tax code with the 2012 budget. The objective of the reform would be to further reduce exemptions and nuisance taxes, streamlining tax payment procedures, and shifting from trade taxes to domestic consumption and income taxation, with a view to enhancing revenue and administrative efficiency, and improving the investment climate. The reforms will usefully build on the reform proposals and reports recently prepared by consultants of the European Union.

31. The government's priorities for public financial management reforms continue to be to (i) strengthen liquidity management; (ii) improve expenditure tracking and budget monitoring; (iii) enhance debt management; and (iv) increase fiscal transparency. To this end, we intend to take the following steps during 2010:

- Improve the use of Gesco by integrating ministries' spending on own resources and the revenue agencies. In addition, severely limit the use of exceptional expenditure procedures.

- Continue publishing quarterly budget execution reports.

- Undertake an audit by the *Inspection générale des finances* of the arrears accumulated between 2008 and 2009 and add the validated arrears to the debt database by end-June 2010.

- Increase the transparency of the system for the repayment of expenditure arrears.

32. We will continue to improve the financial performance of the public utility companies. The government intends to timely pay all of its current utility bills as an essential element of our strategy to improve the financial and overall performance of utility companies. Moreover, the government will start monitoring closely the financial performance of public enterprises to ensure that additional resources are used effectively. We intend to require SOEs to present comprehensive plans by end-June 2010 on how to achieve medium-term financial sustainability. We will then sign performance contracts with SOE management to monitor the implementation of the plans. In order to reduce interest costs, the government will prioritize the payment of the commercial bank debt on behalf of those companies to whom the government is in a net debt situation. Already, the improvement of the financial situation of the public utility companies should enable them to pay their current tax obligations, because their tax arrears were eliminated in the context of the public sector cross-debt clearance exercise. An agreement clarifying the responsibility for the payment for public lighting (maintenance and electricity consumption) in the city of Bangui will be signed between ENERCA and the Bangui municipality.

33. Securing and increasing electricity supply is essential for growth. The Chinese authorities intend to rebuild our electricity generating capacity with the supply of two turbines for Boali III, increasing electricity production by 10 megawatts. We will upgrade the electricity generation plant in Boali, our main hydro-generation facility, with technical and financial support from the World Bank (US$10 million) and the French Development Agency (€4.2 million). These reforms would reduce the short-term supply problems and produce large economic benefits.

34. We are working to improve the business and investment climate, with the objective of attracting major new investment projects and facilitating the generation of employment opportunities for our population. We are committed to pursuing our efforts to enhance communication with our business community, and step up vigilance with regard to the proper application of tax and investment legislation and the regulations governing economic activity.

D. Program Monitoring

35. We have established quantitative targets for end-June and end-December 2010 (Table I.1), to monitor the program for the period until the new arrangement with the Fund is put into place. The prior action for this review is described in Table I.2.

Table I.1. Central African Republic: Quantitative Criteria, June–December 2010

(billions of CFA francs; cumulative from December 31, 2009 for 2010; ceilings, unless otherwise indicated)

	End-Dec. 2009		End-Jun. 2010	End-Dec. 2010
	Performance Criteria		Proj.	Proj.
	Revised Program	Prel.		
Main objectives				
Floor on total government revenue [1]	97.9	100.8	55.5	107.2
Floor on domestic primary balance [2]	-9.6	13.6	-5.9	-14.6
Change in net claims of the commercial banking system on the government, excluding bonds issued on the regional market	0.6	-12.1	-6.0	-12.0
New nonconcessional external debt [3 4]	0.0	0.0	0.0	0.0
Accumulation of government external payments arrears [5]	0.0	0.0	0.0	0.0
Additional objectives				
NPV of external debt	111.0	99.8	…	…
Floor on poverty-related spending [5]	21.0	30.1	12.0	26.2
Floor on reduction in domestic payments arrears	12.1	19.2	10.0	20.0
Net accumulation of tax arrears	0.0	-1.7	0.0	0.0
Floor on cash collections of utility companies (in percent)	82.4	90.4	87.5	90.0
Floor on government payment of utility bills (in percent)	98.0	112.4	98.0	98.0
Memorandum items:				
Projected grants for budget support	16.6	16.6	12.6	16.2
Projected bonds issued in the regional market	0.0	0.0	0.0	0.0
Of which: held by domestic commercial banks	0.0	0.0	0.0	0.0
Maximum adjustor for government net claims on commercial banks in case of grants shortfalls	6.0	6.0	6.0	6.0
External financing without project loan disbursement	-0.5	-0.5	2.0	-1.2
Repayments to oil companies and on commercial loans [6]	9.6	9.6	…	…

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

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

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

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

[4] These objectives will be monitored continuously.

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

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

Table I.2. Central African Republic: Structural Conditionality, 2010

Measure	Macroeconomic Rationale	Timeline
	Prior Action	
REVENUE ADMINISTRATION AND TAX POLICY		
Adjust petroleum product prices to ensure pass-through to the consumer of costs, distribution margins, VAT, and a specific excise by product as agreed with Fund staff (MEFP ¶ 9).	Protect the budget from risks of fluctuating petroleum prices; create room for measures to mitigate the social impact of petroleum price changes.	Implemented.

INTERNATIONAL MONETARY FUND
AND INTERNATIONAL DEVELOPMENT ASSOCIATION

CENTRAL AFRICAN REPUBLIC

Joint IMF/World Bank Debt Sustainability Analysis 2010

Prepared by the Staffs of the International Monetary Fund
and the International Development Association

Approved by Michael Atingi-Ego and Dan Ghura (IMF) and
Sudarshan Gooptu and Sudhir Shetty (World Bank)

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According to the analysis based on the joint IMF-World Bank debt sustainability framework for low-income countries,[1] Central African Republic (C.A.R.) remains at moderate risk of debt distress.[2] Thanks to debt relief under the enhanced HIPC initiative and MDRI,[3] C.A.R.'s external and public debt burden indicators improved significantly throughout the projection period. The debt sustainability analysis shows, however, that C.A.R. continues to be vulnerable to certain shocks which could breach the policy-related threshold for the PV of external debt-to-exports ratio. The analysis further shows that C.A.R. should maintain the minimum concessionality requirement for future borrowing, as the debt distress rating hinges on highly concessional financing. Overall, the DSA results suggest that C.A.R. needs to pursue prudent fiscal policies over the medium-term and to consolidate the basis for growth by fostering domestic security, maintaining political stability, and improving the country's institutional and administrative capacity.

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[1] See "Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/020304.htm) and "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/091004.htm)

[2] The LIC DSA compares the evolution over the projection period of debt-burden indicators against policy-dependent indicative thresholds, using the three-year average of the World Bank's Country Policy and Institutional Assessment (CPIA). C.A.R.'s policies and institutions, as measured by the World Bank's (CPIA), are classified as a "weak performer" with an average rating of 2.46 in 2006–08.

[3] All multilateral creditors except the Central African States Development Bank, International Fund for Agricultural Development, and the OPEC Fund have provided debt relief. Agreements were already signed with Austria, Italy, Switzerland, U.S.A., France, Germany, and Japan for Paris Club creditors. Agreements were signed with Saudi Arabia, France Telecom, and GERBER Company for non-Paris Club creditors. The signature by Assistance Publique des Hôpitaux is expected soon; negotiations continue with other creditors. Since this debt sustainability analysis assumes that Taiwan Province of China, which is the largest bilateral creditor for C.A.R, would participate in the enhanced HIPC initiative, a delay in negotiations with Taiwan Province of China would harm the debt indicators.

I. Background

1. **This analysis is based on the forward-looking debt sustainability framework for low-income countries (LIC DSA)**, and four key updates are incorporated relative to the previous one:[4] (i) the use of the recent general SDR allocation is incorporated (CFAF 29.2 billion in 2009); (ii) the baseline scenario assumes smaller current account deficits in the long run based on recent stronger export performance, and more favorable fiscal positions mainly due to early repayment of higher-cost borrowings from commercial banks by using the SDR allocation; (iii) the actual real GDP growth in 2008/09 was revised downward, and the projected growth in 2010 was raised by 0.2 percentage points of GDP, resulting in an overall reduction of real GDP of 0.7 percentage points over the three years compared to the previous LIC DSA; and (iv) the discount rate has been revised down to 4.0 percent from 5.0 percent.

2. **The main change compared to the previous LIC DSA was the end–2009 outcome**. Real GDP growth was overestimated by 0.7 percentage point in the previous LIC DSA, however, the current account deficit was underestimated by 2 percent of GDP because C.A.R. experienced a faster recovery of exports and higher aid flows than projected. The fiscal performance assumed in the previous DSA was also underestimated, and the actual domestic primary balance in 2009 is about 2 percent of GDP higher than that assumed in the previous DSA.

3. **Total public debt including domestic arrears of C.A.R. is estimated at 32 percent of GDP at the end of 2009**.[5] External public and publicly guaranteed debt amounts to 12½ percent of GDP in nominal terms, of which multilateral creditors account for 64 percent, official bilateral creditors for 33 percent, and commercial creditors for 3 percent.[6] Domestic public debt (including budgetary arrears and domestic debt of public enterprises) amounts to 19 percent of GDP. It consists of outstanding credits to the government from domestic commercial banks (6½ percent of total domestic debt), government debt with the Bank for Central African States (BEAC, 37 percent), budgetary arrears (52 percent), public enterprise debt (4½ percent), and debt to nonbanks (0.1 percent).

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[4] The previous joint LIC DSA was published in June 2009 (IMF Country Report No. 09/259 and IDA Report No. 47247).

[5] Public debt includes public and publicly-guaranteed external debt, domestic public debt, budgetary arrears of the central government, and external and domestic debt of state-owned enterprises.

[6] The main creditors on a net present value basis after HIPC/MDRI debt relief are multilateral institutions (72 percent) and Taiwan Province of China (10 percent).

II. UNDERLYING DSA ASSUMPTIONS

4. **The near-term macroeconomic outlook remains influenced by the adverse impact of the international financial crisis**. Despite favorable developments for the price of oil and an emerging recovery in external demand for wood products and diamonds, GDP growth is expected to be below its long-run potential in 2010. However, the domestic primary balance achieved a surplus in 2009 due to higher non-recurring nontax revenue and lower capital spending, with the latter caused mainly by administrative capacity constraints.

5. **Over the longer term, C.A.R. is expected to achieve steady-state growth of around 4¼ percent, supported by enhanced political and social stability**. A sustained improvement in business confidence based on reforms of legislative, judicial, and administrative systems and, consequently, higher private investment should underpin this growth projection (Box 1). Growing exports of a diversified range of primary goods, including gold and uranium with the commissioning of a major gold mine in 2011, are expected to lift real GDP growth to 5.5 percent over the next few years before settling on the steady state growth of 4.3 percent. Stronger exports will help improve the external current account deficit over time to around 2½ percent of GDP, with financing primarily provided by foreign direct investment, highly concessional project loans, and the regional market for government securities, to which access is projected in 2011. In order to preserve debt sustainability, fiscal policy would remain prudent. The authorities' fiscal anchor is the domestic primary balance—which excludes grants and foreign-financed capital spending—would be in surplus until 2017 and broadly balanced thereafter. The primary balance including grants, which determines the debt trajectory more directly, would initially be higher than the primary balance needed to stabilize the public debt-to-GDP ratio and would then register modest deficits over the projection period, consistent with a stable public debt-to-GDP ratio.

6. **The risks to C.A.R.'s macroeconomic outlook, however, remain significant**. Potentially, domestic political uncertainty and a worsening social and security situation could hamper donor support and investor confidence. Exogenous shocks, including a prolonged impact of the global economic crisis on exports, could lead to slower growth and lower revenue. Moreover, insufficient investments in infrastructure and slow progress improving the business environment could cause delays in private sector investment that are needed to boost the C.A.R. economy and reduce poverty.

Box 1. Central African Republic: Baseline Macroeconomic Assumptions

Real GDP growth: Average annual real GDP growth for 2010–30 is projected at 4.5 percent. Although the growth accounting exercise presented in the last Article IV report (IMF Report No. 10/21) concluded that the baseline of the long-term growth is likely to be in the 4.6 to 5.5 percent range, the staffs adopted lower projections in this LIC DSA exercise taking into account the negative impact caused by the international financial crisis and the economic vulnerability of the country. This growth assumption is predicated on sustained security and political stability, an improvement in the country's institutional and administrative capacity to effectively implement projects by improving ministries' administrative structure and training of officials, and appropriate macroeconomic policies. This environment should encourage an increase in private investment, especially in forestry, mining, and telecommunications. Public investment is expected to increase throughout the projection period to reach about 8 percent of GDP per year in 2030, thus improving the infrastructure to help revive the agriculture sector, which dominates economic activity. A major gold mining project is assumed to start operating in 2011. The new forestry and mining codes should prepare the ground for sustained FDI inflows in these sectors. With these assumptions, the projected growth rate is significantly higher than the past 10–year average, which was characterized by conflicts, civil strife, reconstruction of the economy, and the international financial crisis.

Inflation: After unexpectedly high inflation in 2008 driven by food and oil prices, the GDP deflator is projected at 2½ percent on average for 2010–30; the actual CPI in 2009 declined towards the assumed 2½ percent. The projected inflation rate is in line with the Central African Economic and Monetary Community (CEMAC)'s convergence criterion for CPI inflation of 3 percent.

Current account balance: The current account deficit (including grants) is projected to average 5½ percent of GDP for 2010–30. The trade balance is projected to improve over time, driven by stronger export performance as a result of structural reforms and development of infrastructure that will enhance competitiveness and diversify the export base; the deficits in the services balance would remain large. The current account deficits would be financed primarily by highly concessional official development assistance (project loans), foreign direct investment, and some regional capital inflows from the future regional government securities market.

Government balance: The primary deficit would decline to 0.6 percent of GDP by 2015 and then remain at around ½ percent of GDP between 2016–30. The overall fiscal deficit (including grants) would average about 1 percent of GDP for 2010–30, with primary deficits initially lower than needed to stabilize the debt-to-GDP ratio. Domestic revenue is projected to rise from 10½ percent of GDP in 2010 to 14 percent of GDP at end–2030, mainly as a result of steady tax and customs administration improvements and tax policy reform (introduction of broad-based and more neutral taxes to replace nuisance taxes and fees). Primary expenditures are projected to rise from about 18 percent of GDP in 2010 to 20 percent of GDP in 2030 with most of the increases concentrated in capital spending.

External assistance: Grant-equivalent financing is assumed at about 5½ percent of GDP annually in the long run, accounting for 90 percent of total external assistance over the period 2011–30. The grant element of new external loans averages 45 percent for the period. All creditors are expected to provide HIPC relief even though some of them have not currently signed bilateral debt agreements.

Domestic borrowing: It is assumed that in 2011, the government will start accessing the securities markets that are being developed in the CEMAC region. This will allow it to improve liquidity management, repay domestic arrears, and eventually reduce financing costs. On the other hand, some government securities issued in the regional bond market could be held by CEMAC nonresidents and therefore should be classified as external debt using the residency criterion. Classifying all such debt as domestic understates the external public debt level used in this DSA, an issue that will be monitored over time. Given the continued prudent fiscal policy stance, domestic debt is expected to decline gradually during the projection period (from 20 percent of GDP in 2009 to about 3 percent of GDP in 2030). The average real interest rate on domestic currency debt (including bonds from the regional markets) should converge to about 4 percent in the long run.

III. External Debt Sustainability Analysis

7. **Except for the PV of debt-to-export ratio, all debt indicators are below the relevant thresholds throughout the projection period in the baseline scenario (Text Table 1, Figure 1, and Table 1a)**. The PV of debt-to-export ratio exceeds marginally the threshold for the first two years, 2010 and 2011, when the export levels are still affected by the crisis, because the authorities drew on the general SDR allocation in 2009. The SDR allocation was used for repaying high-interest domestic borrowings, and thus improved the public debt composition from a cost perspective over the medium term. The debt service-to-export ratio and the debt service-to-revenue ratio increase temporarily over the medium term because larger amounts of principal repayment to non-Paris club creditors and the IMF are scheduled for this period, but the ratios would stay well below the country-specific, indicative thresholds. Except for the PV of debt-to-exports ratio, all other debt indicators remain well below the thresholds for the projection period and show stable downward trends.

Text Table 1. Central African Republic: Policy-Based Thresholds and External Debt Burden Indicators

		Baseline Scenario Ratios		
	Thresholds [1]	2009 Est.	2010–30[2] Proj.	2010−30 Peak
PV of external debt in percent of:				
GDP	30	10.7	8.2	11.7
Exports	100	112.9	64.2	116.4
Revenue	200	99.0	65.2	108.5
External debt service in percent of:				
Exports	15	12.1	4.2	10.9
Revenue	25	10.6	4.3	11.4

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

[1] Policy-dependent thresholds used in the joint IMF-WB LIC DSA framework are for a weak policy performer. C.A.R. received an average rating of 2.46 in 2006–08 in the World Bank's Country Policy and Institutional Assessment (CPIA), which qualifies it as a weak policy performer.
[2] Simple average.

8. **One alternative scenario signals the risk that debt indicators would come close to the threshold with less favorable aid support**. The baseline scenario assumes stable grant inflows and relatively high concessional loans over the projection period, while the alternative scenario assumes lower grants inflows and less favorable loan terms, under which grants decline gradually from 5.4 percent of GDP in 2010 to 3.7 percent of GDP in 2030 and the grant element of concessional loans just reaches 35 percent. In this scenario all indicators point upward after 2020, especially the PV of debt-to-exports ratio, which reaches 93 percent of GDP in 2030. This suggests that C.A.R. is quite vulnerable to a reduction in external

concessional support. The staffs decided against assuming a decline in grant support over the projections period, because C.A.R.'s level of grant support is not very high, and good policy performance could offset the tendency for reduction over time.

9. **The historical scenario, which shows a similar path as the baseline scenario, needs to be treated cautiously (Figure 1 and Table 1b)**. The historical scenario includes the years of civil strife before 2003; during this period, external financing was constrained by many of the same factors that limited growth. With the noninterest current account being roughly in balance over the historical period, this offset much of the effect of lower growth and explains why the historical and baseline scenarios are so similar. However, the assumptions in the historical scenario are quite different from the assumptions in the baseline scenario.

10. **The bound tests underscore potential risks, especially regarding lower export growth**. The most extreme stress test scenario, which assumes a combination of shocks, acts mostly by lowering export values, and would raise the PV of the debt-to-exports ratio above the threshold for the entire period (Figure 1c and Table 1b).[7] The debt service-to-exports ratio would also exceed the threshold during 2015–16 under the low export growth scenario (Table 1b).[8] Although exogenous shocks, including a prolonged impact of the global economic crisis on exports, are beyond the authorities' control, the deterioration of debt indicators under these two scenarios signals that continuous efforts are necessary to develop C.A.R.'s exports, including improving the business climate for foreign investments, reducing transport costs, and improving productivity.

IV. Public Debt Sustainability Analysis

11. **Public debt indicators remain at low levels through the projection period (Figure 2 and Table 2a)**. Assuming lower program grants than in the recent past (1 percent of GDP over the long term) and highly concessional financing, all debt indicators are expected to decline gradually. It is further assumed that the government would continue its prudent fiscal policy by maintaining the primary deficit close to balance over the long term; mobilizing higher domestic revenues relative to GDP; and maximizing low-cost financing. Accessing the regional government securities markets starting in 2011 and the elimination of expensive credits from commercial banks assumed in 2010 would allow continued clearance

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[7] As shown in Table 1b, the combination of shocks consists of (i) real GDP growth at historical average minus one-half standard deviation in 2011–12; (ii) export value growth at historical average minus one-half standard deviation in 2011–12 in US dollar terms; (iii) US dollar GDP deflator at historical average minus one-half standard deviation in 2011–12; and (iv) net non-debt creating flows at historical average minus one standard deviation in 2011–12.

[8] The export shock, which is the second most extreme stress test scenario, is significant as it represents a 24 percent decline in exports on a US dollar basis over 2011–12 compared to an increase in exports of 28 percent for the same period in the baseline.

of domestic arrears.[9] Under these assumptions, the public debt-to-GDP ratio could decline by more than 10 percentage points to 20 percent of GDP by 2014 and stabilize at close to 15 percent of GDP in the long run. The PV of public debt-to-GDP ratio would decline from 27 percent of GDP in 2010 to 11 percent of GDP in 2030, while the PV of public debt-to-revenue (including grant) ratio would fall from 165 percent to 59 percent.

12. **All debt indicators would deteriorate rapidly, if real GDP growth were to drop temporarily in two consecutive years (Figure 2 and Table 2b)**. A temporary growth decline—real GDP growth would be -2.2 percent annually in 2011–12 versus 3.3 percent in 2010 and 4.0 percent in 2011 in the baseline—represents the most extreme scenario.[10] In this case, the PV of the debt-to-GDP ratio, the PV of the debt-to-revenue ratio, and the debt service-to-revenue ratio would rise over time. The results suggest that the baseline is very sensitive to the growth assumptions. However, the shocks may be somewhat extreme because the growth standard deviation is high due to the inclusion of an outlier related to the civil war in 2003. Excluding this outlier would significantly increase the average historical growth and reduce its standard deviation.

V. Debt Distress Qualification and Conclusions

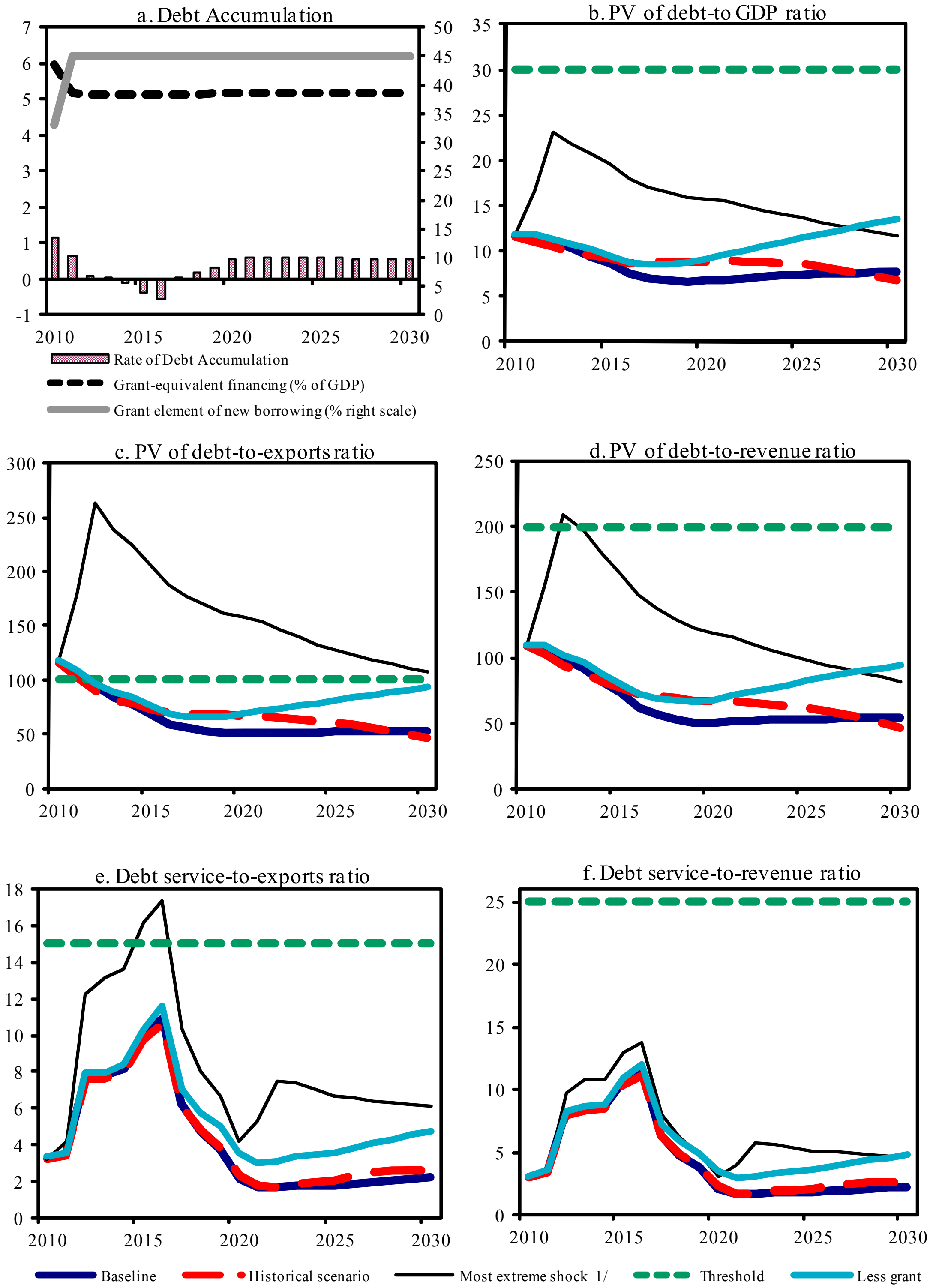
13. **C.A.R. qualifies as having a "moderate risk of debt distress", and high loan concessionality should be required**. All debt indicators improved dramatically following the HIPC completion point and MDRI debt relief, but the overall debt position could still be vulnerable to a variety of shocks. The external debt indicators are particularly sensitive to export growth, net FDI inflows, and less favorable financing terms, indicating that policies to diversify the export base including improving the business climate for foreign investments reducing transport costs, improving productivity, and prudent borrowing are essential for preserving external debt sustainability. Considering the fact that C.A.R. is categorized as having "lower debt vulnerabilities and lower capacity" under the concessionality options matrix,[11] the requirement for high concessionality should be maintained. The public debt is highly vulnerable to slower GDP growth and an increase in debt-creating flows, confirming that C.A.R. needs to pursue prudent fiscal policies over the medium-term and to consolidate the basis for growth by fostering domestic security, maintaining political stability, and improving the country's institutional and administrative capacity.

[9] For the purpose of this debt sustainability analysis, the PV of domestic arrears is calculated the same way as for other domestic public debt, and domestic arrears are included in the formula for total domestic debt.

[10] The low growth shock is defined as the average of real GDP growth minus one standard deviation calculated over the past 10 years.

[11] See "Debt Limits in Fund-Supported Programs-Proposed New Guidelines," IMF Policy Paper, August 5, 2009. http://www.imf.org/external/np/pp/eng/2009/080509.pdf and "IDA's Non-Concessional Borrowing Policy—Progress Update" (SecM2010–0240).

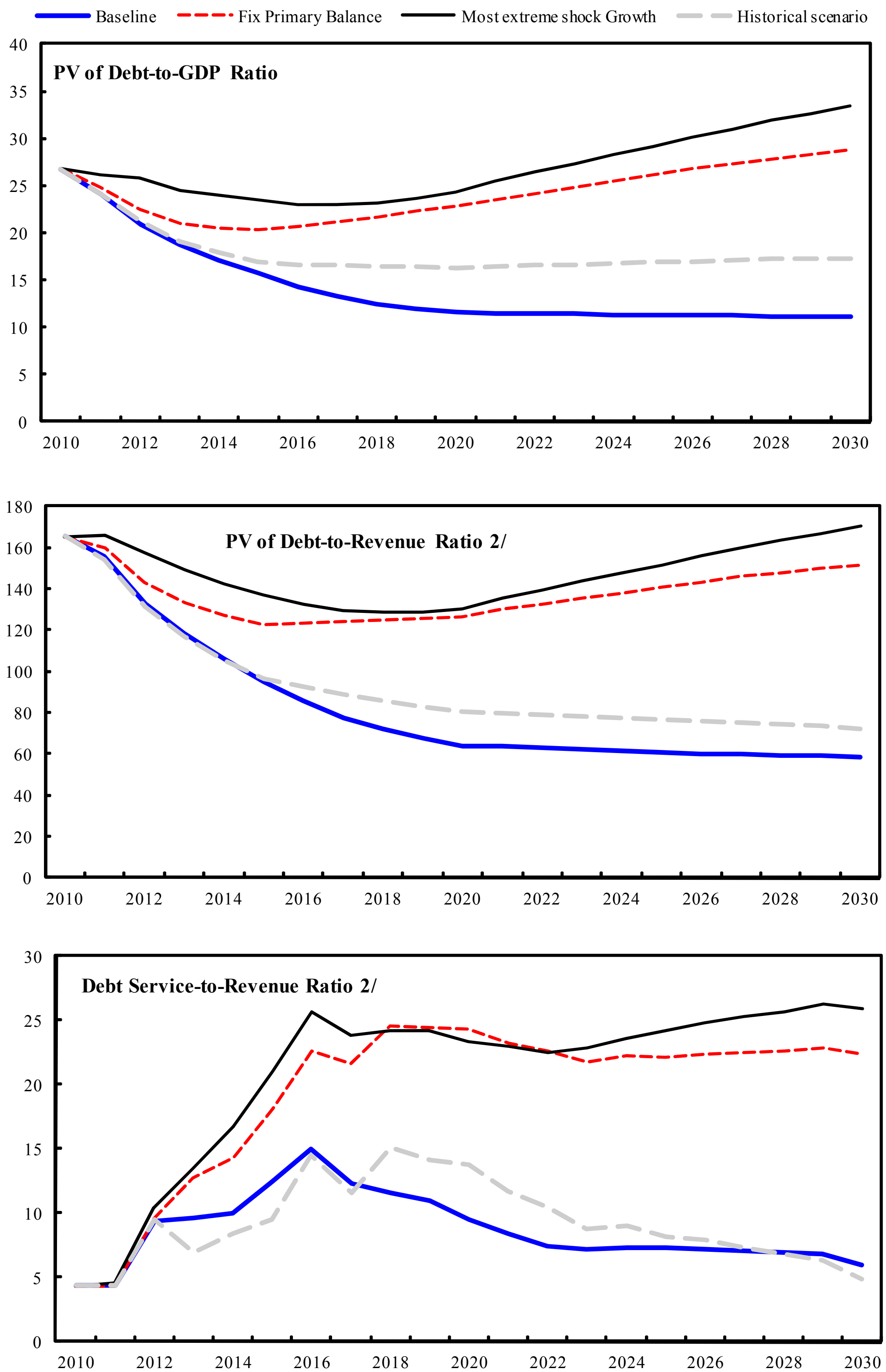
Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010–30 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figures b-f, it corresponds to the combination shock.

Figure 2. Central African Republic: Indicators of Public Debt Under Alternative Scenarios, 2010–30 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

Table 1a. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2007–30 1/
(In percent of GDP, unless otherwise indicated)

	Actual		**Prel.**	**10-year**		**Projections**									
				Historical	Standard							2010–15			2016–30
	2007	2008	2009	Average	Deviation	2010	2011	2012	2013	2014	2015	Average	2020	2030	Average
1 **External debt (nominal) 1/**	**54.5**	**56.9**	**12.7**			**14.1**	**14.2**	**13.6**	**13.0**	**12.3**	**11.5**		**10.2**	**11.7**	
2 Of which: public and publicly guaranteed (PPG)	54.5	56.9	12.7			14.1	14.2	13.6	13.0	12.3	11.5		10.2	11.7	
3 Change in external debt	-15.5	2.4	-44.2			1.4	0.1	-0.6	-0.6	-0.7	-0.7		0.2	0.1	
4 Identified net debt-creating flows	-7.3	-9.4	-0.2			0.7	1.0	0.2	0.0	-0.5	-0.8		0.2	1.0	
5 **Non-interest current account deficit 2/**	**2.7**	**6.0**	**2.5**	**0.2**	**3.4**	**3.9**	**4.3**	**4.2**	**3.7**	**3.7**	**3.8**		**2.0**	**-1.4**	1.0
Deficit in balance of goods and services	9.4	13.0	11.5			12.7	11.4	11.0	10.5	10.4	10.6		8.9	5.5	
Exports	14.1	10.8	9.5			10.0	10.8	11.6	12.1	12.1	12.5		13.2	14.5	
Imports	23.5	23.9	20.9			22.7	22.2	22.6	22.6	22.6	23.2		22.0	19.9	
Net current transfers (negative = inflow)	-3.8	-3.8	-4.1	-4.0	1.1	-5.0	-3.3	-3.1	-3.1	-3.0	-3.1		-3.0	-3.0	-3.0
Of which: official	-3.5	-3.6	-3.8			-4.7	-3.1	-2.9	-2.9	-2.9	-3.0		-3.0	-3.0	
Other current account flows (negative = net inflow)	-2.9	-3.2	-4.9			-3.7	-3.7	-3.7	-3.7	-3.7	-3.8		-3.8	-3.9	
6 **Net FDI (negative = inflow)**	**-1.1**	**-8.3**	**-3.3**	**0.5**	**4.5**	**-3.0**	**-3.1**	**-3.6**	**-3.3**	**-3.8**	**-4.1**		**-1.5**	**2.7**	-0.3
7 **Endogenous debt dynamics 3/**	**-8.9**	**-7.1**	**0.6**			**-0.2**	**-0.3**	**-0.4**	**-0.5**	**-0.5**	**-0.5**		**-0.3**	**-0.4**	
Contribution from nominal interest rate	0.4	0.9	0.5			0.2	0.2	0.2	0.2	0.2	0.2		0.1	0.1	
Contribution from real GDP growth	-2.2	-0.9	-1.0			-0.4	-0.5	-0.7	-0.7	-0.7	-0.6		-0.4	-0.5	
Contribution from price and exchange rate changes	-7.0	-7.1	1.1			…	…	…	…	…	…		…	…	
8 **Residual (3-4) 4/**	**-8.2**	**11.8**	**-44.1**			**0.7**	**-0.9**	**-0.7**	**-0.6**	**-0.1**	**0.1**		**0.0**	**-0.9**	
Of which: exceptional financing	-0.1	-1.9	-0.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	10.7			11.7	11.6	11.0	10.2	9.5	8.6		6.8	7.7	
In percent of exports	...	...	112.9			116.4	107.7	94.7	84.6	78.3	69.1		51.2	53.3	
PV of PPG external debt	**...**	**...**	**10.7**			**11.7**	**11.6**	**11.0**	**10.2**	**9.5**	**8.6**		**6.8**	**7.7**	
In percent of exports	**...**	**...**	**112.9**			**116.4**	**107.7**	**94.7**	**84.6**	**78.3**	**69.1**		**51.2**	**53.3**	
In percent of government revenues	**...**	**...**	**99.0**			**108.5**	**107.9**	**99.0**	**92.2**	**82.4**	**73.0**		**50.7**	**53.9**	
Debt service-to-exports ratio (in percent)	**14.0**	**21.0**	**12.1**			**3.2**	**3.5**	**7.8**	**7.8**	**8.2**	**10.1**		**2.2**	**2.2**	
PPG debt service-to-exports ratio (in percent)	**14.0**	**21.0**	**12.1**			**3.2**	**3.5**	**7.8**	**7.8**	**8.2**	**10.1**		**2.2**	**2.2**	
PPG debt service-to-revenue ratio (in percent)	**19.2**	**21.9**	**10.6**			**3.0**	**3.5**	**8.2**	**8.5**	**8.6**	**10.6**		**2.1**	**2.2**	
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	0.0	
Non-interest current account deficit that stabilizes debt ratio	18.2	3.6	46.8			2.5	4.2	4.7	4.4	4.4	4.5		1.8	-1.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.7	2.0	1.7	0.9	3.1	3.3	4.0	5.0	5.5	5.5	5.5	4.8	4.3	4.3	4.4
GDP deflator in US dollar terms (change in percent)	11.2	14.9	-2.0	6.2	10.0	3.2	1.4	1.8	1.7	1.7	0.0	1.6	2.4	2.4	2.4
Effective interest rate (percent) 6/	0.7	2.0	0.8	1.1	0.5	1.6	1.8	1.8	1.8	1.6	1.5	1.7	1.3	1.1	1.2
Growth of exports of G&S (US dollar terms, in percent)	14.6	-9.9	-13.1	0.4	12.4	12.9	13.9	14.5	12.1	7.4	8.9	11.6	8.2	7.4	7.9
Growth of imports of G&S (US dollar terms, in percent)	23.6	19.3	-12.7	6.5	14.1	15.6	3.3	8.6	7.6	7.1	8.2	8.4	5.9	5.6	5.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.2	44.8	44.8	44.8	44.8	44.8	42.9	44.8	44.8	44.8
Government revenues (excluding grants, in percent of GDP)	10.3	10.4	10.8			10.7	10.8	11.1	11.1	11.5	11.8		13.3	14.3	13.5
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.2	0.2		0.2	0.5	
Of which: grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.4	
Of which: concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.0	5.2	5.1	5.1	5.1	5.1		5.2	5.2	5.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			84.4	90.4	90.3	90.3	90.3	90.3		90.3	90.3	90.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	1.7	2.0	2.0			2.1	2.2	2.4	2.6	2.7	2.9		4.1	7.9	
Nominal dollar GDP growth	15.3	17.2	-0.3			6.6	5.4	6.9	7.3	7.3	5.5	6.5	6.8	6.8	6.9
PV of PPG external debt (in Billions of US dollars)			0.2			0.2	0.3	0.3	0.3	0.3	0.2		0.3	0.6	
(PVt-PVt-1)/GDPt-1 (in percent)						1.2	0.6	0.1	0.0	-0.1	-0.4	0.2	0.6	0.6	0.4
Gross remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.7			11.7	11.7	11.0	10.3	9.5	8.7		6.8	7.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	119.8			122.9	113.0	98.9	88.0	81.2	71.5		52.6	54.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	12.8			3.4	3.7	8.2	8.1	8.5	10.4		2.2	2.2	

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

1/ Includes both public and private sector external debt.

2/ Includes capital grants.

3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) 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.

4/ Includes HIPC debt relief in 2009 and 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.

5/ Assumes that PV of private sector debt is equivalent to its face value.

6/ Current-year interest payments divided by previous period debt stock.

7/ Defined as grants, concessional loans, and debt relief.

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

Table 1b. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010–30
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of debt-to GDP ratio								
Baseline	12	12	11	10	9	9	7	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010–30 1/	12	11	10	10	10	9	9	7
A2. New public sector loans on less favorable terms in 2010–30 2/	12	9	6	3	0	0	0	0
A3. Alternative Scenario : Less grants and less concessionality loan.	12	12	11	11	10	10	9	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	12	12	12	12	11	10	8	9
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	12	13	15	14	13	12	10	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011–12	12	12	12	11	11	10	8	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011–12 4/	12	16	21	20	18	17	14	11
B5. Combination of B1-B4 using one-half standard deviation shocks	12	17	23	22	21	20	16	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	12	16	16	15	13	12	10	11
PV of debt-to-exports ratio								
Baseline	116	108	95	85	78	69	51	53
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010–30 1/	116	102	90	81	79	73	68	47
A2. New public sector loans on less favorable terms in 2010–30 2/	116	83	49	22	0	0	0	0
A3. Alternative Scenario : Less grants and less concessionality loan.	118	110	98	89	84	77	69	93
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	116	107	94	84	78	69	51	53
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	116	156	219	197	184	166	126	104
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011–12	116	107	94	84	78	69	51	53
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011–12 4/	116	152	178	162	153	140	107	73
B5. Combination of B1-B4 using one-half standard deviation shocks	116	178	263	239	225	206	158	107
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	116	107	94	84	78	69	51	53
PV of debt-to-revenue ratio								
Baseline	109	108	99	92	82	73	51	54
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010–30 1/	109	103	94	89	83	77	67	47
A2. New public sector loans on less favorable terms in 2010–30 2/	109	83	51	24	0	0	0	0
A3. Alternative Scenario : Less grants and less concessionality loan.	110	110	102	96	88	81	68	94
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	109	114	113	105	94	83	58	61
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	109	121	136	127	115	104	74	62
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011–12	109	113	110	102	92	81	56	60
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011–12 4/	109	153	186	176	161	148	106	74
B5. Combination of B1-B4 using one-half standard deviation shocks	109	155	208	197	180	165	119	82
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	109	153	140	131	117	103	72	76

Table 1b. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010–30 (concluded)
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
Debt service-to-exports ratio								
Baseline	3	3	8	8	8	10	2	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010–30 1/	3	3	8	8	8	10	2	3
A2. New public sector loans on less favorable terms in 2010–30 2/	3	3	7	7	6	8	0	0
A3. Alternative Scenario : Less grants and less concessionality loan.	3	4	8	8	8	10	4	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	3	3	8	8	8	10	2	2
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	3	5	13	14	15	18	4	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011–12	3	3	8	8	8	10	2	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011–12 4/	3	3	8	9	9	11	3	4
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	12	13	14	16	4	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	3	3	8	8	8	10	2	2
Debt service-to-revenue ratio								
Baseline	3	3	8	9	9	11	2	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010–30 1/	3	3	8	8	8	10	2	3
A2. New public sector loans on less favorable terms in 2010–30 2/	3	3	7	7	7	8	0	0
A3. Alternative Scenario : Less grants and less concessionality loan.	3	4	8	9	9	11	4	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	3	4	9	10	10	12	2	3
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	3	3	8	9	9	11	2	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011–12	3	4	9	10	10	12	2	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011–12 4/	3	3	9	10	10	12	3	4
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	10	11	11	13	3	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	3	5	12	12	12	15	3	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	42	42	42	42	42	42	42	42

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

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, with grace and maturity periods the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007–30

(In percent of GDP, unless otherwise indicated)

	Actual		Prel.	10-year		Projections									
					Standard							2010–15			2016–30
	2007	2008	2009	Average	Deviation	2010	2011	2012	2013	2014	2015	Average	2020	2030	Average
Public sector debt 1/	79.1	80.2	32.4			29.2	26.7	23.6	21.4	19.9	18.6		15.0	15.1	
Of which: foreign-currency denominated	54.5	56.9	12.7			14.1	14.2	13.6	13.0	12.3	11.5		10.2	11.7	
Change in public sector debt	-14.9	1.1	-47.8			-3.3	-2.5	-3.0	-2.2	-1.5	-1.3		-0.3	0.0	
Identified debt-creating flows	-10.9	-1.5	-7.9			1.3	0.1	-0.3	-0.1	-0.4	-0.2		-0.2	0.0	
Primary deficit	-1.0	-0.3	-1.2	0.5	1.1	2.1	1.3	1.0	1.1	0.7	0.6	1.1	0.4	0.6	0.4
Revenue and grants	14.4	15.2	16.1			16.2	15.5	15.8	15.8	16.2	16.5		18.0	19.0	
Of which: grants	4.1	4.8	5.3			5.4	4.7	4.7	4.7	4.7	4.7		4.7	4.7	
Primary (noninterest) expenditure	13.3	14.9	14.9			18.3	16.8	16.8	16.9	16.9	17.1		18.4	19.6	
Automatic debt dynamics	-9.8	-1.2	-6.8			-0.8	-1.2	-1.3	-1.2	-1.1	-0.8		-0.6	-0.6	
Contribution from interest rate/growth differential	-3.5	-4.8	-3.1			-1.4	-1.3	-1.4	-1.3	-1.2	-1.1		-0.6	-0.6	
Of which: contribution from average real interest rate	-0.2	-3.2	-1.8			-0.4	-0.2	-0.2	-0.1	-0.1	0.0		0.1	0.0	
Of which: contribution from real GDP growth	-3.4	-1.6	-1.3			-1.0	-1.1	-1.3	-1.2	-1.1	-1.0		-0.6	-0.6	
Contribution from real exchange rate depreciation	-6.3	3.6	-3.6			0.7	0.1	0.1	0.1	0.1	0.3		...	...	
Other identified debt-creating flows	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	0.0			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	
Debt relief (HIPC and other) 2/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes 2/	-4.0	2.6	-39.8			-4.6	-2.6	-2.7	-2.0	-1.1	-1.1		-0.1	0.0	
Other Sustainability Indicators															
PV of public sector debt	24.5	23.2	30.4			26.8	24.1	21.0	18.7	17.1	15.7		11.6	11.1	
Of which: foreign-currency denominated	0.0	0.0	10.7			11.7	11.6	11.0	10.2	9.5	8.6		6.8	7.7	
Of which: external	...	...	10.7			11.7	11.6	11.0	10.2	9.5	8.6		6.8	7.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	1.9	2.8	0.5			2.8	2.0	2.5	2.6	2.4	2.6		2.1	1.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	170.6	153.3	189.4			165.4	155.3	133.0	118.6	106.0	95.2		64.2	58.7	
PV of public sector debt-to-revenue ratio (in percent)	238.8	223.3	282.2			249.0	223.4	189.1	168.4	148.9	132.8		86.8	78.0	
Of which: external 4/	…	…	99.0			108.5	107.9	99.0	92.2	82.4	73.0		50.7	53.9	
Debt service-to-revenue and grants ratio (in percent) 5/	20.6	20.7	10.2			4.3	4.4	9.3	9.6	10.0	12.5		9.5	6.0	
Debt service-to-revenue ratio (in percent) 5/	28.8	30.2	15.2			6.5	6.3	13.3	13.7	14.0	17.4		12.8	8.0	
Primary deficit that stabilizes the debt-to-GDP ratio	13.8	-1.4	46.6			5.4	3.9	4.1	3.3	2.2	1.9		0.6	0.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.7	2.0	1.7	0.9	3.1	3.3	4.0	5.0	5.5	5.5	5.5	4.8	4.3	4.3	4.4
Average nominal interest rate on forex debt (in percent)	0.7	2.0	0.8	1.1	0.5	1.6	1.8	1.8	1.8	1.6	1.5	1.7	1.3	1.1	1.2
Average real interest rate on domestic debt (in percent)	2.5	-3.0	-1.3	-1.2	2.2	-1.2	-0.8	-0.6	-0.3	0.4	1.1	-0.2	3.3	4.3	3.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.4	7.0	-6.7	-5.5	10.2	5.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.8	7.0	3.6	3.0	2.1	3.2	2.4	2.4	2.4	2.4	2.4	2.5	2.4	2.4	2.4
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.1	0.1	0.0	0.0	0.2	0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	33.2	44.8	44.8	44.8	44.8	44.8	42.9	44.8	44.8	...

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

1/ Includes public and publicly-guaranteed external debt, domestic public debt, budgetary arrears of the central government, and domestic debt of state-owned enterprises in gross terms.

2/ Debt relief, domestic arrears payment, and unidentified financing needs are included in Residual.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

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

Table 2b. Central African Republic: Sensitivity Analysis for Key Indicators of Public Debt 2010–30

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	27	24	21	19	17	16	12	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	27	24	21	19	18	17	16	17
A2. Primary balance is unchanged from 2010	27	25	23	21	21	20	23	29
A3. Permanently lower GDP growth 1/	27	24	21	19	18	17	16	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	27	26	26	25	24	23	24	33
B2. Primary balance is at historical average minus one standard deviations in 2011–12	27	24	22	19	18	16	12	11
B3. Combination of B1-B2 using one half standard deviation shocks	27	25	23	21	21	20	20	27
B4. One-time 30 percent real depreciation in 2011	27	29	25	23	21	19	14	12
B5. 10 percent of GDP increase in other debt-creating flows in 2011	27	33	29	26	24	22	17	15
PV of Debt-to-Revenue Ratio 2/								
Baseline	165	155	133	119	106	95	64	59
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	165	154	132	117	105	96	81	73
A2. Primary balance is unchanged from 2010	165	160	143	134	127	123	127	152
A3. Permanently lower GDP growth 1/	165	156	135	123	112	103	86	131
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	165	166	157	149	142	137	130	170
B2. Primary balance is at historical average minus one standard deviations in 2011–12	165	157	138	123	110	99	67	60
B3. Combination of B1-B2 using one half standard deviation shocks	165	159	140	131	124	118	108	139
B4. One-time 30 percent real depreciation in 2011	165	186	161	145	129	116	75	62
B5. 10 percent of GDP increase in other debt-creating flows in 2011	165	210	186	166	150	135	94	77
Debt Service-to-Revenue Ratio 2/								
Baseline	4	4	9	10	10	12	9	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	4	10	7	8	10	14	5
A2. Primary balance is unchanged from 2010	4	4	10	13	14	18	24	22
A3. Permanently lower GDP growth 1/	4	4	9	10	11	14	14	20
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	4	5	10	13	17	21	23	26
B2. Primary balance is at historical average minus one standard deviations in 2011–12	4	4	9	11	12	13	10	6
B3. Combination of B1-B2 using one half standard deviation shocks	4	4	10	9	11	17	19	20
B4. One-time 30 percent real depreciation in 2011	4	5	12	13	14	17	13	9
B5. 10 percent of GDP increase in other debt-creating flows in 2011	4	4	12	45	13	32	11	9
Debt Service-to-GDP Ratio								
Baseline	1	1	1	2	2	2	2	1
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1	1	2	1	1	2	3	1
A2. Primary balance is unchanged from 2006	1	1	2	2	2	3	4	4
A3. Permanently lower GDP growth 1/	1	1	1	2	2	2	3	4
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008–09	1	1	2	2	3	4	4	5
B2. Primary balance is at historical average minus one standard deviations in 2008–09	1	1	1	2	2	2	2	1
B3. Combination of B1-B2 using one half standard deviation shocks	1	1	2	1	2	3	4	4
B4. One-time 30 percent real depreciation in 2008	1	1	2	2	2	3	2	2
B5. 10 percent of GDP increase in other debt-creating flows in 2008	1	1	2	7	2	5	2	2

Sources: C.A.R. authorities; and IMF and World Bank staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Sixth Review Under the Arrangement Under the Extended Credit Facility and Financing Assurances Review—Informational Annex

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

Approved by Michael Atingi-Ego and Dhaneshwar Ghura

May 12, 2010

- **Relations with the Fund**. Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange rate system. Outstanding Fund credit was SDR 50.01 million (89.78 percent of quota) as of March 31, 2010.

- **Joint Bank-Fund Work Program**. Summarizes joint Bank-Fund Work Program for 2010–11.

Contents Page

Appendix I. Relations with the Fund

(As of March 31, 2010)

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	55.50	99.64
Reserve position in Fund	0.20	0.37

III. **SDR Department**:

	SDR million	% Allocation
Net cumulative allocation	53.37	100.00
Holdings	2.76	5.17

IV. **Outstanding Purchases and Loans**:

	SDR million	% Quota
PRGF/ECF arrangements	50.01	89.78

V. **Latest Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
PRGF/ECF	Dec. 22, 2006	Jun. 30, 2010	69.62	60.95
PRGF	Jul. 20, 1998	Jan. 19, 2002	49.44	24.48
Stand-By	Mar. 28, 1994	Mar. 27, 1995	16.48	10.71

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

	Forthcoming				
	2010	2011	2012	2013	2014
Principal				1.49	3.53
Charges/interest	0.10	0.13	0.25	0.25	0.24
Total	0.10	0.13	0.25	1.74	3.78

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

VII. **Implementation of HIPC Initiative**:

	Enhanced Framework
I. Commitment of HIPC Assistance	
Decision point date	September 2007
Assistance committed by all creditors (US$ million)[2]	578.00
Of which: IMF Assistance (US$ million)	26.77
(SDR equivalent in millions)	17.19
Completion point date	June 2009
II. Disbursement of IMF Assistance (SDR million)	
Assistance disbursed to the member	17.19
Interim assistance	6.59
Completion point balance	10.60
Additional disbursement of interest income[3]	0.90
Total disbursements	18.09

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

I. MDRI-eligible debt (SDR Million)[4]	4.02
Financed by: MDRI Trust	1.90
Remaining HIPC resources	2.13

II. Debt Relief by Facility (SDR Million)

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

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

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

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

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

foreign exchange holdings requires further actions to strengthen safeguards at the BEAC. Subsequent to revelation of fraud at the Paris office, a series of initial measures and longer term safeguard measures were agreed between IMF and BEAC in order to continue with country programs. In December 2009, BEAC adopted an action plan with the aim of reforming its own governance, and strengthening key safeguards. A number of special audits are being conducted as well as part of this action plan.

Exchange Rate Arrangement

The Central African Republic participates in a currency union with five other members of the CEMAC and has no separate legal tender. The de facto exchange rate arrangement is a conventional peg; the CFA franc is officially pegged to the euro, the intervention currency, at a fixed rate of CFAF 655.957 per €1. On March 31, 2010, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 738.85. The exchange system common to all members operates without restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations

The Central African Republic is currently on the standard 24-month cycle for Article IV consultations for program countries. The last Article IV consultation was concluded on December 4, 2009.

Resident Representative

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

Table 1. Central African Republic: Technical Assistance

Date	Department	Purpose
Jan–Feb. 2004	STA	Review and follow-up of the General Data Dissemination System (GDDS); TA in government finance statistics.
March 2004	FAD	To assist the authorities in the area of revenue administration.
Apr. 2004	FAD	Public financial management.
Aug–Oct. 2004	FAD	Tax administration.
Feb–Dec. 2005	FAD	Public financial management.
May 2005	FAD	Implementation of tax administration reforms; progress review of FAD tax expert.
June–July 2005	STA	Government finance statistics.
July 2005	STA	Real sector data.
May 2006	FAD	Recovery of tax arrears.
May 2006	FAD	Fax administration reform.
Sep–Oct. 2006	STA	Monetary and financial statistics.
Jan. 2007–Aug. 2008	FAD	Public financial management.
Apr–May 2007	FAD	Fuel pricing policies and distributional impact, mitigating measures.
Oct. 2007	AFRITAC/FAD	Custom administration and new customs organization.
Oct. 2007	AFRITAC/FAD	Implementation of tax administration reforms.
Nov–Dec. 2007	FAD	Inspection of FAD resident PFM advisor.
Dec. 2007	AFRITAC/STA	National account data.
March 2008	AFRITAC/MCM	Debt management.
June 2008	AFRITAC	Follow-up on implementation of tax administration.
June 2008	AFRITAC	Follow-up on implementation of customs administration.
Aug. 2008	AFRITAC/STA	National account data.
Sep. 2008	AFRITAC	Public financial management.
Sep–Oct. 2008	AFRITAC/FAD	New accounting framework and budget classification system.
Oct. 2008	AFRITAC	Tax collection and use of tax administration information.
Jan. 2009	AFRITAC	Follow-up on implementation of tax collection reform measures.
March 2009	AFRITAC/FAD	Accounting procedures reforms.
March 2009	AFRITAC	Elaboration of public debt management manual.
March 2009	AFRITAC	Improvement in the coordination of customs procedures.
May 2009	AFRITAC/FAD	Assessment of tax administration and outline for new reforms.
May 2009	AFRITAC	Reform of debt administration.
May–Sept. 2009	AFRITAC	Modernizing compilation of national account data.
July 2009	AFRITAC	Rebasing of price statistics.
Sep. 09/Feb. 2010	AFRITAC	Assessment of customs administration/reform.
Nov. 2010	FAD/AFRITAC	Assessment of public financial management.
Jan. 2010	AFRITAC	National account statistics.
Feb. 2010	FAD	Tax administration reform strategy.
March 2010	AFRITAC	Debt management and arrears.

Table 2. Central African Republic: Table of Common Indicators Required for Surveillance
(As of April 12, 2010)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2009	Mar. 2010	M	M	M
Reserve/Base Money	Dec. 2009	Mar. 2010	M	M	M
Broad Money	Dec. 2009	Mar. 2010	M	M	M
Central Bank Balance Sheet	Dec. 2009	Mar. 2010	M	M	M
Cons. Bal. Sheet of the Banking System	Dec. 2009	Mar. 2010	M	M	M
Interest Rates[2]	Mar. 2010	Mar. 2010	M	M	M
Consumer Price Index	Feb. 2010	Mar. 2010	M	M	M
Rev., Exp., Balance and Composition of Financing[3] – General Government[4]	Dec. 2009	Mar. 2010	NA	NA	NA
Rev., Exp., Balance and Composition of Financing[3] – Central Government	Dec. 2009	Mar. 2010	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2009	Mar. 2010	A	A	A
External Current Account Balance	2009	Mar. 2010	A	A	A
Exports and Imports of Goods and Services	2009	Mar. 2010	A	A	A
GDP/GNP	2009	Mar. 2010	A	A	A
Gross External Debt	2009	Mar. 2010	A	I	A
International Investment Position	N/A	N/A	N/A	N/A	N/A

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

Appendix II. Joint Bank-Fund Work Program, 2010–11

Title	Products	Actual or Provisional timing of missions	Actual or Expected delivery date
A. Information on relevant work programs			
World Bank work program in the next 12 months	• **Emergency Urban Infrastructure Rehabilitation and Maintenance Project.** Additional financing to support the reconstruction and recovery after flooding and to mitigate the frequency and impact of future flooding.	November 2009	September 2011
	• **Public Expenditure Review (FY12)** Review of budget implementation	December 2009	July 2011
	• **Country Environmental Analysis** This project is designed to (i) estimate the principle sources, costs and trends of environmental degradation, (ii) to analyze institutional capacity for environmental management, and (iii) to analyze priority environmental issues for policy recommendations.		May 2010
	• **Technical assistance on Mining sector** Technical Assistance on experience with mining codes and standard mining agreements.	November 2009	June 2010
	• **Third Economic Management and Governance Reform Grant (EMGRG III).** Financing from the Crisis Response Window to protect spending in priority sectors and limit the poverty impact of the global economic crisis.	February 2010	July 2010
IMF work program in the next 12 months	**Negotiation on a new ECF program**	September 2010	December 2010
	Technical assistance • Balance of payments statistics (STA) • Tax policy assessment (FAD) • Revenue administration (AFRITAC) • Public Financial management (AFRITAC)	June 2010 November 2010 (4 missions FY2011) (4 missions FY2011)	August 2010 January 2011
B. Requests for work program inputs			
Fund request to Bank	• Periodic updates on Bank activities and progress with sector reform programs		
Bank request to Fund	• Regular update of medium-term macroeconomic framework covering the period until 2015 • Participation in Fund program review mission		
C. Agreement on joint products and missions			
Joint products in the next 12 months	• Joint Debt sustainability analysis (DSA)	March 2011	June 2011

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Sixth Review Under the Arrangement Under the Extended Credit Facility and Financing Assurances Review

Supplementary Information

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

Approved by Paul Mathieu and Dhaneshwar Ghura

August 23, 2010

1. **This supplement reports on political and economic developments since the staff report was issued**.[1] In the attached letter, the authorities describe recent political agreements on the election process, fiscal performance through mid-year, and measures taken to keep the fiscal program on track. This report does not alter the thrust of the staff appraisal.

2. **Fiscal performance in the first half of 2010 was broadly in line with the 2010 budget supported by the program**. Preliminary fiscal data indicate that domestic revenue was close to target, current expenditure was contained and the domestic primary balance was significantly better than projected. Below target outlays in large part reflected delays in the electoral and peace processes and capital projects. Delays in the disbursement of foreign financing did not allow for targeted reductions of commercial bank loans and domestic payment arrears.

3. **Preliminary information also indicates broad progress on structural reforms.** Implementation of the computerization of the expenditure process has continued, and additional backup and power facilities have been provided. A presidential instruction clarifies the responsibilities of the liquidity commission to make rolling budget projections, and the priorities for domestic arrears repayments have been clearly established. Given the shifting election calendar, the authorities decided not to implement the quarterly petroleum price adjustment formula on July 1 as programmed (structural benchmark) but they remain committed to implementing this price-setting mechanism when political conditions are more settled. The fiscal cost of this decision is likely to be significantly smaller than previously

[1] The staff report for the Sixth Review Under the Arrangement Under the Extended Credit Facility and Financing Review issued on May 13, 2010. Executive Board consideration of the sixth review was initially scheduled for May 26, 2010, but was postponed due to delays in implementing safeguards-related measures at the BEAC. The present program was extended to December 31, 2010, to allow time to conclude this review.

estimated (some 0.17 percent of GDP for the remainder of 2010), given lower-than-programmed euro-denominated prices for fuel imports. The authorities likely have some cushion in the current budget to absorb this revenue loss, but have also moved to implement non-priority expenditure cuts of some 0.15 percent of GDP to safeguard the achievement of budgetary targets. Nevertheless, staff notes the importance of the petroleum pricing mechanism and encourages the authorities to re-implement it as soon as feasible.

4. **Additional financing assurances have been lined up**. Conditionality for release of the first half of the World Bank's DPO IV grant (CFAF 2.1 billion) has been fulfilled and supplementary assistance from the European Union (V-FLEX) is being prepared. In addition, the European Union has indicated a willingness to provide additional financial support for conducting the elections, on the order of Euro 3 million (CFAF 1.9 billion).

5. **General elections have been set for January 23, 2011**. The July 30th Presidential decree ends key uncertainties regarding the political agenda, which have lingered since the elections were postponed beyond the constitutional term in May. An agreement on the revised election timetable has just been signed by all political bodies.

Attachment

Translated from French

Bangui, August 11, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund

Dear Mr. Strauss-Kahn:

On May 10, 2010, we transmitted the CAR's Memorandum of Economic and Financial Policies (MEFP) for 2010. Given the extended delay of Executive Board consideration of the sixth review of our ECF, we thought it would be useful to provide an update on a number of recent developments.

Preliminary fiscal data for the first half of 2010 show that budgetary performance has been broadly in line with our program targets. Government revenue amounted to CFAF 55.0 billion, against a target of CFAF 55.5 billion—a small shortfall, explained by the unexpected suspension of divided payments by the Banque des Etats de l'Afrique Centrale (BEAC). Expenditure was contained well within program limits by the exercise of tight control of budgetary expenditure, notwithstanding unexpected security costs linked to rebel attacks in the north-east and the activities of Lord's Resistance Army rebels in the east. The domestic primary fiscal balance is estimated at CFAF 3.9 billion, against our program projections of a deficit of CFAF 5.9 billion. However, delays in receiving foreign financing have forced us to borrow from, rather than repay, domestic commercial banks (some CFAF 1.6 billion net) and to limit the clearing of domestic arrears to CFAF 3.2 billion, against our target of CFAF 10 billion.

Political uncertainties have made it difficult to implement the resumption of the full application of the formula for the automatic adjustment of petroleum prices, as envisaged in paragraph 9 of the MEFP. Elections scheduled for mid-May were delayed, with the agreement of all political stakeholders, to allow for adequate preparations by the Independent Electoral Commission. The final decision on the election timing was made only on July 30, with a presidential decree setting the election date as January 23, 2011. An agreement on the revised elections timetable has just been signed by all political bodies. Given the shifting political calendar, we opted not to apply the automatic price adjustment mechanism for fuel products on July 1, but intend to do so once political conditions allow. The non-implementation of this measure entails a revenue loss estimated at CFAF 1.7 billion (0.17 percent of GDP) for the July–December 2010 period, about 10 percent of the revenues expected from the sector in for 2010. We believe that this modest revenue loss can be offset through enhanced revenue collection efforts and continued expenditure constraint during the remainder of the year. In this context, inspection missions have been sent to all revenue collection agencies to recover unpaid taxes and conduct general inspections, in line with an audit priority plan that benefited from input from a July 2010 AFRITAC technical assistance mission. Also, the Council of Ministers has recently adopted measures aimed at rationalizing government spending, with the aim of saving at least CFAF 1.5 billion from nonpriority budgetary outlays, including CFAF 600 million on mission travel.

We look forward to the completion of the sixth (and final) ECF review, which will provide us with the funding, needed to accelerate arrears repayment and limit bank borrowing. And we hope to soon initiate discussions on a new ECF with the Fund to support on stabilization and reform program.

Sincerely yours,

/s/	/s/
Albert BESSE Minister of Finance and Budget	Faustin Archange TOUADERA Prime Minister

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 10/318
FOR IMMEDIATE RELEASE
August 25, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Sixth Review Under the Central African Republic's ECF Arrangement and Approves US$13.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) approved today the sixth review of the Central African Republic (C.A.R.)'s performance under a program supported by the Extended Credit Facility[1]. The approval will enable the disbursement of an amount equivalent to SDR 8.67 million (about US$13.1 million), bringing total disbursements under the program to an amount equivalent to SDR 69.62 million (about US$104.9 million).

The Executive Board approved a three-year arrangement for an amount equivalent to SDR 36.2 million (about US$ 54.6 million) in 2006 (see Press Release No. 06/299). It approved augmentations of an amount equivalent to SDR 8.355 million (about US$12.6 million) in June 2008 (see Press Release No. 08/142) and an amount equivalent to SDR 25.065 million (about US$37.8 million) in June 2009, when it also approved a six-month extension of the arrangement (see Press Release No. 09/242). Last June the Board approved another six-month extension of the arrangement.

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, issued the following statement:

"The Central African Republic (C.A.R.) authorities are to be commended for the satisfactory implementation of the program supported by the Extended Credit Facility (ECF), against the backdrop of difficult domestic and external challenges.

[1] The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years. The Fund reviews the level of interest rates for all concessional facilities every two years.

"The C.A.R. authorities have made further progress under their economic and financial reform program. The credibility of public finances has improved through domestic revenue mobilization, prudent budget execution, and reduction of domestic arrears. In part thanks to the reform measures, the economy now appears to be on its way toward sustainable higher growth.

"The authorities have drawn on the Fund SDR allocation, which has helped replace expensive commercial bank financing, thus saving budget resources, and strengthening liquidity in the banking system. The restructuring strategy of one local bank in accordance with international best standards will be an important step in this process.

"It is important for the economy to continue improving the security situation and maintaining political stability in the period ahead of the January 2011 general elections. Donor funding for the peace building process and elections is essential. Enhanced donor financial and technical support is also needed to help the authorities build economic management capacity and address critical infrastructure bottlenecks.

"The C.A.R. authorities need to continue their reform efforts to accelerate growth, strengthen competitiveness, and to mobilize resources required for poverty reduction while keeping debt sustainable. The authorities need to continue to focus on efficient government revenue mobilization, prudent expenditure and debt management, business climate improvement, and the promotion of private sector activities including through better access to credit and diversification of exports. Resuming regular and automatic fuel price adjustment to avoid subsidies will be important," Mr. Portugal added.

Statement by Laurean W. Rutayisire, Executive Director
for Central African Republic
August 25, 2010

I would like to express the Central African Republic authorities' appreciation of the continued support of the Executive Board and Management to their reform efforts, and the constructive policy dialogue with staff. Fund support to the Central African Republic--both financially and in the form of technical assistance--has helped the implementation of sound economic policies and mobilized external financing which is highly needed to meet the authorities' poverty reduction and growth objectives.

Significant progress has been realized in the consolidation of peace in the Central African Republic, a key pillar of the country's Poverty Reduction Strategy Paper (PRSP). My authorities have followed through on the recommendations of the Inclusive Political Dialogue conference held in 2008. Steps were taken, and financing secured, in order to implement the Demobilization, Disarmament and Reinsertion (DDR) of former combatants. Governance reforms were also pursued, including an inclusive national unity government, and the installment of an independent electoral commission. In spite of the progress made, my authorities are cognizant of the significant challenges in restoring security and peace throughout the territory, due to severe capacity constraints, and the spillovers from regional geo-political instability, notably the crisis in Darfur. They are committed to implementing further reforms to address these challenges, and are appreciative of the solidarity and support of their development partners including in particular member states of the CEMAC, France and the UN's peace building mission.

As regards the upcoming Presidential and Parliamentary elections, President Bozizé has reiterated his commitment to free and transparent elections. The authorities' commitment is evidenced, among others, by the promulgation of the electoral law and the provisioning in the 2009 and 2010 Budgets of elections-related spending. However, at the request of the independent electoral commission, the elections were postponed twice on account of difficulties in organizing polls in areas affected by insecurity and rebel activities, areas where government security forces' are continuing to restore order. Given that the Presidential and the current Parliament terms were set to expire in June 2010, Parliament voted for the prorogation of the President's mandate until elections are held, in order to avoid a power vacuum and ensure an orderly organization of the elections.

I. Recent Economic Developments and Program Performance

On the economic front, the authorities' policies aimed at preserving macroeconomic stability in the face of a difficult external and internal environment, while laying the foundation for a post-conflict, pro-poor economic recovery.

The authorities have fulfilled all program performance criteria, in spite of a difficult economic environment marked by electoral uncertainties and the ongoing global economic and financial crisis. The global economic crisis in particular has severely impacted the Central African Republic's economy through trade channels, even though recent data show early signs of a turnaround.

On fiscal policy, my authorities aimed at creating the fiscal space required to support their development agenda while preserving fiscal sustainability. To achieve this objective, they sought to increase revenue collection, improve spending efficiency, and consolidate public debt sustainability.

On the revenue side, the authorities realized significant progress in improving revenue collection and in reforms aimed at enhancing the effectiveness of revenue administration. Revenue administration measures implemented include targeted audits and efforts aimed at reducing non compliance with VAT regulations. They also strived to apply the petroleum product pricing mechanisms, albeit with some delays due to the paramount need to preserve the hard achieved social and political stability in the run up to the elections. The authorities' efforts resulted in a better-than-expected collection performance, notwithstanding the difficult economic environment.

On the expenditure side, my authorities aimed at reallocating spending towards priority sectors, including through tighter cash expenditure controls, increasing spending in the education and health sectors.

Further progress was also realized in public financial management by putting in place an integrated system for budget implementation and liquidity management. To that effect, the coverage of the government financial management system was expanded to include all stages of the expenditure chain. Furthermore, the 2010 Budget has been published as well as quarterly budget execution reports in order to increase transparency and facilitate the monitoring and communication of government's fiscal priorities.

On debt sustainability, the authorities' policies aimed at preserving the hard-achieved debt sustainability post HIPC and MDRI debt relief. They enhanced their debt management capabilities, including through the expansion of the computerized debt database to include all verified domestic public debt. Based on this database, a schedule for the clearance of cross-debt between state-owned enterprises, local and central government was established. On external debt, my authorities continued their efforts to secure debt relief from the remaining creditors following the passage of the HIPC completion point. They are thankful for the full assistance of Fund's Executive Directors in this endeavor.

Regarding safeguards concerns raised by the discovery of fraud in an external office of the regional Central Bank BEAC, the 10th Summit of Heads of State of the CEMAC which was held in Bangui under the Chairmanship of President Bozizé took far-reaching decisions on BEAC's governance, including historic changes in the selection process of the Governor of the Central Bank, and the removal and prosecution of officials suspected of involvement in the embezzlement scheme. The Heads of State also nominated a new leadership for the institution, and requested an annual audit of all CEMAC institutions, including BEAC. Looking forward, the Central African Republic's authorities are fully supportive of a close dialogue between the Fund and BEAC in addressing the safeguards issues.

On financial sector policies, my authorities aimed at preserving the stability of the banking system, including by ensuring an orderly resolution of a troubled commercial bank in close cooperation with the regional financial regulatory and supervisory body, COBAC. My authorities also promoted the adhesion to prudential norms by reducing the banking sector's exposure to government debt. The payment of government arrears to the financial sector has also improved the liquidity position of the banking system and bolstered its ability to extend credit to the private sector.

As regards structural reforms, my authorities realized significant progress in promoting a broad-based growth agenda. They undertook further reforms of state-owned enterprises in order to put them on a sustainable financial footing and strengthen their ability to deliver much needed public utilities services. The authorities are also closely consulting with their regional and international partners in order to secure the needed assistance to tackle pervasive infrastructure and supply bottlenecks, and to improve the climate for business.

II. Agenda for the Remainder of 2010

Going forward, the authorities plan to build on the progress achieved so far to consolidate economic recovery and realize further poverty reduction and growth gains.

Fiscal Policy

Fiscal policy will aim at supporting demand while maintaining medium-term sustainability. In order to create the fiscal space needed to meet their objectives, my authorities plan, on the revenue side, to improve tax collection, including through revenue administration reforms and enhancement in the yield of the VAT. On spending, they will aim to contain overall spending while increasing priority spending. Notably, capital expenditure and social spending such as the hiring of education and health workers, and spending related to the peace and reconciliation process and to the organization of the elections are projected to increase.

Debt Sustainability

In order to preserve debt sustainability, my authorities are committed to continue to strengthen their debt management capabilities, and to further reduce public indebtedness. To that regard, they will pursue efforts to reach external debt relief agreements with the remaining creditors at terms comparable to Paris Club's, and will continue to implement sound debt policies. They will also endeavor to clear domestic debt arrears as planned.

The recently completed Debt Sustainability Analysis underscores the importance of export promotion and growth in ensuring debt sustainability. Given the constrained prospect for domestic financing, the mobilization of additional aid and foreign direct investment will be critical in supplementing the authorities' efforts. To this end, the Fund's added flexibility in its recent review of the debt policies guidelines for countries under Fund programs is welcome.

Structural Reforms

The authorities' structural reform agenda will continue to be geared towards removing the constraints to broad-based and sustainable growth. They will seek further improvements in the performance of public utilities companies, including through a comprehensive medium-term financial and managerial restructuration strategy.

The authorities are also committed to fostering a private sector-led development by implementing reforms aimed at improving the business and investment climates, and promoting financial intermediation. They will seek to address infrastructure bottlenecks, including through an increase in electric generation capacity, and the realization of regional projects such as the CEMAC's Regional Transport and Transit Facilitation Project.

III. Conclusion

The Central African Republic's authorities have realized appreciable economic progress under the ECF arrangement. They have also made significant gains in consolidating peace and socio-political stability. Going forward, they are committed to further reforms in order to bring about lasting peace and economic recovery, especially in the face of a difficult external environment marked by the global economic crisis and spillovers from regional geo-political instability. As they endeavor to address these challenges, they would appreciate the continued and strong support from the international community including through a new Fund-supported program.

On the basis of the overall performance and the strength of the authorities' policies and reforms going forward, I request the completion of the sixth and last review under the ECF arrangement.