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# Central African Republic: 2005 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Central African Republic

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with the Central African Republic, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 24, 2005, with the officials of the Central African Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 7, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 24, 2005 discussion of the staff report that concluded the Article IV consultation.

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

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

Statistical Appendix

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

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

# Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with the Central African Republic

(In collaboration with other departments)

Approved by Saul Lizondo and Mark Plant

October 7, 2005

- The discussions on the 2005 Article IV consultation were held in Bangui, Central African Republic (C.A.R.), during July 10–24, 2005. The staff met with the President, the Prime Minister, the Minister for Finance, other members of the government, and the National Director of the Bank of Central African States (BEAC), as well as representatives of the National Assembly, the private sector, the donor community, Non-Governmental Organizations (NGOs), and the local press.

- The staff team consisted of Messrs. Lewis (head), Bakhache, Kalonji, Ould-Abdallah (all AFR), and Yehoue (INS). Mr. Mamadou, Advisor (OED), along with World Bank and African Development Bank representatives, also participated in the discussions.

- The Executive Board concluded the last Article IV consultation on April 2, 2004 (Country Report No. 04/159), and an Emergency Post-Conflict Assistance (EPCA) program was subsequently approved on July 23, 2004. Measures adopted in advance of and during the EPCA program reflected many of the challenges identified during the 2004 Article IV consultation. In the context of the country's gradual return to peace and security, the authorities have targeted measures to improve public finances, combat corruption, and improve social services. These priorities have been reiterated by the new government, which assumed office following the recent elections.

- The C.A.R. has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Outstanding obligations to the Fund totaled SDR 25.1 million (45 percent of quota) at end-August 2005. The C.A.R.'s relations with the Fund are summarized in Appendix I.

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## EXECUTIVE SUMMARY

### Recent Developments:

**Peaceful presidential and legislative elections** were held during March-May 2005. Security has generally improved in the cities, but banditry remains a major problem in rural areas.

**Economic activity has yet to recover from the sharp contraction that resulted from the 2003 conflict.** Real GDP is estimated to have increased by about 1 percent in 2004 and initial indications through mid-2005 do not suggest a pick-up in activity. The average price level fell by about 2 percent in 2004 but has increased moderately thus far in 2005. Despite some improvement over the past year, the social sectors are in a dire condition with services absent in many parts of the country.

**Performance under the EPCA program was uneven, with serious fiscal slippages accompanied by some progress on structural reforms.** Revenue performance was disappointing, and there were sizable expenditure overruns, particularly on the wage bill. The authorities introduced measures to improve tax administration and expenditure management, and have advanced on some governance reforms, including enhancing the transparency of fiscal operations.

### Policy Discussions:

**The C.A.R.'s medium-term outlook is clouded by a number of factors,** including the destruction of the country's physical capital, high transport costs, and the deterioration of human capital. Annual real GDP growth over the medium term is projected at 3-4 percent, hinged on economic reforms and an improvement in the security situation.

**The staff underlined the urgency of implementing sound policies to address the country's tremendous difficulties**. This would also aid the authorities in attracting much needed higher levels of international support.

**Addressing the severe public finance weaknesses will be essential to restoring financial stability.** The staff underlined that action on the wage bill was critical to bring it in line with the government's resources and avoid further arrears. Continued efforts are needed to improve expenditure controls and monitoring. The authorities and staff agreed on the importance of raising government revenue to ensure that sufficient resources are available for basic government functions. Key reforms will include efforts to combat fraud in customs and improve domestic tax administration through increased controls and verification procedures.

**Regarding governance and structural reforms,** the authorities and staff agreed that tackling corruption is essential to improving the functioning of the state and the business climate. Continued efforts to boost transparency will also be important. Reform of the natural resources sectors, improvements in competitiveness through lower transport costs, and efforts to lower costs of doing business in the country need to be strengthened.

**The C.A.R.'s external debt situation is unsustainable.** Given the difficult fiscal position, the C.A.R. has not been servicing its external debt, except to the IMF, since 2001 and has thus continued to accumulate external arrears.

**The C.A.R. could be a candidate for further Fund support under the EPCA policy.** Moving ahead on a new EPCA program requires addressing the fiscal slippages and implementing outstanding governance and structural reforms. Looking further ahead, the C.A.R. would need to establish a good track record of policy implementation and regularize relations with external creditors to proceed with a PRGF-supported program.

## I. Introduction

1. **The Central African Republic (C.A.R.) has seen a considerable deterioration in its economic and social conditions over the past decade.** The country is endowed with sizable natural resources and arable land, but intermittent political and military disturbances and weak governance have led to a degradation of the country's capital stock**,** a collapse of the private formal sector, and a steady erosion of living standards.

2. **Poor management of public finances has been a central feature of this decline, and presents a major challenge as the C.A.R. authorities try to rehabilitate the economy and restore public services.** Government revenue now stands at about 8 percent of GDP, which is very low by both African and international standards, and insufficient for financing the core functions of the state, including social services. At the same time, weak expenditure control has led to unproductive spending and a very large and growing public sector wage bill. The wage bill now far exceeds the authorities' ability to pay salaries with their own financial resources and diverts scarce resources from priority social spending.

3. **In this setting, the C.A.R. continues to accumulate external and domestic arrears—**at end-2004, external arrears totaled 25 percent of GDP and domestic arrears amounted to roughly 30 percent of GDP. A durable resolution will require reaching agreement with creditors and putting public finances on a sustainable footing to prevent the accumulation of new arrears.

4. **Weak institutions and pervasive corruption have accompanied and contributed to the economic decline and poor public finance management**. Weaknesses in the judicial sector and a heavy regulatory burden, in the context of widespread public corruption and poor public services, have created an extremely difficult climate for private sector activity. Moreover, on top of being a land-locked country, the C.A.R. has seen little investment in and maintenance of the infrastructure network. Combined with banditry in many parts of the country, this has resulted in some of the highest per unit transport costs in the world and contributed to the decline of key export activities, notably in the agriculture sector. Addressing these shortcomings will be essential to support private sector development.

5. **The 2005 Article IV consultation provides a useful opportunity—ahead of a possible request for further assistance under the Fund's Emergency Post-Conflict Assistance (EPCA) policy—to take stock of the progress to date and challenges ahead.** The discussions with the authorities focused on these challenges and on the steps that would foster a rebound in economic activity and an improvement in living standards.

## II. Political and Security Developments

6. **The political situation has settled since the March 2003 coup, and the transition to democratic rule culminated in peaceful presidential and legislative elections during March-May 2005.** According to most observers, the elections were generally free, despite logistical constraints and some allegations of fraud. The incumbent, President Bozizé, won in the second round, and a coalition supporting him has a majority in the National Assembly.

Despite these developments, the political situation remains fragile largely because of the population's deepening impatience with the difficult economic situation, including the recurrent problem of public sector wage arrears.

7. **The security situation has generally remained calm in the capital, Bangui, but banditry continues in the rural areas**. While some demonstrations took place around the elections, little political violence was reported. Several hundred troops from France and the Central African Economic and Monetary Community (CEMAC) continue to be stationed in the C.A.R. to support the peace process. In addition, the first two phases of the disarmament, demobilization, and reintegration program of ex-combatants (DDR) are expected to be concluded by the end of this year, while the reintegration phase will likely take two years to complete. Efforts are also under way to train and better equip the armed forces. Nonetheless, rural areas remain beset by armed bands harassing local populations and robbing passing vehicles. The C.A.R. armed forces are undertaking operations to dismantle those bands.

## III. Recent Economic Developments and Program Performance

### A. Weak Signs of Recovery

8. **Economic activity in 2004-05 has yet to recover from the sharp contraction associated with the 2003 conflict (Table 1)**. Real GDP grew by only about 1 percent in 2004, resulting in a further deterioration in per capita income. A number of factors have hindered a rebound in the economy, including capacity constraints resulting from the accumulated destruction of the capital base; continued insecurity in rural areas which mutes any significant upturn in agriculture production; and the political uncertainty of the transition period, which made economic operators cautious, notably about investment. In this setting, a contraction of output in the forestry sector as a result of heavy rainfall further depressed real GDP growth, and was only partly offset by some increase in diamond production. Initial indications through mid-2005 offer little suggestion of an uptick in growth. Recent heavy rainfall in Bangui displaced a number of people from their homes, but it appears to have had little impact on overall economic activity.

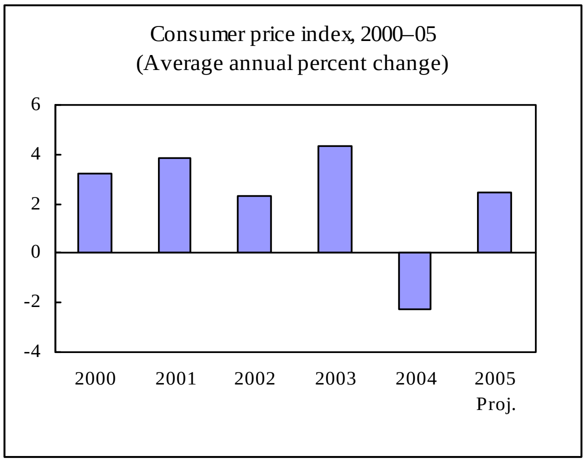
Key Macroeconomic Indicators, 2001–05

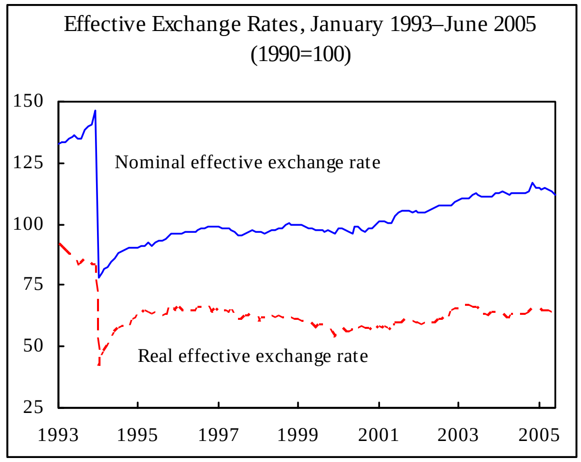
| | 2001 | 2002 | 2003 Est. | 2004 Prel. | 2005 Proj. |
|---|---|---|---|---|---|
| | (Annual percentage change) | | | | |
| Real GDP | 0.3 | -0.6 | -7.6 | 1.3 | 2.2 |
| Consumer prices (yearly average) | 3.8 | 2.3 | 4.4 | -2.2 | 2.4 |
| Export volume | 4.8 | 0.2 | -29.0 | 2.2 | 4.0 |
| Import volume | -8.1 | 13.9 | -15.5 | 6.9 | 3.4 |
| Broad money | -1.1 | -4.3 | -8.0 | 14.2 | 2.9 |
| | (In percent of GDP) | | | | |
| Overall fiscal balance, commitment basis, incl. grants | -0.9 | -1.2 | -3.1 | -2.2 | -2.7 |
| External current account balance | -2.5 | -3.1 | -4.9 | -4.3 | -3.9 |

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

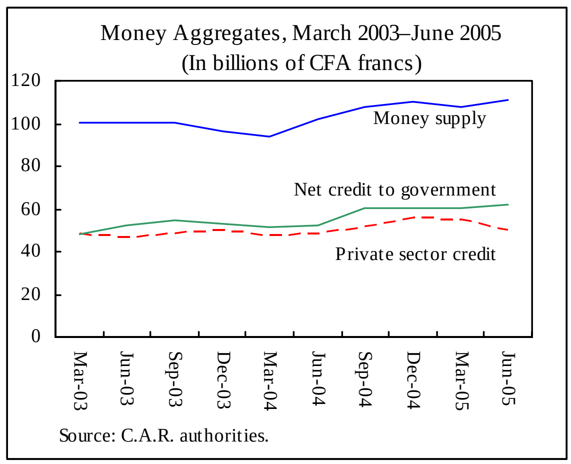
9. **The average price level fell by about 2 percent in 2004 but has picked up moderately in 2005.** These developments were driven by a decline in food prices in 2004 induced by more stable conditions in the agricultural sector, followed by a modest upturn in food prices during the first half of 2005. The real effective exchange rate has remained

broadly flat since 1995, one year after the devaluation of the CFAF franc, in large part reflecting the low inflation over this entire period.




10. **The external current account deficit narrowed by about ½ of 1 percent of GDP to 4⅓ percent of GDP in 2004 and is expected to decline by a similar amount in 2005.** The deterioration in the trade balance in 2004—largely caused by a worsening terms of trade, the decline in timber exports, and a higher demand for petroleum products for election-related activities—was more than offset by an increase in current transfers, partly reflecting donor support for carrying out the elections, and some improvement in the services balance.




11. **Regarding monetary developments,** net credit to the government and private sector credit picked up in 2004, although the increase in private sector credit—linked to petroleum imports and several large loans in the forestry sector—partly receded in the first half of 2005.

## B. Uneven Program Performance

12. **The C.A.R.'s performance under the EPCA program was uneven, with some progress on structural reforms but also serious fiscal slippages (Tables 2-4).**[1] The outturn

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[1] The EPCA program period covered July-December 2004; the program targets were revised in the context of a mission in October 2004 (the discussion above concerns the revised

(continued)

for the narrow primary deficit in 2004 was more than 1 percent of GDP higher than targeted.[2] In the first half of 2005, the narrow primary deficit exceeded the target by 1 percent of annual GDP; on a cash basis it exceeded the target only slightly because of the accumulation of additional salary arrears, which restrained cash outlays.

13. **Overall revenue performance has been disappointing.** Initial shortfalls in 2004 were partially corrected, and the target for end-2004 was met. However, revenue weaknesses continued in the first half of 2005, and the end-June target was missed by about ¼ of 1 percent of annual GDP. Customs performance, in particular, has been weak, because of a low level of taxable imports, but also because of persistent and pervasive corruption. The average effective tariff—import tax receipts as a share of total imports—is about 9 percent, against a weighted statutory tariff estimated at 15 percent, suggesting that there is room to significantly increase customs receipts through eliminating fraud and exemptions (see para. 42 for a description of the trade regime).

14. **The authorities' control over payroll management slipped considerably in 2004-05, and was marked by a worrisome rise in the wage bill and a further accumulation of wage arrears** (Box 1). Public sector wage commitments exceeded the budget envelope by 0.8 percent of GDP in 2004, and are projected to exceed the 2005 budget envelope by over 1 percent of GDP. As a result, the wage bill far surpasses the authorities' ability to pay salaries, and about 1½ months and three months of additional salary arrears have been accumulated, respectively, in 2004 and thus far in 2005.[3] There were also some overruns on other current public spending in both 2004 and early 2005, linked in part to the elections.

15. **The authorities made progress on fiscal structural measures (Table 5), although the reform momentum slowed considerably as the electoral process got underway, and the impact of the measures on the fiscal situation has been limited.** Regarding the domestic tax administration, measures were implemented to improve value-added tax (VAT) collections and strengthen performance of the Large Taxpayer's Unit. These measures enabled the domestic tax administration to improve collections in 2004 over 2003. At customs, the authorities introduced measures to better control smuggling, although progress has been slow and efforts to reduce fraudulent CEMAC labeling of imported goods have so far proved ineffective, with the result that customs receipts have remained stagnant. The authorities also made some progress on public expenditure management, including the

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targets). The authorities and staff agreed on indicative targets and structural reform measures for the first half of 2005.

[2] The measure of the fiscal balance used for program monitoring purposes is the narrow primary balance, which excludes interest payments, foreign-financed investment, and grants. The overall deficit, including grants, was also higher than projected in 2004, by ⅔ of one percent of GDP.

[3] These amounts are on top of a stock of more than 30 months of salary arrears (representing about 10 percent of GDP) which was accumulated during 1992-93 and 2001-03.

introduction of a monthly treasury cash flow plan, and better identifying spending at the commitment stage.

## Box 1. The Wage Bill

**The government wage bill (on a commitment basis, which includes wages paid plus new arrears) is projected at 5.8 percent of GDP for 2005, about 1 percent of GDP more than in the 2005 budget.** This follows slippages of about 0.8 percent of GDP in 2004 as measures[1] adopted in the 2004 budget to contain commitments on wage spending were not effective. Although base salaries have been frozen since 1985, the wage bill continues to increase because of the rapid expansion of allowances and benefits, the creation of high-level posts carrying salary premiums, and delays in retirements. Commitments on wage spending now represent close to 100 percent of government cash revenue (excluding offsets, earmarked revenue, withholding taxes on government salaries, and taxes and duties on project-related imports), and have resulted in further salary arrears being accumulated.

**Wage Bill in the CEMAC**
**(In percent of GDP)**

| | 2003 | 2004 Est. | 2005 Proj. |
|---|---|---|---|
| C.A.R. | 5.0 | 5.6 | 5.8 |
| Cameroon | 5.8 | 5.9 | 5.9 |
| Chad | 4.8 | 3.5 | 3.2 |
| Congo, Rep. of | 5.8 | 5.4 | 4.8 |
| Equatorial Guinea | 1.8 | 1.2 | 1.4 |
| Gabon | 6.5 | 5.9 | 5.3 |
| CEMAC average | 4.9 | 4.4 | 4.1 |
| Sub-Saharan Africa | 7.7 | 7.7 | 7.8 |

**Net recruitment also accounts for part of the increase in the wage bill.** The largest percentage increase was in the defense ministry (armed forces and gendarmerie).

**Evolution of the Components of the Wage Bill, 2003-04**
**(In percent)**

| | Share | Annual Change |
|---|---|---|
| Base salary | 69.2 | 9.1 |
| Benefits and bonuses | 22.2 | 19.9 |
| Family allowance | 5.8 | 21.4 |
| Retroactive adjustments | 1.6 | 37.1 |
| Other allowances | 1.3 | 31.6 |
| Total | 100.0 | 12.9 |

**Size of the Public Administration**

| | 2003 | 2004 | Percentage Change |
|---|---|---|---|
| Permanent staff | 21,512 | 23,201 | 7.9 |
| Civil servants | 15,283 | 15,991 | 4.6 |
| Armed forces and gendarmerie | 6,229 | 7,210 | 15.7 |
| Contractual staff | 2,874 | 3,068 | 6.8 |
| Total | 24,386 | 26,269 | 7.7 |

Sources: Central African authorities; and WETA database

[1] Most notably, a 25 to 30 percent reduction of annual salaries in excess of CFAF 300,000 (about US$550).

16. **The government also made some advances on governance issues.** A new organizational structure for the Ministry of Justice, including a financial unit, was introduced in mid-2005 after some delays. The financial unit is expected to strengthen the government's

ability to prosecute corruption cases, and defend the financial interests of the state in legal disputes, both areas where the authorities have acknowledged weaknesses in the past. Transparency has also been enhanced through wider and regular publication of information on fiscal revenue and expenditure, as well as on the allocation of permits in the mining and forestry sector, with the latter being allocated in a competitive bidding process.

## IV. Macroeconomic Outlook: Modest Rebound Under the Baseline Scenario

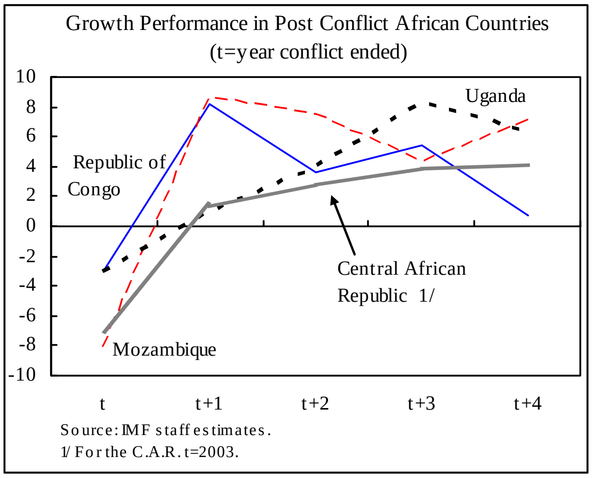
17. **The C.A.R.'s short-term outlook is predicated on a modest increase of real GDP of 2¼ percent in 2005.** Project financing from donors has started to pick up, which should accelerate infrastructure spending, and diamond mining and agricultural activity are projected to rise. Consistent with developments through July 2005, inflation is expected to return to its historical range of 2-3 percent, in line with the CEMAC trend level. The trade balance is expected to remain largely unchanged in 2005 as both imports and exports pick up, with the projected reduction of ½ a percentage point of GDP in the external current account deficit (to 4 percent of GDP) reflecting in particular a mild increase in remittances and some improvement in the services account.

18. **The medium-term outlook for the economy is clouded by a number of factors:**

- **Destruction of the physical capital base.** The long legacy of conflict has led to the destruction of much of the country's physical capital and the disappearance of most of the industrial sector.[4] The resulting capacity constraints suggest a limited near-term growth potential for industry.
- **High transport costs.** The continued banditry in rural areas, coupled with the terrible state of infrastructure, have raised transport costs and hampered the recovery of trade, undermining the development of markets in food products and dampening the recovery of cash crop production. Infrastructure improvements will be crucial, but the gains would only be realized gradually over time.
- **Deterioration of human capital.** The country's history of poor governance, ineffective public spending, and disruptions in the educational system have undermined human capital, and led to a deterioration in institutional capacity and educational achievement. An additional obstacle is the high and rising prevalence of HIV/AIDS. These factors have had an immense human cost and also seriously weakened public administration and prevented the development of a skilled labor force.

[4] It is estimated that more than two-thirds of manufacturing enterprises have disappeared since the early 1990s. The Industrial Production Index has been dropped because most of the component enterprises have closed.

19. **Given those circumstances, economic growth in the C.A.R. is expected to reach 3½ percent in 2006 and remain in the range of 3½-4 percent over the medium term.** This baseline scenario represents a more muted recovery than that observed in many other post-conflict countries and, as outlined below, hinges on the country's making steady progress in reforming the economy and enhancing security, both of which are critical for improving the environment for private sector activity and, hence, for increasing investment and savings. The balance of payments is expected to remain broadly unchanged over the medium term, with higher investment-related imports offsetting a gradual rebound in exports (Table 7). The forestry sector has been a key growth area, but is expected to reach the limit on sustainable harvesting within four to five years, underlining that other sectors will need to pick up the slack. Consistent with a return to stability of public finances, fiscal policy would aim at a reduction in the overall deficit, including grants, of about 1 percent of GDP over the 2005-08 period, predicated on a gradual improvement in revenue and restraint on spending not financed by donors. The annual financing gap over the medium term is projected at around 3 percent of GDP and corresponds to external debt service due and is anticipated to be financed by the accumulation of external arrears except to the Fund.[5]




20. **There are risks to the baseline scenario**. **A high–case scenario** based on an acceleration of the reforms discussed below shows a sizable increase in investment—higher donor support paired with a "crowding in" of private investment—and an improvement in public finances, which would permit a boost in priority spending. As a result, growth would accelerate to 5½ percent in 2006 and beyond, resulting in per capita income growth of close to 3 percent. In **a low–case scenario,** poor policy performance would result in a further drop in investment levels. Weaker revenue collection combined with lower donor assistance would result in a deteriorated public finance position as well as lower priority spending. Domestic arrears would increase rapidly. Real GDP growth would hover around 1 percent, implying a further erosion in people's standards of living and greater uncertainty about political stability.

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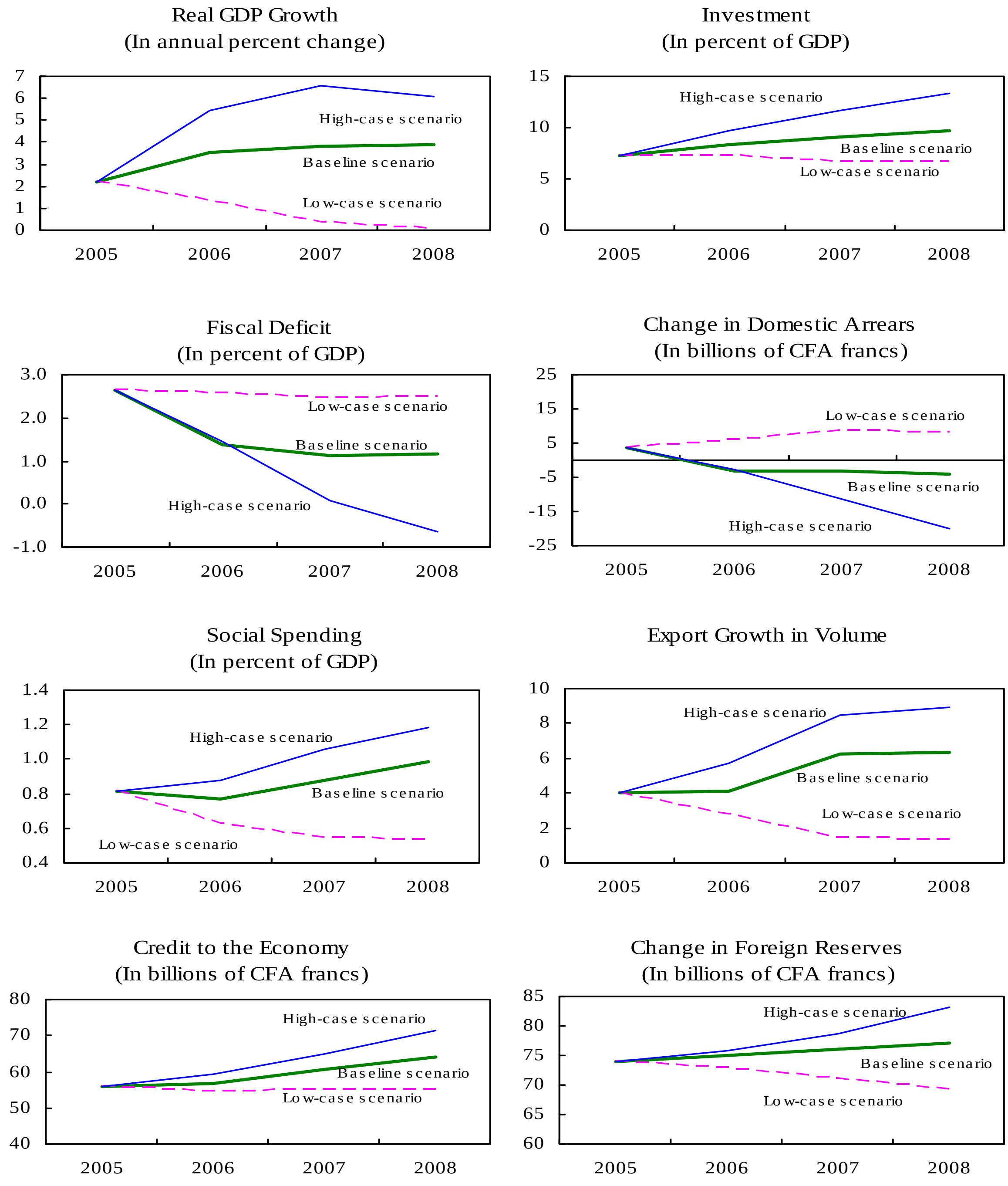
[5] The gap in 2005 also includes about ½ of one percent of GDP in undisbursed budgetary support from donors conditioned on the presence of a Fund-financed program.

Alternative Macroeconomic Scenarios, 2005–08




Source: IMF staff estimates and projections.

## V. Policy Discussions

21. **The authorities underlined that, with the electoral process complete, they could focus their attention on rehabilitating the economy**. They highlighted the significant achievements made on the security front and in concluding the electoral process, to which they had given priority up to May 2005. But these activities weighed heavily on the authorities' ability to advance the economic reform agenda and achieve concrete results under the EPCA program.

22. **The views of the authorities and the staff diverged on the appropriate timing of greater international support and policy reforms.** The authorities—and civil society—fully anticipated a sizable increase in international assistance following the elections. They considered increased aid essential to jump-starting the economy, rehabilitating public finances, and improving the performance of the administration, which would, in turn, engender greater domestic political support for subsequent economic reforms. The authorities generally shared the staff's view on the medium-term outlook but considered it fully conditioned on the level of international support, including an early move to a program supported by the Poverty Reduction and Growth Facility (PRGF).

23. **The staff welcomed the authorities' greater focus on economic issues but stressed the urgency of implementing sound policies to address the country's tremendous difficulties and attract international support.** The staff agreed that significant international support was necessary to accompany the recovery, and noted that the significant delays in the provision of technical assistance due to procedural obstacles on the part of donors were one reason why the results of the EPCA program were not more encouraging. Nonetheless, without action by the authorities to place public finances on a sustainable footing and firmly confront governance issues, international aid—including from the IMF—would be lower and most likely ineffective.

24. **In this context, the discussions focused on the actions the C.A.R. should take in the near term to stabilize the fiscal situation; the reforms needed to fight corruption and improve the private sector climate; and the possibility of future IMF support.**

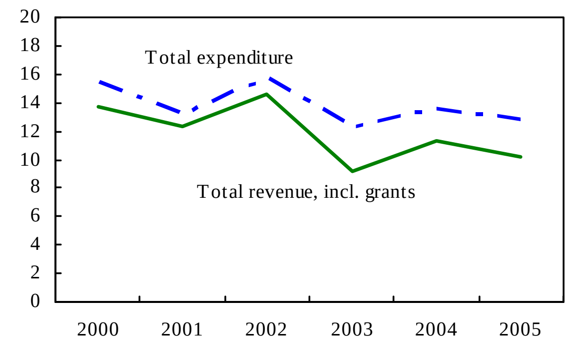
### A. Macroeconomic and Financial Policies

#### Fiscal policy: Bridging the gap between current spending and revenue

25. **The authorities recognized that the severe weaknesses in public finances were at the heart of the country's economic ills.** Poor or nonexistent public services, a very narrow tax base that squeezes the formal sector, and sizable arrears to civil servants and domestic suppliers are the legacy of a long period of poor public finance management and have contributed to the C.A.R.'s intermittent political instability.

26. **The overall deficit on a commitment basis (including grants) is projected to widen to 2¾ percent of GDP in 2005.** Total expenditure commitments are expected to be 1 percentage point of GDP lower than in 2004, even accounting for the higher wage bill commitments. However, a decline of almost 2 percent of GDP in donor budgetary grants paired with only a small increase in revenue (about 0.2 percent of GDP) implies the deficit will rise. The authorities are trying to identify additional grants that would obviate the need for additional bank financing or the further accumulation of arrears. The staff noted that the projected deficit for 2005 is now almost 1½ percent of GDP higher than the objective agreed with staff earlier in the year, and which was reflected in the 2005 budget. Moreover, the nonsalary expenditure envelope was extremely tight and that further salary arrears were likely if additional financing did not materialize.

Revenue and Expenditures, 2000–05
(In percent of GDP)




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

27. **The staff stressed that the public sector wage bill has dominated public finance policy.** The authorities are now confronted with the dilemma that the timely payment of wages is their principal policy priority, but this goal has become increasingly difficult to achieve as the wage bill continues to rise while revenue stagnates. The staff stressed that reductions of about 1 percent of GDP on an annual basis in the wage bill were needed to bring it in line with the government's resources and assure that a minimum amount of resources is available to finance essential non-salary spending. The staff proposed immediate measures to reduce allowances, accelerate retirements,[6] and introduce cuts in some of the higher salary bands not subject to reductions in 2004, while urging the authorities to initiate the time-consuming task of cleaning up the payroll files. The staff noted that the full-year impact of many of these measures would only be realized in 2006, and thus the target on the wage bill for 2005 was likely to be exceeded by a wide margin.

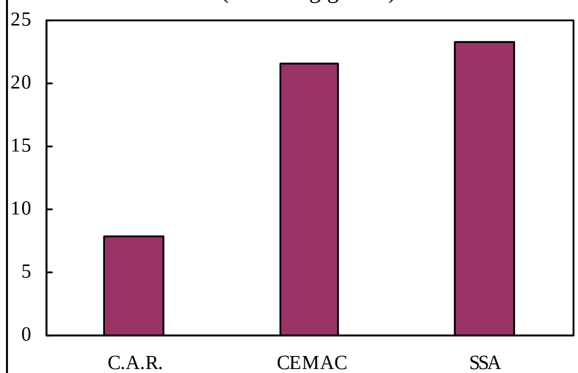
28. **While underlining their commitment to reduce the inflated wage bill, the authorities expressed concern about political fragilities.** Citing the disruptions prompted by the moderate salary reduction adopted in early 2004, they noted that drastic measures to cut salary expenditures could be politically destabilizing. Their preference has been to undertake a census of civil servants as a means of identifying anomalies in the payroll files. This work is ongoing and although a number of anomalies have been identified, possible savings remain unclear. The staff welcomed this initiative, but noted that similar efforts had not proved successful in the past. The authorities have also started to accelerate retirements,

[6] Savings from an acceleration of retirements will be partly offset by an increase in pension obligations. The average pension represents about 45 percent of the average salary.

and indicated their intention to freeze recruitment for at least one year.[7] The authorities are examining ways of strengthening payroll management. One option they are considering is to transfer the management of the computerized payroll database to a private operator; corruption in the public agency responsible for managing this database has reportedly been a key source of anomalies in the payroll.

29. **Raising public revenue remains a critical challenge for the authorities.** At about 8 percent, the C.A.R.'s revenue-to-GDP ratio ranks among the lowest in Sub-Saharan Africa, mainly because of the contraction of the formal sector, weak administration, and corruption and fraud. Given the weak revenue outturn through the first semester of 2005, achieving the targeted increase in the revenue-to-GDP ratio for the entire year will require a concerted effort. The authorities acknowledged that these problems were chronic, but cited gains, including some progress in controlling customs fraud. Their progress is partly attributable to the implementation, albeit delayed, of a number of measures in the EPCA program. In addition, the authorities are curtailing tax exemptions and exceptional customs clearance procedures, and are considering measures to address revenue shortfalls linked to widespread smuggling by the informal sector. However, even with better controls, smuggling is expected to remain a serious challenge as economic operators attempt to evade tariffs that rise to 30 percent for consumption goods (see para. 42). On domestic tax administration, improvements will continue to focus, in line with the FAD technical assistance recommendations, on boosting controls and tightening verification procedures.

Fiscal Revenue as Share of GDP, 2004
(Excluding grants)




Source: IMF, WEO/Economic Trends in Africa database, 2005.

30. **The authorities agreed with the staff that using petroleum tax reductions to limit a pass-through of world oil prices had undermined the revenue base**.[8] While acknowledging the sensitivity of this issue, the staff encouraged the authorities to examine ways to mitigate this effect, notably by raising retail prices. The staff noted that the impact on

[7] Except in the gendarmerie, for which recruits have already been identified.

[8] Under the current administered price system, higher world oil prices have a negative impact on tax receipts in the absence of changes in domestic retail prices of petroleum products because the specific tax on petroleum products is lowered to offset the increase in the world price. The authorities have not adjusted retail prices since 2000. This issue has recently become more urgent, with petroleum tax revenue now close to zero. The increase in prices thus far in 2005 has led to a loss in revenue of about ½ of 1 percent of annual GDP.

the poor could be mitigated by containing any increase in the price for kerosene, a key household good of the poor.

31. **On public expenditure management, the staff underlined that expenditure controls and monitoring remained very weak**. As a result, the authorities have often exercised spending restraint through cash rationing. They have been working closely with an FAD expert to reform the system and ensure that most spending will have a corresponding budgetary allocation and be in compliance with regulated expenditure procedures.

32. **The authorities recognized the importance of finding a lasting solution to all government domestic arrears, including to civil servants and suppliers.** An ongoing investigation, with the assistance of a World Bank consultant, is identifying the government's domestic arrears, which preliminary estimates suggest amounted to about 30 percent of GDP at end-2004.[9] The authorities are committed to finalizing a strategy in early 2006 for eliminating the stock of domestic arrears and will seek assistance from donors to clear them. This strategy could include a significant discount on the payment of many of these claims.

**Continuity in monetary policy and reducing strains in the banking sector**

33. **Monetary and exchange rate policy is conducted at the regional level by the BEAC, whose main objective is price stability.** The authorities and the staff agreed that the institutional arrangement has proved helpful in maintaining low inflation and providing some policy certainty in an otherwise difficult macroeconomic situation (see para. 45 for a discussion of real exchange rate and competitiveness issues).

34. **The authorities are currently negotiating an exceptional central bank advance to help them meet current obligations.** They negotiated a similar advance of 1½ of GDP last year.[10] The staff expressed strong reservations about this operation, urging the authorities to exhaust all possibilities of grant financing from donors and regional partners before contracting such expensive debt. To this end, the staff strongly encouraged the authorities to use any available foreign budgetary grants to reimburse this advance.

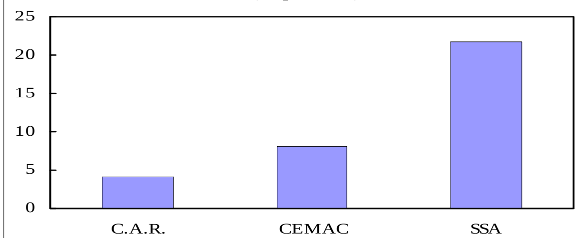
[9] Roughly half of these arrears are owed to suppliers of goods and service; one-third are salary arrears; and the remainder are due primarily to domestic financial institutions. Box 2 of Country Report No. 04/159 discusses the origin and composition of the C.A.R.'s domestic arrears.

[10] These advances carry an annual interest rate of 10 percent with a maturity of three years. Last year's advance was guaranteed by other members of the CEMAC zone and the first installment of interest and principal payments on that advance has been deferred from July 2005 until January 2006.

35. **The staff noted that due to the government's dependence on commercial banks' resources, the liquidity situation in the banking sector remained tight.** As a result, the monetary authorities have maintained the suspension of reserve requirements for Central African banks introduced in mid-2003. The staff encouraged the authorities to limit further strain on banks' liquidity so as to prevent a crowding out of private sector credit. The staff also encouraged the authorities to be vigilant in supervising banks' compliance with prudential regulations. The authorities acknowledged the delay in recapitalizing one problem bank, which met only one of the nine prudential ratios in the CEMAC, but underlined their intention to address this issue.

36. **Access to financial services in the C.A.R. is very limited,** with total bank deposits representing only 4 percent of GDP. The authorities indicated their intention to improve the population's access to financial services, in particular by strengthening the microfinance sector, in partnership with donors.

Deposits in Banks to GDP, 2004 1/
(In percent)




Sources: BEAC; and IMF staff estimates.
1/ Fgures are preliminary.

## B. Governance and Structural Reforms: Improving the Effectiveness of the State and the Climate for the Private Sector

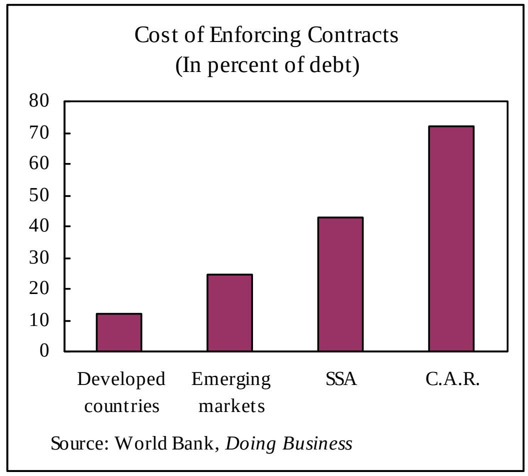
### Tackling corruption

37. **The authorities recognize that the economic revival of the country hinges on improving the functioning of the state and the climate for private sector investment, and progress in both these areas depends, in turn, on more effectively fighting corruption.** While agreeing that this would take time, the staff emphasized that the need for progress was urgent and encouraged the authorities, in particular, to strengthen the judiciary and enhance transparency. The authorities indicated their intention to adequately staff and equip the newly-created specialized financial units within the Ministry of Justice. They underlined the dire lack of resources and technical expertise at the ministry and were seeking appropriate donor assistance. The staff welcomed the authorities' publication of revenue and aggregate expenditure data, and encouraged them to widen this information to include, for example, data on the composition of expenditure, which could foster greater accountability of public officials responsible for key expenditure items.

38. **The authorities have also committed to reforming weak public procurement practices, which potentially engender corrupt practices.** The staff welcomed the authorities' initiative to seek World Bank expertise in identifying reform measures in line with international best practices. The objective is to enhance the transparency and predictability of public procurement and reduce the discretionary power of the state.

**Improving the business climate**

39. **The staff encouraged the authorities to consider ways to reduce the cost of doing business in the country**. Aside from poor governance, the C.A.R. rates very poorly in the World Bank's *Doing Business* report, notably regarding labor market flexibility, the time needed to set up a business, and the cost of enforcing contracts.[11] The staff underlined that recent work by the World Bank's Foreign Investment Advisory Service emphasized that advancing private sector development reforms in tandem with—rather than following—capacity-building efforts would enhance the prospects for a strong economic recovery following a conflict.




40. **The authorities will continue to reform the natural resource sectors.** In the forestry sector, they are now expanding inspections—carried out by an independent inspection agency—of logging activities to deter smuggling and improve the payment of stumpage fees and taxes. The authorities will also widen the information published on the sector to include export activities and taxes paid. They are hopeful that, with the renewed interest of foreign companies, the medium term prospects of the mining sector will improve. With regard to the chronic problem of tax evasion in the sector, the authorities are determined to strengthen the capacity of the office of diamond and gold valuation and control to value diamonds more accurately and fight smuggling. They will continue to abide by the certification requirements of the Kimberley Process.

41. **The authorities agreed with the staff on the need to address public enterprises' severe financial and operational difficulties**. Toward this end, they are considering privatizing the billing and collection services of the electricity and water utilities. Each company bills only half of total production to consumers because of theft and losses, and collects only about half its billings in payments. The combined losses of the three largest public enterprises—the electricity and water companies, plus the telecommunications company—represented about 0.7 percent of GDP in 2003.[12]

[11] See Chapter II on governance in the forthcoming Selected Issues paper.

[12] More recent data is unavailable. The measure of the fiscal deficit presented in this report covers only the central government, and does not include public enterprises.

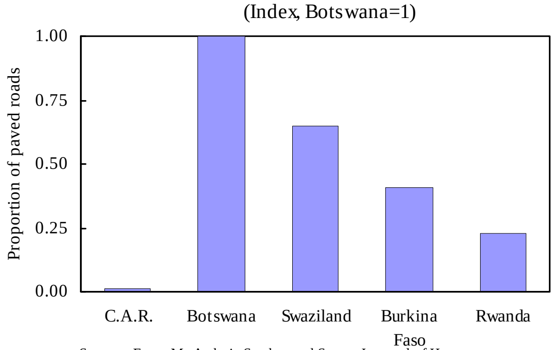
## C. Boosting Trade and Enhancing Competitiveness

42. **As a member of the CEMAC, the C.A.R. applies a common external tariff to imports from countries outside the zone.** Four rates are applied—5 percent for essential goods, 10 percent for raw materials and investment goods, 20 percent for intermediate goods, and 30 percent for consumer goods—and the weighted average tariff is estimated at about 15 percent.[13] Imports of goods produced in CEMAC countries are not subject to tariffs. A few quantitative restrictions remain, the most important being on the import of sugar.

43. **The authorities agreed with the staff on the importance of trade liberalization and regional integration in the context of the CEMAC**. The staff underscored the potential benefits to the C.A.R. of a reduction in the region's common external tariff (CET) and stressed that the authorities needed to renew their efforts to strengthen the application of regional trade regulations, including on the classification and attribution of goods to the relevant tariff categories. The authorities noted that they are well aware of the distortions introduced by a preferential regime for regional trade, and that a drop in the CET would provide important economic benefits, although they expressed some concern about the possible decline in fiscal revenue should the CEMAC lower its external tariff.

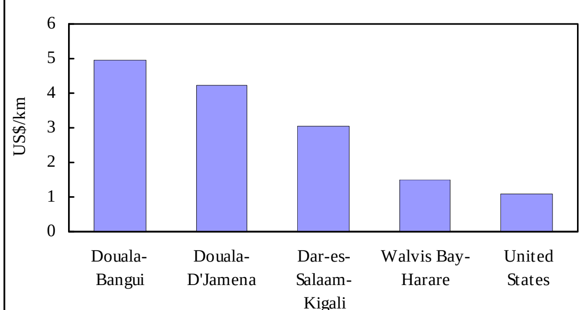
44. **The authorities recognize that high transport costs represent a major obstacle for exporters in their efforts to access regional and international markets.** In particular, the quality of the C.A.R.'s roads as measured by, for example, the ratio of paved to total roads, is very low compared to other African countries. The staff underscored that, if transport costs are not lowered, economic recovery is likely to be muted. With a view to facilitating trade, including in the traditional export sectors (Box 2), the staff encouraged the authorities to seek further donor support and collaborate with their CEMAC neighbors to rehabilitate land and river transport infrastructure.[14]

Quality of Roads in Selected African Landlocked Countries (Index, Botswana=1)




Source: Faye, McArthuir, Sachs, and Snow, Journal of Human Development, 2004.

Estimated Unit Road Transport Cost per Container for Selected African Routes and the United States




Source: Review of Maritime Transport, UNCTAD 2003.

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[13] The average effective tariff—as measured by the ratio of import taxes collected to total imports—is about 9 percent.

[14] See Chapter III in the forthcoming Selected Issues Paper.

## Box 2. Cost Structure in the Cotton Sector

**The cotton sector in the C.A.R. has all but disappeared in recent years.** After exceeding 40,000 tons in 1998, cotton production bottomed at about 1,500 tons in 2003, in part because of the various conflicts, but also because of low international prices, high transport costs, and an inefficient parastatal. The sector had previously played an important role in boosting cash incomes in rural areas, and the authorities consider it to be an important potential contributor to economic growth and poverty reduction.

**The staff noted that the sector was currently uncompetitive, and counseled prudence if the authorities were to consider committing public resources to the rehabilitation of the sector.** Losses are inevitable at current world prices and taking into account the C.A.R.'s high transport costs. As illustrated by the cost structure for the 2003/04 season (production level of 1,500 tons), at low production levels, the average unit cost far exceeds the export price. The resulting losses have been absorbed by the now-bankrupt cotton parastatal and through nonpayment to farmers. While many ginning and other costs are fixed and will decline significantly as production increases, transport costs are very large and mostly variable.

C.A.R. Cotton Cost Structure 2003/04 1/
(In CFAF per kilogram)

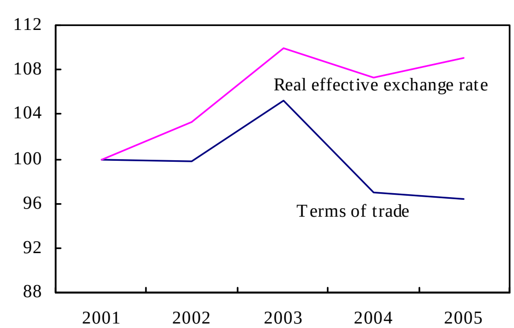
| | |
|---|---|
| Average producer price of seed cotton | 121 |
| Ginned cotton equivalent price 2/ | 285 |
| Ginning and sales cost | 100 |
| Other cost | 171 |
| Transport cost 3/ | 177 |
| Freight, insurance, and other charges | 94 |
| Average total cost | 827 |
| Average export price | 634 |
| **Average loss** | **193** |

Source : C.A.R. authorities.

1/ On the basis of a production level of 1,500 tons
2/ With 0.425 ginning productivity
3/ Includes international and domestic land transport as well as minor transaction costs

45. **The authorities and the staff agreed on the importance of improving the competitiveness of the C.A.R. economy.** The C.A.R.'s real effective exchange rate remains 25 percent below its level prior to the 1994 devaluation of the CFA franc, although a continuation of the decline in the terms of trade observed in recent years could eventually pose overvaluation concerns. In light of the fixed exchange rate regime, the staff stressed the need for flexibility in labor and product markets—including easing rules on hiring and firing and reducing licensing requirements—to enable them to better adjust to shocks and maintain competitiveness. Strengthened security, as well as structural reforms to reduce input costs faced by producers, will also be essential.

Real Effective Exchange Rate and Terms of Trade, 2001–05
(1991=100)




Source: IMF, IFS database.

## D. External Debt and Arrears

46. **Given its difficult fiscal position, the C.A.R. has not been servicing its external debt, except to the IMF,[15] since 2001 and has thus continued to accumulate external arrears to both bilateral and multilateral creditors**. The stock of external arrears at end-2004 is estimated at about US$335 million (25 percent of GDP). Normalization of relations with external creditors will require a comprehensive arrears clearance plan, including with the World Bank and the African Development Bank (AfDB). The authorities have, as a first step, started to verify with their creditors the stock of debt outstanding and of arrears at end-2004. They also have exchanged views with some creditors on the possible profile of arrears clearance operations. The authorities agreed with the staff that all external financing should be in the form of grants, although they have recently contracted some interest-free loans. The staff urged the authorities to seek more support to improve their debt data management.[16]

External Debt Indicators, end-December, 2004

| | |
|---|---|
| NPV of external debt | |
| In percent of exports | 531.8 |
| Debt-service-to-exports ratio | |
| In percent | 21.8 |
| Total stock of external arrears | |
| In millions of U.S. dollars | 335.5 |
| *Of which:* multilateral debt | 105.3 |

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

47. **The debt sustainability analysis in Appendix IV clearly shows that the C.A.R.'s external debt situation is unsustainable.** For end-2005, the net present value (NPV) of the ratio of its debt to exports is projected at about 480 percent and would decrease only marginally to 435 percent under the assumption of traditional debt–relief mechanisms (Appendix IV, Table 3). All key debt ratios in both the baseline and alternative scenarios are above the policy-dependent indicative thresholds[17] and as such, the country can be classified as "in debt distress" as further evidenced by the accumulation of external arrears. The C.A.R. could be eligible for debt relief under the Highly–Indebted Poor Country (HIPC) initiative but would have to establish a good track record of policy performance and make satisfactory progress in its poverty reduction strategy.

[15] The C.A.R. has made net repayments to the Fund of about SDR 3.3 million in 2005; it received net disbursements from the Fund of SDR 3.9 million in 2004.

[16] Including funding and technical expertise to upgrade their software for managing debt data, which has become outdated.

[17] The C.A.R. is ranked in the bottom quintile of the World Bank's Country Policy and Institutional Assessment (CPIA) rating.

### E. Future Fund Support: Creating the Necessary Conditions

48. **In this setting, a key theme of the discussions was the conditions necessary for additional Fund financial support.** The staff indicated that given the C.A.R.'s continued weak administrative and institutional capacity, further support under the Fund's EPCA policy would be more appropriate at this stage than a PRGF-supported program.[18] The staff underlined that addressing the fiscal slippages and implementing key governance and structural reforms, including those measures outstanding from the first EPCA program (Table 6) would be necessary to proceed with another post-conflict program. Specifically on public finances, given that corrective measures were only being implemented in the latter part of the year, several of the end-year fiscal targets for 2005 were not likely to be achieved. Thus, staff indicated that satisfactory progress would entail meeting the revenue target—which would require additional revenue measures, including on petroleum prices and tax exemptions; maintaining restraint on non-salary spending; and introducing measures that will yield savings on the wage bill of 1 percent of GDP on an annual basis. Looking further ahead, the staff emphasized that the C.A.R. should establish a good track record of policy implementation and improve capacity to be able to move ahead with a PRGF-supported program. In addition, the C.A.R. would need to avoid accumulating domestic arrears, reduce the delays in the implementation of structural reforms, make progress on a draft poverty reduction strategy paper (PRSP), normalize relations with its external creditors, and finalize a strategy to settle its domestic arrears.[19] The staff underlined the importance of the authorities continuing to meet their obligations to the Fund in a timely manner.

## VI. Social Sectors and the PRSP

49. **Despite some improvement over the past year, the social sectors are in a dire condition with services absent in many parts of the country**. In recent years, the C.A.R. has lost ground in terms of meeting the Millennium Development Goals (MDGs—Table 10). Health indicators, in particular, have deteriorated, with life expectancy over the past decade declining by an average of six months every year. The authorities have expressed a strong commitment to reverse this situation, including by extending the fight against HIV/AIDS with the support of donors. Also, they are determined to provide the appropriate incentives for qualified education and health personnel to relocate to the provinces.

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[18] To be eligible for EPCA support, a country must demonstrate an urgent need for help in meeting essential current payments; a disruption to the country's institutional and administrative capacity so that the member is not yet able to develop and implement a comprehensive program that could be supported by a Fund arrangement; sufficient capacity, nonetheless, for policy planning and implementation, and demonstrated commitment on the part of the authorities; and a concerted international effort to address the aftermath of the conflict in a comprehensive way.

[19] The latter point is intended to ensure that an increase in donor assistance accompanying a PRGF does not induce a surge in domestic claims on public resources.

50. **The authorities have made progress in preparing the PRSP.** With the support of the United Nations Development Program (UNDP), workshops were conducted across the country to ensure the widest possible participation. Sectoral strategies have also been elaborated with education, health (including HIV/AIDS), infrastructure, and food security identified as priority intervention areas. The authorities will collaborate closely with the World Bank to consolidate the participatory process and put in place a monitoring and evaluation mechanism. They intend to finalize the PRSP by the first quarter of 2006.

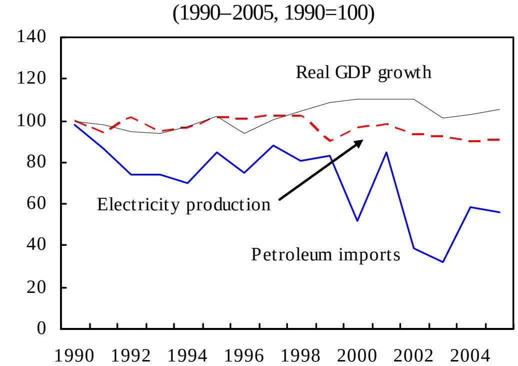
## VII. Donor Coordination, Technical Assistance, and Statistical Issues

51. **The donor community is working with the authorities to identify areas for project and budgetary support**. During the first half of 2005, France and China have provided some budgetary support. In addition, France and the European Union have signaled their intention to provide additional budgetary support in the context of a credible macroeconomic framework. These and other donors have been providing much-needed project financing to priority sectors. This support is expected to increase, and since the elections, efforts have been made to widen the circle of donors.

52. **The authorities and the staff considered that an acceleration and better coordination in the provision of technical assistance (TA) were essential to meet the C.A.R.'s still vast needs in almost all areas of economic management and governance** (Box 3)**.** Its priority needs are tax and customs administration, public expenditure management (PEM), the judicial system, statistics, and the PRSP process. In the public finance area, the Fund has been active in tax administration, PEM, and treasury management.

53. **The statistical database in the C.A.R. remains weak and is minimally adequate for surveillance purposes** (Appendix III). While the African Development Bank is leading the effort to improve the country's statistical capacity, the Fund has provided TA in government finances and the real sector, which lacks reliable source data. The staff expressed the view that the national income estimates could be significantly overstated, not fully reflecting the sizable contraction in activity in key sectors—notably manufacturing—observed over the past 15 years that is suggested by, for example, reduced energy consumption.

Real GDP, Petroleum Imports, and Electricity Production, (1990–2005, 1990=100)




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

**Box 3. Donor Technical Assistance, 2005-2006**

| Donor | Areas of intervention | Status |
|---|---|---|
| **World Bank (LICUS)** | • Census of domestic arrears<br>• Public sector payroll (evaluation of FURCA)<br>• Customs and tax enforcement<br>• Treasury Department<br>• PRSP participation, prioritization, monitoring, evaluation<br>• Macroeconomic advisor<br>• Computer systems TA 1/<br>• Mining and justice sectors 1/ | Ongoing for 4 months<br>Ongoing for 4 months<br>Ongoing for 4 months<br>Ongoing for 4 months<br>To start in 2005 for 12 months<br>To start in 2005 for 9 months<br>2006<br>2006 |
| **European Union** | • Interconnection of the Sydonia system in the CEMAC<br>• Expert to support the *Inspection générale des finances*<br>• Customs: One advisor and two experts.<br>• Sector specialists in customs, tax, treasury, and IGF<br>• Training and equipment for Ministry of Finance: | To be completed in 2005<br>To start in 2005 for 6 months<br>To start in 2005<br>2006<br>2006 |
| **France** | • Military assistance and training<br>• Ministry of Finance and treasury department<br>• Statistical capacity and projections | Ongoing<br>Ongoing<br>2005-07 |
| **UNDP** | • PRSP preparation, including observatory and pluriannual statistical development plan<br>• Financial governance and transparency | Ongoing<br>Ongoing |
| **FAO** | • Rehabilitation of statistics in agriculture | Before end- 2005 |
| **African Development Bank** | • Institutional support for econ. management and the PRSP<br>• Support for economic and social statistics | 2006<br>2006 |

1/ Contingent on approval of a second LICUS allocation.

## VIII. STAFF APPRAISAL

54. **The C.A.R. has managed its political transition commendably.** The recent peaceful elections with wide participation provide a hopeful sign that, despite the C.A.R.'s fractious political history, sufficient stability could set in that would permit the authorities to address more firmly the country's dire economic and social situation.

55. **The economic challenges the authorities face are profound.** The steady ratcheting down of economic activity over the years has left the economy with limited scope to rebound, at least in the short term. A more effective provision of public goods paired with an environment more conducive to private sector activity will be essential to launch economic growth.

56. **International assistance will play an important but complementary role in helping the C.A.R. move forward.** A significant ramping up of technical assistance, greater support to the social sectors, and substantial infrastructure investment will be key elements of any economic recovery. However, international support will be ineffective unless the authorities are able to implement sound policies and better manage public resources. Additional support under the Fund's EPCA policy would be appropriate once the authorities demonstrate the ability to implement sound policies in the post election environment.

57. **Greater stability in public finances, starting with the public sector wage bill, is crucial.** With poor revenue performance and a swelling wage bill, the provision of public goods has been subordinated to the payment of salaries. The authorities' commitment to address the problem is welcome. Containing the wage bill and then paying salaries on a timely basis would be a minimum demonstration of financial stability and would allow budgetary aid from donors to finance essential nonsalary current spending. Continued efforts on broader public expenditure management are also needed, including strengthening expenditure procedures and monitoring.

58. **The government's revenue performance has been discouraging, underlining the urgency of reform.** Low revenue has been both a symptom and a cause of the state's unraveling in recent years. Corruption has sapped the effectiveness of the tax agencies and, with insufficient revenue, the state has been unable to meet its basic operating needs. Measures to strengthen the customs and tax administrations and widen the tax base through better controls and reducing fraud on imports will be essential.

59. **The exchange rate arrangement and membership in the regional central bank have provided policy certainty in a difficult macroeconomic situation.** The exchange rate anchor has contributed to low inflation and the central bank is one of the few public institutions in the C.A.R. whose functioning was not severely impaired during the conflict. As measured by the real exchange rate, the C.A.R. has managed to preserve much of the gain from the 1994 devaluation of the CFA franc. To continue using the stability of the fixed rate regime to the economy's advantage, particularly in the face of recent adverse trends in the terms of trade, the authorities need to pursue a sound fiscal policy accompanied by flexibility in factor and product markets—most notably on nominal wages—to better adjust to shocks and strengthen competitiveness.

60. **Boosting the C.A.R.'s competitiveness will also hinge on structural reforms to make the economy more competitive.** In this regard, the authorities should push ahead with trade reform as well as improve security and transportation infrastructure. Enhancing security and transportation networks in rural areas in particular would be instrumental to reducing the costs faced by agricultural producers and exporters. In addition, the authorities should take steps to reduce the cost of doing business in the C.A.R, notably by strengthening the judicial system and improving property rights and contract enforcement.

61. **Continued close supervision of the banking sector is important.** The authorities should be vigilant in supervising banks' compliance with prudential regulations while examining how access to financial services can be increased, notably through microfinance.

62. **Tackling governance problems and corruption will be crucial to strengthening the management of public resources and the climate for private sector activity.** The quality of governance in the C.A.R. has deteriorated with each successive period of political instability. Progress to reverse this trend will take time and require technical assistance from international partners. The authorities have increased the transparency of government operations and should widen these efforts. Anticorruption efforts need to be enhanced and will require committed leadership.

63. **The C.A.R.'s debt situation is unsustainable**. A resolution will require assistance under the HIPC Initiative as traditional debt relief mechanisms will not be sufficient to restore debt sustainability. Hence the authorities should implement sound policies and quickly establish the necessary track record to reach the decision point in order to start benefiting from HIPC assistance. The authorities should remain in contact with external creditors on debt data questions and possible arrears-clearance plans.

64. **The C.A.R.'s very poor social indicators call for a concerted effort from the authorities, in partnership with donors, to improve the delivery of social services.** The rising prevalence of HIV/AIDS poses a further challenge as the authorities struggle to restore social services. The MDGs are a distant goal, but substantial gains can be achieved with an appropriate policy focus and donor support.

65. **To better monitor economic developments, the C.A.R. must improve its statistics.** Information on real sector developments is particularly weak, and restoration of the appropriate data-collecting apparatus should be a priority for the authorities.

66. **There are sizable risks to the C.A.R.'s medium-term outlook**. Despite the successful conclusion of the electoral process, political instability in the C.A.R. is an ever-present concern. The authorities will need to be firm in pursuing sound policies and in resisting pressure from various interest groups. Another potential risk factor would be insufficient international support, which would render it more difficult to achieve an economic recovery and a strengthening of public administration, even over the medium term. Regarding the Fund, the authorities have done a commendable job of honoring their repayment obligations, but repayment risks remain.

67. **Not all the risks are on the downside**. Should the authorities—buttressed by appropriate levels of international support—stabilize public finances, make a serious dent in corruption, and significantly improve the private sector climate, a virtuous circle of more effective public spending and higher levels of private investment could set in, substantially boosting growth over the medium term and leading to a significant rise in incomes and an improvement in social indicators.

68. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

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

| | 2001 | 2002 | 2003 | 2004 | | | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Est. | Prog. 1/ | Rev. 2/ | Prel. | | Proj. | | |
| | (Annual percentage change, unless otherwise indicated) | | | | | | | | | |
| National income and prices | | | | | | | | | | |
| GDP at constant prices | 0.3 | -0.6 | -7.6 | 2.3 | 0.8 | 1.3 | 2.2 | 3.5 | 3.8 | 3.9 |
| GDP at current prices | 3.8 | 2.4 | -4.3 | 4.7 | 0.6 | -0.6 | 4.6 | 6.3 | 6.4 | 6.5 |
| GDP deflator | 3.6 | 3.0 | 3.6 | 2.4 | -0.2 | -1.9 | 2.3 | 2.7 | 2.5 | 2.5 |
| Consumer prices | | | | | | | | | | |
| Yearly average | 3.8 | 2.3 | 4.4 | 0.8 | -2.1 | -2.2 | 2.4 | 2.3 | 2.1 | 2.0 |
| Central government finance | | | | | | | | | | |
| Total revenue | 4.3 | 24.2 | -31.6 | 18.1 | 2.5 | 3.9 | 7.2 | 12.6 | 10.7 | 9.5 |
| Total expenditure | -11.5 | 22.4 | -25.4 | -3.6 | 1.3 | 9.2 | -0.9 | -0.2 | 7.0 | 8.7 |
| Money and credit | | | | | | | | | | |
| Net domestic assets 3/ | 13.2 | 2.9 | -0.1 | 1.2 | ... | 12.0 | 2.6 | 2.8 | 3.1 | 3.1 |
| Domestic credit 3/ | 16.9 | 2.2 | 2.5 | 1.1 | ... | 13.6 | 2.6 | 2.8 | 3.1 | 3.0 |
| Broad money | -1.1 | -4.3 | -8.0 | 5.8 | ... | 14.2 | 2.9 | 6.5 | 7.3 | 7.4 |
| Velocity of broad money (end of period) | 6.5 | 6.9 | 7.2 | 7.1 | ... | 6.3 | 6.4 | 6.4 | 6.3 | 6.3 |
| External sector | | | | | | | | | | |
| Exports, f.o.b. (U.S. dollar basis) | -9.0 | 2.5 | -16.1 | 38.6 | 6.0 | 2.4 | 12.4 | 8.0 | 7.8 | 6.4 |
| Export volume | 4.8 | 0.2 | -29.0 | 29.9 | 5.3 | 2.2 | 4.0 | 4.1 | 6.3 | 6.3 |
| Imports, f.o.b. (U.S. dollar basis) | -9.8 | 16.8 | -5.3 | 18.7 | 18.4 | 16.2 | 12.3 | 13.1 | 7.9 | 3.8 |
| Import volume | -8.1 | 13.9 | -15.5 | 16.9 | 11.8 | 6.9 | 3.4 | 10.7 | 6.8 | 2.7 |
| Terms of trade (U.S. dollar basis) | -11.5 | -0.2 | 5.4 | 5.1 | -4.9 | -7.8 | -0.5 | 1.6 | 0.3 | -1.0 |
| Nominal effective exchange rate 4/ | 5.3 | 3.4 | 4.3 | ... | ... | 1.7 | 0.6 | ... | ... | ... |
| Real effective exchange rate 4/ | 3.3 | 3.3 | 6.3 | ... | ... | -2.4 | 1.2 | ... | ... | ... |
| | (In percent of GDP, unless otherwise indicated) | | | | | | | | | |
| Gross national savings | 5.8 | 5.8 | 1.1 | 3.8 | 2.2 | 1.9 | 3.3 | 4.2 | 5.2 | 6.1 |
| *Of which:* current official transfers | 1.6 | 1.9 | 0.5 | 0.7 | 0.7 | 0.6 | 0.8 | 1.0 | 1.0 | 1.0 |
| Gross domestic savings | 3.9 | 3.9 | 0.1 | 2.2 | 0.1 | -0.3 | 1.1 | 1.6 | 2.5 | 3.5 |
| Government | 0.4 | 0.8 | -1.8 | 0.4 | -1.3 | -2.7 | -1.4 | 0.2 | 0.6 | 0.8 |
| Private sector | 3.5 | 3.1 | 1.8 | 1.8 | 1.4 | 2.3 | 2.5 | 1.4 | 1.8 | 2.7 |
| Consumption | 96.1 | 96.1 | 99.9 | 97.8 | 99.9 | 100.3 | 98.9 | 98.4 | 97.5 | 96.5 |
| Government | 3.2 | 3.9 | 3.1 | 2.3 | 2.6 | 3.2 | 2.4 | 2.4 | 2.7 | 3.0 |
| Private sector | 92.9 | 92.1 | 96.9 | 95.4 | 97.2 | 97.1 | 96.5 | 96.0 | 94.8 | 93.5 |
| Gross investment | 8.4 | 9.0 | 6.0 | 6.7 | 6.8 | 6.1 | 7.2 | 8.3 | 9.0 | 9.7 |
| Government | 3.5 | 4.8 | 2.1 | 2.3 | 2.4 | 2.0 | 2.3 | 2.7 | 2.8 | 3.0 |
| Private sector | 4.9 | 4.2 | 3.9 | 4.4 | 4.4 | 4.1 | 4.9 | 5.6 | 6.2 | 6.7 |
| Resource gap | -4.5 | -5.0 | -6.0 | -4.5 | -6.7 | -6.5 | -6.2 | -6.7 | -6.6 | -6.2 |
| Current transfers and factor income (net) | 2.0 | 1.9 | 1.1 | 1.6 | 2.0 | 2.2 | 2.2 | 2.6 | 2.8 | 2.7 |
| External current account balance | -2.5 | -3.1 | -4.9 | -2.9 | -4.7 | -4.3 | -3.9 | -4.1 | -3.8 | -3.5 |
| Overall balance of payments | -3.9 | -5.0 | -4.7 | -2.7 | -3.1 | -2.8 | -2.8 | -2.2 | -2.4 | -2.3 |
| Central government finance | | | | | | | | | | |
| Total revenue | 8.9 | 10.8 | 7.7 | 8.7 | 7.8 | 8.1 | 8.3 | 8.8 | 9.1 | 9.4 |
| Total expenditure | -13.2 | -15.8 | -12.3 | -12.4 | -12.3 | -13.5 | -12.8 | -12.0 | -12.1 | -12.3 |
| Overall balance (commitment basis) | | | | | | | | | | |
| Excluding grants 5/ | -4.3 | -5.0 | -4.6 | -3.7 | -4.5 | -5.5 | -4.5 | -3.3 | -3.0 | -3.0 |
| Including grants | -0.9 | -1.2 | -3.1 | -1.0 | -1.6 | -2.2 | -2.7 | -1.4 | -1.1 | -1.2 |
| Narrow primary balance 5/ 6/ | 0.3 | 1.0 | -2.1 | -0.6 | -1.3 | -2.7 | -1.3 | 0.5 | 0.7 | 0.7 |
| Basic balance 5/ 7/ | -1.0 | -0.5 | -3.3 | -1.8 | -2.5 | -3.9 | -2.4 | -0.8 | -0.4 | -0.3 |
| External public debt before debt relief | 97.0 | 94.1 | 96.5 | 93.5 | 95.4 | 82.5 | 79.1 | 77.2 | 72.9 | 68.6 |
| Net present value of total debt 8/ | 375.1 | 374.8 | 486.1 | 382.0 | 438.6 | 531.8 | 477.7 | 462.2 | 445.4 | 432.3 |
| Scheduled debt-service ratio 8/ | 14.8 | 24.7 | 30.6 | 23.2 | 27.9 | 21.8 | 20.7 | 19.8 | 19.9 | 20.6 |
| Actual debt-service ratio 8/ | 7.3 | 0.8 | 0.3 | ... | 1.7 | 1.7 | 20.7 | 19.8 | 19.9 | 20.6 |
| Gross official foreign reserves | | | | | | | | | | |
| (in millions of U.S. dollars, end-of-period) | 119.8 | 121.0 | 131.0 | 134.6 | 148.8 | 148.4 | 136.5 | 138.6 | 141.2 | 143.5 |
| (in months of imports, f.o.b.) | 13.6 | 10.9 | 12.4 | 12.1 | 12.0 | 12.0 | 10.9 | 9.5 | 9.0 | 8.8 |
| Nominal GDP (in billions of CFA francs) | 709.2 | 726.2 | 694.7 | 728.5 | 703.6 | 690.7 | 722.3 | 767.8 | 816.8 | 870.3 |
| Exchange rate (average; CFA francs per U.S. doll | 732.4 | 694.8 | 580.1 | ... | ... | 527.6 | ... | ... | ... | ... |

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

1/ Refers to the 2004 EPCA program targets.
2/ Revised on the basis of an October 2004 staff visit.
3/ In percent of broad money at beginning of the period.
4/ For 2005, average of 12-month period ending June 2005.
5/ In line with the 2004 EPCA program, the projections for 2004 include 1 percent of GDP in priority spending financed by grants.
6/ Excludes interest payments, foreign-financed investment, and grants.
7/ Excludes foreign-financed investment and grants.
8/ In percent of exports of goods and services.

Table 2. Central African Republic: Central Government Operations, 2001–08

| | 2001 | 2002 | 2003 | 2004 | | | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Prog. 1/ | Rev. 2/ | Est. | Proj. | | | |
| | | | | (In billions of CFA francs) | | | | | | |
| Revenue | 63.2 | 78.4 | 53.7 | 63.4 | 55.1 | 55.8 | 59.8 | 67.3 | 74.5 | 81.6 |
| Tax revenue | 51.8 | 61.4 | 45.3 | 51.9 | 46.1 | 48.3 | 51.2 | 57.7 | 64.1 | 70.6 |
| Direct taxes | 15.2 | 17.2 | 14.0 | 16.8 | 14.0 | 15.6 | 14.6 | 16.3 | 17.4 | 19.0 |
| Indirect domestic taxes | 24.8 | 33.3 | 20.5 | 24.4 | 22.4 | 22.1 | 25.4 | 28.4 | 32.0 | 34.9 |
| Taxes on international trade | 11.8 | 10.9 | 10.7 | 10.7 | 9.7 | 10.6 | 11.2 | 12.9 | 14.7 | 16.7 |
| *Of which:* taxes on imports | 7.0 | 7.6 | 7.7 | 7.8 | 6.8 | 7.1 | 7.4 | 8.5 | 9.1 | 9.6 |
| Nontax revenue | 11.4 | 17.0 | 8.4 | 11.5 | 9.0 | 7.5 | 8.6 | 9.6 | 10.3 | 11.0 |
| *Of which:* MONUC receipts 3/ | 4.4 | 2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure | -93.6 | -114.6 | -85.5 | -90.2 | -86.7 | -93.4 | -92.5 | -92.4 | -98.8 | -107.4 |
| Current primary expenditure | -51.0 | -57.3 | -58.1 | -57.6 | -55.4 | -66.7 | -61.6 | -55.0 | -58.9 | -63.4 |
| Wages and salaries | -29.2 | -33.1 | -34.5 | -33.0 | -33.0 | -38.9 | -42.0 | -35.0 | -35.7 | -36.5 |
| Transfers and subsidies | -7.2 | -7.1 | -7.3 | -10.1 | -9.4 | -10.0 | -7.9 | -8.2 | -8.9 | -9.7 |
| Goods and services | -14.6 | -17.1 | -16.3 | -14.4 | -13.0 | -17.8 | -11.7 | -11.8 | -14.3 | -17.2 |
| Interest due | -9.8 | -11.3 | -7.9 | -8.5 | -8.5 | -8.5 | -8.4 | -9.9 | -8.9 | -9.1 |
| External | -8.5 | -7.3 | -5.0 | -5.5 | -5.5 | -5.5 | -5.4 | -6.2 | -6.2 | -6.2 |
| Domestic | -1.3 | -3.9 | -2.9 | -3.0 | -3.0 | -3.0 | -3.0 | -3.8 | -2.7 | -2.9 |
| Capital expenditure | -32.8 | -46.0 | -19.5 | -24.1 | -22.8 | -18.2 | -22.5 | -27.4 | -31.0 | -35.0 |
| Domestically financed | -9.7 | -13.5 | -10.5 | -10.1 | -8.8 | -7.7 | -7.3 | -8.2 | -9.9 | -11.9 |
| Externally financed | -23.1 | -32.5 | -9.0 | -14.0 | -14.0 | -10.5 | -15.2 | -19.2 | -21.1 | -23.1 |
| Overall balance, commitment basis | | | | | | | | | | |
| Excluding grants | -30.5 | -36.2 | -31.8 | -26.8 | -31.7 | -37.7 | -32.8 | -25.1 | -24.3 | -25.9 |
| *Of which:* narrow primary balance 4/ | 2.5 | 7.6 | -14.9 | -4.3 | -9.2 | -18.6 | -9.1 | 4.1 | 5.6 | 6.3 |
| Including grants | -6.2 | -8.6 | -21.8 | -7.4 | -10.9 | -15.0 | -19.1 | -10.5 | -9.1 | -10.0 |
| Change in arrears (net; reduction -) | -7.3 | 21.3 | 30.5 | 0.0 | 20.4 | 21.1 | 3.5 | -3.0 | -3.0 | -4.0 |
| Domestic | -15.1 | -4.7 | 6.2 | 0.0 | -2.3 | 2.9 | 3.5 | -3.0 | -3.0 | -4.0 |
| External | 7.8 | 26.1 | 24.3 | 0.0 | 22.7 | 18.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (cash basis) | -37.7 | -14.8 | -1.4 | -26.8 | -11.3 | -16.6 | -29.2 | -28.1 | -27.3 | -29.9 |
| Identified financing | 37.7 | 14.8 | 1.4 | 4.1 | 11.3 | 16.6 | 5.0 | 6.8 | 2.5 | 3.8 |
| External, net | 26.5 | 14.5 | -1.3 | 6.2 | 7.5 | 8.1 | 4.2 | 4.1 | 2.4 | 3.2 |
| Projects | 23.1 | 32.5 | 9.0 | 14.0 | 14.0 | 10.5 | 15.2 | 19.2 | 21.1 | 23.1 |
| Grants | 21.8 | 26.5 | 6.0 | 10.0 | 10.0 | 7.9 | 11.4 | 14.6 | 15.2 | 15.8 |
| Loans | 1.3 | 6.0 | 3.0 | 4.0 | 4.0 | 2.6 | 3.8 | 4.6 | 5.9 | 7.2 |
| Program | 12.2 | 2.3 | 9.1 | 9.4 | 10.7 | 14.8 | 2.2 | 0.0 | 0.0 | 0.0 |
| Grants | 2.5 | 1.0 | 4.1 | 9.4 | 10.7 | 14.8 | 2.2 | 0.0 | 0.0 | 0.0 |
| Loans | 9.7 | 1.3 | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization due | -15.2 | -20.4 | -19.4 | -17.2 | -17.2 | -17.2 | -13.2 | -15.0 | -18.7 | -19.9 |
| External debt relief | 6.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic, net | 11.2 | 0.4 | 2.7 | -2.1 | 3.8 | 8.5 | 0.8 | 2.7 | 0.1 | 0.6 |
| Banking system | 9.1 | 1.0 | 2.9 | -2.1 | 3.8 | 8.5 | 0.8 | 2.7 | 0.1 | 0.6 |
| Bank of Central African States | 8.9 | 2.1 | 2.9 | -1.3 | 4.8 | 9.9 | 1.5 | 1.0 | 0.9 | 0.0 |
| Counterpart to IMF resources | 7.3 | 0.0 | 0.0 | -1.3 | 3.1 | 3.1 | -2.6 | -3.2 | -3.9 | -4.6 |
| Other | 1.7 | 2.1 | 2.9 | 0.0 | 1.7 | 6.7 | 4.0 | 4.3 | 4.8 | 4.6 |
| Commercial banks | 0.2 | -1.1 | 0.0 | -0.8 | -1.0 | -1.4 | -0.7 | 1.7 | -0.8 | 0.6 |
| Nonbank | 2.1 | -0.6 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Residual financing need | 0.0 | 0.0 | 0.0 | 22.7 | 0.0 | 0.0 | 24.2 | 21.2 | 24.9 | 26.1 |
| Memorandum items: | | | | (In percent of GDP) | | | | | | |
| Revenue | 8.9 | 10.8 | 7.7 | 8.7 | 7.8 | 8.1 | 8.3 | 8.8 | 9.1 | 9.4 |
| Expenditure | -13.2 | -15.8 | -12.3 | -12.4 | -12.3 | -13.5 | -12.8 | -12.0 | -12.1 | -12.3 |
| *Of which:* wages and salaries | -4.1 | -4.6 | -5.0 | -4.5 | -4.7 | -5.6 | -5.8 | -4.6 | -4.4 | -4.2 |
| transfers and subsidies | -1.0 | -1.0 | -1.1 | -1.4 | -1.3 | -1.4 | -1.1 | -1.1 | -1.1 | -1.1 |
| goods and services | -2.1 | -2.4 | -2.4 | -2.0 | -1.8 | -2.6 | -1.6 | -1.5 | -1.7 | -2.0 |
| domestically financed investment | -1.4 | -1.9 | -1.5 | -1.4 | -1.3 | -1.1 | -1.0 | -1.1 | -1.2 | -1.4 |
| Balance, commitment basis (deficit -) | | | | | | | | | | |
| Excluding grants | -4.3 | -5.0 | -4.6 | -3.7 | -4.5 | -5.5 | -4.5 | -3.3 | -3.0 | -3.0 |
| Including grants | -0.9 | -1.2 | -3.1 | -1.0 | -1.6 | -2.2 | -2.7 | -1.4 | -1.1 | -1.2 |
| Narrow primary budget balance 4/ | 0.3 | 1.0 | -2.1 | -0.6 | -1.3 | -2.7 | -1.3 | 0.5 | 0.7 | 0.7 |
| Basic balance 5/ | -1.0 | -0.5 | -3.3 | -1.8 | -2.5 | -3.9 | -2.4 | -0.8 | -0.4 | -0.3 |

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

1/ In line with the 2004 EPCA program, the projection for 2004 includes 1 percent of GDP in priority spending financed by grants.

2/ Revised on the basis of an October 2004 staff visit.

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

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

5/ Excludes foreign-financed investment and grants.

Table 3. Central African Republic: Authorities' Indicative Targets, January 1– December 31, 2004

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

| | End–March | | | End–June | | | End–Sept. | | | End–Dec. | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Prog. | Act. | Target met | Prog. | Act. | Target met | Prog. | Act. | Target met | Prog. | Rev. Prog. | Act. | Target met |
| Floor on total government revenue 1/ | 16.5 | 16.1 | No | 30.3 | 30.1 | No | 46.8 | 41.3 | No | 63.4 | 55.1 | 55.8 | Yes |
| Wages and salaries 2/ | 8.3 | 8.9 | No | 16.5 | 18.8 | No | 24.8 | 28.6 | No | 33.0 | 33.0 | 38.9 | No |
| Floor on narrow primary balance 3/ | 1.1 | 0.4 | No | 0.7 | -2.3 | No | -1.2 | -9.3 | No | -5.3 | -9.2 | -18.6 | No |
| Net change in domestic arrears | 0.0 | 2.6 | No | 0.0 | 2.0 | No | 0.0 | 2.4 | No | 0.0 | -2.3 | 2.9 | No |
| Change in net claims of the banking system on the government | 0.0 | -1.6 | Yes | 1.0 | 0.9 | Yes | 1.2 | 4.4 | No | 0.0 | 2.6 | 5.4 | No |
| New nonconcessional external debt 4/ | ... | ... | ... | 0.0 | 0.0 | Yes | 0.0 | 0.0 | Yes | 0.0 | 0.0 | 0.0 | Yes |

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

2/ Including withholding taxes on government salaries.

3/ The narrow primary balance compares revenue on a cash basis (that is, excluding withholding taxes on government salaries, earmarked revenue, and taxes and duties on project-related imports) with total expenditure, excluding interest payments and foreign-financed investment. Objectives for end-September and end-December have been adjusted by CFAF 3.4 billion and CFAF 7.7. billion, respectively, to reflect 1 percent of GDP grant-financed priority expenditure envisaged under the 2004 EPCA program.

4/ Contracted or guaranteed by the government.

Table 4. Central African Republic: Authorities' Indicative Targets,
March 1– December 31, 2005
(In billions of CFA francs; cumulative from January 1, 2005; ceilings, unless otherwise indicated)

| | End-March | | | End-June | | | End-July | | | End-August | End-September | End-December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Obj. | Act. | Target met | Obj. | Act. | Target met | Obj. | Act. | Target met | Objective | | |
| Floor on total government revenue 1/ | 15.0 | 15.8 | Yes | 31.0 | 29.4 | No | 36.2 | 34.1 | No | 39.7 | 42.8 | 59.8 |
| Wages and salaries 2/ | 8.5 | 10.0 | No | 16.8 | 20.7 | No | 19.5 | 24.3 | No | 22.2 | 24.9 | 33.1 |
| Floor on narrow primary balance (cash) 3/ | -1.5 | 0.2 | Yes | -1.0 | 1.5 | Yes | -0.3 | 0.7 | Yes | -1.2 | -2.2 | 0.0 |
| Net change in domestic arrears | 0.0 | 2.3 | No | 0.0 | 8.2 | No | 0.0 | 9.0 | No | 0.0 | 0.0 | 0.0 |
| Change in net claims of the banking system on the government | 1.0 | 2.7 | No | 0.7 | 2.0 | No | 0.0 | 3.3 | No | 0.0 | 0.0 | -0.8 |
| New nonconcessional external debt 4/ | 0.0 | 0.0 | Yes | 0.0 | 0.0 | Yes | 0.0 | 0.0 | Yes | 0.0 | 0.0 | 0.0 |
| Memorandum items | | | | | | | | | | | | |
| Customs receipts (cash basis) | 6.2 | 4.9 | ... | 11.9 | 9.6 | ... | 13.9 | 11.4 | ... | 15.9 | 17.5 | 23.8 |
| Floor on narrow primary balance (commitment) 5/ | -1.5 | -3.1 | ... | -1.0 | -8.6 | ... | -0.3 | -10.3 | ... | -1.2 | 0.0 | 0.0 |
| Net change in domestic arrears on goods and services 6/ | 0.0 | ... | ... | 0.0 | ... | ... | 0.0 | ... | ... | 0.0 | 0.0 | 0.0 |

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

Table 5. Structural Reform Measures under the 2004 Emergency Post-Conflict Program

| Measure | Date | Status |
| --- | --- | --- |
| **Revenue** | | |
| • Introduce a procedure requiring that the customs posts on the Central African Republic borders record on bills of lading the detailed and precise identification on merchandises not clearing customs at the border. | July 2004 | July 2005 |
| • Require the posting of a financial guarantee at the revenue office of the destination to cover the amount of duties pending the transportation within the national territory of any merchandise not clearing customs at the border. | July 2004 | Pending |
| • Give the Large Taxpayers Unit sole authority for the general auditing of all taxpayers included in its portfolio, and give its revenue office responsibility for the entire collection process. | July 2004 | July 2004 |
| • Establish a computer link between the single taxpayer number system software at the Tax Department and the information system of the Customs Department. 1/ | March 2005 | July 2005 |
| **Expenditure** | | |
| • Instruct mobile phone operators to suspend service on all lines except those of the Head of State and members of the government, and restore service on a case-by-case basis. With respect to the national telecommunications company, government consumption should respect the budgeted monthly ceiling. 1/ | March 2005 | Pending |
| **Budget management** | | |
| • Finalize the draft 2005 Budget Law and submit it to the National Transition Council (CNT). | October 2004 | November 2004 |
| • Prepare a monthly cash-flow plan covering the entire year and update the plan on a weekly basis. 1/ | Ongoing | Ongoing |
| **Governance and transparency** | | |
| • Introduce a new organizational structure for the Ministry of Justice, including a specialized financial unit within the Bangui Prosecutor's Office and a State Legal Agency. | October 2004 | July 2005 |
| • Write, disseminate, and explain to all customs personnel a code of conduct on professional ethics based on the model prepared by the World Customs Organization (WCO) and inform the public of this measure. | December 2004 | Pending |
| • Publish each month the forecasts and outcome for the Treasury cash-flow plan, as well as all awards of permits in the forestry and mining sectors. | Ongoing | Ongoing |

1/ Corrective measures identified during October 2004 and February 2005 staff visits.

Table 6. Priority Actions of the C.A.R. Authorities for the Remainder of 2005

**Expenditure**

- Reduce the monthly wage bill by CFAF 600 million.
- Eliminate the recruitment of contractual staff and do not extend the term of existing contracts.
- Transfer the management of contractual staff to the Payroll Office.
- Transfer the processing of electronic civil service data from the national computer agency (ONI) to the Payroll Office.
- Strengthen the monitoring of expenditure on a commitment and payment order basis.

**Revenue**

- Prohibit from operating in the C.A.R. all customs clearing agents that have not paid the CFAF 50 million bond.
- Eliminate, with a minimum of exceptions, suspended clearance procedures and the practice of using fictional warehouses that makes it possible to evade the payment of import duties.
- Suspend, with a minimum of exceptions, the application of the reduced rate on imports for investments and submit all requests for preferential tariff treatment to a review committee comprising the Ministry of Commerce, the tax and customs departments, and the import verification group BIVAC.
- Adopt the measures recommended in the report of the General Inspector of Finances concerning fraudulent CEMAC certificates of origin.
- Increase the number of controls carried out by tax auditors and update the specific goals for each verification team.

**Budget management**

- Prohibit the Treasury from disbursing public funds without a prior payment authorization, with the exception of wages, pensions, legal expenses, and other specified exemptions.

**Governance and transparency**

- Appoint staff to the Special Section (financial unit) of the Bangui Court and the State Legal Agency which are responsible for pursuing corruption cases.
- Make public the information on anti-corruption cases initiated by these entities.

Table 7. Central African Republic: Balance of Payments, 2001–08

| | 2001 | 2002 | 2003 | 2004 | | | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Est. | Prog. 1/ | Rev. 2/ | Prel. | | Proj. | | |
| | | | | (In billions of CFA francs) | | | | | | |
| Current account | -17.8 | -22.7 | -33.9 | -20.8 | -32.9 | -29.4 | -28.4 | -31.3 | -31.2 | -30.7 |
| Balance on goods | 25.6 | 14.3 | 2.2 | 14.8 | -4.8 | -6.6 | -7.3 | -12.4 | -13.5 | -11.7 |
| Exports, f.o.b. | 104.1 | 101.3 | 70.9 | 87.1 | 68.1 | 66.0 | 73.9 | 82.1 | 88.3 | 93.7 |
| *Of which* : diamonds | 41.2 | 36.3 | 28.6 | 34.7 | 28.8 | 27.8 | 31.5 | 34.0 | 36.5 | 37.9 |
| wood products | 45.3 | 49.6 | 34.6 | 39.3 | 29.0 | 28.7 | 31.1 | 35.1 | 36.7 | 38.7 |
| Imports, f.o.b. | -78.5 | -86.9 | -68.7 | -72.3 | -72.9 | -72.6 | -81.2 | -94.5 | -101.8 | -105.4 |
| Petroleum products | -13.5 | -11.0 | -8.1 | -10.5 | -13.4 | -17.8 | -23.9 | -30.7 | -32.8 | -35.3 |
| Public investment program | -4.4 | -8.4 | -5.1 | -5.0 | -4.0 | -1.9 | -4.1 | -5.2 | -5.7 | -6.2 |
| Other | -60.6 | -67.5 | -55.5 | -56.8 | -55.5 | -52.9 | -53.2 | -58.7 | -63.4 | -63.8 |
| Services (net) | -57.4 | -50.9 | -43.5 | -47.4 | -42.4 | -38.0 | -37.1 | -39.0 | -40.3 | -42.2 |
| Income (net) | -7.5 | -5.1 | -3.5 | -4.2 | -4.2 | -3.0 | -1.4 | -2.0 | -1.8 | -1.8 |
| *Of which:* interest due on public debt | -8.6 | -7.5 | -5.1 | -5.6 | -5.6 | -5.6 | -5.5 | -6.3 | -6.2 | -6.2 |
| Current transfers (net) | 21.4 | 18.9 | 10.9 | 16.0 | 18.5 | 18.2 | 17.5 | 22.0 | 24.5 | 25.0 |
| Capital account | 13.1 | 13.6 | 6.9 | 6.4 | 15.5 | 18.5 | 7.6 | 6.9 | 7.2 | 7.5 |
| Project grants 3/ | 10.4 | 12.6 | 2.8 | 4.8 | 4.8 | 3.8 | 5.4 | 6.9 | 7.2 | 7.5 |
| Program grants | 2.5 | 1.0 | 4.1 | 1.7 | 10.7 | 14.8 | 2.2 | 0.0 | 0.0 | 0.0 |
| Debt cancellation | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial account | -8.0 | -30.2 | -10.6 | -5.0 | -4.5 | -8.7 | 0.5 | 7.3 | 4.2 | 2.7 |
| Public sector (net) | -4.2 | -13.1 | -11.4 | -13.2 | -13.2 | -14.6 | -9.4 | -10.5 | -12.8 | -12.6 |
| Project disbursements | 1.3 | 6.0 | 3.0 | 4.0 | 4.0 | 2.6 | 3.8 | 4.6 | 5.9 | 7.2 |
| Program disbursements | 9.7 | 1.3 | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Scheduled amortization | -15.2 | -20.4 | -19.4 | -17.2 | -17.2 | -17.2 | -13.2 | -15.0 | -18.7 | -19.9 |
| Private sector (net) | -3.8 | -17.1 | 0.8 | 8.2 | 8.8 | 5.9 | 9.8 | 17.8 | 17.0 | 15.3 |
| Errors and omissions | -15.0 | 3.0 | 5.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -27.7 | -36.3 | -32.4 | -19.4 | -21.9 | -19.5 | -20.3 | -17.0 | -19.8 | -20.4 |
| Identified financing | 27.7 | 36.3 | 32.4 | -3.3 | 21.9 | 19.5 | -3.9 | -4.2 | -5.1 | -5.6 |
| Net official reserves movements 4/ | 13.7 | 10.3 | 8.1 | 1.1 | 1.1 | 1.4 | -3.9 | -4.2 | -5.1 | -5.6 |
| Net IMF credit | 7.3 | 0.0 | 0.0 | 3.1 | 3.1 | 3.1 | -2.6 | -3.2 | -3.9 | -4.6 |
| Purchases and loans | 7.3 | 0.0 | 0.0 | 4.4 | 4.4 | 4.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayments (cash basis) | 0.0 | 0.0 | 0.0 | -1.3 | -1.3 | -1.3 | -2.6 | -3.2 | -3.9 | -4.6 |
| Other reserves (increase -) | 6.5 | 10.3 | 8.1 | -2.0 | -2.0 | -1.8 | -1.4 | -1.0 | -1.2 | -1.0 |
| Exceptional financing | 14.0 | 26.1 | 24.3 | 0.0 | 22.7 | 18.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt rescheduling 5/ | 6.2 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | ... |
| Debt payments arrears (reduction -) | 7.8 | 26.1 | 24.3 | 0.0 | 22.7 | 18.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Residual financing need (+) | 0.0 | 0.0 | 0.0 | 22.7 | 0.0 | 0.0 | 24.2 | 21.2 | 24.9 | 26.1 |
| Memorandum items: | | | | (Annual percentage change, unless otherwise indicated) | | | | | | |
| Terms of trade (U.S. dollar basis) | -11.5 | -0.2 | 5.4 | 5.1 | -4.9 | -7.8 | -0.5 | 1.6 | 0.3 | -1.0 |
| Unit price of exports (U.S. dollar basis) | -13.2 | 2.3 | 18.1 | 6.7 | 0.7 | 0.2 | 8.0 | 3.7 | 1.4 | 0.1 |
| Unit price of imports (U.S. dollar basis) | -1.8 | 2.5 | 12.1 | 1.6 | 5.9 | 8.7 | 8.6 | 2.2 | 1.1 | 1.0 |
| Net resource transfer | 33.0 | 33.1 | 17.9 | 14.3 | 23.3 | 23.9 | 20.3 | 15.9 | 17.1 | 18.4 |
| Net resource transfer (in percent of GDP) | 4.7 | 4.6 | 2.6 | 2.0 | 3.3 | 3.5 | 2.8 | 2.1 | 2.1 | 2.1 |
| Gross official reserves | | | | | | | | | | |
| (in billions of CFA francs, end-of-period)+B2 | 89.2 | 78.9 | 70.8 | 72.8 | 72.8 | 72.6 | 73.9 | 74.9 | 76.1 | 77.1 |
| (in months of imports, f.o.b.) | 13.6 | 10.9 | 12.4 | 12.1 | 12.0 | 12.0 | 10.9 | 9.5 | 9.0 | 8.8 |
| Current account (in percent of GDP) | -2.5 | -3.1 | -4.9 | -2.9 | -4.7 | -4.3 | -3.9 | -4.1 | -3.8 | -3.5 |
| Total stock of external arrears (in billions of CF | 133.4 | 160.4 | 182.1 | ... | ... | ... | ... | ... | ... | ... |
| *Of which:* arrears to multilateral creditors | 31.2 | 44.1 | 57.5 | ... | ... | ... | ... | ... | ... | ... |

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

1/ Refers to the 2004 EPCA program targets.

2/ Revised on the basis of October 2004 review of EPCA program.

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

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

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

Table 8. Central African Republic: Monetary Survey, 2001–08

| | 2001 | 2002 | 2003 | 2004 | | | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Prog. 1/ | Rev. | Est. | | Proj. | | |
| | (In billions of CFA francs at end of period, unless otherwise indicated) | | | | | | | | | |
| Net foreign assets | 63.7 | 55.7 | 47.4 | 51.7 | ... | 49.5 | 49.8 | 54.0 | 59.1 | 64.7 |
| Bank of Central African States (BEAC) | 66.3 | 58.1 | 51.9 | 54.6 | ... | 51.4 | 54.2 | 58.4 | 63.5 | 69.1 |
| Operations account | 87.6 | 76.9 | 67.9 | 69.9 | ... | 69.6 | 72.3 | 73.1 | 74.0 | 74.9 |
| Use of IMF credit | -22.9 | -20.9 | -18.9 | -18.2 | ... | -21.2 | -19.8 | -16.5 | -12.7 | -8.0 |
| Other | 1.6 | 2.1 | 2.9 | 2.9 | ... | 3.0 | 1.6 | 1.8 | 2.1 | 2.2 |
| Commercial banks | -2.7 | -2.4 | -4.6 | -2.9 | ... | -1.9 | -4.4 | -4.4 | -4.4 | -4.4 |
| Net domestic assets | 46.0 | 49.2 | 49.2 | 50.3 | ... | 60.7 | 63.6 | 66.8 | 70.6 | 74.5 |
| Domestic credit | 97.1 | 99.6 | 102.2 | 103.3 | ... | 115.4 | 118.2 | 121.4 | 125.2 | 129.1 |
| Credit to the public sector | 54.6 | 50.2 | 52.8 | 51.3 | ... | 60.2 | 62.1 | 64.4 | 64.5 | 65.1 |
| Credit to central government (net) | 55.3 | 54.3 | 55.2 | 53.8 | ... | 62.9 | 64.8 | 67.5 | 67.6 | 68.2 |
| BEAC | 48.7 | 48.7 | 49.7 | 49.0 | ... | 58.7 | 61.3 | 62.3 | 63.2 | 63.3 |
| Current account | 17.2 | 14.1 | 17.1 | 17.1 | ... | 25.1 | 30.7 | 35.0 | 39.8 | 44.4 |
| Consolidated loans | 14.6 | 14.6 | 14.6 | 14.6 | ... | 14.6 | 13.0 | 13.0 | 13.0 | 13.0 |
| IMF (net) | 22.9 | 20.9 | 18.9 | 18.2 | ... | 21.2 | 19.8 | 16.5 | 12.7 | 8.0 |
| Deposits | -6.0 | -0.8 | -0.8 | -0.8 | ... | -2.2 | -2.2 | -2.2 | -2.2 | -2.2 |
| Commercial banks | 6.7 | 5.6 | 5.6 | 4.8 | ... | 4.2 | 3.5 | 5.2 | 4.3 | 4.9 |
| Credit to other public agencies (net) | -0.7 | -4.1 | -2.4 | -2.4 | ... | -2.7 | -2.7 | -3.1 | -3.1 | -3.1 |
| Credit to the economy | 42.5 | 49.4 | 49.4 | 51.9 | ... | 55.2 | 56.1 | 57.0 | 60.7 | 64.0 |
| Public enterprises | 8.0 | 8.1 | 8.4 | 8.4 | ... | 6.7 | 6.7 | 6.7 | 6.7 | 6.7 |
| Private sector | 34.5 | 41.3 | 41.0 | 43.5 | ... | 48.4 | 49.4 | 50.2 | 54.0 | 57.2 |
| Other items (net) | -51.1 | -50.3 | -53.1 | -52.9 | ... | -54.6 | -54.6 | -54.6 | -54.6 | -54.6 |
| Money and quasi money | 109.7 | 104.9 | 96.5 | 102.1 | ... | 110.2 | 113.4 | 120.8 | 129.7 | 139.2 |
| Currency | 82.6 | 77.4 | 70.4 | 72.4 | ... | 81.3 | 82.0 | 83.0 | 84.6 | 90.9 |
| Deposits | 27.1 | 27.5 | 26.1 | 29.7 | ... | 28.9 | 31.4 | 37.8 | 45.0 | 48.4 |
| Demand deposits | 16.6 | 17.3 | 15.1 | 18.7 | ... | 16.4 | 17.7 | 21.4 | 25.4 | 27.4 |
| Term and savings deposits | 10.5 | 10.2 | 11.1 | 11.0 | ... | 12.5 | 13.7 | 16.4 | 19.7 | 20.9 |
| Memorandum items: | | | | | | | | | | |
| Net domestic assets of the central bank | 17.7 | 20.9 | 20.7 | 20.5 | ... | 32.3 | 30.7 | 28.0 | 24.5 | 25.2 |
| Monetary base | 84.0 | 79.0 | 72.6 | 75.1 | ... | 83.7 | 84.9 | 86.4 | 88.0 | 94.3 |
| Nominal GDP | 709.2 | 726.2 | 694.7 | 728.5 | ... | 690.7 | 722.3 | 767.8 | 816.8 | 870.3 |
| Velocity (GDP/broad money) | | | | | | | | | | |
| End of period | 6.5 | 6.9 | 7.2 | 7.1 | ... | 6.3 | 6.4 | 6.4 | 6.3 | 6.3 |
| | (Annual change, in percent of broad money at beginning of period) | | | | | | | | | |
| Net foreign assets | -14.3 | -7.3 | -8.0 | 4.6 | ... | 2.2 | 0.3 | 3.7 | 4.2 | 4.3 |
| Net domestic assets | 13.2 | 2.9 | -0.1 | 1.2 | ... | 12.0 | 2.6 | 2.8 | 3.1 | 3.1 |
| Net domestic credit | 16.9 | 2.2 | 2.5 | 1.1 | ... | 13.6 | 2.6 | 2.8 | 3.1 | 3.0 |
| Net credit to central government | 8.7 | -0.9 | 0.9 | -1.5 | ... | 7.9 | 1.8 | 2.4 | 0.1 | 0.5 |
| Credit to the economy | 3.2 | 6.3 | 0.0 | 2.6 | ... | 6.0 | 0.8 | 0.8 | 3.1 | 2.5 |
| Money and quasi money | -1.1 | -4.3 | -8.0 | 5.8 | ... | 14.2 | 2.9 | 6.5 | 7.3 | 7.4 |
| | (Annual percentage change) | | | | | | | | | |
| Monetary base | -6.2 | -6.0 | -8.0 | 3.3 | ... | 15.3 | 1.4 | 1.7 | 1.9 | 7.1 |
| Credit to the economy | 9.2 | 16.3 | 0.1 | 5.1 | ... | 11.6 | 1.7 | 1.5 | 6.5 | 5.4 |
| Public enterprises | -0.5 | 1.4 | 4.7 | 0.0 | ... | -20.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Private sector | 11.6 | 19.7 | -0.8 | 6.1 | ... | 18.2 | 1.9 | 1.7 | 7.4 | 6.1 |

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

1/ Refers to the 2004 EPCA program targets.

Table 9. Central African Republic: Indicators of Fund Credit, 2001–08

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Proj. | | |
| Outstanding use of IMF credit | | | | | | | | |
| In millions of SDRs | 24.5 | 24.5 | 24.5 | 28.4 | 25.1 | 21.0 | 16.1 | 10.2 |
| In billions of CFA francs | 22.8 | 22.0 | 19.9 | 22.2 | 19.5 | 16.5 | 12.7 | 8.0 |
| In percent of government revenue | 36.1 | 28.1 | 37.0 | 39.8 | 32.7 | 24.6 | 17.0 | 9.9 |
| In percent of exports, f.o.b. | 21.9 | 21.8 | 28.0 | 33.6 | 26.4 | 20.1 | 14.4 | 8.6 |
| In percent of external public debt | 3.3 | 3.2 | 3.0 | 3.3 | 2.8 | 2.4 | 1.8 | 1.1 |
| In percent of GDP | 3.2 | 3.0 | 2.9 | 3.2 | 2.7 | 2.2 | 1.6 | 0.9 |
| In percent of quota | 43.9 | 43.9 | 43.9 | 51.0 | 45.1 | 37.7 | 28.9 | 18.4 |
| Repurchases, repayments, charges and interest due 1/ | | | | | | | | |
| In millions of SDRs | 0.1 | 0.1 | 0.1 | 1.8 | 3.4 | 4.4 | 5.9 | 7.9 |
| In billions of CFA francs | 0.1 | 0.1 | 0.1 | 1.4 | 2.7 | 3.5 | 4.6 | 6.2 |
| In percent of government revenue | 0.1 | 0.1 | 0.2 | 2.5 | 4.5 | 5.1 | 6.2 | 7.6 |
| In percent of exports, f.o.b. | 0.1 | 0.1 | 0.1 | 2.1 | 3.6 | 4.2 | 5.2 | 6.6 |
| In percent of debt-service payments | 0.4 | 0.4 | 0.4 | 5.7 | 12.5 | 14.1 | 16.0 | 20.1 |
| In percent of GDP | 0.0 | 0.0 | 0.0 | 0.2 | 0.4 | 0.4 | 0.6 | 0.7 |
| In percent of quota | 0.1 | 0.2 | 0.2 | 3.2 | 6.2 | 7.9 | 10.5 | 14.1 |
| Net use of IMF credit | | | | | | | | |
| (in millions of SDRs) | 8.0 | 0.0 | 0.0 | 3.9 | -3.3 | -4.1 | -4.9 | -5.9 |
| Disbursements | 8.0 | 0.0 | 0.0 | 5.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayments | 0.0 | 0.0 | 0.0 | 1.6 | 3.3 | 4.1 | 4.9 | 5.9 |

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

1/ Excluding SDR charges and assessments.

Table 10. Central African Republic: Millennium Development Goals, 1990–2015

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

Table 10. Central African Republic: Millennium Development Goals, 1990–2015 (concluded)

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

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

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

## Central African Republic: Relations with the Fund
(As of August 31, 2005)

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

II. **General Resources Account**:

| | SDR million | %Quota |
|---|---|---|
| Quota | 55.70 | 100.00 |
| Fund holdings of currency | 61.12 | 109.73 |
| Reserve position in Fund | 0.16 | 0.29 |

III. **SDR Department**:

| | SDR million | %Allocation |
|---|---|---|
| Net cumulative allocation | 9.32 | 100.00 |
| Holdings | 0.14 | 1.50 |

IV. **Outstanding Purchases and Loans**:

| | SDR million | %Quota |
|---|---|---|
| PRGF arrangements | 19.54 | 35.07 |
| Emergency Post-Conflict Assistance | 5.57 | 10.00 |

V. **Financial Arrangements**:

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

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

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| Principal | 0.0 | 4.10 | 5.59 | 7.68 | 5.34 |
| Charges/interest | 0.17 | 0.55 | 0.53 | 0.43 | 0.31 |
| Total | 0.17 | 4.65 | 6.12 | 8.11 | 5.64 |

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

VIII. **Safeguards Assessments:**
The Bank of the Central African States (BEAC) is the regional central bank of the Central African States, of which the Central African Republic is a member. A safeguards assessment of the BEAC completed on August 30, 2004 found that the BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include: (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of its full financial statements, together with the auditor's report, starting with the 2003 financial statements; (iii) formulation of Board-approved formal guidelines under which the BEAC Governor is authorized to make exceptional advances to BEAC member countries; (iv) annual review by the BEAC internal audit department of the process of program data reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter, for the internal audit function; and (vi) systematic follow up of all recommendations pertaining to the BEAC's system of internal controls to be coordinated by the internal audit department, with regular reporting to the Audit Committee and the BEAC Governor.

Other priority recommendations of the assessment, but of a country-specific nature, are: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states are encouraged to establish a mechanism to prevent IMF overdues and facilitate timely payments through advance acquisitions of SDRs and an authorization to debit the SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm the Treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

**Exchange Rate Arrangement**

The Central African Republic is a member of a monetary association with a common central bank, the Bank of Central African States (BEAC). The exchange system, common to all members, operates without restrictions on the making of payments and transfers for current international transactions. The CFA franc is pegged to the euro at the fixed rate of CFAF 655.957 = € 1. On October 7, 2005, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 784.52.

**Article IV Consultations**

The Central African Republic is on the standard 12-month cycle for Article IV consultations. The last Article IV consultation was concluded on April 2, 2004.

**Recent Technical Assistance**

| Date | Department | Purpose |
|---|---|---|
| April 2001 | FAD | To follow up on the introduction of the VAT and discuss measures to improve tax and customs revenue collection. |

| | | |
|---|---|---|
| Jan–Feb 2004 | STA | To assist the authorities in reviewing and updating the General Data Dissemination System (GDDS) and to provide technical assistance in government finance statistics. |
| March 2004 | FAD | To assist the authorities in the area of revenue administration. |
| April 2004 | FAD | To assist the authorities in the area of public expenditure management. |
| Aug-Oct 2004 | FAD | To assist the authorities improve tax administration. |
| Feb-Dec 2005 | FAD | To assist the authorities improve public expenditure management. |
| May 2005 | FAD | To follow up on implementation of tax administration reforms and review the progress made since the end of the three-month assignment of FAD tax expert. |
| Jun-July 2005 | STA | To assist the authorities improve government finance statistics. |
| July 2005 | STA | To assist the authorities improve real sector data. |

**Resident Representative**

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

## Central African Republic: Relations with the World Bank Group

(As of September 23, 2005)

69. World Bank (WB) assistance to the Central African Republic (C.A.R.) has been disrupted by the recurrent conflicts which the country has suffered for much of the past decade. Assistance has also been limited by protracted arrears payments to IDA. The C.A.R. has been under suspension of IDA disbursements since January 2002, with arrears of approximately US$49 million as of September 14, 2005. The recent presidential and parliamentary elections in May 2005 marked the end of a two-year political transition, following a coup d'état in March 2003, and were generally deemed to have been satisfactorily conducted. The Bank's objective over the coming months is to help The C.A.R. design and implement a framework to guide the country's recovery and longer-term development and poverty reduction efforts, and pave the way for increased volumes of donor financing within this framework.

### The Bank Group strategy in lending and technical assistance

70. At present, there is one approved operation in the portfolio in support of HIV/AIDS prevention and control. The WB approved a US$17 million credit in December 2001, to support the country in combating the spread of HIV/AIDS. The prevalence rate is alarmingly high, estimated at 13.5 percent.[1] An exception on suspension of disbursements was made for the project preparation facility (PPF) of the HIV/AIDS project. To date, three PPFs totaling US$1.35 million have been fully disbursed. The WB has approved a fourth PPF advance (US$650,000) and the effectiveness date for the IDA credit has been extended until March 2006. Implementation of the PPFs has continued satisfactorily.

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

### IMF-World Bank collaboration in specific areas

72. The WB has worked closely with the IMF on the reform program in the C.A.R., and generally shares the same views on policy issues. There is broad agreement on the core reform program in the C.A.R., namely: (i) reinforcement of public expenditure and public payroll management; (ii) revenue mobilization and improvement of tax and custom

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1 The 2005 UNDP Human Development Report.

administration; (iii) improving governance and transparency; and (v) improving the delivery of public services, including education and health.

**Table 1. Bank-Fund Collaboration**

| Area of Structural Reform | Lead Institution |
|---|---|
| 1. Fiscal area | |
| Public expenditure management | IMF |
| Tax administration | IMF |
| 2. Governance | |
| Adoption by the government of an anti-corruption law | IMF |
| Natural resources management | World Bank |
| 3. Other | |
| Monetary and credit policy | IMF |
| Social sector assessment | World Bank |
| Poverty reduction strategy | World Bank |
| External sector | IMF |

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

73. The Government has advanced in its preparation of the (full) PRSP, with assistance from UNDP. The WB is working closely with the UNDP and Government on the PRSP process, and plans to scale-up support in the coming months to ensure that the PRSP is able to provide the requisite medium-term framework with sufficient depth and breadth of coverage of the country's recovery and longer term development and poverty reduction needs.

74. To assist demobilization and socio-economic reintegration of ex-combatants into their home communities, the WB approved the Reintegration of Ex-combatants and Support to Communities Special Project in an amount of $9.6 million in April 2004. The project is funded entirely through the Multi-Donor Trust Fund (MDTF) of the Multi-Country Demobilization and Reintegration Program (MDRP), and is expected to contribute to the overall stability of the country by: (i) demobilizing ex-combatants and reintegrating them socially and economically back into their community; (ii) strengthening the capacities of communities of return to ensure the sustainable reintegration of the ex-combatants; and (iii) supporting projects on security and conflict prevention in and by communities that are the most vulnerable to and the most affected by security problems. Disbursement of the above project is under way, and about $3.3 million has been disbursed to date.

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

75. The WB is taking the lead on laying the groundwork for the preparation of a medium term structural reform framework in the context of the PRSP. In addition to the LICUS Trust Fund activities, the WB has continued to engage in analytical and advisory work. In collaboration with other partners, it has prepared a set of Policy Notes, focusing on key thematic areas including security, natural resource management, social sectors and public finance. A draft of the Policy Notes is currently being finalized to share with the authorities, and would provide input into an assessment of the current situation as well as in drawing up a framework for the country's recovery and longer-term development. The IMF has a strong interest in the financial sector from a macroeconomic perspective, including growth and the monitoring of quasi-fiscal deficits and contingent public liabilities, as well as an interest in governance and transparency issues in natural resources management.

**Areas of shared responsibility**

76. The WB and IMF are working together to assess debt sustainability and HIPC eligibility for the C.A.R. The WB and IMF are also active in the area of regional integration. The WB is implementing a Regional Assistance Strategy for the CEMAC countries, including a support to the payments systems, while the IMF has been active in regional macroeconomic surveillance.

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

77. The IMF has taken the lead on core macroeconomic and fiscal policies. The IMF is also taking the lead on revenue mobilization and the management of aggregate expenditures. The WB is working with the IMF to ensure consistency between its own projects and policy advice and the overall fiscal framework. In the framework of a donor partnership, the WB is providing training and technical assistance to strengthen the C.A.R.'s public finance administration.

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

78. The IMF has led the dialogue on monetary policy, exchange rate management, and balance of payments issues, although given the nature of the CFA franc arrangement, there is little scope for policy action in the last three areas at the national level.

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

## Central African Republic: Statistical Issues

(As of September 26, 2005)

### A. Outstanding Statistical Issues

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

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

**Real sector**

3. The compilation of national accounts is the responsibility of the Division of Statistics and Economic Studies (DSEE) of the Ministry of the Economy, Finance, Planning, and International Cooperation. Gross domestic product data have been reported to STA through 2004, including a breakdown by expenditure. Annual data on foreign trade statistics have also been reported through 2004. The latest data reported to STA for the consumer and wholesale price indices refer to June 2005.

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

5. A statistical expert visited Bangui during July 11-22, 2005 and found a serious resource gap at the DSEE and recommended a number of measures, particularly redeployment of resources to strengthen the national accounts services. There is an urgent

need to develop source data, by conducting surveys, particularly for the agriculture sector which represents around 27 percent of the economy. In addition, activity in the informal sector is still based on survey of the sector conducted in 1982. In the manufacturing sector, the estimation is based on an old and outdated list of enterprises, which likely overestimates activity in the sector given that many of these enterprises either do not exist anymore or have reduced their production considerably. There is also an urgent need to revise this list through a survey of enterprises and reestablish the industrial production index.

**Government finance**

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

**Monetary accounts**

7. Monthly data for the Central African Republic, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are regularly reported to the Fund in electronic form by the regional central bank (BEAC). Accuracy of data on currency in circulation is affected by large cross-border movements of currency among CEMAC member countries. Only 31 percent of banknotes issued in the C.A.R. by the national BEAC directorate remain in the territory, 47 percent circulate in Cameroon and about 16 percent in Chad, while currency in circulation in the C.A.R. includes some 10 percent of banknotes from Cameroon and 4 percent of banknotes from each of the Republic of Congo and Congo.

8. Priorities for the C.A.R. include the need to adapt the bridge table linking bank data with the monetary statistics to the new format for monthly reporting by the banks. Other perennial issues concern the accrual recording of interest and the treatment of nonperforming loans.

**Balance of payments**

9. As in other CEMAC countries, the agency responsible for the compilation of balance of payments statistics is the Balance of Payments Unit of the national agency of the BEAC. Past delays with data compilation and dissemination, which were mainly related to the transition from the Fourth to the Fifth Edition of the *Balance of Payments Manual*, have been addressed through the BEAC's recent implementation of methodological improvements. The last complete reporting, prepared by the national balance of payments committee, covered 2002 annual data. Preliminary statements for 2003-04 are available from the national direction of the BEAC office in Bangui, and have been transmitted to Fund staff.

10. The October 1999 STA multisector mission provided a thorough assessment of the statistical needs in balance of payments statistics. Efforts have been made to address some of the problems identified by the mission, including training, compilation system, and development of a flexible questionnaire. Nonetheless, problems remain and the main issues concern data sources, including the need to update the BOP survey (list of respondents, reporting form, codification etc.). Various methodologies or statistical techniques need to be reviewed, such as the computation of freight and insurance and procedures for attributing banknote movements among transactions. The timeliness of the biannual balance of payments (presently 90 days) needs to be shortened.

### B. Technical Assistance Missions in Statistics (1995–Present)

| **Subject** | **Staff Member** | **Date** |
|---|---|---|
| Government finance statistics | K.W. Abadallah | Nov. 29–Dec. 13, 1995 |
| Multisector statistics | Thiet Luu | Oct. 28–Nov.12, 1999 |
| Government finance statistics | Mohamed Maiga | Jan. 26–Feb. 13, 2004 |
| GDDS | Éric Métreau | Jan. 26–Feb. 13, 2004 |
| Government finance statistics | Mohamed Maiga | Jun. 20-July 5, 2005 |
| Real Sector | Maxime Bonkoungou | Jul. 11-22, 2005 |

## CENTRAL AFRICAN REPUBLIC: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF SEPTEMBER 6, 2005

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

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

**Central African Republic: Debt Sustainability Analysis**

*1. This appendix analyzes the external debt sustainability of the Central African Republic (C.A.R.) using the recently approved joint Fund-Bank Debt Sustainability Analysis (DSA) framework for low-income countries. The results show that C.A.R.'s debt burden is clearly unsustainable even after the application of full traditional debt relief mechanisms.*

2. The analysis covers external debt only. While the C.A.R. government faces a heavy domestic debt burden which is estimated at around 30 percent of GDP, there is much uncertainty about the exact magnitude of the domestic debt. The results of the verification work being conducted by the working group on domestic arrears are expected to provide a more reliable picture of the domestic debt situation.

3. The DSA was conducted jointly with the World Bank and is based on staff's estimates of the outstanding stock of external debt at end-2004 and reflects creditor data for most multilateral and some bilateral creditors, which the authorities have verified. The baseline scenario assumes no debt relief and no clearance of external arrears. The financing gap is assumed to be filled through the accumulation of new external arrears and by new borrowing on concessional terms.[1]

4. The baseline projections, which cover the period 2005-2025, assume some improvements in macroeconomic performance over the medium- and long-term, and incorporate the September 2005 World Economic Outlook (WEO) projections for commodity prices, exchange rates, and interest rates. Specifically, real GDP growth is projected to rebound to 4 percent per annum by 2008 on account of strong growth in the forestry and mining sectors and a rebound in cash crop production, before tapering slightly to about 3½ percent by 2015 which is in line with the 10-year historic average (excluding crisis years)[2]. The current account deficit is expected to narrow moderately to about 3½ percent of GDP by 2008 as exports (timber and diamond) pick up at a slightly faster rate than imports, and over the longer term the deficit should decrease even further to about 2 percent of GDP as oil imports become cheaper. Exports of goods and services are projected to remain at around 12 percent of GDP throughout the period.

[1] The bulk of the financing gap is filled by the accumulation of arrears and new borrowing is assumed to fill less than 1 percent of the gap. The terms for new debt are: interest rate of 2 percent per annum, 30-year maturity with a 10-year grace period for a grant element of 36 percent.

[2] Crisis years are defined as years during which there was at least one attempted coup, a mutiny or politico-military related violence. They include 1996, 2001-3.

5. The 2004 World Bank's Country Policy and Institutional Assessment (CPIA) ranks the C.A.R. as a 'poor performer' with a CPIA of 2.6. The debt-burden thresholds for countries in this category are NPV of debt-to-exports of 100 percent, NPV of debt-to-GDP of 30 percent and debt service-to-exports of 15 percent. Under the baseline scenario, the CAR's ratios remain above the thresholds until the end of the period (2025) except for the debt service ratio which falls below 15 percent after 2010 (see Table 1).

6. The debt sustainability outlook remains the same under the two standard alternative scenarios with all ratios staying above the sustainability thresholds, including the debt service ratio. The first alternative scenario assumes that key variables including real GDP and the current account balance grow at their ten-year historical levels, while the second scenario is based on less favorable terms for new financing (i.e., an interest rate that is higher by two percentage points over the baseline rate). Table 2 shows various stress tests that suggest that the debt situation is particularly vulnerable to an export shock (bound test B2). Additionally, staff simulated the application of full traditional debt relief mechanisms, i.e., a Naples stock of debt operation in 2005. Unlike with the baseline scenario, arrears are not accumulated and instead new borrowing is assumed to cover the gap. As anticipated, the debt ratios remain unsustainable, indicating that the C.A.R. is a candidate for debt relief under the enhanced HIPC Initiative (see Table 3).

Table 1. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2002-2025 1/
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Historical Average 6/ | Standard Deviation 6/ | Estimate | Projections | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2005-10 Average | 2015 | 2025 | 2011-25 Average |
| **External debt (nominal) 1/** | **100.2** | **103.6** | **82.5** | | | **79.1** | **77.2** | **72.9** | **68.6** | **64.6** | **60.7** | | **45.5** | **25.9** | |
| o/w public and publicly guaranteed (PPG) | 100.2 | 103.8 | 82.6 | | | 79.1 | 77.2 | 72.9 | 68.6 | 64.6 | 60.7 | | 45.5 | 25.9 | |
| Change in external debt | 4.7 | 3.4 | -21.1 | | | -3.4 | -1.9 | -4.3 | -4.3 | -4.0 | -3.8 | | -2.6 | -1.5 | |
| Identified net debt-creating flows | -4.6 | -8.1 | -5.1 | | | 1.6 | 0.8 | 0.5 | 0.3 | 0.8 | 1.0 | | -1.0 | 0.8 | |
| **Non-interest current account deficit** | **2.1** | **4.2** | **3.7** | **2.9** | **2.0** | **3.3** | **3.6** | **3.3** | **3.1** | **3.6** | **3.8** | | **0.9** | **2.0** | 1.4 |
| Deficit in balance of goods and services | 5.0 | 6.0 | 6.5 | | | 6.2 | 6.7 | 6.6 | 6.2 | 6.5 | 6.5 | | 3.1 | 3.2 | |
| Exports | 15.5 | 11.5 | 11.8 | | | 12.9 | 13.3 | 13.3 | 13.2 | 13.0 | 12.8 | | 12.5 | 12.2 | |
| Imports | 20.6 | 17.5 | 18.3 | | | 19.1 | 20.0 | 19.9 | 19.4 | 19.5 | 19.3 | | 15.6 | 15.4 | |
| Net current transfers (negative = inflow) | -2.6 | -1.6 | -2.6 | -2.6 | 1.0 | -2.4 | -2.9 | -3.0 | -2.9 | -2.7 | -2.6 | | -2.1 | -1.4 | -1.9 |
| Other current account flows (negative = net inflow) | -0.3 | -0.2 | -0.2 | | | -0.4 | -0.3 | -0.2 | -0.2 | -0.2 | -0.1 | | 0.0 | 0.3 | |
| **Net FDI (negative = inflow)** | **-0.7** | **-0.3** | **-0.6** | **-0.4** | **0.5** | **-0.6** | **-0.6** | **-0.6** | **-0.6** | **-0.6** | **-0.6** | | **-0.5** | **-0.4** | -0.5 |
| **Endogenous debt dynamics 2/** | **-6.0** | **-12.0** | **-8.2** | | | **-1.2** | **-2.2** | **-2.3** | **-2.3** | **-2.3** | **-2.2** | | **-1.5** | **-0.9** | |
| Contribution from nominal interest rate | 1.0 | 0.7 | 0.6 | | | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | | 0.1 | 0.0 | |
| Contribution from real GDP growth | 0.5 | 6.7 | -1.2 | | | -1.7 | -2.7 | -2.7 | -2.7 | -2.6 | -2.5 | | -1.6 | -0.9 | |
| Contribution from price and exchange rate changes | -7.5 | -19.4 | -7.6 | | | … | … | … | … | … | … | | … | … | |
| **Residual (3-4) 3/** | **9.3** | **11.5** | **-16.0** | | | **-4.9** | **-2.7** | **-4.8** | **-4.6** | **-4.8** | **-4.8** | | **-1.6** | **-2.3** | |
| o/w exceptional financing | -0.2 | -0.7 | -0.4 | | | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 2.3 | | 0.0 | 0.0 | |
| | | | | | | | | | | | | | | | |
| NPV of external debt 4/ | ... | ... | 62.8 | | | 61.7 | 61.4 | 59.3 | 57.0 | 55.2 | 53.6 | | 45.4 | 38.8 | |
| In percent of exports | ... | ... | 531.0 | | | 477.7 | 462.2 | 445.4 | 432.3 | 423.8 | 419.9 | | 363.9 | 319.3 | |
| **NPV of PPG external debt** | **...** | **...** | **62.9** | | | **61.7** | **61.4** | **59.3** | **57.0** | **55.2** | **53.6** | | **45.4** | **38.8** | |
| In percent of exports | ... | ... | 531.8 | | | 477.7 | 462.2 | 445.4 | 432.3 | 423.8 | 419.9 | | 363.9 | 319.3 | |
| Debt service-to-exports ratio (in percent) | 24.6 | 30.5 | 21.8 | | | 20.7 | 19.8 | 19.9 | 20.6 | 18.2 | 15.6 | | 10.3 | 4.5 | |
| **PPG debt service-to-exports ratio (in percent)** | 24.6 | 30.5 | 21.8 | | | 20.7 | 19.8 | 19.9 | 20.6 | 18.2 | 15.6 | | 10.3 | 4.5 | |
| Total gross financing need (billions of U.S. dollars) | 0.1 | 0.1 | 0.1 | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | | 0.0 | 0.1 | |
| Non-interest current account deficit that stabilizes debt ratio | -2.6 | 0.8 | 24.8 | | | 6.7 | 5.5 | 7.7 | 7.4 | 7.6 | 7.6 | | 3.6 | 3.5 | |
| | | | | | | | | | | | | | | | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | -0.6 | -7.6 | 1.3 | 0.7 | 5.1 | 2.2 | 3.5 | 3.8 | 3.9 | 4.1 | 4.2 | 3.6 | 3.6 | 3.5 | 3.6 |
| GDP deflator in US dollar terms (change in percent) | 8.6 | 24.0 | 7.9 | 4.4 | 12.4 | 2.8 | -0.3 | 2.7 | 2.9 | 2.7 | 2.6 | 2.2 | 2.4 | 2.4 | 2.5 |
| Effective interest rate (percent) 5/ | 1.1 | 0.8 | 0.6 | 1.3 | 0.4 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 | 0.6 | 0.3 | 0.1 | 0.3 |
| Growth of exports of G&S (US dollar terms, in percent) | 1.5 | -15.2 | 12.5 | -2.2 | 12.8 | 14.6 | 6.2 | 6.8 | 5.8 | 5.6 | 4.8 | 7.3 | 5.9 | 7.0 | 5.8 |
| Growth of imports of G&S (US dollar terms, in percent) | 5.7 | -2.8 | 14.6 | 0.5 | 15.5 | 9.5 | 8.2 | 6.2 | 4.0 | 7.7 | 5.5 | 6.9 | 5.7 | 5.6 | 4.6 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | ... | ... | 40.2 | 40.6 | 36.8 | 37.3 | 36.2 | 36.1 | 37.9 | 36.2 | 36.1 | 36.1 |
| | | | | | | | | | | | | | | | |
| *Memorandym item:* | | | | | | | | | | | | | | | |
| Nominal GDP (billions of US dollars) | 1.0 | 1.2 | 1.3 | | | 1.4 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 | | 2.5 | 4.5 | |

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ 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.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Central African Republic: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-25
(In percent)

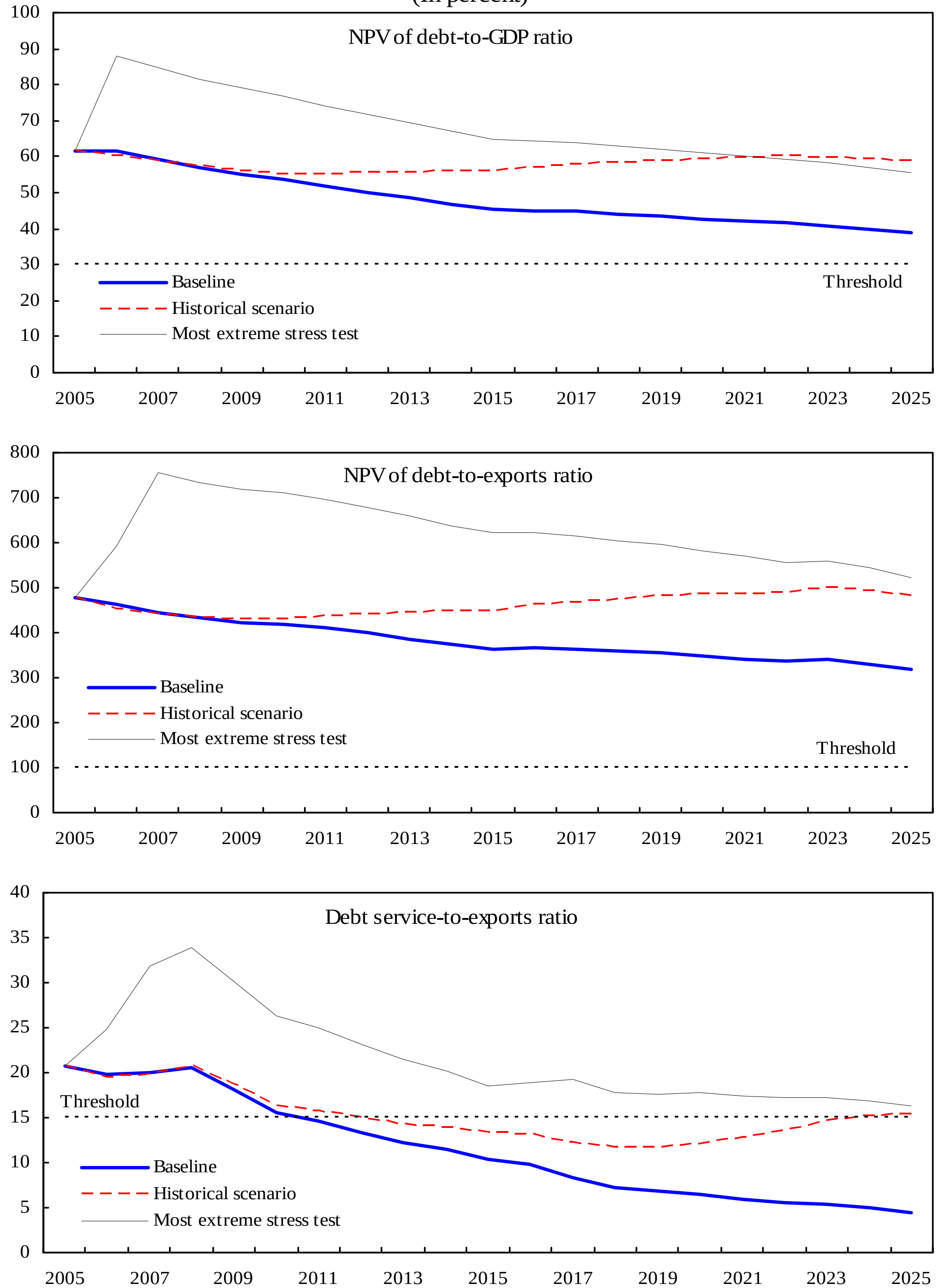
| | Estimate | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | **2015** | 2025 |
| **NPV of debt-to-GDP ratio** | | | | | | | | |
| **Baseline** | 62 | 61 | 59 | 57 | 55 | 54 | **45** | 39 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2006-25 1/ | 62 | 60 | 59 | 57 | 56 | 55 | **56** | 59 |
| A2. New public sector loans on less favorable terms in 2006-25 2/ | 62 | 61 | 59 | 57 | 56 | 54 | **47** | 45 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2006-07 | 62 | 67 | 70 | 67 | 65 | 63 | **53** | 46 |
| B2. Export value growth at historical average minus one standard deviation in 2006-07 3/ | 62 | 63 | 64 | 62 | 60 | 58 | **49** | 40 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07 | 62 | 67 | 72 | 69 | 67 | 65 | **55** | 47 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/ | 62 | 62 | 61 | 59 | 57 | 56 | **47** | 40 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 62 | 68 | 76 | 73 | 70 | 68 | **58** | 48 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/ | 62 | 88 | 85 | 81 | 79 | 77 | **65** | 55 |
| **NPV of debt-to-exports ratio** | | | | | | | | |
| **Baseline** | 478 | 462 | 445 | 432 | 424 | 420 | **364** | 319 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2006-25 1/ | 478 | 452 | 440 | 434 | 430 | 430 | **449** | 483 |
| A2. New public sector loans on less favorable terms in 2006-25 2/ | 478 | 462 | 446 | 433 | 427 | 425 | **377** | 368 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2006-07 | 478 | 462 | 445 | 432 | 424 | 420 | **364** | 319 |
| B2. Export value growth at historical average minus one standard deviation in 2006-07 3/ | 478 | 594 | 755 | 734 | 719 | 713 | **620** | 522 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07 | 478 | 462 | 445 | 432 | 424 | 420 | **364** | 319 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/ | 478 | 470 | 461 | 448 | 439 | 435 | **378** | 325 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 478 | 552 | 652 | 633 | 621 | 615 | **535** | 451 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/ | 478 | 462 | 445 | 432 | 424 | 420 | **364** | 319 |
| **Debt service ratio** | | | | | | | | |
| **Baseline** | 21 | 20 | 20 | 21 | 18 | 16 | **10** | 4 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2006-25 1/ | 21 | 19 | 20 | 21 | 19 | 16 | **13** | 15 |
| A2. New public sector loans on less favorable terms in 2006-25 2/ | 21 | 20 | 20 | 21 | 18 | 16 | **12** | 12 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2006-07 | 21 | 20 | 20 | 21 | 18 | 16 | **11** | 9 |
| B2. Export value growth at historical average minus one standard deviation in 2006-07 3/ | 21 | 25 | 32 | 34 | 30 | 26 | **19** | 16 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07 | 21 | 20 | 20 | 21 | 18 | 16 | **11** | 9 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/ | 21 | 20 | 20 | 21 | 19 | 16 | **11** | 10 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 21 | 23 | 28 | 29 | 26 | 23 | **16** | 14 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/ | 21 | 20 | 20 | 21 | 18 | 16 | **11** | 9 |
| *Memorandum item:* | | | | | | | | |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/ | 37 | 37 | 37 | 37 | 37 | 37 | **37** | 37 |

Source: Staff projections and simulations.

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., while grace and maturity periods are 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.

Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2005-2025

(In percent)




Source: Staff projections and simulations.

Table 3. Central African Republic: External Debt Sustainability Indicators, 2005-2025 1/
(In percent, unless otherwise indicated)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2025 | Averages 2005-14 | Averages 2015-25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Baseline scenario: No arrears clearance** | | | | | | | | | | | | | | |
| NPV of debt-to-GDP ratio | 61.7 | 61.4 | 59.3 | 57.0 | 55.2 | 53.6 | 51.9 | 50.2 | 48.5 | 46.9 | 45.4 | 38.8 | 54.6 | 42.6 |
| NPV of debt-to-exports ratio 2/ | 477.7 | 462.2 | 445.4 | 432.3 | 423.8 | 419.9 | 409.3 | 398.8 | 386.8 | 374.5 | 363.9 | 319.3 | 423.1 | 347.7 |
| Debt service-to-exports ratio 2/ | 20.7 | 19.8 | 19.9 | 20.6 | 18.2 | 15.6 | 14.7 | 13.4 | 12.2 | 11.4 | 10.3 | 4.5 | 16.6 | 6.8 |
| **Additional scenario: After full traditional debt relief mechanisms** | | | | | | | | | | | | | | |
| NPV of debt-to-GDP ratio | 57.7 | 58.0 | 55.8 | 53.2 | 50.6 | 48.4 | 45.8 | 43.4 | 41.2 | 39.1 | 37.3 | 26.6 | 49.3 | 31.7 |
| NPV of debt-to-exports ratio 2/ | 434.7 | 420.8 | 402.9 | 387.8 | 374.0 | 366.0 | 349.0 | 332.8 | 316.8 | 301.1 | 287.4 | 217.1 | 368.6 | 250.4 |
| Debt service-to-exports ratio 2/ | 20.4 | 25.1 | 25.3 | 26.1 | 28.9 | 26.1 | 36.5 | 34.4 | 32.2 | 30.5 | 28.5 | 16.4 | 28.6 | 17.4 |
| **Memorandum items** | (In millions of U.S. dollars) | | | | | | | | | | | | | |
| Nominal GDP | 1,374.9 | 1,419.2 | 1,512.8 | 1,617.1 | 1,727.7 | 1,845.8 | 1,964.8 | 2,091.6 | 2,225.0 | 2,367.1 | 2,512.1 | 4,502.7 | 1,814.6 | 3,421.8 |
| Exports of goods and services 2/ | 177.5 | 188.6 | 201.5 | 213.1 | 225.1 | 235.8 | 249.0 | 263.2 | 279.0 | 296.3 | 313.7 | 547.1 | 232.9 | 418.4 |

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

1/ Debt refers to public and publicly guaranteed debt.
2/ Exports of goods and services as defined by the BOP Manual 5th Edition. Current year exports.

INTERNATIONAL MONETARY FUND
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Public Information Notice (PIN) No. 05/158
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November 29, 2005

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

# IMF Executive Board Concludes 2005 Article IV Consultation with the Central African Republic

On October 24, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Central African Republic.[1]

**Background**

The Central African Republic has seen its economic and social conditions deteriorate seriously over the past decade due in part to poor economic management but also political and military disturbances that culminated in the March 2003 conflict. The country's physical and human capital suffered, its formal sector contracted significantly, and the production of cash crops almost ceased. Due to continued insecurity in rural areas and caution on the part of investors associated with the political transition, economic activity has yet to show signs of recovery from the sharp contraction associated with the 2003 conflict. Real GDP grew by 1 percent in 2004 as activity was stagnant in most sectors. While diamond production increased, activity in the forestry sector contracted due to heavy rainfall. The recent heavy rainfall in the capital Bangui caused some population displacement, although its impact on overall economic activity appears limited.

Price developments in the C.A.R. have by and large reflected food supply conditions. The average price level declined by about 2 percent in 2004 as stability returned to the agricultural sector, but has picked up moderately so far in 2005 in line with food prices.

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

Credit to the economy increased in 2004 reflecting a pick up in both private sector credit and net credit to government. The increase in private sector credit, largely associated with petroleum imports and several large loans in the forestry sector late in the year, has partly receded in 2005.

The external trade balance worsened in 2004 due to a terms of trade deterioration, a decline in timber exports, and a higher demand for petroleum product imports linked to election activities. The increase in donor support for carrying out the elections along with improvement in the services balance more than offset the deterioration in the trade balance. As a result, the current account deficit declined by ½ of one percent of GDP to 4⅓ percent of GDP. The C.A.R. is still not servicing its external debt except to the IMF and therefore external payment arrears continue to accumulate to both bilateral and multilateral creditors. The stock of external arrears at end-2004 is estimated at US$335 million (about 25 percent of GDP).

Serious weaknesses in public finances remain, and the large gap between expenditures and revenue continues to weigh heavily on the ability of the government to honor its current obligations and provide basic public services. While revenue increased in 2004, at around 8 percent of GDP it is still very low relative to other low-income African countries. Weaknesses in tax and customs administration, rooted partly in corruption, continue to hamper efforts to improve revenue performance. There has been a serious loss of control on expenditure, in particular over the wage bill, which has exacerbated the already difficult fiscal position. Although salaries have been frozen since 1985, the wage bill continues to increase because of the rapid expansion of allowances and benefits, the creation of high-level posts carrying salary premiums, and new recruitment paired with delays in retirements. The untenable fiscal position is reflected in the large build up of domestic payment arrears, including three months of new salary arrears accumulated so far in 2005.

Developments in the banking sector continue to be dominated by the government's heavy reliance on commercial banks' resources. Reflecting the difficult liquidity position of the banks, the regional central bank's (BEAC) temporary suspension of reserves requirements for C.A.R. banks remains in effect.

Social conditions in the country have worsened as a result of the political and military developments that led to the 2003 conflict. The C.A.R. has lost ground in terms of meeting the Millennium Development Goals. Health indicators, in particular, have deteriorated, with the incidence of HIV/AIDS rising, and life expectancy over the past decade declining by an average of six months every year.

Significant achievements have been made on the security front and in ensuring a smooth transition to democratic rule. The presidential and legislative elections were conducted peacefully and were generally free. The security situation has improved with the support of several hundred troops from the C.A.R.'s international partners. In addition to the ongoing efforts to train and better equip the armed forces, progress is being made in the implementation of the Disarmament, Demobilization, and Reintegration program. However, banditry remains a problem in rural areas.

**Executive Board Assessment**

Executive Directors commended the authorities of the Central African Republic for the recent peaceful completion of parliamentary and presidential elections and the continued improvement in the security situation. Directors believed that these positive developments bode well for reinforcing stability in the country and for deepening the economic reform program in the period ahead. They considered that the main challenges facing the country include further consolidating peace and security, establishing the conditions for strong economic growth, and reversing the deteriorating social conditions. Directors emphasized that this will require stabilizing public finances, more effectively delivering public services, and establishing an environment conducive to private sector activity.

Directors agreed that timely international assistance, including effective technical assistance, more support for social sectors, and substantial infrastructure investment, will have an important role to play in supporting the recovery. They emphasized that to be effective, this assistance should complement the authorities' own efforts. To this end, Directors urged the authorities to implement sound policies and improve the management of public resources, including by addressing recent policy slippages, particularly in the public finance area. Determined action by the authorities will send a strong signal to the international community of the authorities' ability to implement reforms, and should pave the way for greater international support, including further Emergency Post-Conflict Assistance from the Fund. Directors accordingly welcomed the authorities' recognition of the difficult challenges ahead, and their efforts to build consensus among the major stakeholders for the reform process.

Directors expressed concern about the persistence of severe weaknesses in the country's public finances, as manifested in the low level of government revenue, the difficulty in controlling expenditure, and the accumulation of domestic and external payment arrears. With monetary and exchange rate policy conducted at the regional level, sound fiscal policies will be critical for achieving macroeconomic stability. Directors accordingly called for urgent fiscal consolidation based on decisive actions both to contain expenditure and to boost revenues. These actions will be crucial for generating much-needed resources for social spending and public services.

Directors urged the authorities to move swiftly to bring the public sector wage bill under control, as containing the wage bill and paying salaries in a timely manner will be critical for establishing and maintaining financial stability. While acknowledging that this will be challenging in the context of a still fragile political environment, Directors encouraged the authorities to give serious consideration to staff proposals to reduce allowances, accelerate retirements, and introduce cuts in some high salary bands, while initiating a cleanup of the payroll files. Directors also encouraged the authorities to improve public expenditure management, including by strengthening expenditure procedures and monitoring. In this regard, they welcomed the recent introduction of the monthly treasury cash flow plan and improved identification of spending at the commitment level.

Directors expressed concern that the level of government revenue remains far below the needs of the country. They urged the authorities to strengthen tax collection and improve the customs and tax administration, in order to reduce corruption and enhance the ability of tax agencies to function effectively. Directors also saw an urgent need to widen the tax base by reducing exemptions, improving controls, and fighting fraudulent practices in the customs area—in line with the recommendations of the Fund's technical assistance.

Directors underscored their concern at the magnitude of the domestic arrears problem. They urged the authorities to put in place a realistic strategy for clearing the arrears, and noted the authorities' commitment to do so by early 2006. At the same time, Directors underscored the importance of timely payment of current obligations to avoid the further accumulation of arrears.

Directors observed that the regional monetary and exchange rate arrangement has provided a useful policy anchor in a difficult macroeconomic environment, and has helped keep inflation low. They encouraged the authorities to be vigilant in supervising commercial banks' compliance with prudential regulations and to act vigorously to find a lasting solution to the one problem bank having difficulty meeting prudential ratios. Directors called on the authorities to work with their partners to strengthen the microfinance sector with a view to broadening access to financial services.

Directors underscored the importance of improving the competitiveness of the C.A.R. economy. This will require rebuilding the infrastructure, enhancing security, and advancing on structural reforms. Improved infrastructure—especially for land and river transport—and better security in rural areas will be instrumental in reducing costs faced by agricultural producers and exporters. Directors also stressed the importance of flexibility in factor and product markets. Additional steps to strengthen the judiciary and improve property rights and contract enforcement should also contribute to reducing the cost of doing business in the C.A.R. and enhancing competitiveness.

Directors stressed that governance problems are at the heart of the weak management of public resources and the poor climate for private sector activity. While noting the need for international assistance in this area, Directors urged the authorities to demonstrate strong commitment in the fight against corruption. To this end, they encouraged them to equip the newly created unit within the Ministry of Justice adequately so that it can pursue corruption cases effectively. In addition, Directors welcomed the authorities' efforts to continue to enhance transparency, and emphasized the importance of widening these efforts, including in the areas of public expenditure and natural resources.

Directors noted that the C.A.R.'s debt situation is unsustainable. They urged the authorities to establish the necessary good track record of policy performance to be eligible for debt relief under the HIPC Initiative. Directors also encouraged the authorities to remain in close contact with their external creditors to work toward a plan to clear arrears. The importance of steps to improve the C.A.R.'s debt data was also noted.

Directors expressed concern about the C.A.R.'s very poor social indicators, and called for a concerted effort, in partnership with donors, to improve the delivery of social services. They also encouraged the authorities to continue making progress on the preparation of their PRSP.

Directors noted the vast technical assistance needs of the C.A.R. They welcomed the technical assistance provided by the Fund and strongly encouraged the international community to accelerate and better coordinate its support to the C.A.R. In the period ahead, priority should be accorded to improving public expenditure management, strengthening tax and customs administration, and upgrading the statistical database to enhance surveillance as well as program design and monitoring in the period ahead.

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

**Central African Republic: Selected Economic Indicators 2001–05**

| | 2001 | 2002 | 2003 | 2004 Prel. | 2005 Proj. |
|---|---|---|---|---|---|
| | (Annual percentage change) | | | | |
| **Production** | | | | | |
| Real GDP | 0.3 | -0.6 | -7.6 | 1.3 | 2.2 |
| Consumer price (yearly average) | 3.8 | 2.3 | 4.4 | -2.2 | 2.4 |
| | (In percent of GDP) | | | | |
| **Public finance (central government)** | | | | | |
| Overall balance (commitments, including grants) | -0.9 | -1.2 | -3.1 | -2.2 | -2.7 |
| Narrow primary balance 1/ | 0.3 | 1.0 | -2.1 | -2.7 | -1.3 |
| | (Annual change in percent of beginning Period broad money) | | | | |
| **Money and credit** | | | | | |
| Net foreign assets | -14.3 | -7.3 | -8.0 | 2.2 | 0.3 |
| Broad money (M2) | -1.1 | -4.3 | -8.0 | 14.2 | 2.9 |
| Credit to the economy | 3.2 | 6.3 | 0.0 | 6.0 | 0.8 |
| Net credit to central government | 8.7 | -0.9 | 0.9 | 7.9 | 1.8 |
| **External sector** | | | | | |
| Current account balance (in percent of GDP) | -2.5 | -3.1 | -4.9 | -4.3 | -3.9 |
| NPV of debt/exports of non factor goods and services | 375.1 | 420.9 | 486.1 | 531.8 | 477.7 |
| Actual debt -service ratio 2/ | 7.3 | 0.8 | 0.3 | 1.7 | 20.7 |
| Exchange rate (CFA francs per U.S. dollars) | 732.4 | 694.8 | 580.1 | 527.6 | … |

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

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

**Statement by Damian Ondo Mañe, Executive Director for Central African Republic**
**October 24, 2005**

## I. Introduction

On behalf of my Central African Republic (CAR) authorities, I would like to thank Management and the staff for their support and policy advice and their appreciable work as reflected in the set of papers before us today. The selected issues paper raises a very important challenges not only for low income countries but also for countries in transition. It is not only focused on political and macroeconomic stability but also on some specific concerns and bottlenecks on governance, infrastructure, and political instability. We have to recognize the high quality of these studies and congratulate the staff for its valuable work.

As Directors may recall, the CAR has been beset by a number of social and political crises in the recent past, and despite a difficult economic and social context, my authorities have made commendable efforts to address these crises. These efforts have resulted in the stabilization of the political and security situation.

My authorities recognize that much more needs to be done to address the challenges facing the Central African economy, including the destruction of physical capital, the deterioration of human capital, and the limited size of the private formal sector affected by conflicts. My authorities would like to find the best way to address these challenges effectively so as to avoid the repetitive conflicts and disruption of the political and economic situation. This objective had caused the authorities to be more cautious in the way they are approaching the situation. Therefore, while they agree with the staff's analysis on the need to reverse the downward trend of the CAR economy, they have moved prudently taking into account the fragile political and social context. While, my authorities acknowledge that continued efforts are needed to implement the difficult policy measures of the program, they also firmly believe that the involvement of the Fund under the new Emergency Post-conflict Assistance (EPCA) along with that of other donors, through technical and financial assistance, remain critical to mitigate the risks of a political or social disruption, and contributing to create an environment conducive to macroeconomic stability.

My authorities are committed to implementing all the policy measures described in the EPCA aiming to move as soon as possible to a PRGF program. The progressive recovery of the macroeconomic situation would induce the improvement of the social indicators which in turn would contribute to the achievement of the MDGs.

## II. Recent developments

### Political and Security Situation

The security environment has been improved, thanks to the support from regional and international community peacekeeping forces. The troops from France and the Central

African and Economic (CEMAC) group continue to carry out their duties towards the peace process. Almost 1000 combatants have been disarmed in the framework of the Disarmament, Demobilization, and Reintegration (DDR) program supported by United Nations. In order to ensure a global security climate throughout the national territory, the CAR's armed forces are making repeated operations towards rural areas aiming at stopping bands residual attacks.

The national dialogue conducted by my authorities since 2003 has led to a peaceful legislative and presidential elections held respectively during March and May 2005. International observers underscored that these elections were broadly fair and democratic. My authorities are working closely with major stakeholders, including representatives of parties and unions to explain to them the policy measures envisaged under the EPCA program so as to build a consensus around these measures.

**Recent Economic Developments**

The economic situation improved slightly under the EPCA program despite the capacity constraints and the climate of wait-and-see which affected negatively economic activities during the transition period. Real GDP grew by 1.3 percent in 2004, the best growth rate in several years. For 2005, it is estimated at 2.2 percent. After falling by 2.2 percent in 2004, inflation increased in the first half of 2005 but remains under control. The stability of the real exchange rate since 1995 along with good agriculture production underpinned this favorable performance in CAR which is in line with the CEMAC trend. Likewise, the external current account position has been strengthened in 2004 and similar improvement is expected in 2005. On the monetary side, there was an increase of credit to the private sector, reflecting the resumption of activity as confidence is coming back progressively in the CAR economy.

In view of the many challenges facing the authorities, and despite their best efforts, program performance has been mixed. On the positive side, my authorities introduced several measures which improved the domestic tax collections in 2004 over 2003. They have also taken steps to better control smuggling at customs. On the expenditure management side, some progress was registered, including the introduction of a monthly cash flow plan, and better identifying spending at the commitment stage. Concerning the governance issues, a new organizational structure for the Ministry of Justice, including a financial unit, was introduced in mid- 2005. The mission assigned to this unit is to strengthen the government' ability to prosecute corruption cases and to defend the financial interests of the state in legal affairs. Regarding the public procurement, the government envisages to reform the existing law by updating the current regulations. Finally, efforts to enhance the transparency have been made through regular publication of information on fiscal revenue and expenditure, as well as on allocation of permits in the mining and forestry sector. However, the lower than programmed revenue collection in 2004 and in the first half of 2005 was due to the climate of wait-and-see by the private sector prior to the elections. Many enterprises reduced the scope of their economic activities during that period. As to the wage bill slippages, they reflect partly the negative consequences of the National Dialogue which resulted in the appointment in the administration of parties representatives participating to this dialogue.

**III. Medium-term outlook and policies for the second half of 2005**

The estimated growth rate of 2.2 percent of GDP reflects an improvement of activities in the diamond and agricultural sectors expected in the second half of 2005. Inflation is expected to decrease slightly, offsetting the pick up underlined in the first semester of 2005. Overall, inflation will return at its historical level of 2-3 percent, in line with the CEMAC countries trend. The flow of remittances along with other improvement in the services account is expected to induce a reduction of external current deficit of around 0.5 percent of GDP. With the gradual return in confidence, and as the reform efforts take hold, the authorities expect real GDP growth, over the medium term, to be around 3.5-4 percent. However, given the country sizable endowments with natural resources and arable land and taking into account the authorities' desire to break off with the past and put their economy on the path of macroeconomic stability and growth, they believe that, with strong external assistance, the growth could be higher.

**Fiscal Policy**

My authorities remain concerned by the low revenue-to-GDP ratio, which reflects the frequent disruption of political and economic situation which led to, namely a disappearance of formal private sector and the development of bad practices, including fraud and corruption.

Reacting against the downward trend of revenue collection in 2005, the authorities are curtailing tax exemptions and exceptional customs clearance procedures. They are also considering measures to address revenue shortfalls linked to widespread smuggling by the informal sector. In line with the FAD technical assistance recommendations, they are exerting a greater focus on domestic tax administration which is improving, as recognized the staff.

Regarding the expenditure side, my authorities are convinced that the stabilization of macroeconomic stance in the Central African Republic requires measures to bring the wage bill to a level that is consistent with the revenue collection. However, given the high unemployment rate, the large salary arrears, the authorities are proceeding cautiously by seeking the appropriate measures which will preserve the political and social stability. In this regard, they do not think that an immediate cut in salaries is appropriate at the present time. However, they are starting a census of civil servants as a means of identifying anomalies in the payroll files. The result of the survey will enable them to take the necessary measures that will reduce the size of the wage bill.

On public expenditure management, the authorities are working with FAD in order to reform the system and ensure that most spending will have corresponding budgetary allocations. As to the government domestic arrears, while continuing the ongoing investigation, with World Bank assistance, they envisage to finalize a strategy in early 2006 for eliminating this stock. Before the complete elaboration of the strategy, they will seek assistance from donors so as to mobilize the needed clearance funds.

**Monetary Policy and Banking Sector**

Thanks to the institutional arrangement supervised by the BEAC, the level of inflation remains low. The banking system remains at the heart of the authorities' strategy to reinvigorate the economy. In this regard, the authorities are committed to maintaining close attention to the banks' compliance with existing regulations, in particular by addressing as soon as possible the problem of the only bank in breach of the law. Likewise, to ensure a broad access to financial services, they envisage to take measures to strengthen microfinance, in partnership with donors.

**Structural reforms**

Other reforms aimed at improving the business climate are underway. In this context, the authorities are considering the possibility of giving the billing and collection services of the electricity and water companies to private units so as to stop the large losses undergone by these companies. In the forestry sector, the authorities are also making repeated inspections to discourage smuggling and improve the payment of stumpage fees and taxes. The information published on the sector will be widen to include export activities and taxes paid. Similar actions, including the reinforcement of the capacity of the office of diamond and gold valuation, are underway. The reforms aimed at easing the cost of doing business in terms of labor regulations and protecting investors, will be undertaken as soon as possible.

With regard to the policies aimed at boosting trade and enhancing competitiveness in the CAR economy, my authorities are fully convinced of the importance of trade liberalization and regional integration in the context of the CEMAC. The authorities appreciate the staff's recommendations regarding the necessary reforms to improve competitiveness, including easing the rules on hiring and firing, strengthening security throughout the country, and rehabilitating the land and river transport infrastructures.

**External debt**

The debt burden, estimated in both the baseline and alternative scenarios, is unsustainable, with the NPV of external debt at about 480 percent. The stock of external arrears is estimated at about 25 percent of GDP. My authorities are committed to engage in discussions with their multilateral and bilateral creditors, in order to reach a credible and comprehensible arrears clearance plan. To be consistent with their strategy to reduce the debt burden and pave the way to future PRGF program, for all new external financing they will seek grants. However, They would like to point out that, grants may not always be forthcoming and in a timely way.

**Social indicators and the PRSP**

The intermittent conflicts and frequent economic disruption resulted in a profound deterioration of standards of living, as reflected the social indicators which rank the country among the poorest in Sub-Saharan African countries. Key actions, including the provision of health, and education services and HIV/AID treatment and prevention to the population require donor support. The authorities are determined to finalize the full PRSP, which is expected by the first quarter of 2006. They welcome the World Bank support which is instrumental in the achievement of participatory process and setting a monitoring and evaluation device.

**Donor coordination**

Given the extent of needs and the urgent response needed, my authorities have focused their priorities on tax and customs administration, public expenditure management, the reform of the judicial system, statistics, and the PRSP process. To be effective in addressing accurately these challenging objectives, the authorities stress the need for an acceleration and better coordination of the assistance devoted to CAR.

**IV. Conclusion**

The economic and social conditions of the CAR economy are very fragile and require the concerted efforts of the international community to move the country forward. It is clear that prospects for economic recovery in CAR hinge, not only on the reestablishment of peace and security throughout the country, but also on the acceleration of donor support. My authorities are aware of the enormous challenges facing the economy and are committed to implement skillfully but firmly all the measures needed to reverse the situation. In this regard, the Fund’s role will be crucial to set a credible post-conflict program which could pave the way to a PRGF-supported program and lead to debt relief opportunities under HIPC Initiative while preserving or consolidating the political and social equilibrium gained since the beginning of transition in 2003.

The fragility of the political situation has increased with a population displaying a deepening impatience against the difficult economic situation and recurrent wage bill problem in the public sector. In that context, we would like to appeal to the international community for an urgent and adequate contribution consistent with the nature and the dimension of the problem.