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Central African Republic: Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance and Modification of Performance Criteria, Request for Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative, and Financing Assurances Review—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Central African Republic

In the context of the third review under the three-year arrangement under the Poverty Reduction and Growth Facility, request for waivers of nonobservance and modification of performance criteria, requests for interim assistance under the enhanced heavily indebted poor countries initiative, and financing assurances review for the Central African Republic, the following documents have been released and are included in this package:

- The staff report for the Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance and Modification of Performance Criteria, Request for Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on September 25, 2008, 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 December 4, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Press Release summarizing the views of the Executive Board as expressed during its December 22, 2008 discussion of the staff report that completed the review.

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

The documents listed below have been separately released.

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

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

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance and Modification of Performance Criteria, Request for Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative, and Financing Assurances Review

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

Approved by Emilio Sacerdoti and Patricia Alonso-Gamo

December 4, 2008

Fund relations:	In December 2006 the Executive Board approved a three-year PRGF arrangement for the Central African Republic (C.A.R.) in an amount equivalent to SDR 36.2 million (65 percent of quota). C.A.R. reached the decision point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in September 2007. The IMF Board completed the second review in June 2008 and approved an access augmentation of SDR 8.355 million (15 percent of quota).
Mission discussions:	Program performance in the first half of 2008 was generally satisfactory. Understandings were reached on quantitative and structural performance criteria through June 2009. SDR 5.885 million will become available when this review is completed. The authorities requested additional interim HIPC assistance of SDR 3.119 million to cover 96 percent of PRGF principal payment obligations due in 2009.
Mission team:	Mr. Petri (head), Mr. Kinoshita, Mr. Hitakatsu (all AFR), and Ms. Schumacher (MCM). Mr. Ntamatungiro (resident representative) assisted, and the World Bank team participated.
Location and dates:	Bangui, September 11–25, 2008
Interlocutors:	President of the Republic General Bozizé; Prime Minister Mr. Touadéra; Minister of State for Economy and Plan Mr. Maliko; Minister of Finance and Budget Mr. Bizot; Deputy National Director of BEAC Mrs. Limbio; other senior officials; and representatives of civil society, the press, donors, and the business community.

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Appendix Tables

ACRONYMS

AfDB	African Development Bank
BEAC	*Banque des États de l'Afrique Centrale* (Bank of Central African States)
CEMAC	*Communauté Économique et Monétaire de l'Afrique Centrale* (Economic and Monetary Community of Central Africa)
DSA	Debt Sustainability Analysis
FSAP	Financial Sector Assessment Program
HIPC	Heavily Indebted Poor Countries
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
QB	Quantitative benchmark
PA	Prior Action
PEFA	Public expenditure and financial accountability
PFM	Public financial management
PRGF	Poverty Reduction and Growth Facility
PC	Performance criterion
SB	Structural benchmark
SOE	State-owned enterprise
SPC	Structural performance criterion
TMU	Technical Memorandum of Understanding
TSA	Treasury Single Account

EXECUTIVE SUMMARY

The C.A.R. economy, though growing, is confronting unexpected major shocks. Global food price hikes and fuel price volatility jeopardize growth, inflation, and the balance of payments. Average inflation for 2008 is now projected at 8½ percent compared to 2½ percent previously. Recent breakdowns at the main hydro power plant caused very serious power outages that have had negative economic and social effects, and the growth projection was revised downward to 3½ from 5 percent. Nevertheless, the government has been moving vigorously to achieve program objectives. Revenue mobilization efforts have brought steady increases in the domestic revenue-to-GDP ratio, and the authorities control spending tightly.

For the first half of 2008, program performance was satisfactory. Fiscal performance was as expected, and all quantitative performance criteria (PCs) were met except for the PC on external arrears (temporary deviation) and on net credit from commercial banks (minor deviation). Despite progress in implementing structural conditionality, delays require waivers for the structural PC on the automatic petroleum price adjustment formula and the plan for settling domestic arrears. There were minor modifications to year-end targets.

Despite the global slowdown, in 2009 economic growth in the C.A.R. is expected to increase to 4½ percent and inflation to fall to 5 percent. The external current account deficit is expected to improve to 8½ percent of GDP, as world oil prices fall, but official transfers are likely to be lower.

The main program objectives are to (i) further mobilize domestic revenue; (ii) make the budget more comprehensive by incorporating government utility consumption and extrabudgetary operations; (iii) generate a domestic primary surplus of 0.7 percent of GDP; (iv) clear domestic arrears by 1½ percent of GDP without recourse to commercial banks; (v) reduce the quasi-fiscal losses of state-owned enterprises (SOEs); and (vi) continue reforming revenue administration and public financial management (PFM).

The main program risks are lack of institutional capacity, political instability, and electricity supply disruptions. More predictable aid inflows and technical assistance are vital to addressing these risks. Electricity shortages must be reduced to achieve medium-term growth objectives.

I. INTRODUCTION

1. **The C.A.R. economy is growing but confronts major unexpected shocks.** Recovery in economic activity since 2005 has been supported by growing private consumption, foreign investment, and commodity exports. However, global food price hikes and fuel price volatility jeopardize growth, inflation, and the balance of payments. Recent breakdowns at the main hydro power plant—the result of many years of underinvestment and poor management—caused power outages that had serious economic and social effects.

2. **Nevertheless, the government has strived to achieve program objectives.** To protect the budget from rising fuel subsidies, retail petroleum prices were raised in June 2008; as of November 2008, all petroleum products except kerosene are priced above full cost recovery. Revenue mobilization efforts have brought steady increases in the domestic revenue-to-GDP ratio. A treasury committee is controlling expenditures, supported by the highest authorities; it is now supported by a committee of technical experts, supervised by the Minister of Finance.

II. NEAR-TERM OUTLOOK AND PROGRAM PERFORMANCE

A. Economic Developments and Outlook for 2008

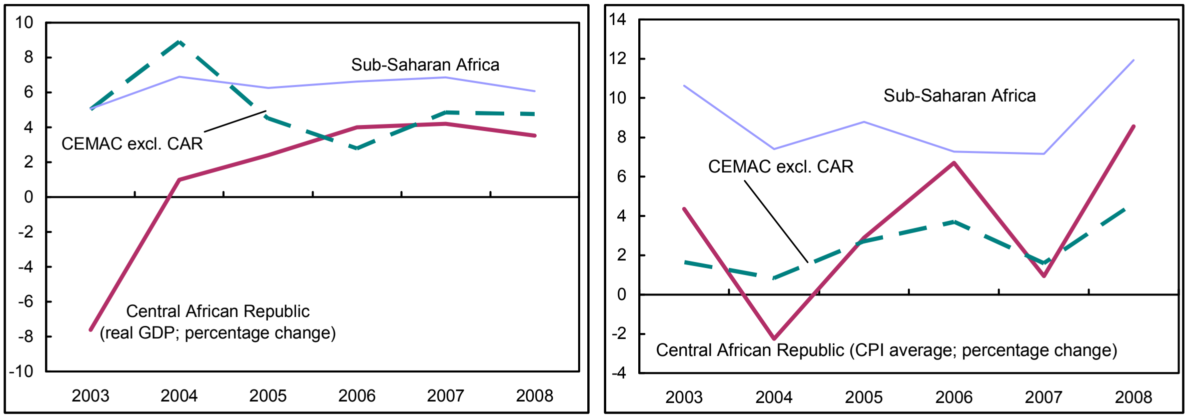
3. **The global downturn, electricity shortages, and fuel and food price increases have slowed growth.** Demand for timber has declined, and the unstable domestic security situation has reduced diamond exports. The unreliable electricity supply impacted growth, prices, and the provision of social services.[1] As a result, projected real GDP growth in 2008 falls from the previous estimate of 4.9 percent to 3.5 percent.

4. **Inflation shot up because of food and fuel price hikes**. In September 2008, CPI inflation increased to 11.7 percent (year-on-year) reflecting surging food (70 percent of the CPI basket) and fuel prices. Average CPI inflation is now expected to reach 8.6 percent in 2008 rather than the expected 2.6 percent. As a result, the urban poor in particular face severe problems even though most of the population lives in rural areas and produces most food for itself.

[1] Companies use their own generators (if available), which cost much more than hydro-electricity. Importantly, water production and distribution is partially disrupted with negative consequences for public health.

Figure 1. Central African Republic: Growth and Inflation Developments, 2003–08

Growth slowed and is lower than regional average, and inflation increased.

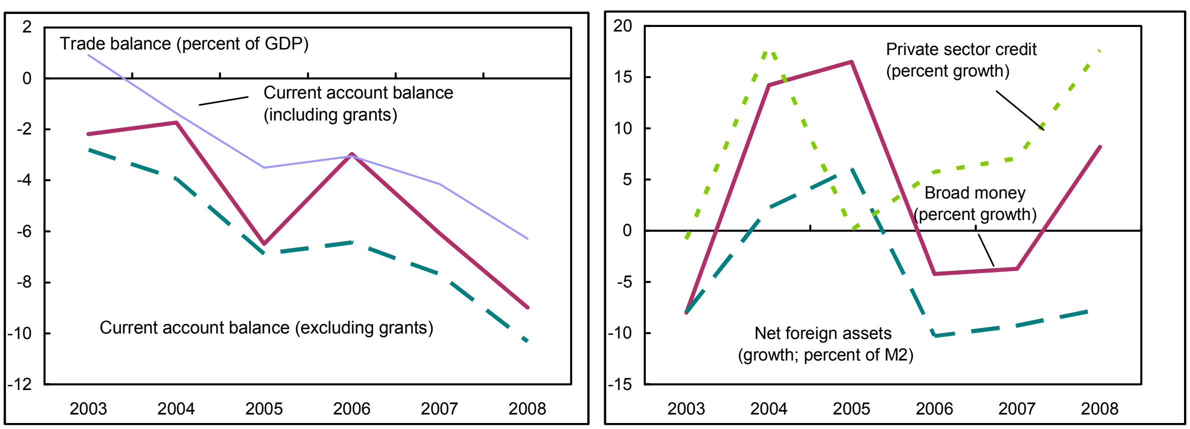


Sources: C.A.R. authorities; and IMF staff estimates.

5. **Trade developments have deteriorated the current account balance.** Fuel imports alone will increase by about 1½ percentage points of GDP over 2007, and export volumes of timber and diamonds, are expected to stagnate. Overall, in 2008 the current account deficit including grants is projected to reach 9 percent of GDP, with official international reserves falling to 2.1 months of imports from 2.5 months in 2007 (Figure 2).

Figure 2. Central African Republic: External and Monetary Developments, 2003–08

The current account balance has deteriorated substantially and this is reflected in a loss of net foreign assets.



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

B. Program Performance

6. **Fiscal performance through June 2008 was in line with the program.** The domestic revenue target of CFAF 46.5 billion was met (Text Table 1), despite negative shocks to the economy and underperformance of customs revenues due to personnel changes.

Text Table 1. Central African Republic: Quantitative Performance Criteria and Benchmarks Under the PRGF Arrangement, 2008

(Billions of CFA francs; cumulative from December 31, 2007; ceilings, unless otherwise indicated)

	End-March Benchmark		End-June Performance Criteria		
	Program	Actual	Program	Adjusted Program	Actual
Performance criteria					
Floor on total government revenue [1]	23.0	22.4	46.5	46.5	46.6
Floor on domestic primary balance [2]	0.5	5.3	1.0	1.0	8.0
Change in net claims of the commercial banking system on the government, excluding bonds	5.0	5.6	-0.5	6.1	6.9
New nonconcessional external debt [3 4]	0.0	0.0	0.0	0.0	0.0
Accumulation of government external payments arrears [4]	0.0	0.0	0.0	0.0	0.1
Indicative targets					
NPV of external debt	…	...	…	...	...
Floor on poverty-related spending [5]	4.5	n.a.	9.5	9.5	10.9
Reduction in domestic payments arrears	2.0	2.7	5.0	5.0	3.6
Net accumulation of tax arrears	0.0	0.7	0.0	0.0	1.4
Memorandum items:					
Projected grants for budget support	0.3	0.0	7.4	7.4	0.8
Projected bonds issued in the regional market	0.0	0.0	0.0	0.0	0.0
Of which: held by domestic commercial banks	0.0	0.0	0.0	0.0	0.0
Maximum adjustor for government net claims on commercial banks in case of grants shortfalls	0.0	0.0	7.0	7.0	7.0

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

[1] Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, TMU, for more details).
[2] The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditures.
[3] Contracted or guaranteed by the government (see the TMU).
[4] These performance criteria will be monitored continuously.
[5] Total spending on health and education including wages and salaries and goods and services.

Together with tight controls of cash expenditure the domestic primary balance target was met comfortably. Net credit from commercial banks at mid-year, adjusted for grant shortfalls, was slightly above the PC ceiling because the BEAC delayed the transfer of the June IMF disbursement. The government exceeded the quantitative benchmark (QB) on social spending but did not meet the QB on reducing tax arrears, in part because of arrears of SOEs. The QB on reducing domestic arrears was missed by a small margin due to lack of financing.

7. **The authorities are working to stay current on external debt payments.** For technical reasons related to internal payment processing, temporary arrears were accumulated with the African Development Bank (AfDB) and the Arab Bank for Economic Development in Africa, thus requiring a waiver for nonobservance of the continuous PC. These arrears have now been cleared. The authorities are working to resolve two issues with the help of the Paris Club and the AfDB. In February 2008, after a HIPC-eligible debt was purchased by a domestic entity, the authorities started servicing this debt before reaching a debt relief agreement because they thought the debt had become domestic. The minimal amount involved (about $1 million) should not affect the financing of the program. The authorities are negotiating in good faith with one commercial creditor who threatened to sue the C.A.R. for nonpayment.

8. **In October 2008 the authorities did not adjust domestic fuel prices as the automatic quarterly formula required (continuous structural PC (SPC)), but excises are higher than expected because international fuel prices have declined**. The authorities feared that increasing fuel prices in October by some 10 percent could have elicited adverse social reactions when international prices were falling. By keeping domestic fuel prices unchanged, fuel taxes in December are now more than 10 percent higher than targeted; subsidies on diesel and heavy fuel were eliminated, and those on kerosene significantly reduced. The authorities request a waiver because the deviation was temporary and they have now formalized the application of the formula by issuing a ministerial instruction that defines how minimum retail prices are calculated.

9. **A plan to repay domestic arrears was published with a delay in December 2008** (end-September SPC, Text Table 2). The plan sets minimum annual clearance targets and specifies a transparent method for accelerated payments should additional financing become available. A waiver is requested because the deviation was temporary.

10. **The authorities made progress in other structural reforms.** In September 2008, the government set up a liquidity committee to manage cash flows (end-June structural benchmark (SB)). The committee's work is crucial to reducing financing costs, avoiding payment arrears, and preparing for eventual sale of government securities. Because of serious disruptions in electricity and water supply and public dissatisfaction with their delivery, the government was unable to adjust electricity and water tariffs in June 2008 (SB). The authorities decided instead to help improve the financial situation of the utility SOEs by fully incorporating government utility consumption into the 2009 budget, clearing arrears, and monitoring improvement in collection ratios of the three major utilities (new QB). The

authorities also decided to study the tariff structure for electricity and water; once done, they intend to adjust tariffs to achieve long-run cost recovery.

11. **The authorities are progressing toward the HIPC completion point.** The education and health triggers are complete; those for public financial management (PFM), procurement, forestry, debt management, and governance should be met by year-end; but the mining and public administration triggers are likely to slip into 2009. Many creditors have indicated their willingness to provide debt relief (more than 70 percent creditor participation is secured so far), and the authorities are negotiating to secure HIPC-consistent debt relief.

Text Table 2. Central African Republic: Structural Conditionality Implementation, 2008

Measure	Date	Status
Structural performance criteria		
Continue applying automatic quarterly petroleum product pricing formula. [1]	Continuous	Not implemented in October 2008. Due to the decline in international prices, excise levels in December are now higher than originally targeted by the program.
Set up and publish a plan to repay domestic arrears.[1]	End-September	Implemented with delay in December.
Structural benchmarks		
Increase tariffs for water by 5 percent and for electricity by 5 percent for the upper tranches of consumption.[1]	End-June	Not implemented due to the electricity crisis and uncertainty regarding long-term cost recovery tariff levels. The revised program targets improvement in collection rates instead.
Set up a liquidity committee including BEAC members to review monthly, weekly, and daily cash flow and expenditure commitment forecasts and assess liquidity needs.[1]	End-June	Implemented with delay.
Use turnover as the sole criterion for taxpayer classification with a turnover of CFAF 50 million as the minimum threshold for large taxpayers, VAT registration, and the standard tax system.	End-December	Expected to be done. Upon advice by a recent AFRITAC TA mission, the turnover threshold was changed to CFAF 30 million to ensure a sufficiently large number of taxpayers for the LTO.
Increase the number of audits in 2008 to cover (i) at least 30 percent of large and medium-sized taxpayers per year; (ii) all stop-filers; and (iii) all filers with VAT credit claims or zero balance returns.	End-December	Expected to be done.
Implement a treasury single account (TSA).	End-December	Rescheduled to end-June 2009 due additional time needed for preparation.
Fully computerize the debt management unit and enable it to provide debt service projections for various scenarios.	End-December	Expected to be implemented

Source: IMF staff assessments.

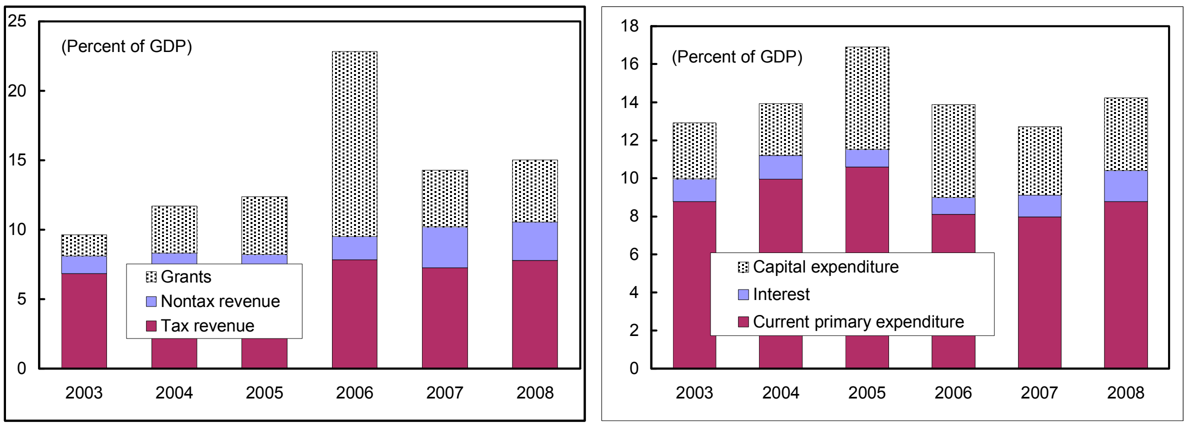
[1] Conditions for the 3rd review under the PRGF arrangement.

C. Revised Program for 2008

12. **The fiscal program now targets higher domestic revenue and a slightly lower domestic primary surplus.** Revenues were revised based on stronger performance in direct taxes and nontax revenues (Figure 3). On the expenditure side, the government assumed liabilities of three SOEs (½ percent of GDP), which were recorded as capital transfers; given the already tight expenditure program, the domestic primary surplus target had to be reduced to zero from the previous 0.3 percent of GDP (Figure 4). The ceiling on net claims of commercial banks on the government was adjusted accordingly.

Figure 3. Central African Republic: Revenue and Expenditure Developments, 2003–08

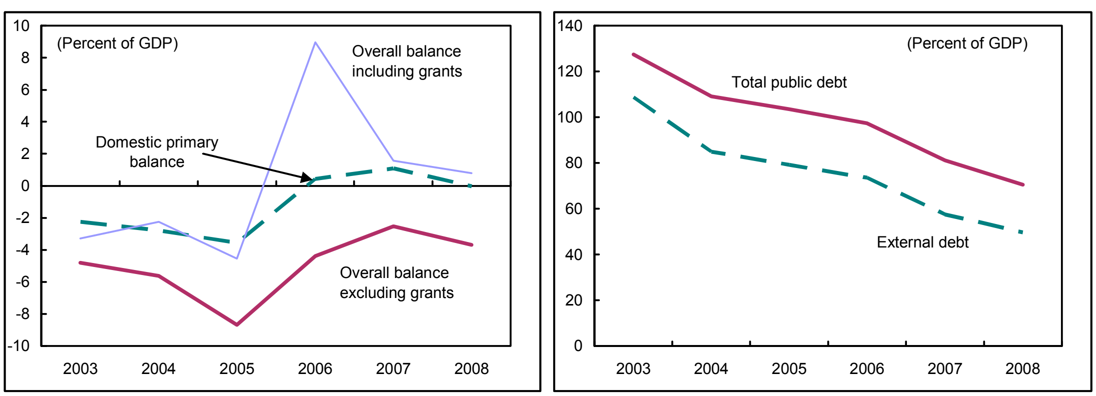
Domestic revenue is on an upward path; cash spending is becoming less compressed allowing arrears to decline.



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

Figure 4. Central African Republic: Fiscal Balance and Debt Developments, 2003–08

Small domestic primary surpluses are maintained; total debt continues to decline thanks to debt relief.



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

III. Outlook and Program for 2009

A. Economic Prospects

13. **Despite the global slowdown, economic growth is expected to recover in 2009.** Stable agricultural production, faster implementation of donor-financed projects (particularly roads), and more public spending should contribute to the recovery, and domestic factors that undermined economic activity in 2008—public sector strikes and disruptions in electricity—will probably not be repeated. The world financial crisis will likely have a limited impact (Box 1). Real GDP growth is therefore projected to reach 4½ percent (Figure 5). Average CPI inflation is expected to fall to 5 percent as the impact of oil and food prices fades.

14. The external current account deficit is expected to fall to 8½ percent of GDP in 2009, primarily because falling world oil prices. Commodity exports are assumed to be negatively affected by the slowdown in main export markets, and current transfers, particularly official transfers, are projected to be lower.

Box 1. Central African Republic: Impact of the World Financial Crisis

The world financial crisis has had little impact so far. The C.A.R. is financially isolated. The possible transmission channels would be foreign direct investment, international trade, and donor assistance, where the impact should be small.

The crisis should not hit C.A.R.'s three local banks through financial channels because the mother banks, also based in Africa, are generally not affected by the crisis. Therefore, they are not expected to withdraw funds from local banks or reduce credit. Local banks receive no credit lines or other trade-related banking facilities from correspondent banks because country risk is high, and they do not hold securities. Moreover, the banks have a solid capital base.

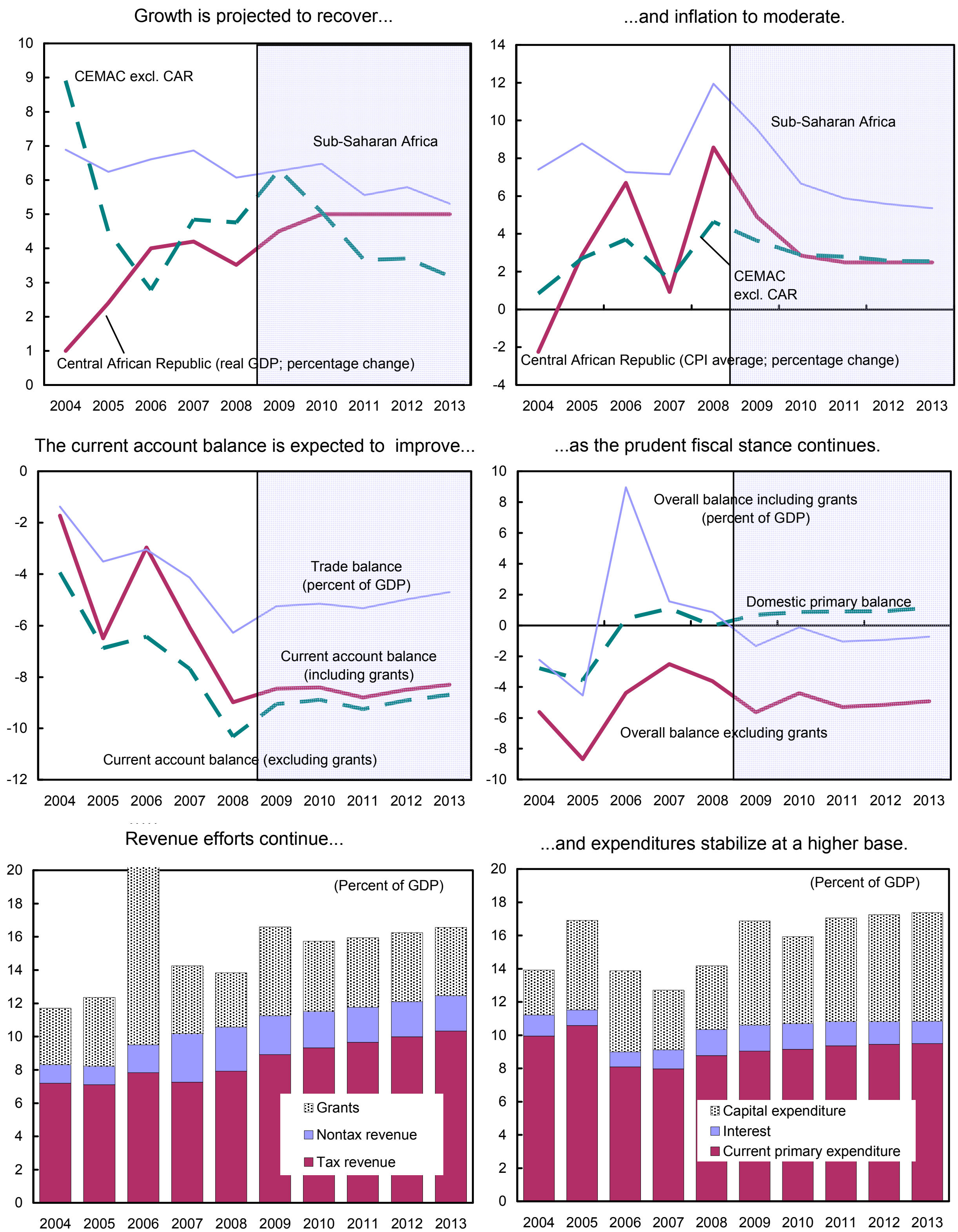
The financial crisis is expected to deter forestry and diamond exports. Already unsold timber is accumulating at the port of Douala. Lower international demand could affect diamond exports as well, although the recent cancellation of export licenses may have more effect. The overall balance of payments impact might be ½ percent of GDP in 2009. Over the medium term, multinational mining companies might postpone investments, anticipating lower international demand. However, local banks have not extended loans to these companies, which self-finance their operations.

B. Economic Policies for 2009

The 2009 Budget

15. **C.A.R.'s overarching policy objective is to preserve fiscal discipline and consolidate government finances to reinforce the foundation for accelerated growth.** Priorities in the 2009 budget are to mobilize domestic revenue; make the budget more reliable by incorporating government utility consumption and extrabudgetary operations; generate a domestic primary surplus; and clear domestic arrears without recourse to commercial banks. Submission of the 2009 budget aligned with the program was a prior action for the review.

Figure 5. Central African Republic: Macroeconomic Framework, 2004-13



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

16. **Domestic revenues are expected to rise significantly.** The domestic revenue-to-GDP ratio is projected to increase by 0.6 percentage points, to 11.2 percent, mainly because of fuel tax increases (0.5 percent of GDP), measures taken in the 2008 supplementary budget, and integrating activities that were previously outside the budget (see below). Nontax revenue would decline moderately because there will be no one-time telecommunications license payments in 2009. To ensure that revenue objectives are reached, the 2009 budget envisages a number of policy and administrative measures (MEFP ¶20).

17. **Higher domestic revenue will make more domestic primary spending possible.** The 2009 budget fully encompasses government utility consumption: this is critical not only to give the state credibility as a responsible financial actor but also to help address serious deferred maintenance in the energy and water sectors. More resources would also enable the government to pay all its current obligations, recruit additional staff in health and education, and implement measures to mitigate the social impact of higher food prices (with the assistance of the World Bank). Based on the revised October 2008 WEO projections, no significant domestic fuel price adjustments would be required in 2009, but fuel subsidies would be reduced by 0.5 percent of GDP, creating space for more productive expenditures.

18. **The domestic primary fiscal surplus would increase substantially.** The surplus (0.7 percent of GDP) will allow the government to clear domestic arrears without recourse to expensive commercial loans. Sale of government securities[2] or additional grants could make it possible for the government to accelerate clearance of domestic arrears and replace relatively high-cost commercial bank credit. Meanwhile, the domestic primary surplus needs to be held at about 1 percent of GDP over the medium term to improve C.A.R.'s debt sustainability (see supplement on debt sustainability analysis).

19. **Broadening budget coverage is an important objective.** The 2009 budget incorporates ¼ percent of GDP of earmarked revenues and expenditures of currently extrabudgetary communications, petroleum, and electricity regulatory agencies.

Structural Reforms

20. **Structural reforms are directed to areas critical to growth and stability**. Here, restoring the financial health of the utility SOEs is crucial: improvement in the collection ratio (cash collected over amount billed) is a program QB (MEFP ¶17), as are regular current payments by the government, which combined with arrears clearance will help improve SOE performance. For the electricity company, this could pave the way to financing the much- needed expansion of hydropower generation capacity, which at about 18 megawatts is significantly below demand at about 26 megawatts. The cost of expansion by 10 megawatts is estimated at about 1 percent of GDP; financing on concessional terms, although not yet identified, is tentatively budgeted for 2009.

21. **PFM reform will support smooth execution of the budget and enhance absorptive capacity.** Among crucial reforms are fully computerizing the expenditure chain

[2] The program envisions selling government securities on the regional market in the second half of 2009 for an amount of about CFAF 30 billion (CFAF 20 billion is assumed to be purchased by domestic banks).

from commitment to payment, controlling commitments, and closely monitoring arrears; establishing a treasury single account; publishing monthly reports by the treasury and the liquidity committee; and limiting government guarantees (MEFP ¶21; this has been a weakness in the past). These measures, along with others undertaken to strengthen cash and debt management, are preconditions for the C.A.R. to be able access the regional market for government securities in the second half of 2009.

IV. Program Monitoring and Financing

22. **The fifth and sixth PRGF disbursements will be based on test dates for end-December 2008 and end-June 2009**. Quantitative and structural conditionality are defined in MEFP Tables 1 and 2. The program is expected to be fully financed in 2009 even without access to the regional financial markets. External debt service projections include payments to multilateral creditors; there is some uncertainty about budget grant projections.

V. Staff Appraisal

23. **Satisfactory implementation of the PRGF-supported program has helped the C.A.R. become more resilient to shocks.** Increasing domestic fuel excises has been politically challenging, and there were temporary deviations from the automatic pricing formula, but implementing it has allowed the government to generate much-needed revenue for priority expenditures.

24. **The program addresses remaining vulnerabilities and supports economic recovery.** Implementing the domestic arrears clearance plan and improving the financial situation of SOEs would help restore confidence and pave the way for more investment, which will also be helped by the adoption of new forestry and mining codes.

25. **The main risks are inadequate institutions, political instability, and electricity supply disruptions.** The success of the program depends on political stability and well-coordinated efforts to build up institutions. Political stability hinges on successful implementation of the peace agreements signed with rebel movements. Predictable aid inflows and technical assistance are necessary to address these risks. The recurrent electricity shortages must be reduced if medium-term growth objectives are to be achieved.

26. **Staff recommends completion of the third review of the PRGF arrangement and the financing assurances review and supports the request for waivers for nonobservance of PCs.** The deviations on the PCs for external payment arrears, automatic petroleum pricing formula, and a domestic arrears payment plan were temporary, and the deviation for net commercial bank credit was minor.

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2004–13 [1]

	2004	2005	2006	2007	2008		2009		2010	2011	2012	2013
				Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
National income and prices												
GDP at constant prices	1.0	2.4	4.0	4.2	4.9	3.5	5.0	4.5	5.0	5.0	5.0	5.0
GDP at current prices	1.3	6.2	8.4	6.3	7.4	8.2	8.5	8.0	7.5	7.5	7.5	7.5
GDP deflator	0.3	3.7	4.3	2.0	2.5	4.5	3.5	3.3	2.4	2.4	2.4	2.4
Consumer prices												
CPI (annual average)	-2.2	2.9	6.7	0.9	2.6	8.6	5.1	4.9	2.9	2.5	2.5	2.5
CPI (end-of-period)	-0.3	1.7	7.1	-0.2	4.6	11.6	5.0	3.4	2.5	2.5	2.5	2.5
Central government finance												
Total revenue and grants	23.1	12.2	100.3	-33.6	13.3	4.9	15.0	29.6	1.9	8.9	9.5	9.6
Total expenditure	9.2	28.9	-11.0	-2.7	28.0	21.2	15.3	28.5	1.6	15.1	8.7	8.2
Money and credit												
Net domestic assets [2]	11.7	10.9	6.5	2.8	6.9	15.8	...	8.1	...	...	...	...
Domestic credit [2]	13.4	10.2	7.9	3.6	4.9	15.3	...	3.8	...	...	...	...
Broad money	14.2	16.5	-4.2	-3.7	-7.0	8.2	...	8.0	...	...	...	...
Velocity of broad money (end-of-period)	6.3	5.8	6.0	6.6	8.0	7.0	...	7.0	...	...	...	...
External sector												
Exports, f.o.b. (US$ basis)	4.4	-4.0	22.7	13.0	10.8	4.4	9.0	-1.0	7.7	10.8	11.8	9.8
Export volume	2.2	-9.9	15.0	5.8	7.8	0.7	9.0	6.3	8.5	9.8	10.6	8.4
Imports, f.o.b. (US$ basis)	28.5	16.4	15.0	22.9	19.9	25.0	3.5	-7.9	7.1	11.1	7.9	7.2
Import volume	19.3	9.6	8.6	18.3	12.3	15.9	1.6	-7.9	4.6	8.7	5.7	6.4
Terms of trade	-5.2	0.3	0.7	2.9	-3.7	-3.9	-1.9	-6.9	-3.0	-1.2	-0.9	0.5
Nominal effective exchange rate	1.7	-0.2	0.2	1.9	...	...		...	...	...	...	...
Real effective exchange rate	-0.9	0.0	5.7	0.6	...	...		...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)											
Gross national savings	5.1	3.3	7.2	3.9	3.9	2.1	4.4	5.4	5.1	5.6	6.1	6.4
Of which: current official transfers	2.2	0.4	3.5	1.6	1.4	1.3	0.5	0.6	0.5	0.5	0.4	0.4
Gross domestic savings	0.3	1.7	2.4	0.7	1.6	-0.6	2.7	3.6	3.3	4.0	4.6	5.0
Government	-2.0	-2.9	1.1	1.7	4.6	1.2	4.5	1.5	1.7	1.9	2.2	2.7
Private sector	2.3	4.7	1.4	-1.0	-3.0	-1.8	-1.9	2.1	1.7	2.2	2.4	2.4
Consumption	99.7	98.3	97.6	99.3	98.4	100.6	97.3	96.4	96.7	96.0	95.4	95.0
Government	8.5	8.6	6.8	6.2	3.5	6.5	4.4	7.1	7.3	7.4	7.4	7.4
Private sector	91.2	89.6	90.8	93.1	94.9	94.1	92.9	89.3	89.4	88.5	87.9	87.5
Gross investment	6.8	9.8	10.1	9.9	10.3	11.1	10.5	13.9	13.5	14.5	14.7	14.8
Government	2.8	5.2	4.9	3.8	3.7	3.8	3.7	6.3	5.2	6.2	6.4	6.5
Private sector	4.0	4.5	5.2	6.1	6.6	7.2	6.9	7.6	8.2	8.2	8.2	8.2
Current transfers and factor income (net)	4.8	1.6	4.7	3.1	2.3	2.7	1.7	1.8	1.7	1.6	1.5	1.4
External current account balance	-1.7	-6.5	-3.0	-6.1	-6.4	-9.0	-6.2	-8.4	-8.4	-8.8	-8.5	-8.4
Overall balance of payments	-2.9	-1.1	3.0	-3.5	-3.8	-2.8	-1.7	-2.4	-2.5	-1.6	-1.5	-1.6
Central government finance												
Total revenue	11.7	12.4	22.8	14.3	15.0	13.8	15.9	16.6	15.7	15.9	16.2	16.6
Total expenditure [3]	-13.9	-16.9	-13.9	-12.7	-15.1	-14.2	-16.1	-16.9	-16.0	-17.2	-17.3	-17.5
Overall balance [3]												
Excluding grants	-5.6	-8.7	-4.4	-2.5	-4.7	-3.7	-4.4	-5.7	-4.5	-5.4	-5.2	-5.0
Including grants	-2.2	-4.5	9.0	1.6	-0.1	-0.4	-0.1	-0.3	-0.3	-1.2	-1.1	-0.9
Domestic primary balance [4]	-2.8	-3.6	0.4	1.1	0.3	0.0	0.7	0.7	0.9	0.9	0.9	1.1
NPV of external public and guaranteed debt	...	...	...	41.3	36.8	36.5	34.5	38.2	33.7	30.2	26.9	23.0
Public sector debt	102.9	106.0	93.7	77.8	71.7	76.2	64.8	69.3	63.6	58.1	53.0	47.7
Of which: domestic debt [5]	24.1	24.4	23.8	23.7	21.5	21.3	19.1	18.8	19.4	18.6	17.8	17.2
Gross official foreign reserves												
(millions of US$, end-of-period)	148.4	147.1	129.9	86.5	69.3	78.0	78.9	81.6	88.2	98.3	107.3	120.0
(months of imports, f.o.b.)	6.4	6.5	4.6	2.5	1.8	2.1	2.0	2.2	2.2	2.2	2.3	2.4
Nominal GDP (CFAF billions)	670.7	712.1	772.2	820.6	881.3	887.6	956.2	958.7	1,031	1,108	1,191	1,280
Exchange rate (average; CFA francs per US$)	528.3	527.5	522.9	478.7	...	...	...	...	...	...	...	...

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

[1] The macroeconomic framework assumes that the C.A.R. reaches the HIPC completion point in 2009; the balance of payments projections incorporate debt relief expected to be delivered at the completion point.

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

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

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

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

Table 2. Central African Republic: Central Government Operations, 2004–13 [1]

(CFAF billions)

	2004	2005	2006	2007		2008			2009		2010	2011	2012	2013
				H1	Est.	H1	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	78.5	88.0	176.3	55.4	117.0	59.7	132.6	122.8	152.5	159.1	162.1	176.6	193.5	212.1
Domestic revenue	55.8	58.6	73.4	44.2	83.6	46.6	92.3	93.8	112.3	107.8	118.8	130.4	144.1	159.4
Tax revenue	48.3	50.6	60.4	31.6	59.5	34.4	67.8	70.3	91.2	85.4	96.2	107.0	119.0	132.4
Taxes on profits and property	15.6	14.7	17.5	6.5	14.4	8.3	17.7	17.3	18.7	18.7	20.8	23.2	25.9	28.9
Taxes on goods and services	32.7	35.9	42.9	25.1	45.1	26.0	50.2	53.0	72.5	66.7	75.3	83.7	93.1	103.5
Of which : taxes on international trade	10.6	9.5	15.3	7.7	14.5	7.8	18.2	16.8	20.6	21.7	24.0	26.6	29.6	32.8
Nontax revenue	7.5	8.0	12.9	12.6	24.1	12.2	24.4	23.5	21.0	22.5	22.6	23.4	25.1	27.0
Grants	22.7	29.5	102.9	11.2	33.4	13.1	40.4	28.9	40.3	51.2	43.3	46.2	49.3	52.6
Program	14.8	2.7	75.7	8.1	13.2	0.8	12.1	11.9	5.0	5.7	5.0	5.0	5.0	5.0
Project	7.9	26.7	27.2	3.1	20.2	12.3	28.3	17.0	35.3	45.5	38.3	41.2	44.3	47.6
Expenditure [2]	-93.4	-120.4	-107.2	-52.2	-104.3	-55.7	-133.5	-126.4	-153.9	-162.4	-165.0	-190.0	-206.5	-223.4
Current primary expenditure	-66.7	-75.4	-62.5	-35.6	-65.4	-35.3	-77.4	-77.9	-94.2	-86.8	-94.4	-103.7	-112.6	-121.7
Wages and salaries	-38.9	-39.2	-37.2	-18.1	-36.3	-18.2	-37.5	-37.5	-41.1	-39.6	-44.6	-49.6	-53.3	-57.3
Transfers and subsidies	-10.0	-14.0	-10.2	-8.8	-14.7	-7.2	-20.1	-20.5	-22.5	-18.7	-19.1	-21.1	-23.9	-26.3
Goods and services	-17.8	-22.2	-15.2	-8.7	-14.4	-9.9	-19.8	-19.9	-30.6	-28.5	-30.7	-33.0	-35.5	-38.1
Interest due	-8.5	-6.6	-6.9	-4.9	-9.5	-4.9	-12.8	-14.4	-13.0	-15.6	-16.8	-17.4	-17.3	-18.2
External	-5.5	-3.6	-4.2	-1.2	-3.7	-2.8	-9.2	-9.0	-9.7	-9.1	-9.5	-11.2	-12.3	-14.5
Domestic	-3.0	-3.0	-2.7	-3.7	-5.8	-2.1	-3.6	-5.4	-3.3	-6.5	-7.3	-6.2	-5.0	-3.7
Capital expenditure	-18.2	-38.4	-37.7	-11.7	-29.4	-15.6	-43.3	-34.1	-46.7	-60.0	-53.9	-69.0	-76.6	-83.6
Domestically financed	-7.7	-8.4	-7.5	-3.5	-9.2	-3.3	-11.8	-16.1	-11.5	-14.5	-15.5	-16.7	-20.3	-23.1
Externally financed	-10.5	-29.9	-30.2	-8.2	-20.2	-12.3	-31.5	-18.0	-35.3	-45.5	-38.3	-52.3	-56.2	-60.4
Overall balance [2]														
Excluding grants	-37.7	-61.8	-33.8	-8.0	-20.6	-9.2	-41.2	-32.6	-41.7	-54.6	-46.2	-59.6	-62.3	-64.0
Of which: domestic primary balance [3]	-18.6	-25.3	3.3	5.1	9.0	8.0	3.1	-0.2	6.6	6.6	8.9	10.0	11.2	14.6
Including grants	-15.0	-32.4	69.1	3.2	12.8	4.0	-0.8	-3.7	-1.4	-3.3	-2.9	-13.4	-13.0	-11.4
Change in arrears (net; (-) = reduction)	21.1	26.9	-50.2	-3.9	-11.0	-3.6	-15.0	-10.0	-15.0	-15.0	-15.0	-10.0	-10.0	-10.0
Domestic	2.9	9.4	-9.7	-1.5	-8.6	-3.6	-15.0	-10.0	-15.0	-15.0	-15.0	-10.0	-10.0	-10.0
External [4]	18.2	17.5	-40.5	-2.4	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	6.1	-5.5	18.9	-0.7	1.8	0.3	-15.8	-13.7	-16.4	-18.3	-17.9	-23.4	-23.0	-21.4
Identified financing	-6.1	5.5	-8.8	0.7	0.7	3.9	6.1	17.7	9.8	18.3	17.9	23.4	23.0	21.4
External, net	-14.6	-4.5	-12.9	-4.2	-9.5	0.9	9.2	6.8	4.3	7.9	4.5	7.9	7.9	6.0
Project loans	2.6	3.2	3.0	0.0	0.0	0.0	3.2	1.0	0.0	0.0	0.0	11.1	11.9	12.8
Program loans	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-17.2	-11.8	-15.9	-4.4	-12.4	-8.5	-11.4	-11.2	-12.0	-12.3	-25.9	-26.0	-27.6	-35.8
Exceptional financing	0.0	0.0	0.0	0.2	2.9	9.4	17.4	17.0	16.3	20.2	30.4	22.8	23.6	29.0
Paris Club [5]	0.0	0.0	0.0	...	1.5	...	1.0	1.0	1.0	1.1	1.4	1.0	0.9	0.4
Other [6]	0.0	0.0	0.0	...	1.4	...	16.4	16.1	15.3	19.1	29.0	21.9	22.6	28.6
Domestic, net	8.5	10.0	4.1	4.9	10.2	3.0	-3.2	10.9	5.6	10.4	13.4	15.5	15.2	15.4
Banking system	8.5	10.0	4.1	4.9	10.2	5.2	-9.0	11.4	-2.3	0.5	-5.4	-5.7	-9.0	-10.9
Counterpart to IMF resources (BEAC)	3.1	-2.6	2.2	1.6	2.4	-2.5	-3.5	6.8	-2.3	4.4	-1.2	-0.6	-1.3	-3.2
Central Bank	6.7	10.2	-2.3	3.0	6.8	0.8	-5.6	-1.3	0.0	-4.3	0.0	-0.9	-3.5	-3.6
Commercial banks	-1.4	2.4	4.2	0.3	1.0	6.9	0.0	5.8	0.0	0.4	-4.2	-4.2	-4.2	-4.2
Of which: bonds	...	...	...	0.0	...	0.0	14.8	0.0	0.0	21.0	-4.2	-4.2	-4.2	-4.2
Nonbank	0.0	0.0	0.0	0.0	0.0	-2.2	5.9	-0.5	7.9	9.9	18.8	21.2	24.2	26.3
Errors and omissions	0.0	0.0	-10.1	0.0	-2.5	4.3	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need [7]	0.0	0.0	0.0	0.0	0.0	0.0	9.8	0.0	6.6	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Government domestic debt	161.6	173.4	183.9	...	194.2	185.2	189.4	188.9	182.6	180.2	199.8	205.6	211.9	220.2
Of which: domestic arrears	109.7	109.7	109.7	...	114.7	...	94.7	104.7	79.7	89.7	74.7	64.7	54.7	44.7
Nominal GDP	670.7	712.1	772.2	820.6	820.6	887.6	881.3	887.6	956.2	958.7	1,031	1,108	1,191	1,280

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

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

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

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

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

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

[6] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, also includes debt service to non-Paris Club and commercial creditors. For 2010 onward, reflects full delivery of HIPC and MDRI relief on a flow basis.

[7] The gap in 2008–09 program columns is equivalent to the PRGF disbursement, including the augmentation, which was approved with the second PRGF review.

Table 3. Central African Republic: Central Government Operations, 2004–13 [1]

(Percent of GDP)

	2004	2005	2006	2007		2008			2009		2010	2011	2012	2013
				H1	Est.	H1	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	11.7	12.4	22.8	6.8	14.3	6.7	15.0	13.8	15.9	16.6	15.7	15.9	16.2	16.6
Domestic revenue	8.3	8.2	9.5	5.4	10.2	5.2	10.5	10.6	11.7	11.2	11.5	11.8	12.1	12.5
Tax revenue	7.2	7.1	7.8	3.9	7.3	3.9	7.7	7.9	9.5	8.9	9.3	9.7	10.0	10.3
Taxes on profits and property	2.3	2.1	2.3	0.8	1.8	0.9	2.0	1.9	2.0	1.9	2.0	2.1	2.2	2.3
Taxes on goods and services	4.9	5.0	5.6	3.1	5.5	2.9	5.7	6.0	7.6	7.0	7.3	7.6	7.8	8.1
Of which : taxes on international trade	1.6	1.3	2.0	0.9	1.8	0.9	2.1	1.9	2.2	2.3	2.3	2.4	2.5	2.6
Nontax revenue	1.1	1.1	1.7	1.5	2.9	1.4	2.8	2.6	2.2	2.3	2.2	2.1	2.1	2.1
Grants	3.4	4.1	13.3	1.4	4.1	1.5	4.6	3.3	4.2	5.3	4.2	4.2	4.1	4.1
Program	2.2	0.4	9.8	1.0	1.6	0.1	1.4	1.3	0.5	0.6	0.5	0.5	0.4	0.4
Project	1.2	3.8	3.5	0.4	2.5	1.4	3.2	1.9	3.7	4.7	3.7	3.7	3.7	3.7
Expenditure [2]	-13.9	-16.9	-13.9	-6.4	-12.7	-6.3	-15.1	-14.2	-16.1	-16.9	-16.0	-17.2	-17.3	-17.5
Current primary expenditure	-9.9	-10.6	-8.1	-4.3	-8.0	-4.0	-8.8	-8.8	-9.9	-9.1	-9.2	-9.4	-9.5	-9.5
Wages and salaries	-5.8	-5.5	-4.8	-2.2	-4.4	-2.0	-4.3	-4.2	-4.3	-4.1	-4.3	-4.5	-4.5	-4.5
Transfers and subsidies	-1.5	-2.0	-1.3	-1.1	-1.8	-0.8	-2.3	-2.3	-2.4	-1.9	-1.9	-1.9	-2.0	-2.1
Goods and services	-2.7	-3.1	-2.0	-1.1	-1.8	-1.1	-2.2	-2.2	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0
Interest due	-1.3	-0.9	-0.9	-0.6	-1.2	-0.6	-1.4	-1.6	-1.4	-1.6	-1.6	-1.6	-1.5	-1.4
External	-0.8	-0.5	-0.5	-0.1	-0.4	-0.3	-1.0	-1.0	-1.0	-0.9	-0.9	-1.0	-1.0	-1.1
Domestic	-0.5	-0.4	-0.4	-0.5	-0.7	-0.2	-0.4	-0.6	-0.3	-0.7	-0.7	-0.6	-0.4	-0.3
Capital expenditure	-2.7	-5.4	-4.9	-1.4	-3.6	-1.8	-4.9	-3.8	-4.9	-6.3	-5.2	-6.2	-6.4	-6.5
Domestically financed	-1.1	-1.2	-1.0	-0.4	-1.1	-0.4	-1.3	-1.8	-1.2	-1.5	-1.5	-1.5	-1.7	-1.8
Externally financed	-1.6	-4.2	-3.9	-1.0	-2.5	-1.4	-3.6	-2.0	-3.7	-4.7	-3.7	-4.7	-4.7	-4.7
Overall balance [2]														
Excluding grants	-5.6	-8.7	-4.4	-1.0	-2.5	-1.0	-4.7	-3.7	-4.4	-5.7	-4.5	-5.4	-5.2	-5.0
Of which: domestic primary balance [3]	-2.8	-3.6	0.4	0.6	1.1	0.9	0.3	0.0	0.7	0.7	0.9	0.9	0.9	1.1
Including grants	-2.2	-4.5	9.0	0.4	1.6	0.4	-0.1	-0.4	-0.1	-0.3	-0.3	-1.2	-1.1	-0.9
Change in arrears (net; (-) = reduction)	3.1	3.8	-6.5	-0.5	-1.3	-0.4	-1.7	-1.1	-1.6	-1.6	-1.5	-0.9	-0.8	-0.8
Domestic	0.4	1.3	-1.3	-0.2	-1.0	-0.4	-1.7	-1.1	-1.6	-1.6	-1.5	-0.9	-0.8	-0.8
External [4]	2.7	2.5	-5.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	0.9	-0.8	2.4	-0.1	0.2	0.0	-1.8	-1.5	-1.7	-1.9	-1.7	-2.1	-1.9	-1.7
Identified financing	-0.9	0.8	-1.1	0.1	0.1	0.4	0.7	2.0	1.0	1.9	1.7	2.1	1.9	1.7
External, net	-2.2	-0.6	-1.7	-0.5	-1.2	0.1	1.0	0.8	0.4	0.8	0.4	0.7	0.7	0.5
Project loans	0.4	0.5	0.4	0.0	0.0	0.0	0.4	0.1	0.0	0.0	0.0	1.0	1.0	1.0
Program loans	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-2.6	-1.7	-2.1	-0.5	-1.5	-1.0	-1.3	-1.3	-1.3	-1.3	-2.5	-2.3	-2.3	-2.8
Exceptional financing	0.0	0.0	0.0	0.0	0.4	1.1	2.0	1.9	1.7	2.1	2.9	2.1	2.0	2.3
Paris Club [5]	0.0	0.0	0.0	0.0	0.2	...	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Other [6]	0.0	0.0	0.0	0.0	0.2	...	1.9	1.8	1.6	2.0	2.8	2.0	1.9	2.2
Domestic, net	1.3	1.4	0.5	0.6	1.2	0.3	-0.4	1.2	0.6	1.1	1.3	1.4	1.3	1.2
Banking system	1.3	1.4	0.5	0.6	1.2	0.6	-1.0	1.3	-0.2	0.1	-0.5	-0.5	-0.8	-0.9
Counterpart to IMF resources (BEAC)	0.5	-0.4	0.3	0.2	0.3	-0.3	-0.4	0.8	-0.2	0.5	-0.1	-0.1	-0.1	-0.2
Central Bank	1.0	1.4	-0.3	0.4	0.8	0.1	-0.6	-0.1	0.0	-0.4	0.0	-0.1	-0.3	-0.3
Commercial banks	-0.2	0.3	0.5	0.0	0.1	0.8	0.0	0.7	0.0	0.0	-0.4	-0.4	-0.4	-0.3
Of which: bonds	...	...	...	...	...	0.0	1.7	0.0	0.0	2.2	-0.4	-0.4	-0.4	-0.3
Nonbank	0.0	0.0	0.0	0.0	0.0	-0.2	0.7	-0.1	0.8	1.0	1.8	1.9	2.0	2.1
Errors and omissions	0.0	0.0	-1.3	0.0	-0.3	0.5	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need [7]	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Government domestic debt	24.1	24.4	23.8	...	23.7	20.9	21.5	21.3	19.1	18.8	19.4	18.6	17.8	17.2
Of which: domestic arrears	16.4	15.4	14.2	...	14.0	...	10.7	11.8	8.3	9.4	7.2	5.8	4.6	3.5

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

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

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

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

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

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

[6] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, also includes debt service to non-Paris Club and commercial creditors. For 2010 onward, reflects full delivery of HIPC and MDRI relief on a flow basis.

[7] The gap in 2008–09 program columns is equivalent to the PRGF disbursement, including the augmentation, which was approved with the second PRGF review.

Table 4. Central African Republic: Balance of Payments, 2004–13 [1]

	2004	2005	2006	2007	2008		2009		2010	2011	2012	2013
				Est.	Prog.	Proj.[2]	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(CFAF billions)											
Current account	-11.6	-46.2	-22.9	-49.8	-56.3	-79.7	-58.8	-80.9	-86.6	-97.9	-101.7	-107.1
Balance on goods	-9.2	-25.0	-23.5	-33.9	-30.8	-55.7	-26.5	-50.3	-53.0	-59.0	-59.3	-60.2
Exports, f.o.b.	70.6	67.3	82.3	85.2	96.7	82.6	104.9	90.1	96.6	106.6	118.7	129.7
Diamonds	27.8	32.8	32.7	29.7	36.3	27.7	38.5	29.9	31.7	33.6	35.7	37.8
Wood products	28.8	25.7	39.8	42.0	46.6	42.3	49.5	44.3	46.1	49.0	52.0	55.2
Other	14.1	8.8	9.9	13.5	13.8	12.7	16.9	15.8	18.8	24.0	31.0	36.6
Imports, f.o.b.	-79.8	-92.3	-105.8	-119.2	-127.5	-138.4	-131.4	-140.3	-149.6	-165.6	-177.9	-189.8
Petroleum products	-17.8	-17.7	-26.0	-32.7	-33.8	-46.3	-34.9	-35.3	-40.7	-44.7	-48.2	-50.7
Public investment program	-6.8	-14.4	-13.7	-11.0	-13.4	-12.8	-14.0	-22.5	-20.2	-25.8	-28.6	-31.3
Other	-55.2	-60.2	-66.1	-75.5	-80.3	-79.3	-82.5	-82.6	-88.8	-95.0	-101.2	-107.9
Services (net)	-34.5	-32.3	-35.8	-41.5	-45.8	-47.5	-48.7	-48.4	-51.5	-56.6	-60.6	-64.5
Credit	21.6	23.3	27.0	29.4	30.5	30.4	32.1	31.8	33.4	35.0	36.8	38.6
Debit	-56.1	-55.6	-62.8	-70.9	-76.3	-77.9	-80.8	-80.1	-84.8	-91.6	-97.4	-103.1
Income (net)	-7.1	-5.2	-5.8	-4.9	-10.6	-9.9	-11.3	-10.0	-10.5	-12.2	-13.3	-15.5
Credit	4.9	5.0	5.5	6.1	6.2	6.7	6.4	7.0	7.4	7.7	8.1	8.5
Debit	-12.0	-10.2	-11.3	-11.0	-16.8	-16.6	-17.7	-17.0	-17.8	-19.9	-21.4	-24.0
Of which: interest due on public debt	-5.6	-3.7	-4.5	-3.8	-9.3	-9.1	-9.8	-9.2	-9.6	-11.3	-12.4	-14.5
Current transfers (net)	39.2	16.2	42.2	30.5	30.8	33.5	27.7	27.7	28.4	29.8	31.5	33.2
Of which: program grants	14.8	2.7	26.8	13.2	12.1	11.9	5.0	5.7	5.0	5.0	5.0	5.0
Capital account	7.9	26.7	67.7	25.4	13.4	17.0	16.7	45.5	38.3	41.2	44.3	47.6
Project grants	7.9	26.7	27.2	20.2	13.4	17.0	16.7	45.5	38.3	41.2	44.3	47.6
Capital grants and transfers	0.0	0.0	40.5	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-15.9	11.6	-21.6	-4.0	9.6	38.2	25.7	12.4	22.2	39.1	39.4	39.5
Public sector (net)	-14.6	-4.5	-12.9	-12.4	-8.2	-10.2	-12.0	-12.3	-25.9	-14.9	-15.7	-23.0
Project disbursements	2.6	3.2	3.0	0.0	3.2	1.0	0.0	0.0	0.0	11.1	11.9	12.8
Program disbursements	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-17.2	-11.8	-15.9	-12.4	-11.4	-11.2	-12.0	-12.3	-25.9	-26.0	-27.6	-35.8
Private sector (net)	-1.3	16.2	-8.7	8.3	17.8	48.4	37.7	24.7	48.0	54.1	55.1	62.5
Of which: nonresident purchases of T-bills	...	...	...	...	5.9	0.0	7.9	9.9	19.2	21.2	24.2	26.3
Overall balance	-19.5	-7.9	23.2	-28.5	-33.3	-24.5	-16.4	-23.0	-26.1	-17.5	-18.1	-19.9
Identified financing	19.5	7.9	-23.2	28.5	23.5	24.5	9.8	23.0	26.1	17.5	18.1	19.9
Net official reserves movements	1.4	-9.6	17.3	27.9	6.1	7.5	-6.4	2.9	-4.3	-5.3	-5.5	-9.0
Net IMF credit	3.1	-2.6	2.2	2.4	-3.5	6.8	-2.3	4.4	-1.2	-0.6	-1.3	-3.2
Purchases and loans	4.4	0.0	5.4	15.2	0.0	10.3	0.0	6.9	0.0	0.0	0.0	0.0
Repayments (cash basis)	-1.3	-2.6	-3.1	-12.8	-3.5	-3.4	-2.3	-2.5	-1.2	-0.6	-1.3	-3.2
Other reserves (increase=–)	-1.8	-7.1	15.1	25.5	9.5	0.7	-4.1	-1.5	-3.1	-4.7	-4.2	-5.8
Exceptional financing	18.2	17.5	-40.5	0.5	17.4	17.0	16.3	20.2	30.4	22.8	23.6	29.0
Debt rescheduling	...	...	...	2.9	17.4	17.0	16.3	20.2	30.4	22.8	23.6	29.0
Paris Club [3]	...	...	...	1.5	1.0	1.0	1.0	1.1	1.4	1.0	0.9	0.4
Other exceptional financing [4]	...	...	...	1.4	16.4	16.1	15.3	19.1	29.0	21.9	22.6	28.6
Debt payments arrears (decrease=–) [5]	18.2	17.5	-40.5	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing need [6]	0.0	0.0	0.0	0.0	9.8	0.0	6.6	0.0	0.0	0.0	0.0	0.0
Memorandum items:	(Annual percentage change, unless otherwise indicated)											
Terms of trade	-5.2	0.3	0.7	2.9	-3.7	-3.9	-1.9	-6.9	-3.0	-1.2	-0.9	0.5
Unit price of exports (US$ basis)	2.1	6.6	6.6	6.8	2.8	3.7	-0.1	-6.9	-0.7	1.0	1.1	1.2
Unit price of imports (US$ basis)	7.7	6.2	5.9	3.8	6.7	7.8	1.9	0.0	2.4	2.2	2.1	0.8
Export volumes	2.2	-9.9	15.0	5.8	7.8	0.7	9.0	6.3	8.5	9.8	10.6	8.4
Import volumes	19.3	9.6	8.6	18.3	12.3	15.9	1.6	-7.9	4.6	8.7	5.7	6.4
Export values in CFA francs	-5.1	-4.7	22.3	3.5	4.3	-3.0	8.5	9.0	7.3	10.4	11.3	9.3
Import values in CFA francs	16.9	15.7	14.6	12.6	12.8	16.1	3.1	1.4	6.7	10.7	7.5	6.7
Gross official foreign reserves												
(CFAF billions, end-of-period)	72.6	79.6	64.5	39.0	31.1	38.3	35.3	39.9	42.9	47.6	51.8	57.6
(months of imports, f.o.b.)	6.4	6.5	4.6	2.5	1.8	2.1	2.0	2.2	2.2	2.2	2.3	2.4
Current account (percent of GDP)	-1.7	-6.5	-3.0	-6.1	-6.4	-9.0	-6.2	-8.4	-8.4	-8.8	-8.5	-8.4
Trade balance (percent of GDP)	-1.4	-3.5	-3.0	-4.1	-3.5	-6.3	-2.8	-5.2	-5.1	-5.3	-5.0	-4.7
Capital account (percent of GDP)	1.2	3.8	8.8	3.1	1.5	1.9	1.8	4.7	3.7	3.7	3.7	3.7
Total external debt (percent of GDP)	85.0	79.2	73.5	57.5	50.2	49.8	45.7	50.6	44.3	39.6	35.2	30.6
Nominal GDP (CFAF billions)	670.7	712.1	772.2	820.6	881.3	887.6	956.2	958.7	1,031	1,108	1,191	1,280

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

[1] The macroeconomic framework assumes that the C.A.R. reaches the HIPC completion point in 2009; the balance of payments projections incorporate debt relief expected to be delivered at the completion point.

[2] The external debt service includes payments to some multilateral creditors.

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

[4] Includes HIPC debt relief from multilateral and other bilateral creditors. For 2008–09, includes debt service to non-Paris Club and commercial creditors. For 2010 onward, reflects full delivery of HIPC and MDRI relief on a flow basis.

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

[6] The gap in 2008–09 program columns is equivalent to the PRGF disbursement, including the augmentation, which was approved with the second PRGF review.

Table 5. Central African Republic: Monetary Survey, 2004–09

	2004	2005	2006	2007	2008		2009
				Est.	Prog.	Proj.	Proj.
	(CFAF billions, end of period)						
Net foreign assets	49.5	56.2	43.0	31.6	16.8	22.5	22.4
Bank of Central African States (BEAC)	51.4	59.7	43.6	17.0	2.2	7.9	7.7
Operations account	69.6	77.0	61.6	35.8	28.7	26.5	28.1
Use of IMF credit	-21.2	-20.0	-21.0	-22.0	-29.0	-30.4	-32.1
Other	3.0	2.6	2.9	3.2	2.5	11.8	11.8
Commercial banks	-1.9	-3.5	-0.6	14.6	14.6	14.6	14.6
Net domestic assets	60.7	72.2	80.0	86.8	93.4	105.6	116.0
Domestic credit	115.4	126.1	135.7	143.6	149.5	161.7	166.6
Credit to the public sector	60.2	72.0	79.3	84.5	86.0	97.5	95.3
Credit to central government (net)	62.9	74.2	80.9	89.6	91.0	102.5	100.3
BEAC	58.7	67.7	70.1	77.8	79.2	84.9	82.3
Current account	25.1	32.1	36.2	16.1	10.4	14.7	10.4
Consolidated loans	14.6	17.2	18.4	41.1	41.1	41.1	41.1
IMF (net)	21.2	20.0	21.0	22.0	29.0	30.4	32.1
Deposits	-2.2	-1.6	-5.4	-1.4	-1.3	-1.3	-1.3
Commercial banks	4.2	6.6	10.8	11.8	11.8	17.6	18.0
Credit to other public agencies (net)	-2.7	-2.2	-1.6	-5.0	-5.0	-5.0	-5.0
Credit to the economy	55.2	54.1	56.4	59.1	63.6	64.2	71.4
Public enterprises	6.7	5.6	5.2	4.2	4.2	4.2	4.2
Private sector	48.4	48.5	51.3	54.9	59.4	60.0	67.2
Other items (net)	-54.6	-53.9	-55.7	-56.8	-56.2	-56.1	-50.7
Money and quasi-money	110.2	128.4	123.0	118.4	110.2	128.1	138.3
Currency	81.3	89.9	80.9	58.9	52.1	60.6	62.1
Deposits	28.9	38.6	42.0	59.5	58.1	67.5	76.2
Demand deposits	16.4	23.8	24.5	38.3	33.9	39.4	49.0
Term and savings deposits	12.5	14.7	17.5	21.2	24.2	28.1	27.2
	(Annual change, percent of beginning period broad money)						
Net foreign assets	2.2	6.1	-10.3	-9.3	-13.8	-7.7	-0.1
Net domestic assets	12.0	10.4	6.0	5.6	6.9	15.8	8.1
Net domestic credit	13.6	9.8	7.5	6.4	4.9	15.3	3.8
Net credit to central government	7.9	10.3	5.2	7.0	1.1	10.9	-1.7
Credit to the economy	6.0	-1.0	1.8	2.1	3.8	4.3	5.6
Money and quasi–money	14.2	16.5	-4.2	-3.7	-7.0	8.2	8.0
	(Annual percentage change)						
Monetary base	15.3	17.4	-14.8	-18.5	-11.1	-7.2	2.5
Credit to the economy	11.6	-1.9	4.3	4.7	7.6	8.7	11.1
Public enterprises	-20.2	-16.2	-8.3	-19.1	0.2	0.2	0.0
Private sector	18.2	0.1	5.8	7.1	8.2	9.4	11.9
Memorandum items:							
NDA of the central bank (CFAF billions)	32.3	38.6	40.1	51.3	52.7	55.4	57.2
Monetary base (CFAF billions)	83.7	98.3	83.7	68.2	54.9	63.3	64.9
Nominal GDP (CFAF billions)	670.7	712.1	772.2	820.6	881.3	887.6	958.7
Velocity (GDP/broad money)							
End of period	6.1	5.5	6.3	6.9	8.0	6.9	6.9

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

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

Availability date	Disbursements (SDRs)	Disbursements (Percent of quota)	Conditions
December 22, 2006	17,600,000	31.6	Approval of the arrangement
September 27, 2007	3,100,000	5.6	Disbursed upon completion of the first review
June 18, 2008	8,670,000	15.6	Completion of the second review
Of which : augmentation[2]	5,570,000	10.0	
November 1, 2008	5,885,000	10.6	Completion of the third review (end-June 2008 test date)
Of which : augmentation[2]	2,785,000	5.0	
May 1, 2009	3,100,000	5.6	Completion of the fourth review (end-December 2008 test date)
August 31, 2009	3,100,000	5.6	Completion of the fifth review (end-June 2009 test date)
November 30, 2009	3,100,000	5.6	Completion of the sixth (final) review (end-September 2009 test date)[3]
Total	44,555,000	80.0	

[1] The C.A.R.'s quota is SDR 55.7 million.
[2] Approved at the time of the second review.
[3] A test date of end-September 2009 is set to allow the final disbursement to take place before the arrangement expires.

Table 7. Central African Republic: Indicators of Capacity to Repay the Fund, 2007–17 [1]

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
		Projections									
Fund obligations based on existing credit											
Principal (SDR millions)	17.4	4.9	3.3	1.6	0.8	1.8	5.0	5.9	5.9	5.9	4.1
Charges and interest (SDR millions)	0.6	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Fund obligations based on existing and prospective credit											
Principal (SDR millions)	17.4	4.9	3.3	1.6	0.8	1.8	5.0	7.4	8.9	8.9	7.2
Charges and interest (SDR millions)	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.2
Total obligations based on existing and prospective credit											
SDR millions	18.0	5.3	3.6	2.0	1.2	2.2	5.4	7.7	9.2	9.2	7.4
CFAF billions	13.2	3.8	2.7	1.5	0.9	1.6	4.0	5.7	6.8	6.8	5.4
Percent of government revenue	15.8	4.0	2.5	1.3	0.7	1.1	2.5	3.2	3.5	3.1	2.3
Percent of exports of goods and services	11.5	3.3	2.2	1.1	0.6	1.0	2.4	3.1	3.4	3.1	2.3
Percent of debt service [2]	45.6	15.8	11.2	4.2	2.6	4.5	8.7	13.3	28.2	27.8	23.9
Percent of GDP	1.6	0.4	0.3	0.1	0.1	0.1	0.3	0.4	0.5	0.4	0.3
Percent of quota	32.3	9.6	6.5	3.6	2.2	3.9	9.7	13.8	16.6	16.5	13.2
Outstanding Fund credit [2]											
SDR millions	31.2	40.9	47.0	45.4	44.6	42.8	37.8	30.4	21.5	12.6	5.5
CFAF billions	22.9	28.8	34.9	33.6	33.0	31.6	27.9	22.4	15.9	9.3	4.0
Percent of government revenue	27.4	30.7	32.3	28.3	25.3	21.9	17.5	12.7	8.1	4.3	1.7
Percent of exports of goods and services	20.0	25.5	28.6	25.9	23.3	20.3	16.6	12.3	8.0	4.3	1.7
Percent of debt service [2]	79.1	121.3	143.9	94.2	96.6	89.5	61.1	52.5	65.9	38.2	17.7
Percent of GDP	2.8	3.2	3.6	3.3	3.0	2.7	2.2	1.6	1.1	0.6	0.2
Percent of quota	56.1	73.4	84.3	81.4	80.0	76.8	67.8	54.6	38.6	22.6	9.8
Net use of Fund credit (SDR millions)	3.3	9.7	6.1	-1.6	-0.8	-1.8	-5.0	-7.4	-8.9	-8.9	-7.2
Disbursements	20.7	14.6	9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	17.4	4.9	3.3	1.6	0.8	1.8	5.0	7.4	8.9	8.9	7.2
Memorandum items:											
Nominal GDP (CFAF billions)	821	888	959	1,031	1,108	1,191	1,280	1,378	1,484	1,599	1,726
Exports of goods and services (CFAF billions)	115	113	122	130	142	155	168	183	198	215	234
Government revenue (CFAF billions)	84	94	108	119	130	144	159	176	195	215	238
Debt service (CFAF billions) [2]	29.0	23.7	24.2	35.7	34.1	35.3	45.6	42.7	24.1	24.4	22.7

Source: IMF staff estimates and projections.

[1] Assumes a PRGF augmentation of 15 percent of quota (SDR 8.355 million), of which 10 percent of quota (SDR 5.57 million) and 5 percent of quota (SDR 2.785 million) to be disbursed upon completion of the second and third PRGF reviews, respectively.

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

Appendix I. Letter of Intent

Bangui, December 4, 2008

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

Mr. Strauss-Kahn:

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

2. The attached memorandum of economic and financial policies (MEFP) supplements previous memoranda attached to the letters dated November 30, 2006, September 7, 2007, and June 3, 2008. The latter sets quantitative and structural performance criteria for end-June 2008 for completion of the third review (fourth disbursement) of the PRGF arrangement.

3. The quantitative performance criteria for the completion of the third review under the PRGF arrangement were observed except for the ceiling on the accumulation of external payments arrears and the ceiling on net credit from commercial banks. For the ceiling on the accumulation of external payments arrears we request a waiver because the deviations were temporary and for the ceiling on net credit from commercial banks we request a waiver because the deviation was minor. We also request a waiver for implementing the structural performance criterion on publishing a strategy for the repayment of arrears with a delay of two months and a waiver for the temporary deviation in the application of the automatic petroleum price formula. On the basis of our overall performance and on the strength of the policies set forth in the attached memorandum, we request completion of the third PRGF review and disbursement of the fourth loan in the amount of SDR 5.885 million, including SDR 2.785 million from the augmentation of access of June 2008. We also request disbursement of interim HIPC assistance in the amount of SDR 3.119 million, which will be used to cover about 96 percent of PRGF principal payment obligations due during January through December 2009.

4. The government believes that the policies set forth in the attached MEFP will enable it to meet its program objectives but is ready to take any other measures that might be necessary. The Central African Republic will, in accordance with Fund policy, consult with the Fund on adoption of any measures that may be appropriate and before revising the policies set out in the attached MEFP. The fourth review of the PRGF arrangement is expected to be completed no later than the end of June 2009.

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

6. The government implemented one prior action before Executive Board consideration of our request for completion of the third review of the PRGF-supported program. The prior action was the presentation to parliament of a draft budget for 2009 in line with the program as defined in the TMU.

Sincerely yours,

________/s/________

Prof. Faustin Archange Touadéra
Prime Minister

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

Appendix I. Attachment I. Central African Republic

Memorandum of Economic and Financial Policies, 2008–09

December 4, 2008

I. Introduction

1. Since the Government of the Central African Republic (C.A.R.) began implementing its medium-term macroeconomic and financial program in late 2006 with Fund support, economic conditions have improved noticeably, and the nation's living standards have started rising after a long period of decline. However, new problems are posing renewed challenges. Global food price hikes and fuel price volatility could undermine growth and compromise achievement of the Millennium Development Goals. In addition, the global financial crisis could have an impact on the demand for our exports. Moreover, a recent breakdown at our main hydro power plant caused very serious power outages that need to be resolved quickly in order to avoid significant negative economic and social impact.

2. Our economic and financial policies continue to be guided by the Poverty Reduction Strategy Paper (PRSP) that the government adopted on June 30, 2007, after extensive consultations with major stakeholders. With the support of the international community we have made significant progress in restoring debt sustainability. Following the agreement in April 2007 with Paris Club creditors to reschedule debt on highly favorable terms, the C.A.R. in September 2007 reached the decision point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. With steadfast implementation of macroeconomic policies and structural reforms, we hope to reach the completion point soon.

3. Implementing our poverty reduction strategy will require not only firm economic management but also extensive financial and technical assistance from the international community. The mid-term review of the October 2007 Brussels donor conference that took place in Bangui in June 2008 made it apparent that the promised aid commitments are not only slow to materialize but also not sufficient to satisfy our vast development needs, which have become more pressing as recent difficulties start posing additional threats to our medium-term goals. We still hope, though, that well-designed policies and forceful program implementation will help us attract a substantial increase in aid in the years ahead. We will therefore continue implementing our poverty reduction strategy in close collaboration with our development partners.

II. Recent Economic Performance and Policies

A. Macroeconomic Performance

4. The government is confident that our medium-term economic and financial program is bringing about economic recovery. In spite of the lack of regular electricity supply over the past few months, a slow down in our main exports and some loss of purchasing power from increased inflation, we still expect GDP growth to be 3½ percent in 2008 compared to 4.9 percent expected previously. Inflation has turned out to be higher than expected, mostly because of food price developments, which caused a price jump of 10.3 percent on a year-on-year basis in August 2008. This together with domestic fuel price increases will likely imply an increase in average inflation from 1 percent in 2007 to almost 9 percent in 2008.

5. Fiscal performance through June was encouraging considering the recent electricity crisis. Total domestic revenue met the target though customs revenues were affected negatively by personnel changes in April 2008. We also maintained tight control on cash expenditures and thus the performance criterion (PC) on the domestic primary balance was met. The PC for the net claims of the commercial banking system on the government for January–June 2008, which is adjusted on account of grant shortfalls, was missed by a small amount because of a delay by the BEAC in depositing the June IMF disbursement. Moreover, we were able to channel resources to priority expenditure areas, notably in health and education, where spending reached the related quantitative benchmark. However, temporary arrears were accumulated with the African Development Bank (AfDB)) and the Arab Bank for Economic Development in Africa (BADEA), thus breaching the continuous performance criterion on external arrears. Due to cash constraints we were unable to meet the quantitative target on arrears repayment of CFAF 5 billion, but we reduced them by CFAF 3.6 billion.

B. Progress in Structural Reforms

6. The government has recently implemented a number of important structural reform measures. On June 1, we adopted an automatic quarterly petroleum product pricing formula that ensures full pass-through to the consumer of all costs, distribution margins, and taxes, including VAT at the regular rate. The specific excise included in the price of gasoline thus became positive. In view of the dramatic decline in international oil prices, we were not able to raise prices by 10 percent on average on October 1, as required by the formula, because it would have risked potentially serious adverse social reactions. However, excises for December are now higher than originally programmed and we have eliminated subsidies on diesel fuel and heavy fuel oil. Subsidies on kerosene were reduced substantially and will be eliminated during 2009. We therefore request a waiver for this continuous structural performance criterion because the deviation was temporary. In order to ensure future adherence to our policy of passing through changes in international prices to consumers, in November 2008, we issued the formula that defines the minimum petroleum product prices as a ministerial instruction (arrêté). In addition, we have already published the retail prices for

January 2009, which are consistent with the projections for minimum excises. Should international prices rise by the end of December we will ensure that the retail prices remain in conformity with the formula. Implementation of these policies required a continuation of our public communication and consultation strategy in order to avoid social unrest. We stressed that subsidies on petroleum products are not pro-poor and that additional revenues are needed to increase priority expenditures including to deal effectively with the electricity crisis. At the same time, measures were taken to mitigate the impact on vulnerable groups, including reduced VAT rates on basic necessities and the extension of school feeding programs, with the help of the World Bank and the World Food Program.

7. Actions were taken to strengthen revenue administration and expenditure management. The government revoked its contract with Unitec Benin and staffed the *Guichet Unique* in Douala with customs personnel to improve customs administration over the medium term. Although this measure temporarily affected customs performance, we are confident that custom revenues will improve in the second half of 2008. Despite efforts to improve tax collection enforcement, our stock of tax arrears increased mostly due to the nonpayment of taxes by public enterprises, and we did not meet the related quantitative benchmark. To improve effectiveness of tax administration and deter corruption, a taxpayer service desk "*bureau d'accueil des usagers*" was established. Furthermore, after a short delay related to extensive consultation with stakeholders, the government set up a liquidity committee for aligning government cash flows with expenditure commitments (structural benchmark for end-June) in preparation for our new financing strategy based on accessing the regional financial markets. The electricity crisis and the consequent disruption to the water supply, however, have prevented us from adjusting utility tariffs (structural benchmark for end-June) for electricity and water, but we remain committed to the objectives of this important measure as described below.

III. The Program for 2008–09

8. The government plans to address the current energy crisis while still adhering to the medium-term objectives and policy framework of this three-year economic and financial program. Building on our recent achievements, the government will reinforce the program in 2008-09 by preserving a prudent fiscal stance, reducing arrears, continuing reform of the petroleum sector, and addressing the financial weakness of state-owned enterprises (SOEs).

A. Fiscal Policy for the Second Half of 2008

9. We believe that we can exceed the revenue target for 2008 of CFAF 92 billion (10.5 percent of GDP) by almost CFAF 2 billion, mostly on account of strong consumption tax revenues. Moreover, we have intensified and will continue to intensify our revenue mobilization efforts through the following measures:

- Establish an audit department to improve audit operations by end-2008, including by setting up an audit program, and the evaluation of auditors.
- Review on a quarterly basis the performance of the private import and export fraud detection company, SODIF, and ensure due process in its assessment of penalties.
- Strengthened collection enforcement by seizing property and enforcing third-party guarantees in order to achieve the quantitative benchmark on no net accumulation of tax arrears. At the same time, we recognize that professional behavior of all government officials is crucial for maintaining tax compliance, and we have instructed the financial control unit (CEMIFI) to ensure due process in all of its activities.
- In consultation with Fund technical experts, we determined that raising the harmonized threshold for VAT and the large taxpayer category to CFAF 50 million would not yield a sufficiently large number of large taxpayers, we decided to keep the VAT threshold at CFAF 30 million annual turnover for all taxpayers. We will therefore issue a ministerial instruction to align the large taxpayer threshold with the VAT threshold at CFAF 30 million (using turnover only). Taxpayers would thus be separated into large taxpayers subject to the regular taxation system, medium taxpayers subject to simplified taxation, and small taxpayers subject to presumptive taxation. In addition, to satisfy the related structural benchmark, in the 2009 budget law we will clarify that turnover is the only criterion for VAT registration, which also applies to physical persons and is independent of the economic activity of the taxpayer.
- In view of the changes being introduced to the taxpayer segmentation, we will only be able to achieve our audit targets for the large taxpayers and not yet for medium taxpayers (structural benchmark), but we intend to achieve the target over the medium term.
- We are firmly committed to maintaining the collection function at the Tax Department. To this effect, we will amend by end-2008 article 62 of decree No. 7-093 dated July 12, 2007 on public accounting to avoid the reintroduction of the "enrôlement" procedure for taxes and the collection of taxes by the Treasury.

10. Emergency operations to address the energy crisis had to be accommodated within the fiscal framework. The immediate cost in 2008 is about CFAF 1.7 billion (0.2 percent of GDP) related to the repayment of some government arrears to the company and the government assumption of domestic commercial bank debts of the electricity company ENERCA. In addition, the government assumed commercial bank debts of the cotton company, SOCOCA (CFAF 2.7 billion), and the liquidated bank, UBAC (CFAF 1.3 billion) as a first step in public enterprise reform. The combined effect of increased revenues and expenditures will lower the domestic primary surplus for 2008 by 0.3 percent of GDP to zero for the year as a whole.

B. Outlook and Policies for 2009

11. In 2009, we expect an improvement relative to the broad macroeconomic trends of 2008 with the economy growing at about 4½ percent and some moderation of average inflation to about 6 percent. Project grants and foreign direct investment—particularly in the forestry and mining sectors—are expected to increase substantially, which would lead to a strengthening of the overall balance of payments position despite an increase in the current account deficit. We will continue our prudent fiscal policies as outlined below.

The 2009 Budget

12. Our priorities for the 2009 budget are to (i) continue raising the domestic revenue-to-GDP ratio; (ii) broaden budget coverage by fully incorporating government consumption of utilities and integrating extrabudgetary activities; (iii) implement the new financing strategy; and (iv) continue paying domestic arrears as described in the strategy adopted in December 2008. The presentation to parliament of a draft budget for 2009 in line with the program is a prior action (see TMU for details).

13. Domestic revenues should rise by 0.7 percentage points to 11.3 percent of GDP on account of fuel taxes, VAT law changes, and revenue administration improvements. Thanks to the full-year effects of petroleum excise increases during 2008 and further moderate increases planned for 2009, gross petroleum revenues should increase by CFAF 12 billion (1.2 percent of GDP) relative to 2008. In addition, petroleum revenues (and their associated expenditures) increase by CFAF 2 billion by bringing on budget previously extrabudgetary taxes. As a result, total net fuel taxes in 2009 would be about CFAF 7 billion in 2009 (0.7 percent of GDP) compared to CFAF 0.8 billion (0.1 percent of GDP) in 2008. Administrative measures in the area of customs, VAT registration, and auditing should further enhance revenue (see below). However, some one-time additions to nontax revenues will not recur in 2009, which will lower these revenues by ¼ percentage point of GDP. We will work to ensure that taxes are collected efficiently and there is no new net accumulation of tax arrears (quantitative benchmark).

14. Domestic current primary spending would increase by 0.8 percentage points of GDP after taking into account ½ percent of GDP savings in fuel subsidies. These resources would be used primarily to fully provide for government electricity, water, and telecommunications consumption and to accommodate some of the repair work prompted by the energy crisis. So far, the government has only paid for part of its utility consumption, which led to severe decapitalization of these state-owned enterprises and directly contributed to the current electricity crisis. The estimated additional cost of fully integrating the utility spending into the budget is about CFAF 2 billion (0.2 percent of GDP) and we are committed to fully paying our commitments in this area (quantitative benchmark). Wages are projected to increase by 6 percent reflecting a small increase in employment in the health and education sectors. This wage increase should be affordable even though we fully integrate utility payments into the

budget, provide financing for energy sector reform, and continue paying arrears. We also allocated CFAF 1 billion in additional resources to school feeding programs and other social programs. Finally, we have created room for additional investment in the electricity sector to help address the crisis (see below).

15. The domestic primary balance should reach 0.7 percent of GDP. Together with the envisaged financing in the regional financial markets of about CFAF 30 billion, this would allow us to clear domestic arrears by 1.5 percent of GDP and repay our debt to the commercial banks. We expect the government debt-to-GDP ratio to decline from 76 percent in 2008 to 69 percent in 2009.

Addressing the energy and public enterprise crises

16. Solving the current energy crisis is our highest priority and requires particular attention and resources. Together with the French Development Agency (AFD), we are implementing a project financed by a €4.2 million grant to secure the supply from the Boali I and II hydro power plants. We also plan to rehabilitate the thermal power stations in Bangui, improve the distribution of electricity, and improve payment discipline through installation of meters with the help of a $6.5 million grant from the World Bank. However, the main problem the electricity sector is facing is a lack of supply, which is only about 18 megawatts compared to compressed demand of about 25 megawatts. In principle, it would be relatively inexpensive to add 10 megawatts by installing two turbines in the already prepared infrastructure of Boali II at an estimated cost of about CFAF 10 billion (1 percent of GDP). We have not yet identified donor financing for this project and are actively exploring our options; however, we have provided the necessary room in the budget for this project under externally financed capital spending.

17. Reducing the quasi-fiscal deficits of the public utility companies has become critical to the success of our program, and we are determined to work to improve their financial performance, particularly the electricity company, ENERCA. Currently, the combined collection ratio (cash collections divided by amount billed) for the three major utility companies (electricity, water, and telecommunications) is about 66 percent. We are targeting an increase in the combined collection ratio of 15 percentage points during 2009 (quantitative benchmark). The full payment of utility bills by the government will help achieve this improvement. Moreover, we will not install any new electricity or water connections without a meter and will accelerate installation of meters for existing customers. The large stock of utility arrears of the government and tax arrears by the public utility companies reflect severe past financial problems. In 2009, the government will repay part of its remaining arrears to ENERCA (about CFAF 1 billion), SODECA (about CFAF 3 billion), and SOCATEL (almost CFAF 12 billion) as specified in the arrears repayment plan. This will allow them to repay their tax arrears, which are as follows: ENERCA (CFAF 1½ billion), SOCATEL (CFAF 3½ billion), and SODECA (almost CFAF 1 billion).

18. Improving intergovernmental relations between the central government and the municipality of Bangui will also contribute to improving the financial health of the utility companies. The municipality of Bangui has accumulated arrears of almost CFAF 7 billion to ENERCA. At the same time, the central government has arrears to the municipality of Bangui of CFAF 1 billion because in the past it did not always fully transfer the resources that are shared or pay regular transfers. In 2009, the central government will pay a part of its debt to the municipality directly to ENERCA to enable ENERCA to acquire additional meters. Moreover, as in recent years the government will continue to fully transfer any shared revenues and pay the regular transfers to the municipality of Bangui (about CFAF 350 million), thus helping the municipality to become current on its utility payments.

19. We will undertake a tariff study for electricity and water by June 2009, using domestic and, if possible, donor resources, to determine the level of prices that would reflect full long-term cost recovery including investment spending, improved revenue collection, full payment of tax obligations, and substantially reduced technical losses. Based on the results of the study, we will assess the need to change the tariffs for electricity and water, with a view to moving toward long-run cost recovery levels as soon as feasible.

Tax policy and revenue administration reforms

20. Accelerating fiscal structural reforms will also be central to the government reform agenda. In the area of tax policy and revenue administration, we will increase budgetary revenues by the following actions:

- We will start applying VAT on all petroleum products starting in January 2009. To eliminate subsidies on kerosene, we will increase the minimum excise to minus CFAF 16.7 per liter in January (implying a subsidy) and increase it by CFAF 39.9 per liter every quarter thereafter, as specified in the TMU (Table 4). Similarly, we will increase the minimum excise on gasoline to CFAF 242.2 per liter and diesel to CFAF 168.2 per liter in January, as specified in the TMU (Table 4). The gross increase in petroleum-related revenues in 2009, including VAT, is projected at CFAF 12 billion and the net increase is CFAF 6 billion after subtracting savings in fuel subsidies and VAT input credits. Moreover, at the beginning of the next season for importation of fuel by river in mid-2009, we are considering increasing the difference in the margin for importation of petroleum products by river versus by road to provide a greater incentive to import by river, which is much less costly for the budget. We are also working with the World Bank on measures to combat the fraudulent use of subsidized kerosene and other mechanisms to strengthen incentives to import fuel products by river as much as possible.
- In 2009 we will eliminate the lower VAT rate that was introduced in 2008 on building materials (CFAF 0.4 billion). We will ensure the full deductibility of VAT payments for all products and activities (loss of CFAF 1.7 billion) and will improve the payment

of VAT refund requests. We will eliminate the 10 percent VAT withholding that was introduced in the 2008 budget law.

- We will unify all tax-related legislation into a single tax code that will be published on the Internet by June 2009 and kept updated thereafter in preparation for comprehensive tax reform. We will ask the Fund's Fiscal Affairs Department for technical assistance in both tax policy and tax administration for 2009.
- We will abolish all toll collection stations on our roads, which only provide CFAF 120 million to the budget, but impose significant economic costs on society. To provide greater resources for road maintenance, we will increase the earmarked road fund tax by CFAF 5 per liter of gasoline and diesel.
- We will continue our policy of auditing 30 percent of large taxpayers, all stop-filers among large taxpayers and all VAT declarations with a credit or zero balance. Moreover, we intend to maintain the stop-filer ratio at below 10 percent by notifying stop filers within seven days.
- We will make better use of cross-checking information by interconnecting the tax administration's SYSTEMIF and customs administration's ASYCUDA++ computer systems by end-June 2009 (structural benchmark). We will also create the category of inactive taxpayers in SYSTEMIF.

Public financial management reforms

21. In the area of budget management and public financial management, it is imperative to increase budget coverage, provide realistic expenditure allocations, improve the tracking of expenditures; and strengthen liquidity management. We intend to ask for Fund technical assistance for implementation of the treasury single account, liquidity planning, and for the general reform of our public financial management system.

- We will include all revenue, expenditure, and financing items of public agencies (notably those related to the petroleum, telecommunications, and electricity regulatory agencies) in the annual budget.
- To better monitor our expenditure developments, we will measure delays in processing expenditure at all stages after commitment. We will ensure that the stock of arrears declines on a net basis during 2009 (quantitative benchmark). For program purposes, new expenditure arrears would be measured as payment orders issued (*ordonnancement*) and not paid after 60 days.
- We have made progress toward establishing a Treasury Single Account (TSA) by closing several accounts at both commercial and central banks. More time is needed to properly implement the TSA, which is now expected to be to be fully operational by end-June 2009 (structural benchmark).

- Starting in January 2009, we will publish monthly reports on the activities, particularly the recommendations of the liquidity committee.
- By March 2009, thanks to the implementation of the new harmonized budgetary and accounting nomenclature and progress in computerization of the expenditure chain, we will also be in a position to produce monthly treasury reports on revenues, expenditures, and cash flows. We will also ensure that treasury and Central Bank data regarding the net treasury position are reconciled every month.
- By end-December 2008, as agreed with the World Bank, we are planning to audit all conventions signed between the government and domestic commercial banks, as a first step toward consolidation and refinancing of our debt with them. Moreover, we will revise these conventions to ensure that commercial banks no longer have control over government resources. Also, all government receipts will be deposited in the main treasury account at the central bank (BEAC) (end-June 2009 structural benchmark).
- By end-June 2009, we will revise the 1988 law and decree on government guarantees, to strengthen our legal framework for issuing government guarantees by requiring that the recipient pays a fee for any such guarantee. In addition, we will clarify that all domestic and external guarantees need to be signed by the Minister of Finance and recorded in the debt statistics (end-June 2009 structural benchmark). These guarantees also need to be included ex-post in the annual budget law.

22. We have established a credible plan to clear domestic arrears to restore confidence in our fiscal management, although with a small delay. The plan, which we have published, includes a summary of all arrears as of end-2007 (although the numbers for 2005–07 are still estimates) and a timetable for payments (September 2008 structural performance criterion). In 2009, we intend to pay CFAF 6 billion in arrears even if we do not have access to the financial markets. Should we be able to access the financial markets, the repayment could reach CFAF 15 billion. Given the supply constraints in the economy, we have given some priority to repaying suppliers' arrears, in particular those related to utility arrears. We will not securitize any of our arrears and will pay cash only. Over the next 10 years, we have established minimum annual payments of 0.6 percent of GDP and a transparent system of accelerating payments should more financing become available. Effective implementation of our financial strategy would require issuance of government securities in the regional market; we expect this to take place by mid-2009. We have asked the Fund to assist us in this process with technical assistance.

C. Program Monitoring

23. The program will be monitored through biannual reviews of quantitative performance criteria (PCs) for end-2008 and June-2009 (Table 1), and structural PCs and benchmarks for 2008/09 (Table 2). Detailed definition and reporting requirements for all quantitative PCs and structural conditions are contained in the accompanying Technical Memorandum of Understanding (TMU, Attachment II). The government will make available to Fund staff all core data, appropriately reconciled, on a regular and timely basis, as specified in the TMU.

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

(billions of CFA francs; cumulative from December 31, 2007 for 2008 and from December 31, 2008 for 2009; ceilings, unless otherwise indicated)

	Program Benchmark End-Sep. 2008	Program Performance Criteria End-December 2008	Adj. Program Performance Criteria End-December 2008	Program Benchmark End-Mar. 2009	Program Performance Criteria End-Jun. 2009	Program Benchmark End-Sep. 2009
Performance criteria						
Floor on total government revenue [1]	69.0	91.5	92.3	26.0	51.4	78.4
Floor on domestic primary balance [2]	3.0	2.5	-0.7	2.9	4.3	4.1
Change in net claims of the commercial banking system on the government, excluding bonds issued on the regional market	2.7	-12.8	6.8	0.6	-3.8	0.0
New nonconcessional external debt [3 4]	0.0	0.0	0	0	0	0.0
Accumulation of government external payments arrears [4]	0.0	0.0	0	0	0	0.0
Indicative targets						
NPV of external debt	...	350	350	...	...	...
Floor on poverty-related spending [5]	14.0	18.5	18.5	5.0	10.0	15.0
Reduction in domestic payments arrears	8.0	14.0	9.0	0.0	1.0	7.5
Net accumulation of tax arrears	0.0	0.0	1.4	0.0	0.0	0.0
Floor on cash collections of utility companies (in percent)	...	...	...	69.4	73.4	77.4
Floor on government payment of utility bills (in percent)	...	...	...	98.0	98.0	98.0
Memorandum items:						
Projected grants for budget support	11.9	12.1	11.9	2.4	5.7	5.7
Projected bonds issued in the regional market	0.0	20.7	0.0	0.0	0.0	15.5
Of which: held by domestic commercial banks	0.0	0.0	0.0	0.0	0.0	10.5
Maximum adjustor for government net claims on commercial banks in case of grants shortfalls	5.0	5.0	5.0	2.4	5.0	5.0
External financing without project loan disbursement	...	...	5.8	2.0	3.1	5.1

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

[1] Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, TMU, for more details).
[2] The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditures.
[3] Contracted or guaranteed by the government (see the TMU).
[4] These performance criteria will be monitored continuously.
[5] Total spending on health and education including wages and salaries and goods and services.

Table I.2. Central African Republic: Structural Conditionality, 2008–09

Measure	Conditionality/ Timeline	Macroeconomic Rationale
PETROLEUM PRICING AND PUBLIC ENTERPRISES		
Continue applying the automatic quarterly petroleum product pricing formula that ensures full pass-through to the consumer of all costs, distribution margins, VAT, and a specific excise by product. The formula includes a timetable for petroleum taxation (MEFP ¶20 and TMU ¶16).	Continuous structural performance criterion	Protect the budget from risks of fluctuating petroleum prices; create room for well-targeted measures to mitigate the social impact of petroleum price changes.
REVENUE ADMINISTRATION AND BUDGET 2009		
Submit to parliament a draft budget for 2009 in line with the program's macroeconomic parameters. Budget to include previously extrabudgetary revenues, full provision of government consumption of utility services, reversal of VAT reductions for cement and galvanized sheets, full deductibility of VAT payments; and elimination of VAT withholding (TMU ¶15).	Prior action	Maintain macroeconomic stability and improve transparency and usefulness of the budget as a tool for macroeconomic management.
Use turnover as the sole criterion for taxpayer classification with a turnover of CFAF 30 million as the minimum threshold for large taxpayers, VAT registration, and the standard tax system (MEFP ¶9).	Structural benchmark/ end-December 2008	Enhance revenue generation potential by focusing on large taxpayers and streamline the structure of VAT, the largest revenue source.
Increase the number of audits in 2008 to cover (i) at least 30 percent of large taxpayers per year; (ii) all stop-filers; and (iii) all filers with VAT credit claims or zero balance returns (MEFP ¶20).	Structural benchmark/ end-December 2008	Enhance revenue generation potential by reducing the scope for tax evasion.
Interconnect the tax administration's SYSTEMIF and customs administration's ASYCUDA++ computer systems (MEFP ¶20).	Structural benchmark/ end-June 2009	Enhance revenue generation potential by reducing the scope for tax evasion.
PUBLIC FINANCIAL MANAGEMENT		
Set up and publish a plan to repay domestic arrears (MEFP ¶22 and TMU ¶17).	Structural PC/ end-September 2008	Reestablish the credibility of the government with respect to the public; reduce debt overhang.
Implement a treasury single account (TSA) (MEFP ¶21).	Structural benchmark/ end-June 2009	Reduce financing costs for the government and increase transparency of government operations.

Table I.2. Central African Republic: Structural Conditionality, 2008–09 (concluded)

Measure	**Conditionality/ Timeline**	**Macroeconomic Rationale**
Revise the 1988 law and decree on government guarantees, to strengthen our legal framework for issuing government guarantees by requiring that the recipient pays a fee for any guarantee,. Clarify that all domestic and external guarantees need to be signed by the Minister of Finance and recorded in the debt statistics (MEFP ¶21).	Structural benchmark/ end-June 2009	Limit contingent liabilities for the budget and provide better incentives for public or private enterprises.
Revise conventions with commercial banks to ensure that they no longer have control over government money. Thus, all government receipts will be deposited in the main treasury account at the central bank (BEAC) (MEFP ¶21).	Structural benchmark/ end-June 2009	Reestablish government control over its finances and increase the transparency of government operations.
DEBT MANAGEMENT		
Fully computerize the debt management unit and enable it to provide debt service projections for various scenarios.	Structural benchmark/ end-December 2008	Increase the reliability of debt forecasts and develop ability to take early corrective actions to maintain medium-term debt sustainability.

APPENDIX I. ATTACHMENT II. CENTRAL AFRICAN REPUBLIC

Technical Memorandum of Understanding

December 4, 2008

1. This Technical Memorandum of Understanding describes the definitions that are intended to clarify the measurement of the quantitative performance criteria and indicators in Table 1 of the Memorandum of Economic and Financial Policies, 2008, attached to the authorities' Letter of Intent. It also specifies the periodicity and deadlines for transmission of data to the staff of the International Monetary Fund (IMF) for program monitoring purposes. Unless otherwise specified, all 2008 quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from December 31, 2007, and all 2009 quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from December 31, 2008.

A. Provision of data to the Fund

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

B. Definitions

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

4. **Government expenditure**, on a cash basis (except for interest payments), is as reported in the TOFE and includes all earmarked spending, treasury operations, the domestic counterpart to foreign-financed projects, and offsetting operations. Poverty-related spending on health and education will be reported from the functional classification of government expenditure. Starting in 2009, detailed government expenditure in the TOFE will be reported on a commitment basis (engagement), and this information would be complimented by the change in the aggregate stock of expenditures committed without payment order (*dépenses engagées non-ordonnancées*), and the change in the aggregate stock of expenditures with

payment orders not paid (*dépenses ordonnancées non-payées*), which would be divided into those younger than 60 days and those older than 60 days.

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

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

B. Quantitative Performance Criteria

Government domestic revenue (floor)

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

Government revenue includes all tax and nontax revenue, as well as earmarked revenue, checks for project-related customs duties, and withholdings from civil service wages and salaries actually paid.

Domestic primary fiscal balance (floor)

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

Adjuster

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

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

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

Adjuster

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

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

- (ii) decreased by 57 percent of regional bond issuances (see example in Table 3 attached to this TMU).

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

Nonconcessional external debt or guarantees (ceiling, continuous)

11. The performance criterion on the contracting of **new nonconcessional external debt** applies to both short (with an original maturity of one-year or less) and medium- and long-

term (with an original maturity of more than one year) external debt, contracted or guaranteed by the government. Purchases from the IMF are excluded from this limit.

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

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

External payment arrears (ceiling, continuous)

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

C. Prior action

Submission of the 2009 budget to Parliament

15. The. 2009 budget should:

- (i) be broadly based on the macroeconomic framework described in the Memorandum of Economic and Financial Policies;
- (ii) provide for the full allocation of government consumption of services to be provided during 2009 by the following utility companies: Enerca, Socatel and Sodeca;
- (iii) include in the regular budget all expenditure, revenues and financing of the following regulatory agencies: *Agence de Stabilisation et Régulation des Produits Pétroliers* (ASRP); *Agence de Régulation de Télécommunication* (ART); *Agence*

Autonome de Régulation du Secteur de l'Électricité en République Centrafricaine (ARSEC); *Agence Autonome de l'Électrification Rurale de Centrafrique* (ACER);

- (iv) change the VAT law to allow for deductibility of VAT credits for petroleum products;
- (v) eliminate the 10 percent VAT withholding;
- (vi) unify the VAT rate at 19 percent for cement and galvanized steel; and
- (vii) impose VAT at the regular rate for kerosene (*pétrole lampant*) and heavy fuel oil (*fuel 1%*).

D. Structural performance criteria

Automatic petroleum product pricing formula (continuous structural performance criterion)

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

- The minimum retail price for gasoline (*super*), kerosene (*pétrole lampant*), diesel (*gasoil*), and fuel oil (*fuel 1%*) will be calculated by using the price structure of petroleum products transported by river through the Democratic Republic of Congo by applying the specific excise as shown in Table 4.[3]
- The formula will be calculated at the end of each quarter, using the average f.o.b. price for the previous 90 days for each product (see Table 4) and this retail price will apply for the 3 months of the next quarter.
- The formula adds all costs, distribution margins, a specific excise by product, and VAT. Thus, the minimum retail price will be the sum of (i) the f.o.b. import price, (ii) all costs and margins, (iii) the minimum specific excise, and (iv) VAT, which is applied at the regular rate to the sum of (i)-(iii).
- The minimum specific excise is defined to include the following items (i) *droit de douane*; (ii) *taxe communautaire d'intégration*; (iii) *redevance d'usage routier*; (iv) *redevance équipement informatique finances*; (v) *C.C.I.*; (vi) *constitution du stock de sécurité*; (vii) *financement extension capacités de stockage*; (viii) *péréquation*; (ix) *contrôle et lutte contre la fraude* and (x) negative or positive TUPP as the residual.
- Should one or more actual fuel excises as defined in the preceding bullet fall below the minimum excise specified in Table 4, but the projected excise revenue for all fuel

[3] The specific excises shown in Table 4 after April 2009 are indicative.

products for the relevant quarter exceeds the program target, then for program purposes, the continuous PC on the automatic adjustment would be considered met.

- VAT for all petroleum products will be applicable to all costs, distribution margins, and the specific excise starting January 1, 2009.
- For petroleum products imported by road (via Cameroon), the same amount of VAT will be charged on gasoline and diesel, and specific excises will be adjusted to yield the same final price as specified above.
- The retail price for each product would remain fixed for the quarter, however, the price structure would be issued on a monthly basis with the excise adjusting as a function of the changes in other costs. The VAT would remain unchanged.

Domestic arrears clearance plan (structural performance criterion)

17. A plan to clear domestic arrears consists of (i) a list of all domestic payment arrears validated by audits for the period up to and including the year 2007, and differentiated by type; (ii) a schedule of minimum payments of each type of arrear by payment type to bring down arrears to zero (quarterly until 2010 and annual thereafter); (iii) a detailed description of how payments are prioritized within the plan; and (iii) a precise formula indicating additional payments to be made subject to availability of additional resources.

E. Quantitative benchmarks

Net-present-value of external debt (ceiling)

18. The **net-present-value of external debt** is estimated using the IMF's external Debt Sustainability template for Low-Income Countries.

Reduction in domestic payments arrears (floor)

19. The reduction in domestic payment arrears is reported as part of the TOFE. For 2008, **domestic payments arrears** are understood to include those validated by the external audit undertaken during the first part of 2007 which accrued during 1998–2004 and those which pre-date 1998. These domestic payments arrears include wages and salaries and supplier's credits.

20. For 2009, the concept is moved to a net basis, which measures the change in the stock of total arrears during the period. Thus, a repayment of an existing arrear reduces the stock of overall arrears whereas the accumulation of new arrears adds to the stock. For purposes of the program a new arrear is defined on a payment order basis, i.e. as an expenditure for which a payment order has been issued (*dépense ordonnancée)* that has not been paid after 60 days. For 2009, the reduction in domestic payments arrears will be measured as the change in the total stock of arrears as defined in Table 2 of this TMU. The stock of debt at end-2008 is preliminary, because it includes the estimated arrears accumulated during

2005–08. It will be updated as new validated data becomes available, which will not affect the calculation of the net arrears accumulation in 2009.

Adjuster

21. The floor on the reduction in **domestic payments arrears** will be increased by 29 percent of the regional bond issuance (see example in Table 3 attached to this TMU).

Net accumulation of tax arrears (ceiling)

22. The net **accumulation tax arrears** is defined as the difference in the stock of tax arrears (excluding any amount under litigation) during the period plus any write-offs during that period. An example of the calculation is included in Table 5 below (Line 6).

Social spending (floor)

23. **Social spending** comprises spending on the following sectors: education, health, rural development, and social affairs, both spending for the current year and arrears repayment.

Government payment of utility bills (floor, cumulative)

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

Collection ratio of utility companies (floor, cumulative)

25. The target is measured as the cumulative ratio of total period-t cash collections to total bills issued during the period with a two month lag. The target is defined jointly for the following companies: Enerca, Socatel and Sodeca. For example, the target for the first quarter would be the sum of cash collections for the three companies for January-March, 2009, divided by the value of bills issued during November, 2008–January, 2009. The benchmark for end-June would measure the sum of cash collections from January to June divided by the value of bills issued during November through April.

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

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

Table 2. Central African Republic: Stock of Government Expenditure Arrears
(In billions of CFAF)

		2008	2009 Q1	2009 Q2
1	Total debt	104.7	101.9	98.2
2	Commercial debt			
	Of which: public enterprises			
3	Social debt			
	Of which: salaries			
4.	Financial debt			
	Of which: interest			
5.	Other debt			
	Memorandum item:			
	Debt to Bangui Municipality			

Source: Central African authorities.

Table 3. Central African Republic. Adjusters for Bond Issuance
(Example for end-June 2009)

	Adjustment factors [1]	End-June Unadjusted	Adjustment	End-June Adjusted
		Bond-related variables		
		(Billions of CFAF)		
Bond issuance		0	15.5	15.5
Change in net claims of the commercial banking system on the government, excluding bonds	0.57	-3.8	-8.8	-12.7
Net change in domestic payments arrears	0.29	-1.0	-4.5	-5.5
Change in net credit from BEAC	0.14	-2.2	-2.2	-4.3

Sources: C.A.R. authorities; and IMF staff estimates.
[1] If bonds are issued, the three types of domestic debt increase according to the proportions of adjustment factors.

Table 4. Central African Republic: Minimum Excises, Estimated VAT and Minimum Retail Prices of Petroleum Products, 2008–10

	2008 Oct.	2009 Jan.	2009 Apr.	2009 Jul.	2009 Oct.	2010 Jan.
			(CFAF per liter)			
Fob price (via Kinshasa) [1] (1)						
Gasoline (Super)	351.4	214.6	206.3	212.6	219.0	234.5
Kerosene (Pétrole)	439.8	266.2	255.9	263.8	271.7	290.9
Diesel (Gasoil)	426.6	258.4	248.4	256.1	263.7	282.4
Fuel oil (Fuel 1%)	298.7	181.8	174.8	180.2	185.6	198.7
Distribution margin [1] (2)						
Gasoline (Super)	206.0	194.5	194.1	199.4	199.7	200.4
Kerosene (Pétrole)	204.9	193.3	192.9	198.2	198.5	199.3
Diesel (Gasoil)	212.0	199.9	199.5	204.8	205.1	205.8
Fuel oil (Fuel 1%)	212.2	203.2	202.9	208.1	208.3	208.8
Minimum excises including customs revenues (via Kinshasa) [2] (3)						
Gasoline (Super)	116.2	242.2	249.2	249.2	249.2	257.6
Kerosene (Pétrole)	-177.7	-16.7	23.3	63.2	103.2	143.1
Diesel (Gasoil)	-10.8	168.2	175.2	175.2	175.2	181.1
Fuel oil (Fuel 1%)	-22.9	73.1	73.1	73.1	73.1	75.5
VAT (estimate) [1] (4)						
Gasoline (Super)	73.4	123.7	123.4	125.6	126.9	131.6
Kerosene (Pétrole)	0.0	84.1	89.7	99.8	108.9	120.3
Diesel (Gasoil)	89.2	119.0	118.4	120.9	122.4	127.2
Fuel oil (Fuel 1%)	0.0	87.0	85.6	87.7	88.7	91.8
Minimum retail price (estimate)[1] (5) = (1)+(2)+(3)+(4)						
Gasoline (Super)	780.0	775.0	773.0	786.8	794.8	824.1
Kerosene (Pétrole)	500.0	526.9	561.8	625.0	682.3	753.6
Diesel (Gasoil)	750.0	745.5	741.5	756.9	766.4	796.5
Fuel oil (Fuel 1%)	500.0	545.1	536.4	549.0	555.7	574.9
Memorandum item:						
WEO oil price ($/barrel)	67.0	65.0	67.0	69.0	71.0	75.0

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

[1] Estimates based on program projections for fob import prices.

[2] Starting in Q1, 2009, excises also include the following taxes, which were previously off-budget: (i) *Constitution du stock de sécurité, (ii) Financement extension capacités de stockage, (iii) Péréquation, and (iv) Contrôle et lutte contre la fraude.*

Table 5. Central African Republic: Stock of Tax Arrears

		2006	2007	2008 (QB)
		(CFAF billions)		
1	Total stock	15.0	27.2	...
2	Under litigation	1.3	10.6	...
3	Total net of litigation (1-2)	13.7	16.6	...
	Flow items			
4	Change in stocks (3(t)-3(t-1))	...	2.9	...
5	Write-offs	...	0.0	...
6	Total change in tax arrears (4+5)	...	2.9	1.4
7	Recovery	...	3.4	...
8	New arrears (6+7)	...	6.3	...
	Memorandum item:			
	Arrears of public enterprises	2.4	4.4	...

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

INTERNATIONAL MONETARY FUND
AND INTERNATIONAL DEVELOPMENT ASSOCIATION

CENTRAL AFRICAN REPUBLIC

Joint World Bank/IMF Debt Sustainability Analysis 2008

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

Approved by Emilio Sacerdoti and Patricia Alonso-Gamo (IMF) and
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According to the joint IMF-World Bank Debt Sustainability Framework for Low-Income Countries, the Central African Republic's external debt is at high risk of distress. Debt relief is needed to reduce debt ratios to sustainable levels. Debt indicators in the initial years are significantly above the policy-dependent thresholds, particularly the NPV of external debt-to-export ratio. The public sector debt sustainability analysis (DSA) indicates that improvement in revenue collection and reduction of domestic borrowing are needed to bring down public debt to a sustainable level.[4]

I. BACKGROUND

1. **At the end of 2007 total public debt, including arrears, of the Central African Republic (C.A.R.) is estimated to have been 78 percent of GDP.** External public and publicly guaranteed debt accounts for 54 percent of GDP, of which multilateral creditors account for more than half and official bilateral creditors about one-third. Domestic public debt (including budgetary arrears and domestic debt of public enterprises) amounts to 24 percent of GDP. It consists of outstanding credits to the government from domestic commercial banks (8 percent), government debt with the Bank for Central African States (BEAC, 30 percent), budgetary arrears (59 percent), and public enterprise debt (4 percent).

2. **The external debt indicators show the C.A.R. as being at high risk of debt distress** (Text Table 1). All the debt stock indicators are significantly above the policy-dependent indicative thresholds in the initial years. These ratios are projected to gradually decline over time, assuming the fiscal stance stays prudent and most new borrowing is on concessional terms. However, the NPV of debt-to-export ratio is projected to stay above the threshold until 2018.

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[4] The DSA has been produced jointly by Fund and Bank staffs. The fiscal year for the C.A.R. is January 1–December 31. The previous joint DSA was included in the HIPC decision point document of September 2007 (IMF Country Report No. 08/14, January 14, 2008), and a provisional update was attached to the staff report for the second PRGF review (IMF Country Report No. 08/215, July 03, 2008).

Text Table 1. Central African Republic: External Debt Indicators

	Indicative Threshold [1]	2007 Est.	2028 Proj.
NPV of external debt-to-GDP	30	41	9
NPV of external debt-to-exports	100	296	63
NPV of external debt-to-revenue (excluding grants)	200	405	49
External debt service-to-exports	15	14	4
External debt service-to-revenue (excluding grants)	25	19	3

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

[1] Countries with a similar evaluation of policies and institutions that are over the policy-dependent threshold would face a probability of about 20 percent of experiencing a prolonged incident of debt distress in the coming year. The threshold corresponds to "weak policy", reflecting C.A.R.'s average rating on the Country Policy and Institutional Assessment (CPIA) Index in 2005–07.

3. **In September 2007 the C.A.R. reached the decision point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.** The C.A.R. is receiving interim HIPC relief from several multilateral creditors. In April 2007 the Paris Club agreed to provide a 90 percent debt service cancellation and a deferral of debt service payments until 2009.

II. Underlying DSA Assumptions

4. **The medium-to long-term macroeconomic framework underlying this assessment of debt sustainability is based on continued steady growth,** supported by a stable political and social situation that should lead to a durable improvement in business confidence and to higher investment (Box 1). A critical element in the baseline scenario is continued reengagement of the international community in providing financial and technical assistance to support growth and structural reform.

5. **The medium-term real GDP growth rate was increased by about 1 percentage point over the previous joint DSA (September 2007), reflecting several favorable factors discussed in the preliminary update (June 2008).** In light of the recent developments, however, near-term growth projections for 2008–09 have been revised downward. Given the decline in nominal exports in 2008, in the medium term the export-to-GDP ratio would be lower than in the previous DSA.

Box 1. Baseline Macroeconomic Assumptions

Real GDP growth: Average annual real GDP growth through 2028 is projected at 5¼ percent, predicated on sustained security and political stability, an improvement in the country's institutional and administrative capacity, and appropriate macroeconomic policies. This environment should encourage an increase in private investment, especially in forestry, mining, and telecommunications. Public investment in infrastructure will help revive agriculture, which dominates economic activity. On these assumptions, the projected growth rate is significantly higher than the historical average experienced during the period of conflicts.

Inflation: After unexpected high inflation in 2008, the GDP deflator is projected to increase by 2½ percent on average through 2028; this assumes that inflation will moderate from the current level. The projected inflation rate is below the Central African Economic and Monetary Community (CEMAC)'s convergence criterion of 3 percent (defined by CPI).

Current account balance: The current account deficit (including grants) is projected to average about 7½ percent through 2028. The trade balance is projected to improve over time, driven by stronger export performance as a result of structural reform and infrastructure investment that will enhance the competitiveness and diversification of the export base; the deficits in service trade would remain large. The current account deficits would be financed primarily by official development assistance (project loans), foreign direct investment and regional capital inflows from the government securities markets. Two major mining projects are expected to start in 2010 and be implemented over several years; the ground is being prepared for sustained FDI inflows by the adoption of the new forestry and mining codes.

Government balance: The domestic primary surplus will be maintained at around 1 percent of GDP, and the overall fiscal deficit (including grants) is projected to average about ¾ percent of GDP through 2028. Tax and nontax revenue is projected to rise from almost 11 percent of GDP in 2008 to about 18 percent at the end of 2028, mainly as a result of tax and customs administration reform and tax buoyancy from sustained growth. Expenditures are projected to rise from about 14 percent of GDP in 2008 to about 23 percent in 2028.

External assistance: Total grants and loans are assumed to converge to about 4 percent of GDP in the long run. Grants are assumed to account for about 80 percent of total external assistance, and the grant element of new external loans would average 50 percent for the period.

Domestic borrowing: It is assumed that in 2009 the government will start accessing the securities markets that are being developed in the CEMAC region. This will allow it to improve liquidity and reduce domestic arrears; domestic debt will continue to decline because fiscal policy will continue to be prudent.

Real interest rate on domestic currency debt: The average real interest rate on domestic currency debt (including bonds from the regional markets) will converge to about 4 percent in the long run.

III. External DSA

A. Baseline

6. **In the baseline scenario, which includes delivery of only interim HIPC assistance, all debt indicators in 2008 are above the policy-dependent thresholds**

(Figure 1 and Table 1a).[5] In particular, the NPV of external public and publicly guaranteed (PPG) debt in 2008, estimated at 37 percent of GDP, is above the threshold. More significantly, the NPV of external PPG debt-to-exports ratio in 2008, estimated at 287 percent, is close to triple the threshold.

7. **These ratios decline gradually through 2028.** Compared to the previous joint DSA, all external debt indicators for 2008 improve because of higher nominal GDP in local currency terms and the appreciation of the CFA franc (pegged to the euro) against the U.S. dollar. However, the NPV of external debt-to-export ratio would not improve as much as the other indicators; it stays above the threshold (100 percent) until 2018 because of lower export proceeds. The NPV of external PPG debt-to-revenue ratio, on the other hand, is projected to decline faster because of an expected improvement in revenue collection. The debt service indicators—relative to both exports and revenue—are more favorable, indicating adequate capacity to repay debt. However, given the accumulation of arrears in the past and the high debt service burden relative to exports in the initial periods, firm management of cash flows would be required to ensure timely debt service.

B. Alternative Scenarios and Stress Tests[6]

8. **The historical scenario produces more favorable paths for debt indicators than the baseline scenario** (Table 1b). The historical average over the past 10 years for the noninterest current account deficit is 2.2 percent of GDP, which is significantly better than the projected deficit of 7.2 percent in the baseline. On the other hand, real GDP and export growth were much less favorable in the past than what the baseline scenario assumes: real GDP growth of 0.9 percent over the past 10 years against 5.2 percent projected for the next 20; export growth of 0.5 percent over the past 10 years against 8.0 percent projected for the next 20. On balance, the staffs consider the macroeconomic projections in the baseline scenario to be realistic.

9. **The alternative scenario, including full delivery of HIPC and MDRI relief, would allow much faster up-front reduction of debt ratios.** The scenario assumes that the C.A.R. reaches the HIPC completion point by 2010. If so, the NPV of debt-to-export ratio would be reduced to 125 percent in 2008 and plunge below the threshold (100 percent) by 2013.

10. **The terms of new loans would have little impact on the projected debt indicators.** The projected NPV of external PPG debt-to-exports ratio increases by only 3 percentage points in 2028 in the alternative scenario assuming less favorable terms for new borrowing.

[5] The LIC DSA differs from the HIPC DSA in that forward-looking debt ratios are assessed against policy-dependent indicative thresholds. In contrast, in the HIPC DSA, debt ratios are derived on the basis of three-year backward-looking averages and assessed against thresholds that are uniform across countries. In addition, the results of the two DSAs differ because of differences in the definition of discount and exchange rates.

[6] The alternative scenarios—which include a scenario assuming full delivery of HIPC and MDRI relief—and stress tests in both the external and public DSA templates all clearly reflect the vulnerabilities of C.A.R debt dynamics.

This is mainly because the baseline scenario assumed new external borrowing equivalent only to 1 percent of GDP on average for the next 20 years. Given its current serious debt distress, there is little scope for the C.A.R. to borrow on nonconcessional terms without putting at risk the attainment of debt sustainability through debt relief.

11. **Several bound tests indicate that the downward trend of debt ratios could be preserved despite plausible shocks.** The most extreme case would be a hypothetical 30 percent depreciation of the exchange rate in 2009: this would push up the NPV of debt-to-GDP ratio beyond 50 percent. Other than this particular case, the increase in debt ratios under the various shocks would be modest.

IV. Public Debt Sustainability Analysis

A. Baseline

12. **In the baseline scenario, total public debt is expected to decline steadily** (Table 2a), as fiscal revenue improves steadily. On the financing side, it is assumed that in 2009 the government will begin to access regional government securities markets, which would allow it to eliminate expensive credits from commercial banks over the next several years and to clear most arrears (in particular on salaries and pensions) within the first 10 years of the simulation period. Given these assumptions, the NPV of public debt-to-GDP ratio would decline from 62 percent of GDP in 2008 to 14 percent in 2028 and the NPV of public debt-to-revenue ratio from 582 percent to 76 percent.

B. Alternative Scenarios and Stress Tests

13. **In the most extreme stress test, the NPV of public debt-to-GDP ratio will remain high throughout the projection period** (Table 2b). This would occur if real GDP growth is at its historical average (0.9 percent) minus one standard deviation (3.7 percentage points) in 2009–10. The no-reform scenario pushes down the debt ratios to almost zero, but the staffs believe that assuming the same level of the primary balance as the historical average (a surplus of 0.9 percent of GDP) is not appropriate for the C.A.R.

V. Debt Distress Qualification and Conclusions

14. **The C.A.R. faces a high risk of debt distress requiring that debt ratios be reduced to make its external debt sustainable.** Key debt indicators in the initial years are significantly above policy-dependent thresholds, particularly the NPV of external debt-to-export ratio. Although debt and debt-service ratios decline over time in the baseline scenario, the stress tests find debt service to be very sensitive to GDP growth rates lower than those forecast in the baseline scenario.

15. **The public sector DSA indicates that improvement in revenue collection and reduction of domestic borrowing would be required to bring public debt down to a sustainable level.** However, the most extreme stress test indicates that the NPV of public debt-to-GDP ratio could start rising if there is an extreme negative growth shock.

Table 1a. Central African Republic: External Debt Sustainability Framework, Baseline Scenario, 2005-28 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 8/	Standard Deviation 8/	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
External debt (nominal) 1/	**81.6**	**69.9**	**54.2**	**82.8**		**54.9**	**50.5**	**44.2**	**39.5**	**35.2**	**30.5**		**19.0**	**15.2**	**17.0**
Of which: public and publicly guaranteed (PPG)	81.6	69.9	54.2	82.8		54.9	50.5	44.2	39.5	35.2	30.5		19.0	15.2	17.0
Change in external debt	2.8	-11.7	-15.7	-4.2		0.8	-4.4	-6.4	-4.7	-4.4	-4.6		-1.5	1.2	-1.0
Identified net debt-creating flows	-0.8	-6.1	-6.9	-2.8		2.2	0.9	1.0	1.7	1.6	1.6		1.1	2.7	1.6
Non-interest current account deficit	**6.0**	**2.4**	**5.6**	**2.2**	**2.3**	**8.2**	**7.9**	**7.6**	**8.1**	**8.0**	**7.9**		**6.9**	**7.3**	**6.9**
Deficit in balance of goods and services	8.0	7.7	9.2	6.1		11.6	10.3	10.1	10.4	10.1	9.7		8.2	9.1	8.3
Exports	12.7	14.2	14.0	15.9		12.7	12.7	12.6	12.8	13.1	13.1		13.6	14.2	13.8
Imports	20.8	21.8	23.2	22.0		24.4	23.0	22.8	23.2	23.1	22.9		21.8	23.3	22.1
Net current transfers (negative = inflow)	-2.3	-5.5	-3.7	-3.8	1.2	-3.8	-2.9	-2.8	-2.7	-2.6	-2.6		-2.4	-2.3	-2.3
Of which: official	-2.0	-5.2	-3.5	-3.8		-3.5	-2.6	-2.5	-2.5	-2.5	-2.5		-2.4	-2.4	-2.4
Other current account flows (negative = net inflow)	0.2	0.2	0.1	-0.1		0.4	0.5	0.2	0.4	0.6	0.7		1.1	0.5	1.0
Net FDI (negative = inflow)	**-2.4**	**-2.3**	**-3.3**	**-1.4**	**1.2**	**-5.1**	**-5.1**	**-5.1**	**-5.1**	**-5.1**	**-5.1**		**-5.0**	**-4.0**	**-4.7**
Endogenous debt dynamics 2/	**-4.4**	**-6.2**	**-9.2**	**-3.6**		**-0.9**	**-1.9**	**-1.5**	**-1.4**	**-1.3**	**-1.1**		**-0.8**	**-0.6**	**-0.7**
Contribution from nominal interest rate	0.5	0.6	0.4	0.9		0.7	0.6	0.8	0.7	0.5	0.5		0.2	0.2	0.2
Contribution from real GDP growth	-1.8	-3.0	-2.5	-0.6		-1.6	-2.5	-2.3	-2.0	-1.8	-1.6		-1.0	-0.7	-0.9
Contribution from price and exchange rate changes	-3.1	-3.8	-7.1	-3.9		…	…	…	…	…	…		…	…	…
Residual 3/	**3.7**	**-5.6**	**-8.8**	**-1.4**		**-1.4**	**-5.3**	**-7.3**	**-6.4**	**-6.0**	**-6.3**		**-2.7**	**-1.5**	**-2.6**
Of which: exceptional financing	-2.5	5.3	-0.1	0.2		-1.9	-2.1	-2.9	-2.1	-2.0	-2.3		-0.6	-0.2	-0.6
PV of external debt 4/	...	...	41.3			36.5	38.2	33.7	30.2	26.9	23.0		14.1	9.0	11.9
In percent of exports	...	...	295.6			286.6	300.9	267.3	236.1	205.7	175.4		103.6	63.1	87.2
PV of PPG external debt	**...**	**...**	**41.3**			**36.5**	**38.2**	**33.7**	**30.2**	**26.9**	**23.0**		**14.1**	**9.0**	**11.9**
In percent of exports	**...**	**...**	**295.6**			**286.6**	**300.9**	**267.3**	**236.1**	**205.7**	**175.4**		**103.6**	**63.1**	**87.2**
In percent of government revenues	**...**	**...**	**405.2**			**345.2**	**339.9**	**292.4**	**256.4**	**221.8**	**185.1**		**99.8**	**48.6**	**81.0**
Debt service-to-exports ratio (in percent)	**17.0**	**18.6**	**14.1**	**19.9**		**12.8**	**10.6**	**27.6**	**24.2**	**22.9**	**26.9**		**9.2**	**4.0**	**9.0**
PPG debt service-to-exports ratio (in percent)	**17.0**	**18.6**	**14.1**	**19.9**		**12.8**	**10.6**	**27.6**	**24.2**	**22.9**	**26.9**		**9.2**	**4.0**	**9.0**
PPG debt service-to-revenue ratio (in percent)	**26.3**	**27.8**	**19.4**	**34.4**		**15.4**	**12.0**	**30.1**	**26.3**	**24.7**	**28.4**		**8.8**	**3.1**	**8.5**
Total gross financing need (billions of U.S. dollars)	0.1	0.0	0.1	0.0		0.1	0.1	0.1	0.1	0.1	0.2		0.1	0.3	0.2
Non-interest current account deficit that stabilizes debt rati	3.1	14.1	21.3	6.4		7.5	12.3	13.9	12.8	12.3	12.5		8.5	6.0	7.9
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.4	4.0	4.2	0.9	3.7	3.5	4.5	5.0	5.0	5.0	5.0	4.7	5.5	5.5	5.4
GDP deflator in US dollar terms (change in percent)	4.1	4.9	11.3	5.1	7.2	12.5	-6.1	2.8	2.8	2.8	2.9	2.9	2.4	2.4	2.4
Effective interest rate (percent) 5/	0.6	0.8	0.7	1.1	0.4	1.5	1.0	1.8	1.7	1.5	1.5	1.5	1.1	1.2	1.3
Growth of exports of G&S (US dollar terms, in percent)	-1.3	21.3	14.4	0.5	12.4	6.2	-2.1	7.1	9.4	10.2	8.7	6.6	8.2	8.8	8.5
Growth of imports of G&S (US dollar terms, in percent)	9.3	14.6	23.0	4.6	13.8	22.5	-7.4	6.8	10.2	7.5	6.9	7.7	7.0	10.5	8.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	30.1	28.9	51.5	51.5	51.5	51.5	44.2	51.5	51.5	51.5
Government revenues (excluding grants, in percent of GDI	8.2	9.5	10.2			10.6	11.2	11.5	11.8	12.1	12.5		14.1	18.5	15.4
Aid flows (in billions of US dollars) 6/	0.1	0.2	0.1			0.1	0.1	0.1	0.2	0.2	0.2		0.4	1.5	
Of which: grants	0.1	0.2	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.3	
Of which: concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.1	0.1	0.1		0.2	1.2	
Grant-equivalent financing (in percent of GDP) 7/	...	...	...			3.6	5.6	4.2	4.7	4.7	4.6		4.5	5.4	4.6
Grant-equivalent financing (in percent of external financin	...	...	...			80.5	91.6	100.0	90.6	90.6	90.5		90.3	80.4	88.3
Memorandum items:															
Nominal GDP (billions of US dollars)	1.4	1.5	1.7			2.0	2.0	2.1	2.3	2.5	2.7		3.9	8.4	
Nominal dollar GDP growth	6.6	9.1	16.0			16.4	-1.9	8.0	8.0	8.0	8.0	**7.7**	8.0	8.0	7.9
PV of PPG external debt (in billions of US dollars)	...	...	0.7			0.7	0.7	0.7	0.7	0.7	0.6		0.5	0.8	
(PVt-PVt-1)/GDPt-1 (in percent)						1.2	1.0	-1.8	-1.1	-1.2	-2.0	-0.7	-0.1	1.2	0.0

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

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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 PV of private sector debt is equivalent to its face value.

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

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

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

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

Table 1b. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-28
(In percent)

	Projections																				
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio																					
Baseline	36	38	34	30	27	23	20	18	17	15	**14**	13	12	11	9	8	8	8	8	8	9
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	36	34	30	26	22	18	14	12	10	8	**7**	5	4	3	2	1	0	0	0	0	-1
A2. New public sector loans on less favorable terms in 2008-2028 2/	36	38	34	30	27	23	20	18	17	16	**14**	13	12	11	10	9	8	8	8	9	9
A3. Full delivery of HIPC assistance and MDRI	16	16	15	14	13	12	11	10	10	9	**9**	8	8	8	7	7	7	7	7	8	8
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	36	41	39	35	31	27	23	21	19	18	**16**	15	14	13	11	10	9	9	9	10	10
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	36	39	36	32	29	25	22	20	18	17	**16**	14	13	12	11	10	9	9	9	9	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	36	37	34	30	27	23	20	18	17	15	**14**	13	12	11	9	9	8	8	8	9	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	36	41	39	35	32	28	24	22	21	19	**18**	16	15	14	12	11	10	10	10	10	10
B5. Combination of B1-B4 using one-half standard deviation shocks	36	39	41	37	33	29	25	24	22	20	**19**	17	16	15	13	11	11	10	10	10	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	36	56	50	44	39	34	29	27	24	22	**21**	19	17	16	14	12	12	12	12	12	13
PV of debt-to-exports ratio																					
Baseline	287	301	267	236	206	175	150	136	123	113	**104**	93	85	79	68	61	58	57	57	60	63
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	287	268	234	200	167	134	105	88	73	61	**51**	39	31	24	12	5	0	-1	-3	-3	-4
A2. New public sector loans on less favorable terms in 2008-2028 2/	287	299	266	235	205	175	150	137	125	115	**107**	96	88	81	70	63	60	60	60	63	66
A3. Full delivery of HIPC assistance and MDRI	125	128	121	112	102	93	85	76	71	66	**62**	60	58	56	51	49	48	49	51	55	59
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	287	301	267	236	206	175	150	136	123	112	**103**	93	85	79	68	61	58	57	57	60	63
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	287	340	385	342	299	258	222	203	185	170	**157**	142	130	120	103	93	87	86	84	87	91
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	287	301	267	236	206	175	150	136	123	112	**103**	93	85	79	68	61	58	57	57	60	63
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	287	321	307	274	242	210	183	168	154	142	**132**	120	109	100	87	78	72	70	69	70	72
B5. Combination of B1-B4 using one-half standard deviation shocks	287	330	363	324	285	248	216	199	182	168	**156**	142	129	118	102	92	86	83	81	83	85
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	287	301	267	236	206	175	150	136	123	112	**103**	93	85	79	68	61	58	57	57	60	63
PV of debt-to-revenue ratio																					
Baseline	345	340	292	256	222	185	155	138	123	111	**100**	88	79	71	60	53	48	47	46	47	49
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	345	303	256	217	180	141	109	90	73	60	**49**	37	28	21	11	5	0	0	-2	-2	-3
A2. New public sector loans on less favorable terms in 2008-2028 2/	345	338	291	255	221	184	155	139	125	113	**103**	91	81	73	62	54	50	49	48	49	51
A3. Full delivery of HIPC assistance and MDRI	151	144	132	121	110	98	88	77	71	65	**60**	56	53	50	45	42	40	40	41	43	45
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	345	365	339	297	257	214	180	160	143	128	**116**	102	91	82	69	61	56	55	53	55	56
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	345	345	312	275	239	201	170	153	137	124	**112**	99	89	80	67	59	54	52	50	51	52
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	345	326	294	258	223	186	156	139	124	111	**100**	88	79	72	60	53	49	47	46	47	49
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	345	363	336	298	261	222	189	171	154	139	**127**	113	101	90	76	67	61	58	55	55	55
B5. Combination of B1-B4 using one-half standard deviation shocks	345	350	353	312	273	232	199	179	162	146	**133**	119	106	95	80	70	64	61	58	58	58
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	345	499	430	377	326	272	228	203	181	162	**146**	129	116	105	88	77	71	69	67	69	71

Table 1b. Central African Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-28 (continued)
(In percent)

	Projections																				
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Debt service-to-exports ratio																					
Baseline	13	11	28	24	23	27	24	13	12	10	**9**	11	8	7	12	8	6	4	5	3	4
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	13	10	26	23	22	26	23	12	11	10	**9**	10	8	6	11	7	4	1	2	0	1
A2. New public sector loans on less favorable terms in 2008-2028 2/	13	11	28	24	23	27	23	11	11	9	**9**	11	9	8	13	9	6	4	5	4	5
A3. Full delivery of HIPC assistance and MDRI	13	11	4	8	8	10	9	10	6	6	**5**	4	3	4	6	4	4	3	3	2	3
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	13	11	28	24	23	27	24	13	12	10	**9**	11	8	7	12	8	6	4	5	3	4
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	13	12	37	33	31	37	32	17	16	14	**13**	15	12	11	17	12	9	6	7	5	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	13	11	28	24	23	27	24	13	12	10	**9**	11	8	7	12	8	6	4	5	3	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	13	11	28	25	23	27	24	13	12	10	**10**	12	10	9	14	10	7	5	6	4	5
B5. Combination of B1-B4 using one-half standard deviation shocks	13	11	33	29	28	32	28	15	14	12	**11**	14	12	11	16	12	9	6	7	5	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	13	11	28	24	23	27	24	13	12	10	**9**	11	8	7	12	8	6	4	5	3	4
Debt service-to-revenue ratio																					
Baseline	15	12	30	26	25	28	24	13	12	10	**9**	10	8	7	11	7	5	3	4	3	3
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	15	11	28	25	24	28	24	12	11	10	**9**	10	7	6	10	6	3	1	2	0	1
A2. New public sector loans on less favorable terms in 2008-2028 2/	15	12	30	26	25	29	24	11	11	9	**8**	10	8	7	11	8	5	3	4	3	4
A3. Full delivery of HIPC assistance and MDRI	15	12	5	9	8	10	9	10	6	6	**5**	4	3	3	5	4	3	2	3	2	2
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	15	13	35	30	29	33	28	15	14	11	**10**	12	9	8	12	8	6	3	4	3	4
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	15	12	30	27	25	29	25	13	12	10	**9**	10	8	7	11	8	5	3	4	3	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	15	11	30	26	25	29	25	13	12	10	**9**	10	8	7	11	7	5	3	4	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	15	12	30	27	25	29	25	13	12	10	**9**	11	10	8	12	8	6	4	5	3	4
B5. Combination of B1-B4 using one-half standard deviation shocks	15	12	32	28	26	30	26	14	13	11	**10**	12	10	9	13	9	6	4	5	4	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	15	18	44	39	36	42	36	19	17	15	**13**	15	11	10	16	10	7	4	6	4	5
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	49	49	49	49	49	49	49	49	49	49	**49**	49	49	49	49	49	49	49	49	49	49

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.

Table 2a. Central African Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-28
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimate	Projections								
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	106.0	93.7	77.8	92.4		76.2	69.3	63.6	58.1	53.0	47.7	61.3	33.9	20.2	29.8
Of which: foreign-currency denominated debt	81.6	69.9	54.2	82.8		54.9	50.5	44.2	39.5	35.2	30.5	42.5	19.0	15.2	17.0
Change in public sector debt	3.1	-12.3	-15.9	-1.8		-1.6	-6.9	-5.8	-5.5	-5.1	-5.2	-5.0	-1.8	-1.0	-1.8
Identified debt-creating flows	6.5	-23.5	-13.2	-10.1		-0.9	-5.5	-4.8	-3.4	-3.1	-3.0	-3.5	-1.2	-0.6	-1.1
Primary deficit	3.6	-9.9	-2.7	-0.9	3.6	-0.9	-0.7	-1.2	-0.2	-0.3	-0.5	-0.6	0.2	0.4	0.0
Revenue and grants	12.4	22.8	14.3	14.7		13.8	16.6	15.7	15.9	16.2	16.6	15.8	18.1	22.5	19.4
Of which: grants	4.1	13.3	4.1	5.6		3.3	5.3	4.2	4.2	4.1	4.1	4.2	4.0	4.0	4.0
Primary (noninterest) expenditure	16.0	12.9	11.5	13.8		12.9	15.9	14.5	15.7	16.0	16.1	15.2	18.3	22.8	19.4
Automatic debt dynamics	2.9	-13.6	-10.4	-7.0		0.0	-4.8	-3.6	-3.2	-2.8	-2.5	-2.8	-1.4	-1.0	-1.2
Contribution from interest rate/growth differential	-4.8	-6.5	-4.7	-5.3		-3.1	-3.9	-3.1	-2.8	-2.5	-2.2	-2.9	-1.3	-0.9	-1.1
Of which: contribution from average real interest rate	-2.3	-2.4	-0.9	-1.9		-0.5	-0.6	0.2	0.3	0.3	0.4	0.0	0.6	0.2	0.5
Of which: contribution from real GDP growth	-2.4	-4.1	-3.8	-0.8		-2.6	-3.3	-3.3	-3.0	-2.8	-2.5	-2.9	-1.9	-1.1	-1.6
Contribution from real exchange rate depreciation	7.7	-7.1	-5.7	-2.7		3.1	-1.0	-0.4	-0.4	-0.3	-0.3	0.1	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	-3.4	11.2	-2.7	1.7		-0.7	-1.3	-1.0	-2.1	-2.0	-2.3	-1.6	-0.6	-0.4	-0.7
Other Sustainability Indicators															
PV of public sector debt	24.4	23.8	62.5	15.0		61.6	57.0	53.0	48.7	44.6	40.2	50.8	29.0	14.0	24.7
Of which: foreign-currency denominated debt	0.0	0.0	38.9	4.3		40.3	38.2	33.6	30.1	26.8	23.0	32.0	14.1	9.0	11.9
Of which: external	...	...	38.9			40.3	38.2	33.6	30.1	26.8	23.0	32.0	14.1	9.0	11.9
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	...	...	...	...
Gross financing need 2/	6.2	-6.9	0.0	1.2		1.3	1.2	2.9	3.9	4.3	5.0	3.1	5.0	3.2	4.5
PV of public sector debt-to-revenue and grants ratio (in percent)	197.0	104.3	438.5	94.6		445.2	343.2	337.1	305.4	274.4	242.7	324.7	160.5	62.2	131.3
PV of public sector debt-to-revenue ratio (in percent)	296.0	250.6	613.8	145.0		582.4	506.3	460.1	413.6	368.3	322.8	442.3	205.6	75.6	167.1
Of which: external 3/	…	…	381.6			381.1	339.2	291.9	255.9	221.4	184.7	279.0	99.6	48.5	80.8
Debt service-to-revenue and grants ratio (in percent) 4/	21.0	13.1	18.8	20.5		16.0	11.3	26.1	25.8	28.3	33.3	23.5	26.7	12.7	23.4
Debt service-to-revenue ratio (in percent) 4/	31.5	31.5	26.3	22.5		20.9	16.7	35.6	35.0	38.0	44.3	31.8	34.2	15.4	29.7
Primary deficit that stabilizes the debt-to-GDP ratio	0.5	2.4	13.2	5.4		0.7	6.2	4.6	5.2	4.8	4.7	4.4	1.9	1.3	1.9
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.4	4.0	4.2	0.9	3.7	3.5	4.5	5.0	5.0	5.0	5.0	4.7	5.5	5.5	5.4
Average nominal interest rate on forex debt (in percent)	0.6	0.8	0.7	1.1	0.4	1.5	1.0	1.8	1.7	1.5	1.5	1.5	1.1	1.2	1.3
Average real interest rate on domestic debt (in percent)	-1.7	-2.6	1.2	-1.1	2.0	-1.8	-0.6	1.2	1.9	2.4	2.9	1.0	5.2	4.2	4.8
Real exchange rate depreciation (in percent, + indicates depreciation)	10.2	-9.3	-8.7	-4.5	8.9	5.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.7	4.3	2.0	2.9	2.7	4.5	3.3	2.4	2.4	2.4	2.4	2.9	2.4	2.4	2.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	-0.2	-0.1	0.0	0.2	0.2	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	30.1	28.9	51.5	51.5	51.5	51.5	44.2	51.5	51.5	...

Sources: C.A.R. authorities; and staff estimates and projections.
1/ Includes public and publicly-guaranteed external debt, domestic public debt, budgetary arrears of the central government, and domestic debt of state-owned enterprises.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b. Central African Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2008-28

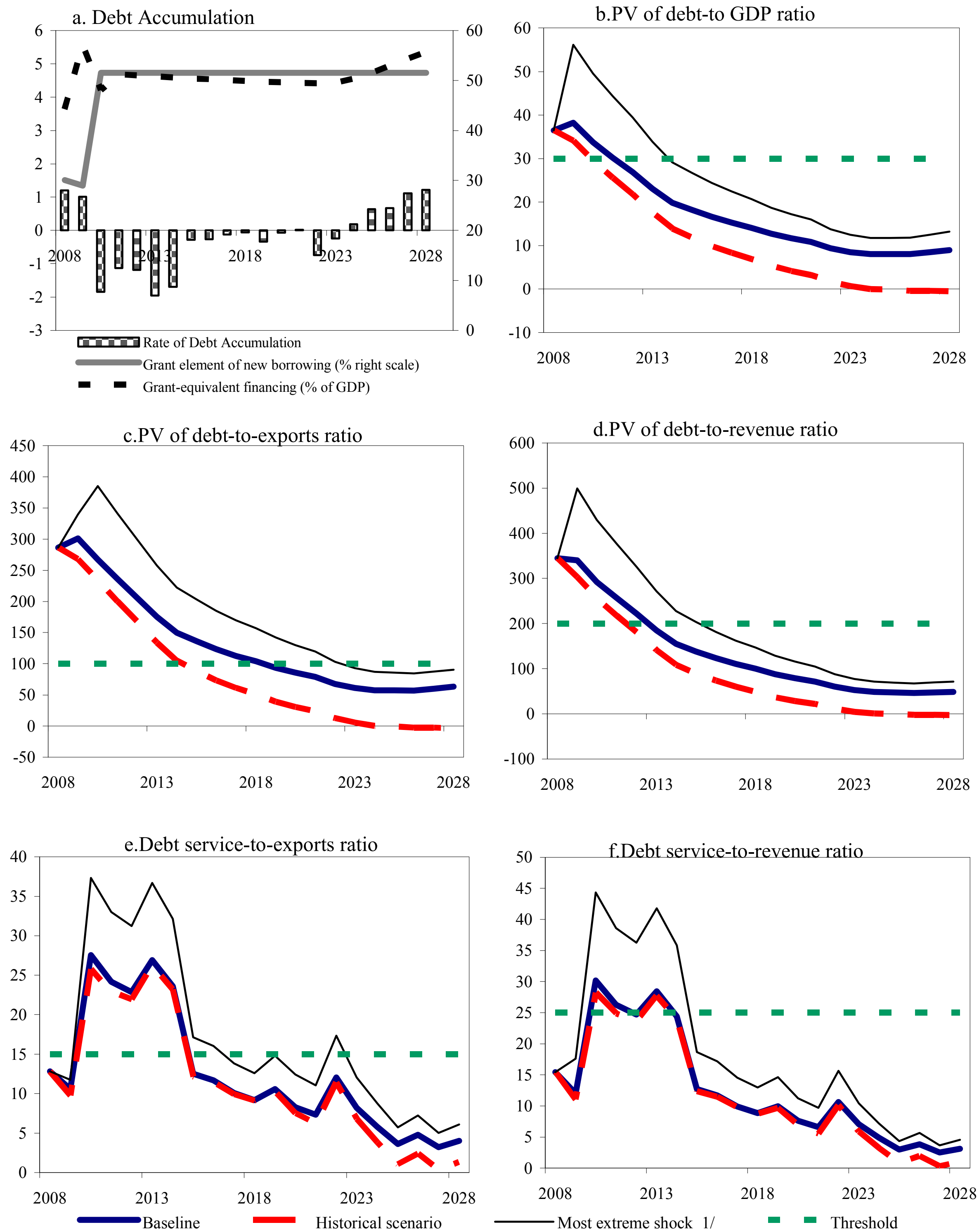
	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
PV of Debt-to-GDP Ratio								
Baseline	62	57	53	49	45	40	29	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	62	59	57	54	51	47	38	15
A2. Primary balance is unchanged from 2008	62	57	53	48	43	39	24	2
A3. Permanently lower GDP growth 1/	62	57	54	50	47	43	37	39
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	62	62	64	61	58	54	50	51
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	62	60	60	55	51	47	35	18
B3. Combination of B1-B2 using one half standard deviation shocks	62	62	63	59	56	52	41	10
B4. One-time 30 percent real depreciation in 2009	62	74	69	64	59	54	41	21
B5. 10 percent of GDP increase in other debt-creating flows in 2009	62	67	62	58	54	49	37	19
PV of Debt-to-Revenue Ratio 2/								
Baseline	445	343	337	305	274	243	160	62
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	445	350	357	329	301	272	189	53
A2. Primary balance is unchanged from 2008	445	338	331	293	257	222	119	6
A3. Permanently lower GDP growth 1/	445	346	343	314	286	258	198	169
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	445	365	391	366	342	316	269	220
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	445	363	381	348	315	282	191	80
B3. Combination of B1-B2 using one half standard deviation shocks	445	367	393	361	330	297	204	38
B4. One-time 30 percent real depreciation in 2009	445	444	440	402	365	328	224	93
B5. 10 percent of GDP increase in other debt-creating flows in 2009	445	401	397	362	329	295	202	87
Debt Service-to-Revenue Ratio 2/								
Baseline	16	11	26	26	28	33	27	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	12	27	28	33	36	31	13
A2. Primary balance is unchanged from 2008	16	11	26	24	28	29	19	3
A3. Permanently lower GDP growth 1/	16	11	26	27	30	36	34	33
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	16	12	29	33	39	47	47	42
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	16	11	27	40	44	42	31	16
B3. Combination of B1-B2 using one half standard deviation shocks	16	12	29	35	39	45	35	8
B4. One-time 30 percent real depreciation in 2009	16	13	36	36	42	49	39	21
B5. 10 percent of GDP increase in other debt-creating flows in 2009	16	11	30	62	33	54	31	18

Source: Staff projections and simulations.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.

2/ Revenues are defined inclusive of grants.

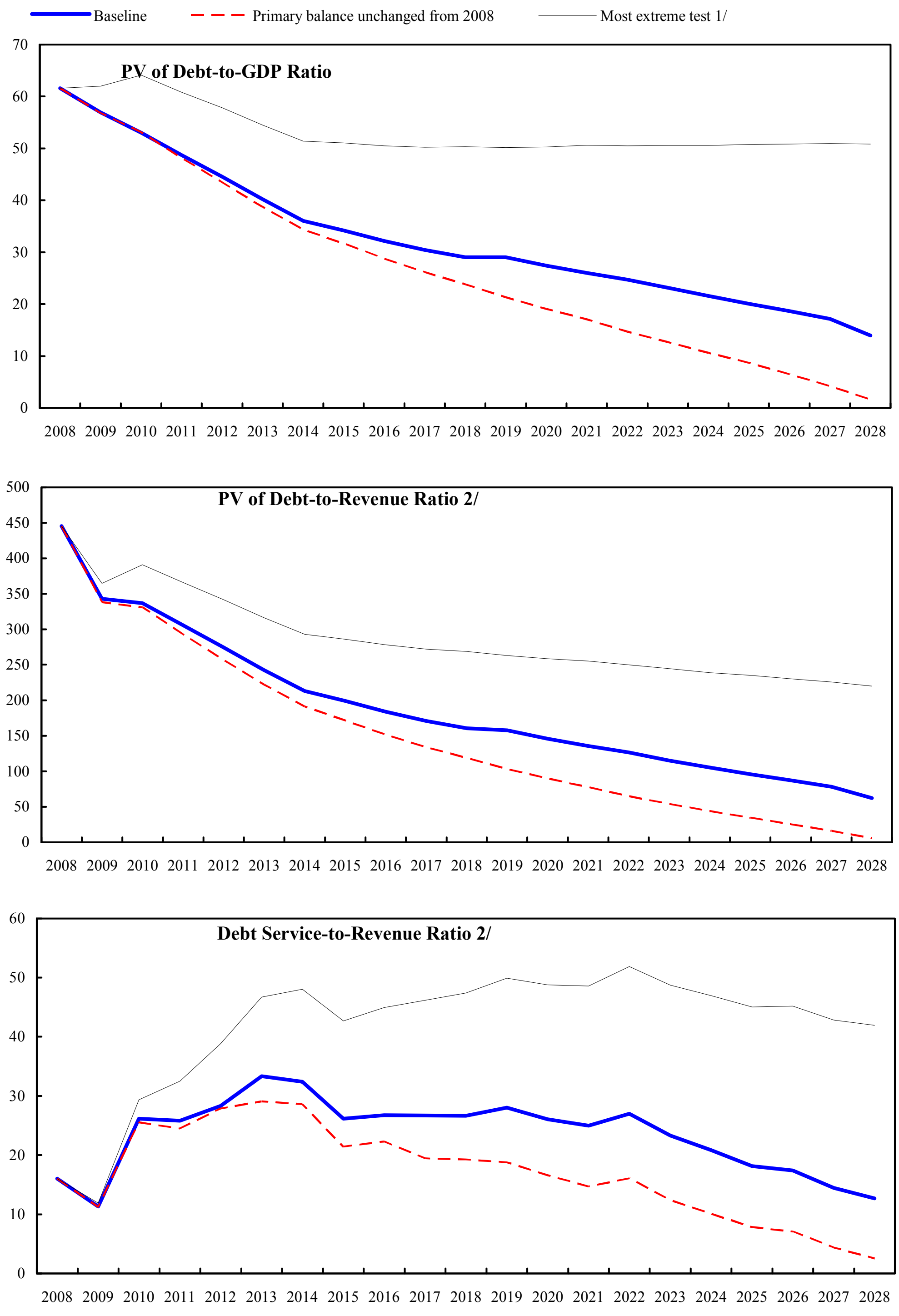
Figure 1. Central African Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2008-28 1/



Source: Staff projections and simulations.

1/ The most extreme stress test in figure b. corresponds to a one-time depreciation shock; in c. to an exports shock; in d. to a one-time depreciation shock; in e. to an exports shock; and in f. to a one-time depreciation shock.

Figure 2. Central African Republic: Indicators of Public Debt Under Alternative Scenarios, 2008-28



Source: Staff projections and simulations.
1/ The most extreme test corresponds to the case of the negative growth shock (B1).
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance and Modification of Performance Criteria, Request for Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative, and Financing Assurances Review

Informational Annex

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

Approved by Emilio Sacerdoti and Patricia Alonso-Gamo

December 4, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange rate system. Outstanding Fund credit was SDR 35.02 million (62.87 percent of quota) as of October 31, 2008.
- **Joint Bank-Fund Work Program.** Summarizes joint Bank-Fund Work Program for 2008–09.
- **Statistical Issues.** Assesses the quality of statistical data. Although economic data are generally adequate for surveillance, weaknesses hamper economic analysis.

Contents Page

Appendix I. Central African Republic: Relations with the Fund

(As of October 31, 2008)

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

II. **General Resources Account**:

	SDR million	% Quota
Quota	55.70	100.00
Fund holdings of currency	55.55	99.73
Reserve position in Fund	0.16	0.29

III. **SDR Department**:

	SDR million	% Allocation
Net cumulative allocation	9.33	100.00
Holdings	0.11	1.19

IV. **Outstanding Purchases and Loans**:

	SDR million	% Quota
PRGF arrangements	35.02	62.87

V. **Latest Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
PRGF	Dec. 22, 2006	Dec. 21, 2009	44.56	29.37
PRGF	Jul. 20, 1998	Jan. 19, 2002	49.44	24.48
Stand-By	Mar. 28, 1994	Mar. 27, 1995	16.48	10.71

VI. **Projected Payments to the Fund (without HIPC Assistance)**[7]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal		3.25	1.60	0.80	1.76
Charges/interest	0.15	0.34	0.33	0.32	0.32
Total	0.15	3.59	1.93	1.12	2.08

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

VII. **Implementation of HIPC Initiative:**

	Enhanced Framework
I. Commitment of HIPC Assistance	
Decision point date	Sept. 2007
Assistance committed by all creditors (US$ million)[8]	583.00
Of which: IMF Assistance (US$ million)	26.98
(SDR equivalent in millions)	17.33
Completion point date	Floating
II. Disbursement of IMF Assistance (SDR million)	
Assistance disbursed to the member	3.47
Interim assistance	3.47
Completion point balance	--
Additional disbursement of interest income[9]	--
Total disbursements	3.47

VIII. **Implementation of Multilateral Debt Relief Initiative (MDRI):** Not applicable

IX. **Safeguards Assessments:** The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on August 30, 2004. The assessment found that the Bank has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, and recommended further enhancements in the areas of external and internal audits, and financial reporting. Latest monitoring results indicate the existence of certain vulnerabilities including in the system of internal controls. These and other aspects of the BEAC safeguards framework will be reviewed in the context of the 2008 update safeguards assessment of BEAC that is underway.

Exchange Rate Arrangement

The Central African Republic is a member of a monetary association with a common central bank, the 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 31, 2008, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 765.272.

Article IV Consultations

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

Resident Representative

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

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

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

Table 1. Central African Republic: 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 with tax administration.
Feb-Dec 2005	FAD	To assist the authorities with public expenditure management.
May 2005	FAD	To follow up on implementation of tax administration reforms and review progress made since the end of the three-month assignment of a FAD tax expert.
Jun-July 2005	STA	To assist the authorities with government finance statistics.
July 2005	STA	To assist the authorities with real sector data.
May 2006	FAD	To assist authorities in recovering tax arrears.
May 2006	FAD	To assist the authorities in tax administration reform.
Sept-Oct 2006	STA	To assist in the area of monetary and financial statistics.
January 2007-August 2008	FAD	To assist the authorities with public financial management.
April-May 2007	FAD	To assist in the area of fiscal implications of alternative fuel pricing policies and their distributional impact on vulnerable household groups, including mitigating measures.
October 2007	AFRITAC Central/FAD	To assist in the area of custom administration and follow up on the new organizational structure.
October 2007	AFRITAC Central/FAD	To follow up on implementation of tax administration reforms and review progress made since the expert's previous visit in May 2006.
November-December 2007	FAD	To inspect FAD resident PFM advisor.
December 2007	AFRITAC Central/STA	To assist the authorities with national account data.
March 2008	AFRITAC Central /MCM	To assist in the area of debt management.
June 2008	AFRITAC Central	To follow up on implementation of tax administration
June 2008	AFRITAC Central	To follow up on implementation of customs administration
August 2008	AFRITAC Central/STA	To assist the authorities with national account data.
September 2008	AFRITAC Central	To assist the authorities with public financial management.

Appendix II. Central African Republic: Joint Bank-Fund Work Program, 2008–09

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual information on relevant work programs			
World Bank work program in the next 12 months	**Country Partnership Strategy (CPS) joint with AfDB**	Nov. 2008	Apr.-May 2009
	DPO III • Budget support	Sep. 2008 Dec. 2008	Mar.-Apr. 2009
	GFRP- • Response to Food crisis including food access and enhancing food production and marketing	Sep. 2008	Sep. 2008
	Response to the Energy Crisis • The project aims to restore reliable electricity supply to ENERCA's customers in Bangui by addressing maintenance and rehabilitation of three diesel units at the Bangui Thermal Power Station; Replacement of a 10 MVA Transformer at Boali 1; introduction of more efficient lighting devices and Loss Reduction Program.	Oct. 2008	Spring 2009
	Low Income Countries Under Stress (LICUS) III • Provide technical assistance in public financial and debt management and civil service reforms	Sep. 2008	Sep. 2008
IMF work program in the next 12 months	**Macroeconomic policy analysis and advice** • Third PRGF review • Staff visit • Fourth PRGF review	Sep. 2008 Jan. 2008 Mar. 2009	Dec. 2008 Jun. 2009
	Technical assistance • Revenue administration • Public debt management • Public financial management	Q2 2009 (HQ) Q1 2009 (HQ)	AFRITAC ongoing AFRITAC ongoing AFRITAC ongoing
B. Requests for work program inputs			
Fund request to Bank	Periodic update on progress		
Bank request to Fund	Regular update of medium-term macroeconomic framework covering the period until 2013		
C. Agreement on joint products and missions			
Joint products in the next 12 months	• Joint Debt Sustainability Analysis • HIPC completion point document	Sep. 2008 Q1 2009	Dec. 2008 Q2. 2009

Appendix III. Central African Republic: Statistical Issues

1. Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses persist and, to help address them, efforts have been underway to improve the national statistical system including through adopting a statistics law and setting up a National Statistical Board in 2001 and technical assistance in national accounts and government finance statistics. Issues of source data, compilation, and dissemination affect all sectors, but are particularly severe in the areas of the real sector, government finance, and external trade statistics.

2. The Central African Republic (CAR) has participated in the General Data Dissemination System (GDDS) since June 2004.

Real sector

3. The compilation of national accounts is the responsibility of the General Directorate of Statistics and Economic and Social Studies (DGSEES) of the Ministry of Planning. In mid-2005, an STA expert in national accounts and a follow-up Central AFRITAC (AFC) visit in December 2007 found a serious resource gap at the DGSEES and recommended a number of measures, particularly the redeployment of resources to strengthen the national accounts area. There is an urgent need to develop source data, by conducting surveys, particularly for the subsistence agriculture sector, which represents an estimated 30 percent of the economy. In addition, estimates of activity in the informal sector are still based on a 1982 survey. The AFC has continued to assist the DGSEES to improve national accounts. Recent missions focused, in particular, on the preparation of the non-financial and financial sector accounts and updating the business registry. (Use of an outdated business registry has led to overestimates in the manufacturing sector.) Currently, work is ongoing on the treatment of source data for the compilation of the 2007 national accounts. With external assistance, work is ongoing to renovate the CPI including extending its coverage and updating of the expenditure weights.

Government finance statistics

4. In February 2004, an STA follow-up mission underscored the findings of a 1999 multisector statistics mission that the compilation of an analytically meaningful set of government finance statistics (GFS) is hampered by less than full coverage of all budgetary units. In order to re-establish a systematic compilation of GFS, substantial additional assistance would 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, among other things, domestic arrears. The mission made specific recommendations toward this objective, and a subsequent April 2004 Fiscal Affairs Department (FAD) mission confirmed and reinforced these recommendations. Assistance is currently provided by a resident FAD public expenditure management advisor.

5. A follow-up STA mission in mid-2005 reviewed developments and proposed further steps for improving the source data for the compilation of the government financial operations table (*Tableau des Opérations Financières de l'État,* TOFE) and for further development and use of the Treasury cash plan. The GFS are expected to benefit significantly from the ongoing work on a revised chart of accounts. Several Ministry of Finance staff participated in recent INS/STA and regional training courses in GFS and they have begun requesting technical assistance to compile both annual and high-frequency data via e-mail. On the basis of these communications, the GFS correspondent submitted data suitable for publication in the January 2009 issue of the *International Financial Statistics (IFS)*.

Monetary accounts

6. The Bank of Central African States (BEAC) regularly reports monthly monetary, interest rate, and exchange rate statistics for the CAR and other Central African Economic and Monetary Community (CEMAC) member countries for publication in *IFS,* but sometimes delays occur. Institutional coverage of the monetary statistics for the CAR is not fully comprehensive, and accuracy is affected by cross-border movements of currency among CEMAC member countries. Only 24 percent of banknotes issued in the CAR by the BEAC National Directorate remain in the territory: 54 percent circulate in Cameroon and about 11 percent in Chad, while currency in circulation in the CAR includes some 7 percent of banknotes from Cameroon, and about 4 percent of banknotes from each of Gabon, the Republic of Congo, and Chad.

7. The monetary and financial statistics (MFS) mission in October 2006 assisted the authorities in assessing consistency between government finance statistics (bank financing) and monetary statistics (net position of the government). The mission also provided guidance in migrating to the new Standardized Report Forms (SRFs) for the submission of monetary statistics to STA, and helped update the GDDS metadata for the financial sector posted on the Data Standard Bulletin Board. Key recommendations from the MFS mission included: (i) expansion of monetary statistics to include the largest microfinance institution in the country (*Crédit mutuel de Centrafrique*); (ii) finalization and implementation of the updated sectorized list of public entities to improve accuracy of monetary statistics and consistency with GFS; and (iii) verification of the reliability of source data reported by commercial banks through the new electronic reporting system.

8. In mid-2007, the BEAC started a project to migrate monetary statistics of member countries of the CEMAC to the methodology in the *Monetary and Financial Statistics Manual (MFSM)*. As a part of this project, a regional meeting was organized by the BEAC in December 2007 to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework. A STA staff member participated in the meeting to provide guidance and advice. However, the BEAC has yet to submit test data using the SRFs for the CAR.

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 recent implementation of methodological improvements. The last complete reporting, prepared by the National Balance of Payments Committee, covered 2002 annual data. Preliminary statements for 2003–05 are available from the National Agency of the BEAC office in Bangui, and have been transmitted to the African Department. No data have been reported for publication in the *IFS* since 1994.

10. Efforts have been made to improve the compilation system, including the 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 forms, and codification). 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.

External and domestic debt

11. External and domestic debt statistics are compiled by the Debt Directorate of the Ministry of Finance. There is scope to improve the quality of data and efforts are underway to verify with creditors the stock of external debt outstanding and of external arrears. Similarly, domestic debt data are of poor quality, due in part to the difficulty of monitoring the public expenditure chain from commitment to payment. However, the actual stock of government domestic arrears (up to end-2004) has been verified by a working group, with the help of a World Bank consultant, and a census of arrears accumulated during 2005–07 will be undertaken soon. The planned introduction of a government financial management information system should also help improve the monitoring of arrears. The reconciliation process with external creditors was completed in June 2007, with 99 percent of the multilateral, bilateral and commercial debt as of end-2006 reconciled. The Debt Directorate is currently seeking funding and technical expertise to upgrade their outdated debt data management software.

Table 2. Central African Republic: Table of Common Indicators Required for Surveillance
(As of November 18, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June. 2008	Sep. 2008	M	M	M
Reserve/Base Money	Sep. 2008	Nov. 2008	M	M	M
Broad Money	Sep. 2008	Nov. 2008	M	M	M
Central Bank Balance Sheet	Sep. 2008	Nov. 2008	M	M	M
Cons. Bal. Sheet of the Banking System	Sep. 2008	Nov. 2008	M	M	M
Interest Rates[2]	Sep. 2008	Sep. 2008	M	M	M
Consumer Price Index	Sep. 2008	Nov. 2008	M	M	M
Rev., Exp., Balance and Composition of Financing[3] – General Government[4]	June. 2008	Sep. 2008	Q	Q	A
Rev., Exp., Balance and Composition of Financing[3] – Central Government	June. 2008	Sep. 2008	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	June. 2008	Sep. 2008	M	O	M
External Current Account Balance	2007	Sep. 2008	A	A	A
Exports and Imports of Goods and Services	2007	Sep. 2008	A	A	A
GDP/GNP	2007	Sep. 2008	A	A	A
Gross External Debt	June. 2008	Sep. 2008	A	I	A
International Investment Position			NA	NA	NA

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
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IMF Executive Board Completes Third Review Under the PRGF Arrangement for the Central African Republic and Approves US$9.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of the Central African Republic's economic performance under the three-year, SDR 44.555 million (about US$68.8 million) Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the third review enables the release of an amount equivalent to SDR 5.885 million (about US$9.1 million), including SDR 2.785 million (about US$4.3 million) from the augmentation approved on June 2008, bringing total disbursements under the arrangement to SDR 35.255 million (about US$54.5 million).

In completing the review, the Executive Board granted waivers for the nonobservance of the end-June 2008 quantitative performance criterion on the ceiling on commercial bank claims on the government, the end-September 2008 structural performance criterion on implementation of a plan to repay domestic arrears, the continuous quantitative performance criterion on the ceiling on external payment arrears and the continuous structural performance criterion on petroleum product price adjustment.

The three-year PRGF arrangement for the Central African Republic was approved on December 22, 2006 (see Press Release No 06/299) to support the government's economic program during 2006–10.

Following the Executive Board's discussion of the Central African Republic's IMF-supported economic program, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The authorities of the Central African Republic have made commendable progress in strengthening economic policies and improving the economy's resilience to shocks under their program supported by the Poverty Reduction and Growth Facility. Important progress has also been made in consolidating peace and security. Looking ahead, continuation of the authorities' medium-term economic and financial reform program will help to build a firm foundation for accelerating growth and alleviating poverty.

"The authorities are demonstrating a firm resolve to implement their PRGF arrangement, under difficult financial conditions and a challenging external environment. Increasing domestic fuel excises in line with the automatic petroleum product pricing formula has allowed the government to insulate the budget from the impact of fluctuations in international oil prices and generate revenue to finance priority expenditures.

"Maintaining a domestic primary budget surplus will allow the authorities to stay current on domestic debt services, start repaying domestic debt, and improve debt sustainability. The recent adoption of a plan to repay domestic arrears is an important step in the normalization of public finances.

"Continuing the fiscal structural reform program will be necessary to achieve macro-fiscal objectives. Strengthening tax and custom administration is vital to raising domestic revenue. To that end, the government plans to strengthen tax audits and collection enforcement. Improved public financial management will raise the efficiency and transparency of public expenditures. Strengthening the financial situation of the state-owned enterprises will help restore confidence and pave the way for more investment. Reinforced debt and treasury management capacity will be key to diversifying financing sources.

"Increased concessional external resources and well-coordinated technical assistance to help build up institutions are needed to accelerate progress toward the Millennium Development Goals. The authorities are encouraged to persevere in their efforts to reach the Highly Indebted Poor Countries (HIPC) completion point, which would provide further significant debt relief," Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Statement by Laurean Rutayisire, Executive Director for the Central African Republic

December 22, 2008

1. At the outset, I would like to express my Central African Republic authorities' deep appreciation to Management and Staff for their continued assistance and the constructive policy dialogue during recent discussions held in Bangui and in Washington during the Annual Meetings. My authorities are also thankful for the continued support of the Executive Board, and the swift assistance provided by the Fund as they faced various exogenous shocks, including through an augmentation of the level of access and in technical assistance.

2. In keeping with their commitments as expressed in the Poverty Reduction Strategy Paper (PRSP), and with the assistance of the international community, my Central African Republic authorities are making significant gains in their efforts to consolidate peace and security. An inclusive political dialogue is currently underway in Bangui, gathering political organization from the opposition as well as the government, rebel groups and civil society representatives with the view to securing a lasting peace pre-requisite to any sustainable economic recovery.

3. On the economic front, my authorities continued to pursue sound economic policies under the PRGF program. On program implementation, my authorities have met all quantitative performance targets except for two temporary deviations due to circumstances beyond their control, as staff rightly noted. They have also implemented the structural performance criteria agreed upon, although they took corrective actions to address delays in the realization of two criteria, on automatic petroleum price adjustment formula and on the plan for settling domestic arrears. In view of the temporary nature of the slippages and the correctives steps already taken, my authorities have requested waivers of nonobservance of these performance criteria.

Recent Economic Developments

4. Against the background of a global downturn, the Central African Republic realized a remarkable GDP growth rate of 3.5 percent compared to a 2.4 percent growth rate when the program began. However, the global downturn, electricity shortages and the strengthening of the Euro to which the currency is pegged have contributed to reduce real GDP growth rate below potential. For the same reasons, the demand for the country's exports was depressed while import prices increased leading to a deterioration of the trade balance and reserves losses.

5. Raising food and fuel price drove up CPI inflation by 10.3 percent on a year by year basis in August 2008. My authorities reacted to this shock by putting in place emergency measures aimed at protecting vulnerable households and social peace, while preserving macroeconomic stability. In order to insulate the budget, they started implementing an automatic oil price adjustment mechanism which aligns domestic oil prices with

developments in international oil markets. At the same time, measures were taken to mitigate the impact on vulnerable households, such as VAT reductions on basic necessities

6. The country has also experienced an electricity and water crisis following mechanical failures at the main power production plant, reflecting years of underinvestment and deferred maintenance. In response, my authorities took measures to increase electricity supply and initiated fundamental reforms aimed at putting these sectors on a sustainable footing, including through capital investments, and plans to restore the financial health of the public utilities.

7. On fiscal policy, my authorities maintained a prudent stance. It is noteworthy that the country registered a fiscal surplus for the third year in a row despite a difficult economic environment and a lower than expected donors support. To attain this objective my authorities improved revenue performance through reforms in tax and customs administrations. On spending, they aimed at controlling non priority expenditures while directing scarce resources towards poverty reducing outlays, and to reduce the economies' vulnerability to exogenous shocks. In result, my authorities' social spending targets were exceeded, with a focus in the education and health care sectors.

8. On debt management, my authorities implemented reforms aimed at improving their debt management capabilities, including by setting a liquidity committee to manage cash flow which will help reduce government's debt financing costs and lay the ground for the installment of market friendly debt instruments. On external debt sustainability, my authorities continued to pursue good faith efforts to secure the participation of additional creditors to the HIPC debt reduction process. As regards the domestic debt, my authorities have finalized a strategy to reduce domestic debt arrears.

9. My authorities also have made continued progress with their structural reform agenda, in order to enhance the economy's resilience to exogenous shocks and address emerging growth constraints. In particular, they have continued to improve the effectiveness of public administration as well as the business climate and initiated reforms of state owned enterprises. With respect to the latter, my authorities took steps to improve the collection ratios of the public utilities companies and to better account for and pay government's utility consumption, in order to put public utilities companies' finances on a sustainable path.

The Reform Agenda Going Forward

10. Going forward, my authorities plan to maintain a prudent stance, balancing the need to preserve macroeconomic stability with promoting sustainable long run growth and social peace. The program for 2009 is in harmony with the PRSP adopted by the government after an extensive consultation with stakeholders.

11. In fiscal policy, my authorities are committed to create the fiscal space required to increase priority spending and reduce the economy's vulnerability to exogenous shocks, as attested by the submission to parliament of a 2009 budget in line with the program objectives. On the revenue side they will strive to increase revenue collection through further

tax policy and custom administrations reforms. In this regard, my authorities intend to prepare and enact a comprehensive tax reform with technical assistance from the IMF. They also plan to broaden the tax base by extending VAT coverage to include petroleum products; progressively eliminate inefficient subsidies and exemptions; and improve the coverage of large tax payers. My authorities will also step up revenue collection enforcements, including through regular audits and an improved tracking of late and non filers.

12. On spending, my authorities plan to increase priority spending, in particular in the education and health sectors. In close consultation with their development partners, including the World Bank, they will also seek to remove bottlenecks in the critical energy and water sectors with the goal of ensuring of their long run viability. To that effect, my authorities plan to improve supply through increased capital expenditures. They will also seek to improve the balance sheets of the public utilities companies by reducing the stock of accumulated arrears of government, and taking steps to improve the billing and the collection of receivables.

13. In order to achieve their fiscal objectives, my authorities also plan to pursue reforms in public financial management. Amongst the reforms they envision, they will finalize the installment of the treasury single account, broaden the coverage of the budget, strengthen liquidity management and improve the monitoring of the expenditure chain.

14. My authorities' structural reform agenda will aim at removing key constraints to growth and strengthen the economy's resilience to exogenous shocks. They are committed to further rationalize the financial relations between the central government and state owned enterprises as well as the municipality of Bangui, to strengthen their balance sheets and their ability to pay taxes. They are also committed to reviewing the mining and forestry sectors regulations in line with international best practice, such as the Extractive Industries Transparency Initiative standards, with the view to improving these sectors attractiveness to investments. Further reforms are also planned to improve the climate for business, including reforms of the judiciary, the streamlining and consolidation of business regulations.

Debt Sustainability Analysis (DSA)

15. The new DSA exercise highlights the high risks of debt distress of the Central African Republic under various scenarios. In light of the significant risks posed by recent exogenous shocks and the ongoing financial crisis, a strong creditor's participation to debt relief efforts under HIPC terms is urgently needed for the Central African Republic to reach the completion point of the initiative at the earliest. On their part, as highlighted above, my authorities have reiterated their strong commitment to prudent debt management.

Conclusion

16. My Central African Republic authorities continue to face daunting institutional and infrastructural challenges as they seek to consolidate a tenuous social peace and gains in poverty reduction and growth. The reforms implemented by my authorities have been made amidst an insufficient grant and concessional financing. The current exogenous shocks experienced by the country, including electricity and water shortages underscore the need to supplement my authorities reform efforts with adequate financial and technical assistance.

17. Based on my authorities' implementation of sound policies and their commitment to further reforms going forward, I request Directors support to my authorities request for the completion of the review; waivers for the nonobservance and modification of performance

criteria; and for financing assurances review. Furthermore, given the risk of deterioration of the external position of the Central African Republic in the face of the current financial crisis and other exogenous shocks, I request Directors favorable consideration of my authorities request for interim assistance under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative, and call on the remaining multilateral and bilateral creditors to urgently support my authorities in their efforts to secure debt relief under HIPC terms. Finally, I call on the Fund and the international community to help provide to the Central African Republic with the needed assistance in order to sustain the momentum for reforms.