International Monetary Fund

Central African Republic and the IMF

Press Release: IMF Executive Board Completes Second Review Under the PRGF Arrangement with the Central African Republic, Increases Financial Assistance to Mitigate Food and Fuels Price Impact, and Approves US$14 Million Disbursement
June 18, 2008

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Central African Republic: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 3, 2008

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

Letter of Intent

Translated from French

Bangui
June 3, 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 program it carried out with the support of the International Monetary Fund through the IMF Poverty Reduction and Growth Facility (PRGF).

2. The attached memorandum of economic and financial policies (MEFP) supplements previous memoranda attached to the letters to you dated November 30, 2006, and September 7, 2007. The latter set quantitative and structural performance criteria for end-December 2007 for completion of the second review of the PRGF arrangement.

3. The quantitative performance criteria for the completion of the second review under the PRGF arrangement were observed except for the ceilings on wages, domestic and external arrears, and credit from commercial banks. For the ceilings on wages and domestic arrears we request waivers because the deviations were minor. For the ceiling on credit from commercial banks, we request a waiver because we have taken corrective action (MEFP ¶9). For the ceiling on external arrears we request a waiver because the deviations were temporary. We are also requesting waivers for the structural performance criteria on implementation of a formula for petroleum price adjustment—that measure has been put in place on June 1, 2008 (MEFP ¶35)—and on reduction in the stock of tax arrears, because we have taken corrective action (MEFP ¶8 and ¶27). 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 second PRGF review.

4. The deterioration in Central African Republic's terms of trade caused by higher world oil prices has considerably weakened our external position. The government is determined to

address these challenges forcefully. To facilitate the adjustment while we deal with our additional balance of payments needs, the government also requests augmentation of access under the PRGF arrangement in an amount equivalent to SDR 8.355 million (15 percent of quota) to be disbursed in the context of the second review (10 percent of quota) and the third review (5 percent of quota). Upon completion of the second review, we request disbursement of the third loan in the amount of SDR 8.67 million.

5. 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 third review of the PRGF arrangement is expected to be completed no later than end-December 2008 and the fourth review by end-June 2009.

6. 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.

7. The government has implemented two prior actions before Executive Board consideration of our request for completion of the second review of the PRGF-supported program. The first was adoption of an automatic petroleum pricing formula which includes an increase in fuel excises. The second was to cancel the contract with Unitec Benin and put in place customs personnel instead.

Sincerely yours,

/s/

Prof. Faustin Archange Touadéra

Prime Minister

Attachments: Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

ATTACHMENT I. CENTRAL AFRICAN REPUBLIC— MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2008

Translated from French

June 3, 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. Our prudent macroeconomic management and ambitious structural reforms have begun to pay off. We believe that the foundation for accelerating growth and reducing poverty is now firmly in place, and we are moving, although more slowly than we would prefer, toward the Millennium Development Goals (MDGs).

2. Our economic and financial policies are guided by the Poverty Reduction Strategy Paper (PRSP) that the government adopted on June 30, 2007, after extensive consultations with major stakeholders. The main pillars—(i) restore security, consolidate peace, and prevent conflict; (ii) promote good governance and the rule of law; (iii) rebuild and diversify the economy; and (iv) develop human capital—are widely recognized by our people as the right way to promote sustained growth and reduce poverty. The current program will provide a solid economic and fiscal foundation for implementing our agenda.

3. 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, C.A.R. in September 2007 reached the decision point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This was critical for bringing our debt service obligations in line with our tight resources. We are grateful for the interim assistance provided by the Fund and other multilateral creditors and the rescheduling agreements achieved with bilateral creditors. We continue to solicit the participation of all creditors in rescheduling our debts and had already reached a participation rate of over 70 percent in January 2008. With steadfast implementation of macroeconomic policies and structural reforms, we hope soon to reach the completion point.

4. Implementing our poverty reduction strategy will require not only firm economic management but also extensive financial and technical assistance from the international community. Donor conferences in June and October 2007 gave us opportunities to appeal to our development partners for support. Since then, a clearer picture has emerged about their willingness and commitment to help us reach our goals. It is now apparent that the promised

aid commitments are not sufficient to satisfy our vast development needs. We are hoping, though, that well-designed policies and forceful program implementation will help us attract a substantial increase in aid in the years ahead. We have therefore set up a framework for implementing the PRSP in close collaboration with our development partners.

II. Economic Performance and Policies in 2007

A. Macroeconomic Performance

5. The government is becoming more confident that our medium-term economic and financial program is bringing about economic recovery. In 2006 and 2007 real GDP growth exceeded 4 percent, which brought us much-needed gains in real per capita income. Economic activity has become more broad-based, spreading from our two main export commodities (timber and diamonds) to agriculture. Inflation, which accelerated temporarily in 2006, has since been brought below the 3 percent convergence target for members of the Central African Economic and Monetary Community (CEMAC). The current account worsened by 1¾ percent of GDP in 2007 mainly because current transfers were below the exceptionally high 2006 level.

6. Last year's fiscal performance was satisfactory. With special administrative efforts to mobilize more revenue, we did meet the performance criterion on total domestic revenues (CFAF 81 billion), and the revenue-to-GDP ratio increased relative to 2006. Nontax revenues exceeded expectations due to license payments by a new telecommunications operator, but budget grants were lower as expected. Recognizing the possibility of revenue shortfalls early, the government contained discretionary spending on goods and services. Although cutting expenditures during budget implementation was not desirable, it was necessary to preserve the overall fiscal framework; this is a clear demonstration that our expenditure control system has started to function properly. Thus, we were able to meet the adjusted floor on the domestic primary balance (performance criterion) of CFAF 8.7 billion (1 percentage point of GDP). We placed a high priority on containing the wage bill, which was capped at the same nominal level as in 2006. The related performance criterion was missed by a small margin, but the overrun did not affect the fiscal framework. We were also legally required to honor a government guarantee provided earlier for a commercial bank, which led us to make an unbudgeted capital transfer of CFAF 2.7 billion (0.3 percent of GDP), which was financed by a bank loan. Because of this transaction and shortfalls in external financing relative to projections, combined with difficulties in taking further compensatory measures--given the limited room for fiscal maneuver--we missed the performance criterion on commercial bank credit to the government. However, we exceeded the floor on social spending (quantitative benchmark).

7. One of the objectives of our fiscal program is to reduce the overhang of domestic debt, especially payment arrears on salaries and government suppliers. Last year we planned to reduce the arrears by CFAF 18.1 billion (2.2 percent of GDP) but could realize only a

much smaller reduction of CFAF 8.6 billion (1.0 percent of GDP), thus missing the related quantitative benchmark. This led us to recognize that our limited domestic resources, low and unpredictable budgetary support, undeveloped local financial markets, and general unavoidable uncertainties make it very difficult for us to clear domestic arrears in a predictable manner, as the population expects. Therefore, as we explain below, we have started to prepare a new financing strategy to support predictable arrears clearance as a fundamental way to preserve social cohesion and facilitate private sector operations.

B. Progress in Structural Reforms

8. Last year we implemented a number of structural reforms, primarily to support our fiscal program. In particular, we focused on improving revenue administration and enhancing public financial management. The 2007 external audit of the one-stop customs window (*Guichet Unique*) in Douala is expected to help improve its performance, which has so far been disappointing . We also restructured customs administration into a single entity that now reports to the Minister for Finance and Budget. To ensure that the government captures revenues from all sources, the Inspector General of Finance in 2007 audited all 13 revenue collecting agencies; six reports have been completed and the rest were expected to be ready in June. This work will be complemented by audits of the VAT and the treasury conducted by internationally renowned firms. Although the impact of these measures on actual revenue is difficult to quantify, we believe that they were essential to enhance our revenue-generating capacity. We had intended to reduce net tax arrears by CFAF 1 billion during 2007 (structural performance criterion for end-December 2007); instead they increased by CFAF 2.9 billion; the shortfall was mainly due to severe capacity constraints and arrears by public enterprises related to government failure to pay for consumption of services. So as to address the non-observance of the performance criterion, we have stepped up our audit and enforced collections programs including by appointing new head of the audit and enforced collections departments (see below).

9. To improve public expenditure management, a decree organizing the expenditure chain was adopted in April, and expenditure tracking has been reinforced by computerization of the payroll management system. The government has also taken initiatives to regularize unmet financial obligations. Domestic arrears accumulated through 2004 have been verified by an independent auditor. To improve control over expenditure commitments and cash outlays, the stock of treasury checks issued a few years ago was eliminated, and checks not backed by cash may no longer be issued. Moreover, a decree restricting methods of opening and managing government bank accounts was issued in December 2007; we consider this to be an important step toward reintroducing a treasury single account (TSA). Our cash management constraints were also the reason we temporarily accumulated arrears to the World Bank and the African Development Bank in early 2008, thus breaching the continuous performance criterion on external arrears, but we cleared them since.

10. Important reforms were also carried out in other sectors. In the financial sector, the government avoided becoming involved in recapitalization of a troubled commercial bank. And though progress in reforming commercial laws and procedures relating to debt collection and bankruptcy was slower than we had hoped (structural benchmark for end-December 2007), we are now appointing commercial court judges and revising the civil code. Implementation of a petroleum product pricing formula (structural performance criterion) was delayed because of concerns about the lack of an appropriate safety net to mitigate the impact of higher petroleum prices on the poorest and because of technical problems related to distribution margins. This measure has now been implemented (see below). In the year ahead we will build on this progress and keep the momentum of structural reforms going in critical areas.

III. The Program for 2008

11. The government will adhere to the medium-term objectives and policy framework that it laid out when it initiated this three-year economic and financial program late in 2006. Building on our recent achievements, we plan to reinforce the program in 2008 by preserving a prudent fiscal stance, introducing a new financing strategy to reduce arrears and make debt sustainable, reforming the petroleum sector to contain fiscal risks arising from government involvement in pricing, and raising domestic revenues sustainably to finance poverty-reducing expenditures.

12. We expect economic conditions to continue to be favorable this year. Real GDP growth is expected to accelerate further to about 5 percent, supported by buoyant exports of major commodities and continued recovery of the agricultural sector. Inflation will increase to almost 3 percent, mostly because of administered price increases for petroleum products and water and electricity tariffs; just below the convergence criterion specified by CEMAC. Credit growth to the private sector should be healthy and might rise if we succeed in reducing our reliance on commercial bank credit to finance government operations and in improving the business environment.

13. However, recent increases in international oil prices will cause the external current account balance to deteriorate further. To limit the drawdown of international reserves, we are requesting an increase in access of 15 percent of quota under the program, while we put into place measures to adjust to the external shock. The augmentation will help us to mitigate the projected loss in external reserves in 2008, and is phased to correspond to our balance of payments needs related to the importation of petroleum products, which takes place primarily in the summer months, when the river is navigable. Risks to the C.A.R. from the turmoil in international financial conditions are likely to be limited, although risks from conflicts in neighboring countries must be carefully monitored. We will be vigilant in implementing our economic and financial program and adjust policies as needed.

A. Fiscal Policy

Fiscal program 2008

14. A prudent fiscal policy will continue to be the cornerstone of our efforts to preserve economic and social stability. In 2008 we plan to achieve a domestic primary surplus—the anchor of our fiscal program—of CFAF 3 billion (0.3 percent of GDP). The targeted surplus had to be revised down from the level envisaged in the 2008 budget approved by parliament on January 20, 2008, as we adjusted domestic revenue to a more realistic level. The surplus is necessary to meet external and domestic debt service obligations and would allow us to repay a significant amount of domestic arrears. To reach our target for the primary domestic balance, we will intensify revenue mobilization efforts and tightly control spending—though we are determined to continue protecting propoor spending. Execution of the budget will thus crucially depend on the availability of grants in general and budget support in particular.

15. The revenue target is ambitious. We envisage the domestic revenue-to-GDP ratio to increase by ½ percentage point of GDP. If policies remained unchanged from 2007, however, revenues would have fallen by ½ percent of GDP, mainly because petroleum product taxes would have fallen by 1 percent of GDP. Thus, we will need 1 percent of GDP (CFAF 8½ billion) in measures to achieve our target. We estimate that administrative reforms could contribute some CFAF 3 billion (0.3 percent of GDP) and the rest will come from the following tax policy changes—some of which have already been incorporated into the 2008 budget:

- Increase excises on selected petroleum products and apply an automatic formula-based quarterly price adjustment mechanism (see below, CFAF 3 billion).
- Eliminate discretionary customs exemptions (CFAF 0.5 billion). As CEMAC requires, we will issue a decree that rescinds all previously granted discretionary exemptions and instructs customs to collect duties on these imports starting in May 2008.
- Apply VAT withholding for large taxpayers (CFAF 0.8 billion).
- Increase forestry taxes (CFAF 0.4 billion).
- Apply a turnover tax to small businesses (CFAF 0.5 billion).

16. Our development partners are supporting our reform program with grants. We expect to receive total budget support of about CFAF 11 billion, including $10 million from the World Bank, $10 million from the African Development Bank, and €4 million from the European Union. We are also discussing with a major bilateral donor the possibility of direct budget support. We expect project grant assistance amounting to CFAF 28 billion, mostly

from the European Union, the World Bank, and the African Development Bank. We are grateful for the support of our development partners and hope that our reinforced reform efforts might justify future increases in aid to overcome our considerable development needs after years of internal conflict.

17. Spending will rise as our resources increase but will still be compressed compared to our needs. We will be vigilant to ensure timely payment of all commitments, avoid spending overruns, and protect budget allocations in priority areas. This year's wage bill, at CFAF 37.5 billion, is a modest increase over the previous year and is needed to alleviate severe staffing constraints, particularly in health and education. We have also budgeted substantial increases in primary current expenditure to cover the costs of priority programs to reduce poverty. Thus, social spending is budgeted to increase by CFAF 3 billion to CFAF 19 billion. Capital spending will increase by CFAF 14 billion to CFAF 43 billion.

Arrears repayment, financing, and debt management strategy

18. A priority for the government will be to establish a credible plan to clear domestic arrears accumulated over many years. This is critical to restoring confidence in our fiscal management. To start paying arrears in a transparent and equitable manner, we need both a predictable timetable for payments and a financing strategy. We plan to work out the timetable for payments by the end of September 2008 and make it public (structural performance criterion). Our intention is to repay arrears in cash, with the possible exception of direct offsets of tax arrears and government expenditure for individual companies, particularly public companies which the finance ministry financial inspector (*inspecteur général de finances*) will audit. Together with the World Bank we will study the feasibility of settling expenditure arrears through land grants but will not resort to securitizing arrears due to governance concerns related to such transactions. A clear schedule for repaying arrears will be set. This will specify a minimum amount that is compatible with our projected primary fiscal surplus and rules for speeding up clearance of arrears as additional resources become available.

19. Another government priority is to improve financial management, which is highly constrained by the high cost of credit from domestic commercial banks (on average 18 percent). Reducing this expensive source of financing could result in considerable savings that would allow us to clear more arrears. There is also a need to reduce our credit from BEAC to reduce statutory advances below their mandatory limits and gain flexibility to finance short-term liquidity needs.

20. We are exploring other financing options, including the possibility of seeking donor assistance to repay domestic arrears and expensive commercial bank debt. We believe that our comprehensive reform program deserves donor support, and we intend to make the case to them that quickly disbursing grants could go a long way to preserve economic and social stability in the C.A.R. Grant financing would clearly be our preference. However, we need a

prompt solution to the problems of arrears and commercial bank debt so that we can preserve social peace and ensure that our limited resources are not wasted on interest costs. We are convinced that eventually accessing the CEMAC regional financial market would be an appropriate financing strategy. Given ample liquidity from oil money in the region, we expect there will be sufficient appetite for C.A.R. government securities at favorable rates if these securities are carefully and transparently structured and our economic policy is seen to be responsible. Although the C.A.R. might be among the first few countries in this region to take advantage of such a financing opportunity, several countries in the West African Economic and Monetary Union (WAEMU) have issued medium-term bonds in the regional market. As WAEMU member countries do, we would define nonconcessional securities denominated in CFA francs as domestic debt for program purposes.

21. We are well aware, however, that we will need to strengthen our debt management and expenditure control system as a precondition for accessing the regional market. As a first step, we will create a liquidity monitoring committee that includes members of the BEAC to strengthen coordination of cash flow projections and expenditure commitments over the short and medium term (structural benchmark for end-June 2008). Also, to increase transparency and allow the public to follow our fiscal efforts, we will start publishing quarterly budget execution reports with a delay of 45 days after the reporting period starting in August 2008. Moreover, by the end of 2008 we plan to have a fully computerized debt management unit in place that can provide accurate and timely debt service projections for various scenarios (structural benchmark). We have already acquired the necessary debt management software and hardware and plan to provide more resources to the debt management unit so that debt operations can be better integrated with treasury and budget functions. Additional technical assistance will be critical, and we have asked the Fund to advise us on accessing the government securities market. If our preparations proceed as planned, we envision issuing government securities for the first time in the 4^{th} quarter of 2008 through a public auction.

B. Financial Sector Policies

22. Financial sector policies are designed to support credit expansion to accelerate private sector growth while containing systemic risks from concentration of commercial bank exposure to the public sector. Recently liquidity in the banking sector has improved markedly—from a near-crisis situation in 2006, at the time of the regional FSAP—owing to economic recovery, repatriation of earnings, and greater internal security. We believe that banks should be able to take advantage of their liquidity to expand credit to the private sector. If the government succeeds in issuing bonds in the regional markets and uses part of the proceeds to repay commercial bank credits, that should inject additional liquidity into the economy.

23. The systemic risks from concentration of commercial bank exposure to the public sector will also be addressed by better control of the finances of public enterprises. The government as a major shareholder will pursue more vigorous monitoring, especially timely

reporting and auditing of all public enterprises. Our arrears clearance plan will include government payments on commercial arrears, which should help improve the financial condition of the enterprises affected. Although the situation in the banking system has improved since an ailing bank was restructured, the level of nonperforming loans remains high and some prudential ratios may be violated, which could require further recapitalization. Should this happen, the government will refrain from making any capital contributions.

C. External Sector Policies

24. The recent brisk recovery in external trade after a significant decline over many years is encouraging; the government will support the trend by doing more to facilitate trade. In particular, we will follow up on the recommendations of the recent audit of *Guichet Unique* in Douala related to the transportation system. This, along with facilitating customs clearance by installing an upgraded data processing system, could considerably reduce trade-related costs. We will soon intensify our efforts to promote trade integration in the CEMAC area by aggressively implementing current trading arrangements and reducing nontariff barriers.

25. Since C.A.R. reached the decision point for the enhanced HIPC Initiative in September 2007, debt distress is substantially reduced and external debt service is now more manageable. We are approaching all remaining official bilateral and commercial creditors to seek HIPC debt relief from them and expect soon to reach a participation rate of 80 percent, which is required for the completion point. With better monitoring of the HIPC triggers, we are confident that we will reach the completion point before year-end.

D. Structural Reforms

Revenue administration and tax policy

26. We will implement new functional structures for the fiscal agencies and ensure that only the designated revenue collections agencies collect revenue. We have reorganized the Ministry of Finance, including the tax and customs departments, and will complete the reform by appointing personnel to 95 percent of the positions. We will allow only the customs and tax departments to collect revenue and, to reduce compliance costs for taxpayers, will limit other agencies, such as the inspector general of finances (IGF) and the mixed financial intervention cell (CEMIFI), to their proper activities.

27. On tax administration, given our limited capacity and resources, we will focus on cost-effective measures. We will revise the VAT registration threshold to CFAF 50 million and synchronize this with the thresholds for the formal tax system and for large taxpayers (structural benchmark for end-2008). We will work to increase the compliance of large taxpayers by increasing the number of audits (structural benchmark for end-2008). Specifically, we will audit 30 percent of the large taxpayer population, all stop-filers, and all filers with a negative or zero tax liability for VAT or the income tax. We intend to keep the

noncompliance rate of large taxpayers at 5 percent or below for VAT, excise taxes, and income tax. We are also undertaking a taxpayer census financed by UNDP to identify major potential taxpayers that are not registered. Moreover, we intend to keep the stock of tax arrears net of write-offs stable through enforced collections using liens on bank accounts and property seizure. This is an ambitious target considering the nonpayment of taxes by public enterprises; the target is a quantitative benchmark (QB) under the program. In order to ensure that this target will be achieved, we have already taken several measures including: (i) setting up a committee in charge of compiling the stock of tax arrears as of December 2007 and proposing measures to enhance recoveries; (ii) upgrading the control unit to directorate; and (iii) appointing a new director of the Large Taxpayer Unit.

28. We will also upgrade the efficiency of customs for revenue collections and trade facilitation. The ASYCUDA system is at the core of our operations in Douala and Bangui, and we will strive to implement additional ASYCUDA modules as soon as possible. In calculating duties, we will continue to apply the indicative values provided by the pre-inspection company, BIVAC. Moreover, we will strictly control exemptions granted to nongovernmental organizations to prevent any misuse of exemption status. Given the disappointing experience with Unitec Benin, operator of the *Guichet Unique* in Douala, we have decided to terminate the contract because the operator did not comply with the terms of the contract, and we will staff the Douala *Guichet Unique* with customs staff, which should make operations more efficient (prior action). We will work with our Cameroonian counterparts to interconnect both ASYCUDA systems, which is a precondition to implementing the ASYCUDA transit module. To improve coordination of the tax and customs departments we will make customs data available online to the tax department, and the departments will regularly review jointly the list of the 500 largest importers to verify whether they are registered as taxpayers and have complied with their tax liabilities. We hope to continue to benefit from technical assistance in both tax and customs administration and we intend to request technical assistance for this purpose.

29. Raising our revenue-to-GDP ratio sustainably over the medium term will require tax policy reform. In preparation for comprehensive reform we intend to unify all tax-related legislation into a single tax code that will be published on the Internet by June 2009 and kept updated. We will work on comprehensive tax reform during 2009 so as to implement major reforms as part of the 2010 budget. The basic objective of tax reform is to (i) broaden the tax base by reducing exemptions; (ii) simplify the tax system by eliminating nuisance taxes; and (iii) reduce compliance costs for taxpayers and administrators. This should allow us to raise revenues in a more efficient and equitable way. To help with this reform effort we intend to request technical assistance in tax policy and in legal drafting.

Public financial management

30. The government will significantly step up its efforts to enhance public financial management. Our focus has been on better controlling and monitoring budgetary outlays. We

have established a treasury committee, which decides on payments based on funds available. This extraordinary measure was needed to ensure firm control over cash flows, given very limited liquidity. As we modernize our commitment control and cash management systems with the help of technical assistance, and following up on the recommendations of the recent Public Expenditure and Financial Accountability (PEFA) report, treasury control will be done at the technical level. We closed all inactive accounts with commercial banks in March 2008 and will audit the remaining accounts to determine whether they are needed. We will also ask the banks to consolidate the balances of all government accounts for the purpose of calculating interest on the consolidated credit balance. This will reduce interest payments due to banks in 2008. Then we will establish a treasury single account (TSA) by closing all nonessential government accounts with commercial banks and operating the remaining ones on a zero-balance basis (structural benchmark for end-December 2008). The TSA would eliminate the current practice of *régies mixtes* for revenues and expenditures, completely separate the revenue and expenditure functions of ministries, and fully reflect budgeted revenues and expenditures. We will also move to ensure timely deposit of all government revenues in treasury accounts, particularly those collected by the *Guichet Unique* in Douala. In July 2008 we will also start depositing into treasury accounts petroleum excises collected for the fight against corruption; financing of a strategic stock; and financing of the fuel depot expansion.

31. We plan to more tightly control expenditure by adopting a government financial management information system (GFMIS) by mid-year. This system (Ges'co) will allow us to track expenditures from the commitment to the payment stage and should facilitate cooperation between the budget department and the treasury. To facilitate introduction of Ges'co we formally adopted in March 2008 a new budget classification (*nomenclature budgétaire*) in line with international standards, and a new expenditure chain (*circuit de dépenses budgétaires*). We will soon adopt the corresponding chart of accounts (*plan comptable*). The success of Ges'co will depend on additional resources and increased management attention. It will also require elimination of nonstandard expenditure procedures. The new system will facilitate the tracking of domestic expenditure arrears, which will need to be registered. Thus, by the end of the year we will be able to produce budget execution reports on a commitment (engagement), payment order (ordonnancement), and cash basis. For a comprehensive picture of our arrears the internal control agency (IGF) will audit domestic arrears for 2005–07 by end-July 2008.

32. We will strengthen our legal framework for issuing government guarantees. We have already issued regulations to clarify that all guarantees contracted by government entities need to be registered with the debt department and require the signature of the Minister of Finance and Budget. The beneficiary of a guarantee must pay guarantee fees in an amount equivalent to the risk the budget is taking by assuming a contingent liability. Moreover, all guarantees need to be disclosed to the public in the annual budget law with (i) a brief description of their nature, beneficiaries, and expected duration; (ii) the government's gross financial exposure; (iii) payments made; (iv) recoveries; and (v) guarantee fees received.

Petroleum sector

33. The government will move decisively to align petroleum product prices with market conditions. The current prices incorporate subsidies for several products that in 2008 would amount to about CFAF 3 billion if current policies continue. Because fixing petroleum prices thus seriously undermines the budget, on June 1 we have 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 (prior action) and we will continue to apply this formula (continuous structural performance criterion, see TMU ¶15). Within the formula we will apply VAT on all stages of production and distribution for diesel and gasoline starting on October 1, 2008. Moreover, we intend starting in 2009 to combine other taxes on petroleum products into a single excise that is applied on the quantity of product and is adjusted quarterly for changes in inflation. The choice of an excise is motivated by the fact that it will reduce fluctuations in volatile fuel prices and give the treasury a more stable revenue stream.

34. We have launched a communications strategy to explain the new petroleum pricing policy to the population, emphasizing that:

- There is clear evidence that subsidies on petroleum products are not propoor because subsidized products are mainly used as industrial inputs or consumed by relatively better-off households.
- There is substantial diversion of subsidized kerosene for transportation.
- The loss of petroleum revenues implies less arrears repayments and less spending on health, education, and infrastructure.
- The government is currently consuming more petroleum products than it receives in taxes from the petroleum importers, thus leading to arrears to these companies.
- Petroleum taxes are a particularly efficient way of raising revenues in a country that has limited revenue administration capacities.
- Thus, raising prices is a necessary trade-off even though we realize that this will be a politically contested issue. However, the automatic formula with a specified schedule of gradual excise tax increases should depoliticize the issue over time.

35. As a first step, on June 1, 2008, we adjusted the price of heavy fuel for industry to full cost recovery level. For kerosene, which is currently priced below cost recovery, eliminating subsidies would mean increasing prices considerably. To help the population adjust, we have decided to eliminate the subsidies on kerosene over two years, during which the specific excise will be negative, reflecting the subsidy. The price of gasoline now includes a positive

specific excise and the price for diesel will do so starting October 1, 2008. The excises will increase through quarterly adjustments to raise revenues for the treasury. In 2008 we expect these measures to generate additional revenues of CFAF 3 billion. In 2009 VAT will be applied on all petroleum products (except those for export) and we intend to consolidate the diverse taxes on petroleum products into a single specific excise and de-earmark them. Moreover, we will continue to increase excise rates on petroleum products moderately every quarter to generate additional revenues of CFAF 9.5 billion from petroleum product taxation (compared to 2008), which will help pay for government utility consumption (see below).

36. We are keenly aware that increasing petroleum prices will pose an additional financial burden for every household, particularly the poorest. Therefore, when adjusting petroleum product prices to full cost-recovery level, we will allocate CFAF 1 billion to measures mitigating the impact of price increases on poor households. In particular, we have decided to reduce VAT rates to 5 percent on basic goods such as edible oils, flour, frozen fish, and milk. In addition, to counteract the recent price increases on cement and metal sheets related to supply problems, we also lowered the VAT rate to 5 percent on these products. We are exploring further options for mitigating the impact on the poor of further price increases in conjunction with the World Bank and other donors. The repayment of government arrears, particularly on salaries and pensions should also help offset some of the additional costs.

Other structural reforms

37. The government will accelerate institutional reforms to facilitate private sector access to the banking sector and promote financial intermediation. We plan legal and regulatory reforms to enhance transparency in private sector accounting and to modernize the court system to make debt collection more reliable and efficient and less costly. For this purpose, we are cooperating intensively with the International Finance Corporation (IFC). We will also seek to stimulate financial intermediation by expanding use of the banking system for salary payments to civil servants.

38. We will improve the management of public enterprises to better reflect their true costs and adjust administered prices. Currently, many public enterprises do not pay taxes, and the government does not pay for the consumption of goods and services nor is the government consumption reflected in the budget. This situation leads to cross arrears. Public enterprises accumulate substantial quasi-fiscal losses that are financed by depleting their capital. This has become a macro-critical issue for the public sector and for growth, particularly since water and electricity infrastructure has become fragile. Thus, to pass on costs related to petroleum price increases, we will raise the tariffs for water by 5 percent and electricity by 5 percent (structural benchmark end-June 2008), which is a first step toward reaching long-term sustainable tariffs, which are still above the new tariff levels. Over time we intend to raise administered prices to reflect full cost recovery including investment spending, which will allow public enterprises to honor their tax obligations and the

government to pay for services used. At the same time, we are working with the World Bank to improve management of these companies to reduce technical losses and increase their efficiency. The 2009 budget will reflect full government consumption of public enterprise goods and services, which will be financed by higher revenues, including from petroleum product taxes.

39. Governance reform will support our efforts to improve the functioning of the public sector and the business climate. We have distilled the lessons learned from the justice roundtable in late 2007. We will provide more resources to law enforcement and in March 2008 created a permanent anticorruption committee at the prime ministry to enhance the coordination and accountability of all public institutions affected. Adoption of the procurement code by June is expected to improve transparency and effectiveness. A declaration of assets by senior government officials had already been required, but we will introduce a standardized declaration and penalties for noncompliance by June 2009. We will also continue our efforts to align the codes governing the natural resource sectors with international standards. We will not grant any new forestry licenses before the new forestry code is passed, and we have revoked two licenses that were not in line with current legislation. We will publish an audit report on the mining sector as a means of implementing the Extractive Industries Transparency Initiative (EITI). These reforms should help us realize the revenue generation potential of these sectors.

E. Program Monitoring for 2008

40. The program will be monitored through reviews based on biannual quantitative performance criteria (PCs) for end-June and end-December 2008 (Table 1) and structural PCs and benchmarks for 2008 (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.

41. The program's quantitative conditionality has been updated:

- The PC on the domestic primary surplus allows any excess in budget support grants (relative to program projection) to be spent; this might facilitate our request for additional donor assistance. Shortfalls in budget grants no longer require fiscal adjustment.

- The PC on net commercial bank credit to government (net of government bond holdings by banks) has a limited upward adjuster for shortfalls (relative to program projection) in budget support grants to insulate budgetary management from short-term fluctuations in external assistance.

- Should there be a shortfall in bond issuance on the regional market relative to projections, this would result in (i) an increase in net credit from the BEAC up to its statutory ceilings; (ii) an increase in the ceiling on net commercial bank credit to government (PC); and (iii) a decrease in the floor on domestic arrears clearance (QB).

- The quantitative PC on new domestic payment arrears will be dropped, as will be the one on wages and salaries.

- A new quantitative benchmark will monitor the reduction of tax arrears net of write-offs.

Table II.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 Proposed	End-June Performance Criteria Proposed	End-Sept. Benchmark Proposed	End-December Performance Criteria Proposed
Performance criteria				
Floor on total government revenue [1]	23.0	46.5	69.0	91.5
Floor on domestic primary balance [2]	0.5	1.0	3.0	2.5
Change in net claims of the commercial banking system on the government, excluding bonds	5.0	-0.5	-1.3	-12.8
New nonconcessional external debt [3 4]	0.0	0.0	0.0	0.0
Accumulation of government external payments arrears [4]	0.0	0.0	0.0	0.0
Indicative targets				
NPV of external debt	…	…	…	350
Floor on poverty-related spending [5]	4.5	9.5	14.0	18.5
Reduction in domestic payments arrears	2.0	5.0	8.0	14.0
Net accumulation of tax arrears	0.0	0.0	0.0	0.0
Memorandum items:				
Projected grants for budget support	0.3	7.4	11.9	12.1
Projected bonds issued in the regional market	0.0	0.0	0.0	20.7
Of which: held by domestic commercial banks	0.0	0.0	0.0	14.8
Maximum adjustor for government net claims on commercial banks in case of grants shortfalls	0.0	7.0	5.0	5.0

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.

Table II.2. Central African Republic: Structural Conditionality, 2008

Measure	Conditionality/ Timeline	Macroeconomic Rationale
PETROLEUM PRICING AND PUBLIC ENTERPRISES		
Implement an automatic petroleum product pricing formula that ensures full pass-through to the consumer of all costs, distribution margins, VAT at the regular rate for gasoline and diesel, and a specific excise by product. The formula includes a timetable for petroleum taxation (MEFP ¶33 and TMU ¶15).	Prior action	Protect the budget from risks of fluctuating petroleum prices; creating room for well-targeted measures to mitigate the social impact of petroleum price changes.
Continue applying automatic quarterly petroleum product pricing formula (MEFP ¶33 and TMU ¶15).	Continuous structural performance criterion	Same as above.
Increase tariffs for water by 5 percent and for electricity by 5 percent for the upper tranches of consumption (MEFP ¶38).	Structural benchmark/ end-June 2008	Reduce quasi-fiscal losses of state-owned enterprises that are critical for C.A.R.'s growth; and protect the budget.
TAX, CUSTOMS AND PUBLIC ADMINISTRATION		
Revoke contract with Unitec Benin and staff the *Guichet Unique* in Douala with customs personnel (MEFP ¶28).	Prior action	Enhance revenue generation potential by removing ineffective and expensive operator.
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 (MEFP ¶27).	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 and medium-sized taxpayers per year; (ii) all stop-filers; and (iii) all filers with VAT credit claims or zero balance returns (MEFP ¶27).	Structural benchmark/ end-December 2008	Enhance revenue generation potential by reducing scope for tax evasion.
PUBLIC FINANCIAL MANAGEMENT		
Set up a liquidity committee including BEAC members to review monthly, weekly, and daily cash flow and expenditure commitment forecasts and assess liquidity needs (MEFP ¶21).	Structural benchmark/ end-June 2008	Reduce financing costs for the government and align government commitments with available resources to avoid arrears.
Set up and publish a plan to repay domestic arrears (MEFP ¶18 and TMU ¶16).	Structural PC/ end-September 2008	Reestablish credibility of the government with respect to the public; reduce debt overhang.
Implement a treasury single account (TSA) (MEFP ¶30).	Structural benchmark/ end-December 2008	Reduce financing costs for the government and increase transparency of government operations..
DEBT MANAGEMENT		
Fully computerize the debt management unit and enable it to provide debt service projections for various scenarios (MEFP ¶21).	Structural benchmark/ end-December 2008	Increase reliability of debt forecasts and develop ability to take early corrective actions to maintain medium-term debt sustainability.

Attachment II. Technical Memorandum of Understanding

Translated from French

June 3, 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 quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from December 31, 2007.

F. 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.

G. 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 government consolidated 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.

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.

H. 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. 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** as reported in the monetary survey is defined as the difference between deposits held by the government in commercial banks and outstanding loans and overdrafts.

Adjuster

10. The ceiling on the **change of net claims of the commercial banking system on the government** will be increased by

- (i) 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) 55 percent of shortfall in regional bond issuance compared to program projections (see example in Table 2 attached to this TMU).

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.

I. Prior actions and structural performance criteria

Automatic petroleum product pricing formula (prior action and continuous structural performance criterion)

15. **The automatic petroleum product pricing formula** is designed to ensure full pass-through to the consumer of all costs, distribution margins, VAT at the regular rate for gasoline and diesel, and a specific excise inclusive of customs duties by product. The retail price for gasoline (*super*), kerosene (*pétrole lampant*), diesel (*gasoil*), and fuel oil (*fuel 1%*) will be calculated at the end of each quarter, using the average f.o.b. price for the previous 90 days for each product. The formula adds all costs, distribution margins, a specific excise by product, and, if applicable VAT. The final price will be calculated by using the price structure of petroleum products transported through the Democratic Republic of Congo by applying the specific excise as shown in Table 3.[1] The 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.; and (vi) negative or positive TUPP as the residual. VAT for gasoline and diesel will be applicable to all costs, distribution margins, and the specific excise starting October 1, 2008. For petroleum products imported through 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.

Domestic arrears clearance plan (structural performance criterion)

16. 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

[1] The specific excises shown in Table 3 for 2009 are indicative. They should be set so as to yield an additional 1 percent of GDP in petroleum taxation in 2009.

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.

J. Quantitative benchmarks

Net-present-value of external debt (ceiling)

17. 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)

18. The reduction in domestic payment arrears is reported as part of the TOFE. **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.

Adjuster

19. The floor on the reduction in **domestic payments arrears** will be lowered by 24 percent of the shortfall in regional bond issuance compared to program projections (see example in Table 2 attached to this TMU).

Net accumulation of tax arrears (ceiling)

20. 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 4 below (Line 6).

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 and 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. Adjusters for Lower-Than-Projected Bond Issuance

	Adjustment factors [1]	Bond-related variables		
		(Billions of CFAF)		
Bond issuance		20.7	5.0	0.0
Shortfall relative to projections		0.0	15.7	20.7
Change in net claims of the commercial banking system on the government, excluding bonds	0.55	-13.8	-5.1	-2.4
Reduction in domestic payments arrears	0.24	14.0	10.2	9.0
Change in net credit from BEAC	0.21	-5.6	-2.3	-1.3

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

[1] If bonds issued were less than projected, the shortfall will be applied to the three types of domestic debt, according to the proportions of adjustment factors.

Table 3. Central African Republic: Excises and VAT on Petroleum Products, 2008-09

	2008 June	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Excises including customs revenues (via Kinshasa)			(CFAF per liter)			
Gasoline (Super)	156.5	140.3	154.3	168.3	182.3	196.3
Kerosene (Pétrole)	-142.2	-103.1	-148.1	-106.1	-64.1	-22.1
Diesel (Gasoil)	25.0	27.8	41.8	55.8	69.8	83.8
Fuel oil (Fuel 1%)	34.3	37.5	27.5	27.5	27.5	27.5
VAT [1]						
Gasoline (Super)	66.7	145.0	147.0	149.0	151.0	153.2
Kerosene (Pétrole)	0.0	0.0	106.0	113.2	120.4	127.8
Diesel (Gasoil)	83.2	140.7	142.6	144.5	146.4	148.4
Fuel oil (Fuel 1%)	0.0	0.0	103.4	102.9	102.4	102.0

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

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

Table 4. 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	0.0
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.