Country Report

Central African Republic

June 2007

The Economist Intelligence Unit
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The Economist Intelligence Unit

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Contents

Central African Republic

2 **Summary**

3 **Political structure**

4 **Economic structure**
4 Annual indicators
5 Quarterly indicators

6 **Outlook for 2007-08**
6 Political outlook
7 Economic policy outlook
9 Economic forecast

12 **The political scene**

15 **Economic policy**

16 **The domestic economy**
16 Economic trends
17 Agriculture
17 Infrastructure
19 Energy

19 **Foreign trade and payments**

List of tables

9 CAR: international assumptions summary
11 CAR: forecast summary
16 CAR: real GDP growth
20 CAR: external debt

List of figures

5 CAR: foreign trade
5 CAR: foreign reserves
11 CAR: gross domestic product
11 CAR: consumer price inflation
16 CAR: inflation

Central African Republic

June 2007

Summary

Outlook for 2007-08

Despite the signature of a peace deal with one of the most active rebel groups, Union des forces démocratiques pour le rassemblement (UFDR), the president, François Bozizé, will continue to face continued military threats from armed supporters of his predecessor, Ange-Félix Patassé, in the north of the country. His regime will hold on to the capital, Bangui, but will need international support to bring some stability to the remote border regions. The IMF's approval in December 2006 of a new poverty reduction and growth facility (PRGF) has led to the resumption of donor aid, which will be vital for the government's survival. The award of the PRGF and the resumption of donor support should help the economy to recover slowly, and real GDP growth is forecast to rise to 4% in 2007 and 4.5% in 2008.

The political scene

The government and rebels from the UFDR have signed a second peace deal, providing for a ceasefire and the disarmament of rebel fighters. An opposition group close to the rebellion, Forces républicaines nouvelles (FRN), has called for the freeing of UFDR leaders currently in jail in Benin, and for a national dialogue involving all political and military leaders to resolve the crisis. Strike action has continued over public-sector salary arrears.

Economic policy

Mr Bozizé has installed a new customs administration and created a steering committee to oversee customs reform. Following the resumption of World Bank operations and the approval of a new PRGF, other donors have resumed aid to the CAR, in particular the EU which has announced €68.6m (US$93m) in aid.

The domestic economy

The IMF has estimated that real GDP growth rose to 3.5% in 2006, driven by improved performance in agriculture, forestry, mining and services. The government has launched a three-year recovery plan for the cotton, coffee and tobacco sectors. France Télécom has acquired a mobile and Internet licence, and expects to start up operations in the CAR by the end of the year. The government has signed two air transport deals with the Moroccan authorities. A seminar on the strategic orientation of the electricity sector has been held by the Ministry of Mining and Energy in the capital, Bangui.

Foreign trade and payments

According to the World Bank, the CAR's total external debt stock fell marginally at end-2005, mainly as a result of cross-currency revaluation. The government and the Paris Club of international creditors have signed a debt-restructuring agreement, including a US$9.9m debt write-off.

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Next report: Full schedule on www.eiu.com/schedule

Political structure

Official name	République centrafricaine
Form of state	Unitary republic
Legal system	Based on the 1995 constitution; major amendments to the constitution were passed in December 2004
National legislature	The National Assembly (presided over by the former prime minister, Célestin Gaombalet) has replaced the National Transitional Council set up after François Bozizé seized power
National elections	The first round of the presidential and legislative elections took place on March 13th 2005; a second round of the ballot took place on May 8th; next presidential and legislative elections are scheduled for 2010
Head of state	President, François Bozizé, who took power in a military rebellion in March 2003 before winning the presidential election held on May 8th 2005
National government	The 105-member National Assembly and the cabinet are overseeing the day-to-day running of the country; a minor cabinet reshuffle took place in September 2006
Main political parties	Mouvement pour la libération du peuple centrafricain (MLPC) is the largest party in parliament but is currently split into two factions, one supporting the exiled former president, Ange-Félix Patassé, and another supporting his former prime minister, Martin Ziguéle; the MLPC has support from the Parti libéral démocrate (PLD) and other small parties; other main parties include Rassemblement démocratique centrafricain (RDC), Alliance pour la démocratie et le progrès (ADP), Front patriotique pour le progrès (FPP), Mouvement pour la démocratie et le développement (MDD), Parti de l'unité nationale (PUN) and Forum démocratique pour la modernité (Fodem); Parti démocratique centrafricain (PDCA) was set up in February 2004 to rally support for Mr Bozizé in the presidential election and forms part of the pro-Bozizé Convergence Nationale Kwa Na Kwa coalition, which has a majority in the National Assembly

	President & defence minister	François Bozizé
	Prime minister and finance & budget minister	Elie Doté
Ministers of state	**Communications**	Abdou Karim Méckassoua
	Rural development	Charles Massi
Key ministers	**Civil service**	Jacques Boti
	Economy, planning & international co-operation	Sylvain Maliko
	Education	Charles-Armel Doubane
	Foreign affairs	Côme Zoumara
	Interior & security	Michel Sallé
	Justice	Paul Otto
	Mining & energy	Sylvain Ndoutingaï
	Public health	Bernard Lala Konamna
	Social affairs	Solange Pagonendji Ndackala
	Telecommunications	Fidèle Gouandjika
	Transport & civil aviation	Parfait Mbaye
	Trade & industry	Rosalie Koudounguéré
	Youth, sports & culture	Désiré Kolingba

Governor of the regional central bank (BEAC)	To be appointed

Economic structure

Annual indicators

	2002[a]	2003[a]	2004[a]	2005[b]	2006[b]
GDP at market prices (CFAfr bn)	692.0	662.0[c]	670.0[c]	711.0[c]	783.5
Real GDP growth (%)	-0.6	-7.6[b]	1.3[b]	2.2	3.5
Diamond production ('000 carats)	414.8	332.7	354.2	383.3	410.1
Timber production ('000 cu metres)	737.5	524.5	584.9	525.8	515.4
Consumer price inflation (av; %)	2.3	4.4	-2.2	3.0[a]	6.7
Population (m)	3.9	3.9[b]	4.0[b]	4.1	4.1
Exports fob (US$ m)	171.3	121.7[b]	129.6[b]	115.2	120.8
Imports fob (US$ m)	137.8	149.5[b]	202.5[b]	222.8	254.1
Current-account balance (US$ m)	-34.4	-55.1[b]	-57.7[b]	-38.9	-48.4
Reserves excl gold (US$ m)	123.2	132.4	148.3	139.2[a]	125.4[a]
Total external debt (US$ m)	1,065.0	1,038.0	1,082.0	1,016[a]	870.9[c]
External debt-service ratio, paid (%)[d]	0.7	n/a	n/a	n/a	n/a
Exchange rate CFAfr:US$ (av)	697.0	581.2	528.3	527.5[a]	522.9[a]

[a] Actual. [b] Economist Intelligence Unit estimates. [c] IMF estimate. [d] Since 2002 the country has stopped all repayments on its external debt, with the exception of repayments to the IMF.

Origins of gross domestic product 2004[a]	% of total
Primary	58.2
Secondary	11.4
Tertiary	30.4

Components of gross domestic product 2004[a]	% of total
Private consumption	96.2
Government consumption	6.0
Gross domestic investment	5.1
Exports of goods & services	11.8
Imports of goods & services	-19.1

Principal exports 2004[a]	US$ m
Timber	54.5
Diamonds	52.6
Cotton	3.4
Coffee	1.9

Principal imports 2004[a]	US$ m
Oil	33.7
Public investment programme	3.6
Others	112.4

Main destinations of exports 2005[b]	% of total
Belgium	33.3
France	9.2
Spain	8.3

Main origins of imports 2005[b]	% of total
France	16.8
Netherlands	10.5
Cameroon	10.0

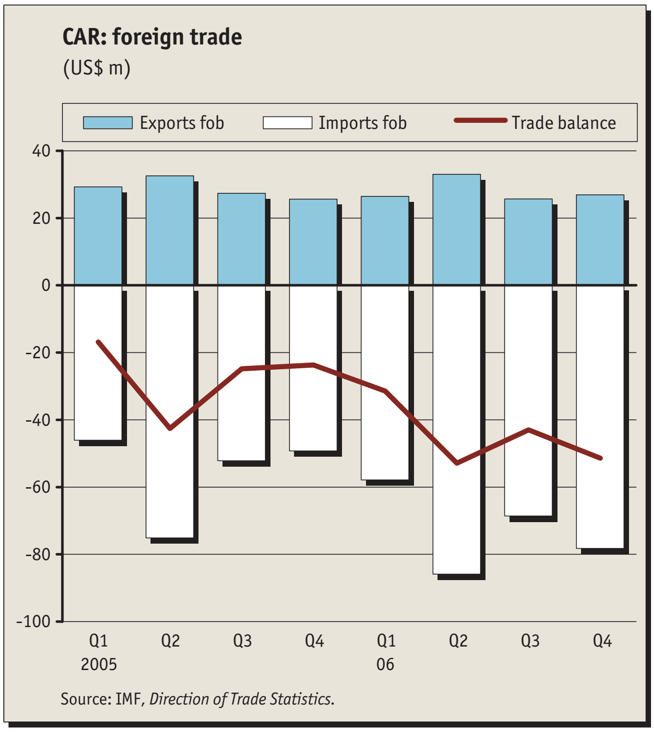
[a] Banque de France. [b] Drawn from partners' trade returns, subject to a wide margin of error.

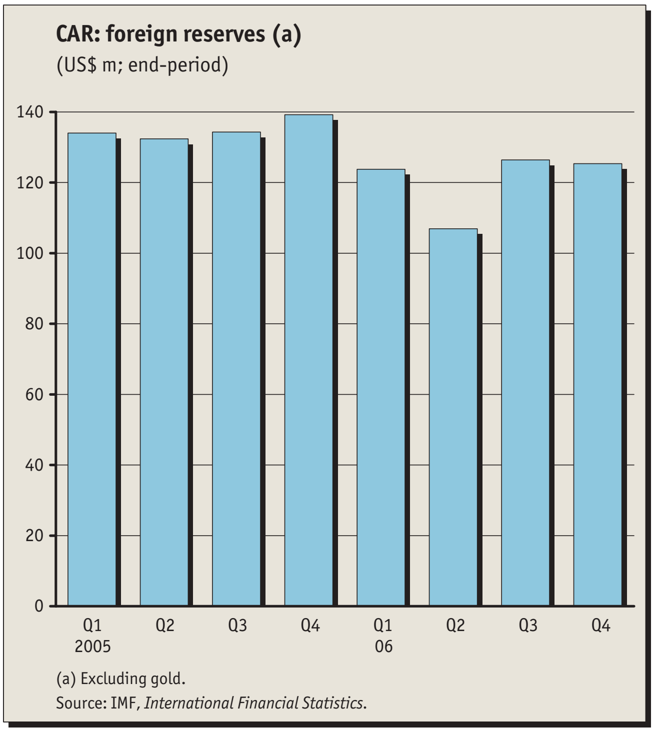
Quarterly indicators

	2005 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2006 1 Qtr	2 Qtr	3 Qtr	4 Qtr
Prices								
Consumer prices, African households, Bangui (2000=100)	111.0	111.0	112.0	112.0	n/a	n/a	n/a	n/a
Consumer prices (% change, year on year)	4.1	3.2	2.8	1.5	n/a	n/a	n/a	n/a
Financial indicators								
Exchange rate CFAfr:US$ (av)	498.9	521.0	538.0	552.0	545.8	522.3	514.9	508.6
Exchange rate CFAfr:US$ (end-period)	506.0	542.5	544.7	556.0	541.9	516.0	518.1	498.1
Deposit rate (av; %)	5.00	5.00	4.92	4.75	4.58	4.25	4.25	4.25
Discount rate (end-period; %)	5.75	5.75	5.50	5.50	5.25	5.25	5.25	5.25
Lending rate (av; %)	18.00	18.00	17.67	17.00	16.33	15.00	15.00	15.00
M1 (end-period; CFAfr bn)	94.95	98.66	104.32	113.70	109.33	96.72	111.63	105.46
M1 (% change, year on year)	13.3	7.0	8.0	16.4	15.1	-2.0	7.0	-7.2
M2 (end-period; CFAfr bn)	107.95	111.14	117.82	128.42	123.98	113.66	127.73	122.97
M2 (% change, year on year)	15.0	7.3	9.0	16.5	14.8	2.3	8.4	-4.2
Foreign trade (US$ m)[a]								
Exports fob	29.28	32.58	27.38	25.62	26.47	33.04	25.66	26.90
Imports fob	-46.12	-75.15	-52.22	-49.32	-57.90	-85.94	-68.63	-78.29
Trade balance	-16.84	-42.57	-24.84	-23.70	-31.43	-52.90	-42.97	-51.39
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	134.05	132.37	134.30	139.22	123.79	106.94	126.41	125.35

[a] *DOTS* estimates.

Sources: IMF, *International Financial Statistics*; IMF, *Direction of Trade Statistics*.





Outlook for 2007-08

Political outlook

Domestic politics

The political outlook for the Central African Republic (CAR) is uncertain. The regime of the president, François Bozizé—who was elected in May 2005—faces ongoing military opposition from armed groups that are destabilising the country's northern region. In February 2007 the Libyan president, Muammar Qadhafi, mediated a peace accord between the government and two rebel leaders—Abdoulaye Miskine, who claimed to be the military chief of the Union des forces démocratiques pour le rassemblement (UFDR), and André Ringui Le Gaillard, a former minister under the previous president, Ange-Félix Patassé, now representing another rebel group, Armée populaire pour la restauration de la démocratie (APRD). However, the peace deal they signed quickly collapsed after it was rejected by several UFDR leaders, including the group's military chief, Damane Zakaria, who claimed that neither man had the authority to negotiate on the rebels' behalf. Following a fresh attack by UFDR forces on the north-eastern town of Birao and renewed attacks by the APRD, in April a second peace accord was signed in Birao between the government and Mr Zakaria, providing for an immediate ceasefire and the disarmament of UFDR fighters.

Although the Birao accord is expected to bring some respite to the government, security conditions across the CAR will remain fragile, as other rebel groups continue to operate in the north-west and the north-centre of the country. As a result, sporadic fighting between the army and the rebels is set to continue and, given the army's limited resources and poor training, the government's ability to contain the rebels will depend on French support, both military and financial, and the redeployment of the 380-man Force multinationale en Centrafrique (FOMUC), which is composed of forces from Communauté économique et monétaire de l'Afrique centrale (CEMAC) member countries. The deployment of a UN peacekeeping force along the border with Chad and Sudan, in accordance with UN Security Council Resolution 1706, is being debated, but it is likely to be some time before a force is finally deployed.

Mr Bozizé is expected to maintain a firm grip on the capital, Bangui, although he could face growing popular opposition and public-sector strikes if his government fails to revive economic growth and deliver on its promises to pay public-sector salary arrears. Over the forecast period the Economist Intelligence Unit expects the president to continue to draw support from the Convergence Nationale Kwa Na Kwa coalition, which has the largest number of seats in the National Assembly, as well as from two other parties—Parti de l'unité nationale (PUN) and Forum démocratique pour la modernité (Fodem)—whose leaders were appointed to key positions in the government. This should ensure the government a working majority in the National Assembly. However, Mr Bozizé will come under increasing pressure from his opponents to engage in dialogue with the main political and military leaders to resolve the current crisis.

Despite their demands for political dialogue, the government's opponents are likely to remain divided. The former ruling party, Mouvement pour la libération du peuple centrafricain (MLPC), has split into two competing factions after members loyal to the former prime minister, Martin Ziguélé, voted in July 2006 to suspend the ousted president, Mr Patassé, as leader of the party and replace him with Mr Ziguélé. This has greatly weakened the party's influence, although Mr Ziguélé's impending return to the CAR from exile in Paris could help to revive the party's fortunes ahead of its upcoming congress scheduled for June. Ongoing animosity between the MLPC and the Rassemblement démocratique centrafricain (RDC)—the party that broadly represents the Yakoma tribe, which lost power in the last decade—is also likely to persist.

International relations

France, which has around 320 troops stationed in Bangui, will remain the dominant foreign power. French military support for the army was crucial in helping the government to regain control of the north-east of the country in late 2006 and early 2007. On the international front, France will continue to lobby for the deployment of a UN peacekeeping force into the CAR to improve security in the border area. China, which was one of the first countries to offer assistance to Mr Bozizé following his 2005 election victory, will continue to strengthen its relations with the regime. The EU has resumed full co-operation, and the US has resumed diplomatic relations following a break of over two years. The mandate of the UN's peace-building office, Bureau d'observation des Nations Unies en Centrafrique (BONUCA), has been extended until the end of 2007 owing to ongoing instability in the north.

Mr Bozizé continues to affirm his support for the Chadian president, Idriss Déby Itno, whose government is also fighting a serious rebellion. Instability in the border areas between the two countries—which has forced an estimated 50,000 Central Africans to flee into Chad—is likely to continue. Relations with Sudan will remain strained owing to the government's repeated claims that Central African rebels are receiving support from Sudan. Mr Bozizé's cordial relations with Libya, which also backed the former government, are expected to continue after the Libyan president recently mediated peace talks. Relations with the Democratic Republic of Congo (DRC) are good, but will remain complicated by the CAR government's need also to maintain good relations with the Mouvement de libération du Congo (MLC), a former Congolese rebel group that controls the territory bordering the CAR.

Economic policy outlook

Policy trends

In December the IMF approved a US$54.5m, three-year poverty reduction and growth facility (PRGF), covering the period 2007-09. Rapid implementation of donor-recommended reforms should enable the country to qualify for debt relief under the heavily indebted poor countries (HIPC) initiative, although it is likely to be several years before the CAR receives any significant debt write-off. The CAR has had policy programmes with the IMF in the past, but it has failed to meet various agreed conditions, owing to a combination of political and security instability, weak administrative capacity, and a lack of political will. The concentration of the finance and budget portfolio in the hands of the prime minister, Elie Doté, could reverse this trend, although his ability to implement reforms will be hampered by ongoing political instability. Under the PRGF, policy is designed to dovetail with the government's poverty reduction strategy paper (PRSP), which the authorities expect to complete by mid-2007.

The aim of economic policy in 2007-08 will remain the same as in recent years, namely to strengthen public finances and improve governance in order to support economic recovery and macroeconomic stability. In particular, the government will pursue key reforms to increase fiscal revenue through the reorganisation of the tax and customs services, and to improve control of expenditure on public-sector salaries in order to prevent a build-up of external and domestic arrears and to reduce the level of domestic debt. The government is also keen to strengthen the banking sector and improve financial intermediation in order to boost the private sector, liberalise investment and trade, and improve regulation of the mining and forestry sectors. Resolving the payment of outstanding salary arrears to civil servants will be crucial to the government's survival, as industrial action in protest at the non-payment of salary arrears has the potential to further weaken the regime's already fragile grip on power. The authorities have also committed themselves to continuing to work at improving data collection with technical assistance from the IMF.

Fiscal policy

In December the National Assembly approved the 2007 budget, which aims to expand government revenue while exercising spending restraint. The government projects total revenue of CFAfr125bn (US$256m) and expenditure of CFAfr137bn, increases of 22.5% and 5.9%, respectively, compared with 2006. In order to meet the revenue target, the government will continue with its reforms of the tax and customs administration, with the aim of broadening the tax base and improving taxpayer compliance. The government can now also count on a significant rise in external resources. Although the wage bill is set to remain stable, current expenditure will rise as a result of increased priority-sector spending and a larger defence budget, reflecting ongoing security concerns. Overall, the government expects the fiscal deficit to fall to 1.4% of GDP in 2007.

In spite of these efforts, the fiscal situation is expected to remain precarious well into 2007 and 2008, and the government will have difficulty in paying civil-service wages regularly and clearing payment arrears, although expected external assistance should provide some financial relief. The expected strengthening of the economic recovery over the forecast period, helped by IMF assistance, should increase tax receipts, but the government will struggle to contain expenditure, particularly given the country's rising security needs, and as a result there is unlikely to be any improvement in the fiscal deficit. In addition, the government's task will be hindered by renewed union pressure if there are further delays in paying civil-service wages or if the government implements unpopular austerity measures. Overall, we forecast that the fiscal deficit will widen to 3% of GDP in 2007 and remain at around the same level in 2008. The expected resumption of donor support over the forecast period will mean that the deficit will be financed mainly through external funding.

Monetary policy

Monetary policy is determined by the regional central bank, Banque des Etats de l'Afrique centrale (BEAC), the priorities of which are to control inflation and maintain the CFA franc's peg to the euro. Monetary policy will, thus, remain influenced by that of the European Central Bank (ECB), in particular by movements in the ECB's key interest rate. However, the BEAC's rate does not always follow that of the ECB, as the BEAC also takes into account its members' economic situations, including inflationary pressures and levels of bank liquidity, rather than the differential in interest rates, given the low level of portfolio investments in the region. If the inflationary pressures that have recently affected most countries in the region persist, the BEAC is likely to raise its interest rates moderately over the forecast period.

Economic forecast

International assumptions

CAR: international assumptions summary
(% unless otherwise indicated)

	2005	2006	2007	2008
Real GDP growth				
World	4.7	5.3	4.7	4.6
OECD	2.6	3.2	2.5	2.6
EU27	1.7	3.0	2.5	2.3
Exchange rates				
¥:US$	110.1	116.2	115.9	104.5
US$:€	1.25	1.26	1.36	1.38
SDR:US$	0.677	0.680	0.651	0.640
Financial indicators				
€ 3-month interbank rate	2.18	3.08	4.10	4.30
US$ 3-month commercial paper rate	3.38	5.03	5.07	4.95
Commodity prices				
Oil (Brent; US$/b)	54.7	65.3	63.3	60.3
Cotton (US cents/lb)	55.2	58.6	62.8	66.8
Food, feedstuffs & beverages (% change in US$ terms)	-0.5	16.1	10.2	0.2
Industrial raw materials (% change in US$ terms)	10.2	49.9	6.3	-14.2

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Despite a modest slowdown in economic activity compared with 2006, the Economist Intelligence Unit forecasts that growth in the global economy will remain strong over the forecast period, at 4.7% in 2007 and 4.6% in 2008—higher than the growth rates achieved during much of the 1990s. Economic growth in the EU27, the CAR's main trading partner, will remain moderate, at 2.5% in 2007 and 2.3% in 2008. The high growth forecast for China over the forecast period will increase demand for timber, one of the CAR's main commodity exports. Although it will remain robust, the price of Brent crude will be weaker over the forecast period than its average in 2006, estimated at US$65.3/barrel. We expect the price of crude oil to fall to US$63.3/b in 2007 and US$60.3/b in 2008.

Economic growth

The IMF estimates that real GDP growth picked up slightly in 2006, to 3.5%, following the resumption of donor disbursements. The full resumption of donor support following the approval of a new, three-year PRGF by the IMF in December should help the government to pay public-sector salaries regularly. Coupled with increased activity in the private sector, this should contribute to rising domestic demand. Meanwhile, agricultural production is expected to pick up over the forecast period, owing to a government push to revive the cotton, coffee and tobacco sectors, and efforts to attract foreign investors, although it will be some time before production returns to historical levels. The mining sector will be boosted by diamond, gold and uranium exploration, while the diamond sector should also benefit from the return of foreign diamond buyers to Bangui. Growth in the tertiary sector will be driven by telecommunications, transport and trade activities.

However, economic activity in the CAR will suffer from political instability, and for most investors the CAR will remain a high-risk business environment. Most of the country is not under government control, limiting formal business activity, particularly in the diamond sector. The northern provinces have been blighted by banditry, and ongoing clashes between rebels and the army have forced over 280,000 civilians to flee their homes. In addition, thousands of farmers who crossed into Chad during the military takeover have still not returned, thus undermining the performance of the agricultural sector. Achieving stability will be essential for driving a recovery in the agricultural sector and encouraging a return of foreign investors and members of the local business community. As a result of these trends, we expect real GDP growth to increase modestly, to 4% in 2007 and 4.5% in 2008, driven by the full resumption of donor assistance and a modest pick-up in investment.

Inflation

The limited reopening of the border between the DRC and the CAR has led to greater activity along the Oubangui River, while improved security along the overland routes to Cameroon and the DRC will allow more trading activity, which should help to keep prices down in the forecast period. However, the main factor affecting inflation will be the level of instability in the countryside. Instability in the north—the agricultural hub of the country, which produces much of the country's cereal and livestock—is exerting inflationary pressures on food prices, which have a large weighting in the consumer index price, and this pushed average annual inflation up to an estimated 6.7% in 2006. This will be only partly offset by a fall in international oil prices in 2008, which will have an indirect impact on consumer prices. Overall, we expect average annual inflation to fall only modestly over the forecast period, to around 3.3%.

Exchange rates

The CFA franc is pegged to the euro at a rate of CFAfr655.96:€1. As a result of the widening differential in interest rates and the persistent US current-account deficit, we expect the US dollar to struggle to hold its own and, despite the broad stability of the dollar against the euro in recent years, to depreciate from an average of US$1.26:€1 in 2006 to US$1.36:€1 in 2007 and US$1.38:€1 in 2008. On the basis of this forecast, having averaged CFAfr522.9:US$1 in 2006, the CFA franc is expected to strengthen more dramatically in the outlook period, to an average of CFAfr482.3:US$1 in 2007 and CFAfr474.5US$1 in 2008. We expect the currency peg to remain in place over the forecast period as a result of continued strong commodity prices, which will help to maintain healthy terms of trade among member states, as well as strong political opposition to any devaluation.

External sector

Continued instability and insecurity will hamper trade activity over the forecast period. Nonetheless, we expect exports to pick up, mainly as a result of a modest recovery in the cotton, timber and mining sectors. A surplus of diamonds is believed to have been stockpiled in the gem-producing zones as a result of the absence of buyers since 2003, which means that there could be an upturn in diamond exports in 2007-08. Cotton export revenue should also recover, although more weakly, driven by rising international prices, increased investment and government plans to rebuild cotton ginneries. In addition, trade activity will benefit from the reopening of the border between the CAR and the DRC and the return to operation of some train services along the Congo-Ocean railway in Congo (Brazzaville).

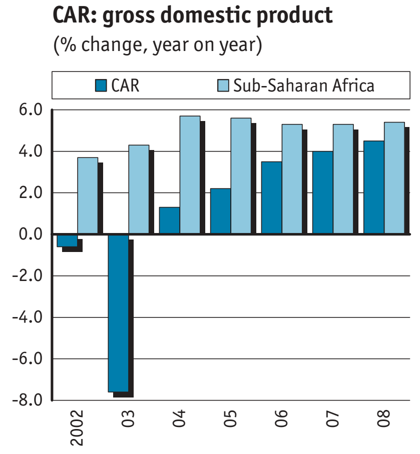
Imports will also rise over the forecast period, boosted by the resumption of donor disbursements. As a result, we expect the trade deficit to widen from an estimated US$133.3m in 2006 to US$159.6m in 2008. The deficit on the services account is forecast to remain high as a result of import-related services and high transport costs caused by banditry and poor infrastructure. The income account will remain in deficit as the government resumes interest payments on its external debt. However, the deficits on both these accounts will be offset by the rising surplus on the current transfers account, which is likely to increase substantially as donor assistance resumes. As a result of a growing surplus on the current transfers account, we expect the current-account deficit to narrow from an estimated 3.2% of GDP in 2006 to 2.6% of GDP in 2007, before widening to 3.3% of GDP in 2008 as rising imports outweigh increased donor transfers.

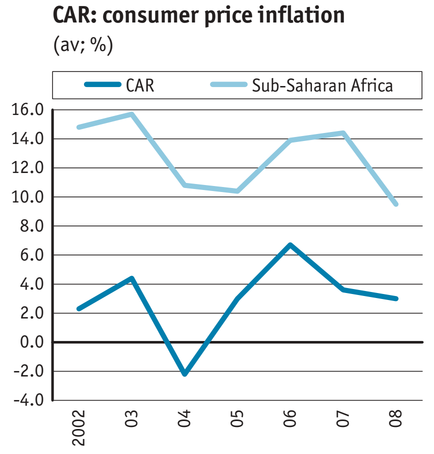
CAR: forecast summary

(% unless otherwise indicated)

	2005[a]	2006[a]	2007[b]	2008[b]
Real GDP growth	2.2	3.5	4.0	4.5
Consumer price inflation (av)	3.0[c]	6.7	3.6	3.0
Exports (US$ m)	115.2	120.8	128.0	137.0
Imports (US$ m)	222.8	254.1	273.9	296.7
Current-account balance (% of GDP)	-2.9	-3.2	-2.6	-3.3
Exchange rate CFAfr:US$ (av)	527.5[c]	522.9[c]	482.3	474.5

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.





The political scene

UFDR leaders reject Sirte peace deal

Fighting has continued in the north-east of the Central African Republic (CAR), despite hopes of a return to stability following the signing in February of a peace accord between the government and the main rebel group operating in the north-east of the country—Union des forces démocratiques pour le rassemblement (UFDR)—in the Libyan town of Sirte (March 2007, The political scene). The accord was mediated by Libya's president, Muammar Qadhafi, and was signed by the CAR's president, François Bozizé, and two UFDR leaders, Abdoulaye Miskine and André Ringui Le Gaillard. Mr Miskine, whose rebel group—Front démocratique du peuple centrafricain (FDPC, also known as the FDC)—is the smallest member of the UFDR, claimed to be the UFDR's chief-of-staff. However, this was subsequently denied by another UFDR leader, Damane Zakaria, who insisted that he was the group's military chief, and he immediately rejected the deal. The Sirte deal was also rejected by the official leader of the UFDR, Michel Djotodia, and the UFDR's spokesman, Abakar Saboune, who have both been in jail in Benin since November 2006. Less than one month later, on March 3rd, UFDR forces loyal to Mr Zakaria launched a fresh attack on Birao, located close to the border with Chad and Sudan, briefly reoccupying the town as they did in October last year (December 2006, The political scene), and in effect derailing the Sirte accord.

French army helps to recapture Birao again

Following the UFDR's recapture of Birao, which included an attack on a French military training mission located near the town, the French military was again called on to oust the rebels, having done so effectively in late 2006 (The political scene, March 2006). The following day, on March 4th, French soldiers clashed with UFDR forces in central Birao, while French Mirage jet-fighters bombed a rebel convoy, destroying a number of vehicles and, according to UFDR accounts, killing two rebels and wounding four others. In addition, four soldiers from the national army, Forces armées centrafricaines (FACA), were killed, and ten wounded. By the time UFDR forces withdrew into the bush or across the border into Sudan, more than 600 houses had been destroyed and an unknown number of civilians killed or wounded. The UN estimates that only around 600 people out of a pre-war population of 22,000 remain in Birao, the majority having fled the fighting. The second attack on Birao was an embarrassment to Mr Miskine, underlining his lack of influence in the UFDR, and he denied any responsibility for it, vowing to return to the CAR at once.

The government signs second peace deal with UFDR rebels

Peace negotiations with Mr Zakaria's faction followed, and on April 13th a second peace accord was signed in Birao, by General Raymond Ndougou for the government, and Mr Zakaria for the UFDR, in the presence of Mr Bozizé. The main provisions of the Birao accord are:

- an immediate end to hostilities;
- the disarmament and cantonment of UFDR forces—in a location to be agreed by both parties—prior to their eventual integration into the national army. This is expected to involve the demobilisation of up to 400 "child soldiers";
- the release of political prisoners and an amnesty for former rebel fighters;

- the recognition by the government of the UFDR as a political party, and its participation in the management of the country;
- the creation of a committee to monitor the peace process; and
- the designation of the president of Gabon, Omar Bongo, as mediator in case of differences between the parties.

The need for a second peace accord in Birao, and the manner in which the previous accord was rejected by several UFDR leaders, has highlighted the acute divisions that exist between the many rebel forces in the CAR. This has cast some doubt on the credibility of the latest peace deal, especially as it does not include other rebel groups currently operating in the north-west of the country. Nonetheless, given that the UFDR had been the most active group in recent months—briefly capturing several towns in the north-east of the country in late 2006—the Birao accord should bring some respite to the government, and at least temporary stability to the north-eastern region. However, violence has continued in the north-west of the country where a separate rebellion, waged by the Armée populaire pour la restauration de la démocratie (APRD), is continuing. Four days after the Birao accord was signed, APRD rebels attacked a military convoy near Bang, 800 km north-west of Bangui, killing one soldier and wounding three others, and further fighting in the town in April forced 350 civilians to flee over the border into Cameroon.

Opposition group calls for national dialogue

Mr Bozizé's regime is facing challenges from political as well as military opponents. In early May Christophe Gazam Betty, the national co-ordinator of the political opposition group, Forces républicaines nouvelles (FRN), launched a scathing attack on Mr Bozizé for failing to take concrete steps to resolve the current crisis. Mr Gazam Betty lamented Mr Bozizé's failure to negotiate the release of the UFDR leaders, Mr Djotodia and Mr Sabone, who are currently in jail in Benin, as well as his failure to organise a national dialogue with the country's main political and military leaders, as he had promised he would in late December. Mr Gazam Betty insisted that disarmament cannot take place until there has been political dialogue and agreement on the issues that have not been covered in either of the two peace accords—namely the deployment of foreign peacekeeping troops in the CAR, institutional reform and increased transparency in the state administration. He also insisted that talks must be held outside the CAR and under neutral international mediators, explicitly rejecting mediation by France or any country from the regional economic grouping, Communauté économique et monétaire de l'Afrique centrale (CEMAC).

The nature of the links between the FRN and the UFDR, and the impact that Mr Gazam Betty's comments could have on implementing the Birao accord, remain unclear. Mr Gazam Betty was a close ally of the former president, Ange-Félix Patassé, and was ambassador to China from 2000 until last year, when he was dismissed by Mr Bozizé who suspected him of supporting the rebellion, although no clear evidence has yet emerged linking Mr Gazam Betty and the UFDR. Responding to the criticism, in March Mr Bozizé recommitted himself to engaging in political dialogue with the military and civilian opposition, although he has ruled out any discussion of changing the constitution, as this could directly undermine his grip on power.

An extension to FOMUC's mandate could help to improve security

The renewed attack on Birao in March has once again highlighted the army's difficulty in maintaining even minimal control over the north-eastern region, which is often described as an "ungoverned space". While the capital, Bangui, is relatively well protected by a garrison of around 320 French troops and the 380-man Force multinationale en Centrafrique (FOMUC), composed of forces from Communauté économique et monétaire de l'Afrique centrale (CEMAC) member countries, any improvement in security outside the capital, particularly on the borders with Sudan and Chad, will require additional military assistance. In April this point was raised by the UN under-secretary-general, John Holmes, in a briefing to the UN Security Council, following a ten-day trip to the region. According to Mr Holmes, security could be improved by deploying a professional army, or by extending FOMUC's mandate to include the monitoring of military activity in the north and in the border region. The presence of a neutral military force could help to prevent violence against civilians—not only by rebel groups and bandits, but also by the national army, Forces armées centrafricaines (FACA), and the presidential guard, which have been accused of vengeful violence against the local population (June 2006, The political scene). However, the deployment of a UN force, or the beefing up of FOMUC, will only occur after a ceasefire has been signed with all the rebel groups operating in the country, and after negotiations have started to find a durable political solution.

In the meantime, around one-quarter of the country's population is in urgent need of humanitarian assistance. This has been largely insufficient owing to low donor commitment and difficulties in getting aid to the population caused by the lack of infrastructure and poor security conditions. The task has been made more difficult by the fact that those who have fled the fighting are scattered all over the country, many surviving on berries and grubs in the bush. According to the UN, the number displaced because of the conflict has now risen to 282,000, of whom 74,000 have fled into neighbouring Chad, Cameroon and Sudan.

Martin Ziguélé is to return to the CAR in May

Martin Ziguélé, the former prime minister of the CAR and the recently-elected chairman of the main opposition party, Mouvement pour la libération du peuple centrafricain (MLPC), has announced that he will return to the CAR permanently at the end of May in order to prepare for the party's congress, which is scheduled to take place on June 21st-23rd. Mr Ziguélé has been living in Paris since 2003, although he returned briefly to the CAR in 2005 for the presidential election, which he lost to Mr Bozizé. He was last in the CAR in September 2006, when he was sworn in as the MLPC chairman, following his appointment to the post in June in place of Mr Patassé (September 2006, The political scene). Mr Ziguélé's permanent return to the country will be crucial for raising his national profile and gaining more popular support after several years spent living abroad.

Public sector threatens more strikes over unpaid wages

Tensions between the government and the trade unions that represent the country's 20,000 public-sector workers have continued, with further threats of strike action in April over the long-standing issue of unpaid salary arrears. Since October 2005 civil servants have held sporadic strikes, demanding the payment of arrears and the suspension of the freeze on public-sector base salaries that has been in place since 1985. Following strike action in September 2006, the government committed itself to ensuring the timely payment of salaries at the end of each month, along with a pledge for further negotiations on the issue of arrears (December 2006, The political scene). However, it has struggled to pay public-sector salaries—only recently did it pay salaries for July 2006—and in April the unions demanded a 36-month timetable for the payment of salaries covering the period 1981-2003. Although the prime minister, Elie Doté, has again offered to negotiate with the unions, he will have little room for manoeuvre as the government is under scrutiny from international donors to keep the wage bill stable—as outlined in the 2007 budget (March 2007, Economic policy).

Economic policy

A new customs service is established

On February 25th the president, François Bozizé, issued a presidential decree inaugurating the country's new customs administration. The previous customs service was dissolved by the president in September 2006 after years of poor performance, and the new administration is a central part of ongoing efforts to increase revenue collection (December 2006, Economic policy). The new customs administration will sit within the Ministry of Finance and Budget, and will be headed by an army general who was formally the state inspector-general, General Gabriel Ngaïndiro. The decree also provided for the creation of a steering committee, Comité d'orientation politique et technique en matière douanière, which will include several ministers and be chaired by the president himself, with assistance from Elie Doté, who is both prime minister and minister of finance and budget. Mr Bozizé's close involvement with the customs reform indicates the importance that the government attaches to it. Customs receipts provide an estimated two-thirds of total government revenue, and this is expected to rise substantially over the coming years as the reforms to stamp out tax evasion and corruption take hold.

International donors resume funding

International donors are gradually renewing their support to the Central African Republic (CAR) following the announcement in November 2006 that the World Bank is resuming full operations in the country and the approval of a poverty reduction and growth facility (PRGF) by the IMF at the end of December (February 2007, Economic policy). A World Bank mission subsequently travelled to Bangui in February to review the agreed programmes and prepare for the arrival of a new country representative. Following the lead of the World Bank, on March 7th the European Commissioner for Development and Humanitarian Aid, Louis Michel, announced financial aid worth €68.6m (US$93.3m) during a visit to Bangui. Of this amount, €55m will finance the construction of a 160-km road between Bouar in the west of the CAR and Garoua Boulai in neighbouring Cameroon, which should improve the trade route to the Cameroonian port of Douala; the remaining €13.6m will be used to clear government payment arrears, both external and internal. Mr Michel also announced that CFAfr72bn (US$149.3m) will be committed to education, health, water and infrastructure projects under the tenth European Development Fund (EDF), during the period 2008-13.

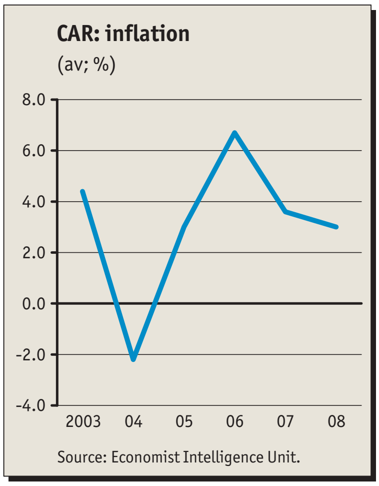
Bilateral donors have also increased their support. On February 16th the French development agency, Agence française de développement (AFD), granted

CFAfr2.6bn in budgetary support, bringing total French budgetary support since early 2006 to CFAfr6.2bn (US$11.9m). Of these funds, CFAfr2.6bn has been used to pay public-sector salary arrears, CFAfr330m to refinance the 2005/06 cotton campaign, and CFAfr3.3bn to settle debt arrears to the African Development Bank (AfDB). The settling of the CAR's debt arrears—which have accumulated since 1994 and are mostly owed to the AfDB and the World Bank—was a key condition for full re-engagement by donors (December 2006, Economic policy). In a further sign of renewed donor confidence, in March the Japanese government cancelled an estimated CFAfr2.7bn of debt, and granted CFAfr900m in aid.

The domestic economy

Economic trends

Real GDP growth increases to 3.5% in 2006



According to the IMF's latest *Regional Economic Outlook*, published in April, real GDP growth in the CAR increased from 2.2% in 2005 to an estimated 3.5% in 2006. This has brought the CAR's economic growth into line with the region, after sluggish growth in 2004-05 caused by political instability. Economic growth was primarily driven by strong performance in agriculture, forestry, mining and services. Estimates of agricultural output in 2006/07 have not yet been released, but the regional central bank, Banque des Etats de l'Afrique centrale (BEAC), expects strong growth in the primary sector, driven by a recovery in timber production. The mining sector has also continued to expand, owing to increased exploration for diamonds, gold and uranium. Telecommunications services have also benefited from investments to extend the country's network. On the demand side, economic growth has been boosted by increased private consumption—reflecting the more regular payment of salaries to civil servants, as well as increased earnings by private-sector workers. However, inflation rose sharply in 2006, reflecting higher food prices due to continued instability in the north of the country and high international oil prices. According to IMF estimates, inflation averaged 5.1% for the year, although the BEAC estimates a higher annual rate of 6.5%, and local statistical sources put it as high as 6.7%.

CAR: real GDP growth
(% change)

	2004	2005	2006[a]	2007[b]
Central African Republic	1.3	2.2	3.5	4.0
Communauté économique et monétaire de l'Afrique centrale (CEMAC)	15.7	4.7	2.4	4.1
Franc Zone	8.6	4.7	3.1	4.4

[a] Estimates. [b] Forecasts.

Source: IMF, *Regional Economic Outlook*, April 2007.

The IMF forecasts that real GDP growth will increase to 4% in 2007, benefiting from rising mining and telecoms activity and increased donor support following the award of a poverty reduction and growth facility (PRGF) in December 2006. Inflation is forecast to slow to 3.1% in 2007, reflecting increased agricultural production and stability in the north of the country; this should reduce food prices, which have a large weighting in the consumer price index.

Agriculture

Recovery plan for the cotton, coffee and tobacco sectors

The government has stepped up its efforts to revive the agriculture sector. On April 22nd the rural development minister, Charles Massi, announced a three-year recovery plan for the cotton, coffee and tobacco sectors. The plan involves:

- financial support totalling CFAfr6.2bn (US$12.9m) for the country's cotton producer associations, with the aim of boosting output to 12,500 tonnes in the 2007/08 season (October-September), 20,000 tonnes in 2008/09, and 30,000 tonnes in 2009/10;
- financial and logistical support for the recovery of coffee plantations, with grants of CFAfr15,000/ha for existing allotments and CFAfr40,000/ha for new fields, and an additional CFAfr225m in support of coffee farmers; and
- CFAfr824.1m in recovery assistance for the tobacco sector, with the aim of increasing annual production to 150 tonnes of wrapper tobacco from 1,000 growers, giving average revenue per producer of CFAfr225,000.

In addition, Mr Massi announced that, as part of a restructuring plan for the national cotton company, Société centrafricaine de développement des textiles (Socadetex), the government plans to buy back a controlling interest in the company—it currently holds 15% of the capital. This would pave the way for a strategic partnership with a French cotton company, Dagris. In the meantime, cotton producers will benefit from a budgetary aid convention signed by the government and the EU in March. Under this convention, the EU will give CFAfr2.6bn (US$5.4m), most of which will be used to clear payment arrears to cotton farmers, estimated at CFAfr2.3bn, which are owed by Socadetex and another cotton company, Société cotonnière centrafricaine (Sococa).

Infrastructure

France Télécom acquires mobile and Internet licence

On April 5th French telecommunications company, France Télécom, announced that it had acquired a mobile and Internet licence in the CAR, at an estimated cost of CFAfr6bn (US$12.4m), and expects to launch operations in the country before the end of the year. The arrival of France Télécom will provide further competition for the CAR's three existing mobile-phone service providers, all of which are foreign-owned: Telecel Centrafrique, which has an estimated 40,000 subscribers; Nationlink, an affiliate of Somali Telecom, which has 20,000 subscribers; and Atlantique Cellulaire (A-Cell), also with around 20,000 subscribers. The largest of the three, Telecel Centrafrique, has an ambitious development plan, which will be partly financed by a CFAfr2.5bn (US$5.2m) convention signed on March 28th with the regional development bank, Banque de développement des Etats de l'Afrique centrale (BDEAC). This plan aims to boost the company’s traffic capacity to 200,000 subscribers and extend its network coverage to provincial areas.

The granting of a licence to France Télécom is a welcome development for the CAR's small telecommunications sector, which is growing rapidly following the launch of a government reform programme. According to a recent study, the number of fixed and mobile telephone lines rose from just 60,000 in 2005 to 150,000 in 2006. However, telephone services remain heavily concentrated in the capital, Bangui, which accounts for 70% of fixed lines and most of the mobile phone network. The government's priority will be to further develop the telecoms infrastructure and extend services across the entire national territory. A key element in the reform programme will be the new telecommunications code, which was drawn up in August 2006 (December 2006, The domestic economy: Infrastructure). Although the exact provisions of the new code, which is modelled on Senegal's, are still being debated by the National Assembly, according to the telecommunications minister, Fidèle Gouandjika, the reform will include a review of existing licences.

The telecoms sector will also benefit from a convention signed on April 12th with a Chinese company, Huawei, which will assist the state-owned telecoms company, Société centrafricaine de telecommunications (Socatel), in introducing eight-digit telephone numbers and installing broadband Internet services. According to Mr Gouandjika, Socatel faces serious financial difficulties and its debts are estimated at CFAfr12bn (US$25m). Mr Gouandjika blamed mis-management for Socatel's current crisis, mainly due to political interference by previous governments, and stressed that the company will need state support if it is to recover. This suggests that the privatisation of Socatel—which had been scheduled for early 2003 but was postponed following the coup by the current president, François Bozizé—is highly unlikely to proceed in the short term.

The CAR and Morocco sign an air transport deal

During a visit to Morocco in April, the transport minister, Parfait Mbaye, signed two air transport agreements with the Moroccan authorities. The first, signed by the director-general of the Office national marocain des aéroports (ONDA), Addelhanine Benallou, involves an exchange of expertise and ONDA's assistance during the upgrade of Central African airports. The CAR has only one international airport, Mpoko airport in Bangui, and several small local airports. The second agreement, signed by the Moroccan minister of equipment and transport, Karim Ghellab, should open the way for weekly air connections between the CAR and Morocco from October this year. The government hopes that improving the CAR's air transport infrastructure will help to open the country up to foreign investors and boost regional trade.

Energy

Government draws up road map for electricity sector

In April, the Ministry of Mining and Energy held a seminar in Bangui to discuss the government's road-map for managing the electricity sector. According to the mining and energy minister, Sylvain Ndoutingaï, the government wants to redefine the role of the national electricity utility, Energie de Centrafrique (Enerca), within the framework of a full liberalisation of the sector. Enerca has performed poorly in recent years and was scheduled for privatisation in 2003, but this was delayed indefinitely owing to the political upheaval which has followed the seizure of power by Mr Bozizé. In the meantime, the government's priority will be to restructure Enerca's substantial debts so that it can fully meet its responsibilities to produce, transport and distribute electricity on a national scale. The government is also keen to attract foreign investment to improve the country's power provision. In recent months, the government has announced several projects aimed at reducing the CAR's chronic electricity shortages and boosting the country's hydroelectric capacity (March 2007, The domestic economy: Infrastructure). However, the implementation of these projects will depend on the government raising sufficient funding, which will in turn depend on security conditions improving across the country.

Foreign trade and payments

CAR's foreign debt fell in 2005

According to new data released by the World Bank, the total external debt stock of the Central African Republic (CAR) has fallen marginally, from US$1,082m at the end of 2004 to US$1,016m at the end of 2005, its lowest level since 2001. Almost all of the country's long-term debt was owed to official, predominantly multilateral, creditors, with 11% of its total external debt being short-term. The country received no new disbursements in 2005 and made repayments worth US$5m. However, the main factor behind the US$66m fall in external debt was cross-currency valuations worth US$59m. The US dollar appreciated against the euro in 2005, ending the year at US$1.18:€1, compared with US$1.35:€1 at the end of 2004; given that a large proportion of the country's external debt was denominated in euros in 2005, this caused most of the fall in the debt stock. Nevertheless, since late 2005 the US dollar has again depreciated against the euro, and it is likely that the positive effects of cross-currency valuation were reversed in 2006.

The CAR has continued to build up arrears, although at a slower rate than in previous years. Interest arrears on long-term debt rose marginally from US$99m at the end of 2004 to US$100m at the end of 2005, marginally increasing the short-term debt stock. However, this increase was outweighed by a fall in the long-term debt stock, from US$930m to US$871m. Since the total debt stock remained broadly stable and real GDP growth was moderate in 2004-05, the ratio of total external debt to GNI fell from 102.5% in 2002 to 74.3% in 2005. Despite this improvement, given the government's weak ability to service its debt stock, the World Bank and IMF continue to qualify the country's debt burden as unsustainable.

CAR: external debt
(US$ m unless otherwise indicated; end-period)

	2001	2002	2003	2004	2005
Long-term debt	**757**	**980**	**900**	**930**	**871**
Official creditors	724	946	866	899	841
Multilateral	550	585	647	678	621
Bilateral	174	361	219	221	220
Private creditors	33	34	34	31	30
Short-term debt	**34**	**52**	**101**	**108**	**109**
Interest arrears on long-term debt	25	43	86	99	100
Use of IMF credit	31	33	36	44	36
Total external debt	**822**	**1,065**	**1,038**	**1,082**	**1,016**

CAR: external debt
(US$ m unless otherwise indicated; end-period)

	2001	2002	2003	2004	2005
Total debt service paid	**13**	**1**	**1**	**14**	**6**
Principal	9	0	0	11	5
Interest	4	1	1	3	1
Short-term debt	0	0	0	0	0
Ratios (%)					
Total external debt/GNP	85.2	102.5	87.2	83.0	74.3
Short-term debt/total external debt	4.2	4.9	9.7	10.0	10.7
Concessional long-term loans/long-term debt	82.5	69.9	78.5	78.2	78.1

Source: World Bank, *Global Development Finance*.

Paris Club debt-rescheduling deal is agreed

On April 20th the Paris Club of international lenders agreed a debt-restructuring deal with the government, as part of efforts by the international community to re-engage with the CAR following the approval of a new poverty reduction and growth facility (PRGF) with the IMF. This deal is expected to substantially reduce the country's debt-service payments. The agreement covers external public debt worth US$36.1m (of which US$28.1m is in interest arrears), and provides for the cancellation of US$9.9m of debt. The country's arrears to the Paris Club as at the end of November 2006, along with maturities due between December 1st 2006 and November 30th 2009, will be rescheduled as follows:

- Official Development Assistance (ODA) credits will be repaid over 40 years, with a 16-year grace period; and
- two-thirds of commercial credits will be cancelled, with the remaining one-third to be repaid over 23 years, with a six-year grace period.

In addition, given the country's limited repayment capacity, the repayment of arrears accumulated on short-term debt, of debt contracted after November 30th 2006, and of moratorium interest due under the rescheduling deal, will be deferred until 2010, and must be repaid by 2015. The Paris Club creditors have also committed themselves to cancelling 90% of commercial credits, provided that the CAR reaches decision point under the IMF-World Bank's heavily indebted poor countries (HIPC) initiative. The CAR has not yet qualified for a full debt write-off under the HIPC initiative owing to the country's persistent economic and political instability, but it should now be back on course to reach decision point following the approval of a new PRGF arrangement and the government's rapid implementation of donor-supported reforms.

