



DEMOCRATIC REPUBLIC OF THE CONGO

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the staffs of the International Monetary Fund and the International Development Association.¹⁹

Stable macroeconomic fundamentals, prudent fiscal policy, and a strong export performance despite falling commodity prices result in the assessment that the Democratic Republic of the Congo's (DRC) risk of debt distress remains "moderate". However, the country is still highly vulnerable to shocks, in particular to its export revenues. Staff recommended that the authorities continue in their cautious approach to borrowing, relying mainly on concessional borrowing, and that the DRC strengthen its debt management capacity.

¹⁹ This DSA was prepared by International Monetary Fund (IMF) staff with input from the World Bank, using the standard debt sustainability framework for low-income countries (LIC-DSA); see "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries."

BACKGROUND

1. **The DRC's external debt has remained low following the substantial debt relief in 2010.** The DRC reached completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative and benefited from assistance under the Multilateral Debt Relief Initiative (MDRI) in July 2010. As a result, the ratio of public and publicly-guaranteed external debt (PPGE) to GDP was reduced from 75 percent at end-2009 to 22 percent in 2010 and fell further to 13 percent in 2014. Private external debt increased marginally from 2.0 percent of GDP in 2012 to 3.8 percent in 2014.
2. **The low debt stock reflects a prudent fiscal stance pursued since 2010 and favorable exchange rate movements.** New disbursements to the central government during 2014 were limited to US\$115 million. Also, the appreciation of the US dollar against the Euro contributed to a slight reduction in the value of Euro denominated debt. Furthermore, lower disbursements under the Sino-Congolese Mining Agreement (SCCA or Sicominex) due to delays in obtaining financing from Chinese banks also contributed to the low stock of debt. No new funds were disbursed for infrastructure projects under the SCCA in 2014 (see Box 1).
3. **More than half of the public external debt is owed to official creditors.** At end-2014, 60 percent of the debt was owed to multilateral creditors and 4 percent to the bilateral official creditors. The share of the debt owed to commercial creditors increased marginally in 2014 to 36 percent from 33 percent in 2013 (see Text Table II.1).

Text Table 1. Democratic Republic of the Congo: Total External Debt Stock, Central Government, 2010–14

(Millions of U.S.\$, unless otherwise indicated)

	2010	2011	2012	2013	2014	2014 (Percent)
	Act.				Est.	
Total	4556	4629	4662	4911	4576	100
Multilateral creditors	2530	2655	2653	2959	2751	60
Bilateral creditors	247	242	242	292	188	4
Commercial creditors ¹	1780	1733	1768	1660	1636	36

¹ Includes publicly guaranteed SCCA debt

Sources: Congolese authorities; and IMF staff estimates.

Box 1. The Sino-Congolese Joint Venture (Sicomines)

In April 2008, the DRC signed a cooperation agreement (SCCA) with a consortium of Chinese enterprises involving a US\$3.2 billion mining project and US\$6 billion for a set of public infrastructure projects to be implemented in two phases. All projects are to be executed by Sicomines, a new mining company jointly owned by the Congolese state-owned mining conglomerate Gecamines (32 percent) and Chinese partners China Railway Engineering Corporation and Sinohydro. The agreement was amended in October 2009 to exclude the second phase public infrastructure projects, leaving just a single phase totaling US\$3 billion to be implemented over the period 2009–14. The amended agreement also limited the government guarantee to the financing of the infrastructure projects. By end-2014, only US\$ 478 million in infrastructure loans and US\$ 1.3 billion in mining loans had been disbursed.

The current debt sustainability analysis (DSA) is conducted based on the terms laid out in the October 2009 amendment. Infrastructure projects are divided into two categories: priority projects and non-priority projects. Infrastructure and mining projects are financed from loans made by Chinese banks and by Sicomines' Chinese shareholders. Fifteen percent of the earnings from the mining operation are used to pay dividends with the remainder allocated to amortization of the loans (including capitalized interest).²⁰ The amendment specifies a seniority rule according to which the priority infrastructure loans are repaid first, the mining loans second, and the non-priority infrastructure loans last.

The government has guaranteed the US\$ 3 billion in public infrastructure loans. However, the guarantee on any such infrastructure debt outstanding can be called only after 2034. If it is not called, there is no repayment burden on the budget. Sicomines is expected to begin production in 2015 and to start servicing its debt in 2016. Based on current information, the earnings from the mining project are forecast to completely pay off the infrastructure loans by 2026. However, the repayment schedule is contingent on Sicomines' earnings and on the debt disbursement profile. Under the assumed disbursement profile, repayments will extend beyond 2034 if Sicomines' earnings drop by more than 22 percent each year.

Following the practice of previous years, this DSA includes all debt service payments related to SCCA infrastructure loans in the present value of PPGE debt.

UNDERLYING ASSUMPTIONS

4. **One of the main changes since the 2014 DSA is the sharp drop in international commodity prices.** Due to the DRC's heavy reliance on extractive industries, its exports and fiscal revenues are highly exposed to movements in the prices of minerals, in particular copper. The fall in copper prices in 2014 and the lower outlook for commodity prices in the medium term directly affect the projected trajectory of the debt-to-exports ratio. In the short term, however, the price shock is offset by an upward revision of projected export volumes as Sicomines starts its operations earlier than expected (see Text Table II.2).

²⁰ Sicomines is exempt from any taxes and customs duties until its debt has been repaid.

Text Table 2. Comparative Debt Ratios, 2013–18

	2013	2014	2015	2016	2017	2018
	Est.		Proj.			
PPGE debt to GDP ratio						
old DSA	17.9	19.3	20.7	21.4	23.3	24.8
new DSA	15.0	12.7	14.3	14.7	16.7	19.0
PPGE debt to exports ratio						
old DSA	49.2	49.2	51.5	52.0	55.1	59.3
new DSA	46.5	37.2	43.5	43.2	50.5	56.1
PPGE debt to revenue ratio						
old DSA	137.9	138.3	147.4	145.6	156.8	166.3
new DSA	116.6	95.6	104.3	104.4	115.7	128.0

Sources: Congolese authorities; and IMF staff estimates and projections.

5. **As in the 2014 DSA, strong growth over the medium term is supported by large investments in mining and public infrastructure projects.** The recent decline in commodity prices has not had a significant effect on mining investment and output so far, as prices are still far above the break-even point. As a result, foreign direct investment (FDI) will likely continue to be the most important source of external financing. The strong growth in mining production should also lead to improved fiscal revenues starting in 2015, as the tax holiday for several large mining projects expired at end-2014.

Text Table 3. Democratic Republic of the Congo: Selected Indicators, 2013–18

	2013	2014	2015	2016	2017	2018
	Est.		Proj.			
Real GDP growth						
old DSA	8.5	8.7	8.5	7.9	7.3	6.4
new DSA	8.5	9.2	9.2	8.5	8.3	7.5
Revenues (excluding grants) growth						
old DSA	-4.8	16.1	10.0	14.5	9.6	9.1
new DSA	6.4	13.6	14.3	12.3	12.9	12.0
Overall fiscal deficit (percent of GDP)						
old DSA	1.7	2.2	1.7	1.6	3.0	3.6
new DSA	-1.8	-0.2	-0.8	-0.2	-0.2	-0.3
Exports of goods and services growth						
old DSA	16.6	16.5	12.1	11.9	11.5	7.5
new DSA	7.5	16.6	6.5	13.2	12.9	11.6
Imports of goods and services growth						
old DSA	16.1	4.7	5.8	9.7	9.6	9.6
new DSA	12.7	20.8	-0.7	6.6	12.9	11.5
Current account deficit (percent of GDP)						
old DSA	10.1	9.3	8.8	7.8	7.4	7.1
new DSA	10.6	9.2	7.4	7.6	9.4	10.1

Sources: Congolese authorities; and IMF staff estimates and projections.

Box 2. Macroeconomic Assumptions for 2015–35

For the medium term (2015–20), projections are consistent with the macroeconomic framework of the 2015 Article IV Consultation.

Long-term (2021–35) projections assume macroeconomic stability, moderate growth, and a more rapid development of the domestic economy, as bottlenecks to private sector activity become less stringent.²¹ As a consequence, the share of mining activities in GDP is projected to become less important, so that exports, FDI, and mining revenue outflows gradually decline as a share of GDP.

Real GDP growth is expected to remain strong at 9.2 percent in 2015, gradually declining to 5.4 percent in 2020 and reaching an average rate of 3.8 percent for the period 2021–35.

Average Inflation (measured by the GDP deflator in dollars) is 0.7 percent in 2014 and is expected to remain at around 1 percent in the medium-long run.

The primary fiscal balance displayed a surplus of 0.4 percent of GDP in 2014 and is expected to remain positive in the medium term. The long-run average primary surplus is 0.3 percent.

The non-interest current account deficit is projected to remain high in the medium term, at an average of about 9 percent of GDP, reflecting the equipment imports and dividend outflows of the mining sector. In the long term it should narrow to 3.3 percent of GDP by 2035, reflecting the declining share of the mineral sector in the economy.

Financing: Although FDI is expected to decrease in percent of GDP from 5.4 percent in the medium term to 4.7 percent on average in the long run, it should remain the main financing source of the current account deficit. Aid flows represented 4.6 percent of GDP in 2014. For the long term, this ratio would decline to an average of around 2 percent.

EXTERNAL DEBT SUSTAINABILITY RESULTS

6. **Because repayments of the loans start earlier than expected due to Sicomines starting operations in 2015 instead of 2016, the present value of debt was revised upward for the short to medium term.** The delays in disbursements of the infrastructure loans under the SCCA did not lead to a reduction in the PV of debt, as the contracted debt amounts remain unchanged. To the contrary, the earnings of the mining operation will be used to repay the priority infrastructure loans from 2016 on, two years ahead of the estimate underlying the 2014

²¹ By 2014, the relative contribution of the services sector to real GDP growth was already substantial, and it is expected to further increase in the long term.

DSA. Given the concessionality of the infrastructure loans, an earlier repayment raises the present value of debt in the short term, with a steeper decline thereafter.

7. **The most extreme shock²² leads to a breach of the debt-to-exports ratio, while all other external debt indicators remain below their respective thresholds in all scenarios.**

With the shock to exports, the PV of debt-to-export ratio would increase significantly from 55 percent in 2015 to 111 percent in 2017 and remain well above the threshold of 100 percent through 2024. Under a one-time depreciation shock, the debt service-to-revenue ratio experiences a near breach of the corresponding threshold. (see Figures 1 and 3, Tables 1 and 2).

8. **Overall, compared with the 2014 DSA, the current results suggest that the DRC's risk of debt distress remains moderate.** In the baseline scenario all indicators remain far below their respective critical thresholds. This result reflects the authorities' prudent fiscal stance and comes despite a downward revision of commodity prices since the 2014 DSA. On the other hand, the analysis reveals that a further drop in export prices may put debt ratios above their respective thresholds. The overall risk assessment is validated by the probabilistic approach.²³ A caveat applies, as the DSA methodology cannot fully capture the modalities of the SCCA with its variable repayment. The prospect of early amortization raises the debt indicators in the short and medium term, even though it significantly reduces the government's exposure. However, this risk reducing factor is outweighed by the fact that the Public Debt Management Agency (DGDP) does not monitor disbursements under the SCCA. Moreover, a further shock to copper prices would inevitably slow down the amortization, thereby raising the government's exposure.

PUBLIC DSA RESULTS

9. **The DRC's (estimated) domestic debt primarily consists of domestic arrears, most of which were incurred prior to 2007.** These include arrears owed to domestic creditors, "social debts" (e.g., wages owed to past government employees), arrears owed to state-owned enterprises (SOEs), arrears owed to suppliers and contractors, and unpaid monetary awards stemming from judicial decisions. No new arrears were reported since the 2014 DSA. However, the DGDP's estimate for arrears is based on an audit conducted with the assistance of two audit firms, but with a two-year lag in reporting. Not all the arrears identified in the initial audit have been certified and many claims on the government may be at least partly offset by liabilities owed to the government. Information on interest rates is missing. Based on the audit, the potential domestic government debt outstanding at the end of 2014 remained at US\$1.4 billion (3.9 percent of GDP). The baseline includes the expected clearance of all arrears by 2028.

²² When looking at the debt-to-export ratio, the most extreme shock is calibrated as an export shock in 2016–17 equal to the historical average of export growth minus one standard deviation.

²³ The analysis of debt indicators alone places the DRC at the borderline between low and moderate risk, so that the complementary analysis of distress probabilities (Figure 3) is required.

10. **Public debt remains sustainable even under the most extreme shock scenario.** The most extreme shock is a one-time real depreciation by 30 percent in 2016. This implies a rise of the PV of the debt to GDP ratio from 18.5 percent to a maximum of 25 percent in 2016, below the benchmark for public debt ratios of 38 percent. The shock has also a significant impact on the PV of the debt-to-revenue ratio, which rises from 123 percent of GDP in 2015 to 150 percent in 2016 and a gradual decline thereafter. All other scenarios closely follow the baseline in its gradual decline of debt ratios (see Figure 2).

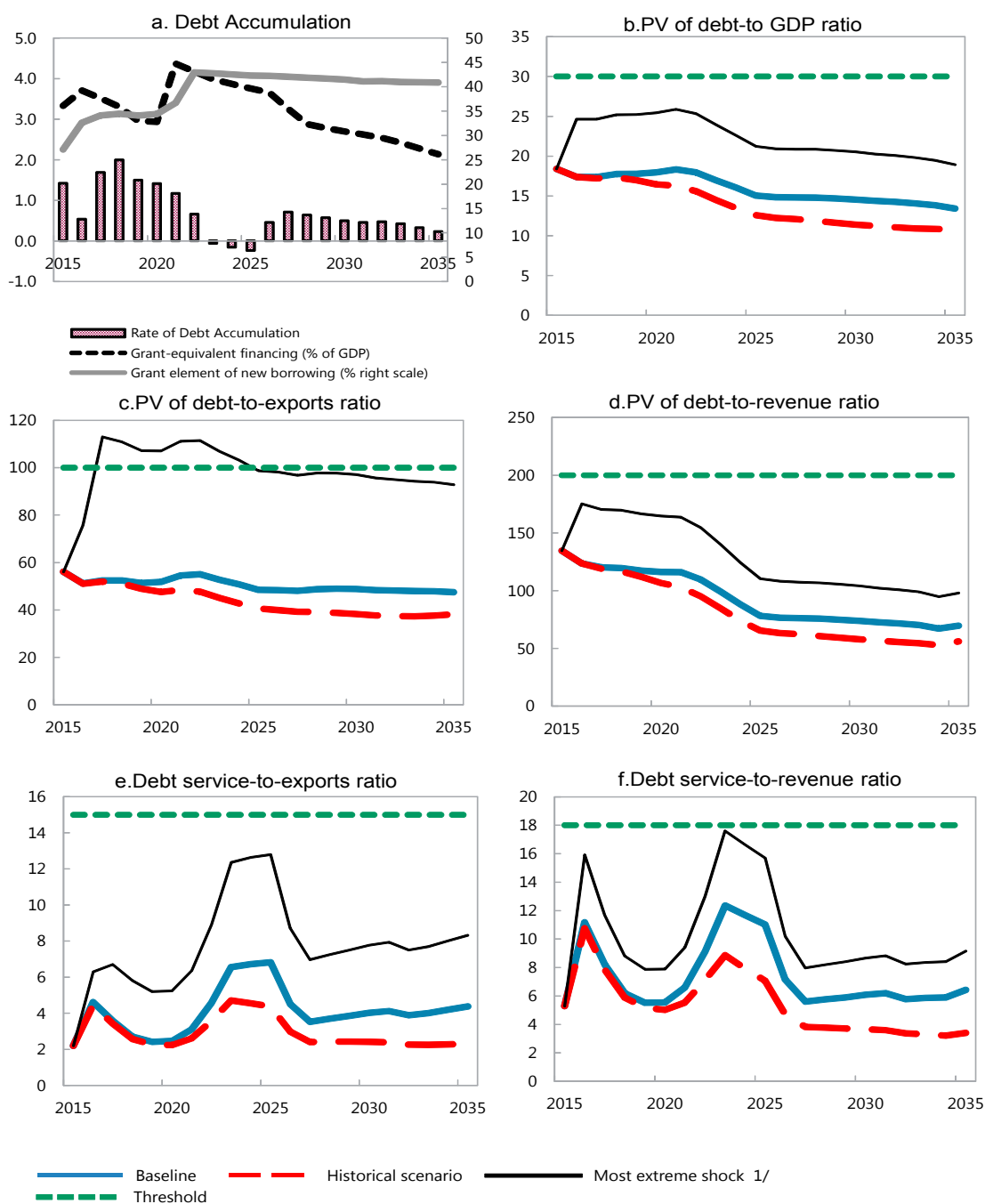
AUTHORITIES' VIEWS

11. **The authorities concurred with the overall assessment of DRC's debt sustainability.** They reiterated their commitment to a cautious fiscal policy stance and to seeking a high degree of concessionality for new borrowing.

CONCLUSION

12. **The DRC's debt sustainability rating remains at "moderate" risk of debt distress.** This is mainly on account of sound macroeconomic fundamentals. A significant portion of the public debt stock and repayment profile in the DRC is attributable to the publicly-guaranteed infrastructure loans under the Sicomines agreement. Regular updates on projected disbursements and debt service are thus crucial to provide a valid assessment of the DRC's debt sustainability. Under the current framework, the country is still vulnerable to shocks to commodity prices that would reduce growth and drive the PV of debt-to-export ratio above its threshold. Moreover, a sufficiently large price shock could undermine the economics of the Sicomines mining project, in particular its ability to generate the earnings necessary to pay off the infrastructure loans, thus transferring the repayment burden for much or all of those loans to the central government. It is urgent that the DRC continues to improve its compilation of debt data, including Sicomines data, and strengthen its debt management capacity. Meanwhile, given the uncertainties, the DRC should continue its cautious approach to external borrowing.

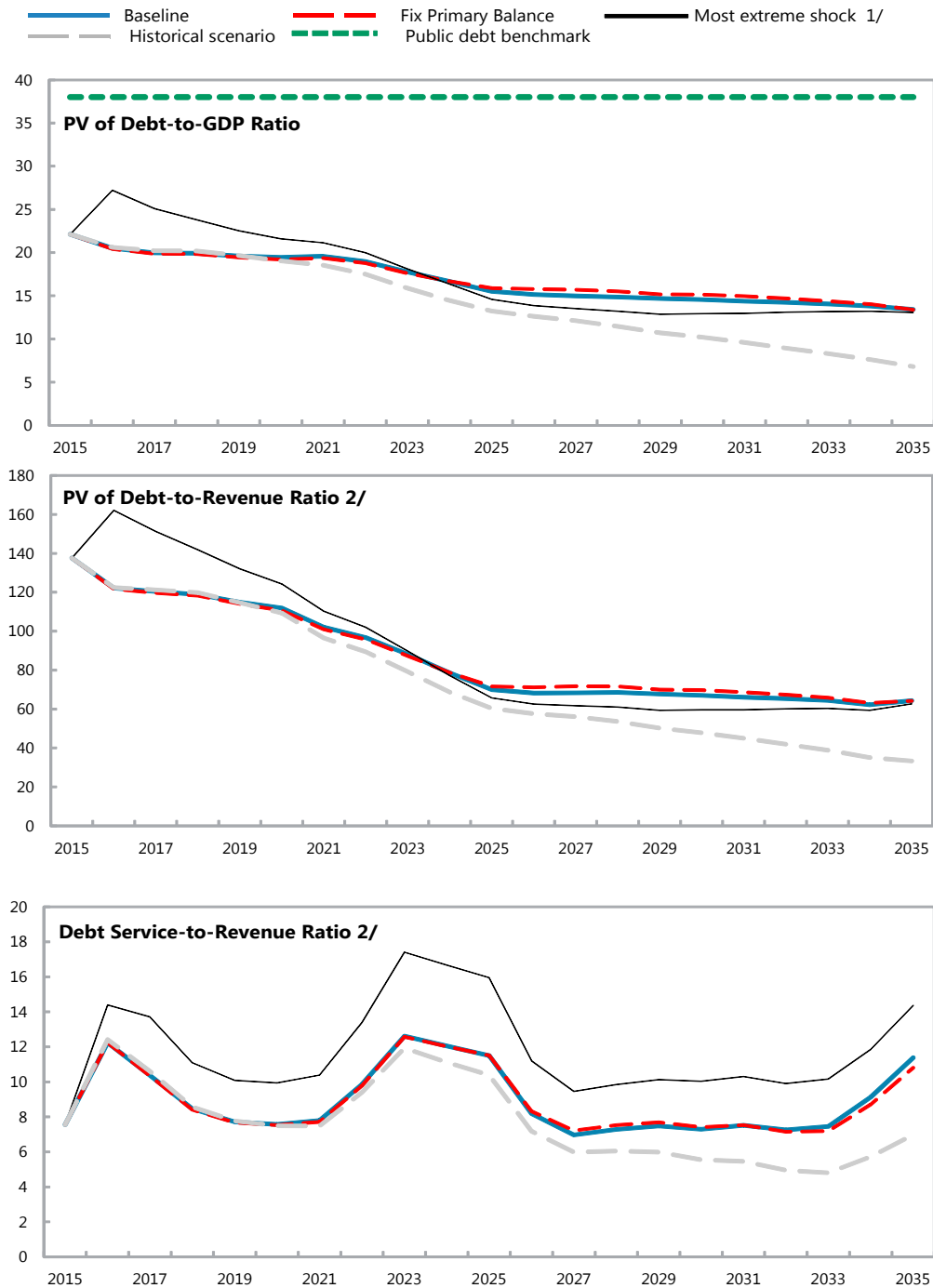
Figure 1. Democratic Republic of the Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–35



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Democratic Republic of the Congo: Indicators of Public Debt Under Alternative Scenarios, 2015–35¹

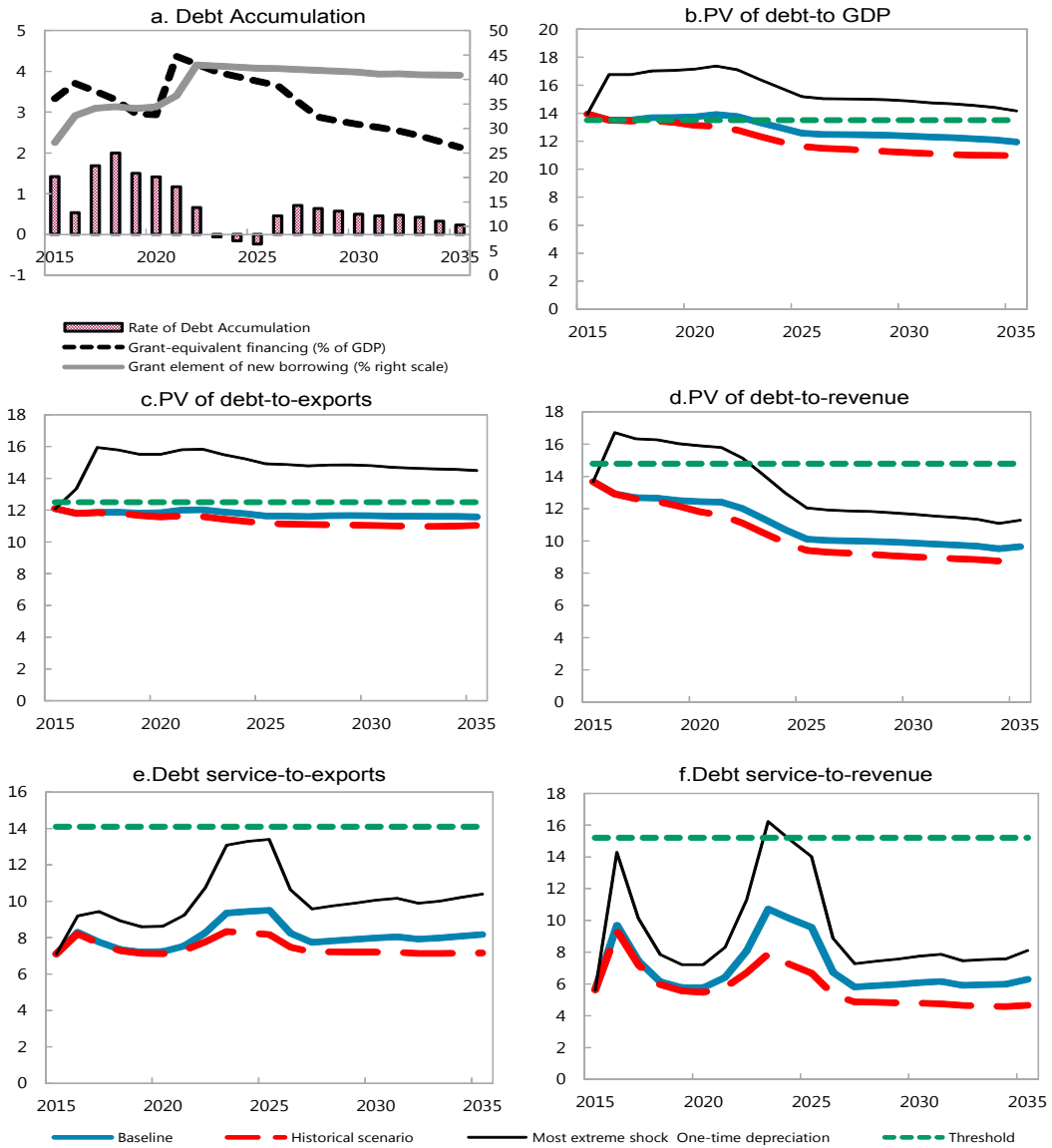


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

Figure 3. Congo, DR: Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–35 ¹



Sources: Country authorities; and staff estimates and projections.

^{1/} The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 1. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario, 2012–35¹
(Percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2031 Average
External debt (nominal) 1/	20.3	17.5	16.6			19.7	21.0	23.3	24.8	24.3	23.9		20.3	19.0	
<i>of which: public and publicly guaranteed (PPG)</i>	18.3	15.1	12.7			14.3	14.8	16.8	19.1	20.4	21.6		20.3	19.0	
Change in external debt	-1.6	-2.8	-0.9			3.1	1.4	2.3	1.5	-0.5	-0.3		-0.8	-0.5	
Identified net debt-creating flows	0.3	2.3	2.8			1.4	1.5	2.7	2.8	2.5	3.2		1.1	-0.6	
Non-interest current account deficit	6.8	10.6	9.1	5.5	4.0	7.2	7.3	8.8	9.4	9.5	10.6		6.6	3.2	
Deficit in balance of goods and services	4.3	5.7	7.5			4.4	2.4	4.3	4.3	4.1	5.2		3.3	-0.5	
Exports	35.6	32.3	34.3			32.8	34.0	33.1	33.9	34.7	34.6		31.1	28.3	
Imports	40.0	38.0	41.8			37.2	36.4	37.4	38.2	38.8	39.8		34.3	27.8	
Net current transfers (negative = inflow)	-2.8	-3.3	-4.6	-4.0	1.0	-3.9	-1.8	-1.7	-1.5	-1.5	-1.5		-2.7	-1.6	
<i>of which: official</i>	-2.8	-3.3	-4.6			-3.9	-1.8	-1.7	-1.5	-1.5	-1.5		-2.7	-1.6	
Other current account flows (negative = net inflow)	5.3	8.2	6.2			6.6	6.8	6.3	6.6	6.9	6.9		6.1	5.3	
Net FDI (negative = inflow)	-4.2	-5.2	-4.8	-5.7	1.1	-4.7	-4.6	-5.0	-5.7	-6.0	-6.7		-5.1	-3.4	
Endogenous debt dynamics 2/	-2.3	-3.1	-1.5			-1.2	-1.3	-1.0	-1.0	-1.0	-0.7		-0.4	-0.4	
Contribution from nominal interest rate	0.1	0.1	0.1			0.2	0.3	0.6	0.6	0.6	0.5		0.4	0.3	
Contribution from real GDP growth	-1.4	-1.5	-1.5			-1.4	-1.5	-1.6	-1.6	-1.5	-1.2		-0.8	-0.7	
Contribution from price and exchange rate changes	-1.0	-1.7	-0.1			...	...	...	...	...	...		...	...
Residual (3-4) 3/	-1.9	-5.1	-3.7			1.7	-0.1	-0.5	-1.3	-3.0	-3.6		-1.9	0.1	
<i>of which: exceptional financing</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	22.8			23.8	23.6	23.9	23.4	21.7	20.3		15.1	13.4
In percent of exports	...	...	66.6			72.5	69.6	72.0	69.2	62.5	58.6		48.5	47.5
PV of PPG external debt	...	...	19.0			18.4	17.4	17.4	17.8	17.8	17.9		15.1	13.4
In percent of exports	...	...	55.4			56.1	51.1	52.4	52.4	51.3	51.9		48.5	47.5
In percent of government revenues	...	...	142.7			134.6	123.6	120.1	119.6	117.5	116.2		78.2	69.6
Debt service-to-exports ratio (in percent)	1.8	1.8	1.5			2.5	4.8	5.4	5.6	7.2	6.9		7.0	4.6	
PPG debt service-to-exports ratio (in percent)	1.8	1.8	1.5			2.2	4.6	3.6	2.7	2.4	2.5		6.8	4.4	
PPG debt service-to-revenue ratio (in percent)	4.6	4.6	4.0			5.3	11.2	8.2	6.2	5.5	5.5		11.0	6.4	
Total gross financing need (Billions of U.S. dollars)	0.9	2.0	1.7			1.3	1.9	2.7	3.0	3.4	3.8		2.9	1.3	
Non-interest current account deficit that stabilizes debt ratio	8.4	13.3	10.0			4.1	6.0	6.5	8.0	10.0	11.0		7.5	3.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.1	8.5	9.2	6.6	1.7	9.2	8.5	8.3	7.5	6.7	5.4	7.6	4.1	3.6	
GDP deflator in US dollar terms (change in percent)	4.7	9.3	0.7	6.5	6.0	2.0	0.6	1.3	1.5	1.5	1.6	1.4	0.9	1.0	
Effective interest rate (percent) 5/	0.5	0.5	0.3	2.1	1.8	1.2	1.6	3.0	3.0	2.5	2.4	2.3	1.9	1.4	
Growth of exports of G&S (US dollar terms, in percent)	-9.5	7.5	16.6	25.7	42.5	6.5	13.2	7.0	11.6	10.8	6.8	9.3	3.3	2.6	
Growth of imports of G&S (US dollar terms, in percent)	-11.4	12.7	20.8	24.7	32.9	-0.7	6.6	12.9	11.5	9.9	9.8	8.3	2.6	0.4	
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	27.1	32.6	34.1	34.5	34.1	34.4	32.8	42.3	40.9
Government revenues (excluding grants, in percent of GDP)	14.4	12.9	13.3			13.7	14.1	14.5	14.8	15.1	15.4		19.3	19.3	
Aid flows (in Billions of US dollars) 7/	0.7	0.5	0.1			1.7	2.1	2.6	2.7	2.4	2.6		3.7	3.4	
<i>of which: Grants</i>	0.8	0.8	0.5			1.0	1.2	1.0	1.0	1.1	1.2		2.3	1.9	
<i>of which: Concessional loans</i>	-0.1	-0.3	-0.4			0.8	0.9	1.5	1.7	1.3	1.4		1.5	1.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.3	3.7	3.5	3.3	3.0	2.9		3.8	2.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			57.1	64.7	56.9	55.7	59.4	60.4		76.8	72.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	27.6	32.7	35.9			40.0	43.7	47.9	52.3	56.6	60.6		78.0	120.9	
Nominal dollar GDP growth	12.2	18.5	9.9			11.3	9.2	9.8	9.1	8.3	7.1	9.1	5.0	4.6	
PV of PPG external debt (in Billions of US dollars)	...	...	6.8			7.3	7.6	8.3	9.2	10.0	10.8		11.6	16.1
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			1.4	0.5	1.7	2.0	1.5	1.4	1.4	-0.2	0.2
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	19.0			18.4	17.4	17.4	17.8	17.8	17.9		15.1	13.4
PV of PPG external debt (in percent of exports + remittances)	...	...	55.4			56.1	51.1	52.4	52.4	51.3	51.9		48.5	47.5
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.5			2.2	4.6	3.6	2.7	2.4	2.5		6.8	4.4

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g)]/(1+g+p+gp)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

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

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

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

Table 2. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External 2015–35

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of debt-to-GDP ratio								
Baseline	18	17	17	18	18	18	15	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	18	17	17	17	17	16	13	11
A2. New public sector loans on less favorable terms in 2015-2035 2	18	18	18	18	18	19	18	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	18	18	18	19	19	19	16	14
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	18	19	21	21	21	21	17	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	18	17	17	18	18	18	15	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	18	17	17	17	17	18	15	13
B5. Combination of B1-B4 using one-half standard deviation shocks	18	17	18	18	18	18	15	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	18	25	25	25	25	25	21	19
PV of debt-to-exports ratio								
Baseline	56	51	52	52	51	52	48	47
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	56	51	52	51	49	48	41	38
A2. New public sector loans on less favorable terms in 2015-2035 2	56	52	54	54	53	54	57	70
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	56	51	52	52	51	52	48	47
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	56	76	113	111	107	107	99	93
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	56	51	52	52	51	52	48	47
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	56	50	51	51	50	51	47	47
B5. Combination of B1-B4 using one-half standard deviation shocks	56	55	59	59	58	58	54	53
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	56	51	52	52	51	52	48	47
PV of debt-to-revenue ratio								
Baseline	135	124	120	120	117	116	78	70
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	135	123	119	117	112	107	65	56
A2. New public sector loans on less favorable terms in 2015-2035 2	135	125	123	123	122	121	91	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	135	127	128	127	125	124	83	74
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	135	135	148	144	140	137	91	78
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	135	123	121	120	118	117	78	69
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	135	122	117	117	115	114	76	68
B5. Combination of B1-B4 using one-half standard deviation shocks	135	123	122	122	119	118	79	70
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	135	175	170	170	167	165	110	98

Table 2. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35 (concluded)
(Percent)

Debt service-to-exports ratio								
Baseline	2	5	4	3	2	2	7	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	2	4	3	3	2	2	4	2
A2. New public sector loans on less favorable terms in 2015-2035 2	2	5	4	3	3	3	7	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	2	5	4	3	2	2	7	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	2	6	7	6	5	5	13	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	2	5	4	3	2	2	7	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	2	5	4	3	2	2	7	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	5	4	3	3	3	8	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	2	5	4	3	2	2	7	4
Debt service-to-revenue ratio								
Baseline	5	11	8	6	6	6	11	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	5	11	8	6	5	5	7	3
A2. New public sector loans on less favorable terms in 2015-2035 2	5	11	8	7	7	7	11	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	5	12	9	7	6	6	12	7
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	5	11	9	8	7	7	12	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	5	11	8	6	6	6	11	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	5	11	8	6	5	5	11	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	11	8	6	6	6	11	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	5	16	12	9	8	8	16	9
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	82	82	82	82	82	82	82	82

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly a an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Democratic Republic of the Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35
(Percent of GDP, unless otherwise indicated)

	Actual			Average	5/	Standard Deviation	Estimate					Projections				
	2012	2013	2014				2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	23.6	19.4	16.9				18.0	17.9	19.4	21.3	22.2	23.1		20.8	19.0	
<i>of which: foreign-currency denominated</i>	18.3	15.1	12.7				14.3	14.8	16.8	19.1	20.4	21.6		20.3	19.0	
Change in public sector debt	-3.2	-4.2	-2.6				1.2	-0.1	1.5	1.8	0.9	0.9		-1.0	-0.5	
Identified debt-creating flows	-5.4	-6.0	-2.1				-3.7	-2.9	-2.9	-2.8	-2.5	-2.2		-4.3	2.1	
Primary deficit	-1.9	-1.9	-0.2	-2.2	1.6		-1.1	-0.7	-1.0	-1.2	-0.8	-0.7		-3.1	2.8	
Revenue and grants	17.2	15.3	14.6				16.1	16.8	16.6	16.8	17.1	17.4	16.8	22.2	20.9	
<i>of which: grants</i>	2.9	2.4	1.3				2.4	2.7	2.1	1.9	1.9	1.9		2.9	1.6	
Primary (noninterest) expenditure	15.3	13.4	14.4				14.9	16.1	15.6	15.6	16.3	16.7		19.1	23.7	
Automatic debt dynamics	-2.7	-3.4	-1.8				-1.4	-1.1	-0.8	-0.8	-0.8	-0.7		-0.4	-0.7	
Contribution from interest rate/growth differential	-2.8	-3.6	-1.7				-1.4	-1.1	-0.8	-0.8	-0.8	-0.7		-0.4	-0.7	
<i>of which: contribution from average real interest rate</i>	-1.0	-1.8	-0.1				0.0	0.3	0.6	0.6	0.5	0.4		0.4	0.0	
<i>of which: contribution from real GDP growth</i>	-1.8	-1.8	-1.6				-1.4	-1.4	-1.4	-1.4	-1.3	-1.1		-0.9	-0.7	
Contribution from real exchange rate depreciation	0.1	0.2	-0.1				0.0	0.0	0.0	0.0	0.0	0.0		...	...
Other identified debt-creating flows	-0.8	-0.6	-0.1				-1.2	-1.1	-1.1	-0.9	-0.9	-0.9		-0.7	-0.1	
Privatization receipts (negative)	-0.8	-0.6	-0.1				-1.2	-1.1	-1.1	-0.9	-0.9	-0.9		-0.7	-0.1	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0				0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0				0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0				0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.2	1.8	-0.4				4.9	2.8	4.4	4.6	3.4	3.2		3.3	-2.6	
Other Sustainability Indicators																
PV of public sector debt	...	...	23.1				22.1	20.5	20.0	19.9	19.6	19.4		15.5	13.4
<i>of which: foreign-currency denominated</i>	...	...	19.0				18.4	17.4	17.4	17.8	17.8	17.9		15.1	13.4
<i>of which: external</i>	...	...	19.0				18.4	17.4	17.4	17.8	17.8	17.9		15.1	13.4
PV of contingent liabilities (not included in public sector debt)	...	...	...				...	...	...	...	...	...		...	...
Gross financing need 2/	-1.0	-1.1	0.4				0.1	1.4	0.7	0.3	0.5	0.6		-0.6	5.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	158.5				137.6	122.2	120.4	118.9	114.9	112.0		69.9	64.3
PV of public sector debt-to-revenue ratio (in percent)	...	...	173.6				161.7	145.9	138.2	134.3	129.4	125.9		80.5	69.6
<i>of which: external 3/</i>	...	...	142.7				134.6	123.6	120.1	119.6	117.5	116.2		78.2	69.6
Debt service-to-revenue and grants ratio (in percent) 4/	5.4	5.2	4.3				7.6	12.2	10.4	8.5	7.7	7.6		11.5	11.4	
Debt service-to-revenue ratio (in percent) 4/	6.5	6.2	4.7				8.9	14.6	11.9	9.6	8.7	8.5		13.2	12.3	
Primary deficit that stabilizes the debt-to-GDP ratio	1.3	2.3	2.4				-2.3	-0.5	-2.5	-3.0	-1.7	-1.6		-2.1	3.4	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	7.1	8.5	9.2	6.6	1.7		9.2	8.5	8.3	7.5	6.7	5.4	7.6	4.1	3.6	
Average nominal interest rate on forex debt (in percent)	0.6	0.5	0.4	2.1	1.7		1.8	2.3	4.4	4.2	3.3	2.8	3.1	1.8	1.1	
Average nominal interest rate on domestic debt (in percent)	...	...	...	...	...		3.2	4.4	8.5	9.9	11.9	14.3	8.7	49.0	...
Average real interest rate (in percent)	-4.1	-8.1	-0.5	-5.6	5.0		0.1	1.9	3.5	3.3	2.4	2.1	2.2	2.1	0.1	
Average real interest rate on foreign-currency debt (in percent)	-4.5	-8.4	-0.6	-5.7	5.6		-1.9	-0.6	-1.3	-1.4	-1.5	-1.5	-1.3	-0.8	-0.9	
Average real interest rate on domestic debt (in percent)	...	...	...	...	...		1.1	3.0	6.0	7.3	9.1	11.4	6.3	44.8	...
Real exchange rate depreciation (in percent, + indicates depreciation)	0.5	1.1	-0.7	-0.5	11.3		0.3	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.7	9.3	1.3	16.1	10.3		2.2	1.4	2.3	2.5	2.6	2.6	2.3	2.9	3.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	5.3	-5.5	17.6	1.9	6.1		13.5	17.2	4.8	7.5	11.3	7.9	10.4	3.5	1.8	
Grant element of new external borrowing (in percent)	...	...	...	...	...		27.1	32.6	34.1	34.5	34.1	34.4	32.8	42.3	40.9

Sources: Country authorities; and staff estimates and projections.

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 4. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public Debt 2015–35

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	22	21	20	20	20	19	16	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	21	20	20	20	19	13	7
A2. Primary balance is unchanged from 2015	22	20	20	20	19	19	16	13
A3. Permanently lower GDP growth 1/	22	21	20	20	20	20	17	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	22	21	22	22	22	22	18	20
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	22	21	20	20	20	19	16	16
B3. Combination of B1-B2 using one half standard deviation shocks	22	21	21	21	21	21	17	19
B4. One-time 30 percent real depreciation in 2016	22	27	25	24	23	22	15	13
B5. 10 percent of GDP increase in other debt-creating flows in 2016	22	22	22	21	21	21	17	16
PV of Debt-to-Revenue Ratio 2/								
Baseline	138	122	120	119	115	112	70	64
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	138	122	121	120	115	109	60	33
A2. Primary balance is unchanged from 2015	138	122	120	118	114	111	72	64
A3. Permanently lower GDP growth 1/	138	123	121	120	117	114	74	90
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	138	126	129	129	125	123	81	95
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	138	122	121	119	115	112	70	75
B3. Combination of B1-B2 using one half standard deviation shocks	138	124	125	124	121	119	77	89
B4. One-time 30 percent real depreciation in 2016	138	162	151	142	132	124	66	63
B5. 10 percent of GDP increase in other debt-creating flows in 2016	138	133	131	128	123	119	75	78
Debt Service-to-Revenue Ratio 2/								
Baseline	8	12	10	8	8	8	12	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	12	11	9	8	7	10	7
A2. Primary balance is unchanged from 2015	8	12	10	8	8	8	12	11
A3. Permanently lower GDP growth 1/	8	12	10	9	8	8	12	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	8	13	11	9	8	8	13	13
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	8	12	10	8	8	8	12	11
B3. Combination of B1-B2 using one half standard deviation shocks	8	13	11	9	8	8	12	13
B4. One-time 30 percent real depreciation in 2016	8	14	14	11	10	10	16	14
B5. 10 percent of GDP increase in other debt-creating flows in 2016	8	12	11	9	8	8	12	12

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.



DEMOCRATIC REPUBLIC OF THE CONGO

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 17, 2015

Prepared By

The African Department
(In collaboration with other departments)

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RELATIONS WITH THE IMF

As of June 30, 2015

Membership Status: Joined September 28, 1963; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	533.00	100.00
Fund holdings of currency	533.00	100.00
SDR Department:	SDR Million	Percent of Quota
Net cumulative allocation	510.86	100.0
Holdings	345.47	67.63
Outstanding Purchases and Loans:	SDR Million	Percent of Quota
ESF RAC loan	106.60	20.00
ECF Arrangement	195.69	36.72

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF ^{24, 25}	Dec 11, 2009	Dec 10, 2012	346.45	197.97
ECF ¹	June 12, 2002	Mar 31, 2006	580.00	553.47
Stand-By	June 09, 1989	June 08, 1990	116.40	75.00

Projected Payments to Fund:²⁶

(SDR million; based on existing use of resources and present holdings of SDRs):

²⁴ Formerly Poverty Reduction and Growth Facility (PRGF).

²⁵ Three reviews were concluded (of which two were associated with non-complying purchases on account of misreporting on external arrears for which the Fund granted waivers) and the last three reviews were not concluded because of governance concerns in the management of natural resources.

²⁶ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

	Forthcoming				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Principal	20.94	56.35	66.24	66.24	52.92
Charges/interest	<u>0.04</u>	<u>0.09</u>	<u>0.22</u>	<u>0.16</u>	<u>0.25</u>
Total	<u>20.99</u>	<u>56.44</u>	<u>66.47</u>	<u>66.40</u>	<u>53.17</u>

Implementation of HIPC Initiative:

I.	Commitment of HIPC assistance	Enhanced Framework
	Decision point date	July 2003
	Assistance committed by all creditors (US\$ millions) ²⁷	7,252.00
	<i>Of which:</i> IMF assistance (US\$ millions)	391.60
	(SDR equivalent millions)	280.30
	Completion point date	July 2010
II.	Disbursement of IMF assistance (SDR millions)	
	Assistance disbursed to the member	280.30
	Interim assistance	49.05
	Completion point balance	231.25
	Additional disbursement of interest income ²⁸	50.44
	Total disbursements	330.74

Implementation of MDRI Assistance:

I.	MDRI-eligible debt (SDR Million) ²⁹	248.08
	Financed by: MDRI Trust	0.00
	Remaining HIPC resources	248.08
II.	Debt Relief by Facility (SDR Million)	

²⁷ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two numbers cannot be added.

²⁸ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

²⁹ The MDRI provides 100 percent debt relief to eligible countries that qualified for the assistance. Grant assistance from MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Delivery Date	Eligible Debt		Total
	GRA	PRGT	
July 2010	N/A	248.08	248.08

Exchange Rate Arrangement:

The currency of the Democratic Republic of the Congo (DRC) is the Congo franc (CDF). The de jure exchange rate arrangement is floating, although the Fund classifies the de facto exchange rate arrangement as "stabilized." At end-July 2015, the rate was US\$1=CF 924.89. Effective February 10, 2003, the DRC accepted the obligations of Article VIII, Sections 2 (a) 3, and 4, of the Fund's Articles of Agreement; however, the DRC maintains measures that give rise to one exchange rate restriction and one multiple currency practice subject to Fund approval. The exchange restriction involves an outstanding net debt position against other contracting members under the inoperative regional payments agreement with the Economic Community of the Great Lakes Countries. The multiple currency practice relates to a fixed exchange rate provided for in a bilateral payments agreement with Zimbabwe.

Last Article IV Consultation:

Consultations with the DRC are held in accordance with the provisions of the 2010 Decision on consultation cycles approved in September 2010. The last Article IV consultation was concluded by the Executive Board on June 9, 2014.

Safeguards Assessment:

An updated safeguards assessment of the *Banque centrale du Congo* (BCC) completed in April 2010 found that while most of the 2008 recommendations had been implemented, significant risks remained. The BCC continued to lack autonomy from the government and was in need of recapitalization, and the absence of an independently defined financial reporting framework continued to impair transparency. The Ministry of Finance completed the first phase of the recapitalization in March 2011 by bringing the BCC's net worth to zero. The IMF is providing technical assistance to support the recapitalization efforts. The transition process to a new financial reporting framework has been significantly delayed; the BCC now aims to issue their 2015 financial statements in accordance with IFRS.

Technical Assistance:**STA**

The focus of the assistance is placed on developing national accounts, including data, compilation, and methodology. STA has provided support to finalize national accounts consistent with the System of National Accounts 93 for several years up to 2013.

FY 2007 – Real sector statistics

FY 2008 – Real sector statistics

FY 2009 – National accounts

FY 2010 – Monetary statistics and national accounts

FY 2011 – Monetary statistics and national accounts

FY 2012 – Monetary statistics, national accounts and balance of payments.
 FY 2013 – National accounts (three missions), balance of payments (one mission)
 FY 2014 – Balance of payments (one mission)
 FY 2015 – National accounts (3 missions) and monetary statistics (one mission)

MCM

TA has been informed by the 2013 FSAP recommendations and focusing, mainly, on BCC modernization process, banking supervision, reinforcing BCC collateral framework, and implementing a two-way foreign exchange auction.

Capacity building assistance to the central bank

FY 2012 – One mission (TA needs assessment)
 FY 2013 – One mission
 FY 2014 – One mission
 FY 2015 – One mission

Strengthening capacity in Anti-Money Laundering/Combating Financial Terrorism (AML/CFT)

FY 2005 – One short visit
 FY 2006 – Two short visits

Strengthening capacity in monetary policy implementation, exchange operations, and liquidity management

FY 2005 – Three short visits
 FY 2006 – Two short visits
 FY 2007 – Seven short visits
 FY 2008 – Three short visits
 FY 2009 – One short visit
 FY 2011 – Three short visits
 FY 2012 – Two short visits (of which one on currency reform and handling)
 FY 2013 – Two missions and four short visits (of which three on upgrading the financial framework)
 FY 2014 – One mission

Restructuring and reorganization of the central bank

FY 2009 – One short visit
 FY 2010 – One short visit
 FY 2011 – Four short visits
 FY 2012 – One mission

Strengthening capacity in banking supervision and financial sector development

FY 2005 – One short visit on bank supervision and regulation
 FY 2006 – One short visit on internal audit

FY 2007 – Action plan for developing the financial system
FY 2008 – One short visit on TA assessment
FY 2008 – Two short visits on bank supervision and regulation
FY 2008 – One short visit on internal audit
FY 2010 – Three short visits on bank supervision and regulation
FY 2011 – Three short visits
FY 2011 – Two short visits on bank supervision and regulation
FY 2012 – One mission
FY 2013 – Six short visits on bank supervision and regulation
FY 2014 – Two missions and one short visit on bank supervision and regulation
FY 2015 – One mission

LEG

FY 2012 – Two missions (Central Banking and Bank Resolution)

FAD

Simplification of the tax system—notably tax incentives and the myriad of fees and charges that hinder the business climate—remains a key priority, along with better mobilization of mining sector revenue through a new Mining Code and tighter customs control. Although authorities have started to streamline fees and charges, much remains to be done and progress is slow given administrative obstacles. Customs and VAT measures are largely administrative in nature and depend on the political capacity of authorities to bring all potential taxpayers in the tax net. Other priorities include: (i) reinforcing the administration of revenue collected from extractive industries (EI) and VAT administration, and improving customs operations and (ii) consolidating the state budget, the medium-term budget framework (MTBF) and the medium-term expenditure framework (MTEF).

Public financial management

FY 2007 – Short-term expert visit
FY 2009 – One mission and one short-term expert visit
FY 2010 – Short-term expert visit
FY 2011 – One mission
FY 2012 – One mission (MNRW TTF diagnostic) and one short-term expert visit (JSA)
FY 2013 – One mission and three short-term expert visits (all MNRW TTF)
FY 2014 – Two short-term expert visits (all MNRW TTF)
FY 2015 – One mission

Revenue administration

FY 2005 – One short visit
FY 2006 – One short visit
FY 2007 – One short visit
FY 2008 – One short visit

FY 2009 – One short visit
 FY 2011 – One short visit (VAT diagnostics)
 FY 2012 – One short visit (MNRW TTF diagnostic)
 FY 2013 – Eight visits (on which three on MNRW)
 FY 2014 – One mission
 FY 2015 – Three missions

Fiscal decentralization

FY 2005 – Short visit.

Tax Policy

FY 2012 – One short visit (MNRW TTF diagnostic)
 FY 2013 – Two short visits
 FY 2014 – Two short-term expert visits.
 FY 2015 – One mission.

AFRITAC Central

Technical assistance efforts have been focusing on improving tax administration; strengthening of tax audits and enhancement of research activities with a view of the broadening the tax base; improving public debt management macroeconomic statistics; streamlining and compiling national accounts systems; and supporting banking supervision and financial stability, including training of newly recruited banking supervisors.

Public financial management

FY 2009 – Four missions
 FY 2010 – Four missions
 FY 2011 – One mission
 FY 2012 – Four missions
 FY 2013 – Four missions
 FY 2014 – Two missions
 FY 2015 – Four missions

Tax and Customs administration

FY 2008 – One mission
 FY 2009 – Four missions
 FY 2010 – Four missions
 FY 2011 – Two missions
 FY 2012 – Two missions
 FY 2013 – Two missions
 FY 2014 – Three missions
 FY 2015 – Six missions

Bank supervision and financial stability

FY 2008 – Four missions
 FY 2009 – Three missions
 FY 2010 – Three missions
 FY 2011 – Three missions
 FY 2012 – Three missions
 FY 2013 – Five missions
 FY 2014 – Four missions
 FY 2015 – Six missions

Public debt

FY 2008 – Two missions
 FY 2009 – One mission
 FY 2010 – Three missions
 FY 2013 – One mission
 FY 2014 – Two missions
 FY 2015 – Two missions

Macroeconomic Statistics and National Accounts

FY 2010 – Two missions
 FY 2011 – Two mission
 FY 2012 – One mission
 FY 2013 – Two missions
 FY 2014 – Two missions
 FY 2015 – Three missions

Long-term Resident Experts:

<i>Expenditure management</i>	Mr. Catalan	Jan. 2002 – June 2004
	Mr. Nguenang	Sept. 2004 – July 2008
<i>Tax administration</i>	Mr. Fossat	Sept. 2005 – Jan. 2007
<i>VAT preparation and implementation</i>	Mr. Ramarozatovo	Feb. 2011 – July 2013
<i>Customs administration</i>	Mr. Bremeersch	Jan. 2002 – Jan. 2004
<i>Advisor to Governor of BCC</i>	Mr. Nyssens	Jan. 2004 – Jan. 2005
	Mr. d'Ambrières	Feb. 2006 – June 2006
	Mr. Traoré	June 2010 – May 2015
<i>Capacity building of BCC Statistics</i>	Mr. Pauwels	Sept. 2004 – Mar. 2007
	Mr. Métreau	Oct. 2004 – Oct. 2005
	Mr. Gbossa	Dec. 2005 – Dec. 2008

Resident Representative: Mr. Melhado Orellana assumed his duties in October 2012 and he will be replaced by Mr. Nicholas Staines who has been assigned for three years starting on September 2015.

JMAP IMPLEMENTATION MATRIX

As of April 30, 2014

2. The Fund and World Bank teams liaise to support the joint managerial action plan (JMAP) initiative. The World Bank's FY15–17 work program entails projects directed at strengthening the poverty reduction efforts being implemented by the authorities and improving governance (Tables 1 and 2). The Fund's work program entails Article IV consultations. Both institutions provide technical assistance to help in the implementation of FSAP recommendations.

Table 1. Indicative FY15–FY17 Non-lending Program

Activities

Skills for Agriculture and Mining (FY15–16)
 Congo Basin Timber (FY15–16)
 Review of the Forest Sector of the DRC (FY15–16)
 DRC Spatial Development (FY14–16)
 DRC-ASA Sub-National Governance (FY16–17)
 Support to DRC Gov in the Procurement-UCS (FY16)
 DRC - Economic Update (FY16/17 each)
 DRC-PEMFAR Dissemination/Implementation. Model (FY15–16)
 DRC-Sub-National Economic Analysis Program (FY16–FY17)
 DRC- Poverty Assessment (FY15–16)
 DRC-Jobs(FY16–17)
 National Social Protection Strategy (FY15–16)
 Support to the Land Sector Review (FY15–16)
 DRC-Urbanization Review (FY16)
 DRC-Promoting Investment. in agriculture (FY16)
 DRC-Doing Business Reforms Coordination (FY16–17)
 TA on domestic revenue GAP Assessment (FY16–17)
 TA on Provincial PEFA (FY16) MDTF
 TA on Public Investment Efficiency (FY16–17) – MDTF

Table 2. Indicative FY15–FY17 Financing Program (IDA, Grants, and Regional Programs)					
FY15		FY16		FY17	
Project	US\$ million	Project	US\$ million	Project	US\$ million
Health System Strengthening	220	Statistics Development	45	Rural Electrification	100
Education Quality – Secondary	200	Expansion of Eastern Recovery and Regional Displacement Project*	79	AF to Urban Project (scale up to additional cities in the East)	
Reinsertion and Reintegration (P152903)	15	AF Urban Water Supply	150	Follow on to basic education (\$100m from GPE)	
Goma Airport	52	AF to expansion of HD systems	30	Public sector strengthening in decentralized env. (PFM/PRCGAP)	100
		(AF to AG Rehab)	50		
Great Lakes CAB 5 Project	33	4-Great Lakes Trade Facilitation Program – phase 1	11	Inga 3 BC development (\$350 natl/ \$650 regional)	
		AF to Pro-Routes (national with regional component)*	70	Great Lakes SGBV - Phase 2	7
		Great Lakes Ag Program (regional with national component)*	100	Great Lakes Cross-border Trade Facilitation– Phase 2	8
IDA Total (US\$m)	520		535		215

Notes: AF: Additional Financing; * Combined national and regional allocation.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision to the Fund is broadly adequate (category B as per SM/13/155) for surveillance and program monitoring purposes, but upgrades to the national accounts, balance of payments, and government finance statistics would be helpful. In spite of difficulties, the authorities have continued to produce an array of economic and financial statistics, most of which are published in the annual report of the Central Bank of the Congo (BCC) or its monthly statistical bulletin.

National accounts: Annual national accounts (ANA) are compiled in constant and current prices by National Institute of Statistics (INS) under the Ministry of Plan with the technical assistance (TA) from IMF/AFC. The compilation methodology has then changed since 2006 with the use of ERETES software and the compilation of definitive ANA for 2005 and 2006 in compliance with the *System of National Accounts 1993 (1993 SNA)* (implying an upward revision of GDP by about 60 percent). The insufficient human resources pushes the authorities of INS to temporarily suspend the use of the ERETES software. The INS compiles then ANA for 2007 to 2009 on a light system with Microsoft Excel. The use of ERETES software is resumed in 2013 for the compilation of 2010 definitive ANA which are ongoing. Once the 2010 definitive ANA are achieved a provisional ANA system is supposed to be based on that 2010 ANA to compile 2011, 2012, 2013 etc. accounts.

Price statistics: Consumer price indices (CPI) are calculated for Kinshasa by the INS, the BCC, the Institute of Economic and Social Research (IESR), and the Economics Section of the U.S. Embassy in Kinshasa. In 2011, the INS started to compile CPI data Country wide using weights calculated on the basis of the 2005 household survey. Prices are collected in the 11 provinces (the BCC in 2013 began the compilation of a similar CPI using a slightly different basket and different weights and based on prices in 5 provinces).

Government finance statistics: The BCC produces aggregated monthly statistics on a cash basis based on its own accounting for the government cash operations. The treasury produces two sets of monthly statistics based on its own records: one relates to the transactions executed through the BCC, the other set attempts to consolidate operations through commercial bank accounts and off-budget operations. These statistics do not rely on an integrated double-entry public accounting system and do not provide sufficient details about the nature of expenditures owing to problems in the expenditure chain. However, the treasury has started to produce quarterly expenditure data reports by ministry and institution.

The current work on tax administration and expenditure control is expected to improve the quality and timeliness of fiscal statistics. In parallel with technical assistance on public expenditure management, a STA multisector statistics advisor has been advising on government finance statistics, producing improvements in the quality of the statistics. Furthermore, adoption of a simplified double-entry bookkeeping system should significantly improve the availability of data on government financial operations.

In 2003 the DRC reported annual data up to 2002 for the IMF's *Government Finance Statistics Yearbook* in the format of the *Government Finance Statistics Manual 2001* but has not reported

subsequently. However, work is underway to resume submission of data to the GFSY, beginning with data for 2010.

Monetary statistics: Monetary and financial statistics (MFS) are compiled and reported to the Fund by the BCC Directorate of Statistics. These statistics are now generally reliable but institutional coverage, source data, and timeliness issues remain to be addressed.

The BCC has improved data compilation with the adoption in 2007 and 2011 of new charts of accounts for the central bank and commercial banks, respectively. The sectorization of institutional units and the classification of financial assets used in these new charts of accounts are broadly in line with the Fund's *Monetary and Financial Statistics Manual's* methodology. In September 2013, the BCC completed migration to the Standardized Report Forms (SRFs) for the submission of its MFS to the Fund. Since then, SRF-based monetary statistics have been reported to STA for publication in IFS.

Despite this progress, MFS data are still in need of improvements in terms of financial institution coverage, source data reliability, and the timeliness for reporting the data to the Fund. The depository corporation survey does not include data from non-bank deposit taking institutions, a growing sector in the country. In addition, source data from commercial banks are not fully reliable as respondents do not completely master the new sectoral chart of accounts yet. Similarly, the data is reported with delays of up to five months in a package that include several months. Only when STA send reminders, does the BCC submit the data.

Balance of payments: Annual balance of payments statistics are compiled with information on the exports and imports of large public and semipublic enterprises, BCC payment records, and a survey of the foreign operations of residents. The estimates also take account of information on the informal sector and foreign aid flows provided by the World Bank and the local UN Development Program office, which collects the data from the European Union, embassies, and nongovernmental organizations. In effect balance of payments statistics are compiled using data from different sources, supplemented by estimates. In February 2012, the authorities created an interministerial committee, lead by the central bank and also including representatives from customs, and the National Statistics Institute and key sectors, to improve the collection and the validation of balance of payment data and ensure its regular publication.

II. Data Standards and Quality

Since April 24, 2004, the DRC participates in the General Data Dissemination System. The metadata needs to be updated.

**Democratic Republic of the Congo: Table of Common Indicators Required
for Surveillance
(as of July 13, 2015)**

	Date of latest observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	7-Jul-15	7-Jul-15	D	W	D
International Reserve Assets and Reserves	15-Jun	15-Jun	M	M	M
Liabilities of the Monetary Authorities ¹	15-Jun	15-Jun	M	M	M
Reserve/Base money	15-Jun	15-Jun	M	M	M
Broad money	15-Jun	15-Jun	M	M	M
Central Bank Balance Sheet	15-Jun	15-Jun	M	M	M
Consolidated Balance Sheet of the Banking System	15-Jun	15-Jun	M	M	M
Interest Rates ²	15-Jun	15-Jun	M	M	M
Consumer Price Index	15-Jun	15-Jun	M	M	M
Central Government Revenue, Expenditure, and Financing ³	14-Dec	15-Jun	M	M	M
Stock of Central Government and Central Government-Guaranteed Debt ⁴	2014	15-Jun	A	A	I
External Current Account Balance	2014	15-Jun	A	A	I
Exports and Imports of Goods and Services	2014	15-Jun	A	A	I
GDP/GNP	2014	15-Jun	A	A	I
Gross External Debt	2014	15-Jun	A	A	I
International Investment Position ⁵	NA	NA	NA	NA	NA

¹ Any reserves assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the national values of financial derivatives to pay and receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discount rates, money markets rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ Including currency and maturity composition.

⁵ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁶ Daily (D). Weekly (W). Monthly (M). Quarterly (Q). Irregular (I). Not available (NA).

**Statement by Mr. Yambaye, Executive Director for Democratic Republic of the
Congo and Mr. Allé, Senior Advisor to Executive Director**

September 2, 2015

The DRC authorities appreciate the candid dialogue with Staff and thank the Board and Management for the continuous support to their development agenda. The recent discussions held in Kinshasa in the context of the 2015 Article IV consultation gave another opportunity to take stock of the country's progress in ensuring macroeconomic stability and implementing structural reforms and to assess the challenges facing the economy. The staff report put forward is a fair analysis of the economic and financial situation and broadly reflects the authorities' views. The Selected Issues Paper is also welcome as a useful element in the authorities' overall thinking on the DRC's development dynamics.

In the recent past, the DRC has been posting a strong macroeconomic performance on the back of buoyant mineral exports and continuously improving overall economic management. The 2014 growth rate ranks among the highest in the world and inflation has drastically abated. Significant progress has also been recorded in the governance of the natural resource sector with the authorities committed to keep pace with this positive momentum. Likewise, the authorities are cognizant that they need to step up reforms in many areas with the view to entrench growth and reduce poverty in a sustainable fashion. In this regard, the authorities' efforts over the medium term will focus on easing the business and socio-political environment for private sector development, improving fiscal management to build buffers against commodity price shocks, stepping up de-dollarization to enhance monetary policy and foster financial deepening, diversifying the economy to further structural transformation for job creation.

RECENT DEVELOPMENTS AND OUTLOOK

2014 has confirmed the trend of strong growth displayed by DRC over the past years. Real GDP growth is estimated to have recorded a solid 9.2 percent owing to high copper production and performing telecommunications, trade and transport sectors. Inflation is subdued at 1 percent, falling sharply from double digits territories in three years. The government budget is in balance with a low debt ratio.

The medium term outlook remains positive, with growth projected to remain strong, at 9.2 percent in 2015 and around 8.4 percent in 2016-17, essentially driven by the mineral and service sectors. It is the firm intention of the authorities to pursue steadfastly policies that

will maintain high, sustainable and inclusive growth while also ensuring macroeconomic stability. However, the authorities are cognizant of the risks highlighted by staff. While they will continue their efforts to address them, they are also of the view that some of these risks are manageable. In this vein, they see scope for their ongoing actions to maintain a benign political situation, which should help to boost investor confidence. Likewise, the efforts initiated with the electoral commission – CENI - to cut elections costs should help keep spending pressures in check and not jeopardize further the fiscal stance.

MACROECONOMIC POLICIES GOING FORWARD

Fiscal policy

Cognizant of the challenges still facing the economy, the DRC authorities are committed to implementing policies to further improve the outlook. In this regard, enhancing fiscal policy remains a key objective, with a particular emphasis on domestic revenue mobilization. Efforts will consist of bringing the VAT back to its performance path. To this end, the authorities concur with the staff's recommendations and will enhance the VAT administration through measures to modernize and simplify procedures. An important line of actions of the authorities will consist of increasing significantly the contribution of the natural resource sector to fiscal revenue. They have already implemented the conclusions of the National Conference on Mineral Resources Management, which should help boost the revenue share of the sector. Enacting a new mining code aligned with international best practice is another option under discussion. The revenue-enhancing measures identified by Fund TA will also be part of the overall action plan.

On the spending side, the authorities are committed to keep outlays under control. To this end, a decree on Fiscal Governance in the DRC is being finalized and will be adopted soon as a major anchor for fiscal policy. This is expected to strengthen the medium-term expenditure framework. The authorities also share staff's recommendations for enhancing budget credibility, including the need to improve resource forecasts. The overall effort to build capacity, especially on national account statistics will help address this issue going forward.

Along with the favorable macroeconomic fundamentals, the authorities welcome staff assessment indicating that DRC's risk of debt distress remains "moderate". Our authorities are committed to maintain a prudent borrowing strategy and to enhance debt management capacity to preserve long-term debt sustainability.

Monetary policy and financial sector development

Enhancing the effectiveness of monetary policy is an important endeavor for our authorities. Among others, the development of the financial sector should help to this end, besides its key role of supporting the private sector activity. Discussion with staff and past initiatives such as the 2014 FSAP provided useful materials and policy directions, which the authorities intend to follow through with concrete actions. In this regard, they will take steps to strengthen the central bank –BCC. Measures include the BCC's recapitalization, cutting its operating costs by focusing on core activities and improving its governance and enhancing staff's capacity.

The passage of the Central Bank Law is set to help on many of these fronts and strengthen the BCC's credibility.

The authorities are also committed to enhance the financial sector by implementing structural reforms aimed at improving financial intermediation and financial inclusion. New financing instruments are being devised such as a foreign exchange swap facility arranged with the International Finance Corporation. Going forward, other reforms meant to strengthen the financial sector are underway, including measures to enhance consumer protection and mobile banking, as well as to further de-dollarization and reinforce banking supervision.

NATURAL RESOURCE MANAGEMENT

Natural resource endowment is a major asset to the DRC's economy. The authorities are mindful that its sound management is critical to growth, to government revenue and to the country's overall development. Significant progress has been made recently to improve transparency in the sector by implementing the recommendations of the Extractive Industries Transparency Initiative (EITI). The authorities share staff's views on the need to take additional measures "to strengthen the government's oversight of the SOEs and ensure that they comply with the obligations to publish contracts of all mining operations and resort to competitive biddings when natural resource assets are sold." Moreover, the authorities place a particular importance on the new mining code under discussion, and set to replace the current 2002 code. Key features of the new code should further enhance transparency and accountability in the mining sector and help address critical issues such as its fair contribution to domestic revenue. Main proposed changes include: (i) increase in the royalty rate; (ii) alignment of the corporate income tax (30 percent) to the general regime (35 percent); (iii) introduction of super profit tax; and (iv) provisions to secure corporate tax basis.

STRUCTURAL REFORMS FOR ECONOMIC DIVERSIFICATION AND JOB CREATION

The DRC authorities are fully aware that enhancing the inclusiveness of growth, creating jobs and addressing poverty on a more sustainable footing require the implementation of bold structural reforms to bolster economic diversification and structural transformation. Staff's selected issues chapter on "The Quest Towards Diversification" shed light on the structural shift from agriculture to industry and services being witnessed in DRC. The authorities are of the view that such shift should be accompanied with measures to enhance productivity in the agriculture sector to maintain and strengthen output, while enlarging the industrial and export bases. In this regard, reforms underway in the natural resource sector should improve the business environment in this specific area and attract new investors.

Furthermore, improving the overall business climate is a top priority to the authorities. They concur with staff that pressing measures should include: (i) simplifying the tax system to support higher non-mineral activity and promote inclusive growth, (ii) streamlining the regulation for granting construction permits and transferring ownership, and (iii) facilitating access to credit while enforcing contracts. The authorities are also mindful that they should sustain their ongoing efforts to address key bottlenecks such as the electricity shortages and

the infrastructure gap. Furthermore, they see scope for their financial sector reforms to support the dynamism in the service sector and avail credit to help reduce informality in commerce activities.

The improvement of the general security situation of the country and the political environment is also a key element to enhance confidence of private investors. In this regard, the authorities are determined to address all factors of fragility and implement the agreed institutional reforms aimed at entrenching democracy.

CONCLUSION

The DRC has made important strides over the past years in terms of macroeconomic performance and poverty reduction. Growth has been strong in a stable environment and the outlook is promising owing to positive prospects on mining activity. Yet, unemployment and poverty still remain acute despite some progress. The DRC authorities are striving to conduct the needed reforms to entrench growth and bolster economic diversification. In the period ahead, they are committed to step up macroeconomic policies to enhance buffers and ring-fence against shocks as they take steps to transform the economic landscape. In this effort, harnessing natural resource endowment for the country's overall development is of particular importance. Our DRC authorities appreciate the Board's continuous support in their challenging endeavors.