 October 2005
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Democratic Republic of the Congo: 2005 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waiver of Performance Criteria, Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, and Request for an Extension of Arrangement—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Democratic Republic of the Congo

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2005 Article IV consultation with the Democratic Republic of the Congo, the fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility, requests for a waiver of performance criteria, additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, and request for an extension of arrangement, the following documents have been released and are included in this package:

- the staff report for the combined 2005 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waiver of Performance Criteria, Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, and Request for an Extension of Arrangement, prepared by a staff team of the IMF, following discussions that ended on May 31, 2005, with the officials of the Democratic Republic of the Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 12, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of September 5, 2005 updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its September 5, 2005, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the authorities of the Democratic Republic of the Congo.

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

Letter of Intent sent to the IMF by the authorities of the Democratic Republic of the Congo*
Memorandum of Economic and Financial Policies by the authorities of the Democratic Republic of the Congo*
Selected Issues Paper and Statistical Appendix
Technical Memorandum of Understanding*
*May also be included in Staff Report

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

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INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

Staff Report for the 2005 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waiver of Performance Criteria, Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, and Request for an Extension of Arrangement

Prepared by the African Department

(In consultation with the Finance, Fiscal Affairs, Legal, Monetary and Financial Systems, Policy Development and Review, and Statistics Departments)

Approved by Michael Nowak and Anthony Boote

August 12, 2005

- Discussions for the 2005 Article IV consultation and the fifth review under the PRGF were held in Kinshasa during November 9–23, 2004, February 15–22, 2005, and May 24–31, 2005 by staff teams comprising Messrs. Briançon (head), Ben Ltaifa, Gons, Hartley (all AFR), Ioannou (PDR), Mati and Williams (both FAD), and Kouwenaar (Senior Resident Representative). Mr. Guétat, Advisor to the Executive Director for the Democratic Republic of the Congo (DRC), also participated in policy meetings.
- The review, which is based on the end-September 2004 test date, has been delayed due to macroeconomic slippages and noncomplying disbursements made to the DRC (www.imf.org, August 9, 2005). Three out of 11 quantitative performance criteria for end-September 2004 were not met because of increased security expenditure and weak spending procedures. The structural performance criterion was not met, but the measure was implemented in January 2005.
- The team met with the Vice Presidents for Economic and Financial Affairs and for Social and Cultural Affairs, the Ministers of Finance, Budget, Political and Security Affaires, Economy, Planning, Mining, Energy, Education, and Health the Governor of the Central Bank, the President of the National Assembly, members of the General Accounting Office, representatives of the business community, and donors.
- On June 12, 2002, the Executive Board approved a three-year arrangement under the PRGF in the amount of SDR 580 million (108.8 percent of quota), with disbursements totaling SDR 526.7 million so far. An additional SDR 26.7 million would be disbursed at the completion of this review. The arrangement was extended to October 31, 2005 on June 7, 2005 and the authorities are requesting a further extension until March 31, 2006 to complete the last review.
- In July 2003, the DRC qualified for US$6.3 billion in debt relief in net present value (NPV) terms when it reached the decision point under the enhanced HIPC Initiative. It could reach the completion point in the second half of 2006, one year after the anticipated completion of the Poverty Reduction Strategy Paper (PRSP), the preparation of which is proceeding broadly as planned. The authorities are requesting an additional annual tranche of IMF interim assistance under the enhanced HIPC Initiative.
- The DRC maintains a floating exchange rate regime. The DRC has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement. The DRC maintains one identified exchange restriction and one identified multiple currency practice subject to the provision of Article VIII. Summaries of the DRC's relations with the Fund and the World Bank Group are presented in Appendices II and III, respectively.

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Appendices

Executive Summary

- **Since 2001, the DRC has experienced a significant turnaround under difficult circumstances.** Per capita income has improved, inflation has dropped and the exchange rate has remained relatively stable while the transition government has made progress in reunifying the country and strengthening public institutions.

- **Performance under the program supported by the Poverty Reduction and Growth Facility (PRGF) has been uneven since mid-2004.** Real GDP growth was close to 7 percent, but inflation surged and the Congo franc depreciated in late 2004 and early 2005. The authorities, have, however, taken steps in the first half of 2005 to address the shortcomings, which have in turn stabilized the macroeconomic situation. This bodes well for the implementation of the program for the rest of the year.

- **The fiscal outcome was mixed in 2004.** The overall objective was met, but the composition of expenditure did not improve as envisaged with low levels of spending for public investment and social sectors partly offset by money-financed overspending for security and political institutions.

- **Following rapid money expansion in the second half of 2004, the Central Bank of the Congo (BCC) has tightened monetary policy in 2005**. This has led to an appreciation of the exchange rate and the stabilization of consumer prices since May.

- **Implementation of structural reforms was slow in 2004.** With the approaching elections and security tensions, the transition government had difficulty reaching a broad consensus on essential reforms. However, progress in key areas is essential to maintain high and sustainable growth, in particular in reforming the mining and forestry sectors and public enterprises.

- **Corruption remains a major obstacle to improvement in public resource management and the business climate.** Although legislation has been adopted to intensify the fight against corruption, renewed impetus is needed to rebuild institutions, strengthen budget procedures and reporting, improve transparency in tax administration, and pursue the auditing and restructuring of public enterprises.

- **The most important risks to the program for the rest of 2005 relate to insecurity and social tensions.** Bringing the political transition process to a successful conclusion is key and will require coordinated efforts to tackle simultaneously political, economic, and security challenges. In that context, accommodative fiscal and monetary policies on the eve of the elections remains a major risk. Insufficient external financial support could also jeopardize the transition process.

I. Background

1. Decades of mismanagement and a civil war during 1998–2001 led to a drop in per capita GDP in the Democratic Republic of the Congo (DRC) from US$250 in 1960 to US$100 in 2001. These events had a severe impact on the whole Central African region because of the DRC's size and geographical location.

2. **Since 2001, the country has experienced a significant turnaround**. After the signing of a power-sharing agreement (*Accord global et inclusif*) in December 2002, a transition government of national unity was formed in June 2003, charged with holding elections before two years. However, the transition period was extended by six months in June 2005 to give the authorities more time to prepare for the elections. The transition government has made progress in reunifying the country and strengthening public institutions. In addition, an integrated army and a police force are being created and the implementation of the Disarmament, Demobilization, and Reintegration (DDR) program, which should reduce the size of the army by at least one-half, is proceeding albeit with some delays. An international committee has been monitoring the transition process.[1]

3. The Executive Board approved an arrangement under the PRGF in support of the Government Economic Program (PEG) in June 2002 following the clearance of arrears to the Fund (SDR 403.9 million). The program seeks to help reunify the country, rebuild the economy's infrastructure and institutions, stabilize the macroeconomic situation, revive growth so as to reduce widespread poverty, improve governance, and combat entrenched corruption.

4. **Many of the objectives of the PRGF-supported program have been met over the last three years**. Economic activity started to recover in 2002, after declining for 13 years, inflation declined from 511 percent at end-2000 to 4 percent at end-2003, and the external current account deficit narrowed (Table 3). Important structural measures have been implemented, including the liberalization of most prices and the adoption of new investment, forestry, and mining codes. Nevertheless, much remains to be done to rebuild institutions, including at the level of the provinces, enforce laws and procedures, improve public resource management, fight poverty, and combat corruption.

5. **The main lessons from the Fund's involvement in the DRC have been that** (a) cohesive policy implementation and full ownership of the program at the highest political level is essential; (b) maintaining peace and security is a precondition for macroeconomic

[1] The International Committee in Support of the Transition (*Comité International d'Accompagnement de la Transition* (CIAT)) is presided by the head of the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC) and comprises the permanent members of the Security Council, other key bilateral partners, the European Commission, and the African Union.

stability and growth; (c) improvements in institutions and governance are crucial for creating an environment that is conducive to private-sector led growth and reducing poverty; and (d) timely and well coordinated donor support is essential for rebuilding the economy, improving social conditions, and alleviating poverty.

6. **The authorities have broadly heeded the Fund's policy advice offered in the context of surveillance and the PRGF-supported program over the past three years.** The focus has been on fiscal consolidation, monetary control, liberal exchange and trade regimes, and improved governance, especially in the management of public resources, including the country's abundant natural resources (Box 1). However, implementation was sometimes slowed by the difficulties of reaching a consensus within the transition government, especially on issues that could potentially affect the fragile balance of power among political parties.

7. At the conclusion of the 2003 Article IV consultation in March 2003, Executive Directors commended the authorities for the progress made and emphasized that lasting peace was crucial for the economic reconstruction and development of the DRC. When concluding the fourth review under the PRGF on July 12, 2004, Directors welcomed the continued implementation of the program. They cautioned, however, that major challenges remain, including demobilizing combatants, holding free and open elections, rehabilitating administrative capacity in the reunified provinces, and implementing an effective decentralization law. They stressed the need for the international community to continue to assist the authorities in their efforts.

Box 1: Past Fund Policy Advice and Government's Response

The authorities have been broadly receptive to the Fund's past policy advice in the following areas: (a) unification of multiple exchange rates, (b) liberalization of prices, (c) full implementation of new expenditure procedures and budget classification, (d) undertaking civil service reform and the reform of the pay systems, (e) creation of a Large Taxpayers Unit, and tariff and tax reforms, (f) adoption of investment, mining, and forestry codes, and (g) undertaking an audit of the diamond sector.

Progress in the following areas is still required: (a) containing nonpriority expenditure and increasing poverty reduction outlays, (b) improving tax administration and reducing exemptions, (c) building up foreign reserves, (d) restructuring public enterprises, (e) fighting corruption, and (f) strengthening central bank independence.

II. Recent Developments and Performance Under the Program

8. **The political and security situation has remained difficult.** The more active involvement of the UN troops in the east has succeeded in containing the activities of militias although widespread human rights violations continue. Last February's announcement that the Rwandese rebels in the DRC were ready to end their armed struggle could also reduce tensions once the decision is effective. Militias, rebel and other armed groups remain active

in the illegal exploitation of minerals in the east and violations of the UN Security Council arms embargo by all main parties continue.

9. **Delays in completing the political transition process have led to political and social tensions, which may undermine macroeconomic stability**. The presidential, legislative, and local elections have been postponed to early 2006 because of delays in adopting key laws and the complexities of organizing elections in a country as vast as the DRC. Elections are to be preceded in November 2005 by a referendum on the draft constitution approved by the National Assembly in May (see Box 2).

Box 2. The Draft Constitution, Decentralization, and Fiscal Implications

The draft constitution—adopted by the National Assembly on May 13, 2005—grants provinces broad powers. This reflects the population's desire for greater control over their destiny, given the dismal record with centralized government over the past 40 years. However, the devolution of government resources and responsibilities, if implemented rapidly, could jeopardize macroeconomic stability, and make public resource management much more difficult, given existing weaknesses in budgetary control and transparency.

Main budget provisions for the provinces under the draft constitution

- Provinces have **full responsibilities for their budget,** including the ability to borrow locally, with limited oversight from the central government.
- Provinces **receive 40 percent of central government revenue** collected locally. An **additional 10 percent** of government revenue would be transferred to an autonomous agency (*caisse de péréquation*) that will undertake projects to ensure an even development across provinces.
- Provinces will be **responsible for designing and implementing programs** for primary and secondary education, health, agriculture, forestry, mining, energy, and manufacturing that are consistent with national norms.

Potential risks

- Setting the rate of budgetary transfers in the constitution rather than in a budget law may result in excessive institutional rigidity. The high level of transfers needs to be accompanied by transfers of responsibilities to avoid jeopardizing macroeconomic stability.
- Weak provincial administration represents a risk for public resource management and may further delay implementation of poverty-reducing programs in some provinces.
- The lack of oversight by the central government of local government budgets may lead to fiscal imbalances, inconsistencies between subnational and national budgets, as well as disruption in the design of macroeconomic policy.

Program implications

The constitution is to be ratified by referendum in November 2005 and hence will not affect the 2005 program. However, it is uncertain how and when the constitution will be fully implemented, as no timeframe has been set. A gradual application of the sections of the constitution concerning the devolution of resources and responsibilities would allow for a buildup of financial management capacities in the provinces and so reduce the risks to the economy.

10. **Macroeconomic performance was satisfactory in 2003 a nd the first half of 2004.** Real GDP growth was higher than envisaged and inflation decelerated to below program projections in 2003, while fiscal and monetary policies were broadly on target. However by mid-2004, macroeconomic performance started to weaken with rising tensions in the eastern provinces and an increase in government spending leading to fiscal and monetary slippages. Overall, real GDP grew by 6.8 percent in 2004, compared with 6.3 percent projected under the program; 12-month inflation fell to less than 5 percent by mid-2004, but rose to over 9 percent by December 2004 and further to 26 percent by May 2005.

Selected Economic Indicators, 2001–05

	2001–02 Average	2003	2004 IMF Country Report No. 04/243	2004 Est.	2005 Prog.
	(Annual percentage change)				
GDP at constant prices	0.7	5.7	6.3	6.8	6.6
Consumer prices (annual end of period)	75.4	4.4	6.0	9.2	22.6
Terms of trade	7.9	15.6	-2.1	3.6	1.5
	(In percent of GDP; unless indicated otherwise)				
Total government revenue	7.2	7.7	9.2	9.6	10.7
Overal consolidated fiscal balance, incl. grants	-1.2	-2.1	-3.2	-1.9	-2.2
Current account balance, incl. transfers	-3.8	-1.5	-3.3	-5.5	-5.1
Gross official reserves, in weeks of non-aid imports	1.8	2.4	6.2	5.2	7.2

11. **The external current account deficit, including official transfers, widened by 4 percentage points of GDP in 2004, as trade and income balances deteriorated.**[2] Favorable terms of trade and the return of private investors resulted in large increases in exports of cobalt, timber, crude oil, and copper.[3] At the same time, imports of capital and consumer goods rose rapidly with the reconstruction of the economy and rising income. The income balance deteriorated largely because of higher interest payments on rescheduled debt. The overall balance of payments improved when taking into account debt relief. As a result, international reserves more than doubled to the equivalent of 5.2 weeks of non-aid related imports.

Selected External Indicators, 2001–05

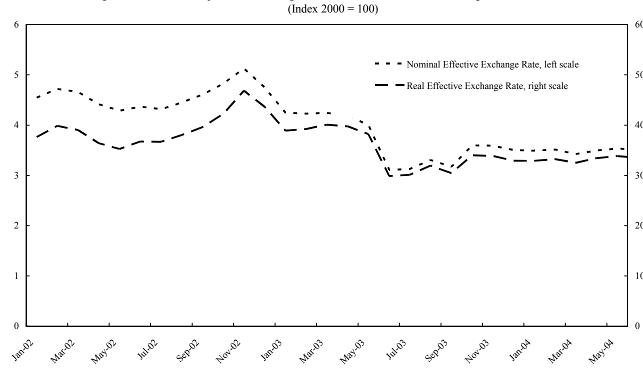
	2001–02 Average	2003	2004 IMF Country Report No. 04/243	2004 Est.	2005 Prog.
	(Annual percentage change; unless otherwise indicated)				
Exports, f.o.b. (in U.S. dollar terms)	10.4	24.6	10.3	35.3	12.6
Imports, f.o.b. (in U.S. dollar terms)	27.4	37.0	33.4	37.4	19.9
Terms of trade	7.9	15.6	-2.1	3.6	1.5
	(In percent of GDP; unless otherwise indicated)				
Current account balance, incl. transfers	-3.8	-1.5	-3.3	-5.5	-5.1
Gross official reserves					
(in weeks of non-aid-related imports of goods and services)	1.8	2.4	6.2	5.2	7.2
	(In millions of U.S. dollars; unless otherwise indicated)				
NPV (in percent of exports of goods and services)	813.8	600.6	540.1	491.0	401.4
Scheduled debt service	380.9	125.8	91.7	94.5	144.8
In percent of exports of goods and services	39.3	8.5	5.8	4.8	6.5
In percent of government revenue	112.5	22.8	9.0	12.6	10.5

[2] Excluding official transfers, the current account deficit widened from 9.8 percent of GDP in 2003 to 12.1 percent in 2004.

[3] The increase in trade also reflects a broadening of the coverage of statistics following the reunification of the country.

12. **Improved external competitiveness seems to have had a positive impact on exports** (Figure 1). The real effective exchange rate depreciated by 19 percent during 2002–04, although at times it exhibited some volatility. The country also benefited from the sharp increase in the world market prices of commodities, with the terms of trade strengthening by more than 20 percent over the same period.

Figure 1. Democratic Republic of the Congo, Nominal and Real Effective Exchange Rates, 2001–04 1/
(Index 2000 = 100)



Sources: IMF, Information Notice System (INS); and Congolese authorities.

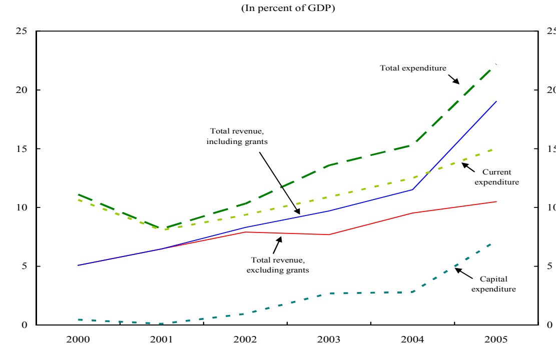
A. Macroeconomic Policies

13. **Fiscal developments were mixed in 2004**. The overall targets for end-September and end-December 2004 were met, with government revenue higher and expenditure lower than programmed (Figure 2, Table 4, and MEFP, paras. 7 to 8). Nevertheless, the composition of expenditure remains a major issue, with spending on social and poverty-reducing projects falling well short of projections. At the same time, there was overspending for security and political institutions. In addition, the implementation of the fiscal reform agenda slowed down due to institutional rigidities, including the government's and the National Assembly's slow decision-making processes. (MEFP, paras. 9-10). So, in spite of relatively high growth, progress toward reaching the Millennium Development Goals (MDGs) has been limited. To some extent, this reflects weak implementation capacity and a focus on maintaining political stability and security in a post-conflict environment.

Selected Fiscal Indicators, 2001–05

	2001–02 Average	2003	2004 IMF Country Report No. 04/243	2004 Est.	2005 Prog.
Revenue (excluding grants)	7.2	7.7	9.2	9.6	10.7
Grants	0.2	2.0	5.9	2.0	9.3
Expenditure	9.3	13.6	19.9	15.4	22.3
Underlying fiscal balance	0.3	-1.2	-0.7	-0.9	1.1
Overall balance (payment order basis)	-1.9	-3.9	-4.9	-3.8	-2.4
Overall consolidated balance (cash basis)	0.2	-2.1	-3.2	-1.9	-2.2

Figure 2. Democratic Republic of the Congo: Fiscal Developments, Annual, 2000–05
(In percent of GDP)



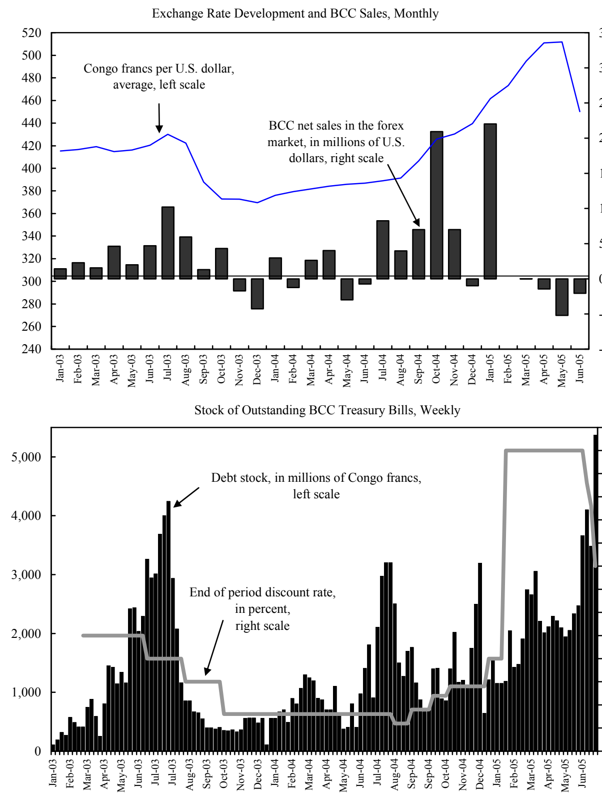
Source: Fund staff estimates.

14. **A higher-than-anticipated expansion in the monetary aggregates in 2004 led to the depreciation of the Congo franc and a surge in inflation.** Through mid-2004, the demand for the Congo franc was high because of the reunification, the economic recovery, and rising market confidence. The situation, however, deteriorated in the second half of the year, as rising insecurity and political tensions led to fiscal slippages, money creation, and a loss of confidence. This translated into an increase in preference for U.S. dollar deposits, with the share in total bank deposits rising from 85 percent to 93 percent between June 2004 and April 2005 and a depreciation of the Congo franc from CGF 391 to CGF 515 per U.S. dollar over that period.

15. **To correct the slippages, the authorities took measures in December 2004 and February 2005 aimed at tightening the fiscal position while enhancing social spending** (MEFP, paras. 4, 6, and 10) (Figure 2). The measures included (i) a cut on nonessential outlays such as for travel, (ii) a freeze on civil service recruitment, and (iii) a strengthening of tax collection. These actions helped contain government recourse to monetary financing.

16. **In addition, the Central Bank of the Congo (BCC) tightened monetary policy.** It raised in steps the discount and the central bank bill rates from 6 percent in October 2004 to 65 percent in March 2005. Nevertheless, the Congo franc continued to depreciate, reflecting weaknesses in the monetary policy transmission mechanism; banks' difficulties in attracting deposits, given their fragile financial position; and the banks reluctance to hold BCC bills, largely because, in the past, they had experienced difficulties with reimbursement (Figure 3).

Figure 3. Democratic Republic of the Congo: Monetary Indicators, 2003–2005



Source: Central Bank of the Congo

17. **Eventually, monetary stability was restored**. Fiscal tightening enabled the central bank to keep the money base flat from January to May 2005, resulting in the progressive absorption of excess liquidity. This led to an appreciation of the exchange rate (to below CGF 450 per U.S. dollar by mid-June) and the stabilization of consumer prices, allowing the BCC to lower interest rates to 40 percent in June.

Selected Monetary Indicators, 2001–05 1/
(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)

	2001–02 Average	2003	2004 Est.	2005 Prog.
Broad money	121.2	32.3	72.9	25.6
Net foreign assets	-342.2	-39.0	-19.0	24.4
Net credit to the government	-10.5	29.0	-1.9	-12.3
Credit to the private sector (annual percent change)	164.3	46.9	104.9	42.9

1/ At current exchange rates.

B. Structural Policies

18. **The implementation of structural reforms was slow in 2004 (**MEFP, paras. 13–15**).** In particular, rising insecurity and political tensions made it difficult for the government to reach a broad consensus on reforms, including over sharing control of public enterprises. Against this background, the completion of the strategic audit of the Public Enterprise Council (*Conseil Supérieur du Portefeuille* (CSP)) and a draft reorganization plan for the

petroleum distribution company (COHYDRO) were completed in July 2005—both structural benchmarks for end-June 2004. A firm was selected in July 2005 to audit the parastatal diamond mining enterprise MIBA, although the launch of the bidding process—a structural performance criterion for end-September 2004—was delayed to January 2005 because the anticipated external assistance did not materialize.

19. **There has been some progress in restructuring of the banking system, but much remains to be done** (Box 3, and MEFP, para. 35). In August 2004, the BCC issued a broad road map for restructuring the BCC and the commercial banks, strengthening the financial system, and developing a legal framework for microfinance institutions. The road map is consistent with the BCC's action plan, which aims at strengthening its operations, accounting system, and management capabilities, and was prepared with Fund technical assistance. A study on the BCC's recapitalization also makes recommendations to deal with the large losses incurred by the central bank due to the revaluation of its foreign exchange accounts, high operating costs, and low earnings. As regards commercial banks, nine of them are being liquidated, while five of the nine banks in operation are implementing restructuring plans.

Box 3. Banking Sector Issues

- **Financial intermediation in the DRC remains low.** This is due to the commercial banks' fragile financial position, low public confidence, and a very large informal sector that mostly uses cash. Bank credit to the economy amounted to 1.5 percent of GDP while bank deposits were less than 5 percent of GDP in 2004. Almost 90 percent of loans are short term, and some 85 percent are denominated in U.S. dollars. Domestic long-term financial resources are limited. Dollarization of the economy has increased with deposits denominated in foreign currency representing more than 90 percent of total deposits in early 2005, compared with 67 percent in 2002. The interbank market is narrow as banks are reluctant to lend to each other and prefer to rely on the BCC for their financing.

- **Fund and World Bank staffs have helped to restructure the banking sector since 2001,** with five banks under a restructuring regime, and nine others placed under liquidation. Four banks are operating without a restructuring plan, including one new bank that opened in 2004.

- **The soundness of the banking system is still fragile, although it has improved over the past year**. All banks, except one, meet the minimum paid-in capital requirement. The number of institutions meeting the solvency ratios has increased, but two banks are below the 10 percent requirement, and one bank has a negative ratio. Banks' profits are still low due to the narrow asset base and the volatility of earnings.

C. Performance Under the PRGF-Supported Program Since March 2004

20. **Three out of 11 quantitative performance criteria for end-September 2004 were not observed.** Rising security and political tensions, as well as weak budget procedures, led to an increase in current spending and breaches of the ceilings on the BCC's net domestic assets (by 0.6 percent of GDP) and net bank credit to the government (by 0.2 percent of GDP). As indicated above, the government has corrected those slippages by tightening monetary and fiscal policies. As a result, the exchange rate and consumer prices have progressively stabilized since May 2005. In addition, the continuous performance criterion on extrabudgetary spending was breached with outlays amounting to 0.01 percent of GDP in the second half of 2004. To address this issue, the authorities have strengthened spending procedures with the computerization of all steps in the process, from spending commitments to payments. The end-2004 benchmarks on the ceilings on the BCC's net domestic assets and net bank credit to the government, and on the floor for the BCC's net foreign assets were also not observed. As indicated in para. 18, the structural performance criterion for end-September 2004 concerning the launch of bids for the selection of an international firm to audit the diamond mining company MIBA was not met, but the measure was taken in January 2005.

III. Report on the Discussions

A. Medium-Term Outlook

21. **The challenge for the Democratic Republic of the Congo is to create an environment that is conducive to private sector-led growth and one that capitalizes on the country's large resource endowment and potential.** To that end, the authorities' medium-term program aims at consolidating macroeconomic stability; increasing production efficiency; developing public institutions and capacity; instituting policies to strengthen the rule of the law and the judiciary; and investing in the social sectors to reduce poverty.

22. **The macroeconomic framework for 2005–08 envisages** (i) an average real GDP growth rate of 7 percent, implying an average increase in per capita income of 4 percent; (ii) a decline in inflation to 5 percent from 2006 onward; and (iii) a gradual buildup in gross international reserves to about 9 weeks of non-aid-related imports. (Tables 3 and 6).

23. **The discussions focused on policies to restore macroeconomic stability and remove impediments to growth and poverty reduction.** Discussions on the program for the rest of 2005 were also finalized. The challenges arising from the political transition process provided background to the discussions, including the preparation and holding of general elections, the implementation of the DDR program, and the creation of integrated military and police forces.

24. **The authorities emphasized that their continuing priority was to consolidate progress made so far, in particular the containment of inflation.** They were keenly aware that the easing of fiscal and monetary policies in 2004 had led to a loss of public confidence, pressure on the exchange rate, higher inflation, and a lower-than-desired buildup of

international reserves. The authorities stressed, however, that the increase in military spending in the second half of 2004 was unavoidable because of the threats on the eastern border. They also indicated that an audit of security outlays had started.

25. **While acknowledging the seriousness of the problems faced, the staff noted that the authorities had no alternative but to tighten fiscal and monetary policies to preserve macroeconomic stability**. It emphasized that much more needed to be done to strengthen budget execution, contain current expenditure, observe spending priorities, and improve capacity to implement poverty-reducing projects and fight corruption. Staff also urged the authorities to contain money-financed government spending, especially since the political transition process called for a substantial increase in government spending in 2005, thereby increasing the burden on monetary policy to control inflation.

B. Macroeconomic Objectives and Policies for 2005

26. The following macroeconomic objectives were established for 2005: (i) real GDP growth of 6.6 percent; (ii) end-of period inflation of 23 percent; and (iii) an increase in gross international reserves to 7 weeks of non-aid-related imports.

Fiscal policy and institutional reforms of public finance

27. **To contain inflation and stabilize the exchange rate, the government indicated its determination to tighten the underlying fiscal balance.**[4] The authorities will therefore seek to achieve an underlying fiscal surplus equivalent to 1.1 percent of GDP, compared with a deficit of 0.9 percent of GDP in 2004. At the same time, spending for the political transition process and the restructuring of the economy, which is largely foreign financed,[5] would cause the overall fiscal deficit, on a cash basis,[6] to increase by 0.5 percentage point of GDP to 2.2 percent in 2005.

28. **Total government revenue is projected to increase by 1.1 percentage points of GDP to 10.7 percent.** This is due to increased tax collection in reunified provinces, the impact in 2005 of tax reforms implemented since 2003, payment to the government of tax and fees previously collected by autonomous agencies, and higher tax and royalty payments

[4] The underlying fiscal balance excludes all foreign grants, external interest payments, foreign-financed investment projects, and foreign-financed spending for the restructuring of the economy and the political transition.

[5] This includes outlays for the preparation of the elections (3.2 percent of GDP); the demobilization of about 100,000 soldiers (0.7 percent of GDP); the restructuring of the army (1 percent of GDP); the repayment of the domestic debt (0.6 percent of GDP); and the retirement of civil servants who are beyond the retirement age (0.7 percent of GDP).

[6] Deficit measured after debt relief.

by petroleum producers (MEFP, paras. 21 and 25). Results in the first four months of 2005 are in line with the projections for the year.

29. **Total government expenditure, excluding exceptional outlays, is to increase by 2.3 percentage points of GDP to 17.7 percent.** This is due largely to an increase in capital spending (by 4.1 percent of GDP), driven by a sharp increase in budgeted foreign-financed projects, especially for infrastructure, including hydroelectricity and poverty-reducing programs.[7] At the same time, savings of about 2 percentage points of GDP are expected to arise from a reduction in other current expenditure, particularly military spending. Results for the first four months of 2005 are slightly below the objective for the year, partly because of low poverty-reducing spending.

30. **A key aspect of the program for 2005 is to strengthen the management of the civil service so that wages can be increased without aggravating the fiscal deficit** (MEFP, para. 23).[8] To keep the wage bill close to 3.6 percent of GDP (compared with the 4.1 percent of GDP in the 2005 budget) while increasing benefits, the authorities are committed to removing ghost workers from the payroll by implementing the results of the census of military and civilian personnel. As a start, the results of the civil service census in Kinshasa were largely implemented with the May payroll, and those for the military will be implemented beginning in August (MEFP, Table 2); preliminary results suggest that the payroll could be reduced by as much as one-third. Hence, once the payroll takes into account the results of the census, the authorities should have room for granting benefits included in the 2005 budget while keeping the wage bill within the ceiling agreed with the staff. A new payroll system is also being implemented to prevent the problem of ghost workers from reoccurring and to ensure that all public employees are actually receiving their pay.

31. The overall fiscal deficit is to be covered by external financing, including debt relief under the HIPC Initiative and budget support from the World Bank, the African Development Bank, and bilateral donors. As some of the budget support to be disbursed in 2005 will be used over a two-year period, it will contribute to a reduction in net credit to government.

32. **The authorities reiterated their commitment to pursue far-reaching structural fiscal reforms in 2005** (Box 4, and MEFP, paras. 25-26 and Table 1). On the revenue side, the strategy aims at (i) broadening the tax base by addressing fraud and undervaluation, and reducing tax exemptions; (ii) replacing the turnover tax with a value-added tax in the medium term, and streamlining fees and other quasi-taxes; (iii) modernizing the customs and tax agencies; (iv) applying tax rates uniformly and ensuring government control over tax

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[7] The program assumes that the execution rate of the investment program will be 70 percent of the budgeted level, which may be ambitious, given the limited implementation capacities.

[8] For more details, see Section III of Selected Issues Paper.

collections in all provinces; and (v) improving revenue collection from the mining and forestry sectors. On the expenditure side, to address poorly targeted and inadequate social spending, the authorities will (i) limit spending for defense and political institutions; (ii) use HIPC Initiative debt relief more effectively, in particular in health and education; and (iii) reform the civil service to contain its size and improve its efficiency.

33. **The authorities agreed with the staff that better monitoring and control of spending and a greater diffusion of information on budget execution were key to enhancing transparency in government operations** (MEFP, para. 26 and Table 2). The focus has been on strengthening spending procedures through their computerization so that information on budget execution can be made available to the Council of Ministers on a monthly basis and to the National Assembly on a quarterly basis. The Fund staff is providing technical assistance to improve the quality, coverage, and timeliness of fiscal data. Technical assistance to strengthen budget procedures and expenditure controls at the local level is also being sought by the authorities, given the responsibilities granted by the draft constitution and the very large unmet needs.

Monetary policy

34. **The BCC is committed to implementing a prudent monetary policy in the context of the floating exchange rate regime, with the restoration of price stability as the main objective**. In view of the rapid growth in broad money in 2004 and the volatility in demand for the Congo franc, the BCC set the target for growth in base money at 11 percent in 2005. Such an increase is projected to lead to a 26 percent increase in broad money, given the increased dollarization recorded since the beginning of the year. The target for base money would be reviewed at the time as the sixth review under the program. With net bank credit to the government declining, the expansion in broad money would leave room for credit to the private sector to increase in line with nominal GDP.

35. **The BCC agreed to strengthen monetary policy management and to adopt a gradual approach to interest rate adjustment (MEFP, para. 28).** To improve market confidence, the BCC's monetary policy strategy and objectives would be communicated regularly to the public. The BCC was also committed to increasing the auctioning of central bank paper by ensuring that commercial banks' excess liquidity at the central bank is available on demand, and by promoting a greater participation of nonbanks.

Box 4. Medium-Term Fiscal Strategy

The strategy aims at enhancing tax collection by replacing the turnover tax with a broad-based value-added tax (VAT) by 2006, broadening the tax base, and modernizing tax administration; increasing the share of poverty-reducing expenditure and designing an appropriate wage policy; and strengthening public expenditure management to enhance fiscal policy effectiveness. The following measures are envisioned in the three areas:

1. Tax policy and administration

Taxation of the mining sector: Remove exemptions for income taxes and mining royalties granted to state mining companies (MIBA in diamonds and GECAMINES in copper and cobalt) and create a division in the large taxpayers unit specializing in mining taxation.

Exemptions: Cancel exemptions not allowed under the investment, mining, and forestry codes.

Stamp duties and fees: Rationalize the numerous fees and quasi-taxes that public agencies collect to fund their operations.

Large taxpayers unit (LTU): Strengthen the unit by (i) adopting criteria to select large taxpayers; (ii) simplifying tax payment procedures; and (iii) implementing a taxpayer identification number. Extend reforms introduced in Kinshasa to other provinces.

Customs department: Strengthen the pilot customs office in the port of Matadi by giving the customs department (OFIDA) sole responsibility for collecting customs duties and fees. Open similar customs offices at other borders.

Tax centers for medium-sized enterprises: In the short term, adopt the law and regulations defining modalities of operations of the tax offices for medium-sized enterprises. Create centers that are essential for the establishment of a VAT.

2. Expenditure policy

Pro-poor spending: Increase its share in total spending and use of budget appropriations (including from enhanced HIPC Initiative savings) by improving strategy for social sectors with World Bank assistance, strengthening procurement procedures, and reducing delays in foreign financing.

Military spending: Keep nominal amount constant, which, together with the identification of ghosts and the demobilization of soldiers, will allow a doubling of salaries in the next three years.

Transfers to provinces: Increase transfer payments over the medium term as local administrative capacity improves and more expenditure responsibilities are devolved to provinces.

Civil service reform: Freeze hiring until completion of the civil service census in late 2005, strengthen controls over payroll procedures, and progressively increase civil service wages. .

Capital spending: Improve coordination among ministries and with donors to increase efficiency and execution rate.

3. Public expenditure management

The DRC meets 4 out of 16 HIPC/AAP indicators, with weaknesses identified in (i) the budget preparation process, (ii) the internal control of budgetary operations, (iii) the reporting of budgetary execution, and (iv) the quality, coverage, and timeliness of fiscal data.

Budget process and execution: In the short-term, improve regularity of budget-tracking statements through the implementation of the new budget execution procedures from spending commitments to payments. In due course establish a medium-term expenditure framework to allow better prioritization of government spending.

Efficiency of government operations: Establish a double-entry accounting framework, rationalize government accounts, strengthen government cash management at the central bank, and improve recording of information on arrears.

36. **The BCC concurred that available monetary instruments may be ineffective to deal with the liquidity impact of the high level of official foreign financing expected over the coming year or so**.[9] The problem was particularly acute in light of the high dollarization of the economy and the limited capacity of the central bank to reduce liquidity through its indirect monetary policy instruments, central bank interest rates and treasury bills.[10] Nevertheless, since the market for central bank bills was narrow, staff urged the authorities to lean toward controlling base money growth through the sale of foreign exchange, while ensuring that the target for international reserves was met. Any negative impact on competitiveness of a resulting currency appreciation should be reversed once government expenditure returns to trend in the course of 2006 (MEFP, paras. 28–29).

External policies

37. **The staff shares the authorities' view that the current floating exchange rate regime has served the country well and remains appropriate under the current conditions**. The staff is also of the view that the current level of the exchange rate is broadly in line with market fundamentals.[11] However, the authorities pointed out that occasional foreign exchange intervention was beneficial for maintaining confidence in the Congo franc, and increasing its use. The staff's response was that confidence in the currency would improve as policy implementation is strengthened and becomes more credible, and that intervention in the foreign exchange market should be limited to smoothing its movements.

38. **The DRC exchange rate system is largely free of restrictions.** Regarding the DRC's obligations under Article VIII, sections 2(a), 3, and 4 of the Fund's Articles of Agreement, the DRC and Zimbabwe have yet to implement the agreement in principle to remove the multiple currency practice arising from their bilateral payments arrangement. Lifting the exchange rate restriction arising from the debt position of the DRC vis-à-vis Rwanda and Burundi under the inoperative regional payments arrangement of the *Communauté Economique des Pays des Grands Lacs* (CEPGL) is likely to require the

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[9] For more details, see Sections I and II of Selected Issues Paper.

[10] In an economy where the U.S. dollar is widely used for transactions, central bank intervention on the foreign exchange market may change the share of local currency in broad money but not necessarily the level of broad money. Hence, large foreign currency inflows, whether converted into local currency or not, may be inflationary. Furthermore, because of its past history of hyperinflation, the BCC has difficulty selling central bank notes, even when offering high interest rates, as it did recently.

[11] This assessment is based on recent developments regarding competitiveness (para. 12). In addition, export growth and an overall balance of payments position consistent with sustainable borrowing (para. 40) are further indications that the real exchange rate seems to be appropriate.

normalization of relations in the region. Accordingly, the approval of this restriction granted by the Board until December 31, 2004 has lapsed.

39. **The DRC's trade regime is relatively open**. Further progress toward trade liberalization is expected in the context of regional trade arrangements and economic partnership agreements (EPAs).[12] Trade preference under the Africa Growth and Opportunity Act (AGOA) was granted to the DRC on October 31, 2003. The government has also started the process to adhere to the Organization for the Harmonization of Business Law in Africa (OHADA).

40. **The authorities stated that they would continue to follow a prudent external debt management policy.** They would contract debt only on highly concessional terms and in amounts consistent with debt sustainability.[13] After reaching the decision point under the HIPC Initiative, the authorities signed bilateral topping-up agreements with all Paris Club creditors, except the United States (MEFP, para 12). The authorities have also continued their good faith efforts to reach collaborative agreements with commercial creditors. They have signed rescheduling agreements with 32 commercial creditors (including recently submitted claims), and intend to continue seeking agreements with all remaining creditors by end-2005.[14]

41. **The authorities are expected to service their debt to the Fund on time** (Table 1)**.** However, there might be some risk to the Fund in the event of a sudden interruption of donor support (see para. 51 below). The provision of HIPC assistance by the Fund and other

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[12] The DRC is a member of the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), the Economic Community of Central African States (CEEAC), and the Economic Community of the Great Lakes Countries (CEPGL). The negotiations on an EPA with the EU essentially involve reciprocal market access during a transition period. These negotiations could become a catalyst for the rationalization of seemingly overlapping trade agreements.

[13] In 2005, foreign borrowing is estimated at 6 percent of GDP, and accounts for 34 percent of total external financing. Over the medium term, foreign borrowing is expected to decline to 4 percent of GDP, partly because the DRC is eligible to receive only grants from the World Bank, while its share in total external financing will remain broadly unchanged.

[14] Two creditors have requested payments of outstanding arrears. The authorities have taken the view that they could not agree to such requests, which were not consistent with their obligations under the Paris Club and, if accepted, could undermine program implementation. As required under the 2003 Paris Club Agreed Minute, the authorities have submitted the earlier agreements signed with commercial creditors to the Paris Club, which considered their terms to be broadly comparable with its own. Additional efforts to secure debt relief will be required at the time of the completion point.

creditors will ease the debt service burden. In this regard, the authorities are requesting an additional annual tranche of interim assistance in the amount of SDR 1.132 million to cover interest payments falling due to the Fund between August 1, 2005 and July 31, 2006.

Structural and social policies, and preparation of the PRSP

42. **The authorities indicated that they would seek to accelerate implementation of the structural reform agenda (MEFP, paras. 33–39,** and **Table 4)**. However, they recognized that, with the approaching elections, the transition government may find it difficult to reach a consensus on far-reaching reforms. At end-January 2005, the authorities submitted a draft law to the National Assembly revising the legal framework for public enterprises and agencies, which would facilitate their restructuring, privatization, or liquidation. Other measures include the formulation of restructuring plans for eight key public enterprises and the completion of the reform of the mining registry.

43. **The staff, together with donors and civil society representatives, have urged the authorities to do more to combat corruption**, which is deeply ingrained and not only undermines business and investor confidence but also is a cause of insecurity and political instability**.** The authorities noted that important measures have been taken over the past 12 months and additional measures have been planned for the rest of 2005 (MEFP, para. 33). For instance, ministers and heads of enterprises have been replaced for mismanagement. Also, a financial intelligence unit is soon to be established following the promulgation of the anti-money laundering law in July 2004 and the anticorruption law in March 2005. To ensure that revenue from the mining sector contributes to sustainable development and poverty reduction, the authorities in May 2005 committed to adhering to the Extractive Industries Transparency Initiative (EITI).[15] The staff urged the authorities to strengthen institutions and procedures; make information on budget execution widely available, including to parliament and civil society; improve transparency in tax administration, and reduce harassment of businesses; and continue auditing public enterprises. The Fund staff is working with the World Bank and other development partners to ensure that budget appropriations are effectively used for their intended purpose and benefit the local population.

44. **Staff underscored the importance of accelerating progress toward achieving the MDGs.** It urged the authorities to **make efficient and timely use of resources mobilized under the HIPC Initiative**, improve absorptive capacity, and enhance efficiency of investment in social sectors. Progress in these areas is instrumental in mobilizing donor resources and critical to meet the challenges faced by the country.[16]

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[15] For more details, see Section IV of Selected Issues Paper.

[16] According to the latest estimates (2001), 80 percent of the population live in absolute poverty with a per capita income of $0.23 per day. Information on the MDGs is limited, but

(continued)

45. **The preparation of the PRSP is progressing according to plan and a first draft was circulated to development partners in March 2005**. The last PRSP preparation status report was endorsed by the Board on July 12, 2004. A second draft is to be completed shortly and will incorporate comments from the Fund staff and other donors as well as the results from the 1-2-3 surveys on employment, the informal sector, and household consumption, which have been completed for Kinshasa and are expected to be completed for the provinces by late 2005. Donors have also provided strong financial and technical support to the authorities to ensure that the full PRSP is of high quality and is completed during the second half of 2005 (MEFP, para. 44).

Statistical issues, administrative capacity building, and technical assistance

46. **External technical assistance covers a broad range of activities aimed at buttressing administrative capacity and central government institutions.** The Fund provides technical assistance through resident experts in public expenditure management, monetary policy formulation, information technology at the BCC, and macroeconomic statistics. In addition, Fund technical assistance missions visit the DRC regularly to assist the authorities in strengthening policy formulation, institutions, and procedures. As a result, administrative capacities have improved, although much remains to be done, especially in the provinces. Macroeconomic statistics are still weak, especially in the areas of national accounts, price and production statistics, and balance of payments. The Fund's Statistics Department has formulated a program to address these shortcomings and the DRC participates in the General Data Dissemination System (GDDS).

Program monitoring

47. **To ensure the success of the program, the authorities will implement the prior actions indicated in the MEFP, Table 5**. The program will be monitored through the quantitative and structural performance criteria and benchmarks specified in the MEFP, Tables 10 and 2 and in the technical memorandum of understanding (TMU) that is attached to the MEFP. Quantitative and structural performance criteria for end-September 2005 and indicative targets for end-December 2005 have been agreed on. As the arrangement is scheduled to expire on October 31, 2005, the authorities are also requesting an extension of the arrangement to March 31, 2006, to accommodate the sixth and last review under the arrangement.

C. Risks

48. **The success of the government's strategy is subject to several downside risks**. These include (i) continued regional tensions; (ii) delays in the political process—particularly the carrying out of national elections; (iii) policy slippages on the eve of the elections;

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should become available as the authorities are conducting surveys in the context of the preparation of the PRSP and the strategies for health and education.

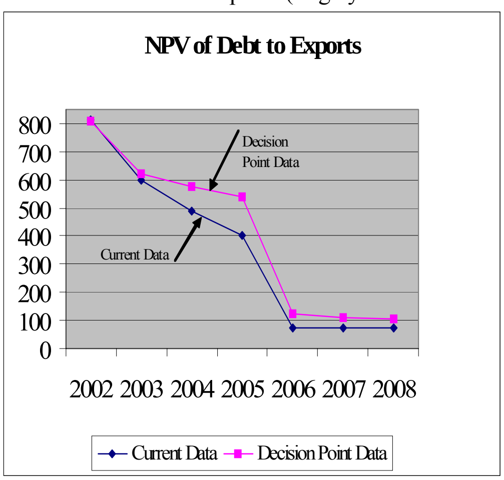
(iv) difficulties in reaching a broad political consensus with regard to prioritization and implementation of key reforms; (v) weaknesses in governance including widespread corruption, which, if not addressed quickly, could hinder foreign direct investment as well as private sector development; and (vi) weaknesses in implementation capacity to carry out reform measures and pro-poor projects.

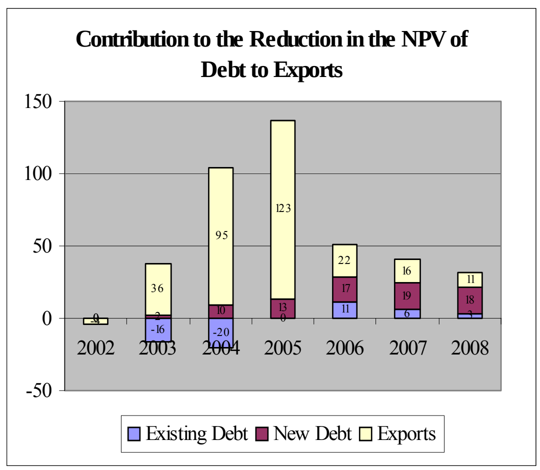
49. **The financing of the external imbalance is broadly consistent with debt sustainability**. The NPV of debt to exports is projected to be below the 150 percent threshold at the time of the completion point (Box 5), because of a strong growth in exports and the

Box 5. External Debt Sustainability

Debt sustainability prospects have improved since the last review, reflecting to a large extent the sharp increase in merchandise exports in 2004. The NPV of debt to exports ratio at the time of the completion point (expected in the second half of 2006) is projected to fall to 75 percent, compared with 110 percent at the time of the last review, and 125 percent at the time of the decision point.

Staff estimates suggest that higher exports account for nearly 44 percent of the improvement in the NPV of debt to exports ratio at the time of the completion point relative to the decision point projection. Lower borrowing explains about 35 percent of the improvement, with the remainder accounted by changes in the NPV of outstanding debt at the time of the decision point (largely the result of debt relief beyond the HIPC Initiative).





The analysis above is broadly consistent with the results of the DSA for low-income countries undertaken in the context of the Article IV consultation. The latter shows that the NPV of debt to exports ratio at the time of the completion point, is expected to be around 70 percent (against 75 percent using the HIPC DSA). The small variation is due to methodological differences Appendix V. Over the medium term, the NPV of debt to exports ratio declines modestly (to 72 percent under the HIPC DSA, and to 62 percent under the LIC DSA).

While debt sustainability over the medium term appears to be under control, vulnerabilities remain. As the analysis in Appendix V indicates, the DRC is particularly susceptible to exogenous shocks, notably to an export shock and to a combination of smaller shocks. The authorities should continue to closely monitor developments in this area.

slower-than-projected increase in foreign-financed public investment largely because of severe capacity constraints.[17] The debt sustainability analysis for low-income countries conducted by the staff (Appendix VI) confirms this result. However, the analysis also shows that the DRC's debt sustainability indicators remain vulnerable to exogenous shocks.

50. **A sudden interruption of donor support could lead to a loss of confidence and a disorderly exchange rate adjustment.** While this scenario is unlikely, the low level of reserves is a cause of concern, taking into account the country's susceptibility to exogenous shocks. The authorities should therefore intensify their efforts toward diversification of the export base. Strengthening competitiveness over the medium term, through a reduction of corruption and red-tape, should provide incentives toward the development of nontraditional exports.

IV. Staff Appraisal

51. **The staff commends the authorities for the continued implementation, albeit under more difficult circumstances, of wide-ranging macroeconomic and structural policies under the PRGF-supported Government Economic Program (PEG)**. The policies led to a remarkable turnaround in the economy over the first two years of the program, an improvement in per capita income, a drop in inflation, and a relatively stable exchange rate.

52. **Developments since mid-2004, however, have underscored the fragility of the economic situation.** In spite of the steady improvement in macroeconomic performance over the past three years, market confidence in government policy remains low, against the background of a volatile and uncertain political and security environment. Given the high dollarization of the economy, policy slippages have rapidly translated into sharp fluctuations in the exchange rate and inflation. The staff is, however, encouraged by the government's strong response to the financial slippages and its willingness to implement difficult measures to contain fiscal expansion and bring money growth under control in the first half of 2005. This response bodes well for the implementation of the program during the rest of the year.

53. **The rest of 2005 will be challenging since bringing the political transition process toward a successful conclusion will require coordinated efforts to tackle simultaneously political, economic, and security challenges**. In particular, progress on the political front is essential to maintain macroeconomic stability, reassure private investors, and ensure strong and lasting growth. Hence, the staff hopes that the authorities and all parties involved will proceed with the general elections as soon as possible. Sufficient and timely foreign assistance also remains essential to ensure the implementation of the DDR program and the creation of a professional army and police force.

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[17] Current estimates could differ from the results of the DSA that will be undertaken at the completion point, as they do not account for changes in discount and exchange rates.

54. **The staff supports the government's fiscal objectives for 2005.** The aim is to pursue fiscal consolidation, while increasing social spending and budget appropriations required for the political transition. It is, therefore, essential that the authorities observe spending limits, especially on current outlays, an area that in the past has been a source of slippages. To achieve the 2005 revenue target, the authorities will need to accelerate tax administration reforms, broaden the tax base, ensure that taxes are collected across all provinces, and combat tax fraud and corruption.

55. **The staff urges a prudent and progressive transfer of resources and responsibilities to the provinces, which is called for in the draft constitution.** This needs to be preceded by a strong push to strengthen local capacities and control mechanisms to avoid a weakening of fiscal discipline and ensure adequate service delivery.

56. **Timely implementation of measures to increase transparency in government spending, including the computerization and rationalization of procedures and the tracking of poverty-related expenditure, remains critical**. In particular, it is essential that line ministries receive their budget appropriations in a timely manner. At the same time, the staff urges the authorities to pursue civil service reform, including the completion of the civil service census and the strengthening of payroll management, to ensure that the ceiling on the wage bill is observed, while allowing for a progressive increase in wages, which remain very low.

57. **The staff urges the BCC to maintain a tight monetary policy to bring inflation down and to stabilize the exchange rate.** To improve the effectiveness of monetary policy, it is also essential that the BCC strengthens monetary policy instruments and international reserve management by implementing recommendations by Fund technical assistance. At the same time, to increase the credibility of monetary policy, the central bank needs to improve the transparency of its operations, including its accounts. The central bank should refrain from intervening in the foreign exchange market except for short-term smoothing operations. The staff considers the level of the exchange rate to be broadly in line with fundamentals.

58. **The staff is of the view that the Lending into Arrears Policy should continue to be applied**. This is based on the financing assurances review conducted by staff, the good faith efforts exerted by the authorities toward reaching collaborative agreements with commercial creditors, and the fact that relations with commercial creditors have not undermined the program. Staff does not recommend approval of the existing exchange restrictions and encourages the authorities to remove these restrictions as soon as possible.

59. **The staff encourages the authorities to give renewed impetus to the implementation of structural reforms.** While recognizing that the forthcoming elections may make reaching a broad policy consensus more difficult, progress in key areas is essential to attract private investment and maintain the momentum for growth. Hence, particular effort should be made to address delays in reforming the mining sector and public enterprises and to ensure that the pace of reforms in the social sectors is sustained.

60. **Corruption remains deeply ingrained and is a major obstacle to the improvement of the business climate.** Decisive action from the authorities supported by the international community will be required to tackle this difficult issue. The staff welcomes the adoption of legislation to intensify the fight against corruption, money laundering, and the financing of terrorism, and urges the authorities to take all necessary measures to have the laws effectively implemented. In addition, the reform of the judiciary system should be pursued with tenacity.

61. **The staff encourages the authorities to complete preparation of a high-quality PRSP through a broad participatory process**. Progress in preparing the document, and formulation of the DRC's poverty-reduction strategy should be finalized by late 2005. Implementation of the PRSP and the observance of triggers would allow the completion point to be reached during the second half of 2006.

62. **Program implementation will continue to face a number of risks, mostly related to insecurity and social tensions**. First, rising insecurity in the eastern provinces could turn into a broader conflict. Second, delays in completing the political transition process could raise uncertainty regarding the government's intentions. Third, accommodating fiscal and monetary policies on the eve of the elections could rekindle inflation and lead to a depreciation of the currency. And fourth, insufficient external financial support could make it difficult for the authorities to conduct the elections in an appropriate environment, restructure the army and the police force, and build the country's infrastructure.

63. **The staff recommends completion of the fifth review under the PRGF arrangement and supports the authorities' request for waivers for the nonobservance of three quantitative performance criteria and one structural performance criterion.** In this connection, the staff notes the authorities' overall track record in implementing economic and financial reforms, measures taken in early 2005 to correct slippages, as well as the strength of their program for 2005 and the medium term, particularly the steps taken to enhance fiscal and monetary policy implementation.

64. The authorities should be able to meet their debt service obligations to the Fund over the medium term, although an interruption of donor support could expose the Fund to potential risks.

65. **The staff supports the authorities' request to extend the PRGF arrangement to end-March 2006 to provide time to complete the sixth review.** Given the existence of adequate financing assurances, the staff supports the authorities' request for an additional annual tranche of interim assistance under the enhanced HIPC Initiative.

66. **It is proposed that the next Article IV consultation with the DRC be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002**.

Table 1. Democratic Republic of the Congo: Fund Position During the PRGF Arrangement, 2002–10

	2002	2003	2004	2005	2006	2007	2008	2009	2010
				(In millions of SDRs)					
Disbursements									
Poverty Reduction and Growth Facility (PRGF)	420.0	53.4	53.4	26.7	26.5	0.0	0.0	0.0	0.0
Repurchases/repayments	0.0	0.0	0.0	0.0	0.0	42.0	86.7	97.3	105.4
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF 1/	0.0	0.0	0.0	0.0	0.0	42.0	86.7	97.3	105.4
Arrears clearance (on 6/12/02)	403.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	1.9	3.4	3.6	3.8	5.0	5.0	4.7	4.2	3.7
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF 1/	1.1	2.2	2.4	2.8	2.9	2.9	2.6	2.1	1.6
SDR charges	0.8	1.2	1.2	1.0	2.1	2.1	2.1	2.1	2.1
Total Fund credit outstanding (end of period)	420.0	473.4	526.8	553.5	580.0	538.0	451.3	354.0	248.6
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural Adjustment Facility (SAF) arrangements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges/interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF	420.0	473.4	526.8	553.5	580.0	538.0	451.3	354.0	248.6
				(In percent of quota; unless otherwise indicated)					
Total Fund credit outstanding (end of period)	78.8	88.8	98.8	103.8	108.8	100.9	84.7	66.4	46.6
PRGF disbursements	78.8	10.0	10.0	5.0	5.0	0.0	0.0	0.0	0.0
Repurchases/repayments	0.0	0.0	0.0	0.0	0.0	7.9	16.3	18.3	19.8
Charges and interest	0.4	0.6	0.7	0.7	0.9	0.9	0.9	0.8	0.7
Debt service (in percent of exports of goods and services)	0.2	0.3	0.3	0.2	0.3	2.9	5.3	5.4	5.4

Sources: IMF, Finance Department; and staff projections.

1/ Including projected disbursements under the current PRGF arrangement.

Table 2. Democratic Republic of the Congo: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2002–06

Amount	Availability Date	Conditions Necessary for Disbursement 1/
SDR 420 million	June 12, 2002	Following Executive Board approval of the three-year arrangement.
SDR 26.7 million	April 8, 2003	Observance of the performance criteria for September 30, 2002, and completion of the first review.
SDR 26.7 million	July 23, 2003	Observance of the performance criteria for March 31, 2003, and completion of the second review.
SDR 26.7 million	March 3, 2004	Observance of the performance criteria for September 30, 2003, and completion of the third review.
SDR 26.7 million	July 12, 2004	Observance of the performance criteria for March 31, 2004, and completion of the fourth review.
SDR 26.7 million	August 5, 2005	Observance of the performance criteria for September 30, 2004, and completion of the fifth review.
SDR 26.5 million	February 15, 2006	Observance of the performance criteria for September 30, 2005, and completion of the sixth review. 2/

Source: IMF.

1/ Other than the generally applicable conditions under the PRGF arrangement.
2/ The last availability date has been moved up to take into account the delay in the completion of the fifth review and the extension of the arrangement.

Table 3. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2003–08

	2003	2004		2005		2006	2007	2008
		IMF Country Report No. 04/243	Est.	IMF Country Report No. 04/243	Prog.	Proj.	Proj.	Proj.
	(Annual percentage change; unless otherwise indicated)							
GDP and prices								
Real GDP	5.7	6.3	6.8	7.0	6.6	7.0	7.0	6.5
GDP deflator	13.3	5.0	5.4	5.0	22.5	5.5	4.6	4.4
Consumer prices, end-of-period	4.4	6.0	9.2	5.0	22.6	6.2	5.0	5.0
External sector								
Exports, f.o.b. (in U.S. dollar terms)	24.6	10.3	35.3	5.1	12.6	0.1	8.5	5.3
Imports, f.o.b. (in U.S. dollar terms)	37.0	33.4	37.4	20.9	19.9	5.7	9.9	6.6
Export volume	0.3	4.3	20.1	7.0	8.8	2.4	9.9	5.7
Import volume	27.4	23.5	26.4	22.4	17.6	5.3	9.2	5.7
Terms of trade	15.6	-2.1	3.6	-0.6	1.5	-2.7	-2.0	-1.2
Nominal effective exchange rate 1/	-19.5	…	-10.8	…	…	…	…	…
Real effective exchange rate 1/	-11.1	…	-9.1	…	…	…	…	…
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)							
Money and credit								
Broad money	32.3	...	72.9	...	25.6	...	...	...
Net foreign assets	-39.0	...	-19.0	...	24.4	...	...	...
Net domestic assets	72.2	...	92.9	...	3.5			
Of which:								
Net credit to government	29.0	...	-1.9	...	-12.3	...	...	...
Credit to the private sector (annual percent change)	46.9	...	104.9	...	42.9	...	...	...
	(In percent of GDP; unless otherwise indicated)							
Central government finance								
Total government revenue	7.7	9.2	9.6	10.3	10.7	11.5	11.9	12.0
Grants	2.0	5.9	2.0	10.0	9.3	7.5	7.8	7.8
Total government expenditure 2/	13.6	19.9	15.4	25.3	22.3	20.6	20.9	21.3
Underlying fiscal balance (cash basis)	-1.2	-0.7	-0.9	0.2	1.1	1.0	0.8	0.5
Overall fiscal balance (payment order basis, including grants)	-3.9	-4.9	-3.8	-5.0	-2.4	-1.7	-1.3	-1.5
Primary fiscal balance (cash order basis, including grants)	-1.0	-2.4	-0.8	-2.6	-0.1	0.7	0.8	0.3
Excluding exceptional spending	-1.0	-1.7	-0.8	-2.2	0.6	0.7	0.8	0.3
Overall consolidated fiscal balance (cash basis, including grants) 3/	-2.1	-3.2	-1.9	-4.6	-2.2	-1.9	-1.6	-1.9
Investment and saving								
Gross national saving	10.8	13.8	7.4	15.0	12.6	12.3	13.0	15.1
Government	-1.5	2.0	-4.0	5.5	0.0	3.6	3.7	7.2
Nongovernment	12.3	11.8	11.4	9.5	12.6	8.7	9.3	7.9
Investment	12.2	17.1	12.8	21.5	17.7	20.2	20.9	21.7
Government 4/	2.7	6.6	2.8	10.5	7.2	9.2	9.4	9.7
Nongovernment	9.5	10.5	10.0	11.0	10.5	11.0	11.5	12.0
Balance of payments								
Exports of goods and services	26.1	23.5	30.5	22.9	32.3	28.8	28.7	28.0
Imports of goods and services	33.3	35.7	39.4	40.2	45.6	42.0	42.5	41.9
Current account balance, including transfers	-1.5	-3.3	-5.5	-6.5	-5.1	-7.9	-7.9	-6.6
Current account balance, excluding transfers	-9.8	-13.3	-12.1	-18.7	-16.2	-15.4	-15.5	-13.9
Gross official reserves (end-of-period, in millions of U.S. dollars)	97.8	209.3	236.2	318.2	360.2	470.2	522.2	619.3
Gross official reserves								
(in weeks of non-aid-related imports of goods and services)	2.4	6.2	5.2	8.9	7.2	8.5	8.9	9.5
	(In millions of U.S. dollars; unless otherwise indicated)							
External public debt								
Total stock, including IMF 5/	10,443	10,783	10,390	11,032	10,735	5,041	5,104	5,084
Net present value (NPV) of debt 6/	7,246	7,546	7,599	7,756	7,630	1,608	1,637	1,719
NPV (in percent of exports of goods and services) 6/	600.6	540.1	491.0	495.2	401.4	74.7	71.3	71.6
Scheduled debt service	125.8	91.7	94.5	135.0	144.8	218.1	252.2	281.0
In percent of exports of goods and services	8.5	5.8	4.8	8.0	6.5	9.7	10.4	11.0
In percent of government revenue	22.8	9.0	12.6	9.1	10.5	14.8	15.3	15.7
Exchange rate, Congo francs/U.S. dollar								
Period average	404.7	…	397.8	…	...	…	…	…
End-of-period	372.5	…	444.1	…	...	…	…	…
Memorandum items:								
Nominal GDP (in billions of Congo francs)	2,299	2,565	2,587	2,881	3,380	3,814	4,270	4,747

Sources: Congolese authorities; and staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation.
2/ Includes interest due before debt relief and expenditure financed by HIPC resources.
3/ Cash balance after debt relief on interest payments.
4/ From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.
5/ End-of-period debt stock, including arrears and after HIPC Initiative assistance.
6/ Estimates and projections based on end-2002 DSA and after HIPC Initiative assistance assuming completion point in 2006, and includes assistance beyond the terms of the enhanced HIPC Initiative by some Paris Club creditors on a voluntary bilateral basis. Exports are on a three-year backward moving average.

Table 4. Democratic Republic of Congo: Summary of Central Government Operations, 2003–08

	2003	2004		2005		2006	2007	2008
		IMF Country Report No. 04/243	Est.	IMF Country Report No. 04/243	Prog.	Proj.	Proj.	Proj.
	(In millions of Congo francs; unless otherwise indicated)							
Total revenue and grants	223,323	385,866	299,357	583,159	674,144	721,373	838,591	937,792
Total revenue	176,817	235,389	248,003	295,944	360,226	436,735	506,548	569,294
Customs and excise	72,500	108,602	104,105	137,594	149,414	194,708	241,952	276,683
Direct and indirect taxes	49,038	63,000	71,355	87,017	97,721	135,119	152,630	171,198
Petroleum (royalties and taxes)	36,386	36,907	52,096	36,822	74,663	60,914	58,992	60,177
Off-budget revenue	2,100	0	0	0	0	0	0	0
Other	16,793	26,880	20,447	34,511	38,427	45,994	52,974	61,236
Total grants	46,506	150,477	51,354	287,216	313,919	284,639	332,043	368,499
Of which: exceptional expenditure	...	39,406	398	93,416	113,227	0 .	0	0
Of which : HIPC Initiative assistance 1/	6,505	28,687	22,698	79,203	95,136	146,277	167,848	158,454
Total expenditure	312,339	510,633	397,833	728,104	755,176	786,318	892,809	1,009,886
Current expenditure	248,394	260,095	324,358	293,979	345,522	401,156	451,815	508,469
Wages 2/	57,104	86,828	93,223	100,072	123,967	152,690	180,057	209,905
Interest due 3/	79,146	78,461	85,708	90,133	106,662	111,490	109,799	108,476
Of which: on external debt	76,179	76,461	78,116	88,133	104,662	109,490	107,799	106,476
Transfers and subsidies	19,867	12,225	14,842	15,572	15,899	24,101	29,276	32,289
Other current expenditure	92,277	82,581	130,585	88,203	98,994	112,875	132,682	157,799
Of which: centralized payments	23,564	22,361	30,574	23,479	28,253	38,261	51,404	69,715
Off-budget expenditure	2,100	0	0	0	0	0	0	0
Capital expenditure	61,756	146,653	72,059	274,309	233,607	319,338	365,463	417,436
Foreign-financed	47,154	138,953	56,999	265,149	217,267	296,321	331,682	377,955
Domestic-financed	14,603	7,700	15,060	9,160	16,340	23,017	33,781	39,481
Exceptional expenditure 4/	...	59,555	398	106,018	157,015	0	0	0
Other HIPC-related expenditure 5/	0	44,331	1,018	53,797	19,032	65,825	75,532	83,981
Overall fiscal balance (payment order basis)	-89,016	-124,767	-98,475	-144,945	-81,032	-64,944	-54,218	-72,093
Change in arrears 6/	4,176	0	-1,350	-4,000	0	-4,000	-6,000	-7,000
Float	0	0	11,400	0	-15,400	0	0	0
Central bank operational result	-18,430	-16,000	-19,076	-15,000	-14,000	-14,000	-14,000	-14,000
Overall fiscal balance (cash basis, before interest rescheduling)	-103,270	-140,767	-107,501	-163,945	-110,432	-82,944	-74,218	-93,093
Underlying fiscal balance 7/	-26,443	-18,277	-23,343	6,140	36,366	38,227	33,220	22,838
Primary fiscal balance (cash basis)	-24,124	-62,306	-21,794	-73,812	-3,770	28,545	35,581	15,382
(excluding exceptional expenditure and associated grants)	-24,124	-44,158	-21,794	-63,210	21,791	28,545	35,581	15,382
Total financing	103,271	140,767	107,502	163,945	110,432	82,944	74,218	93,093
Domestic financing	27,751	-16,059	215	0	-26,508	0	0	0
Foreign financing	75,520	156,826	107,287	163,944	136,940	17,079	14,269	47,070
Amortization due before debt relief	-96,290	-77,311	-79,880	-115,404	-148,840	-219,895	-241,059	-248,586
Loan disbursement	55,673	142,467	89,020	206,471	196,299	157,959	167,487	194,035
Debt relief before HIPC Initiative assistance	116,137	91,670	98,146	72,878	89,480	79,015	87,840	101,620
Additional financing to be found	0	0	0	0	0	65,865	59,949	46,024
	(In percent of GDP, unless otherwise indicated)							
Memorandum items:								
GDP (in billions of Congo francs)	2,299	2,565	2,587	2,881	3,380	3,814	4,270	4,747
Investment spending (including fraction of HIPC Initiative spending)	2.7	6.6	2.8	10.5	7.2	9.2	9.4	9.7
Primary fiscal balance (cash basis)	-1.0	-2.4	-0.8	-2.6	-0.1	0.7	0.8	0.3
(excluding exceptional expenditure and associated grants)	-1.0	-1.7	-0.8	-2.2	0.6	0.7	0.8	0.3
Underlying fiscal balance (cash basis) 7/	-1.2	-0.7	-0.9	0.2	1.1	1.0	0.8	0.5
Overall fiscal cash balance (after interest rescheduling)	-2.1	-3.2	-1.9	-4.6	-2.2	-1.9	-1.6	-1.9

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

1/ Reflects revised calculation of HIPC Initiative assistance from 2002-based DSA.
2/ For 2004 and 2005, program figures reflect a change in classification of retirement allowances as part of exceptional spending.
3/ Scheduled interest before any treatment, plus interest on the September 2002 Paris Club rescheduling from 2002, and interest on the rescheduling under the enhanced HIPC Initiative from 2003. For 2005, interest payments reflect rescheduling agreements with commercial creditors.
4/ Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of the elections, payments for retirement allowances, repayment of the domestic arrears, and payment for bank restructuring.
5/ For 2005, use of HIPC Initiative expenditures on pro-poor wages and domestic investment was recorded under wages and domestic-financed investment.
6/ Internal and external arrears.
7/ Underlying fiscal balance is defined as revenue minus expenditure (excluding interest on foreign debt, foreign-financed capital expenditures, and foreign-financed exceptional spending).

Table 5. Democratic Republic of the Congo: Summary of Central Government Operations, 2003–08

(In percent of GDP; unless otherwise indicated)

	2003	2004		2005		2006	2007	2008	2009
		IMF Country Report No. 04/243	Est.	IMF Country Report No. 04/243	Prog.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	9.7	15.0	11.6	20.2	19.9	18.9	19.6	19.8	20.9
Total revenue	7.7	9.2	9.6	10.3	10.7	11.5	11.9	12.0	13.0
Customs and excise	3.2	4.2	4.0	4.8	4.4	5.1	5.7	5.8	6.1
Direct and indirect taxes	2.1	2.5	2.8	3.0	2.9	3.5	3.6	3.6	3.6
Petroleum (royalties and taxes)	1.6	1.4	2.0	1.3	2.2	1.6	1.4	1.3	1.1
Off-budget revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.7	1.0	0.8	1.2	1.1	1.2	1.2	1.3	0.0
Total grants	2.0	5.9	2.0	10.0	9.3	7.5	7.8	7.8	7.9
Of which : exceptional expenditure	...	1.5	0.0	3.2	3.4	0.0	0.0	0.0	
Of which : HIPC Initiative assistance 1/	0.3	1.1	0.9	2.7	2.8	3.8	3.9	3.3	3.8
Total expenditure	13.6	19.9	15.4	25.3	22.3	20.6	20.9	21.3	21.4
Current expenditure	10.8	10.1	12.5	10.2	10.2	10.5	10.6	10.7	11.7
Wages 2/	2.5	3.4	3.6	3.5	3.7	4.0	4.2	4.4	3.7
Interest due 3/	3.4	3.1	3.3	3.1	3.2	2.9	2.6	2.3	2.0
Of which: on external debt	3.3	3.0	3.0	3.1	3.1	2.9	2.5	2.2	
Transfers and subsidies	0.9	0.5	0.6	0.5	0.5	0.6	0.7	0.7	0.7
Other current expenditure	4.0	3.2	5.0	3.1	2.9	3.0	3.1	3.3	3.3
Of which: centralized payments	1.0	0.9	1.2	0.8	0.8	1.0	1.2	1.5	1.5
Off-budget expenditure	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	2.7	5.7	2.8	9.5	6.9	8.4	8.6	8.8	6.7
Foreign-financed	2.1	5.4	2.2	9.2	6.4	7.8	7.8	8.0	6.3
Domestic-financed	0.6	0.3	0.6	0.3	0.5	0.6	0.8	0.8	0.4
Exceptional expenditure 4/	...	2.3	0.0	3.7	4.6	0.0	0.0	0.0	
Other HIPC-related expenditure 5/	0.0	1.7	0.0	1.9	0.6	1.7	1.8	1.8	2.9
Overall fiscal balance (payment order basis)	-3.9	-4.9	-3.8	-5.0	-2.4	-1.7	-1.3	-1.5	-0.5
Change in arrears 6/	0.2	0.0	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
Float	0.0	0.0	0.4	0.0	-0.5	0.0	0.0	0.0	
Central bank operational result	-0.8	-0.6	-0.7	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3
Overall fiscal balance (cash basis, before interest rescheduling)	-4.5	-5.5	-4.2	-5.7	-3.3	-2.2	-1.7	-2.0	-0.9
Underlying fiscal balance	-1.2	-0.7	-0.9	0.2	1.1	1.0	0.8	0.5	-0.5
Primary fiscal balance (cash basis)	-1.0	-2.4	-0.8	-2.6	-0.1	0.7	0.8	0.3	1.2
(excluding exceptional expenditure)	-1.0	-1.7	-0.8	-2.2	0.6	0.7	0.8	0.3	1.2
Total financing	4.5	5.5	4.2	5.7	3.3	2.2	1.7	2.0	0.9
Domestic financing	1.2	-0.6	0.0	0.0	-0.8	0.0	0.0	0.0	0.0
Foreign financing	3.3	6.1	4.1	5.7	4.1	0.4	0.3	1.0	0.0
Amortization due before debt relief	-4.2	-3.0	-3.1	-4.0	-4.4	-5.8	-5.6	-5.2	0.0
Loan disbursement	2.4	5.6	3.4	7.2	5.8	4.1	3.9	4.1	0.0
Debt relief before HIPC Initiative assistance	5.1	3.6	3.8	2.5	2.6	2.1	2.1	2.1	0.0
Additional financing to be found	0.0	0.0	0.0	0.0	0.0	1.7	1.4	1.0	0.0
Discrepancy between fiscal and monetary data	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
GDP (in billions of Congo francs)	2,299	2,565	2,587	2,881	3,380	3,814.0	4,270.1	4,746.9	5,315.1
Poverty reducing spending	1.5	6.6	2.0	...	3.0	...	...	...	
Defense expenditures	2.1	2.1	3.0	...	2.1	2.0	2.0	2.0	
Current primary expenditure (cash basis)	7.2	7.9	9.3	7.7	7.1	7.7	8.2	7.9	7.8
Primary fiscal balance (cash basis)	-1.0	-2.4	-0.8	-2.6	-0.1	0.7	0.8	0.3	
(excluding exceptional expenditure and associated grants)	-1.0	-1.7	-0.8	-2.2	0.6	0.7	0.8	0.3	
Underlying fiscal balance (cash basis) 7/	-1.2	-0.7	-0.9	0.2	1.1	1.0	0.8	0.5	3.9
Overall fiscal cash balance (after interest rescheduling)	-2.1	-3.2	-1.9	-4.6	-2.2	-1.9	-1.6	-1.9	0.3

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

1/ Reflects revised calculation of HIPC Initiative assistance from 2002-based DSA.
2/ For 2004 and 2005, program figures reflect a change in classification of retirement allowances as part of exceptional spending.
3/ Scheduled interest before any treatment, plus interest on the September 2002 Paris Club rescheduling from 2002, and interest on the rescheduling under the enhanced HIPC Initiative from 2003. For 2005, interest payments reflect rescheduling agreements with commercial creditors.
4/ Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of the elections, payments for retirement allowances, repayment of the domestic arrears, and payment for bank restructuring.
5/ For 2005, use of HIPC Initiative expenditures on pro-poor wages and domestic investment was recorded under wages and domestic-financed investment.
6/ Internal and external arrears.
7/ Underlying fiscal balance is defined as revenue minus expenditure (excluding interest on foreign debt, foreign-financed capital expenditures, and

Table 6. Democratic Republic of the Congo: Monetary Survey, 2003–05

	2003	2004	2005 Prog.
		(In millions of Congo francs)	
Net foreign assets	-258,995	-282,597	-230,040
Net domestic assets	389,113	504,824	512,379
Domestic credit	49,205	68,746	59,395
Net credit to government	29,582	27,212	704
Credit to the private sector	19,395	39,735	56,791
Credit to parastatals	228	1,799	1,900
Other items, net (including valuation change)	339,908	436,078	452,984
Broad money (M2)	124,503	215,270	270,370
Narrow money (M1)	72,110	117,078	131,628
Currency in circulation	63,148	101,467	111,139
Demand deposits	8,962	15,611	20,489
Quasi money	52,393	98,192	138,742
Time deposits in domestic currency	321	362	853
Foreign currency deposits	52,071	97,830	137,889
Import deposits	5,616	6,956	11,969
		(Year-on-year change in percent)	
Net foreign assets	-16.5	-9.1	18.6
Net domestic assets	21.2	29.7	1.5
Domestic credit	200.8	39.7	-13.6
Net credit to government	1,170.7	-8.0	-97.4
Credit to the private sector	46.9	104.9	42.9
Credit to parastatals	-72.4	688.3	5.6
Other items, net (including valuation change)	11.5	28.3	3.9
Broad money (M2)	32.3	72.9	25.6
Narrow money (M1)	24.6	62.4	12.4
Currency in circulation	26.9	60.7	9.5
Demand deposits	10.2	74.2	31.3
Quasi money	44.7	87.4	41.3
Time deposits in domestic currency	98.8	12.8	135.4
Foreign currency deposits	44.5	87.9	40.9
Import deposits	18.4	23.9	72.1
		(Annual change in percent of beginning-of-period broad money)	
Net foreign assets	-39.0	-19.0	24.4
Net domestic assets	72.2	92.9	3.5
Domestic credit	34.9	15.7	-4.3
Net credit to government	29.0	-1.9	-12.3
Credit to the private sector	6.6	16.3	7.9
Credit to parastatals	-0.6	1.3	0.0
Other items, net (including valuation change)	37.3	77.2	7.9
Broad money (M2)	32.3	72.9	25.6
Narrow money (M1)	15.1	36.1	6.8
Currency in circulation	14.2	30.8	4.5
Demand deposits	0.9	5.3	2.3
Quasi money	17.2	36.8	18.8
Time deposits in domestic currency	0.2	0.0	0.2
Foreign currency deposits	17.0	36.8	18.6
Import deposits	0.9	1.1	2.3
Memorandum items:			
Nominal GDP (in billions of Congo francs)	2,299	2,587	3,380
Velocity (GDP/broad money)	18.5	12.0	12.5
Foreign currency deposits (in percent of M2)	41.8	45.4	51.0
Foreign currency deposits (in percent of total deposits)	84.9	86.0	86.6

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

Table 7. Democratic Republic of the Congo: Accounts of the Central Bank of the Congo, 2003–05

	2003	2004	2005 Prog.
	(In millions of Congo francs)		
Net foreign assets	-294,888	-348,404	-329,907
Net domestic assets	370,038	471,086	465,771
Domestic credit	42,490	52,043	27,049
Net credit to government	36,900	38,382	11,874
Credit to the private sector	1,689	1,057	1,057
Credit to parastatals	0	0	0
Claims on deposit money banks	3,901	12,604	14,118
Other items, net	327,549	419,042	438,722
Base money	75,151	122,681	135,864
Narrow base money	67,728	111,923	123,009
Currency in circulation	65,897	105,889	115,474
Deposits of deposit money banks	1,476	5,788	7,093
Private sector deposits	270	53	250
Parastatal deposits	86	193	193
Foreign currency deposits	3,964	6,071	6,655
Import deposits	3,459	4,688	6,200
	(Year-on-year change in percent)		
Net foreign assets	-21.4	-18.1	5.3
Net domestic assets	21.6	27.3	-1.1
Domestic credit	341.0	22.5	-48.0
Net credit to government	574.3	4.0	-69.1
Credit to the private sector	23.9	-37.4	0.0
Credit to parastatals	0.0	0.0	0.0
Claims on deposit money banks	39.4	223.1	12.0
Other items, net	11.2	27.9	4.7
Base money	22.5	63.2	10.7
Narrow base money	29.3	65.3	9.9
Currency in circulation	27.8	60.7	9.1
Deposits of deposit money banks	131.3	292.2	22.5
Private sector deposits	111.3	-80.2	368.0
Parastatal deposits	65.6	125.7	0.0
Foreign currency deposits	-25.7	53.2	9.6
Import deposits	-5.2	35.5	32.3
	(Annual change in percent of beginning-of-period base money)		
Net foreign assets	-84.8	-71.2	15.1
Net domestic assets	107.3	134.5	-4.3
Domestic credit	53.5	12.7	-20.4
Net credit to government	51.2	2.0	-21.6
Credit to the private sector	0.5	-0.8	0.0
Credit to parastatals	0.0	0.0	0.0
Claims on deposit money banks	1.8	11.6	1.2
Other items, net	53.7	121.7	16.0
Base money	22.5	63.2	10.7
Narrow base money	25.0	58.8	9.0
Currency in circulation	23.4	53.2	7.8
Bank deposits	1.4	5.7	1.1
Private sector deposits	0.2	-0.3	0.2
Parastatal deposits	0.1	0.1	0.0
Foreign currency deposits	-2.2	2.8	0.5
Import deposits	-0.3	1.6	1.2

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

Table 8. Democratic Republic of the Congo: Balance of Payments Summary, 2003–08

	2003	2004		2005		2006	2007	2008
		IMF Country Report No. 04/243	Est.	IMF Country Report No. 04/243	Prog.	Proj.	Proj.	Proj.
	(In millions of U.S. dollars; unless otherwise indicated)							
Current account	-83	-225	-355	-474	-354	-618	-664	-597
Merchandise trade	-156	-460	-243	-780	-423	-562	-646	-718
Exports, f.o.b.	1,340	1,413	1,813	1,485	2,042	2,044	2,218	2,335
Of which: diamonds	816	857	828	932	989	1,154	1,241	1,313
Imports, f.o.b.	-1,496	-1,873	-2,056	-2,265	-2,465	-2,607	-2,864	-3,053
Of which: aid-related imports	-309	-659	-306	-878	-565	-499	-519	-568
Services	-253	-361	-333	-485	-499	-466	-516	-540
Receipts	144	176	172	196	191	196	197	213
Expenditure	-398	-537	-505	-681	-690	-662	-712	-753
Of which: aid-related imports	-104	-213	-112	-311	-214	-184	-181	-186
Income	-170	-226	-274	-286	-337	-356	-357	-247
Receipts	73	72	91	75	105	123	150	193
Expenditure	-243	-298	-365	-361	-442	-479	-507	-439
Of which: interest payments 1/	-196	-207	-201	-230	-220	-231	-220	-211
Current transfers	497	822	496	1,078	905	766	855	907
Of which: official aid	475	675	432	894	768	583	643	667
Capital and financial account	-113	33	-112	149	132	106	176	329
Official capital	-94	171	1	232	97	-126	-145	-104
Gross disbursements	148	375	220	525	402	322	330	371
Of which: net new financing	148	375	220	525	402	322	330	371
Scheduled amortization 2/	-242	-203	-219	-293	-305	-449	-475	-476
Private capital (net)	-18	-139	-113	-83	34	232	321	433
Of which: foreign direct investment	391	204	435	320	551	633	697	765
Balance before errors and omissions	-195	-192	-467	-325	-223	-512	-488	-268
Errors and omissions	-257	0	190	0	0	0	0	0
Overall balance	-452	-192	-277	-325	-223	-512	-488	-268
Financing	-26	-386	-408	-63	-865	-83	-134	-353
Net change in non-Fund arrears	-166	-256	-350	0	-707	0	0	0
Net banking sector reserves (increase, -)	140	-130	-59	-63	-157	-83	-134	-353
Of which: net Fund credit	68	79	69	79	37	39	-61	-127
Financing need before exceptional assistance	-478	-579	-686	-388	-1,087	-596	-622	-620
Exceptional financing	478	579	686	388	1,087	461	504	532
Consolidation of arrears	197	281	380	0	707	0	0	0
Debt relief on current debt service	282	298	305	388	380	461	504	532
Relief from Naples flow rescheduling 3/ 4/	118	57	57	32	32	0	0	0
Relief from the capitalization of moratorium interest	125	125	124	62	62	0	0	0
Relief from the HIPC Initiative 5/	141	178	175	300	270	352	392	430
Relief beyond the HIPC Initiative	22	63	74	57	78	110	112	102
Residual financing need (overfinancing, +)	0	0	0	0	0	-134	-118	-88
	(In percent of GDP; unless otherwise indicated)							
Memorandum items:								
Debt service, after debt relief (percentage of exports of goods and services) 6/	8.5	5.8	4.8	8.0	6.5	9.7	10.4	11.0
Current account balance, including grants	-1.5	-3.3	-5.5	-6.5	-5.1	-7.9	-7.9	-6.6
Current account balance, excluding grants	-9.8	-13.3	-12.1	-18.7	-16.2	-15.4	-15.5	-13.9
Gross official reserves (in millions of U.S. dollars)	97.8	209.3	236.2	318.2	360.2	470.2	522.2	619.3
In weeks of non-aid-related imports of goods and services	2.4	6.2	5.2	8.9	7.2	8.5	8.9	9.5
HIPC Initiative assistance deposits (in millions of U.S. dollars) 7/	17.0	75.5	74.7	201.4	194.9	298.5	330.7	303.3

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

1/ Including interest due to the IMF.
2/ Excluding repayments to the IMF.
3/ The Naples flow rescheduling was concluded in September 2002. It provided for a rescheduling of arrears and current debt service on eligible debt during the consolidation period (July 2002–June 2005) after a cancellation of 67 percent in net present value (NPV) terms of arrears outstanding at June 30, 2002 and of current debt service during the consolidation period. In addition, the Paris Club treatment provided for a capitalization of moratorium interest on debt that has been rescheduled. To facilitate the clearance of arrears on short-term debt and post-cutoff-date (June 30, 1983) debt, as well as the servicing of post-cutoff-date debt, the Paris Club treatment envisaged a repayment of the amounts due in accordance with a new payments schedule.
4/ At the end of 2002, arrears outstanding to Paris Club creditors had been cleared, and, accordingly, Naples flow rescheduling applies only to current debt service.
5/ Including the capitalization of moratorium interest.
6/ It takes into account the Naples flow rescheduling, the capitalization of moratorium interest, the Cologne flow rescheduling, the additional debt-service relief beyond the Cologne flow rescheduling, the grants provided by multilateral creditors in the context of the enhanced HIPC Initiative, and the impact of the stock-of-debt operation (including any additional cancellation beyond the HIPC Initiative) at the completion point on debt service. The data also take into account the rescheduling agreements that have already been signed with some commercial creditors as well as the impact on debt service of the accumulation of arrears to non-Paris Club creditors.
7/ The amount of HIPC assistance deposited into a special account at the central bank. For bilateral and commercial creditors, it includes the debt relief resulting from the enhanced HIPC Initiative (excluding debt relief beyond the HIPC Initiative) following the use of all traditional debt-relief mechanisms, including a hypothetical stock-of-debt operation on Naples terms. Only assistance based on rescheduling agreements that have been concluded are taken into account. For multilateral creditors, it includes the amount of HIPC grants that are made available for the purpose of delivering their share of assistance under the Initiative.

Table 9. Democratic Republic of the Congo: External Financing Requirements and Sources, 2003–08
(In millions of U.S. dollars)

	2003	2004 Est.	2005 Prog.	2006 Proj.	2007 Proj.	2008 Proj.
Noninterest current account 2/	-362	-585	-903	-970	-1088	-1053
Resource balance	-410	-577	-923	-1,028	-1,162	-1,258
Exports of goods and nonfactor services	1,484	1,985	2,233	2,240	2,415	2,548
Imports of goods and nonfactor services	-1,894	-2,561	-3,155	-3,269	-3,577	-3,805
Income 1/	26	-73	-117	-125	-138	-36
Receipts	73	91	105	123	150	193
Expenditure	-47	-164	-222	-248	-287	-228
of which: interest on public debt /3	-196	-201	-220	-231	-220	-211
Current transfers, net 2/	22	64	137	184	212	240
Public	29	32	35	39	43	47
Official	0	0	0	0	0	0
Private	-8	32	102	145	169	193
Check:	-362	-585	-903	-970	-1088	-1053
Interest on public debt	-196	-201	-220	-231	-220	-211
Capital and financial account 3/	-260	-332	-270	-217	-153	-42
Official capital	-242	-219	-305	-449	-475	-476
of which : amortization	-242	-219	-305	-449	-475	-476
Private capital (net)	-18	-113	34	232	321	433
Change in net reserves (increase, -) 4/	72	-128	-194	-122	-73	-226
Errors and omissions	-257	190	0	0	0	0
External financing requirements	-1,003	-1,057	-1,588	-1,540	-1,533	-1,532
Sources of financing						
Humanitarian assistance	214	202	169	149	154	130
UN humanitarian assistance	135	131	127	95	85	70
Bilateral humanitarian assistance	79	71	42	54	69	60
Financing gap after humanitarian assistance	-788	-855	-1,418	-1,390	-1,379	-1,402
Net change in arrears	-166	-350	-707	0	0	0
Financing gap after net change in arrears	-955	-1,204	-2,126	-1,390	-1,379	-1,402
Consolidation of arrears	197	380	707	0	0	0
Financing gap after consolidation of arrears	-758	-824	-1,418	-1,390	-1,379	-1,402
Assistance on debt service	282	305	380	461	504	532
Naples flow rescheduling	118	57	32	0	0	0
Cologne flow rescheduling and capitalization of moratorium interest 6/	125	124	62	0	0	0
HIPC grants	141	175	270	352	392	430
Debt relief from a stock-of-debt operation	22	74	78	110	112	102
Financing gap after assistance on debt service	-476	-519	-1,039	-929	-875	-870
Project financing 5/	288	293	828	755	819	858
Project grants	261	230	537	433	489	487
Multilateral	187	158	385	307	200	147
World Bank	46	51	121	163	85	65
African Development Bank	2	0	11	12	5	2
European Union	81	52	196	92	74	55
Other	58	56	57	41	36	25
Bilateral	74	71	153	126	288	340
Project loans	27	63	291	322	330	371
Multilateral	26	63	289	322	330	221
World Bank	26	63	257	249	276	172
African Development Bank	0	0	24	33	17	9
European Union	0	0	4	31	36	40
Other	0	0	4	10	0	0
Bilateral	1	0	2	0	0	150
Financing gap after project financing	-188	-225	-211	-173	-57	-11
Budget and balance of payments support 5/	188	225	211	39	-61	-77
Budget grants	0	0	62	0	0	50
Multilateral	0	0	50	0	0	0
World Bank	0	0	50	0	0	0
African Development Bank	0	0	0	0	0	0
European Union	0	0	0	0	0	0
Other	0	0	0	0	0	0
Bilateral	0	0	12	0	0	50
Budget loans	188	225	149	39	-61	-127
Multilateral	188	225	149	39	-61	-127
IMF 6/	68	69	37	39	-61	-127
World Bank	120	113	90	0	0	0
African Development Bank	0	44	21	0	0	0
European Union	0	0	0	0	0	0
Other	0	0	0	0	0	0
Bilateral	0	0	0	0	0	0
Residual financing gap	0	0	0	-134	-118	-88

Sources: Congolese authorities; IMF staff estimates and projections; and end-2002 debt sustainability analysis.

1/ Excluding interest on public debt.
2/ Excluding official aid.
3/ Excluding loan disbursements.
4/ Excluding net use of IMF credit.
5/ By implementing agency. Includes currently unidentified financing.
6/ On a net basis.

Table 10. Democratic Republic of the Congo: Debt Service on External Debt, 2003–08
(In millions of U.S. dollars, unless otherwise indicated)

	2003 Est.	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
Before debt relief 1/						
Debt service due	437.9	419.5	524.5	679.4	755.9	813.3
Interest	195.9	201.0	219.7	230.7	219.6	210.6
IMF	3.2	4.6	5.3	7.3	7.3	6.8
World Bank	11.3	11.1	10.9	10.7	10.5	10.2
African Development Bank Group	1.2	1.2	1.2	1.1	1.1	1.1
Other multilaterals	3.7	7.1	10.6	12.6	14.6	14.3
Bilaterals and commercial	176.5	177.0	191.7	198.9	186.1	178.2
Principal	242.0	218.5	304.8	448.7	536.2	602.7
IMF	0.0	0.0	0.0	0.0	61.3	126.9
World Bank	23.7	25.0	26.9	30.3	34.5	37.0
African Development Bank Group	3.9	8.0	13.1	19.1	24.3	29.4
Other multilaterals	5.9	19.1	22.8	23.4	23.5	25.2
Bilaterals and commercial	208.5	166.4	242.0	376.0	392.6	384.2
After debt relief (incl. HIPC Initiative) 2/						
Debt service due	125.8	94.5	144.8	218.1	252.2	281.0
Interest	50.8	23.7	41.0	40.3	34.0	34.4
IMF	1.9	1.1	3.7	5.7	7.3	6.8
World Bank	11.9	4.2	6.1	8.0	10.0	11.3
African Development Bank Group	1.2	1.1	0.9	1.1	1.3	1.3
Other multilaterals	0.1	0.3	4.3	3.2	1.3	1.3
Bilaterals and commercial	35.7	16.9	25.9	22.3	14.2	13.7
Principal	75.0	70.9	103.8	177.8	218.1	246.6
IMF	0.0	0.0	0.0	0.0	61.3	92.3
World Bank	10.2	10.9	2.7	3.0	3.5	3.7
African Development Bank Group	4.0	4.0	2.9	4.2	5.4	6.5
Other multilaterals	0.8	5.6	17.2	12.8	2.6	2.7
Bilaterals and commercial	60.0	50.3	81.0	157.7	145.3	141.3
Memorandum items:						
Debt service due, before debt relief						
In percent of goods and factor services exports	29.5	21.1	23.5	30.3	31.3	31.9
In percent of government revenue 3/	79.3	55.7	38.0	46.2	45.8	45.3
Debt service due, after debt relief						
In percent of goods and factor services exports	8.5	4.8	6.5	9.7	10.4	11.0
In percent of government revenue 3/	22.8	12.6	10.5	14.8	15.3	15.7
Stock of debt/nominal GDP (in percent)	190.0	166.2	156.3	138.0	125.2	112.9
Net present value of debt/exports of goods and factor services (in percent) 4/ 5/	647.2	523.7	428.3	376.2	350.6	330.6
Net present value of debt/exports of goods and factor services factor services (in percent) 5/ 6/	600.6	491.0	401.4	74.7	71.3	71.6

Sources: Congolese authorities; IMF staff estimates and projections; and end-2002 debt sustainability analysis (DSA).

1/ Reflects debt service on current maturities, including rescheduling and new financing. Based on end-2002 DSA data.
2/ Reflects debt relief in the form of flow rescheduling, as well as HIPC Initiative grants by multilateral creditors. It also takes into account the accumulation of arrears to non-Paris Club and commercial creditors, pending the conclusion of rescheduling agreements.
3/ Including grants.
4/ Before rescheduling and HIPC Initiative debt relief. The figures at end-2002 reflect the Naples rescheduling agreement.
5/ Three-year backward average of exports of goods and nonfactor services.
6/ After rescheduling and HIPC Initiative debt relief. The numbers also take into account the accumulation of arrears to non-Paris Club creditors. The figures at end-2002 reflect the Naples rescheduling agreement.

Table 11. Democratic Republic of the Congo: Millenium Development Goals, 1990–2002

	1990	1995	2001	2002	SSA (2001)
1. Eradicate extreme poverty and hunger	2015 target = halve 1990 US$1 a day poverty and malnutrition rates				
Population below U.S.$1 a day (in percent)	...	...	...	...	...
Poverty gap at U.S.$1 a day (in percent)	...	...	...	...	...
Percentage share of income or consumption held by poorest 20 percent	...	...	...	...	...
Prevalence of child malnutrition (in percent of children under 5)	...	34.4	31.0	...	...
Population below minimum level of dietary energy consumption	31.0	62.0	75.0	...	...
2. Achieve universal primary education	2015 target = net enrollment to 100				
Net primary enrollment ratio (percent of relevant age group)	54.3	60.8	...	...	...
Percentage of cohort reaching grade 5 (in percent)	54.7	...	...	...	...
Youth literacy rate (in percent of population aged 15–24)	...	...	...	...	77.0
3. Promote gender equality	2005 target = education ratio to 100				
Ratio of girls to boys in primary and secondary education (in percent)	69.3	66.4	...	...	...
Ratio of young literate females to males (in percent of population aged 15–24)	71.8	78.7	85.7	86.7	88.0
Share of women employed in the nonagricultural sector (in percent)	32.2	...	...	...	...
Proportion of seats held by women in national parliament (in percent)	...	5.0	...	...	...
4. Reduce child mortality	2015 target = reduce 1990 under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	205.0	205.0	205.0	205.0	174.0
Infant mortality rate (per 1,000 live births)	128.0	128.0	128.0	129.0	103.0
Immunization, measles (in percent of children under 12 months)	38.0	27.0	37.0	45.0	58.0
5. Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	990.0	...	917.0
Births attended by skilled health staff (in percent of total)	...	...	60.7	...	...
6. Combat HIV/AIDS, malaria, and other diseases	2015 target = halt, and begin to reverse, AIDS, and other diseases				
Prevalence of HIV, female (in percent of population aged 15-24)	...	...	5.9	...	9.4
Contraceptive prevalence rate (in percent of women aged 15-49)	...	...	...	...	...
Number of children orphaned by HIV/AIDS	...	...	930.0	...	...
Incidence of tuberculosis (per 100,000 people)	...	...	302.0	383.5	358.0
Tuberculosis cases detected under DOTS (in percent)	...	46.0	61.0	52.2	...
7. Ensure environmental sustainability	2015 target = various				
Forest area (in percent of total land area)	62.0	...	59.6	...	27.3
Nationally protected areas (in percent of total land area)	...	4.5	4.5	6.5	8.7
GDP per unit of energy use (PPP U.S. dollar per kilo oil equivalent)	4.1	3.1	2.3	...	2.8
CO_2 emissions (metric tons per capita)	0.1	0.1	0.1	...	0.7
Access to an improved water source (in percent of population)	...	...	45.0	...	58.2
Access to improved sanitation (in percent of population)	...	...	21.0	...	53.7
Access to secure tenure (in percent of population)	...	...	...	...	...
8. Develop a Global Partnership for Development	2015 target = various				
Youth unemployment rate (in percent of total labor force ages 15–24)	...	...	...	...	...
Fixed-line and mobile telephones (per 1,000 people)	0.9	1.0	3.0	10.8	31.0
Personal computers (per 1,000 people)	...	...	...	...	12.0
9. General indicators					
Population (in millions)	37.4	44.4	50.1	51.6	702.6
Gross national income (in billions of U.S. dollars)	8.4	6.0	4.3	5.0	...
GNI per capita (U.S. dollars)	220.0	140.0	90.0	100.0	...
Adult literacy rate (in percent of people aged 15 and over)	...	...	...	...	...
Total fertility rate (births per woman)	6.7	6.7	6.7	6.7	...
Life expectancy at birth (in years)	51.5	48.7	45.6	45.3	45.8
Aid (in percent of GNI)	10.5	4.0	5.5	14.7	...
External debt (in percent of GNI)	119.6	271.5	241.3	158.5	...
Investment (in percent of GDP)	9.1	9.4	5.1	7.1	...
Trade (in percent of GDP)	58.7	52.2	34.5	39.8	...

Source: World Development Indicators database, April 2004.

Note: In some cases, the data are for earlier or later years than those stated.

Kinshasa, August 6, 2005 Translated from French

Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

1. On June 12, 2002, the Executive Board of the International Monetary Fund approved a three-year arrangement for the Democratic Republic of the Congo (DRC) under the Poverty Reduction and Growth Facility (PRGF). This arrangement was designed to support the Government Economic Program (PEG) for the period April 1, 2002–July 31, 2005. By the terms of the arrangement, the government of the DRC and IMF staff have conducted the fifth review of the program covering not only the period April 1–September 30, 2004 as required under the program, but also the six months following that period, in view of the worsening economic situation in the second half of the year. This review, which took place during the three IMF missions on November 9–23, 2004, February 15–22, 2005, and May 24–31, 2005, focused on the execution of the program as well as the outlook and the economic and financial measures to be implemented in 2005. In particular, the review has taken into account the objectives that we have set, such as the holding of free, democratic, and transparent elections; the implementation of the Disarmament, Demobilization, and Reintegration program (*Désarmement, Démobilisation, et Réinsertion,* DDR); and the restructuring of the army and the police force.

2. The government remains determined to implement the policies and measures set out in the Interim Poverty Reduction Strategy Paper (I-PRSP) and the memorandum on economic and financial policies, which is attached to this letter of intent and supplements the letters of April 13, 2002, February 4, 2003, July 3, 2003, December 10, 2003, and June 24, 2004.

3. In 2004, execution of the PEG was more challenging than expected because the security problems in the eastern part of the DRC resulted in major military expenditures during the second half third quarter and the end of the year. The government also experienced difficulties in controlling other sovereignty expenditures during that period. This excess spending, which was partially financed by the Central Bank of the Congo (BCC), led to a rapid growth in the monetary base, causing a sharp depreciation of the Congo franc and a rise in inflation over the first four months of 2005. The government is nonetheless committed to strengthening its efforts to restore macroeconomic stability and pursue the reconstruction of the DRC, and in this context, it shall implement all the fiscal and monetary measures and the structural reforms described in the attached 2005 memorandum on economic and financial policies.

4. The government is determined to uphold the rule of law throughout the country, and to ensure good governance and transparency in the conduct of public affairs at the level of the central government, as well as the levels of the national institutions, the public enterprises, and the eleven provinces. The government also intends to strengthen the fight against corruption, including in government and in the natural resources sector, and to reduce bureaucratic "red tape." Furthermore, the government will seek to improve the management of public enterprises, and will take all necessary legal steps to address the shortcomings identified in the course of the audit of public enterprises by the Audit Office.

5. The year 2005 will be marked by the holding of free, democratic, and transparent elections for the first time in our country's history, and hence the establishment of a democratic and constitutional government. A roadmap has been prepared to achieve this goal, and with the assistance of the international community we intend to follow this roadmap in an atmosphere of calm and respect for democratic rules. As a first step, the draft constitution was adopted by parliament on May 13, and will be put to a referendum in the coming months.

6. An examination of the quantitative performance criteria at end-September 2004, which were the focus of an audit conducted by an international firm, indicates that three performance criteria out of 11 performance criteria have not been met. The ceilings on the BCC's net domestic assets and net bank credit to the government, adjusted for external assistance, were exceeded by 0.6 percent of GDP and 0.2 percent of GDP respectively. Moreover, the continuous criterion according to which the BCC may not finance budgetary expenditures that have not been authorized by the Finance Minister was not met, as such spending amounted to CGF 227.5 million during the second half of 2004. The structural performance criterion regarding the audit of the parastatal diamond enterprise (MIBA) by an international audit firm could not be met owing to the lack of external assistance. However, the government has decided to finance this audit from its own budget. In addition, the implementation of the two structural benchmarks was delayed; the strategic audit of the Public Enterprise Council (*Conseil Supérieur du Portefeuille - CSP*) was completed in July 2005; and the reorganization plan for the petroleum products distribution company (COHYDRO) is being finalized. At end-December 2004, the quantitative indicators for net external assets, the net domestic assets of the BCC, and net credit to the government, adjusted for external assistance, were overshot.

7. The government is determined to strengthen macroeconomic stability by implementing the budgetary and monetary policies described in the attached memorandum. In addition, a considerable number of reforms will be implemented in 2005, which will be essential for maintaining a high rate of growth and reducing poverty. In view of the measures taken and the set of policies it will implement, and in order to complete the review, the government would like to request waivers from the IMF Executive Board with respect to the nonobservance of the three quantitative performance criteria and the structural performance criterion referred to above.

8. The government will provide the IMF with all information requested by the Fund on the implementation of its economic and financial program for 2005. As in the past, the government authorizes the publication of this letter, the MEFP attached to this letter, and the IMF staff report.

9. The government considers that the policies and measures set out in the attached memorandum are adequate to achieve its program objectives. The government is prepared to take any further measures that may be necessary toward this end. Moreover, the government pledges to consult the IMF, whether on its own initiative or upon your request, regarding the adoption of any additional measures that may prove necessary.

10. The authorities propose quantitative performance criteria for September 30, 2005 and structural performance criteria up to end-September 2005 to be assessed during the sixth program review. Therefore, the government requests that the arrangement be extended from October 31, 2005 to March 31, 2006 in order for the sixth review to be completed before the end of the arrangement,. The government would also like to request additional interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative to cover part of its debt service obligations falling due to the Fund between August 1, 2005 and July 31, 2006.

11. The government would like to thank the international community for supporting its stabilization and reconstruction efforts during this critical period in the history of the DRC. The government hopes to benefit from IMF support once the current PRGF-supported arrangement comes to an end. Accordingly, the government would like to begin discussions with Fund staff as soon as possible concerning a medium-term program that could be supported by a new PRGF arrangement when the current arrangement ends.

Sincerely yours,

/s/

Joseph Kabila
President of the Democratic Republic of the Congo

Translated from French

DEMOCRATIC REPUBLIC OF THE CONGO

Memorandum on Economic and Financial Policies for 2005

Kinshasa, August 6, 2005

EXECUTION OF THE GOVERNMENT ECONOMIC PROGRAM

1. Since June 2004, implementation of the Government Economic Program (PEG) has been more difficult than expected owing to security problems in the eastern provinces, which resulted in additional military expenditures during the third quarter and toward year's end. The government also experienced problems with curbing other current expenditure during this period. These additional expenditures led to a rapid increase in base money, a sharp depreciation of the Congo franc, and the resurgence of inflation. In addition, progress in implementing structural reforms in 2004 was delayed to allow all parties to reach consensus within the government.

2. To address the difficulties faced during the second half of 2004 the government took new measures in February 2005, including a tightening of monetary and fiscal policies that has led to a stabilization of the exchange rate and consumer prices.

3. Despite the above-mentioned difficulties, economic growth was sustained across most sectors in 2004. Real GDP growth is estimated at 6.8 percent (against an initial forecast of 6.3 percent), leading to an improvement in per capita income for the third consecutive year. Inflation was below projections through July 2004, but rose sharply thereafter for the reasons mentioned above. As a result, 12-month inflation rose to 9.2 percent at end-2004 and to 26.6 percent at end-May 2005. The consumer price index increased 18.9 percent in the first five months of 2005, but has dropped in June.

Monetary and exchange rate policies

4. The Central Bank of the Congo (BCC) experienced difficulties in containing broad money growth and maintaining price stability in 2004. Indeed, money-financed budgetary and extrabudgetary expenditures resulted in base money and broad money rising by 62 percent and 61 percent, respectively (against programmed growth rates of 26 percent and 29 percent, respectively, projected at a constant exchange rate). In order to mop up excess liquidity, the BCC gradually increased its key interest rate from 6 percent in September 2004 to 20 percent in January 2005, to 65 percent in February, before lowering it to 40 percent at

end-June 2005. In addition, the BCC intervened on the foreign exchange market by selling US$99 million between September 2004 and February 2005. Since then, the BCC has not intervened in the foreign exchange market, except in May, when it purchased U.S. dollars to supply banks with the equivalent of US$5.0 million in Congo francs.

5. The measures taken by the BCC have effectively halted the growth of base money, although they were not initially successful in stabilizing the exchange rate or inflation. The worsening political and security situation accompanied by an easing of fiscal policy resulted in a loss of market confidence inducing the market to take refuge in the U.S. dollar, which explains the pressure observed in the exchange rate. Hence, the share of Congo franc deposits in broad money declined from 7.3 percent at end-2004 to 6.5 percent at end-March 2005. In view of the limited effectiveness of the available monetary policy instruments, the government is cognizant of the importance of tightening fiscal policy in order to contain money expansion.

6. To improve the conduct of monetary policy, the BCC established in March 2005 the Monetary Policy Monitoring Committee, whose main role is to assess economic conditions and better anticipate the demand for Congo francs. The BCC also published a strategic development plan aimed at strengthening its institutional and management capacity in August 2004 and continued to implement the action plan prepared in collaboration with Fund staff. With assistance from the National Bank of Belgium, the BCC undertook a preliminary study on its recapitalization and another one on improving the structure of banknotes, which currently include only small denominations.

Government finance

7. As indicated above, the government made greater use of bank financing than projected under the program. However, the overall deficit (on a cash basis) was less than programmed—1.7 percent of GDP instead of 3.2 percent—principally because foreign-financed expenditure was less than anticipated.

8. Total revenue exceeded the target for 2004 thanks to increased taxes and royalties collected from oil producers, in line with the rise in international oil prices, as well as a strengthening of tax administration, and in particular of the Large Taxpayers Unit (DGE). The level and composition of spending differed from what had been projected under the program. Investment expenditure and poverty reduction spending were below their forecast amounts, owing to difficulties encountered in the preparation of some projects and the application of the new procurement procedures. Furthermore, a number of ministries received less than their budget allocations, while payment orders issued in 2004 (in particular for water and electricity) were executed in early 2005. In contrast, military spending and that of political institutions were significantly larger than the program targets, mainly because of the tensions in the eastern provinces and weaknesses in budget execution and monitoring. Mindful of the need to enhance the transparency of military spending, the government, through the High Defense Council, mandated an audit of the expenditures associated with

events in the eastern provinces during 2004, and the results will be made public by end-June 2005.

9. Implementation of budget and tax reforms was slower than anticipated in 2004. The law for customs tariff reform was adopted in July 2004, and the customs code was adopted on June 21, 2005. Measures to modernize the domestic tax administration included improvements in collection procedures and the opening of the first tax office for small- and medium-sized enterprises. The law on the nomenclature for nontax revenue was promulgated on July 22, 2004 and amended in March 2005 to incorporate the revenue formerly collected by the autonomous agencies (former *budgets pour ordre*). The strengthening of tax administration in the eastern provinces is starting to show results, with increasing tax revenue being transferred to the treasury from these areas.

10. On the expenditure side, and in accordance with the program, the government continued to focus on strengthening budget management. As a result, the expenditure management system, including the electronic data transfer between the BCC and the treasury, has become operational since June 2005 (prior action). In addition, the payroll, the payment of public debt, and externally financed expenditures have all been incorporated into the public expenditure management system since April 2005. Furthermore, following the publication of the circular governing the opening and functioning of government accounts with commercial banks, more than 240 bank accounts have been closed (prior action). Finally, all measures have been taken to produce the monthly budget monitoring reports, which track budget execution according to the economic and administrative classifications within 30 days after the end of the month. Starting in June 2005, these reports are forwarded monthly to the government and quarterly to parliament (prior action).

Balance of payments

11. In spite of a generally favorable international environment in 2004, the external current account deficit, including grants, is estimated at 5.5 percent of GDP, compared with 3.3 percent of GDP projected under the program. Imports rose strongly due to the continued economic recovery and the rise in investment, and this offset a surge in exports on account of higher oil and cobalt prices in international markets and an increase in mining production following the opening up of new mines. Overall, international gross reserves rose to the equivalent of 5.2 weeks of imports of goods and services at end-2004, compared with 6.2 weeks envisaged in the program.

External debt

12. The government honored in full its external debt service commitments in 2004. Regarding debt relief, the government signed bilateral agreements on Cologne terms with all Paris Club creditors except the United States. An extension of the deadline to December 2005 for signing all bilateral agreements has been granted by the Paris Club secretariat. The government has signed agreements with 32 commercial creditors, and negotiations are underway with five other creditors. The average debt relief granted to the Kinshasa Club

amounted to 70 percent of the stock of debt. However, two creditors are seeking payments through the judicial courts, and new creditors are introducing old claims on the Democratic Republic of the Congo. The government and the BCC have neither contracted nor guaranteed any nonconcessional external debt.

Other structural reforms

13. The law on combating money laundering and the financing of terrorism and the anticorruption law were promulgated in August 2004 and March 2005, respectively. In September 2004, the government adopted the report and action plan for the reform of the public procurement process. The decree on the organization and operation of the Public Procurement Reform Commission (COREMAP) was signed, and the members of this Commission have been appointed. With assistance of the European Union and other donors, the audit of the judicial system was completed, which will enable the government to draw up an action plan aimed at its strengthening. Agreement was also reached on the terms and conditions for the settlement of government debt to the private sector. The implementation of the repayment plan will begin during the third quarter of 2005, with US$42.5 million in financing granted by the World Bank.

14. **In the mining sector,** the international bid to select an auditor for the parastatal diamond mining company MIBA could not be held by end-September 2004 as planned (structural performance criterion), because the anticipated foreign financing was not available. However, the government decided to finance this audit with domestic funds. Following an international tender offer launched in January 2005, an international consulting firm was selected in July 2005. Similarly, the international bids to select consulting firms to conduct the audits of SENGAMINES and CEEC[18] were delayed, but will be requested in June 2005. In addition, the restructuring of the Mining Registry (CAMI) continued, and a provisional management committee began its work in October 2004. The one-stop window for the delivery of mining permits reopened in March 2005 after a strengthening of its operations. To safeguard the tax receipts generated by mining activities, the government has selected by competitive bidding a specialized firm to ensure strict control of quantities and prices declared at exports.

Social policy

15. Progress made in implementing social sector reforms was satisfactory in 2004. An initial draft of the Government Report on Health and Poverty (RESP) was finalized in December 2004 and will serve as the basis for the preparation of the sector strategy, to be completed by end-August 2006. In the field of education, the government finalized, in September 2004, the Status Report on the National Education System (RESEN), which assesses the sector's constraints, and adopted a draft action plan for the Education for All

[18] Centre d'expertise, d'évaluation et de certification des substances minérales et précieuses.

(EFA) Initiative. The RESEN and the EFA programs will serve as the basis for the preparation of the overall education sector strategy, to be completed by August 2006.

GOVERNMENT ECONOMIC PROGRAM FOR 2005

16. The medium-term macroeconomic framework has been revised to take into account recent developments in the domestic economy and the external environment, including the increases in prices of oil and raw materials in the international markets. The 2005 budget, adopted by parliament in March 2005, contains a large increase in expenditure to fund interlinked programs and reforms tied to the political transition process. These programs include the holding of free, democratic, and transparent elections; the implementation of the National Disarmament, Demobilization, and Reintegration (DDR) Program; and the reintegration and reorganization of the army and the police. The budget also contains funding for the continuation of economic reforms.

17. To contain the inflationary pressures that could potentially result from the increase in expenditure, the government plans to implement appropriate fiscal and monetary policies. Accordingly, the following macroeconomic targets have been set for 2005: (a) a real GDP growth of 6.6 percent; (b) an end-of-period annual inflation of 22.6 percent; and (c) an external current account deficit, including grants, of 5.1 percent of GDP.

Fiscal policy

18. The primary objective of fiscal policy in 2005 is to contribute to restoring macroeconomic stability, while improving budgetary expenditure allocations in favor of the social sectors and programs associated with the political transition process. This will entail improving government revenue by strengthening tax administration and introducing tax reforms, continuing efforts to combat corruption and fraud, and increasing the mining sector's contribution.

19. Taking into account macroeconomic developments through April 2005, the government's fiscal objective for 2005 is to contain the budget deficit, on a cash basis and including grants, at 2.2 percent of GDP. This entails a major effort, since the domestic fiscal balance (on a cash basis) would have to yield a surplus equivalent to 1.1 percent of GDP compared with a deficit of 0.9 percent of GDP in 2004. The fiscal objective takes into account payment orders issued in 2004 and settled in 2005 (0.5 percent of GDP) and seeks to reduce net bank credit to the government in order to assist the central bank in its conduct of monetary policy.

20. The 2005 budget will be financed with external budgetary support (2.5 percent of GDP) and foreign financing for investment projects and exceptional outlays tied to the political process (10.5 percent of GDP), confirmed during the Consultative Group meeting in Kinshasa (November 2004). In particular, the 2005 budget allocations for the elections and for the reintegration of the army and the police are based on amounts that can be either financed with government resources or with confirmed international donor support.

However, such budget appropriations are substantially smaller than what was initially estimated, and, thus, should additional resources become available, the government will submit a budget supplement to the National Assembly in which budget allocations for these two projects will be increased.

21. Total revenue is expected to increase from 9.7 percent of GDP in 2004 to 10.7 percent of GDP in 2005. This increase is explained by (i) the extension of all taxes and fees to all provinces; (ii) an increase in oil revenue; (iii) the strengthening of tax administration; and (iv) the implementation of new measures expected to generate additional revenue amounting to CGF 12 billion per year. The latter include (a) the extension of the tobacco tax stamps throughout the country; (b) the payment of mining royalties by all exporters of mining products and by all mining processing industries throughout the country; (c) the payment to the treasury of one half of the area fees collected by the Mining Registry; (d) the signing by government of a contract on behalf of the customs office (OFIDA) with an international preshipment inspection company (before end-June 2005); (e) the doubling of the forestry area fee to US$0.20 per hectare effective January 1, 2005; and (f) the collection by the tax department responsible for managing state properties (DGRAD) of levies previously collected by autonomous agencies. With regard to the latter, interministerial decrees enabling the DGRAD to collect the levies will be signed before mid-June 2005 (prior action).

22. Total government expenditure is expected to increase from 13.3 percent of GDP in 2004 to 22.1 percent of GDP in 2005, primarily as a result of increases in spending related to the political transition process and the restructuring of the economy (4.6 percent of GDP) and to public investment (4.1 percent of GDP). However, current expenditure (excluding interest payments) are projected to decline. In addition, the government will increase the share of poverty reducing expenditure, particularly by making greater use of debt relief made available under the HIPC Initiative. Accordingly, the government will use up to 0.2 percent of GDP of HIPC resources to finance the operating expenses of nursery, primary, secondary, and technical schools, and has put mechanisms in place to monitor their utilization. Conversely, the operating expenses of ministries and political institutions will be reduced by 1.7 percent of GDP from their 2004 level, in particular by cutting expenses associated with missions, including through a 20 percent reduction in daily allowances (prior action). To improve budget execution, the ministries will be notified of their budget appropriations on a monthly basis and no overruns will be allowed. Centralized payments will be reduced by 0.4 percent of GDP compared with 2004 by setting a quarterly ceiling on consumption of petroleum products for each ministry. In addition, lump-sum payments have been negotiated with SNEL and REGIDESO for electricity and water expenses until the billing of actual consumption is made possible by the installation of meters in all ministries, which is expected to be completed in June 2005.

23. Improving government personnel living standards and the strengthening of civil service management are among the main priorities of the government. In this context, while maintaining the wage bill at CGF 124 billion the government has introduced in the 2005 budget new allowances for civil servants and increased wages for the police by 20 percent.

The wage bill for the army was kept unchanged in 2005 as any pay increases are to be based on savings realized with the implementation of the demobilization (DDR) program. The wage appropriation for political institutions has been reduced, and takes partially into account the cost of separation allowances for political appointees who might lose their positions after the elections. In order to observe the ceiling on the wage bill, the government has started applying the civil service census preliminary results for Kinshasa with the payroll for April 2005. Accordingly, only civil servants who were identified in the census are now paid, which could reduce their number by more than one-third. In addition, the results of the military census in Kinshasa will be applied to the August 2005 pay (structural performance criterion). The results of the census in the rest of the country will be applied as soon as they become available, and in the fourth quarter of 2005, at the latest. The government will not grant any increases in wages or benefits before applying the results of the census conducted in the whole country to the payroll. In addition, the increase in the wage bill planned for the social sectors will be financed with HIPC resources for an amount equivalent to 0.4 percent of GDP.

24. Pending the introduction of an integrated payroll management system, the government will implement, beginning in September 2005, a simplified transitional system that will make it possible to control civil service employment and streamline the payroll. The government will also transfer the paymasters (*comptables payeurs)* to the treasury and will ensure that verified and initialed payroll lists are returned to the accounting officers as well as the ministries in charge of the civil service and the budget. With respect to retirements, 10,000 civil servants will retire and receive their allowances, financed by the World Bank, beginning in August 2005. In addition, a list of the active personnel eligible for the second phase of the retirement program will be drawn up after completion of the census. Pending the completion of the DDR program and the integration of the army, the government will establish an independent monitoring commission, with assistance from its external partners, to ensure that salaries and other benefits are regularly received by military personnel.

25. The reform of tax and customs administration will continue in 2005 (Table 1). A draft law will be submitted to parliament in September 2005 with a view to correcting the distortions identified in the customs tariff. The government will reduce the level of tax exemptions, strictly limiting them to those provided by the provisions of the various codes. Before their approval, all new exemptions will be submitted to the Council of Ministers with a quantification of their budgetary impact. To facilitate and expedite customs clearance procedures, a presidential decree will designate OFIDA as the sole agency intervening at the one-stop window in Matadi and in assessing the value of imports (structural performance criterion for end-September 2005). In this connection, OFIDA will collect all tax and fees on imports, including those for the account of other agencies such as OCC, OGEFREM, and ONATRA. For that purpose a manual of harmonized customs procedures will be implemented by October 2005. The role of OCC will be strictly limited to controlling merchandise quality, quantity, and conformity, in accordance with Article 3 of the Ordinance-Law No. 74-013 of January 10, 1974. In addition, OFIDA will be converted into a General Directorate of the Ministry of Finance after the adoption of the laws modifying the status of public enterprises. Moreover, to repress fraud and corruption at the borders, the

government is examining the possibility of using the services of a private firm to check customs declarations. Regarding the General Tax Directorate, the government will strengthen the operation of the Large Taxpayers Unit and improve control of the tax base through the generalized use of taxpayer identification numbers.

26. The government will improve budget execution and the transparency of fiscal management by implementing the measures mentioned in the attached Table 1. It will limit recourse to the system of fund advances to only the cases allowed by law (for instance for the operating expenses of schools). These advances will be renewed only after the Ministry of Budget has received the documents justifying the use of previous advances. The Ministry of Budget will notify ministries of the monthly commitment plan for each budget line, starting in June 2005. In addition, only expenditures approved by the Ministry of Budget and the Ministry of Finance will be carried out by the BCC, and at least 95 percent of all expenditures will be processed through electronic payment orders (OPIs). In addition, all payments undertaken by the BCC on behalf of the government will be made within 48 hours from the receipt of the OPI, and all amounts debited from, or credited to, the account of the treasury at the BCC will be reported to the Ministry of Finance and the Ministry of Budget within 48 hours (prior action). By end-July 2005, the BCC will report to the treasury the balances of government accounts each business day.

27. The government has received an analysis on the financial implications of the draft law on decentralization, which was prepared with the support of International Monetary Fund staff, and submitted it to the National Assembly. The government will ensure that any transfer of resources be accompanied by an equivalent transfer of spending responsibilities. For 2005, the government has continued to adhere to the current principle of decentralization and will ensure that the provinces' budgets remain in balance. The government intends to draw up a list of technical assistance needs and priorities to build administrative capacities in the provinces in 2005.

Monetary and exchange rate policies, and reform of the financial system

28. The government will continue to support the independence of the central bank, which has sole responsibility for the conduct of monetary policy. The objective will be to restore price stability within a floating exchange rate system, and particularly to reduce 12-month inflation to 22.6 percent by end-2005. In this context, it is projected that money supply and base money at current exchange rate will increase by 25.6 percent and 10.7 percent, respectively, in 2005, or by less than the growth rate of nominal GDP, given the sizable increase in the money supply recorded in 2004. The BCC will adopt an interest rate policy that would allow it to meet the objectives for inflation and the growth of the monetary base, with interest rates being gradually adjusted to take into account recent economic developments. As mentioned above, net bank credit to the government is expected to decrease by CGF 26 billion (0.8 percent of GDP) while the gross foreign assets of the BCC are expected to increase from 5.2 weeks of imports at end-2004 to 7.2 weeks at end-2005. Furthermore, to enhance credibility, the BCC has widely disseminated the objectives of monetary policy and intends to report regularly on monetary policy implementation. As

regards currency, the BCC will proceed with caution in issuing higher-denomination banknotes and will conduct a public awareness campaign in this regard.

29. To improve its operations, the BCC will continue to implement its strategic action plan in line with the plan prepared in cooperation with the staff of the International Monetary Fund (Table 1). To this end, it will apply the new regulatory framework for its interventions on the foreign exchange market and irrevocably guarantee the convertibility of banks' free reserves into currency. The BCC will also strengthen its human and technical capacities for the conduct of monetary policy and ensure that the information necessary for the formulation and monitoring of monetary policy is promptly available. In that regard, the BCC will work closely with the Ministry of Finance and Ministry of Budget on the preparation of the government cash flow plan. To limit the central bank losses to the amount included in the government budget (CGF 14 billion), the BCC will adhere to its monthly cash flow plan. Furthermore, to eliminate the losses of the BCC, the government will adopt the strategy for restructuring the balance sheet of the central bank before end-September 2005 (structural performance criterion).

30. The BCC will strengthen its supervision of financial and microfinance institutions with a view to preventing any systemic risk of illiquidity and insolvency. In particular, it will launch the banking supervision computer application (BSA) by end-February 2006. The restructuring of the banking system will be continued, with five of the nine banks in operation implementing restructuring plans. For the three state banks being liquidated, the implementation of the social plan financed by the World Bank will be completed by end-June 2005. In July 2004, the government submitted to parliament draft laws to strengthen the tax and regulatory framework for banks, and will seek their inclusion on the agenda for the parliamentary session of the third quarter of 2005. The central bank will also publish a directive barring anonymous shareholders and will define criteria for the selection of bank shareholders. In addition, the government will introduce a legal framework for nonmutual microfinance institutions, the draft of which will be prepared by the BCC by end-2005.

External sector

31. Despite the expected growth of exports resulting from the solid performance of the diamond, cobalt, and copper sectors, the trade deficit is likely to widen in 2005 owing to the increase in imports related to public and private investment projects. Consequently, the external current deficit will reach 5.1 percent of GDP in 2005, compared with 5.5 percent of GDP in 2004.

32. The government will continue to conduct a prudent debt policy. It will seek to sign all the bilateral debt relief agreements and convince all creditors to participate in the enhanced HIPC Initiative. The government is working with the World Bank on the repurchase of debt vis-à-vis London Club creditors. As regards commercial debt, the government will hire an audit firm to review the terms and conditions of all agreements signed with individual creditors and to certify the validity of new claims before negotiating debt relief agreements on terms similar to those of the enhanced HIPC Initiative. Any borrowing contracted (or

guaranteed) by the public sector, including by the BCC and the decentralized administrative entities (EADs), will observe the level of concessionality defined in the technical memorandum of understanding. Meanwhile, the installation of the new public debt management software, with support from external partners, will be completed by end-August 2006.

Good governance and other structural reforms

33. **The government is very concerned by the level of corruption, which undermines many sectors of the economy, and is determined to combat it**. First, it intends to strengthen budget procedures and increase the publication of information necessary to monitor budget execution. Second, following promulgation of the anticorruption law in March 2005, the authorities plan to conduct an information campaign to disseminate this law as well as the Code of Conduct for the Civil Service. Third, it will pursue the audits of public enterprises and financial agencies in Kinshasa and in the reunified territories. Fourth, the government is determined to reduce fraud at the borders by strengthening controls and streamlining procedures. Finally, the first two commercial courts are scheduled to open in the third quarter of 2005.

34. **The government will implement a significant number of structural reforms in 2005, including those indicated in Table 1.** The legal framework for the reorganization of public enterprises has been completed, and the four draft laws on the subject were submitted to parliament in February 2005**.** In addition, plans to reorganize eight key public enterprises should be completed by end-2005. A reorganization plan for the oil distribution company (COHYDRO) will be finalized by end-July 2005 and the financial audit will be completed by end-August 2005. The strategic audit of the Enterprise Council (*Conseil Supérieur du Portefeuille*) will be completed by end-July 2005.

35. **In the mining sector,** the government will ensure that it contributes more to the development of the economy and to government revenue. To this end, it will strictly enforce the provisions of the Mining Code and will complete the reorganization of the Mining Registry by end-September 2005 on the basis of the financial and organizational audits. With regard to GECAMINES, a private firm will manage the enterprise for 18 months starting before end-June 2005. In the diamond sector, upon conclusion of the audits of the main enterprises in the sector, the government, with support from the international community, will prepare a development strategy aimed at ensuring that the sector can further contribute to growth.

36. **In the forestry sector,** the government will focus on implementation of the Forestry Code, including the reforms already decided upon (see Table 1). In particular, in line with the Code, the government will implement the program for converting the former concessions into sustainable development concessions. In addition, before end-July 2005, the government will confirm by presidential decree the moratorium on awarding forestry concessions pending the completion of the conversion process and the implementation of the concession award procedures provided in the Forestry Code. Finally, before end-June 2005, the

government will publish the lists of the concessions that remain valid and those canceled for failure to pay forest area royalties for 2003, as well as a report on the forest royalties collected in 2003 and 2004 (prior action).

37. **Regarding the DDR program,** the following actions have been initiated: disarmament of former combatants (September 2004); establishment of a safety net for former combatants; and the opening of orientation centers (early 2005). This should make it possible to demobilize 50,000 former combatants in 2005.

38. **The draft of the Poverty Reduction Strategy Paper (PRSP) was circulated to civil society and to development partners in May 2005.** This version defines the government's priorities. However, the macroeconomic framework as well as a quantified estimate of the cost and impact of the proposed strategies have yet to be prepared. Following the incorporation of the 1-2-3 survey in Kinshasa and the surveys on the perception of poverty in the provinces into the paper, the final PRSP is expected to be adopted by government in the fourth quarter of 2005 as planned, following consultations with the development partners.

39. The government intends to build its statistical capacities with support from the international community, in particular the resident expert from the International Monetary Fund. Emphasis will be placed on improving the national accounts, the balance of payments, price indexes, and public debt management. The government will also request financial and technical support from the international community for strengthening administrative capacities for gathering and processing statistical information at the province level, where such capabilities are currently extremely weak.

III. Program Monitoring, Prior Actions, Performance Criteria, and Indicators

40. The Interministerial Committee Responsible for Monitoring Programs Concluded with International Financial Institutions (CISPI), chaired by the Minister of Finance, and the Interministerial Commission Responsible for Formulation of the Poverty Reduction Strategy, chaired by the Minister of Planning, will continue to implement the measures of the Government Economic Program and the poverty reduction strategy. The work of the two commissions will be supported by the Economic and Financial Sub-Committee comprising the Minister of Finance, the Minister of Budget and the Governor of the BCC, assisted by a technical committee of the two ministries and the BCC (the technical troika), as well as the Technical Committee for the Reforms. The Economic and Financial Commission will continue to ensure the coordination of all programs. The government's Letter of Intent and the Memorandum on Economic and Financial Policies will be disseminated to all political institutions, the central and provincial administrations, and civil society.

41. To ensure the complete success of the program, the government will implement the prior actions indicated in Table 2, and program execution will be monitored via performance criteria for end-September 2005 and structural benchmarks up to end-September 2005 (Tables 10 and 2).

Table 1. Democratic Republic of the Congo Summary of Structural Measures Other than Structural Benchmarks and Indicators

Measures	Timetable
Measures Relating to Revenue and the Management of Government Resources	
Reduction of exemptions	
Adoption by the government of recommendations of studies on exemptions and their rationalization.	August 2005
Report by Finance General Inspectorate and the Accounting Court on audit of exemptions granted under the investment code until end-2004.	December 2005
Revision of agreements signed with MIBA and SENGAMINES.	August 2005
Modernization and expansion of the role of OFIDA	
Conversion of OFIDA into the Customs Department of the Ministry of Finance.	September 2005
Modernization of the DGI	
Signature of the decree eliminating the fiscal franc.	July 2005
Freeze of new tax credit except those related to the prepayment of taxes on profits	Ongoing since January 2005
Generalized use of the tax number and updating of the taxpayer file.	August 2005
Adoption of legislation necessary for opening the pilot tax center in Kinshasa.	August 2005
Reduce the number of quasi-fiscal levies	
Finalization of an inventory and quantification of duties and fees collected on behalf of semipublic agencies.	July 2005
Measures Relating to the Budget and Government Expenditure	
Budget execution and monitoring	
Monthly production and publication of budget monitoring statements (ESBs) reconciled with the TOFE (Tableau des Opérations Financières de l'Etat) 30 days after the end of each month. Integration of externally financed expenditure and personnel expenditure in ESBs. Publication and submission of ESBs to parliament 30 days after end of each quarter.	June 2005
Limit the use of emergency procedures to less than 5 percent of total expenditure and integrate these expenditures into the expenditure system within the following 24 hours.	January 2005
Automatic rejection by the expenditure system of any appropriation overrun by budget line.	January 2005
Monthly transmission to Council of Ministers of report on execution of treasury cash flow plan broken down according to economic and administrative classification, with projection of cash flow plan for forthcoming month.	June 2005
Limit of the system of advances of funds to certain government departments. Renewal of advances only after use of previous advances have been justified.	2005

Table 1. Democratic Republic of the Congo Summary of Structural Measures Other than Structural Benchmarks and Indicators

Measures	Timetable
Public Accounting	
Clarification of the mechanism for the automatic debit of the Treasury account between the Ministry of Finance and BCC and the strengthening of management of government accounts at the BCC by the Treasury Department.	July 2005
Expenditure	
Ceiling on expenditure for fuel of CGF 700 million per month.	February 2005
Quarterly ceiling on mission expenses at one-fourth of budget appropriation (CGF 1.8 billion) and 20 percent reduction in per diem allowances.	March 2005
Adjustment of the payroll as soon as the results of the civil census become available.	Ongoing, 2005
Report on the streamlining of the number of those entitled to payments for water and electricity consumption.	July 2005
Action Plan of the Central Bank of the Congo	
Implementation of new accounting software.	March 2006
Create a single, centralized BCC structure responsible for government accounts.	November 2005
Prepare a revised estimated table of banknote withdrawals (“Table 6”).	July 2005
Reorganization of the treasury and assessment of system of internal controls.	September 2005
Purchase Congo franc banknotes and inputs via competitive bidding.	Immediate
Implementation of the new chart of accounts for commercial banks.	January 2006
Setting of operating mechanism for off-site supervision and of standardized framework for permanent files.	September 2005
Completion of study on the restructuring of the BCC’s balance sheet.	End-June 2005
Progressive implementation of the restructuring plan for the BCC starting with key directorates (accounting, foreign exchange services, and treasury) with the assistance of donors.	July-December 2005
Independent organizational audit of the BCC.	December 2005
Preparation of the simplified balance sheet for the BCC (i) on an “accelerated” basis each week, and (ii) on a monthly basis for the projection of the coming month (“Table 7”).	June 2005
Monthly justification of balances of transitory accounts (*comptes transitoires et de liaison)*.	July 2005
Implementation of foreign exchange trading room and software.	January 2006
Other Structural Measures	
Civil service reform	
Implementation of the simplified transitional payroll procedure and the short-term recommendations of the payroll audit.	September 2005
Retirement of the 10,000 employees selected for the first phase.	August 2005
Finalization of the civil service census and implementation of recommendations.	December 2005
Good governance and combating corruption	

Table 1. Democratic Republic of the Congo Summary of Structural Measures Other than Structural Benchmarks and Indicators

Measures	Timetable
Create an AML Financial Intelligence Unit.	July 2005
Prepare a draft BCC directive setting forth the responsibilities of financial institutions in respect of AML/FT.	August 2005
Publication by the Audit Office of its reports on execution of the 2001, 2002, and 2003 budgets.	July 2005
Overhaul of the legal and regulatory framework for government procurement, and establishment of the bodies responsible for the regulation, oversight, and signing of government contracts.	September 2005
Judicial system	
Establishment of the commercial courts at Kinshasa and Lubumbashi.	September 2005
Implementation of an action plan to strengthen the judicial system, based on the audit of the sector.	June 2005
Private sector development	
Adoption by the government of the draft law to join OHADA.	July 2005
Adoption of measures required for the implementation of the Labor Code.	December 2005
Public enterprise reform	
Completion of the strategic audit of the Enterprise Council.	July 2005
Completion of a reorganization plan for COHYDRO.	July 2005
Adoption and promulgation of draft laws pertaining to (a) divestment by the State from commercial activities; (b) Transformation of public enterprises into enterprises under common law or into public agencies; (c) general rules for the management of public enterprises; and (d) general rules for the management of public agencies.	September 2005
Reform of the mining sector	
Validation of mining titles.	September 2005
Signature of the contract entrusting management of GECAMINES to an international firm.	June 2005
Finalization of the restructuring of the Mining Registry.	September 2005
Launching of bidding for audits of CEEC and SENGAMINES.	June 2005
Launching of bidding to recruit consultant to study the diamond sector.	June 2005
Finalization of audit of MIBA.	August 2005
Finalization of audits of CEEC and SENGAMINES.	October 2005
Finalization of study on diamond sector.	December 2005
Reform of the forestry sector	
Implementation of the moratorium on new concession awards pending completion of the conversion process and introduction of the tender system.	Ongoing
Implementation of the area tax of US$0.20 per hectare and of ONATRA's tariff of US$5.00 per cubic meter consistent with government decree of March 2004. Transfers to decentralized administrative entities of 40 percent of the area tax collected in 2005.	June 2005

Table 2. Democratic Republic of the Congo: Prior Actions, Performance Criteria, and Structural Benchmarks, 2005

Measures	Timetable	Status
Prior actions		
Implementation of spending procedures from commitments to payments. Settlements of payments order by the Central Bank of the Congo (BCC) within 48 hours of their receipts. Electronic transmission to the treasury of information on debits and credits executed on the government accounts within 48 hours.		
Closing of 240 government accounts with commercial banks not meeting the criteria established for opening such accounts.		
Implementation of the results of the civil census in Kinshasa on the payroll for May.		
Submission of the Budget Monitoring Reports (*Etats de suivi budgétaire)* reconciled with the TOFE (*Tableau des Opérations Financières de l'Etat*) for the first quarter 2005 to parliament, and for April 2005 to the Council of Ministers.		
For the forestry sector, cancellation of concessions whose holders failed to pay the forest area fee for 2003 and publication of the list of cancelled concessions and list of concessions that are still valid. Publication of reports on the collection of forest area fees in 2003 and 2004.		
Selection of accounting firm to conduct audit of MIBA.		
Signing of interministerial order (*arrêté*) granting the tax office DGRAD the responsibility of collecting receipts of autonomous agencies (former BPO).		
Issuance of a Minister of Budget Circular indicating a reduction in mission daily allowance of 20 percent.		
Letter from the Minister of Budget informing ministries on their monthly budget allocations (for each budget line) taking into account the treasury's cash-flow position and execution in conformity with the quarterly treasury cash-flow plan, beginning in June 2005.		
Structural performance criteria		
Presidential decree naming the customs office OFIDA as the sole agency intervening at the one-stop window at Matadi and assessing the value of imports.	End-September 2005	
For government accounting, implementation of a simplified double-entry accounting framework by the Departments of Public Accounting and Treasury of the Ministry of Finance, involving inter alia their reorganization, revision of procedures, and training of staff.	End-September 2005	
Adoption by the government of the strategy for restructuring the BCC's balance sheet.	End-September 2005	
Implementation by the Ministry of Defense and the Ministry of Budget of results of military census in Kinshasa for the pay of August 2005	End-September 2005	

Table 2. Democratic Republic of the Congo: Prior Actions, Performance Criteria, and Structural Benchmarks, 2005

Measures	Timetable	Status
Structural benchmarks		
Completion of an inventory and quantification of the duties and fees collected for quasi-public agencies (such as ONATRA, OCC, OGEFREM, and CEEC).	End-September 2005	
Implementation of the simplified transitional payroll system, restoration of budgetary and administrative oversight on the pay, and transfers of paymasters to the treasury.	End September 2005	

Table 3. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2003–08

	2003	2004 IMF Country Report No. 04/243	2004 Est.	2005 IMF Country Report No. 04/243	2005 Prog.	2006 Proj.	2007 Proj.	2008 Proj.
	(Annual percentage change; unless otherwise indicated)							
GDP and prices								
Real GDP	5.7	6.3	6.8	7.0	6.6	7.0	7.0	6.5
GDP deflator	13.3	5.0	5.4	5.0	22.5	5.5	4.6	4.4
Consumer prices, end-of-period	4.4	6.0	9.2	5.0	22.6	6.2	5.0	5.0
External sector								
Exports, f.o.b. (in U.S. dollar terms)	24.6	10.3	35.3	5.1	12.6	0.1	8.5	5.3
Imports, f.o.b. (in U.S. dollar terms)	37.0	33.4	37.4	20.9	19.9	5.7	9.9	6.6
Export volume	0.3	4.3	20.1	7.0	8.8	2.4	9.9	5.7
Import volume	27.4	23.5	26.4	22.4	17.6	5.3	9.2	5.7
Terms of trade	15.6	-2.1	3.6	-0.6	1.5	-2.7	-2.0	-1.2
Nominal effective exchange rate 1/	-19.5	…	-10.8	…	…	…	…	…
Real effective exchange rate 1/	-11.1	…	-9.1	…	…	…	…	…
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)							
Money and credit								
Broad money	32.3	...	72.9	...	25.6	...	...	...
Net foreign assets	-39.0	...	-19.0	...	24.4	...	...	...
Net domestic assets	72.2	...	92.9	...	3.5			
Of which:								
Net credit to government	29.0	...	-1.9	...	-12.3	...	...	...
Credit to the private sector (annual percent change)	46.9	...	104.9	...	42.9	...	...	...
	(In percent of GDP; unless otherwise indicated)							
Central government finance								
Total government revenue	7.7	9.2	9.6	10.3	10.7	11.5	11.9	12.0
Grants	2.0	5.9	2.0	10.0	9.3	7.5	7.8	7.8
Total government expenditure 2/	13.6	19.9	15.4	25.3	22.3	20.6	20.9	21.3
Underlying fiscal balance (cash basis)	-1.2	-0.7	-0.9	0.2	1.1	1.0	0.8	0.5
Overall fiscal balance (payment order basis, including grants)	-3.9	-4.9	-3.8	-5.0	-2.4	-1.7	-1.3	-1.5
Primary fiscal balance (cash order basis, including grants)	-1.0	-2.4	-0.8	-2.6	-0.1	0.7	0.8	0.3
Excluding exceptional spending	-1.0	-1.7	-0.8	-2.2	0.6	0.7	0.8	0.3
Overall consolidated fiscal balance (cash basis, including grants) 3/	-2.1	-3.2	-1.9	-4.6	-2.2	-1.9	-1.6	-1.9
Investment and saving								
Gross national saving	10.8	13.8	7.4	15.0	12.6	12.3	13.0	15.1
Government	-1.5	2.0	-4.0	5.5	0.0	3.6	3.7	7.2
Nongovernment	12.3	11.8	11.4	9.5	12.6	8.7	9.3	7.9
Investment	12.2	17.1	12.8	21.5	17.7	20.2	20.9	21.7
Government 4/	2.7	6.6	2.8	10.5	7.2	9.2	9.4	9.7
Nongovernment	9.5	10.5	10.0	11.0	10.5	11.0	11.5	12.0
Balance of payments								
Exports of goods and services	26.1	23.5	30.5	22.9	32.3	28.8	28.7	28.0
Imports of goods and services	33.3	35.7	39.4	40.2	45.6	42.0	42.5	41.9
Current account balance, including transfers	-1.5	-3.3	-5.5	-6.5	-5.1	-7.9	-7.9	-6.6
Current account balance, excluding transfers	-9.8	-13.3	-12.1	-18.7	-16.2	-15.4	-15.5	-13.9
Gross official reserves (end-of-period, in millions of U.S. dollars)	97.8	209.3	236.2	318.2	360.2	470.2	522.2	619.3
Gross official reserves								
(in weeks of non-aid-related imports of goods and services)	2.4	6.2	5.2	8.9	7.2	8.5	8.9	9.5
	(In millions of U.S. dollars; unless otherwise indicated)							
External public debt								
Total stock, including IMF 5/	10,443	10,783	10,390	11,032	10,735	5,041	5,104	5,084
Net present value (NPV) of debt 6/	7,246	7,546	7,599	7,756	7,630	1,608	1,637	1,719
NPV (in percent of exports of goods and services) 6/	600.6	540.1	491.0	495.2	401.4	74.7	71.3	71.6
Scheduled debt service	125.8	91.7	94.5	135.0	144.8	218.1	252.2	281.0
In percent of exports of goods and services	8.5	5.8	4.8	8.0	6.5	9.7	10.4	11.0
In percent of government revenue	22.8	9.0	12.6	9.1	10.5	14.8	15.3	15.7
Exchange rate, Congo francs/U.S. dollar								
Period average	404.7	…	397.8	…	...	…	…	…
End-of-period	372.5	…	444.1	…	...	…	…	…
Memorandum items:								
Nominal GDP (in billions of Congo francs)	2,299	2,565	2,587	2,881	3,380	3,814	4,270	4,747

Sources: Congolese authorities; and staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation.
2/ Includes interest due before debt relief and expenditure financed by HIPC resources.
3/ Cash balance after debt relief on interest payments.
4/ From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.
5/ End-of-period debt stock, including arrears and after HIPC Initiative assistance.
6/ Estimates and projections based on end-2002 DSA and after HIPC Initiative assistance assuming completion point in 2006, and includes assistance beyond the terms of the enhanced HIPC Initiative by some Paris Club creditors on a voluntary bilateral basis. Exports are on a three-year backward moving average.

Table 4. Democratic Republic of the Congo: Treasury Cash-Flow Plan, 2004–05

	2004		2005									
	Annual Est.		Jan.–Mar. Realisation		Apr.–Jun. Prog.		Jul.–Sep. Prog.		Oct.–Dec. Prog.		Annual Prog.	
	In millions of Congo francs	In percent of GDP	In millions of Congo francs	In percent of GDP	In millions of Congo francs	In percent of GDP	In millions of Congo francs	In percent of GDP	In millions of Congo francs	In percent of GDP	In millions of Congo francs	In percent of GDP
Total revenue and grants	299,357	11.6	123,104	3.6	137,936	4.1	188,669	5.6	224,435	6.6	674,144	19.9
Total revenue	248,003	9.6	86,949	2.6	84,743	2.5	90,365	2.7	98,168	2.9	360,225	10.7
Customs and excise (OFIDA)	104,105	4.0	28,549	0.8	35,456	1.0	41,836	1.2	43,573	1.3	149,414	4.4
Direct and indirect taxes (DGC)	71,355	2.8	25,794	0.8	25,601	0.8	24,735	0.7	21,591	0.6	97,721	2.9
DGRAD (including revenue from public enterpri	18,563	0.7	5,110	0.2	6,964	0.2	7,090	0.2	15,600	0.5	34,764	1.0
GECAMINES	0	0.0	0	0.0	0		0		0	0.0	0	0.0
MIBA	0	0.0	7	0.0	610	0.0	915	0.0	2,129	0.1	3,662	0.1
Petroleum	52,096	2.0	26,975	0.8	16,112	0.5	15,788	0.5	15,788	0.5	74,663	2.2
Off-budget revenue	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total grants	51,354	2.0	36,154	1.1	53,193	1.6	98,304	2.9	126,267	3.7	313,919	9.3
Of which : budget grants	2,404	0.1	2,900	0.1	0	0.0	1,758	0.1	25,647	0.8	30,305	0.9
Of which: project grants	26,252	1.0	4,594	0.1	34,347	1.0	68,154	2.0	81,384	2.4	188,479	5.6
Of which: HIPC debt relief	22,698	0.9	28,660	0.8	18,846	0.6	28,392	0.8	19,236	0.6	95,134	2.8
Total expenditure 1/	344,224	13.3	121,511	3.6	142,739	4.2	243,229	7.2	240,112	7.1	747,590	22.1
Current expenditure	250,323	9.7	82,975	2.5	72,341	2.1	78,572	2.3	74,650	2.2	308,538	9.1
Wages	93,223	3.6	25,596	0.8	31,349	0.9	33,568	1.0	33,454	1.0	123,967	3.7
Military and police	33,849	1.3	8,386	0.2	8,579	0.3	8,425	0.2	8,311	0.2	33,701	1.0
Civilians	59,374	2.3	17,210	0.5	22,770	0.7	25,143	0.7	25,143	0.7	90,266	2.7
Interest payments	23,073	0.9	22,414	0.7	15,080	0.4	18,916	0.6	13,271	0.4	69,681	2.1
External debt (interest payment after debt relief	15,481	0.6	16,389	0.5	14,830	0.4	21,053	0.6	15,409	0.5	67,681	2.0
Domestic debt (interest payment)	7,592	0.3	6,025	0.2	250	0.0	-2,138	-0.1	-2,138	-0.1	2,000	0.1
Other current expenditure	119,185	4.6	33,060	1.0	21,169	0.6	22,201	0.7	22,564	0.7	98,994	2.9
Institutions	27,930	1.1	3,261	0.1	5,193	0.2	4,747	0.1	4,747	0.1	17,947	0.5
Ministries	60,333	2.3	22,235	0.7	6,951	0.2	5,588	0.2	5,588	0.2	40,362	1.2
Centralized payments (utilities)	19,174	0.7	4,879	0.1	6,140	0.2	8,617	0.3	8,617	0.3	28,253	0.8
Provinces	11,748	0.5	2,685	0.1	2,886	0.1	3,249	0.1	3,612	0.1	12,432	0.4
Transfers and subsidies	14,842	0.6	1,906	0.1	4,742	0.1	3,887	0.1	5,360	0.2	15,896	0.5
Transfers to public agencies and *budgets annex*	1,789	0.1	66	0.0	839	0.0	1,243	0.0	1,243	0.0	3,390	0.1
Retrocessions to revenue collecting agencies	10,725	0.4	1,840	0.1	3,904	0.1	2,645	0.1	4,118	0.1	12,506	0.4
Off-budget expenditure	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Capital expenditure	72,059	2.8	19,605	0.6	41,403	1.2	72,812	2.2	99,787	3.0	233,607	6.9
Foreign-financed investment	56,999	2.2	13,518	0.4	38,236	1.1	68,727	2.0	96,786	2.9	217,267	6.4
Congolese-financed investment (financed throug	15,060	0.6	6,087	0.2	3,167	0.1	4,085	0.1	3,000	0.1	16,340	0.5
Other HIPC-related expenditure	1,018	0.0	789	0.0	4,229	0.1	6,344	0.2	7,670	0.2	19,032	0.6
Exceptional expenditures 3/	398	0.0	0	0.0	21,481	0.6	81,364	2.4	54,170	1.6	157,015	4.6
Domestically financed	0	0.0	0	0.0	4,050	0.1	6,076	0.2	8,101	0.2	18,227	0.5
Foreign financed	398	0.0	0	0.0	17,431	0.5	75,288	2.2	46,069	1.4	138,788	4.1
Additional 2004 payment ordered spending paid in			15,471	0.5	0		0		-71	0.0	15,400	0.5
Repayment of arrears	1,350	0.1	229	0.0	0	0.0	0	0.0	-229	0.0	0	0.0
External arrears	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Domestic arrears	2,000	0.1	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
BCC treasury deficit	19,076	0.7	2,441	0.1	3,285	0.1	4,137	0.1	4,137	0.1	14,000	0.4
Consolidated domestic balance (cash basis) 4/	-23,343	-0.9	-4,655	-0.1	12,501	0.4	12,204	0.4	16,321	0.5	36,371	1.1
Consolidated primary balance(cash basis)	-21,794	-0.8	24,007	0.7	10,277	0.3	-35,644	-1.1	-2,405	-0.1	-3,766	-0.1
Consolidated balance (cash basis)	-44,867	-1.7	1,593	0.0	-4,803	-0.1	-54,560	-1.6	-15,677	-0.5	-73,447	-2.2
Total financing	44,867	1.7	-1,593	0.0	4,803	0.1	54,560	1.6	15,677	0.5	73,447	2.2
BCC and other banking system 5/	215	0.0	17,848	0.5	-9,238	-0.3	-17,658	-0.5	-17,460	-0.5	-26,508	-0.8
Foreign financing	49,534	1.9	-21,746	-0.6	12,009	0.4	72,218	2.1	33,137	1.0	99,955	3.0
Amortization (net payment) 2/	-39,486	-1.5	-29,689	-0.9	-16,463	-0.5	-32,366	-1.0	-17,826	-0.5	-96,344	-2.9
Additional financing	89,020	3.4	7,943	0.2	28,473	0.8	104,584	3.1	50,963	1.5	196,299	5.8
Of which: project loans	28,130	1.1	7,943	0.2	28,473	0.8	50,301	1.5	55,299	1.6	142,016	4.2
Of which: project loans		0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Of which: budget loans	60,890	2.4	0	0.0	0	0.0	54,284	1.6	0	0.0	54,284	1.6
Discrepancy	-4,846	-0.2	2,304	0.1	2,032	0.1	0	0.0	-4,336	-0.1	0	0.0

Sources: Data provided by the Congolese authorities; and IMF staff estimates and projections.

1/ Including domestic arrears and the balance of the BCC (for the latter,a minus sign corresponds to a surplus).
2/ Includes deposits into the HIPC account at the BCC.
3/ Exceptional expenditure include spending for the DDR program, cost of the elections, payments for retirement allowances, repayment of the domestic debt, and payment for bank restructuring.
4/ Domestic primary balance is defined as revenue (excluding grants), less expenditure (excluding interest on debt, foreign financed capital expenditures and HIPC related expenditures). It does include all exceptional spending (including foreign financed
5/ Net banking system credit to the government plus treasury balance of the Central Bank.

Table 5. Democratic Republic of the Congo: Monetary Survey, 2003–05

	2003	2004	2005 Mar. Act.	2005 Jun. Prog.	2005 Sep. Prog.	2005 Dec. Prog.
			(In millions of Congo francs)			
Net foreign assets	-258,995	-282,597	-294,289	-305,669	-267,756	-230,040
Net domestic assets	389,113	504,824	563,629	573,249	542,715	512,379
Domestic credit	49,205	68,746	94,859	87,820	73,509	59,395
Net credit to government	29,582	27,212	45,060	35,822	18,164	704
Credit to the private sector	19,395	39,735	49,052	50,802	53,796	56,791
Credit to parastatals	228	1,799	748	1,197	1,548	1,900
Other items, net (including valuation change)	339,908	436,078	468,770	485,428	469,206	452,984
Broad money (M2)	124,503	215,270	258,785	256,410	263,390	270,370
Narrow money (M1)	72,110	117,078	118,245	118,767	125,198	131,628
Currency in circulation	63,148	101,467	102,342	105,168	108,154	111,139
Demand deposits	8,962	15,611	15,904	13,599	17,044	20,489
Quasi money	52,393	98,192	140,539	137,643	138,192	138,742
Time deposits in domestic currency	321	362	862	501	677	853
Foreign currency deposits	52,071	97,830	139,678	137,141	137,515	137,889
Import deposits	5,616	6,956	10,556	11,169	11,569	11,969
			(Year-on-year change in percent)			
Net foreign assets	-16.5	-9.1	-16.2	-24.0	-1.7	18.6
Net domestic assets	21.2	29.7	40.6	38.5	21.6	1.5
Domestic credit	200.8	39.7	90.0	148.0	37.6	-13.6
Net credit to government	1,170.7	-8.0	137.2	1,177.9	30.9	-97.4
Credit to the private sector	46.9	104.9	70.7	62.5	42.9	42.9
Credit to parastatals	-72.4	688.3	-65.6	-10.3	-18.5	5.6
Other items, net (including valuation change)	11.5	28.3	33.6	28.3	19.4	3.9
Broad money (M2)	32.3	72.9	83.6	58.2	48.1	25.6
Narrow money (M1)	24.6	62.4	62.4	34.8	21.5	12.4
Currency in circulation	26.9	60.7	61.4	40.2	23.2	9.5
Demand deposits	10.2	74.2	68.8	3.9	11.6	31.3
Quasi money	44.7	87.4	106.2	85.9	84.7	41.3
Time deposits in domestic currency	98.8	12.8	59.4	137.3	92.2	135.4
Foreign currency deposits	44.5	87.9	106.6	85.8	84.6	40.9
Import deposits	18.4	23.9	61.9	113.7	121.4	72.1
			(Annual change in percent of beginning-of-period broad money)			
Net foreign assets	-39.0	-19.0	-5.4	-10.7	6.9	24.4
Net domestic assets	72.2	92.9	27.3	31.8	17.6	3.5
Domestic credit	34.9	15.7	12.1	8.9	2.2	-4.3
Net credit to government	29.0	-1.9	8.3	4.0	-4.2	-12.3
Credit to the private sector	6.6	16.3	4.3	5.1	6.5	7.9
Credit to parastatals	-0.6	1.3	-0.5	-0.3	-0.1	0.0
Other items, net (including valuation change)	37.3	77.2	15.2	22.9	15.4	7.9
Broad money (M2)	32.3	72.9	20.2	19.1	22.4	25.6
Narrow money (M1)	15.1	36.1	0.5	0.8	3.8	6.8
Currency in circulation	14.2	30.8	0.4	1.7	3.1	4.5
Demand deposits	0.9	5.3	0.1	-0.9	0.7	2.3
Quasi money	17.2	36.8	19.7	18.3	18.6	18.8
Time deposits in domestic currency	0.2	0.0	0.2	0.1	0.1	0.2
Foreign currency deposits	17.0	36.8	19.4	18.3	18.4	18.6
Import deposits	0.9	1.1	1.7	2.0	2.1	2.3
Memorandum items:						
Nominal GDP (in billions of Congo francs)	2,299	2,587	...	...	...	3,380
Velocity (GDP/broad money)	18.5	12.0	...	...	...	12.5
Foreign currency deposits (in percent of M2)	41.8	45.4	54.0	53.5	52.2	51.0
Foreign currency deposits (in percent of total deposits)	84.9	86.0	89.3	90.7	88.6	86.6

Sources: Congolese authorities; and staff estimates and projections.

Table 6. Democratic Republic of the Congo: Accounts of the Central Bank of the Congo, 2003–05

	2003	2004	2005			
			Mar. Act.	Jun. Prog.	Sep. Prog.	Dec. Prog.
			(In millions of Congo francs)			
Net foreign assets	-294,888	-348,404	-403,902	-414,627	-372,168	-329,907
Net domestic assets	370,038	471,086	525,640	539,502	502,538	465,771
Domestic credit	42,490	52,043	68,939	75,847	51,349	27,049
Net credit to government	36,900	38,382	58,244	56,669	34,172	11,874
Credit to the private sector	1,689	1,057	894	930	993	1,057
Credit to parastatals	0	0	0	0	0	0
Claims on deposit money banks	3,901	12,604	9,801	18,248	16,183	14,118
Other items, net	327,549	419,042	456,701	463,655	451,189	438,722
Base money	75,151	122,681	121,738	124,875	130,370	135,864
Narrow base money	67,728	111,923	110,750	113,248	118,129	123,009
Currency in circulation	65,897	105,889	106,146	108,470	111,972	115,474
Deposits of deposit money banks	1,476	5,788	4,191	4,427	5,760	7,093
Private sector deposits	270	53	243	216	233	250
Parastatals' deposits	86	193	170	134	164	193
Foreign currency deposits	3,964	6,071	5,153	5,589	6,122	6,655
Import deposits	3,459	4,688	5,835	6,038	6,119	6,200
			(Year-on-year change in percent)			
Net foreign assets	-21.4	-18.1	-30.1	-45.3	-22.8	5.3
Net domestic assets	21.6	27.3	35.6	42.5	22.2	-1.1
Domestic credit	341.0	22.5	61.0	176.0	54.7	-48.0
Net credit to government	574.3	4.0	87.2	340.8	39.2	-69.1
Credit to the private sector	23.9	-37.4	-44.0	-39.3	-45.1	0.0
Credit to parastatals	0.0	0.0	2.1	8.0	-9.7	0.0
Claims on deposit money banks	39.4	223.1	-3.0	39.4	136.7	12.0
Other items, net	11.2	27.9	32.5	32.0	19.4	4.7
Base money	22.5	63.2	57.8	33.9	20.6	10.7
Narrow base money	29.3	65.3	56.1	34.1	19.3	9.9
Currency in circulation	27.8	60.7	57.9	39.5	19.0	9.1
In bank vaults	52.6	60.9	-0.1	20.4	-39.2	-2.0
Outside banks	26.9	60.7	61.4	40.2	23.2	9.5
Deposits of deposit money banks	131.3	292.2	35.3	-29.4	35.2	22.5
Private sector deposits	111.3	-80.2	-49.8	-34.4	-61.6	368.0
Parastatal deposits	65.6	125.7	14.7	29.3	158.3	0.0
Foreign currency deposits	-25.7	53.2	92.0	5.6	13.1	9.6
Import deposits	-5.2	35.5	66.3	72.6	66.9	32.3
			(Annual change in percent of beginning-of-period base money)			
Net foreign assets	-84.8	-71.2	-45.2	-54.0	-19.4	15.1
Net domestic assets	107.3	134.5	44.5	55.8	25.6	-4.3
Domestic credit	53.5	12.7	13.8	19.4	-0.6	-20.4
Net credit to government	51.2	2.0	16.2	14.9	-3.4	-21.6
Credit to the private sector	0.5	-0.8	-0.1	-0.1	-0.1	0.0
Credit to parastatals	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	1.8	11.6	-2.3	4.6	2.9	1.2
Other items, net	53.7	121.7	30.7	36.4	26.2	16.0
Base money	22.5	63.2	-0.8	1.8	6.3	10.7
Narrow base money	25.0	58.8	-1.0	1.1	5.1	9.0
Currency in circulation	23.4	53.2	0.2	2.1	5.0	7.8
Bank deposits	1.4	5.7	-1.3	-1.1	0.0	1.1
Private sector deposits	0.2	-0.3	0.2	0.1	0.1	0.2
Parastatal deposits	0.1	0.1	0.0	0.0	0.0	0.0
Foreign currency deposits	-2.2	2.8	-0.7	-0.4	0.0	0.5
Import deposits	-0.3	1.6	0.9	1.1	1.2	1.2

Sources: Congolese authorities; and staff estimates and projections.

Table 7. Democratic Republic of the Congo: Monetary Survey, 2003–05

	2003 1/	2004			2005			
		IMF Country Report No. 04/243 1/	Act. 1/	Act. 2/	Mar. Act. 3/	Jun. Prog. 3/	Sep. Prog. 3/	Dec. Prog. 3/
	(In millions of Congo francs)							
Net foreign assets	-186,486	-145,636	-149,526	-282,597	-269,772	-277,089	-247,948	-219,005
Net domestic assets	307,481	303,772	341,500	504,824	521,951	526,949	508,442	490,132
Domestic credit	48,399	47,112	61,846	68,746	90,286	82,934	69,473	56,210
Net credit to government	30,423	14,364	30,124	27,212	45,060	35,822	18,164	704
Credit to the private sector	17,785	30,973	30,451	39,735	44,563	46,012	49,809	53,606
Credit to parastatals	192	1,775	1,271	1,799	662	1,100	1,500	1,900
Other items, net (including valuation change)	259,081	256,660	279,654	436,078	431,665	444,016	438,969	433,922
Broad money (M2)	116,267	149,636	187,063	215,270	242,829	240,016	250,035	260,054
Narrow money (M1)	72,110	92,206	117,588	117,078	118,245	118,767	125,198	131,628
Currency in circulation	63,148	80,506	101,467	101,467	102,342	105,168	108,154	111,139
Demand deposits	8,962	11,700	16,121	15,611	15,904	13,599	17,044	20,489
Quasi money	44,157	57,430	69,475	98,192	124,584	121,248	124,837	128,426
Time deposits in domestic currency	321	900	362	362	862	501	677	853
Foreign currency deposits	43,835	56,530	69,113	97,830	123,722	120,747	124,160	127,573
Import deposits	4,728	8,500	4,912	6,956	9,350	9,845	10,459	11,073
	(Year-on-year change in percent)							
Net foreign assets	-7.1	21.9	19.8	12.5	12.8	7.5	15.8	22.5
Net domestic assets	15.8	-1.2	11.1	8.8	11.4	10.2	5.6	-2.9
Domestic credit	241.2	-2.7	27.8	34.3	69.3	112.7	26.7	-18.2
Net credit to government	1,206.8	-52.8	-1.0	-8.0	137.2	1,177.9	30.9	-97.4
Credit to the private sector	59.1	74.2	71.2	86.1	40.1	32.8	27.8	34.9
Credit to parastatals	-71.7	825.0	562.3	561.4	-73.7	-28.0	-24.5	5.6
Other items, net (including valuation change)	3.0	-0.9	7.9	5.6	3.9	1.1	2.9	-0.5
Broad money (M2)	32.7	28.7	60.9	60.0	60.1	38.9	37.9	20.8
Narrow money (M1)	24.6	27.9	63.1	62.4	62.4	34.8	21.5	12.4
Currency in circulation	26.9	27.5	60.7	60.7	61.4	40.2	23.2	9.5
Demand deposits	10.2	30.6	79.9	74.2	68.8	3.9	11.6	31.3
Quasi money	48.5	30.1	57.3	57.4	58.0	43.2	59.4	30.8
Time deposits in domestic currency	98.8	180.2	12.8	12.8	59.4	137.3	92.2	135.4
Foreign currency deposits	48.2	29.0	57.7	57.6	58.0	43.0	59.3	30.4
Import deposits	21.4	79.8	3.9	3.9	23.8	64.6	91.2	59.2
	(Annual change in percent of beginning-of-period broad money)							
Net foreign assets	-14.1	35.1	31.8	29.9	6.0	2.6	16.1	29.5
Net domestic assets	47.8	-3.2	29.3	30.4	8.0	10.3	1.7	-6.8
Domestic credit	39.0	-1.1	11.6	13.0	10.0	6.6	0.3	-5.8
Net credit to government	32.1	-13.8	-0.3	-1.8	8.3	4.0	-4.2	-12.3
Credit to the private sector	7.5	11.3	10.9	13.7	2.2	2.9	4.7	6.4
Credit to parastatals	-0.6	1.4	0.9	1.1	-0.5	-0.3	-0.1	0.0
Other items, net (including valuation change)	8.7	-2.1	17.7	17.3	-2.0	3.7	1.3	-1.0
Broad money (M2)	32.7	28.7	60.9	60.0	12.8	11.5	16.1	20.8
Narrow money (M1)	16.2	17.3	39.1	33.4	0.5	0.8	3.8	6.8
Currency in circulation	15.3	14.9	33.0	28.5	0.4	1.7	3.1	4.5
Demand deposits	0.9	2.4	6.2	4.9	0.1	-0.9	0.7	2.3
Quasi money	16.5	11.4	21.8	26.6	12.3	10.7	12.4	14.0
Time deposits in domestic currency	0.2	0.5	0.0	0.0	0.2	0.1	0.1	0.2
Foreign currency deposits	16.3	10.9	21.7	26.6	12.0	10.6	12.2	13.8
Import deposits	1.0	3.2	0.2	0.2	1.1	1.3	1.6	1.9
Memorandum items:								
Nominal GDP (in billions of Congo francs)	2,299	0	2,587	2,587	...	...	...	3,380
Velocity (GDP/broad money)	19.8	0.0	13.8	12.0	...	...	...	13.0
Foreign currency deposits (in percent of M2)	37.7	37.8	36.9	45.4	51.0	50.3	49.7	49.1
Foreign currency deposits (in percent of total deposits)	82.5	81.8	80.7	86.0	88.1	89.5	87.5	85.7

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

1/ Program exchange rate: US$1 = CGF 313.6.
2/ At end-2004 exchange rate, US$1 = CGF 444.09.
3/ At program exchange rate: US$1 = CGF 444.09.

Table 9. Democratic Republic of the Congo: Balance of Payments Summary, 2003–08

	2003	2004 IMF Country Report No. 04/243 1/	2004 Est.	2005 IMF Country Report No. 04/243 1/	2005 Prog.	2006 Proj.	2007 Proj.	2008 Proj.
Current account	-83	-225	-355	-474	-354	-618	-664	-597
Merchandise trade	-156	-460	-243	-780	-423	-562	-646	-718
Exports, f.o.b.	1,340	1,413	1,813	1,485	2,042	2,044	2,218	2,335
Of which: diamonds	816	857	828	932	989	1,154	1,241	1,313
Imports, f.o.b.	-1,496	-1,873	-2,056	-2,265	-2,465	-2,607	-2,864	-3,053
Of which: aid-related imports	-309	-659	-306	-878	-565	-499	-519	-568
Services	-253	-361	-333	-485	-499	-466	-516	-540
Non-aid related balance on services	-149	-148	-222	-174	-285	-282	-334	-353
Receipts	144	176	172	196	191	196	197	213
Expenditure	-398	-537	-505	-681	-690	-662	-712	-753
Of which: aid-related imports	-104	-213	-112	-311	-214	-184	-181	-186
Income	-170	-226	-274	-286	-337	-356	-357	-247
Receipts	73	72	91	75	105	123	150	193
Expenditure	-243	-298	-365	-361	-442	-479	-507	-439
Of which: interest payments 1/	-196	-207	-201	-230	-220	-231	-220	-211
Current transfers	497	822	496	1,078	905	766	855	907
Of which: official aid	475	675	432	894	768	583	643	667
Capital and financial account	-113	33	-112	149	132	106	176	329
Official capital	-94	171	1	232	97	-126	-145	-104
Gross disbursements	148	375	220	525	402	322	330	371
Of which: net new financing	148	375	220	525	402	322	330	371
Scheduled amortization 2/	-242	-203	-219	-293	-305	-449	-475	-476
Private capital (net)	-18	-139	-113	-83	34	232	321	433
Of which: foreign direct investment	391	204	435	320	551	633	697	765
Balance before errors and omissions	-195	-192	-467	-325	-223	-512	-488	-268
Errors and omissions	-257	0	190	0	0	0	0	0
Overall balance	-452	-192	-277	-325	-223	-512	-488	-268
Financing	-26	-386	-408	-63	-865	-83	-134	-353
Net change in non-Fund arrears	-166	-256	-350	0	-707	0	0	0
Net banking sector reserves (increase, -)	140	-130	-59	-63	-157	-83	-134	-353
Of which: net Fund credit	68	79	69	79	37	39	-61	-127
Financing need before exceptional assistance	-478	-579	-686	-388	-1,087	-596	-622	-620
Exceptional financing	478	579	686	388	1,087	461	504	532
Consolidation of arrears	197	281	380	0	707	0	0	0
Debt relief on current debt service	282	298	305	388	380	461	504	532
Relief from Naples flow rescheduling 3/ 4/	118	57	57	32	32	0	0	0
Relief from the capitalization of moratorium interest	125	125	124	62	62	0	0	0
Relief from the HIPC Initiative 5/	141	178	175	300	270	352	392	430
Relief beyond the HIPC Initiative	22	63	74	57	78	110	112	102
Residual financing need (overfinancing, +)	0	0	0	0	0	-134	-118	-88
			(In percent of GDP; unless otherwise indicated)					
Memorandum items:								
Debt service, after debt relief (percentage of exports of goods and services) 6/	8.5	5.8	4.8	8.0	6.5	9.7	10.4	11.0
Current account balance, including grants, before debt relief	-1.5	-3.3	-5.5	-6.5	-5.1	-7.9	-7.9	-6.6
Current account balance, excluding official transfers, before debt relief	-9.8	-13.3	-12.1	-18.7	-16.2	-15.4	-15.5	-13.9
Current account balance, including grants, after debt relief	-0.8	-2.0	-4.0	-3.6	-2.2	-4.1	-4.0	-3.2
Current account balance, excluding grants, after debt relief	-9.2	-12.0	-10.7	-15.8	-13.4	-11.6	-11.6	-10.6
Gross official reserves (in millions of U.S. dollars)	97.8	209.3	236.2	318.2	360.2	470.2	522.2	619.3
In weeks of total imports	7.6	0.0	0.0	0.0	0.0	7	8	8
In weeks of non-aid-related imports of goods and services	2.4	6.2	5.2	8.9	7.2	8.5	8.9	9.5
HIPC Initiative assistance deposits (in millions of U.S. dollars) 7/	17.0	75.5	74.7	201.4	194.9	298.5	330.7	303.3

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

1/ Including interest due to the IMF.
2/ Excluding repayments to the IMF.
3/ The Naples flow rescheduling was concluded in September 2002. It provided for a rescheduling of arrears and current debt service on eligible debt during the consolidation period (July 2002-June 2005) after a cancellation of 67 percent in net present value (NPV) terms of arrears outstanding at June 30, 2002 and of current debt service during the consolidation period. In addition, the Paris Club treatment provided for a capitalization of moratorium interest on debt that has been rescheduled. To facilitate the clearance of arrears on short-term debt and post-cutoff-date (June 30, 1983) debt, as well as the servicing of post-cutoff-date debt, the Paris Club treatment envisaged a repayment of the amounts due in accordance with a new payments schedule.
4/ At the end of 2002, arrears outstanding to Paris Club creditors had been cleared, and, accordingly, Naples flow rescheduling applies only to current debt service.
5/ Including the capitalization of moratorium interest.
6/ It takes into account the Naples flow rescheduling, the capitalization of moratorium interest, the Cologne flow rescheduling, the additional debt-service relief beyond the Cologne flow rescheduling, the grants provided by multilateral creditors in the context of the enhanced HIPC Initiative, and the impact of the stock-of-debt operation (including any additional cancellation beyond the HIPC Initiative) at the completion point on debt service. The data also take into account the rescheduling agreements that have already been signed with some commercial creditors as well as the impact on debt service of the accumulation of arrears to non-Paris Club creditors.
7/ The amount of HIPC assistance deposited into a special account at the central bank. For bilateral and commercial creditors, it includes the debt relief resulting from the enhanced HIPC Initiative (excluding debt relief beyond the HIPC Initiative) following the use of all traditional debt-relief mechanisms, including a hypothetical stock-of-debt operation on Naples terms. Only assistance based on rescheduling agreeements that have been concluded are taken into account. For multilateral creditors, it includes the amount of HIPC grants that are made available for the purpose of delivering their share of assistance under the Initiative.

Table 10. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Benchmarks, 2003–05 1/
(In millions of Congo francs; unless otherwise indicated)

	Stocks		Cumulative Changes 2/										Stock	Cumulative Changes 2/			
	2003	2004	End-Sep. 2004 Performance Criteria					End-Dec. 2004 Indicative Targets					End-2004	2005			
	Dec.	Sep.	Prog.	Prog. Adj.	Act.	Act. Adj.	Observation	Prog.	Prog. Adj.	Act.	Act. Adj.	Observation	Dec.	March Est.	Jun. Proj.	End Sep. Perf. Criteria	Dec. Indic. Targets
Floor on the net foreign assets of the BCC (in millions of U.S. dollars) 3/ 4/	-691.0	-609.5	86	75	81	80	Observed	93	84	54	50	Not Observed	-785	-42	-56	14	83
Ceiling on net domestic assets of the BCC 3/ 4/	290,679	296,858	-13,691	-10,215	6,179	6,451	Not Observed	-10,268	-7,435	28,525	30,166	Not Observed	471,086	16,260	25,494	257	-24,783
Ceiling on net bank credit to government 4/ 5/	30,423	16,561	-21,572	-18,096	-11,720	-12,792	Not Observed	-16,058	-13,225	1,481	1,603	Not Observed	27,212	16,867	14,782	-2,876	-26,508
Ceiling on BCC credit to nonfinancial public sector enterprises	0	0	0		0		Observed	0		0	0	Observed		...	...	...	...
Ceiling on BCC credit to nonfinancial private sector enterprises	390	370	0		0	0	Observed	0		0	0	Observed		...	...	...	...
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including by the EADs or the BCC 6/	0	0	0		0	0	Observed	0		0	0	Observed		0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, loans contracted by the EADs or the BCC 7/	0	0	0		0	0	Observed	0		0	0	Observed		0	0	0	0
Ceiling on wage arrears for the civil service	0	0	0		0	0	Observed	0		0	0	Observed		0	0	0	0
Ceiling on new external debt arrears 8/ 9/ (in millions of U.S. dollars)	0	0	0		0	0	Observed	0		0	0	Observed		0	0	0	0
Payment of government expenditure by the BCC that has not been authorized in advance by the Minister of Finance 9/	0	0	0		0	0	Not observed	0		0	0	Not observed		0	0	0	0
The BCC will make no purchase of Congo franc notes or foreign currency in the market at a premium against payment in deposit money 9/	0	0	0		0	0	Observed	0		0	0	Observed		0	0	0	0
Floor on poverty-reduction expenditures financed with own resources (including HIPC resources)	...	...	...		...	...		...		...	...			...	...	40,000	80,000
Memorandum item:																	
Narrow base money	67,728	98,999	13,657	13,657	31,271	30,935		18,877		44,195	44,444		111,923	-1,173	1,325	6,206	11,087

Source: Congolese authorities.

Note: Until the expiration of the three-year arrangement under the PRGF in October 2005, the observance of the first five performance criteria will be audited by an international firm.

1/ Quantitative performance criteria and benchmarks, as well as the procedures for their monitoring are defined in the attached Technical Memorandum of Understanding.

2/ Cumulative changes are calculated from end-December 2003 for June, September and December 2004. For June, September and December 2005 cumulative changes are calculated from end-December 2004.

3/ The stocks of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (1 SDR = CGF 687.4; US$1 = CGF 444.1; and 1 Euro = CGF 605.3).

4/ One hundred percent (100%) of any surplus (shortfall) over (under) the programmed amount of external budgetary assistance (excluding project assistance), net of debt service and including external debt service rescheduling and relief under the HIPC initiative, that has not been used to finance poverty reduction expenditure, public enterprise restructuring, and domestic debt repayment (limited to cross-arrears certified by World Bank staff) will be used to reduce (increase) net banking system credit to the government, and the corresponding performance criterion will adjusted downward (upward) accordingly. The criteria on BCC net foreign assets and net domestic assets will be adjusted upward (downward) and downward (upward), respectively, by the same amount. Expenditures and bank deposits relating to the National Disarmament, Demobilization, and

5/ Items under net bank credit to the government are valued at the current exchange rates.

6/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "nonconcesssional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the

7/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, purchases from the Fund, and normal import-related credits other than for petroleum imports. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

8/ Arrears are any late payments on debt service beyond the grace period (30 days after due date, unless otherwise stated).

9/ This is a continuous performance criterion.

Translated from French

DEMOCRATIC REPUBLIC OF THE CONGO

Technical Memorandum of Understanding

Kinshasa, August 6, 2005

1. This memorandum covers the agreements on monitoring implementation of the program supported by the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF). It establishes the information to be reported and the deadlines for its submission to the IMF staff for program monitoring. It defines the quantitative performance criteria and benchmarks, as well as the structural performance criteria and benchmarks presented in the memorandum on economic and financial policies (MEFP) of the government of the Democratic Republic of the Congo (DRC), which is attached to the letter of August 6, 2005 to the Managing Director of the International Monetary Fund.

A. Monitoring Program Implementation

2. Implementation of the program covering the period April 1, 2002–March 31, 2006 will be monitored on the basis of the performance criteria and benchmarks described in the MEFP, para. 39 and Tables 2 and 3.

B. Definition of Quantitative Performance Criteria and Indicators

3. The quantitative performance criteria and benchmarks described in the MEFP, Table 3 are as follows:

(a) floor on net foreign assets of the central bank (BCC);

(b) ceiling on net domestic assets of the BCC;

(c) ceiling on net bank credit to the government;

(d) ceiling on new nonconcessional external loans contracted or guaranteed by the government, including those contracted by the decentralized autonomous entities (EADs) or the BCC, with maturities of more than one year, except borrowing for debt rescheduling purposes, and IMF credit;

(e) ceiling on new nonconcessional external loans contracted or guaranteed by the government, and loans contracted by the EADs and the BCC, with maturities of one year or less, except borrowing for debt rescheduling purposes, IMF credit, and normal import credits (suppliers' credits), excluding imports of petroleum products;

(f) ceiling on wage arrears (including all forms of compensation except nonrecurring bonuses) for the civil service (civilian and military);

(g) floor on poverty reduction expenditures financed with own resources (including HIPC resources);

The following criteria will be monitored on a continuous basis:

(h) the BCC shall make no budgetary expenditure payment that has not been authorized in advance by the Ministry of Finance;

(i) the BCC shall make no purchase of Congo franc banknotes or foreign exchange in the market at a discount (*décote)* against payment in bank money; and

(j) the government shall not accumulate external payments arrears on nonreschedulable debt, on debt service resulting from debt rescheduling agreements, and on any new borrowing. Arrears are any late payments on the debt service beyond the grace period (30 days after due date, unless otherwise stated).

Definitions

4. **Net foreign assets of the BCC** are defined as the difference between the BCC's gross foreign assets and all its foreign liabilities, as shown in the "BCC Balance Sheet" prepared by the BCC. For purposes of the relevant performance criterion, the net foreign assets will be valued in U.S. dollars at the exchange rates at the end of the period, and then converted into Congo francs at the program exchange rate: US$l = CGF 444.1; SDR 1 = CGF 687.4; and € 1 = CGF 605.3.

5. **The net domestic assets of the BCC** are equal to the sum of the following line items, as they appear in the BCC balance sheet, except for 'other items, net' which are valued in Congo francs at the current exchange rate. For the relevant performance criterion, domestic assets will be adjusted for the effect of the Congo francs/U.S. dollar exchange rate variation from the programmed rate on net foreign assets and foreign exchange deposits and provisions for imports, and on "other items, net" (revaluation) (see para 4 above):

- net claims on the government;
- claims on nonfinancial public enterprises;
- claims on the nonfinancial private sector;
- claims on banks;
- claims on other banking and nonbank institutions; and

- "other items, net," defined as other assets minus other liabilities (including capital and revaluation accounts, and liquidity management instruments (*billets de trésorerie*) purchased by deposit money banks and the public).

6. **Net banking system credit to the government** is defined as the sum of net claims of the central bank and of deposit money banks on the government, as defined in the "Integrated Monetary Survey" prepared by the BCC (excluding deposits linked to project-related assistance; see para. 7 above), plus the BCC's net cash deficit. Items under net bank credit to the government are valued at the current exchange rates.

7. One hundred percent of any surplus (shortfall) over (under) the programmed amount of external budgetary assistance (excluding project assistance), net of debt service and including external debt service rescheduling and relief under the HIPC initiative, that has not been used to finance poverty-reduction expenditure, public enterprise restructuring, and domestic debt repayment (limited to cross-arrears certified by the World Bank staff) will be used to reduce (increase) net banking system credit to the government, and the corresponding performance criterion will be adjusted downward (upward) accordingly. The criteria on BCC net foreign assets and net domestic assets will be adjusted upward (downward) and downward (upward), respectively, by the same amount. Expenditures and bank deposits relating to the national Disarmament, Demobilization, and Reintegration (DDR) program, elections, and domestic debt are considered projects. This adjustment does not apply to HIPC resources, which will be deposited in a special account in the BCC.

8. The amount to be deposited in the HIPC subaccount will be determined as follows: (a) for bilateral and commercial creditors, as the difference between the debt service due after possible stock treatment under the Naples terms at end-2002 and post-HIPC service due (excluding relief beyond the HIPC Initiative), including only arrangements that have been signed or are to be signed within the year; and (b) for multilateral creditors, as the difference between the service due after consolidation of arrears and post-HIPC service. The transfer of the above defined amount will be credited to the HIPC subaccount (subaccount of the Treasury General Account in the BCC) in the same month that said relief is realized (i.e., on the date the service on the original debt owed is due, but cancelled under the HIPC Initiative). The procedure for using the HIPC subaccount is set out in the IMF staff report on the HIPC decision point (www.imf.org, July 15, 2003).

9. The wage bill owed comprises all types of remuneration for verification, payment orders, and payment (by the treasury), payable to state officials during the month in question (active and retired civil servants, military personnel, national police and security personnel, diplomats, and members of political and traditional institutions), including regular compensation and bonuses, and not including nonrecurring compensation. Under the program, wage arrears are defined for each month as the unpaid wage bill owed to officials at the end of the following month. For remuneration paid in the provinces, the arrears are valuated partly on the basis of the balances of the accounts of the provincial delegated payment authorization officers (ODs) in the Treasury General Account in the BCC. This definition will apply starting with the January 2005 pay date.

10. The definition of external debt can be found in Decision 6230-(79/140), para. 9, revised on August 24, 2000 (Annex I).

11. The grant element of borrowing will be calculated on the basis of currency-specific rates based on the OECD commercial interest reference rates (CIRR) on the date the contract is signed, as specified in Annex I. A loan is defined as concessional if, on the date the contract is signed, the ratio of the present value of the loan, calculated on the basis of the reference interest rate, to its nominal value is less than 65 percent (i.e., including a grant element of at least 35 percent).

12. **Broad money** is defined as the sum of the following:

- currency in circulation (in and outside banks);
- deposits of banks with the BCC;
- deposits of public enterprises with the BCC;
- deposits of private enterprises and individuals with the BCC; and
- deposits of other financial institutions, other than deposit money banks, with the BCC, and;
- foreign exchange deposits and provisions for imports.

Note: "Base money" excludes all *billets de trésorerie* issued by the BCC, which are counted as other BCC liabilities, and which are included in BCC net domestic assets. Narrow money is defined as broad money less foreign exchange deposits and provisions for imports. For the quantitative indicator, it is valued at the program exchange rate (see para. 4 above).

13. The following concepts are used in the letter of intent and the memorandum on economic and financial policies:

(a) Budget: annual law authorizing the government's financial operations. Transfers to the provinces are included, but the provinces' own revenues are not covered. The social security system is not consolidated in the budget;

(b) Special budgets (*budgets pour ordre*): autonomous agencies and entities receiving earmarked revenues that, like their expenditures, are covered in the budget. The special budgets have been eliminated and the corresponding revenue and expenditure have been included in the 2005 budget;

(c) Supplementary budgets (*budgets annexes*) (533 in the 2004 budget): agencies and entities similar to administrative public enterprises, which are funded primarily by government transfers (*rétrocessions*) and subsidies;

(d) Extrabudgetary accounts: accounts receiving government revenue not tracked by the Treasury Management and Payment Authorization Directorate, or not included in the supplementary budgets. The consolidation of these accounts with those that are regularly monitored by the Treasury Management and Payment Authorization Directorate is necessary for a complete picture of budget execution;

(e) Poverty-reduction expenditure: "pro-poor" spending as defined in the new nomenclature on the basis of the priorities set forth in the I-PRSP and detailed in Annex II.

C. Structural Performance Criteria and Benchmarks

14. The structural performance criteria and benchmarks are described in MEFP, Table 2.

D. Reporting

15. The authorities will forward to the IMF's African Department, as soon as possible and preferably by e-mail or fax, the data and information needed to monitor program implementation. These data and information must be duly reconciled so as to ensure their internal consistency. Following are the data or documents to be submitted:

1. **Exchange system**

(a) Volume of purchases and sales of foreign exchange on the interbank market, by the BCC (interventions), by commercial banks, and by exchange bureaus;

(b) Average Congo francs/U.S. dollar reference exchange rate of the BCC (indicative rate);

(c) Average Congo francs/U.S. dollar exchange rate on the interbank market;

(d) Average Congo francs/U.S. dollar exchange rate offered by commercial banks to their customers; and,

(e) Average Congo francs/U.S. dollar exchange rate used by exchange bureaus.

Note: The above information is to be submitted with a time lag of one day.

2. **Banking system**

(a) Integrated monetary survey, with a breakdown into domestic currency and foreign currency;

(b) Monetary survey of the BCC, with a breakdown into domestic currency and foreign currency;

(c) BCC operating account, and implementation of the BCC's cash flow plan;

(d) BCC investment budget;

(e) Statement of wage arrears owed to BCC staff;

(f) Monetary survey of deposit money banks, with a breakdown into domestic currency and foreign currency;

(g) Volume of purchases and sales of BCC commercial paper (*interventions*) by commercial banks and by the public (every week);

(h) Net banking system credit to the government;

(i) Net banking system credit to public sector enterprises;

(j) Structure of nominal and real interest rates of deposit money banks;

(k) Reserves (voluntary and required) of deposit money banks;

(l) Structure of BCC interest rates;

(m) Structure of rates for *billets de trésorerie*; and

(n) Discount on Congo franc banknotes purchased against bank money.

Note: The above monthly information is to be submitted not later than three weeks after the end of each month, unless otherwise stated (e.g., (g) every week).

3. **Public sector**

(a) Implementation of treasury cash flow plan (TOFE) and the reconciled budget tracking statements (*états de suivi budgétaire*, ESB—see Annex III);

(b) Expenditure execution by type, administration, ministry/institution, and function;

(c) Verified wage bill and wage bill debited from the Treasury General Account by category, region (Kinshasa/provinces), and activity status (active/retired) (Table: Monitoring of Wage Arrears);

(d) Paid wage bill and paid employees, by category, region, and activity status;

(e) Civil service pay scale (if changed);

(f) Revenue chart: DGI, DGRAD, and OFIDA (including taxable base: imports, in value), oil producers revenue;

(g) Public sector domestic debt, by category of creditor (commercial banks, private entities, etc.): collect and report data on domestic public debt as soon as they are available and;

(h) Payments and invoiced amounts on centralized expenditures.

Note: The above information is to be submitted not later than three weeks after the end of each month.

4. **Real sector**

Report as soon as possible indicators on recent economic developments and other related data, such as the consumer price index, once a week; merchandise exports (in value and volume) of crude oil, copper, cobalt and zinc, and industrial and hand-cut diamonds; imports (in value and volume), if possible by commodity, in particular petroleum products; and output indicators for the manufacturing, mining, and services sectors, published in the BCC's monthly reports on economic activity.

5. **External debt**

(a) Actual disbursements of external assistance, whether or not to finance projects, including those associated with new loans contracted (on a monthly basis, with a lag of three weeks);

(b) Monthly breakdown by interest and principal, and classification by creditor, of reconciled debt service payments made in foreign exchange (source: the Public Debt Management Office—OGEDEP, and the BCC) and in Congo francs (source: DTO);

(c) Composition of monthly external debt service obligations, by maturity (after debt rescheduling), and the stock of external arrears, taking into account actual payments, with a breakdown by principal and interest, and classification by creditor (to be provided monthly by OGEDEP), and;

(d) Copies of the new loans contracted, including those contracted by the EADs, debt rescheduling agreements with the Paris Club, non-Paris Club bilateral creditors, commercial creditors, and multilateral creditors, as soon as such agreements have been concluded. Also, all individual loan information is essential for the debt sustainability analysis in the context of the HIPC Initiative, and also for debt management purposes during the interim period.

Note: The above monthly information is to be provided three weeks after the end of each month.

6. **Miscellaneous**

A progress report on implementation of the structural reforms will be submitted to Fund staff each month. In addition, information on the legal and regulatory environment as it affects business (new decrees, circulars, and laws) and price policy, as well as the official gazette, will also be reported to Fund staff.

/s/	/s/	/s/
Jean-Claude Masangu Mulongo Governor Central Bank of the Congo	**M.F. Muamba Tshishimbi** Minister of Budget	**André-Philippe Futa** Minister of Finance

Definition of External Debt

1. The definitions of "debt" and "concessional borrowing" for the purposes of this memorandum of understanding are as follows:

(a) As set out in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing adopted by the IMF's Executive Board on August 24, 2000, debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(b) **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

Definitions of Poverty Reduction Spending

1. **The concept**

Poverty-reduction spending comprises all actions by the government for the good and well-being of the people, in the spirit of the priorities set out in the Interim Poverty Reduction Strategy Paper.

2. **Criteria**

To identify poverty reduction spending in the budget, the government has based its choices on the **classification by the general functions of government defined as targets in favor of the people.**

From this point of view, spending on the following functions and subfunctions shall be considered to be poverty-reduction spending:

02		**Defense**
02.	600	Reintegration of demobilized soldiers
03		**Security**
03.	300	The judiciary and court system
03.	320	Courts
04		**Economic Affairs**
04.	200	Agriculture, forestry, hunting, fisheries, and rural development
04.	210	Agriculture and livestock
04.	220	Forestry
04.	230	Hunting and fishing
04.	240	Rural development
04.	300	Fuel and electricity
04.	350	Electricity (in the provinces)
04.	500	Transport
04.	510	Roads
04.	511	National roads
04.	512	Provincial roads
04.	513	Farm roads
04.	514	Urban roads
04.	520	Sea, river, and lake transport
04.	530	Railroads
05		**Protection of the Environment and of Flora and Fauna**
05.	100	Household waste management
05.	200	Sewage and sanitation
05.	300	Pollution control

05. 400 Protection of fauna and flora

06 Public Housing and Facilities
06. 100 Housing development
06. 200 Development of community facilities, regional and urban development
06. 300 Water supply
06. 400 Street lighting

07 Health
07. 100 Medicines, prostheses, and medical equipment and supplies
07. 110 Medicines and pharmaceuticals
07. 120 Light medical equipment
07. 130 Prostheses and medical supplies

07. 200 Local medical services (outpatient care)
07. 210 General medical services
07. 220 Specialized medical services
07. 230 Dental services
07. 240 Paramedical services (including traditional medicine, physiotherapy, and labs)

07. 300 Hospital services
07. 310 General hospitals
07. 320 Specialized hospitals
07. 330 Maternity clinics and dispensaries

07. 400 Public health services
07. 410 Preventive care
07. 420 Treatment
07. 430 Vaccination
07. 440 Polio vaccination campaign
07. 432 Other vaccination campaigns
07. 440 Epidemic control programs
07. 441 AIDS program
07. 442 Malaria program
07. 443 Tuberculosis program
07. 444 Programs for other epidemics

07. 500 Research and development in the field of health

09 Education
09. 100 Preschool and elementary education
09. 110 Preschool education
09. 120 Elementary education

09. 200 Secondary education

09. 210 General secondary education
09. 220 Technical and professional secondary education

09. 400 Higher education (only equipment and repair of infrastructure)
09. 410 General higher education (only equipment and repair of infrastructure)
09. 420 Technical, professional, and administrative higher education (only equipment and repair of infrastructure)

09. 510 General and professional continuing training for adults

09. 800 Other educational affairs (only SECOPE: Wages of Primary and Secondary School Teachers, Articles 32–10, 34–10, 34–30, and 34–40)

10 Social Security and Welfare
10. 100 Diseases and disabilities
10. 110 Diseases
10. 120 Disabilities

10. 200 Aging
10. 210 Social security for the elderly

10. 400 Targeted protection

10. 500 Unemployment programs

10. 600 Housing and housing conditions

10. 700 Social exclusion programs

Budget Tracking Statements

Statement 1: Main budget tracking statement. Monthly, starting in January 2005.
This statement describes expenditures according to the four phases of the expenditure chain (commitment, verification, payment order, and payment), on the one hand, and by type of expenditure, on the other, and cumulatively from the start of the fiscal year (2004 Revised Classification).
This statement should also have two intermediate columns for payment authorizations sent to the BCC and payment authorizations pending transmission to the BCC.
A specific column for automatic payments (*décaissements d'office*) will also be placed next to the column for payment authorizations.
The last column of the main budget tracking statement is the "Balances Outstanding" (*Restes à Payer comptables*, RAP) column, which is the difference between payment orders signed by the responsible payment authorizing officer and actual payments by the BCC (not the difference between payment authorizations sent to the BCC and actual payments by the BCC).

Statement 2: Budget tracking statement by administrative classification. Monthly, starting in January 2005.
Based on the main statement, this document will present expenditures by administrative classification. Additionally, the statement will keep expenditures initiated by, and earmarked for, the Offices of Ministers (*Cabinets*) separate from those initiated by, and earmarked for, the administrations.

Statement 3: By type and administration.
Based on the main statement, this document will present expenditures by type and administration.

Statement 4: Budget tracking statement, by "Major Government Functions." Monthly, starting in January 2005.
This document will present expenditures by major government function.

Statement 5: Budget tracking statement, "Poverty-Reducing Expenditures." Monthly, starting in January 2005.
Based on Statement 2, expenditures will be presented by type, with one line indicating the share of expenditures identified as poverty-reducing expenditures.

Statement 6: Budget tracking statement by geographical distribution. Monthly, starting in January 2005.
Based on the balances of the main statement, this document will present expenditures by type, distinguishing between expenditures in Kinshasa and those in the provinces. Computer tools and training permitting, separate service codes will be assigned for Kinshasa and for each province; this will permit tracking of the distribution of expenditures among the 11 geographical areas.

Democratic Republic of the Congo: Relations with the Fund

(As of June 30, 2005)

I. Membership Status: Joined: September 28, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**In Percent of Quota**
Quota	533.00	100.00
Fund holdings of currency	533.00	100.00

III. SDR Department:	**SDR Million**	**In Percent of Allocation**
Net cumulative allocation	86.31	100.00
Holdings	1.86	2.15

IV. Outstanding Purchases and Loans:	**SDR Million**	**In Percent of Quota**
Poverty Reduction and Growth Facility (PRGF) arrangement	526.77	98.83

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
PRGF	June 12, 2002	October 31, 2005	580.00	526.77
Stand-By	June 9, 1989	June 8, 1990	116.40	75.00
SAF	May 15, 1987	May 14, 1990	203.70	145.50

VI. Projected Payments to Fund (without HIPC Assistance)

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

	Forthcoming				
	2005	**2006**	**2007**	**2008**	**2009**
Principal	0.00	0.00	42.00	86.67	97.34
Charges/interest	2.40	4.79	4.77	4.45	3.98
Total	2.40	4.79	46.77	91.12	101.32

VII. Projected Payments to Fund (with Board-approved HIPC Assistance)

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

	Forthcoming				
	2005	**2006**	**2007**	**2008**	**2009**
Principal	0.00	0.00	42.00	86.67	97.34
Charges/interest	3.82	3.84	3.81	3.48	3.67
Total	3.82	3.84	45.81	90.15	101.01

VIII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	July 2003
Assistance committed by all creditors (millions U.S. dollars)	6,311.00
Of which: IMF assistance (millions U.S. dollars)	318.90
(SDR equivalent millions)	228.30
Completion point date	Floating
II. Disbursement of IMF assistance (millions SDRs)	
Assistance disbursed to the member	2.26
Interim assistance	2.26
Completion point balance	--
Additional disbursement of interest income	--
Total disbursements	2.26

IX. Exchange Rate Arrangement:

The Democratic Republic of the Congo's (DRC) currency is the Congo franc, which, since May 26, 2001, has been freely floating. On December 30, 2004, the rate was US$1=Congo francs 444.09.

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 restriction and one multiple currency practice (MCP) subject to Fund approval under Article VIII of the Fund's Articles of Agreement. The exchange restriction involves an outstanding net debit position vis-à-vis other contracting members under the inoperative regional payments agreement with the Economic Community of the Great Lakes Countries (CEPGL). The multiple currency practice involves a fixed exchange rate set on a quarterly basis applying to transactions through the bilateral payments agreement (BPA) with Zimbabwe.

X. Last Article IV Consultation:

(a) Consultations with the Democratic Republic of the Congo are held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

(b) The last Article IV consultation was concluded by the Executive Board on March 24, 2003 (www.imf.org, 2/5/03).

XI. Safeguards Assessment

Under the IMF's safeguards assessment policy, the BCC is subject to an assessment with respect to the PRGF arrangement, which was approved on June 12, 2002, and is scheduled to expire on June 11, 2005. A safeguards assessment of the BCC was completed on January 3, 2003. The assessment concluded that substantial risks of misreporting or misuse may exist due to vulnerabilities in the external audit mechanism, financial reporting framework, and system internal controls. Staff findings, proposed recommendations under program conditionality, and other recommendations are reported in Country Report No. 03/161. Implementation of the measures by the BCC continues to be monitored by staff.

XII. Technical Assistance:

Subject	**Department**	**Staff Member**	**Date**
Monetary statistics	STA	Mr. Papadacci Ms. Tanase	Jun. 29–Jul. 12, 2000
Exchange rate system	MFD	Mr. Bussers	May 9–14, 2001 Jul. 1–7, 2001
Article VIII obligations	MFD/LEG	Ms. De Boeck Mr. Leimone	Oct. 21–29, 2002
Capacity-building assistance to the central bank	MFD	Mr. Laurens Mr. Sarr Mr. Akitoby Mr. Paul Mr. Bussers	Oct. 12–26, 2001
		Mr. Tavernier	Feb. 1–14, 2002 Aug. 8–Sep. 20, 2002
		Mr. Paul	Feb. 1–7, 2002
		Mr. Beaumé	Jul. 15–25, 2002
		Mr. Tavernier Mr. Normand	Oct. 10–22, 2004
		Mr. Saffre	Nov. 8–12, 2004
Monetary policy/ foreign exchange management, bank supervision and budget	MFD	Mr. Laurens Mr. Sarr Mr. Paul Mr. Beaumé Mr. Régnard Mr. Tavernier	Oct. 29–Nov. 12, 2002
Action plan for developing the financial system in the DRC	MFD	Mr. Laurens Mr. Fonteyne Ms. Nkhata Mr. Saffré Mr. Paul Mr. Regnard Mr. Vandecan Mr. Pauwels	Nov. 5–15, 2003

Assistance to the central bank on currency, monetary and foreign exchange operations, and strengthening of capacity in AML/CFT	MFD	Mr. Nascimiento Mr. Vandecan Mr. Lecinq Mr. Van de Velde Mr. Hotte	Nov. 30 – Dec. 14, 2004
Currency in circulation	MFD	Mr. Van de Velde	Mar. 28-Apr. 10, 2005
Bank supervision and regulation	MFD	Mr. Regnard	Nov. 22–Dec. 05, 2004
Tax administration/ policy	FAD	Mr. Corfmat Mr. Fossat	May 11–21, 2001
Tax policy	FAD	Ms. Geourjon Mr. Laporte Mr. Schneider	Nov. 19–Dec. 3, 2002
Expenditure management	FAD	Mr. Schiller Mr. Fournel Mr. Barrier	Aug. 4–18, 2001
		Mr. Bouley Mr. Calcoen	Aug. 31–Sep. 10, 2002
		Mr. Bouley Mr. Lepage Mr. Kwant	Nov. 11–25, 2003
Revenue administration	FAD	Mr. Benon Mr. Jolibert Mr. Montagnard-Rentier	Dec. 3–17, 2002
		Mr. Benon Mr. Lesprit	Jul. 13–26, 2003
		Mr. Benon	Sep. 16–20, 2003
		Mr. Montagnat-Rentier Mr. Lesprit Mr. Boilil Mr. Vandenberghe	Oct. 26–Nov. 9, 2004

Fiscal Decentralization	FAD	Mr. Seade Mr. Brosio Mr. Catalan Mr. Hartley Mr. Mati Mr. Raouya Ms. Kubota (World Bank) Mr. Vaillancourt (World Bank)	Jul. 15–31, 2004
Real sector and government finance statistics	STA	Mr. Marie Mr. Gorter	Jun. 4–13, 2001
Government finance statistics	STA	Mr. Maiga	Mar. 19–Apr. 13, 2002 Sep.4–25, 2002
Multisector statistics	STA	Ms. Fisher Mr. Tanase Ms. Noukovska Mr. Fiévet Mr. Maiga Mr. Ntungwanayo (World Bank)	Oct. 8–21, 2003

XIII. Long-Term Resident Experts:

Expenditure management	Mr. Catalan	Jan. 2002–Jun. 2004
	Mr. Nguenang	Since Sep. 2004
Customs administration	Mr. Bremeersch	Jan. 2002–Jan. 2004
Tax administration	Mr. Schlotterbeck	Jan. 2002–Mar. 2003
	Mr. Raouya	Sep. 2003–Apr. 2005
Advisor to Governor of BCC	Mr. d'Ambrières	Apr. 2002–Dec. 2003
	Mr. Nyssens	Since Jan. 2004
Capacity building of BCC	Mr. Pauwels	Since Sep. 2004
Statistics	Mr. Métreau	Since Oct. 2004

IV. Resident Representative: Mr. Kouwenaar assumed his duties as Senior Resident Representative on September 21, 2002.

Democratic Republic of the Congo: Relations with the World Bank Group[19]

Introduction

1. This annex first underscores the importance that the government of the Democratic Republic of the Congo (DRC) attaches to effective partnership with external creditors, donors, and foreign investors. It then summarizes the strategy and activities of the World Bank Group (IDA, IFC, and MIGA) in the DRC. It concludes with a description of areas of specific collaboration between the World Bank Group and the International Monetary Fund.

Partnership in the DRC's development strategy

2. The DRC was cut off from international financial assistance from 1993 until 2001, primarily due to economic and financial mismanagement, conflict, and war. From 1997 to 2001, the conflict and its socioeconomic impact led to over 3.8 million deaths, most of which were due to disease and hunger, as well as to extensive destruction of infrastructure and the collapse of institutions.

3. When President Joseph Kabila took office following his father's death in January 2001, he sought to reestablish relations with international financial institutions. The IMF responded with a staff-monitored program (SMP), covering the period June 1, 2001–March 31, 2002, and in July 2001, IDA approved a Transitional Support Strategy (TSS), initially underpinned by a US$50 million grant for an Emergency Early Recovery Project (EERP).

4. Progress toward peace and good performance under the SMP and the EERP has led to substantial financial reengagement by multilateral and bilateral institutions. The Interim PRSP (I-PRSP) was discussed by the IDA Board on June 11, 2002. Following clearance of arrears to the IMF, a three-year PRGF and the HIPC preliminary document were approved, and the I-PRSP was discussed and approved by IMF Executive Directors on June 12, 2002. IDA's Economic Recovery Credit (ERC), approved by the IDA Board on June 13, 2002, became effective following arrears clearance on July 3, 2002. The Paris Club granted significant relief on bilateral debt at its September 2002 meeting. The first review of the PRGF was completed on March 24, 2003, at the same time as the IMF's 2002 Article IV consultation. The decision point under the enhanced HIPC Initiative was approved by IMF Executive Directors on July 23, 2003 (at the same time as the conclusion of the second review under the PRGF), and by IDA Executive Directors on July 24, 2003. In November 2004, during the most recent Consultative Group meeting, development partners

[19] This document was approved by the Africa Region ROC on June 23, 2005. Questions should be addressed to Brendan Horton (202-473-5587) or Keiko Kubota (202-473-6836) at the World Bank.

reported that they had disbursed US$1.1 billion in assistance during 2004 and made pledges in the order of US$5.7 billion in assistance over the next three to four years. The third PRGF review was concluded by the IMF Board on March 3, 2004, and the fourth PRGF review was concluded on July 12, 2004.

5. **The preparation of the PRSP** is now a key focus of government efforts and the object of close collaboration between IMF and IDA staffs. Following the preparation of the I-PRSP in June 2002, the first and second annual Preparation Status Reports and related Joint Staff Assessments (JSAs) have been produced, and were discussed by the IMF and IDA Boards in July 2003 and 2004, respectively. The first draft of the PRSP was circulated among development partners in May 2005 and included preliminary inputs from the provinces and sectoral strategies. Community, sectoral, and thematic participatory consultations have been completed. At the end of June 2005, the third Preparation Status Report will be available. Poverty household surveys are currently underway in the provinces. The authorities plan to complete preparation of the full PRSP during the last quarter of 2005.

Bank Group strategy and operations (IDA, IFC, and MIGA) [20]

6. **Overall strategy.** On July 31, 2001, the Executive Directors of IDA endorsed a **Transitional Support Strategy** to map out Bank financial and nonfinancial support to the DRC for the following 12–24 months, which included the EERP, the ERC, the Private Sector Development and Competitiveness Project (PSDC), and the Emergency Multi-Sector Rehabilitation and Reconstruction Project (EMRRP) (as described hereunder). A new TSS was approved by the Board on February 26, 2004, and covers the period 2004–06.

7. The 2004 TSS sets forth the scope and configuration of future support during the 2004–06 period. The TSS accompanies the government's efforts during the transition period, with a particular focus on (i) social stability and security, (ii) high and shared growth, (iii) governance and institutional strengthening, and (iv) social development. It forsees the following projects:

- FY04: Emergency Economic and Social Reunification Support Project; Southern Africa Power Pool Project; HIV/AIDS Project; and Post-Reunification Economic Recovery Credit.

- FY05: Emergency Demobilization and Reintegration Project; Health Sector Rehabilitation Project; Education Sector Rehabilitation Project; Emergency Living Conditions Project; Emergency Social Action Program; and a development policy support operation.

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[20] The Bank reopened a country office in Kinshasa, and a country manager assumed his duties in January 2002.

- FY06: a Multi-Sector Transport Project; a Public Utilities Project; an Agriculture Project; a Private Sector Development/Financial Sector Development Project; and a development policy support operation.

Existing support

IDA

8. IDA provides support through trust funds, development policy support, and investment operations. Operational details are summarized in Table 1.

1. **Trust funds**

9. Since October 2000, the first emergency trust fund has financed the Emergency Stabilization and Recovery Project to help communities via projects in the health, education, food security, forestry, water supply (rural and peri-urban areas), and rural roads rehabilitation sectors. These projects support street/abandoned children and capacity building and assist the government in implementing its economic reform agenda by conducting a number of key reform studies and coordinating donor assistance. IDA is administering this US$13.54 million trust fund on behalf of Belgium, Canada, and the Netherlands. The European Development Fund committee of the European Union has recently contributed € 9.5 million for capacity-building support to the DRC, which includes support to the Ministry of Finance, and the Central Bank of the Congo (BCC), and selected line ministries.

2. **Grants and credits**

Development policy support

10. The Bank is providing support through policy reform operations—the Economic Recovery Credit (ERC) and the Post-Reunification Economic Recovery Credit (PRERC). The ERC, approved in June 2002 in the amount of SDR 360.4 million (US$450 million equivalent at the time of negotiations), provided support of SDR 270.7 million (US$338 million) to the arrears-clearance process; and other balance of payments support of SDR 57.7 million (US$72 million); support to a voluntary departures program, SDR 20 million (US$25 million), at GECAMINES, the national copper mining company; and support for forestry sector reforms of SDR 12 million (US$15 million). An additional US$42 million was made available due to the appreciation of the SDR relative to the U.S. dollar, and was used to finance key public expenditures. The operation was satisfactorily implemented and closed in June 2003. The PRERC, approved in February 2004 in the amount of SDR 135.2 million (US$200 million equivalent at the time of negotiations), provides balance of payments support of SDR 57.5 (US$85 million), support to civil service retirement reform of SDR 32 (US$47.5 million), domestic debt settlement SDR 28.7 million (US$42.5 million), and utilities billing and payment reform SDR 16.9 (US$25 million). Conditionalities involve the adoption of adequate reform strategies plus fiduciary arrangements to ensure that funds reach intended recipients. The utilities tranche was

disbursed in late 2004, and the remainder is expected to be released in 2005. The focus of the proposed ERC III (FY06) development policy operation is on continuing to improve the budget process, improving budget execution of pro-poor spending, implementing the civil service management reforms, and increasing transparency on the revenue side.

Traditional investment operations

11. The Bank is providing support through investment operations in the DRC in the areas of (i) infrastructure rehabilitation—the Emergency Early Recovery Project (EERP), the Emergency Multi-Sector Rehabilitation Project (EMRRP), the Emergency Economic and Social Reunification Support Project, and the Southern Africa Power Market Project (SAPM); (ii) demobilization and reintegration—the Emergency Demobilization and Reintegration Project (EDRP); (iii) private sector development—the Private Sector Development and Competitiveness Project (PSDC); and (iv) social development—HIV/AIDS (Multi-Sectoral HIV/AIDS Program). Implementation of projects to date is satisfactory, except for the EDRP and Emergency Social Action Project.

12. **With respect to infrastructure rehabilitation**, the EERP rehabilitated the Matadi-Kinshasa road and improved the security of the blood supply to prevent transmission of HIV/AIDS. It has been fully disbursed. As of May 2005, some 80 percent of the EMRRP funds (total credit and grant) had been committed. The Emergency Economic and Social Reunification Support Project focuses on infrastructure rehabilitation in the reunified provinces, and 46 percent of the credit has been disbursed. The SAPM will strengthen the capacity of the Coordination Center of the Southern Africa Power Pool (SAPP) to promote and manage electricity trade in the region; remove transmission bottlenecks; and connect member countries to the regional grid, which will foster economic growth. The DRC component is the largest and will enable the DRC to supply electricity to neighboring countries. It was approved in November 2003, and implementation is in progress.

13. **With respect to demobilization and reintegration**, the Emergency Demobilization and Reintegration Project provides support to the demobilization and reintegration of 150,000 ex-combatants country-wide. The project was developed within the framework of the Multi-Country Demobilization and Reintegration Program (MDRP) for the Great Lakes region, a regional partnership initiative comprising seven governments and over 40 donor and multilateral agencies. The MDRP partners endorsed a US$100 million MDRP trust fund grant (cofinancing) to complement IDA grant financing. Collaboration in the field between the Bank and other donors and multilateral agencies is proceeding well, and IDA is paying particular attention to the deepening of cooperation. Demobilization started in February 2005. During 2005, former combatants will be disarmed, a secure payments system will be established for them, and reintegration centers will be opened. These actions will enable 20,000 former combatants to be demobilized in 2005.

14. The Emergency Social Action Project, approved by the World Bank in August 2004, will channel money to poor communities to finance socio-economic infrastructure determined by the communities. This project is expected to become effective in July 2005.

15. **With respect to private sector development**, the PSDC is helping reform inefficient public enterprises and improving the investment climate to attract private investment, which would contribute to economic growth. Looking ahead, a commercial debt-reduction project is planned for FY06.

16. **With respect to HIV/AIDS**, the Multi-Sectoral HIV/AIDS project, approved in March 2004, is helping to mitigate the negative impact of HIV/AIDS on the socioeconomic development of the DRC.

Table 1. Summary of World Bank Financial Assistance

Credit Name	Amount	Date approved	Theme	Status
Emergency Early Recovery Project (EERP)	US$50 million IDA grant	Jul. 31, 2001	Economic reforms, a pilot community-driven development initiative, rehabilitation of the Kinshasa-Matadi road, and HIV/AIDS activities	Completed and fully disbursed
Economic Recovery Credit (ERC)	US$450 million	Jun. 13, 2002	Arrears clearance, budgetary/foreign exchange support, and forestry and mining sector reforms	Completed and fully disbursed
Emergency Multi-Sector Rehabilitation and Reconstruction Project (EMRRP)	US$454 million, o/w US$44 million grant	Aug. 6, 2002	Reconstruction and rehabilitation of critical infrastructure, increase in social service delivery, institutional capacity strengthening, development of sectoral strategies	As of May 2005, some 80 percent of credit funds had been committed
Private Sector Development and Competitiveness Project (PSDC)	US$120 million	Jul. 29, 2003	Increase competitiveness by improving the investment climate, support reform of public enterprises, stimulate economic diversification in Katanga, and provide job search support for the unemployed	Ongoing
Emergency Economic and Social Reunification Support Project	US$214 million, o/w US$164 million grant	Sep. 11, 2003	Finance emergency rehabilitation activities (large infrastructure, urban rehabilitation, community development, in particular to the reunified provinces)	46 percent of credit has been disbursed
Southern Africa Power Market Project (SAPM)	US$178.6 million	Nov. 11, 2003	Restore capacity to deliver electric power to SAPP	Ongoing
Post-Reunification Economic Recovery Credit (PRERC)	US$200 million	Feb. 26, 2004	Support to civil service reform retiree program, repayment of government internal debt to private creditors, and reform of utilities billing and payment	Credit to be fully disbursed between now and end-2005
Multi-sectoral HIV/AIDS program (MAP)	US$102 million	Mar. 26, 2004	Mitigate the negative impact of the HIV/AIDS epidemic on the socioeconomic development of the DRC through prevention of transmission, support, and care for persons living with the virus (PLV)	Ongoing. Project effective since Oct. 8, 2004
Emergency Demobilization and Reintegration Project	US$100 million IDA grant; plus US$100 million in counterpart (MDRP) funds (grants)	May 25, 2004	Demobilize 150,000 ex-combatants country-wide and help them transition to civilian life, help increase social and economic expenditures, and lower defense expenditures	17 percent of the IDA grant and 5 percent of the MDRP grant were disbursed by end-May 2005
Emergency Social Action Project	US$60 million IDA grant	Aug. 6, 2004	Improve access of the poor to social and economic services and increase the availability and management of development resources at the community level	Not yet effective.

Nonlending activities

17. For several years prior to and during the first TSS (2001), IDA assistance has also emphasized **nonlending activities and advisory services**, including through trust funds and grants, to improve the understanding of the socioeconomic context, rebuild the knowledge base to support policy dialogue and design effective poverty-reduction strategies. FY03 activities included a Public Expenditure Review (focusing on the overall structure of expenditures; specific issues in the health, education, and transport sectors; evaluation of the DRC's ability to monitor execution of poverty-related expenditures); strengthening of public expenditure management systems; and support to the PRSP process, especially the consultation and participatory diagnostic processes. Other FY03 activities were an update of the poverty profile, and a Debt Sustainability Analysis for the HIPC Initiative program, undertaken in collaboration with the IMF. For FY04, a Country Procurement Assessment Review was undertaken. A first version of the Health Sector Country Status (CSR-Health) report was completed in December 2004, which will feed into the PRSP. The final version of the CSR-Health was sent to the Government on May 13, 2005. Other activities initiated in FY04, and which continue into FY05, are the HIPC/AAP pro-poor expenditure-tracking exercise; an Institutional Governance Review (focusing on service delivery issues); a Forestry Sector Review; and preparation of an Agricultural Sector Review. An Education Sector Country Status Report was completed in October 2004 and served as the basis for a discussion of the preparation of a finance (priorities) strategy for the education sector. In FY05, the Risk and Vulnerability Assessment was finalized; the CFAA exercise was undertaken, and will be completed in FY06; and a Poverty and Social Impact Analysis of forestry sector reforms had been initiated, and will be completed in FY06. In FY06, a workshop is planned for the dissemination of the Agricultural Sector Review; and preparation for an agriculture lending project will begin.

International Finance Corporation

18. IFC supported the cellular telephone operator Celtel with a US$7 million loan in 2002 and a further US$20 million in 2003. Currently, IFC is conducting a needs assessment of local small and medium enterprises to help determine potential future interventions. IFC is developing two potential mining investments, which would be among the first under the new Mining Code. In the financial sector, IFC plans to assist banks operating in the DRC with trade financing facilities, to help establish routine trade finance operations. IFC will work closely with the Bank in the context of the PSDC project to help implement specific sectoral initiatives and key investment projects. Considerable effort has already been spent in resolving outstanding disputes in the DRC, one of which, UTEXAFRICA, a textile business, was settled in 2002. However, two others remain on the books: SOTEXKI, a textile business in Kisangani, in the northeast, and the Grand Hotel du Congo (formerly Inter-Continental).

MIGA

19. MIGA can now issue guarantees for projects because the DRC has paid its initial capital subscription in full. Several projects are under consideration, notably in the mining

sector. MIGA approved $13.3 million in guarantee coverage for the Dikulushi copper and silver mine on May 3, 2005. The guarantees approved provide coverage for investments and loans by Anvil Mining Ltd. of Canada and RMB International (Dublin) Limited of Ireland to Anvil Mining Congo, SAR, of the DRC, against the risks of transfer restriction, expropriation, breach of contract and war and civil disturbance. The project scope involves open pit mining of copper and silver ores to produce a concentrate, which will be transported to smelters in South Africa and Namibia for further processing. This is MIGA's first guarantee for the DRC; the latter has been a member of the agency since 2003. Moreover, the project is the first extractive industries project to be considered and approved by the Board of the World Bank Group, following conclusion of the Bank-sponsored Extractive Industries Review in August 2004.

Bank-Fund collaboration in specific areas

20. In addition to its direct assistance to the DRC, the Bank also supports policy reforms in close collaboration with the Fund in a number of areas: donor coordination, public finance management, decentralization, public enterprise reform, financial sector reform, governance and anticorruption, and the PRSP process. Table 2 details areas of collaboration and areas where the Bank and the Fund lead.

Table 2. Summary of Bank-Fund Collaboration

Thematic area	Areas of collaboration	Bank	Fund
Donor coordination	Promotion of international partnership activities	Preparation of Consultative Groups, and monitoring of individual aid flows.	Integration and monitoring of financial partnership activities in the macroeconomic framework
Public finance management	Ensuring compatibility of information systems; public finance management; public expenditure tracking and monitoring; poverty-related spending, monitoring, and evaluation	Financing technical assistance needs particularly in the area of information systems for budget preparation, budget execution, fiscal reporting, and public debt recording/management. Preparing public expenditure reviews and especially tracking of expenditures (AAP and CFAA).	Reforming and modernizing revenue and expenditure management systems. Technical assistance on reform of public sector accounting system
	Preparing proposed reforms of customs and internal indirect taxes, corporate taxation; and reforming taxation in mining and forestry sectors	Financing technical assistance in the area of training and the structure of corporate taxation; conducting in-depth analysis of forestry taxation systems.	Technical assistance for improving tax administration
Decentralization	Fiscal decentralization	Technical assistance and advice on decentralization of public finances and service delivery; improving the tracking of public expenditures.	Technical assistance for improving tax administration and expenditure management
Public enterprise reform	Collaboration on the public finance aspects of these reforms (e.g., cross arrears, corporate tax regimes)	Preparation and execution of reform of public enterprise sector; and improving the legal, regulatory, judicial, and fiscal environment for private sector development.	--
Financial sector reform	--	Restructuring of commercial banks.	Monetary policy issues and central bank restructuring
Governance and anticorruption	Preparation of Code of Conduct for Public Servants, Anticorruption and Anti-Money-Laundering Laws	Aiding in preparation of workshops and seminars on the formulation of an overall governance and anticorruption strategy; providing advice and comments on legislation as needed. Financing technical assistance for a comprehensive procurement reform: preparation of a Country Procurement Assessment Review, production of a new procurement code, the implementation of a system of procurement follow-up, and reorganization of public entities in charge of the procurement process.	Providing advice and comments on legislation as needed
PRSP process	Joint assessment of 2001–02 I-PRSP	Aiding in preparation of consultations and workshops, coordination of donor funding, recruitment of national experts for Permanent Secretariat, and the National Poverty Survey.	Implementation of macroeconomic framework in PRSP

Table 3. The Democratic Republic of Congo: Financial Relations with the World Bank Group—Statement of Loans and Credits (in U.S. dollars), as of May 31, 2005

	IBRD	IDA	IDA Grant	Total
Original principal	330,000,000	2,773,794,622	602,000,000	3,705,794,622
Cancellations	28,484,478	259,852,029	0	288,336,507
Disbursed	301,515,522	1,974,452,917	148,236,474	2,424,204,912
Undisbursed	0	745,904,084	473,880,193	1,219,784,276
Repaid	247,045,475	220,587,923	0	467,633,398
Due	0	1,960,803,973	0	1,960,803,973
Exchange adjustment	0	0	0	0
Borrower's obligation	0	1,960,803,973	0	1,960,803,973

Democratic Republic of the Congo: Progress Status of Triggers for Reaching the Floating Completion Point

(As of June 2005)

Trigger	Status
1. **PRSP**	
Completion of a full PRSP through a participatory process and its implementation for one year, duly documented in the DRC's annual progress report, and confirmed as satisfactory by a joint staff assessment (JSA).	The first draft of the Poverty Reduction Strategy Paper (PRSP) was circulated to civil society and to development partners in May 2005. Following the incorporation of the 1-2-3 survey in Kinshasa and the surveys on the perception of poverty in the provinces into the paper, the final PRSP is expected to be adopted by government in the fourth quarter of 2005 as planned.
2. **Macroeconomic stability**	
Continued maintenance of macroeconomic stability after reaching the decision point, as evidenced by satisfactory performance under a program supported by an arrangement under the IMF's PRGF.	The macroeconomic situation has improved since the decision point but remains volatile as demonstrated by large movements in exchange rate and inflation in the first half of 2005.
3. **Use of budgetary savings**	
Use of budgetary savings resulting from enhanced HIPC Initiative-related debt service relief during the interim period for poverty-related expenditures in accordance with the I-PRSP, with supporting documentation satisfactory to the staffs of IDA and the IMF.	Due to weaknesses in institutional and implementation capacity, the use of budgetary savings from the enhanced HIPC Initiative has been lower than programmed. The government is intensifying its efforts to use HIPC savings to finance spending in the areas of health and education.
4. **Public expenditure management**	
(a) Implementation of a modernized budget-execution system, providing information from commitment to payment, and allowing for the monitoring of arrears; (b) adoption and implementation of a double-entry government accounting system and a new chart of accounts; and (c) production of quarterly budget execution reports using economic, administrative and functional classifications.	(a) The budget-execution system is operational. However, additional efforts are needed to ensure timely and comprehensive transmission of information to relevant parties; (b) The double-entry system is yet to be implemented. Progress in this area include training of staff; (c) A new classification has been adopted. However, the budgetary reports need further improvement.
5. **Governance and service delivery in priority sectors**	
(a) Completion of a budget-tracking exercise on health, education, rural development and infrastructure expenditure, consisting of (i) monitoring the execution of poverty-related public expenditure; (ii) evaluation by user groups of the quality of related public services, and (iii) evaluation by service-providers of constraints to effective provision; and (b) adoption and implementation of a new procurement code and key implementing decrees.	(a) The new budget classification allows tracking of poverty reducing and social expenditures. However, the budget reports produced so far are incomplete to provide an accurate picture for evaluation purposes. (b) The new procurement procedures have been adopted but there has been difficulties in their implementation.

Trigger	Status
6. **Social and rural sectors**	
Adoption of sectoral development strategies and related implementation plans for health, education and rural development, satisfactory to IDA.	An initial draft of the Government Report on Health and Poverty (RESP) was finalized in December 2004. In the field of education, the government finalized, in September 2004, the Status Report on the National Education System (RESEN), which assesses the sector's constraints, and adopted a draft action plan for the Education for All (EFA) Initiative.
7. **Debt Management**	
Installation and full activation of a computerized debt-recording system, covering public and publicly-guaranteed debt that can (a) produce monthly debt-service projections, and incorporate actual disbursement and debt-service payment execution data; (b) produce advance monthly debt-service projections that will be published quarterly; and (c) support the centralization of debt information in a single center.	A new public debt management software (SYGADE) has been acquired supported by external partners and training is on-going. It is projected to become operational by end-August 2006.

Democratic Republic of the Congo: Statistical Issues

Despite a difficult environment, the authorities have continued to produce an array of economic and financial statistics, most of which are contained in the annual report of the Central Bank of the Congo (BCC), which also issues a monthly statistical bulletin. Moreover, a comprehensive set of external debt statistics is compiled by the Office de Gestion de la Dette Publique (OGEDEP). Statistical issues related to specific sectoral areas are described below.

Following a fact-finding mission to Kinshasa in June 2001 in real sector and government finance statistics, STA provided technical assistance on government finance statistics in March–April and September 2002, which was augmented by capacity-building support from the World Bank. A STA multitopic mission visited Kinshasa in October 2003 to assess the DRC's economic and financial data and propose measures to improve them. A multisector statistics advisor based in Kinshasa is providing assistance to the authorities.

On April 24, 2004, the DRC began participating in the IMF's General Data Dissemination System (GDDS), and its metadata (comprehensive information on statistical production, dissemination practices, and plans for improvement) were posted to the IMF's Dissemination Standards Bulletin Board. The DRC's metadata, however, need to be updated as the GDDS requires that metadata be updated at least annually. Participation in the GDDS provides a framework for statistical development and capacity building in macroeconomic statistics and socio-demographic (population, health, education, and poverty) indicators.

National accounts

The national accounts are compiled in constant and current prices by the Directorate of Research of the BCC and published on an annual basis. The compilation methodology conforms to the *System of National Accounts 1968* (1968 SNA) and is based on the balance sheets of enterprises and the results of surveys of public and semipublic enterprises and agencies, with most of these surveys dating from the late 1980s. The activities of the traditional sector (including the informal sector) are also included, using extrapolation techniques based on industry-specific data that are outdated. As a result, GDP is likely to be underestimated. With help of the multisector statistics advisor, work is underway to introduce a new base year (2003) and introduce the recommendations of the 1993 SNA.

Employment and unemployment

Annual data on employment in the central government are available from the Ministries of Economy, Finance, and Budget, together with data on employment in the formal sector.

Prices

Consumer price indices are calculated for Kinshasa by the BCC, the National Statistics Institute (INS), the Institute of Economic and Social Research (IESR), and the Economics Section of the U.S. Embassy in Kinshasa. The IESR also calculates a monthly consumer price index for the Lubumbashi market. The household surveys on which these calculations are based date back to the late 1980s and need to be updated to take account of changes in household consumption patterns and demographic shifts.

Government accounts

The BCC produces aggregated monthly statistics on a cash basis based on its own accounting records of the government cash operations it executes. 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 provide insufficient details about the nature of expenditures owing to problems in the expenditure chain. However, the treasury has started to produce, on a quarterly basis, expenditure data reports broken down by ministry and institution.

The ongoing improvements in tax administration and expenditure control are expected to improve the quality and timeliness of fiscal statistics. In parallel with technical assistance in the public expenditure management area, STA has been providing technical assistance in government finance statistics on a peripatetic basis, producing improvements in the overall quality of government finance statistics. Furthermore, the adoption of a simplified, double-entry bookkeeping system for the government should significantly improve the availability of data on government financial operations.

In 2003, the DRC reported data for the IMF's *Government Finance Statistics Yearbook* in the format of the *Government Finance Statistics Manual 2001*, but did not so in 2004

Monetary accounts

The Directorate of Research of the BCC regularly produces timely monetary statistics. Generally, the reliability of these statistics is now satisfactory, but some problems remain with the sectorization of accounts.

Since the last money and banking statistics mission in June 2000, data reporting by the BCC for publication in the IMF's *International Financial Statistics (IFS)* has improved; currently, monetary data are reported to STA on a timely basis. The multisector statistics mission that visited Kinshasa in October 2003 recommended a new chart of accounts for the BCC and the other deposit-taking institutions, including information needed for the sectorization of economic units and classification of financial assets.

Balance of payments

The balance of payments statistics are prepared on an annual basis, based on information on exports and imports of large public and semipublic enterprises, the BCC's payments records, and a survey of residents' foreign operations. The estimates also take account of information on the informal sector and foreign aid flows provided by the World Bank and the local United Nations Development Program (UNDP) office, which collects these data from the

European Union, embassies, and nongovernmental organizations. However, the recent multisector mission found that, due to computer problems, data have not been processed since 1999. As a result, the balance of payments is currently compiled using data from different sources, supplemented by estimates.

The mission suggested that the BCC implement a system of quarterly surveys of those corporations that are authorized to hold accounts overseas. Further, the mission recommended the reinvigoration of a working group comprising staff of the customs and other relevant agencies to prepare quarterly foreign trade data and other measures to improve data on services and transfers. No data are reported to STA for publication.

External and domestic debt

External and domestic debt statistics are compiled by OGEDEP and are of reasonable quality in spite of limited computer facilities. However, data on public enterprise foreign debt and, in particular, on cross arrears in the public sector are still of very poor quality. The World Bank is providing assistance in the compilation of cross-arrears in the public sector and public sector arrears with the private sector.

Public enterprise sector

There is no centralized, comprehensive database on the operations of public enterprises, although IMF missions are provided some information on the operations of individual enterprises. Generally, data are provided on an annual basis and become available with at least a six-month delay. As part of public enterprise reform, the World Bank is collecting data pertaining to the sector.

Social indicators

The most consistent data sets are those assembled for the UNDP human development, poverty, and gender-related development indices. Two multiple indicator cluster surveys carried out between 1996 and 2001 in collaboration with the United Nations Children's Fund (UNICEF) also provide important social indicators. A national household living standards survey with the help of IDA and other institutions is planned. In addition, in the context of the interim poverty reduction strategy paper (I-PRSP), the authorities, with assistance from the World Bank and the UNDP, have initiated work to construct a comprehensive database for social indicators.

Democratic Republic of Congo: Table of Common Indicators Required for Surveillance

(As of June 23, 2005)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication
Exchange rates	6/22/05	6/23/05	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	5/31/05	6/17/05	M	M	M
Reserve/base money	5/31/05	6/17/05	M	M	M
Broad money	5/31/05	6/17/05	M	M	M
Central bank balance sheet	5/31/05	6/17/05	M	M	M
Consolidated balance sheet of the banking system	5/31/05	6/17/05	M	M	M
Interest rates[2]	5/01/05	5/15/05	M	M	M
Consumer price index	6/17/05	6/20/05	W	W	W
Revenue, expenditure, balance and composition of financing[3]—general government[4]	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing[3]—central government	May 2005	06/20/05	M	M	M
Stocks of central government and central government-guaranteed debt[5]	2004	5/05	A	V	A
External current account balance	2004	5/05	A	V	A
Exports and imports of goods and services	2004	5/05	A	V	A
GDP/GNP	2004	5/05	A	V	A
Gross external debt	Dec. 2004	5/05	A	V	A

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

Democratic Republic of the Congo: Debt Sustainability Analysis

This appendix presents the results of the debt sustainability analysis (DSA) for low income countries conducted in the context of the Article IV consultation.[1] The main conclusion of the analysis is that the DRC's debt outlook, while appearing to be manageable, is subject to potential risks that warrant continuous vigilance.

The debt sustainability analysis is based on staff's estimates of the outstanding stock of debt, in conjunction with projections about new borrowing. Projections cover the period 2005–24, and incorporate the World Economic Outlook (WEO) projections at the time of the program negotiation. Projections beyond the medium term are derived from projections made at the time of the decision point DSA.[2] The analysis is based on debt service data after debt relief.

Under the baseline scenario, the NPV of debt as a percent of GDP is expected to remain roughly unchanged over the medium term, declining gradually to about 15 percent of GDP at the end of the projection period. As a percent of exports, the stock of debt in NPV terms will decrease from 69 percent of exports at end-2004 to 62 percent in 2008 before rising somewhat to 67 percent at the end of the projection period.[3] Flow indicators also suggest that the authorities should be able to meet their debt service obligations without undue difficulty. The debt service to exports ratio is expected to rise somewhat over the medium term before declining gradually during the remainder of the projection period. The use of alternative scenarios could affect the debt sustainability outlook. A scenario based on less favorable terms for new financing (the interest rate is 2 percentage points higher than in the baseline)

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[1] The DSA was conducted by Fund staff, prior to the approval of the joint Fund-World Bank DSA framework for low income countries. A joint Fund-Bank DSA is expected to be undertaken in the near future.

[2] Borrowing over the period 2006–10 is assumed to constitute about 4 percent of GDP. The actual borrowing, however, could be lower given that new commitments by the World Bank will be in the form of grants only in the coming years. Only identified borrowing is reflected in the results of the DSA.

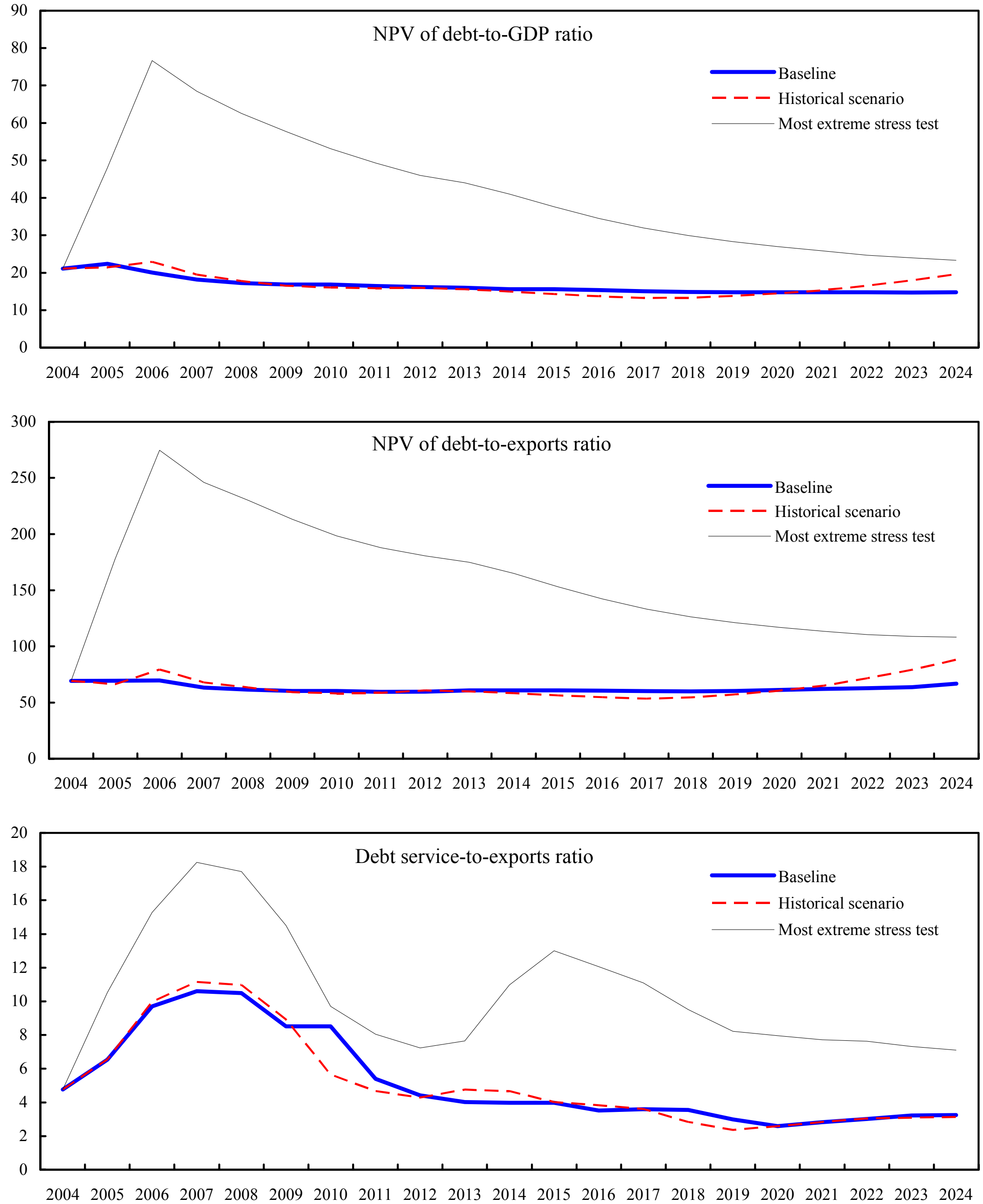
[3] These results are broadly in line with those of the HIPC DSA. Differences in the NPV of debt to exports ratio between the LIC DSA and the HIPC DSA are for the most part the result of methodological differences in the calculation of the NPV of debt. The latter relies on a loan by loan analysis using currency-specific discount rates, whereas the former uses aggregate data and a fixed discount rate (5 percent). Differences in the NPV of debt account for around 43 percent of the observed difference in the NPV of debt to exports ratio in 2006, the expected time of the completion point. The use of a three-year export average (under the HIPC methodology) explains the remainder of the difference.

reveals that the NPV of debt to exports ratio could more than double, climbing to 157 percent at the end of the projection period. A similar deterioration is evident in the NPV of debt to GDP and debt service to export ratios.

Furthermore, various simulations suggest that debt could rise sharply in the presence of adverse exogenous shocks. The DRC seems to be particularly vulnerable to an export shock (Bound Test 2) and to a simultaneous occurrence of smaller shocks (Bound Test 5). An export shock (export value at historical average minus one standard deviation) over a two-year period (2005–06) will rapidly lead to a sharp deterioration in the NPV of debt to exports ratio. The latter will rise to around 177 percent of exports of goods and services in 2006 before declining gradually during the remainder of the projection period. Similarly, a combination of shocks (real GDP growth, exports, GDP deflator, current transfers, and foreign direct investment at their historical average minus one half standard deviation) during 2005–06 results in a rapid deterioration of the NPV of debt to exports ratio to 275 percent in 2006, falling gradually to 108 percent at the end of the projection period.

In conclusion, the results of the analysis suggest that while the debt outlook for the DRC appears to be under control, risks remain. The authorities should thus remain vigilant and continue to monitor developments in this area closely.

Figure 1. Democratic Republic of the Congo: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2004–2024
(In percent)



Source: Staff projections and simulations.

Table 1. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario, 2001–24 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2001	2002	2003			2004	2005	2006	2007	2008	2009	2004–09 Average	2014	2024	2010–24 Average
External debt (nominal) 1/	257.7	192.0	190.0			162.1	156.0	65.4	61.1	56.8	52.7		41.4	30.2	
Of which: public and publicly guaranteed (PPG)	257.7	192.0	190.0			162.1	156.0	65.4	61.1	56.8	52.7		41.4	30.2	
Change in external debt	-35.3	-65.7	-2.0			-27.9	3.7	-73.3	0.6	0.2	0.3		1.2	1.3	
Identified net debt-creating flows	-45.1	-21.2	-12.8			-15.3	-15.5	-12.4	-6.8	-7.7	-6.9		-7.5	-11.9	
Noninterest current account deficit	-3.1	-1.4	-2.0	-2.7	1.3	2.4	1.9	4.9	5.3	4.2	4.9	3.9	2.5	-2.8	1.2
Deficit in balance of goods and services	2.1	4.9	7.2			8.9	13.3	13.2	13.8	13.8	13.1		6.7	-0.3	
Exports	18.6	21.2	26.1			30.5	32.3	28.8	28.7	28.0	27.9		25.6	22.2	
Imports	20.7	26.1	33.3			39.4	45.6	41.9	42.5	41.9	41.0		32.4	21.8	
Net current transfers (negative = inflow)	-5.2	-7.5	-8.7	-6.2	2.4	-7.6	-13.1	-9.8	-10.2	-10.0	-8.2	-9.8	-3.8	-0.3	-2.3
Other current account flows (negative = net inflow)	0.1	1.2	-0.5			1.1	1.7	1.6	1.6	0.4	0.1		-0.5	-2.2	
Net foreign direct investment (negative = inflow)	-1.6	-2.1	-6.9	-3.1	2.6	-6.7	-8.0	-8.1	-8.3	-8.4	-8.5	-8.0	-8.0	-8.0	-8.0
Endogenous debt dynamics 2/	-40.4	-17.7	-3.9			-10.9	-9.5	-9.2	-3.8	-3.5	-3.3		-1.9	-1.1	
Contribution from nominal interest rate	8.0	0.3	0.9			0.4	0.6	0.5	0.4	0.2	0.2		0.1	0.1	
Contribution from real GDP growth	5.1	-8.3	-10.7			-11.3	-10.1	-9.7	-4.3	-3.7	-3.5		-2.0	-1.2	
Contribution from price and exchange rate changes	-53.5	-9.6	5.9			…	…	…	…	…	…		…	…	
Residual 3/	9.7	-44.5	16.7			-12.7	19.2	-60.8	7.4	7.9	7.2		8.7	13.2	
Net present value (NPV) of external debt 4/	26.7	24.8	24.2			21.1	22.0	20.0	18.2	17.3	16.8		15.6	14.8	
In percent of exports	143.3	117.2	92.7			69.2	68.2	69.6	63.2	61.6	60.3		61.0	66.7	
NPV of PPG external debt	26.7	24.8	24.2			21.1	22.0	20.0	18.2	17.3	16.8		15.6	14.8	
In percent of exports	143.3	117.2	92.7			69.2	68.2	69.6	63.2	61.6	60.3		61.0	66.7	
Debt service-to-exports ratio (in percent)	75.7	23.6	8.5			4.8	6.5	9.7	10.6	10.5	8.5		4.0	3.3	
PPG debt service-to-exports ratio (in percent)	75.7	23.6	8.5			4.8	6.5	9.7	10.6	10.5	8.5		4.0	3.3	
Total gross financing need (in billions of U.S. dollars)	10.0	627.7	215.5			288.7	439.4	361.2	330.0	371.4	404.4		382.7	550.4	
Noninterest current account deficit that stabilizes debt ratio	32.3	64.3	0.0			30.3	-1.7	78.2	4.7	4.0	4.7		1.3	-4.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-2.1	3.5	5.7	0.0	5.7	6.8	6.6	7.0	7.0	6.5	6.6	6.8	5.0	4.0	4.9
GDP deflator in US dollar terms (change in percent)	22.3	3.9	-3.0	7.6	10.7	7.2	-0.2	5.1	1.0	1.4	1.6	2.7	2.1	1.5	2.1
Effective interest rate (percent) 5/	3.3	0.1	0.5	1.7	1.6	0.2	0.4	0.3	0.7	0.4	0.3	0.4	0.2	0.3	0.2
Growth of exports of goods and services (U.S. dollar terms, in percent)	-0.3	22.2	26.4	10.7	16.0	33.7	12.5	0.3	7.8	5.5	7.9	11.3	6.0	3.3	5.5
Growth of imports of goods and services (U.S. dollar terms, in percent)	16.6	35.6	30.9	26.0	8.8	35.2	23.2	3.5	9.6	6.4	6.1	14.0	3.2	1.5	2.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	51.5	49.3	53.5	32.8	38.1	45.0	56.9	56.9	56.9
Memorandum items:															
NPV of PPG external debt (in percent of revenue)	411.7	299.2	249.4			182.61	112.0	107.2	92.6	87.5	84.1		102.5	86.0	
PPG debt service-to-revenue ratio (in percent)	217.7	60.2	22.8			12.6	10.7	14.9	15.5	14.9	11.9		6.7	4.2	
Nominal GDP (in billions of U.S. dollars)	5153.1	5538.9	5680.5			6504.7	6921.9	7782.1	8412.4	9085.0	9843.8		14719.5	27520.9	

Source: IMF staff simulations.

1/ Public external debt only. Private external debt data are not available.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate, g = real GDP growth rate, and ρ= growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (that is, changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ While historical averages and standard deviations are generally derived over the past 10 years, subject to data availability, in the case of the DRC these are determined over the past 5 years.

Table 2. Democratic Republic of the Congo: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2004-24
(In percent)

	Estimate	Projections						
	2004	2005	2006	2007	2008	2009	2014	2024
				NPV of debt-to-GDP ratio				
Baseline	21	22	20	18	17	17	16	15
A. Alternative scenarios								
A1. Key variables at their historical averages in 2005-24 1/	21	21	23	19	18	17	15	19
A2. New public sector loans on less favorable terms in 2005-24 2/	21	25	23	24	25	27	33	35
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2005-06	21	35	46	40	36	32	22	16
B2. Export value growth at historical average minus one standard deviation in 2005-06 3/	21	28	30	27	25	24	22	18
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2005-06	21	25	31	28	26	25	21	18
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2005-06 4/	21	31	35	32	30	28	22	16
B5. Combination of B1-B4 using one-half standard deviation shocks	21	48	77	68	63	58	41	23
B6. Onetime 30 percent nominal depreciation relative to the baseline in 2005 5/	21	70	60	54	50	47	37	26
				NPV of debt-to-exports ratio				
Baseline	69	68	70	63	62	60	61	67
A. Alternative scenarios								
A1. Key variables at their historical averages in 2005–24 1/	69	65	80	68	63	59	59	88
A2. New public sector loans on less favorable terms in 2005–24 2/	69	76	81	83	91	98	127	157
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2005–06	69	96	124	108	99	88	68	55
B2. Export value growth at historical average minus one standard deviation in 2005–06 3/	69	137	177	158	151	147	145	138
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2005–06	69	75	97	88	84	81	75	71
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2005–06 4/	69	97	123	111	105	100	87	74
B5. Combination of B1-B4 using one-half standard deviation shocks	69	176	275	246	230	213	165	108
B6. Onetime 30 percent nominal depreciation relative to the baseline in 2005 5/	69	132	128	115	109	103	87	72
				Debt-service ratio				
Baseline	5	7	10	11	10	9	4	3
A. Alternative scenarios								
A1. Key variables at their historical averages in 2005–24 1/	5	7	10	11	11	9	5	3
A2. New public sector loans on less favorable terms in 2005–24 2/	5	7	10	12	12	11	7	10
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2005–06	5	7	10	12	11	9	5	3
B2. Export value growth at historical average minus one standard deviation in 2005–06 3/	5	11	17	19	19	15	9	7
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2005–06	5	7	10	11	11	9	5	4
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2005–06 4/	5	7	10	12	11	9	6	4
B5. Combination of B1-B4 using one-half standard deviation shocks	5	11	15	18	18	15	11	7
B6. Onetime 30 percent nominal depreciation relative to the baseline in 2005 5/	5	7	11	12	11	9	7	4
Memorandum item:								
Grant element assumed on residual financing (that is, financing required above baseline) 6/	53	53	53	53	53	53	53	53

Source: IMF staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), noninterest current account in percent of GDP, and non-debt-creating flows.
2/ Assumes that the interest rate on new borrowing is 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Export values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and foreign direct investment.
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.

Statement by the IMF Staff Representative
August 29, 2005

1. This statement provides information obtained after the finalization of the staff report. It does not alter the thrust of the staff appraisal.

2. On the economic front, preliminary data for the first seven months of 2005 suggest that real GDP growth for the year is in line with program projections. Annualized inflation has fallen from 54 percent at end-May to 35 percent at mid-August, and the inflation objective for the year still seems achievable. After a period of volatility in June and July, the value of the Congo franc has been appreciating for the past three weeks, reflecting the impact of fiscal tightening on base money, the growth of which has remained well within the program target.

3. Preliminary data for key aggregates indicate that the quantitative indicative targets for end-June are likely to have been met, except for net credit to government. The latter was due to a temporary acceleration of civil service and military wage payments at end-June, the date at which the political transition was expected to end — it was, in the event, extended by six months. As this process was not repeated in July, net bank credit to government fell back.

4. Preliminary estimates indicate that fiscal performance during the first seven months of the year was broadly in line with the program objectives. The overall fiscal balance recorded a surplus, instead of a deficit as projected, reflecting higher government revenue and lower government expenditure. However, the composition of expenditure remains an issue, with outlays for poverty reduction and investment projects much less than targeted.

5. Eight out of the nine prior actions have been fully met. The prior action on the implementation of spending procedures from commitment to payments between the Central Bank of the Congo and the Treasury is well-advanced with average time for payments having been sharply shortened to two and a half days instead of two days as stipulated. Further progress will take a little more time given the need to strengthen staffing and procedures. However, in view of the measures taken and the authorities' continued efforts to improve procedures, staff considers that program objectives remain feasible and hence supports the completion of the fifth review under the PRGF arrangement.

Press Release No. 05/195
FOR IMMEDIATE RELEASE
September 1, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Fifth Review Under the Democratic Republic of the Congo's PRGF Arrangement and Approves US$39.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fifth review of its performance under an SDR 580 million (about US$852.1 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 02/27), and a financing assurances review.

The completion of the fifth review enables the release of an amount equivalent to SDR 26.7 million (about US$39.2 million), which will bring the total amount drawn under the arrangement to an amount equivalent to SDR 553.3 million (about US$813.2 million).

The Board also approved the authorities' requests to extend the PRGF arrangement to end-March 2006 to provide time to complete the sixth review, and for additional interim assistance of an amount equivalent to SDR 1.13 million (about US$1.7 million) under the enhanced HIPC Initiative.

In completing the PRGF review, the Board waived the nonobservance of quantitative performance criteria pertaining to net domestic assets of the central bank, net bank credit to the government, and the continuous performance criterion prohibiting payment of government expenditures by the Central Bank of the Congo (BCC) not authorized in advance by the Minister of Finance, as well as of the end-September 2004 structural performance criterion on the selection of an international firm to conduct the external audit of the mining company La Société Minière de Bakwanga (MIBA).

Following the Executive Board's discussion on the DRC's economic performance, on August 29, 2005, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

"The Democratic Republic of the Congo made further progress in 2004 and 2005 and the authorities have continued to implement wide-ranging macroeconomic and structural policies. Economic growth remained strong, but slippages occurred under the PRGF-supported program during the second half of 2004 and the first quarter of 2005 due largely to political and social tensions. However, the authorities remain committed to implementing a strong set of measures to restore and consolidate macroeconomic stability.

"Developments since mid-2004 have highlighted the fragility of the economic and political situation. Bringing the political transition process to a successful conclusion and improving the security environment by completing the reform of the army and the police will be key in restoring confidence. Against this background, the authorities are committed to accelerating the reform process, which is essential for rebuilding the economy, achieving high and sustainable growth, and reducing poverty.

"The authorities have established a macroeconomic framework for 2005 that is ambitious. The medium-term fiscal strategy aims to keep the deficit at a level compatible with debt sustainability. It focuses on mobilizing revenue and strengthening public expenditure management by modernizing tax administration and stepping up the fight against smuggling, fraud, and corruption. In addition, it will be important for the mining sector to contribute an adequate share of government revenue. On the expenditure side, the priorities are to ensure that resources for poverty reduction are effectively utilized in order to contribute to the achievement of the Millennium Development Goals (MDGs), and that outlays for security and political institutions are contained. Also essential is the ongoing strengthening of the civil service that will help tighten control over the payroll.

"Restoring price stability will require tightening monetary policy, including through actions to improve the effectiveness of monetary instruments. This needs to be accompanied by measures to strengthen the financial position of the central bank, as well as its internal management and control systems. Also, the strengthening of ongoing reforms in banking system supervision would contribute to the enhancement of financial intermediation. Intervention in the foreign exchange market should be limited to achieving the international reserve target and smoothing out short-term volatility.

"Improvements in governance will be key for improving the business climate and investor confidence, and for enhancing donor support. In this regard it will be important that the authorities take all necessary steps to enforce recently adopted legislation to intensify the fight against corruption, money laundering, and the financing of terrorism.

"The authorities are committed to completing preparation of a high-quality Poverty Reduction Strategy Paper (PRSP) through a broad participatory process—the final version of which is expected to be adopted in the fourth quarter of 2005—and to taking the actions required to reach the completion point under the enhanced HIPC Initiative by end-2006. In the meantime, every effort should be made to reach agreements with the remaining creditors that have not provided debt relief under the enhanced HIPC Initiative. The pursuit of a prudent external debt management policy and the securing of highly concessional foreign assistance are also necessary to maintain debt sustainability.

"Program implementation will continue to face a number of risks, mostly related to security, social tensions, and the potential impact of the political transition process on economic policy. The authorities are committed to bringing the political transition process to a successful conclusion as rapidly as possible. However, policy slippages before the elections remain a major risk and the authorities are encouraged to take the necessary measures to achieve the program objectives. In addition, timely external financial support will be essential for completing the transition process.

"It is regrettable that misreporting has occurred, relating to nonobservance of the budgetary expenditure performance criterion. However, since the amounts of the deviation from the performance criterion were minor and did not undermine the objectives of the program, and also, the government has adopted measures to prevent future deviations, the Executive Board agreed to grant a waiver on the nonobservance," Mr. Carstens said.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 05/135
FOR IMMEDIATE RELEASE
September 29, 2005

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

IMF Executive Board Concludes 2005 Article IV Consultation with the Democratic Republic of the Congo

On August 29, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the 2005 Article IV consultation with the Democratic Republic of the Congo.[1]

Background

Since 2001, the DRC has experienced a significant turnaround. After the signing of a power-sharing agreement (Accord global et inclusif) in December 2002, a transition government of national unity was formed in June 2003, charged with holding elections after two years. The transition period was extended by six months in June 2005 to give the authorities more time to prepare for the first free and transparent elections in over 30 years. The transition government has made progress in reunifying the country and strengthening public institutions. A draft constitution was adopted by parliament in May 2005 and will be submitted to a referendum in November 2005. In addition, an integrated army and a police force are being created and the implementation of the Disarmament, Demobilization, and Reintegration (DDR) program is making progress.

Economic activity started to recover in 2002, after declining for 13 years, inflation declined from 511 percent at end-2000 to 4 percent at end-2003. However, by mid-2004 macroeconomic performance started to weaken due mainly to an increase in security-related government spending following rising tensions in the eastern provinces and outlays by political institutions. Overall, real GDP grew by 6.8 percent in 2004; 12-month inflation fell to less than

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

5 percent by mid-2004 before rising to over 9 percent by December 2004 and further to 26 percent by end-May 2005.

The external current account deficit, including official transfers, widened by 4 percentage points of GDP in 2004. Favorable terms of trade (due to an increase in the world market prices of commodities) and the return of private investors resulted in large increases in exports of cobalt, timber, crude oil, and copper. At the same time, imports of capital and consumer goods rose rapidly with the reconstruction of the economy and with rising income. The overall balance of payments improved when taking into account debt relief. International reserves more than doubled to 5.2 weeks of imports and are projected to rise further to 7.2 weeks in 2005. The country has benefited from a sharp improvement in competitiveness, with the terms of trade strengthening by more than 20 percent over the same period and the real effective exchange rate depreciating by 19 percent during 2002-04.

Fiscal developments were mixed in 2004, with government revenue higher and expenditure lower than programmed. Nevertheless, the composition of expenditure remained a major issue, with spending on social and poverty-reducing projects falling well short of projections when, at the same time, there was overspending for security and political institutions. In addition, the implementation of the fiscal reform agenda slowed down due to institutional rigidities, including the government's and the National Assembly's slow decision-making process. So, in spite of relatively high growth, progress toward reaching the Millennium Development Goals has been limited.

A higher-than-anticipated expansion in the monetary aggregates in 2004 led to the depreciation of the Congo franc and a surge in inflation in the second half of the year. To correct the slippages the Central Bank of the Congo (BCC) tightened monetary policy and eventually monetary stability was restored leading to the stabilization of consumer prices and the appreciation of the exchange rate by mid-June 2005.

In the area of governance, the authorities increased transparency in government spending and the tracking of poverty-related expenditure, which are key elements to monitor the use of resources generated by debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, and progress was made toward the MDGs. In addition a law to combat money laundering and the financing of terrorism was promulgated in 2005.

Important structural reforms have been implemented since 2002, but progress slowed in 2004 due to a large extent to rising insecurity and political tensions that made it difficult for the government to reach a broad consensus on reforms.

The soundness of the banking system is still fragile, although it has improved over the past year as its restructuring is ongoing. A plan to recapitalize the BCC has been elaborated which deals with the losses it incurred due to the revaluation of its foreign exchange accounts, high operating costs, and low earnings. As regards commercial banks, seven of them are being liquidated, the five remaining in operation are implementing restructuring plans and a new bank has started operations. Banks' profits are still low due to the narrow asset base and the volatility of earnings.

The DRC has made progress in obtaining debt relief. After reaching the decision point under the HIPC Initiative, the authorities signed bilateral agreements with most Paris Club creditors.

The authorities have also continued their good faith efforts to reach collaborative agreements with commercial creditors with which they have signed 32 rescheduling agreements, and they intend to continue seeking agreements with all remaining creditors by end-2005.

In 2005, economic growth is expected to reach 6.6 percent and end-of-period inflation to rise to 22.6 percent. The authorities will seek to achieve an underlying fiscal surplus (which excludes all foreign-financed expenditure) equivalent to 1.1 percent of GDP, compared with a deficit of 0.9 percent of GDP in 2004. At the same time, spending for the political transition process and the restructuring of the economy, which is largely foreign financed, would cause the overall fiscal deficit, on a cash basis, to increase by 0.5 percentage points of GDP to 2.2 percent in 2005. The overall fiscal deficit is to be covered by external financing, including debt relief under the HIPC Initiative and budget support from the World Bank, the African Development Bank, and bilateral donors. The BCC will implement a prudent monetary policy in the context of the floating exchange rate regime, which has so far been appropriate for the country's circumstances with the restoration of price stability as the main objective.

The main risks for the rest of 2005 relate to security and social tensions, which could worsen in the case of further delays in the transition process. Bringing the political transition process to a successful conclusion is key and will require coordinated efforts to tackle simultaneously political, economic, and security challenges. Support of the international community will remain crucial in reaching the end of the transition process.

Executive Board Assessment

Executive Directors commended the authorities for the progress made in stabilizing the economy and pursuing reforms in recent years, despite the difficult security and political situation. GDP growth has been higher than anticipated, inflationary pressures have eased, and the exchange rate remained broadly stable. In addition, important reforms were introduced, and advances made toward national reunification.

Directors noted that economic performance was mixed during the second half of 2004 and the first quarter of 2005. They regretted the policy slippages, which contributed to renewed inflationary pressures, a shift away from pro-poor spending, and slow implementation of structural reforms during this period. They were encouraged, however, by the tightening of fiscal and monetary policies early this year, which has helped stabilize the macroeconomic situation.

Directors noted that developments since mid-2004 underscored the fragility of the economic situation and that confidence in government policy remained tenuous. While recognizing the daunting challenges associated with the political and security situation, Directors encouraged the authorities to accelerate the economic reform process, including in the area of governance, which is essential for rebuilding the economy, achieving high and sustainable growth, and reducing poverty. They also emphasized the importance of bringing the political transition process to a successful conclusion and of improving security by completing reforms of the army and the police.

Directors concurred with the authorities' medium-term economic framework, which they found ambitious for a country that is still at an early stage of post-conflict recovery. They supported the fiscal strategy that aims at keeping the deficit at a level compatible with macroeconomic stability and debt sustainability. While noting the steps taken to increase revenue, Directors recommended that this effort be intensified in order to generate the resources required to develop the economy and reduce poverty. To enhance tax collection, they noted that emphasis should be placed on modernizing the tax administration, broadening the tax base, and fighting smuggling, fraud, and corruption. Directors urged, in particular, that the government take steps to ensure that the mining sector contributes an appropriate share of government revenue.

Directors urged the authorities to contain overall government expenditure, since money-financed outlays were the main cause of the recent surge in inflation. They emphasized the importance of improving the composition of spending by ensuring that resources for poverty reduction are effectively utilized in order to contribute to the achievement of the Millennium Development Goals, and that outlay for security and political institutions are contained. Directors strongly supported the strengthening of public expenditure management, which is essential for improving transparency and enhancing the efficiency of fiscal spending. They also welcomed the actions taken to enhance the efficiency of the civil service, and in particular, the undertaking of the military and civilian personnel census, which is an essential step toward improving control over the payroll, and creating room to increase wages. Directors noted the provisions in the draft Constitution to decentralize fiscal resources and key responsibilities to the provinces. To safeguard fiscal discipline, they urged that the pace of decentralization take into account the institutional capacity in the provinces, and saw a role for Fund technical assistance in this area.

Directors commended the authorities on their commitment to a prudent monetary policy in the context of the floating exchange rate regime, with the restoration of price stability as the main objective. They encouraged the authorities to implement the Fund's technical assistance recommendations regarding monetary management, including by developing the market for central bank paper as an efficient tool to address excess liquidity. Effective liquidity management might also require sales of foreign exchange. Directors were of the view that intervention in the foreign exchange market should be limited to achieving the target for international reserves and smoothing out short-term volatility in the exchange rate.

Directors urged the BCC to accelerate the implementation of its action plan aimed at strengthening its financial position, its institutional and management capacity, and the transparency of its operations. Actions in this area should take into account the recommendations of the safeguards assessment report, and Directors recommended that increased independence of the central bank would also be helpful in this regard. Directors welcomed the BCC's commitment to enhance supervision of the commercial banks and to strengthen the soundness of the banking system. They were of the view that commercial banks' restructuring was essential to improve their financial situation and enhance financial intermediation.

Directors emphasized the crucial importance of further actions aimed at improving governance and reducing corruption. Such actions are a key element of the strategy for improving the business climate and investor confidence and for enhancing donor support. In this context, Directors urged the authorities to take all necessary steps to implement recently adopted legislation to intensify the fight against corruption, money laundering, and the financing of terrorism. In addition, they looked forward to the authorities' implementation of plans to establish a financial intelligence unit and to participate in the Extractive Industries Transparency Initiative.

Directors encouraged the authorities to complete the Poverty Reduction Strategy Paper through a broad participatory process. They welcomed the draft PRSP that was circulated to civil society and development partners, and looked forward to the final version in the fourth quarter of this year. They urged the authorities to implement all actions necessary for the Democratic Republic of the Congo to reach the completion point under the enhanced HIPC Initiative by end-2006.

Directors noted progress made in finalizing negotiations on debt relief and encouraged the authorities to reach agreement with all remaining creditors. In light of the downside risks to exports and the terms of trade, they emphasized the need to continue to follow a prudent external debt management policy, and to secure highly concessional foreign assistance, while strengthening the authorities' debt-management capacity.

Directors agreed that macroeconomic statistics still need to be improved significantly, especially in the areas of the national accounts, price and production data, and the balance of payments. They urged the authorities to continue their efforts to enhance the coverage and quality of key statistics in the context of the General Data Dissemination System project.

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

Democratic Republic of the Congo: Selected Economic Indicators

	2001	2002	2003	2004	2005	2006
	(Annual percentage change)					
Domestic economy						
Real GDP growth	-2.1	3.5	5.7	6.8	6.6	7.0
CPI, end-of-period	135.1	15.8	4.4	9.2	22.6	6.2
	(In percent of GDP, unless otherwise)					
Government finances						
Total government revenue	6.5	7.9	7.7	9.6	10.7	11.5
Total government expenditure	8.2	10.3	13.6	15.4	22.3	20.6
Overall fiscal balance (commitment basis)	0.1	-1.2	-3.9	-3.8	-2.4	-1.7
Overall fiscal balance (cash basis)	-0.6	-0.1	-2.1	-1.9	-2.2	-1.9
External sector						
Exports of goods and services	18.6	21.2	26.1	30.5	32.3	28.8
Imports of goods and services	20.7	26.1	33.3	39.4	45.6	42.0
External current account, including grants	-4.9	-2.8	-1.5	-5.5	-5.1	-7.9
Gross official reserves (in weeks of non-aid-related imports of goods and services)	1.1	2.6	2.4	5.2	7.2	8.5

Sources: Congolese authorities; and IMF Staff estimates.

Statement by Damian Ondo Mañe, Executive Director for Democratic Republic of the Congo August 29, 2005

On behalf on my authorities, I would like to express our appreciation to Management and staff for their valuable advice and support in the implementation of the economic program of the Democratic Republic of the Congo (DRC).

Following satisfactory implementation in 2002 and 2003, the Government Economic Program (PEG) experienced some setbacks in 2004 on account of increased insecurity concerns in the eastern part of the country. My authorities had to act quickly to contain the situation which could have had a severe negative impact on the social and economic environment. The United Nations and the international community provided an invaluable support in this regard, for which my authorities are grateful.

The intervention of the government in the east created additional outlays, which caused some of the program's objectives not to be met, and the overall performance under the PRGF-supported program was lower than expected. Nonetheless, once tensions in the eastern region eased in the last quarter of 2004, my authorities took measures to contain the macroeconomic effects of the military action, while ensuring that structural measures are implemented albeit with some delays.

The difficult security environment, the complexity of the political situation and the time needed to build a consensus from all stakeholders in the preparation of the new Constitution and the transition laws caused a delay in the transition period which was extended by 6 months. The authorities remain committed to the ongoing process of national reunification and the completion of the transition. In this regard, they expect to complete the necessary work for the organization of a referendum on the draft Constitution in November 2005 and for the holding of Presidential, Parliamentary and local elections in early 2006.

My authorities remain committed to the successful implementation of their economic program. To this end, they are requesting an extension of the arrangement supporting the PEG until March 31, 2006 to allow for the completion of the sixth review before the end of the arrangement. They are also requesting an additional annual tranche of interim assistance under the HIPC Initiative to cover part of the debt service obligations falling due to the Fund between August 1, 2005 and July 31, 2006.

Recent Developments and Performance under the Program

The DRC's macroeconomic performance in 2004 was broadly satisfactory with output growth higher than expected despite the troubles in the eastern part of the country. GDP in 2004 is estimated to have reached 6.8 percent against 6.3 percent in the program.

On the **fiscal** front, the overall objectives in 2004 were met with government revenue higher than programmed thanks to increased oil revenues. However, as noted above, at mid-2004 unforeseen security expenditures caused outlays to be redirected to deal with the rising insecurity situation, while other spending lines were reduced on account of lower than anticipated foreign-financed expenditure. The overall expenditure target in 2004 was nevertheless met. My authorities took measures in December 2004 and February 2005 to tighten the fiscal stance, in order to help restore macroeconomic stability. The fiscal measures included a cut of non priority expenditures, a freeze on civil service recruitment and a tightening of tax collection. Preliminary data for the first four months of 2005 show that the budget execution, on both the revenue and expenditure sides, is in accordance with that stance.

Under the Fund-supported program, important progress has been made as regards the implementation of **monetary policy**. The instruments put in place had enabled the central bank to reduce inflation to single digits and led also to a stabilization of the exchange rate. However, inflation accelerated in the early part of this year, in relation to the security situation. The central bank, starting in September 2004, began to tighten monetary policy by raising in steps the discount rates. At the same time, government expenditure was reduced and these have helped to stabilize prices, and also led to an appreciation of the exchange rate. The quick response of the economy to the monetary measures being taken is an indication of the effectiveness of the monetary instruments being used, despite a very difficult environment. The authorities expect further progress on the inflation front during the remainder of the year and in 2006. Moreover, and in the context of the ongoing reforms aimed at improving the coordination between the central bank and the Ministry of Finance, the BCC implemented new spending procedures from commitment to payments. Thus, settlements of payments order by the BCC is now done within 48 hours of their receipts.

On the **external** front, higher oil and cobalt international prices and increasing mining production contributed to the increase in commodity exports in 2004. However, higher reconstruction-related imports and interest payments on rescheduled debt resulted in a wider than programmed external current account deficit (including grants) by 2 percentage points.

Debt management is improving. The government managed to settle all its external debt service commitments for 2004. It also secured bilateral agreements on Cologne terms with all Paris Club creditors but the US, and signed agreements with 32 commercial creditors while negotiations are underway with five others. In addition, the average debt relief granted to the Kinshasa Club amounted to 70 percent of the stock of debt. However, two creditors are seeking payments through the judicial courts, and new creditors are introducing old claims on the Democratic Republic of the Congo. An agreement was also reached on the terms and the conditions for the settlement of government debt to the private sector. The implementation of the repayment plan will begin during the third quarter of 2005.

The implementation of the **reform agenda** experienced delays due to the complex decision-making process in the country. As a result, some reforms envisaged in the program were completed only after the scheduled dates. On fiscal reforms, the Parliament adopted the new customs code in June 2005. The law on the nomenclature for nontax revenue was promulgated in July 2004 and amended in March 2005 to incorporate the revenue formerly collected by the autonomous agencies. Measures to strengthen the tax administration at the central and local levels are being undertaken. Since the beginning of 2005, and to sustain its fiscal tightening stance, my authorities pursued the strengthening of the budget management. In particular (i) the expenditure management system has become operational since June 2005, (ii) government accounts with commercial banks that did not meet the criteria for opening such accounts were closed; and (iii) the submission of monthly and quarterly budget monitoring reports to the government and the parliament respectively started since June 2005. The mining taxation regime was brought in line with the new Mining Code in 2004. This code, while specifying the royalties, taxes and fees to be paid, also provides for revenue sharing with provincial and local governments. The authorities have also enforced strictly the taxation laws in the forestry sector. Owners of forest concessions who had not paid their taxes saw their contracts cancelled, and the government thus reclaimed over 120 million acres of forestry land.

Regarding the public **enterprises sector**, the strategic audit of the *Conseil Supérieur du Portefeuille* and a draft reorganization plan of the petroleum distribution company (COHYDRO) were completed in July 2005 instead of September 2004. As for the audit of the public diamond mining enterprise MIBA, the international bid to select an auditor could not be held by end-September 2004 as planned, because the anticipated foreign financing was not available. However, the government decided to finance this audit with domestic funds. Following an international tender offer launched in January 2005, an international consulting firm was selected in July 2005.

In the **banking system**, the central bank issued in August 2004 a broad map for restructuring the BCC and the commercial banks, strengthening the financial system and developing a legal framework for microfinance institutions. As regards the commercial banks, nine of them are being liquidated and five others out of the nine banks in operation are implementing restructuring plans. The BCC has also introduced a number of measures to strengthen commercial banks' operations. These include instructions on banks' prudential ratios, adoption of a formal framework for on-site and off-site audits, reform of the tax and legal framework for commercial banks to make it more transparent and in line with good international practice, and the adoption of a decree in early 2004 to facilitate the reconstitution of equity capital.

Several steps have been taken to improve **governance and transparency**. In particular, the law on combating money laundering and the financing of terrorism, and the anticorruption law were promulgated in August 2004 and March 2005 respectively. As regard public procurement processes, a public procurement reform commission was established and its members appointed. The audit of the judicial system was completed with the assistance of the European Union and other donors. In order to enhance the transparency of military spending, the government, through the High Defense Council, mandated an audit of the expenditures associated with events in the eastern provinces during 2004.

Regarding the **peace and reunification process**, an integrated army and a police force is being created and the implementation of the National Disarmament, Demobilization, and Reintegration (DDR) program, which should reduce the size of the army by at least one-half, is proceeding well.

In sum, and despite a difficult environment, performance under the PRGF was broadly satisfactory with eight out of 11 quantitative performance criteria for end-September 2004 and the two structural performance criteria observed, although one structural criterion was observed with delay. In light of the efforts to correct slippages and restore macroeconomic stability, my authorities are requesting waivers for the missed performance criteria.

Program for the Remainder of 2005 and over the Medium-Term

The next six months will be marked by important events, which will affect significantly the political, economic and social life of the country. The events linked to the transition process include notably the holding of the referendum on the Constitution and elections. My authorities are hopeful that the implementation of the DDR program and the reintegration and reorganization of the army and the police will be completed soon. The financial impact of those events have been taken into account in the 2005 Budget adopted in March 2005 by the Parliament.

The program for the remainder of 2005 aims at achieving successfully the preparation and the organization of those important events while pursuing prudent policies initiated since late 2004 in order to restore the macroeconomic stability, and speed up the pace of reforms to foster growth and fight poverty. It is expected that the pursuit of the policies envisaged in the program will (a) help the economy achieve real GDP growth of 6.6 percent in 2005; (b) reduce the end-of-period annual inflation to 22.6 percent; and (c) achieve an external current account deficit, including grants, of 5.1 percent of GDP.

In addition to helping restore macroeconomic stability and ensuring an adequate financing of the program associated with the transition process, the objective of **fiscal policy** for the second semester of 2005 is to maintain the improvement in revenue performance and expenditure control while ensuring higher share of poverty-reduction expenditure. Higher budgetary revenues are expected, among others, from improved tax collection in the reunified provinces, payment to the government of tax and fees previously collected by autonomous agencies and higher oil revenues. Total government revenue is projected to increase by 1.1 percentage points of GDP to 10.7 percent.

On the **expenditure** side, my authorities will pursue the rationalization of domestic-financed currents outlays. My authorities expect savings of around 2 percent of GDP essentially from cuts in the operating expenses of ministries and political institutions. In that connection, there has been a 20 percent reduction in daily allowances during missions from staff and members of these bodies. Other measures taken relate mainly to utilities consumption. The large increase in budgeted foreign-financed projects would lead to an overall increase of expenditure of 2.3 points of percentage to 17.7 percent.

Fiscal reforms seek to strengthen accounting, tax and customs legislation and procedures with notably the implementation of the VAT to replace the turnover tax in the medium term. On the expenditure side, measures will seek to ensure a more effective use of debt relief and the reform of the civil service.

Regarding particularly the latter, my Congolese authorities are fully cognizant of the need to improve the management and the performance of the **civil service** to ensure a better provision of the public services. To this end, they are of the view that, among others, a better remuneration of civil servants is necessary. My authorities intend to raise civil wages in a way that will not worsen the fiscal situation. Thus, as a start, they completed an audit of the civil personnel which enabled the detection of many ghost workers and the results have been implemented in Kinshasa in the May 2005 payroll. Based on that experience, a similar action will be implemented later during the year for the rest of the country and as the DDR process is completed, the authorities will determine to what extent wages could be increased. In addition a new payroll system is being implemented to prevent the reoccurrence of ghost workers.

The **monetary policy** objective will be to restore price stability within the floating exchange rate system. In particular, with the projected reduction in central bank financing of the government and slower growth of money supply, and an interest rate policy in accordance with the monetary policy objective, inflation for end-2005 is set at 22.6 percent. To enhance its credibility, the central bank has widely disseminated the objectives of monetary policy and intends to report regularly on monetary policy implementation. It will continue to implement its strategic action plan in line with the plan prepared in cooperation with the Fund to improve its operations. In particular, to eliminate the losses of the BCC, the government will adopt the strategy for restructuring the balance sheet of the central bank before end-September 2005. The BCC will also strengthen its supervision of financial sector notably through the continuation of the banking system restructuring and the preparation of a draft legal framework for microfinance institutions by the end of 2005.

On the debt issue, my authorities are committed to conduct a prudent **debt management** policy. In this regard, they will seek to sign all the bilateral debt relief agreements and continue their efforts to convince all creditors to participate in the enhanced HIPC Initiative. The government is working with the World Bank on the repurchase of debt vis-à-vis London Club creditors. As regards commercial debt, the government will hire an audit firm to review the terms and conditions of all agreements signed with individual creditors and to certify the validity of new claims before negotiating debt relief agreements on terms similar to those of the enhanced HIPC Initiative. Meanwhile, the installation of the new public debt management software, with support from external partners, will be completed by end-August 2006.

My authorities remain committed to the **reforms** as demonstrated by the implementation of the long list of prior actions taken ahead of the completion of this review. Table 1 attached to the MEFP outlines the range of reforms that my authorities have started to implement and will complete by year-end. Apart from the fiscal- and central bank-related reforms, efforts will be made to complete reforms already initiated in the public enterprise sector, private sector development, judicial system, mining sector, forestry sector and governance and transparency with the aim to fighting corruption and removing impediments to growth and poverty reduction. Regarding the mining sector which my authorities consider as vital for the economic development of the country, the government will pursue the cleaning up of the accounts of the companies through notably audits and restructuring of the public enterprises concerned in order to improve their efficiency and transparency. The authorities are also considering other steps to ensure the mining sector's future growth and to enhance its contribution to the economy and government revenue. However, in these efforts, the authorities will require technical assistance from the donor community.

As regards poverty-reduction, the draft of the **Poverty Reduction Strategy Paper** (PRSP) was circulated to civil society and to development partners in May 2005. This version defines the government's priorities. However, the macroeconomic framework as well as a quantified estimate of the cost and impact of the proposed strategies have yet to be prepared. Following the incorporation of the 1-2-3 survey in Kinshasa and the surveys on the perception of poverty in the provinces into the paper, the final PRSP is expected to be adopted by government in the fourth quarter of 2005 as planned, following consultations with the development partners and stakeholders.

Misreporting Issue

My authorities reported to the staff the occurrences of expenditures carried out for the government by the central bank without the prior authorization of the Minister of Finance between July 2003 – July 2005. In particular some of these expenditures occurred during the period preceding the completion of the third and the fourth review of the current arrangement. At that time, my authorities indicated wrongly to the staff that there were no such expenditures. In fact, the implementation of a computerized expenditure system as well as the improvement of the accounting system of the central bank at the same time led to the non accounting of some financial transactions, including those indicated above. The urgent nature of these expenditures – to avoid a disruption in the functioning of the civil service – is the main reason for their occurrences. Given the small amounts involved in these expenditures and actions taken promptly after their discovery, to ensure that such expenditures do not reoccur in the future, I would appreciate Directors' support for the Managing Director's recommendation to grant waivers on the nonobservances of the continuous budgetary expenditure performance criterion at the time of the third and the fourth review. For the same reasons, I am requesting Directors' support for my authorities' request for waiver for the nonobservance of the same continuous budgetary expenditure performance criterion in the second semester of 2004.

Conclusion

I would like to reiterate the commitment of my authorities to macroeconomic stability, economic reforms and peace consolidation. However in face of the exceptional event that occurred in the second part of 2004, it is my authorities' view that the situation in the east was very urgent and needed to be dealt with. Accordingly, as they could not afford tensions to intensify and spread, they devoted the necessary means to ensure that security is reestablished in the eastern region of the country. My authorities have since taken measures to reverse the negative macroeconomic effects of their action. Six months later, the macroeconomic situation has been stabilized thanks to the tightening of fiscal and monetary policies. Nevertheless, my Congolese authorities are aware that prudence in policy implementation is still necessary, and intend to maintain such a stance. The DRC is still recovering from the civil conflict and much needs to be done. External assistance has been critical in the transition phase to peace, and will be much more needed in the coming months and years to consolidate the progress achieved so far. My DRC authorities are very thankful for the ongoing support they are receiving from the international community, and they are hopeful that as they consolidate the peace process and develop their economy, they can continue to rely on this assistance, including from the Fund.