April 2006
IMF Country Report No. 06/148

Republic of Congo: Enhanced Initiative for Heavily Indebted Poor Countries—Decision Point Document

This paper was prepared by staff of the International Monetary Fund and the World Bank in connection with the Executive Board's consideration of the Republic of Congo's eligibility for assistance under the Enhanced Initiative for Heavily Indebted Poor Countries. It is based on the information available at the time it was completed on January 31, 2006. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Republic of Congo or the Executive Board of the IMF.

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Decision Point Document Under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

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

Approved by Anthony Boote and Thomas Krueger (IMF)
and Gobind T. Nankani and Danny Leipziger (IDA)

January 31, 2006

Contents Page

Boxes

Figures

Tables

Appendices

Abbreviations and Acronyms

AfDB	African Development Bank
BDEAC	Banque de Développement des États de l'Afrique Centrale
COBAC	Commission Bancaire de l'Afrique Centrale
CORAF	Congolaise de Raffinage
DSA	Debt Sustainability Analysis
EMRRP	Emergency Rehabilitation and Reconstruction Program
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
EITI	Extractive Industries Transparency Initiative
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MONUC	United Nations Organization Mission
NPV	Net Present Value
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
Congo	Republic of Congo
SDR	Special Drawing Rights
SMP	
-Monitored Program	
SNPC	Societé Nationale des Pétroles du Congo
TSS	Transitional Support Strategy
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund

I. Introduction

1. This paper presents an assessment of the eligibility of the Republic of Congo (hereafter "Congo") for assistance under the enhanced HIPC Initiative. The Executive Boards of the IMF and IDA discussed the preliminary HIPC document (IDA Report No. 33252-CG, August 2005; IMF Country Report No. 05/391, November 2005) for Congo on August 1 and 25, 2005, respectively. On these occasions, Executive Directors made a preliminary determination that Congo could be eligible for assistance under the enhanced HIPC Initiative on the basis of its heavy debt burden, its track record of performance under IDA- and IMF-supported programs, and its status as an IDA-only and PRGF-eligible country. Directors generally agreed that Congo could reach its decision point by end-2005, provided that policy implementation under the government's macroeconomic and structural program is satisfactory.

2. The debt sustainability analysis (DSA) herein indicates that Congo's external debt burden would remain above the HIPC threshold even after application of traditional debt-relief mechanisms, with a ratio of net present value of debt to government fiscal revenues well above the threshold of 250 percent on the basis of end-2004 data.[1] Debt relief under the enhanced HIPC Initiative would help accelerate progress toward meeting the Millennium Development Goals (MDGs).

3. Section II provides background information on Congo's qualification for debt relief under the enhanced HIPC Initiative, the dimensions of poverty, political and security developments, and the policy track record to date. Section III discusses the Poverty Reduction Strategy Paper (PRSP) process, medium-to-long-term macroeconomic objectives, and the sectoral and structural reforms to be implemented before reaching the completion point. Section IV presents the key DSA results. Section V presents the floating completion point triggers, specifies how the enhanced HIPC Initiative assistance after the decision point will be used and tracked, and reports the views of the authorities. Finally, Section VI proposes issues for discussion by Executive Directors.

---

[1] Congo is eligible for debt relief under the enhanced HIPC Initiative's fiscal window. In April 1997, the fiscal revenues and openness criteria were established to allow for the possibility that, for countries with a high export base, reaching the debt-to-export criteria targets may still leave the country with an unsustainable external debt burden relative to fiscal revenues. In order to qualify for this window, the country must have an export-to-GDP ratio of at least 30 percent, and a revenue-to-GDP ratio of at least 15 percent, using an average of the last three years of actual data. As of 2004, Congo's exports-to-GDP ratio was about 84.5 percent and its revenue-to-GDP ratio was about 32 percent.

II. Background and Assessment of Eligibility and Qualification for HIPC Initiative Assistance

4. Following the elections held in 2002 and the relative stability that has ensued, Congo has been in a position to establish the prerequisites for reaching the decision point under the enhanced HIPC Initiative. It has made satisfactory progress in building a track record of macroeconomic stability and structural policy implementation, prepared an interim Poverty Reduction Strategy Paper (I-PRSP), and made significant progress in normalizing relations with creditors. This section discusses the achievement of these prerequisites in greater detail.

A. PRGF and IDA Status

5. Congo is an IDA-only country, with a GNI per capita of US$770[2] in 2004 (Box 1), and is eligible to receive resources under the IMF's Poverty Reduction and Growth Facility (PRGF). Congo will continue to need concessional assistance from the international community and is likely to remain an IDA-only country and eligible for PRGF resources for the foreseeable future.

B. Dimensions of Poverty

6. Once classified as a lower-middle-income economy, Congo experienced a continuous decline in per capita income from the mid-1980s to the late-1990s. This adverse trend coincided with the overvaluation of the CFA franc in the second half of the 1980s, three armed conflicts in the 1990s, and institutional weaknesses. Per capita real GDP in 2004 was about 70 percent of its 1984 level. As a result, poverty increased significantly, especially in the 1990s following the conflicts.

7. Successive and intense rounds of civil wars (1993, 1997, and 1998–99) had significant negative socio-economic consequences (Box 1 and Table 1). It is estimated by the World Bank that 70 percent of the population lives below the poverty line (defined as US$1 per day) compared to about 30 percent in 1993. The 2004 United Nations human development index ranked Congo 144th out of a total of 177 countries. The pervasiveness of poverty is further reflected in labor force statistics. Unemployment affects more than 50 percent of the active population, with youth being particularly affected.

---

[2] Using World Bank's Atlas methodology.

Box 1. Selected Poverty and Living Standard Indicators
(In percent, unless otherwise specified)

Indicator	Republic of Congo	Sub-Saharan Africa
Population (in millions, 2004)	3.8	688
Population growth (in percent)	3.0	2.4
GNI per capita (U.S. dollars, 2004)	770	450
Life expectancy (in years)	52	46
Infant mortality rate (per thousand)	81	105
Child under 5 mortality rate (per thousand, 2003)	108	...
Maternal mortality rate (per 100,000 live births)	510	…
HIV/AIDS: Estimated prevalence rates (urban areas, 2003, in percent)		
By gender:		
Male	3.8	...
Female	4.7	
By age group:		...
15-19	1.2	...
20-29	3.7	...
30-39	6.6	...
40-49	6.6	...
Illiteracy rate (percent of population age 15+, latest single year available 1996-2002)	17	37
Gross primary enrollment rate (percent of school age population, latest single year available 1996-2002)	97	86
Of which: Male	101	92
Female	93	80
Impact of conflicts in the 1990s		
Child soldiers	5,000	...
Displaced persons	1,000,000	...

Source: World Bank, Economic and Social Indicators database.

C. Recent Political and Security Developments

8. Recent political developments are encouraging against the background of recurrent conflicts in the 1990s. Under the umbrella of peace, Congo completed a four-year political transition period, held elections, and made significant progress in putting in place democratic institutions required by the Constitution. Peace and security have improved since a new government was appointed following a constitutional referendum and presidential, legislative, local, and senatorial elections, all held during January-June 2002.[3] The

[3] The cabinet was reshuffled in early January 2005.

government signed a peace accord with a hold-out rebel group and, over the past two years it has launched a program to demobilize former combatants. Nonetheless, the security situation remains fragile, as indicated by rebel attacks late last year which forced suspension of services on the vital Brazzaville-Pointe Noire rail line, the rebel attack on a UNDP convoy in the Pool region in April 2005, and skirmishes that erupted in October 2005 in a suburb of Brazzaville.

Table 1. Selected Economic and Social Performance Indicators, 1980-2004

	1980-84	1985-89	1990-94	1995-99	2000-04
National accounts	(In percent, unless otherwise indicated)				
Per capita GDP (in 1995 US dollars)	982	979	883	796	795
Real GDP growth	14.3	-0.7	-0.1	1.7	4.2
Oil	12.5	9.3	3.8	9.1	-3.3
Non-oil	14.9	-3.3	-1.7	-2.8	9.6
Consumer price inflation	3.7	-2.8	9.0	7.4	1.9
	(In percent of GDP, unless otherwise indicated)				
Fiscal accounts					
Total domestic revenue (excl. grants)	34.1	25.8	24.3	25.7	29.1
Primary expenditure and net lending 1/	24.3	22.9	26.4	21.6	22.4
Basic primary budget balance	9.8	2.9	-2.2	4.2	6.7
External sector					
Trade balance	23.3	25.6	24.3	40.1	53.3
External debt	89.6	176.6	217.5	236.9	180.8
Real effective exchange rate (index, 1990=100)	96.7	98.8	92.7	79.3	80.8
Terms of trade (index, 1990=100)	179.6	125.8	84.1	78.0	127.4
Oil price (U.S. dollars per barrel)	33.3	18.7	19.2	17.4	28.9
Social indicators	(In units indicated)				
Adult illiteracy ratio (in percent of people ages 15 and above)	46	38	30	23	19
Secondary school enrollment ratio 2/	74	75	54	53	42
Immunization ratio 3/	50	70	67	33	31
Life expectancy at birth (in years)	50	51	51	51	51

Sources: Congolese authorities, and staff estimates and calculations.

1/ Noninterest current expenditure plus domestically-financed investment.
2/ In percent of the children of secondary school age.
3/ In percent of children under 12 months for immunization against diphtheria, tetanus, and polio.

D. Macroeconomic and Structural Reform Record

9. Emerging from a conflict situation, and starting from a very low base, Congo has made significant progress in implementing macroeconomic, financial, and structural reforms. Large challenges remain, however, including the need to further enhance transparency in the management of Congo's natural resources, and strengthen budget management, address widespread and primarily urban poverty, and continue to demobilize armed combatants.

10. The overall improving political and security conditions allowed the authorities to make good progress toward restoring macroeconomic and financial stability. Since end-2002, the government has focused on the country's economic and social recovery within the framework of its "Nouvelle Espérance" (New Hope) program. The government's efforts were supported by IMF, IDA, and donors:

- On the IMF side, support was provided through an Emergency Post Conflict Assistance (EPCA) in 2000 (in an amount equivalent to SDR10.6 million) and close monitoring of the authorities' efforts to strengthen the framework for policy implementation through four staff-monitored programs (SMPs) during 2001-04. Reform implementation had been uneven under the EPCA and the first three SMPs, but significant progress was made in enhancing oil sector transparency and public finance management under the 2004 SMP (see below). On December 6, 2004, the Executive Board of the IMF approved a three-year arrangement under the PRGF for Congo in an amount equivalent to SDR 54.99 million (65 percent of quota) to support the government's economic program through 2007.

- Support from IDA was provided through balance-of-payments support consisting of a Post Conflict Economic Recovery Credit of US$37.6 million in July 2001 and an Economic Recovery Credit of US$30 million in December 2004. The latter focuses on reforms in the oil sector and improving performance with respect to public investment[4]. IDA also has several ongoing investment projects put in place since the return of peace to strengthen governance and social welfare. These include (i) a Transparency and Governance Capacity Building Project for US$7 million, which has focused mainly on improving transparency and governance in the oil sector and in public sector financial management, and will continue to do so for the next few years; (ii) an Emergency Infrastructure Rehabilitation and Living Conditions project for US$40 million; (iii) an Emergency Recovery and Community Support Project for US$41 million; (iv) an HIV/AIDS and Health project for US$19 million; and (v) a Support to Basic Education Project for US$20 million.

[4] This is a two tranche operation, whose second and final tranche will be released when: (i) the SNPC action plan, drawn up in light of the 1999-2001 audit and described in greater detail in paragraph 30, is deemed to have been fully implemented; (ii) the following measures have been undertaken with respect to public investment: a) completion and adoption of an action plan aimed at reforming the management of investment projects, b) the review and submission of financial audit reports for investment expenditures for FY 2004, and c) satisfactory review and submission of a draft public investment program for FY 2006-07; and (iii) with respect to domestic debt: a) validation of the amount of arrears pertaining to the stock of domestic debt; b) a cut-off date has been established after which claims by creditors can no longer be submitted or modified, c) an agreement has been reached between the government and its creditors pertaining to a common discount factor, and (d) a commercial bank has been appointed to effect payment to the entitled domestic creditors.

- The African Development Bank (AfDB), European Union, and bilateral donors have also provided important assistance. In addition, an agreement was reached on December 16, 2004, between Paris Club creditors and Congo for a debt stock reduction and arrears rescheduling.

11. The onset of peace in 1999/2000 boosted economic activity and contributed to macroeconomic stability (Table 1 above), helped by enhanced macroeconomic management and the significant rise in oil prices. Non-oil real GDP increased by about 9½ percent per annum on average during 2000-04, propelled by improvements in agriculture, commerce, and transportation. The basic primary fiscal balance has improved since the late 1990s. Consumer price inflation declined significantly, helped by the trend toward fiscal consolidation, a more reliable supply line from Pointe-Noire to Brazzaville, and a strengthening of the euro (to which the CFA franc is tied) vis-à-vis the U.S. dollar.

12. Following repeated setbacks in the implementation of economic reforms under the 2001–03 SMPs, a noticeable break with the past cycle of poor governance and weak economic management has been observed since late 2003:

- The recent significant improvement in the fiscal position is attributable to tighter control of expenditure, high oil revenues, and mobilization of non-oil revenues. Noteworthy, public finance reforms have been undertaken with respect to the budget framework, revenue mobilization, and expenditure and cash management (Box 2).

- The government placed strong emphasis on improving governance, and especially on enhancing oil sector management and transparency (Box 3). Nonetheless, more transparency has also brought to the fore remaining key weaknesses in oil sector management (e.g., SNPC's accounting, internal control, management information system, and marketing of government oil). Yet, implementation of the action plan aimed at remedying issues raised by the SNPC audits has been slower than programmed, especially with respect to strengthening accounting, updating estimates of petroleum assets, and defining responsibilities within the corporate structure.

- Significant steps have been taken to improve relations with creditors since the beginning of 2003, but with differing degrees of success (see Section IV.B). The government has contracted no new loans with maturity exceeding one year using oil as collateral since October 2002.

13. Further structural and sectoral reforms are being undertaken or have been initiated as follows:

- The privatization of state-owned banks was successfully completed. Nonetheless, the government has temporarily taken over a bank in critical condition to protect depositors, allow an orderly restructuring, and prepare it for reprivatization. A restructuring plan, prepared with technical assistance from the regional supervisory agency (COBAC), was adopted by the bank's board in December 2004. This bank is under intensive surveillance by the COBAC.

- The government is improving the legal and regulatory framework as a way to prepare or accompany liberalization, privatization, and private/public partnership, notably in telecommunications, electricity, water, and petroleum distribution.

- The distribution of refined oil products is being privatized, although the transfer of property titles is not yet complete.

- The government succeeded in attracting private operators in mobile telecommunications, with improvements in quality and price of service.

- The government significantly reduced the rate of the tax on corporate profits and in parallel adopted an investment charter rationalizing tax holidays.

- The government established a one-stop window to facilitate investment procedures.

Box 2. Steps to Strengthen Public Finance Management

Budget framework

- Centralization of revenues and expenditures within the budget framework, including phasing out of off-budget government spending by oil companies.
- Reduction of delays in preparing and submitting the budget to parliament.
- Improved coordination between the Ministries of Finance and Planning on budget preparation.
- Strengthening of management and technical capacity at the Finance Ministry.

Revenue mobilization

- Quarterly certification, by an audit firm of international reputation, that oil revenues due to the government by oil companies are consistent with proceeds registered at the Treasury.
- Certification, by an audit firm of international reputation, of the 2004 forestry tax revenues.
- Completion of "cost oil" audits for the year 2003, by audit firms of international reputation, for all production-sharing contracts.
- Adoption in March 2004 by the government of a dividend policy for the SNPC, reserving at least 30 percent of the 2003 net profits to the Treasury and 20 percent in subsequent years.
- Strengthening of the coverage of the territory by tax and customs administration through the establishment of more provincial offices.
- Efficiency enhancement of revenue-collecting agencies through the operational audit of the General Directorates of Tax and Customs.
- Launching of the computerization of the systems at the General Directorates of Tax and Customs.
- Use of a single taxpayer identification number (NIU) to improve the tracking of taxpayers and limit tax evasion.

Expenditure and cash management

- Preparation of data tracking government spending at various stages of the expenditure circuit (commitment, issuance of payment orders, cash payments).
- Preparation of regular data to track poverty-related spending.
- Abstention by the government from contracting new oil-collateralized debt.
- Significant reduction of exceptional spending procedures (*paiement par anticipation*).
- Preparation of consolidated treasury accounts.

Box 3. Recent Reforms in the Oil Sector

Considerable progress has been made in reforming the oil sector, and in particular in improving oil sector transparency. Nevertheless, major weaknesses remain, especially with regard to SNPC's internal controls, management information system, and accounting (with auditors noting a lack of access to adequate information), marketing of government oil, and awarding concessions on government oil contracts. Key remaining weaknesses are to be addressed in the period ahead under the PRGF arrangement as well as under different World Bank programs. Past reforms were focused on the following areas:

Ensuring full mobilization of government oil revenue

- Creation in 2003 of the specialized Oil Monitoring Unit (OMU) in the Ministry of Finance to (i) forecast oil revenues based on fiscal parameters in Production Sharing Agreements (PSAs), (ii) compare forecasts with outcomes, and (iii) represent the Ministry's interests in oil-related transactions.

Monitoring SNPC activities

- Audit of the 1999-2001, 2002, and 2003 SNPC financial accounts by an audit firm of international reputation. These covered the SNPC's financial consolidated statements, internal controls, and fiscal agency functions (notably oil sales, oil-based financing, and sovereignty expenditures).
- Audit, by an audit firm of international reputation and in accordance with international standards on auditing, of the 2002 financial accounts of the national oil refinery (CORAF).
- Adoption by the government in March 2004 of a plan to implement the recommendations of the 1999-2001 audit of the SNPC with a view to improving the company's accounting, internal control, management information system, reporting and accountability.
- Preparation by the government of a strategy aimed at ensuring that the SNPC focuses on core activities in the oil sector.

Enhancing transparency

- Publication on official internet sites (www.mefb-cg.org) of (i) the 2003 SNPC audit, and significant excerpts from the 1999-2001 and 2002 audits; (ii) the plan to reform the SNPC's operations; (iii) oil certification reports; (iv) PSAs; and (v) key oil-related data.
- Organization by the government and SNPC of seminars on the oil sector for parliamentarians in Brazzaville in November 2003, and for the public in Pointe Noire in May 2004.
- Public announcement by the government of its commitment to adhere to the Extractive Industries Transparency Initiative (EITI) (June 2004).

E. Recent Performance Under the PRGF Arrangement

14. Since the issuance of the preliminary document, indications are that performance under the PRGF arrangement has remained broadly on track (see below). A full description of performance will be undertaken in the context of the second review under the PRGF arrangement, planned for March 2006.

15. Preliminary indications are that eight of the ten quantitative performance criteria for end-September 2005 under the program supported by the PRGF were met: (i) a ceiling on the change in the net claims of the banking system on the government; (ii) no new medium- or long-term nonconcessional borrowing; (iii) no new external debt (including leasing) with an initial maturity of less than one year incurred or guaranteed by the government; (iv) no new oil-collateralized external debt by or on behalf of the central government; (v) a ceiling on new nonconcessional external debt contracted by the SNPC; (vi) no new external payment arrears on nonreschedulable debt; (vii) a ceiling on domestic arrears payments; (viii) no new domestic payment arrears. However, the floor on the primary fiscal balance was missed by a large margin (see below), and the minimum payment on external arrears was missed as the authorities adhered to the December 2004 Paris Club rescheduling agreement, entailing lower-than-programmed payments on post-cutoff-date arrears.[5]

16. Based on preliminary data, the primary fiscal surplus fell short of its adjusted target[6] by CFAF 113 billion (3.6 percent of GDP) at end-September 2005 owing primarily to exogenous factors and the authorities' response. First, with a view to protecting Congolese assets from litigating creditors,[7] an amount of CFAF 80.7 billion (2.6 percent of GDP) in revenue from oil sales not transferred to the Congolese Treasury from abroad by end-September; these revenues, however, were repatriated in their entirety in early November 2005. Second, an expenditure overrun equivalent to 0.6 percent of GDP was incurred owing to (i) higher-than-projected transfers to CORAF to cover the company's higher losses in the

---

[5] The Paris Club debt agreement of December 16, 2004 provided a more favorable schedule of arrears clearance than envisaged under the PRGF-supported program (IMF Country Report No. 05/39; February 2005).

[6] In line with the technical memorandum of understanding attached to the PRGF arrangement (IMF Country Report No. 05/7, Appendix I, Attachment III), the adjusted target reflects deviations from the program baseline in two parameters: oil prices and shipments.

[7] About 10 percent of total external debt stock (US$900 million) is owed to litigating creditors (i.e., suppliers and commercial creditors, some of whom bought Congolese debt on the secondary market at deep discounts, and have been suing actively in courts in France, the US and the UK for immediate and full payment of their claims, including penalty interest, by attachment of the proceeds of oil cargos or their payments).

.

face of partial adjustment of fuel pump prices, and (ii) automatic payments to private oil companies for their 2004 oil delivery to CORAF that had remained unpaid.[8] Third, although the world oil prices were higher than programmed, raising the (adjusted) primary fiscal surplus target under the program, the positive revenue impact was offset to some extent by the sharp rise in the discount on Congolese crude oil.[9] In addition, fees and commissions related to asset protection efforts noted above increased sharply.

17. The two structural performance criteria slated for the third quarter of 2005 were observed. First, the government adopted an action plan (including a timetable) for the introduction of an automatic price adjustment mechanism for refined petroleum products. The plan envisages implementing a new price structure in 2006, following the completion of two studies, with World Bank technical assistance, to undertake a social impact analysis and an economic and strategic review of the CORAF. Second, the certification of forestry revenues in 2004 by an audit firm of international reputation was completed and the report was submitted to the government.

18. Most structural benchmarks were also observed, including (i) adoption by the government of a strategy to refocus the activities of the SNPC on its core activities in the oil sector along with an implementation timetable; and (ii) certification of oil revenues by an audit firm of international reputation for the second quarter of 2005 and the publication of the related report on the Internet site. Nonetheless, the auditors for the oil revenue certification did not have direct access to treasury bank accounts for verifying oil revenues due to the government against cash receipts; in November, the government and the audit firm came to an understanding on direct information access for oil revenue certification starting in the last quarter of 2005. The benchmark on the adoption by the government of a comprehensive plan for the settlement of domestic arrears was missed, although the process for reaching an agreement with creditors was launched with IDA technical assistance from a private firm specializing in this field. The treatment of domestic arrears would include treatment of social arrears, including the preparation in 2006 of a settlement plan for the latter. Some progress was made toward strengthening the banking system. First, an audit firm of international reputation completed an audit of the statement of the loan portfolio as of March 31, 2005 of a bank in difficulty. Second, with assistance from of the Central African Banking Commission (COBAC), the government prepared an action plan to further strengthen recovery of the banking system's nonperforming loans.

---

[8] Private oil companies can unilaterally activate guarantees provided by the government—entailing direct deductions from payments of tax obligation to the government—for unpaid bills by CORAF for its purchase of crude oil.

[9] The price for lighter crude oil, such as Brent—a widely used international benchmark—rose much faster than for heavy crude, such as the Congolese oil blend.

19. The Congolese authorities plan to request waivers for the nonobservance of the two quantitative performance criteria noted above at the time of the second review under the PRGF arrangement. Key issues for discussion with the authorities at the time of the next PRGF review would include management of oil revenues, strengthening of the quarterly reconciliation/certification of oil revenues, the marketing of government oil by the national oil company, the awarding of contracts on oil concessions, governance and transparency in general, the schedule of retail fuel price adjustment, and the status of CORAF's losses.

III. Medium-to-Long-Term Strategy for Poverty Reduction

A. PRSP Formulation Process

20. In 2004, the government prepared an I-PRSP, based on consultations with the civil society and donors. The poverty reduction strategy proposed in the I-PRSP presents a long-term vision of development based on five pillars: (i) consolidation of peace and good governance; (ii) consolidation of macroeconomic stability and promotion of key economic sectors; (iii) improving access to basic social services and social protection; (iv) improving access to infrastructure; and (v) strengthening the fight against HIV/AIDS.

21. The staffs of the IMF and IDA consider that the I-PRSP provides an appropriate framework for poverty reduction and use of resources that could become available under the enhanced HIPC Initiative. The I-PRSP was analyzed in a joint staff advisory note (JSAN), which recommended (i) widening the participatory process to include a larger component of civil society, (ii) improving the quality and availability of data with a household expenditure survey, and (iii) continuing to focus on targeted areas of intervention such as fiscal transparency, economic growth, public finance management, and the legal framework.

22. The government has begun the preparation of a full PRSP. With IDA assistance, a donors' meeting[10] was organized in February 2005 to evaluate the I-PRSP implementation process and to prepare the groundwork for a full PRSP. A key outcome of the meeting was the creation of a donor coordination body to support the PRSP process and to facilitate donor participation in the formulation of activities. A full PRSP is expected by late 2006.

23. The participation process for a full PRSP will be broadened and deepened by including the input of civil society early in the design process. To enable an improved poverty diagnosis, a rapid poverty assessment was conducted in June 2005, and a household survey, which is underway, is expected to be completed by end-March 2006. The implementation of the Core Welfare Indicators Questionnaire (CWIQ) will be an opportunity to reassess the level of poverty in the country and the main vulnerable groups, and to provide a benchmark assessment of the state of social service delivery. Beyond the national

[10] Aside from the authorities, participants included the French Embassy, the French Cooperation Agency, UNDP, World Food Organization, UNICEF, European Union, WHO, UNIFEM, and IDA.

household survey, steps will need to be taken to strengthen the country's monitoring and evaluation system for the full PRSP.

B. Macroeconomic Objectives

24. Given that the decision point is being presented on a standalone basis, the macroeconomic projections used are those discussed in the preliminary HIPC document (Tables 4 and 5).[11] The forecasts are based on assumptions of continued progress on peace and reconciliation, sound macroeconomic policies, increased investment in infrastructure and human capital, structural reforms that promote a business-friendly environment, and policies that significantly enhance transparency and governance and promote sound institutions and the rule of law. The baseline scenario assumes that Congo benefits from traditional debt relief mechanisms, with a significant downward impact on debt service. In addition, the composition of public expenditure is expected to shift in favor of pro-poor capital outlays. More broadly, and in line with the authorities' I-PRSP, the projections assume that the share of pro-poor spending in overall outlays will increase in order to allow Congo to make progress toward the MDGs.

25. Reflecting the above assumptions, real GDP growth is projected at close to 5 percent per year during 2005-24, with a rise in investment (Tables 4-5). In view of depleting oil production, the non-oil sector's importance is projected to rise significantly over the long run. Oil production is expected to increase until 2010 as new oil fields come on stream, and then to decline over the following two years as this positive effect is offset by the depletion of older oil fields. Non-oil real GDP growth, by contrast, is projected to rise steadily over the period, largely on account of higher investment, reflecting the positive impact of structural reforms designed in particular to promote greater private sector activity. The projected economic growth is below that needed to halve the proportion of the population living below the poverty line (i.e., about 8 percent per annum in the non-oil sector), but it is considered realistic. As a point of reference, non-oil real GDP growth has averaged about 3.3 percent per year during 1980-2004.

26. As a member of a monetary union, sound fiscal policy is the main domestic policy instrument to secure macroeconomic stability. Inflation is projected to average about 2 percent annually, mostly reflecting a prudent fiscal policy. The macroeconomic projections assume an improvement in the non-oil basic primary fiscal balance from non-oil revenue mobilization and better expenditure management. A number of recent measures have been taken to widen the tax base and extend the reach of the central administration (Box 2). Medium- to -long-term measures to enhance non-oil revenues include: the conduct of regular tax audits; the establishment of computerized links between the various customs and tax

---

[11] The related forecasts are based on the Spring 2005 *World Economic Outlook* (WEO). Appendix I provides a summary of the macroeconomic framework under the September 2005 WEO; a key change is the significant rise in world oil prices.

administration offices; the use of the single taxpayer identification number; and the streamlining of discretionary tax exemptions. It is expected that compliance by taxpayers would rise significantly on the basis of improved government services. Thus, non-oil revenues are projected to rise steadily to reach about 16½ percent of GDP by 2024.

27. The overall budget balance is projected to remain positive throughout the forecast period, but to decline significantly from 2012 onward reflecting a projected decline in oil revenues. The authorities are assumed to continue implementing a conservative fiscal rule regarding oil revenue projections; under the rule, oil revenues (and, consequently, expenditures) should be projected on the basis of conservative oil price projections (IMF WEO projected price minus US$4 per barrel).

28. Export and import volumes are expected to grow by 3½ percent and 5 percent respectively per year on average during 2005-24. As a result, the external current account balance would move to a small deficit position on average during this period (from a small average surplus position during 2000-04). Congo has an immediate balance-of-payments need stemming primarily from the need to settle large external arrears to commercial creditors amounting to some US$3.4 billion (74 percent of 2004 GDP). Debt relief will be key to meeting these financing requirements. In 2005, however, financing is assured, thanks to resources already committed by bilateral and multilateral donors, and financing assurances provided by Paris Club creditors.

C. Governance, and Structural and Institutional Reforms

29. In view of Congo's heavy dependence on oil, enhancing transparency in oil sector operations is a key aim of the government's reform program. To this end, the government has implemented a number of reforms, supported in part by the IDA-financed Governance and Transparency Capacity Building Project. This included audits of the SNPC's accounts (Box 3) while key recommendations of the 1999-2001 audit were incorporated into an action plan, designed with the support of IDA.

30. The SNPC action plan is being implemented, although with some delays, and, in order to improve implementation, the government has hired a private consulting firm to assist in the process. An evaluation, undertaken in early January 2006, indicates that 9 out of the 20 actions have been completed, another 5 are near completion (including reinforcement of the Hydrocarbons unit in the Ministry of Finance, establishment of a human resources and training strategy, reconciliation of cross debts with the State for the period 1999-2003), leaving 6 which are far from completion at this time. These pertain to the study to model reserves and oil revenues (action 1), the reform of the accounting system (action 6), the verification of partner accounts (action 10), the verification of past petroleum costs (action 12), the study of petroleum reserves (action 13), the elaboration of operating procedures and manuals for SNPC departments (action 15), and the establishment of a management information system (action 19). The government has stressed the need to improve the quarterly reconciliation of revenues, to ensure that the marketing of oil by SNPC, whether undertaken directly or indirectly, is in line with best international practice as regards prices

obtained, the fiscal take, and the timely transfer of revenues to the Treasury. To this end, it intends to commission appropriate studies with the assistance of the international financial community, in particular IDA and the IMF. These studies are expected to be completed and their recommendations implemented before the completion point. Furthermore, the government intends to take all measures needed to permanently eliminate potential or actual conflicts of interest, whereby senior SNPC officials are able to have interests in companies with which SNPC has a business relationship. It has already taken a number of steps to eliminate several such conflicts of interest that have been made public during 2005.

31. The government publicly announced in June 2004 its commitment to adhere to the Extractive Industries Transparency Initiative (EITI).[12] While progress has been slow toward full participation in this initiative, the following developments since the June 2004 announcement are noteworthy:

- The government reaffirmed its commitment to the EITI at a round table organized by Publish What You Pay, an NGO, in Pointe Noire in February 2005; this meeting was also attended by representatives from other NGOs, the national oil company (SNPC), and private oil companies operating in Congo.

- Following the EITI conference in London in March 2005, Congo was named in a press communiqué as one of nine countries that had made progress in improving transparency in the management of their oil revenues.

- In September, the government convened an EITI workshop with civil society and oil companies, during which a 25-member EITI Executive Committee was nominated. The authorities have also recently launched a website (www.mefb-cg.org/eiti) with information on EITI implementation in Congo. The next step will be the preparation of the Committee's Action Plan.

32. With regard to public expenditure management, the government plans to (i) adopt a functional classification of budget expenditure including for poverty related expenditures, with IMF and IDA technical assistance; (ii) streamline the spending chain in order to strengthen the framework for tracking expenditures from commitment to payment stage; (iii) complete the computerization of budget execution; and (iv) review the public procurement system, with IDA technical assistance. In addition, with technical assistance from IDA and IMF, the government plans to adopt a medium-term budget framework. Such a framework would enable improved management of both oil- and non-oil revenues and a better mapping of expenditures with the priorities identified in the PRSP, taking into account the sustainability of these expenditures. Bearing in mind the importance of oil revenues in

---

[12]The EITI supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining.

total government receipts, as well as the volatile and uncertain nature of oil revenues, a regular update evaluating the level of reserves and the trajectory of oil production will be undertaken so as to obtain the best estimates over the medium-long term.

33. World Bank and IMF staffs will assist the authorities in the evaluation of existing systems of public finance management, and the identification of areas where reforms and technical assistance are needed. The World Bank expects to undertake a Country Integrated Financial Assessment in the next few months, and to hold a seminar in May/June 2006.[13] This process will help identify the key reforms needed with respect to revenue mobilization and expenditure management, control and auditing, as well as procurement reform. The Bank will conduct a Public Expenditure and Financial Accountability (PEFA) exercise. Subject to requests from the authorities, the IMF would provide technical assistance through the Fiscal Affairs Department, and the Bank through the Transparency and Governance Project, as well as the Emergency Recovery and Community Support Project. Through these actions, major reforms are expected to be designed and implemented between the decision and completion points, particularly as regards the efficiency of public expenditure, especially those related to poverty reduction and public investment, as well as procurement. On the revenue side, further improvements are to be expected in the certification and reconciliation of oil revenues and the mobilization of non-oil revenues.

34. The forestry sector has a number of weaknesses, including modest transfer of receipts to the treasury, illegal logging, weak regulatory framework, and lack of transparency and competition in awarding concessions. Actions taken by the government to start enhancing forestry sector management include: (i) hosting, in February 2005, a Summit of Central Africa Heads of States which focused largely on resource management and governance issues; (ii) auditing forestry sector revenues for 2004 by an independent auditor; and (iii) initiating, in October 2005, a three-month test project to strengthen the control operations against illegal logging, with assistance from international observers. Looking ahead, with technical assistance from IDA, the government plans to undertake regulatory and institutional reforms, and adopt market-based instruments.

35. Private sector development is key to pro-poor growth, but Congo's external competitiveness suffers from the high cost of doing business (see, for example, the World Bank's Doing Business database).[14] Actions underway to promote the sector include

---

[13] A Country Integrated Financial Assessment is a combined Country Financial Accountability Assessment (CFAA) which focuses on public financial management and Country Procurement Assessment and Review (CPAR) which focuses on the evaluation and reform of the procurement system.

[14] The website is http://rru.worldbank.org/DoingBusiness/ExploreEconomies/BusinessClimateSnapshot.aspx?economyid=49.

reforming the legal and judicial framework for business, with better guarantees of property rights and the independence of the judiciary. Progress with privatization in the areas of refined petroleum products distribution, as well as banking and telecommunications, are expected to be consolidated. In particular, the telecommunications sector is jeopardized by regulatory bottlenecks and competitive restrictions that need to be addressed in order to ensure open and fair access and a positive investment climate. Furthermore, the water and electricity utilities will be rehabilitated and their management upgraded in order to improve service delivery and the prospects of privatization. Efforts would also continue to complete the concession of the vital Pointe Noire–Brazzaville railways link.

36. Finally, and more generally, the government intends to adopt and implement the recommendations of a diagnostic governance and anti-corruption study, to be undertaken by an independent group of internationally reputed experts, assisted by the national anti-corruption committtee.

D. Social and Sectoral Policies

37. Congo is far from meeting the MDGs relating to mortality, health, and education. Public sector contribution to social services has been inadequate to restore services that were diminished or lost due to the effects of conflict. The government plans to take a number of actions to enable Congo to make significant progress in reaching the social MDGs.

38. In the education sector, the government has prepared an "Education for All Action Plan" which aims to reach universal primary enrollment by 2015 by improving access, quality and efficiency. The efforts in the short term are focused on rehabilitating facilities destroyed during the war and on improving the quality of education, notably through: (i) decentralizing management and delivery of services, (ii) strengthening of partnerships with civil society at the community and school level, (iii) training and hiring teachers, and (iv) enhancing efficiency and transparency of the system (in particular eliminating fictitious teachers). The Ministry of Education has joined the campaign against HIV/AIDS by educating teachers and students. Over the medium term, a key objective will be to improve access, quality, and relevance at secondary and higher education establishments by updating technical education and university curricula, improving efficiency, and introducing reforms in higher education financing.

39. The health system is severely damaged and cannot deliver minimum preventive and curative services to the population. This is due to several factors, including the state of disrepair of many health facilities, the contraction of personnel accompanied by their concentration in cities and low morale, and long standing problems in the pharmaceutical sector which contribute to making access to health care too costly for the poor. The Ministry of Health and Population has recently developed a National Health Development Plan, ratified in June 2005, which is to serve as a basis for reform. The Ministry has since started recruiting health personnel. In addition, the government has been negotiating a health project with the European Union. The objectives of this project are to provide support to the pharmaceutical sector, in particular to establish an independent national drug agency with

management autonomy, and to assist with service provision in three sub-regions. The government also maintains an ongoing dialogue with IDA and intends to request its assistance to finance reforms in the health sector.

40. With regard to HIV/AIDS, in 2003 the government prepared a National Strategic Plan for Combating HIV-AIDS for 2003-06 (*Cadre National de Lutte contre le VIH-SIDA*). The plan was based on recommendations made during consultations throughout Congo during the second half of 2003, including the need for prevention and changes in behavior through counseling and early testing. In 2004 the government obtained an IDA grant designed to finance the implementation of the National Plan in five sub-regions (covering 82 percent of the population), including interventions to be carried out by NGOs. The sectoral plans included a strategy to inform and assist particular vulnerable groups by ministry (e.g., the Ministry of Defense has a strategy to inform, screen and assist soldiers, and the Ministry of Education focuses on students and teachers). Recently Congo was granted funding from the Global Fund for HIV/AIDS, Malaria and Tuberculosis, which will make it possible to implement the "National Strategic Plan for Combating HIV-AIDS for 2003-06." Financing from IDA and Global Fund will ensure that the necessary resources will be available to carry out the fight against HIV/AIDS over the next three years. During 2006, the National Commission for HIV/AIDS will evaluate the progress made since 2003 and develop a new national strategic plan for 2007-09.

41. Congo is highly urbanized, with about 70 percent of the population residing in urban areas. Urban living conditions are characterized by an imbalance among inner-city neighborhoods, which are sparsely populated and have access to functioning infrastructure, and the peripheral neighborhoods, which are often densely populated and lack basic socio-economic amenities. During consultations held with civil society on urban poverty in June/July 2005, the government decided to focus on the following two constraints: (i) securing land ownership and tenure, and (ii) setting up of financing mechanisms to improve the supply of housing to the population. Addressing these constraints would reduce the vulnerability of city dwellers.

IV. Debt Sustainability Analysis and Possible HIPC Assistance

A. Debt Reconciliation Status

42. The DSA presented below was prepared jointly by the authorities and the staffs of IDA and IMF.[15] It is based on loan-by-loan data provided by the authorities and creditors for

[15] The management capacity of the national debt management agency (CCA) was described in Appendix II of the preliminary HIPC document (IMF Country Report No. 05/391, November 2005; and IDA Report No. 33252-CG, August 2005). Debt management issues have remained unchanged since the discussion by the Executive Boards of the preliminary HIPC document.

outstanding external public and publicly guaranteed debt as of end-December 2004. The debt reconciliation exercise was carried out by a joint IDA-IMF mission to Brazzaville in September 2005. As of December 2004, about 80 percent of outstanding debt has been reconciled with creditors.[16] Financial obligations of the SNPC to private oil companies, amounting to US$ 941 million, do not constitute external debt.[17] In staff's judgment, the data, including for the oil sector, underlying the debt sustainability analysis are reliable.

B. Structure of External Debt

43. Congo's public and publicly guaranteed external debt is estimated to be US$9.2 billion in nominal terms, or $9.0 billion in net present value (NPV) terms as of end-December 2004, before considering the Paris Club debt treatment (Table 2 and 6).[18] This level of debt corresponds to an NPV of debt of 661 percent of fiscal revenues, and 252 percent of exports as of end-2004.

Table 2: Net Present Value of External Debt, end-2004
(In units indicated)

	NPV of Debt	
	Million U.S. dollars	Percent of total
Total 1/	9,007	100
Multilateral	363	4
Official bilateral	5,275	59
Paris Club	4,995	55
Other	280	3
Commercial	3,370	37
Memorandum items:		
Total debt in nominal terms	9,248	100
of which oil-collateralized debt	378	4
NPV of debt after traditional debt relief 2/	5,176	...

Sources: Congolese authorities; and Fund and Bank staff estimates and calculations.
1/ Excluding potential debt of the SNPC.
2/ Assuming Naples terms.

44. There are a number of features of the Congolese external debt that make it relatively unique among HIPCs; key features of the debt structure (in NPV terms) at end-2004 are as follows (Figure 1, Table 2):

[16] Multilateral debt has been fully reconciled. Reconciliation discussions on Paris Club debt took place in the context of the December 2004 Paris Club agreement. Commercial debt with the London Club group of creditors was fully reconciled. Debt with other commercial creditors and non-Paris Club bilateral creditors has been partially reconciled, owing to incomplete response to requests for creditor statements within these two classes of creditors.

[17] Payments on these obligations are fully linked to the existence of oil revenues and no direct transfer from the government or state-owned enterprise takes place in the absence of oil revenues. See Appendix II.

[18] The NPV of debt in Congo is close to its nominal face value; this is explained by the fact that most of the bilateral debt was contracted in the 1970s and 1980s at near-commercial terms.

- Together, debt to multilateral and official bilateral creditors accounts for about 63 percent of the total outstanding debt stock. Multilateral debt represents merely 4 percent of the total stock, while official bilateral debt accounts for 59 percent.

- The remaining 37 percent of the debt is owed to commercial creditors. Of this amount, about 55 percent (or 22 percent of the total stock) is owed to non-litigating London Club creditors. The rest is owed to creditors of oil-collateralized loans (4 percent of total stock) and litigating creditors (10 percent of total stock).

45. Some of the same characteristics described above help to explain why financing assurances have been obtained for only 60 percent of the outstanding debt at the time of the decision point under the enhanced HIPC Initiative. Additional financial assurances—required to reach the 70 percent threshold for the IMF to provide its interim debt relief—are expected in 2006. Indeed, as noted below, a debt deal with the London Club in line with the enhanced HIPC framework will allow financing assurances to exceed 80 percent (the minimum required at the completion point). The absence of financing assurances to the tune of 70 percent at the time of the decision point would not, however, prevent other multilateral creditors from providing interim debt relief.

46. On December 16, 2004, Congo and its Paris Club creditors agreed to restructure the Congolese public external debt under Naples terms. Assuming comparable treatment from other bilateral and commercial creditors and clearance of multilateral arrears, the stock of outstanding external debt would then amount to US$5.2 billion in NPV terms as of end-2004 (Table 6). Congo has either cleared, or put in place plans to clear, all arrears.

C. Debt Sustainability Analysis

47. The DSA analysis shows that in 2004 Congo had significant debt in excess of the enhanced HIPC Initiative fiscal revenue threshold of 250 percent, even after the application of traditional debt relief mechanisms.[19] After traditional bilateral debt relief, Congo's debt burden is projected to fall slightly below the threshold in 2005 and subsequently to hover close to this level until 2007. After the full delivery of relief under the enhanced HIPC Initiative, the NPV of debt-to-revenue ratio (including new borrowing) is estimated to fall from 250 percent at end-2004 (after traditional relief) to 162 percent in 2005 (Figure 2; Tables 3, 7, and 8). Staff projections indicate that—assuming continued healthy GDP and export growth (5 percent and 9 percent a year respectively)—the ratio could be expected to fall subsequently and to remain well below the HIPC threshold of 250 percent over the entire projection period, reaching about 66 percent by 2024.

[19] The assumptions underlying debt relief are provided in Section IV.E.

48. External debt service as a ratio of revenues after the full delivery of HIPC debt relief is expected to fall sharply after 2009 and remain below 10 percent thereafter (Figure 2; Table 9). This ratio in 2005 is estimated at 32 percent and projected to remain close to this level until end-2007, the completion point date assumed for the purpose of the simulation— until this point interim relief will have a more limited effect on debt service. After 2009, debt relief combined with the concessionality of new debt are projected to reduce this ratio significantly. As a result of Congo's normalization of relations with the international financial community, debt service obligations over the 2006-09 period are significant, and even after debt relief during this period donor participation will be important to ease this burden. From 2010 onward debt service is expected to remain at or below the average burden in other post-decision point HIPCs, at around 5 percent.

Table 3: External Indicators 2004 and 2005 1/

(In percent)

	After traditional debt relief mechanisms 2/		After enhanced HIPC assistance	
	2004	2005	2004	2005
NPV of debt-to-revenue ratio 3/	370	248	250	162
NPV of debt-to-exports ratio 4/	173	138	117	90
NPV of debt-to-GDP ratio	119	94	80	61
Debt service-to-revenue ratio 3/	…	21	…	32
Debt service-to-exports ratio 4/	…	10	…	15
Memorandum items:				
Government revenue to GDP 3/	32	38	32	38
Exports to GDP 4/	69	68	69	68

Sources: Congolese authorities

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated.

2/ Reflect a hypothetical stock-of-debt operation on Naples terms at end-2004 for official bilateral and commercial creditors.

3/ Revenue is defined as central government revenue, excluding grants.

4/ Exports of goods and services as defined in IMF, *Balance of Payments Manual,* 5th edition, 1993. Based on a three-year average of exports on the previous year.

49. Since the issuance of the preliminary document, world oil prices have increased significantly—by a projected average of US$16.30/barrel per year over the DSA simulation period. The DSA using a preliminary update of the macroeconomic framework confirms Congo's debt overhang problem in 2004 (details are provided in Appendix I). This overhang would be significantly alleviated after the application of the traditional debt relief mechanisms, and Congo's debt profile would reach a comfortable level following relief under the enhanced HIPC Initiative. The simulations also indicate that Congo's NPV-of-debt-to-revenue ratio would fall significantly below the 250 percent threshold starting in 2005 after the application of the traditional debt relief mechanism.

D. Sensitivity Analysis

50. Two alternative scenarios were carried out to simulate the trajectory of Congo's external debt burden indicators after HIPC Initiative assistance (Figure 3; Table 10). These scenarios illustrate the vulnerability of the Congo's debt dynamics to various types of exogenous shocks. One scenario considers the sensitivity of the projections to the effects of lower oil prices on exports and government revenues, assuming an unchanged level of external assistance and investment. The international market price for oil is assumed to be 40 percent lower throughout the forecast period relative to the baseline, with the prudence

factor unchanged at US$4/barrel; accompanying second-round effects on GDP growth are also accounted for.[20] The ratio of the NPV of external debt-to-revenue rises significantly; over the period 2005-14 the ratio is on average higher by about 30 percentage points per year relative to the baseline scenario. The second scenario considers the impact of a three-percentage point lower non-oil GDP growth relative to the baseline throughout the projection period. The impact of this shock, while not as pronounced over the medium term as the oil-price effect, increases over time as the share of the non-oil sector increases. The NPV of external debt-to-revenue over the period 2015-24 is higher by about 25 percentage points per year relative to the baseline scenario. Nevertheless, under both scenarios, the NPV of debt-to-revenue ratio remains below the 250 percent threshold over the simulation period.

51. Further debt sustainability analysis, following the methodology of the Joint Debt Sustainability Framework for Low Income Countries approved by the IMF and the World Bank in 2005, and including the standardized stress tests of that framework, is reported in Appendix III.

E. Possible HIPC Initiative Assistance

52. Debt relief under the enhanced HIPC Initiative is expected to reduce Congo's external debt by about a third (after accounting for the impact of traditional debt relief mechanisms). The delivery of traditional debt relief lowers the external debt-to-revenue ratio to about 370 percent; to reduce this ratio further to the HIPC target of 250 percent implies a common reduction factor of 32.4 percent for all creditors.[21] This would be equivalent to enhanced HIPC debt relief in the amount of US$1,679 million in end-2004 NPV terms (Table 11).[22]

53. Out of total enhanced HIPC relief, multilateral creditors would contribute US$118 million in NPV terms, and Paris Club bilateral creditors US$913 million.

[20] The resulting average oil price over the forecast period is in line with the historical average over the period 1985-2004.

[21] The common reduction factor is lower than in the HIPC preliminary document owing to higher oil revenues (the preliminary document was based on end-2003 data). Fiscal revenues expressed in U.S. dollars increased by 34 percent in 2004.

[22] In July 2005, the G8 group of countries proposed the write-down of all debt outstanding to the IMF, IDA, and AfDF for all HIPC completion point countries. Reaching the completion point will qualify Congo for debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). MDRI debt relief will only cover credit outstanding as of end-2004 to the IMF, IDA and AfDF. Between end-2004 and attainment of the completion point, Congo will continue to satisfy its obligations to these three institutions. The impact of the MDRI is assessed in Appendix III under the LIC DSA analysis. Due to the structure of Congolese debt, the MDRI will have limited impact on Congolese debt sustainability.

Commercial creditors would be expected to provide a further US$590 million of relief in NPV terms, and other official bilateral creditors US$58 million. Under the time profile and modalities laid out below, relief will translate into about US$2,906 million of total debt service relief over time. The following assumptions were made in projecting the time profile of possible enhanced HIPC Initiative assistance:

- For Paris Club bilateral creditors, there would be a flow rescheduling on Cologne terms—i.e., a 90 percent NPV reduction—after reaching the decision point, with delivery of the remaining assistance at the completion point through a stock-of-debt operation (Table 12).

- IMF assistance would total US$8.08 million in NPV terms. IMF interim assistance is assumed to be delivered a year after decision point approval, provided necessary financing assurances are in place (Table 13). Given the Congo's debt structure—with loans from multilateral and Paris Club creditors comprising only 60 percent of total debt—reaching the 70 percent threshold for financing assurances to allow the Fund to disburse its interim assistance will require other creditors to participate in the enhanced HIPC Initiative.[23] Principal repayments obligations on IMF PRGF loans will start falling due in 2010. Interim assistance from the Fund will be applied, therefore, to cover IMF PRGF interest obligations falling due between 2007 and end-2009. Most of the IMF's relief would be delivered following the completion point.

- IDA is assumed to provide total assistance amounting to US$49 million in NPV terms (Table 14). Immediately following the approval of the decision point by the Boards of IDA and the IMF, IDA will begin to provide debt service relief in the form of debt-service reduction on debt outstanding and disbursed at end-2004. When Congo reaches the completion point, this debt service relief would become irrevocable and continue until 2021.

- AfDB Group assistance comes entirely in the form of the arrears clearance operation under the framework for assisting post-conflict countries (PCCF) (Box 4).

- The treatment for non-Paris Club official bilateral and commercial debt is assumed to be in line with that of the Paris Club creditors. As noted above, some commercial debt (estimated to be 11 percent of the total NPV of debt outstanding) remains subject to legal action by creditors. However, it is expected that a deal with London Club creditors following the decision point would raise financing assurances to over 80 percent (the minimum required at the completion point). Nonetheless, reaching an

[23] The Congolese authorities plan to make concrete proposals to London Club and other creditors once the framework of the enhanced HIPC Initiative is in place.

Box 4. External Arrears Clearance

The **African Development Bank Group** (AfDB) approved in July 2004 a framework for assisting post-conflict countries (PCC) to clear their AfDB arrears. Under this framework, the cost of clearing country arrears is shared by the country, donors, and the AfDB PCC Facility (PCCF).[1] The proportion of the cost covered by each participant is determined case by case. For Congo, the following framework was adopted: the country paid SDR34.3 million to clear a third of the total SDR100 million in arrears at end-2003; donors (France, Norway, and European Commission) pledged SDR32.4 million; and the AfDB approved a SDR33.3 million grant from the PPC facility to complete the arrears clearance plan.

BADEA agreed on consolidating US$25.6 million in arrears in October 2001. The arrears were to be repaid over 13 years on concessional terms. Congo failed to respect the agreement initially, but it resumed payments in 2003. Upon receipt of the overdue amounts, BADEA agreed that the authorities could make the remaining repayments according to the profile set in the 2001 agreement.

OPEC Fund arrears have been eliminated via a Commodity Import Program (CIP) of US$13 million. The authorities have repaid all but US$12.1 million in arrears outstanding as of end-2003, and the CIP financed payment of these arrears during the calendar year 2004. The CIP loan amount will be repaid over 9 years on concessional terms.

Arrears to the **European Union** totaling some US$39.2 million have been cleared with a grant from the EU mostly through a reallocation of US$38.2 million from the European Development Fund resources already pledged to Congo.

In 2003, Congo repaid SDR 2.9 million in arrears to **IFAD** and US$1.5 million to the Banque de Développement des Etats de l'Afrique Centrale (**BDEAC**).

Paris Club creditors restructured the Congo's public external debt on December 16, 2004. A total of US$3,020 million was treated. The agreement treats, under Naples terms, both accumulated arrears at end-September 2004 (including late interest) and current maturities falling due during October 1, 2004 -September 30, 2007. Pre-cut off date ODA debts were rescheduled over 40 years, with 16 years of grace. 67 percent of pre-cutoff-date commercial credits were cancelled; the remaining amount was rescheduled over 23 years, with 6 years of grace. Arrears on post-cutoff-date debt and a part of the interest due under the rescheduling were re-profiled over a period of 3 years (October 1, 2004 – September 30, 2007). As of September 2005, all bilateral agreements have been signed.

The authorities are in discussions to settle arrears with **non-Paris Club creditors** Algeria, Angola, Kuwait, Libya, and Saudi Arabia. The Saudi Arabia Fund has expressed willingness to discuss further relief once Congo reaches the decision point. The Kuwait Fund has also expressed willingness to apply enhanced HIPC Initiative debt relief to its loans to Congo. The authorities expect to enter into discussions with the United Arab Emirates, China, France (Postal and Hospital Services), and Romania in the coming months.

The government has been in discussions with the **London Club** Steering Committee. Both parties have agreed to negotiate the settlement of arrears following the decision point.

The government expects to settle arrears with **other active commercial creditors** on terms comparable to those under the enhanced HIPC Initiative.

---

[1] The PCC facility is a legal autonomous entity under the auspices of the African Development Fund (AfDF) for the sole purpose of providing grant resources to assist qualifying PCCs clear their AfDB Group arrears. The facility is financed as follows: SDR100 million from the AfDB net income allocations, SDR100 million from ADF-10 resources, and SDR7 million from Nigeria Trust Fund income allocations.

agreement on debt restructuring and relief with litigating creditors may be challenging and could pose difficulties relative to uniformity of treatment issues.

- All other creditors are assumed to provide debt-service reduction starting at the decision point or the completion point, depending on creditor practices, until their contributions meet the requirement under the enhanced HIPC Initiative.

V. Floating Completion Point

A. Triggers for the Floating Completion Point

54. IDA and IMF staffs have reached understandings with the authorities on the completion point triggers, summarized in Box 5. The triggers incorporate the views expressed by executive directors during the discussions of the preliminary HIPC document, and legitimate concerns expressed by other relevant stakeholders. In addition to standard triggers, sector specific triggers relate to: public finance management; natural resource (oil and forestry sector) management; telecommunications reform; and basic health and education reform. However, it was decided that successive annual audits would be required for the governance and the oil sector triggers, which refer to triggers 5, 5(i), 5(ii), 5(iii).

- As regards public finance management, the first trigger pertains to the establishment of a functional classification for expenditure, (including a sub-classification for poverty related outlays) and the presentation of the budget using it. This should ensure that all expenditures, in particular those related to poverty expenditures programs, are monitorable from commitment to payment. These objectives will be also furthered through the adoption of a medium-term framework for expenditure management. The public investment related trigger has the objective of improving economic and social returns of the public investment program, especially that financed through the national budget (about 5-6 percent of GDP), which represents 80-90 percent of central government capital formation. This trigger is complemented by that pertaining to the reform of the procurement system (legislation and institutions), needed to improve governance, competition, and transparency.

- The governance trigger is to provide a thorough and broad assessment of governance issues, with the authorities mindful of the widespread perception that corruption remains a major problem in Congo. The authorities concurred with the urgency to address this issue now, not least to ensure the appropriate use of relief to be obtained under the enhanced HIPC initiative (about US $2.9 billion in nominal terms). This trigger is complemented by specific triggers relating to natural resource sectors, where poor governance and corruption are considered to be of particular concern.

Box 5: Triggers for the Floating Completion Point

1. **PRSP**: Preparation of a full PRSP through a participatory process and satisfactory implementation of its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted by the government to the staffs of IDA and IMF.

2. **Macroeconomic stability**: Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program as well as any IMF successor program.

3. **Public expenditure priorities:** Alignment of public spending priorities in accordance with the priorities identified in the I-PRSP, and, when completed, the PRSP, reflecting emphasis on pro-poor growth.

4. **Public finance management**: (i) Establishment of a functional classification system for government expenditures, including poverty related expenditures, consistent with the IMF's *Government Finance Statistics* manual, and preparation of government budgets using this new classification; (ii) Implementation of a new public investment management system to provide rigorous selection, and efficient execution and monitoring of the projects; submission of draft public investment programs to IDA for review; (iii) Adoption and satisfactory implementation by the government of a new procurement code (that promotes transparency and competition), in line with international best practice; (iv) Adoption by the government of a medium-term framework for sustainable management of government expenditures and revenues, with technical assistance from IDA and IMF.

5. **Governance and natural resource management**
Governance: Completion of a diagnostic governance and corruption study by an independent group of internationally reputed experts, assisted by a national anti-corruption committee, based on terms of reference prepared in consultation with IDA and IMF staffs. The terms of reference and composition of the national anti-corruption committee will be satisfactory to IDA and IMF staffs. Adoption by the government of an action plan, prepared in consultation with IDA and IMF staffs, to improve governance and reduce corruption, and sustained implementation of such action plan during the completion of the audits referenced in subsections 5(i) and 5(ii). Assessment of the implementation of the action plan by IDA and IMF staffs on the basis of an independent review by international experts acceptable to IDA and the IMF.

Oil sector:
(i) Assessment by IDA and IMF staffs, based on successive annual audit opinions by an independent firm of international reputation, and certified by the national anti-corruption committee, that SNPC's internal controls and accounting system are in line with international standards and best practices;

(ii) Preparation, by an independent firm of international reputation, of a diagnostic study of the practices for the commercialization of oil by SNPC, based on terms of reference prepared in consultation with IDA and IMF staffs. Assessment by IDA and IMF staffs, based on successive audit opinions by an independent firm of international reputation, that the commercialization of oil by SNPC has been brought into line with international best practice on the basis of the recommendations of the diagnostic study, and results in competitive and fair market values to Congo for the oil sold;[1] and

(iii) Adoption and application by the government, certified by the national anti-corruption committee, during the completion of the audits referenced in 5(i) and 5(ii), of a legal text stipulating:

- compulsory declaration, to the National Auditing Office (Cour des Comptes), by the members of the Executive Board of SNPC and those having a management mandate within SNPC and its subsidiaries, at the moment of their nomination and annually thereafter, of their participation or other interests in companies having business relations with SNPC or its subsidiaries as well as the verification and annual publication of the aforementioned declarations by the National Auditing Office (Cour des Comptes).
- divestiture by the members of the Executive Board of SNPC and by those having management responsibilities within SNPC or any of its subsidiaries of such participations and/or other interests, within a time period of 6 months after their nomination and prohibition of the taking of any interest in companies having business relations with SNPC during the period of their mandate.

Forestry sector: Review of forestry sector management and legislation with IDA assistance; adoption by the government of measures recommended by the review to promote competition, transparency, and sustainable development in this sector.

6. **Structural reform**: Review and adoption of a regulatory framework for the telecommunications sector establishing competition at the level of international gateways and the wireless local loop.

7. **Social sectors**: ***Education***: Implementation during 2006 of a strategy to eliminate fictitious workers from the education budget and increase teacher staff by, at least, 1,000 each year in basic education until 2007. ***Health***: Increase to, at least, 60 percent the share of generic drugs in total expenditures on drugs by the central purchasing agency. ***HIV/AIDS***: Increase in the number of voluntary AIDS counseling and testing centers with associated measures (staff, equipment, and awareness campaign) from 4 at present to, at least, 10 in 2006 and 15 in 2007.

8. **External debt management**: (i) Publication of the quarterly external debt data and projections on a government website; and (ii) Centralization of all information on debt, including collateralized debt, in the government's debt agency (CCA).

[1] International best practice is understood to comprise arms-length market pricing, or where that is absent, reference to an established benchmark crude oil price for Congolese crude oils, with appropriate adjustments for transport and quality differentials.

- The oil sector triggers pertain to (i) improving SNPC's accounting system and internal controls; (ii) improving its marketing practices; and (iii) reducing the scope for conflict of interest by Executive Directors and high level staff (with a management mandate) within SNPC and its subsidiaries. The trigger pertaining to accounting responds to, among others, the finding of the external auditors that considered as "not auditable" the accounts of SNPC, a company of macroeconomic significance as it (i) monitors the oil sector and fiscal flows on behalf of the State, and (ii) markets about two thirds of the state share of Congo's oil and about 40 percent of the country's total oil revenues. The marketing trigger is designed, in particular, to (i) bring the SNPC's marketing of oil in line with best international practices so as to obtain competitive and fair prices after adjusting for transport costs and price premium/discount, and (ii) ensure that all revenues due to the State from SNPC and any private sector companies it employs are effectively remitted to SNPC and subsequently transferred to the Treasury. To this end, as a sign of good faith, the authorities have agreed to provide to KPMG, as well as to IDA and IMF, the documentation that had been requested by KPMG while undertaking the 2004 oil revenue certification process. The third trigger seeks to ensure the removal of recently identified conflicts of interest, and the avoidance of their resurgence.

- The triggers in the forestry sector, the second most important productive sector in the economy and of particular importance from an environmental standpoint, have been retained as a result of the studies and fiscal audits done in the sector over the last few years (fiscal, institutional and revenue certification studies among others). Needs for improvement have been identified in the following areas: enforcement of mandatory management plans to all production forests and sensitive buffer zones, coordination between the Ministries in charge of Forests and Finance in matters pertaining to the determination, collection and transfer of forest taxes to Treasury; review and improvement of the 2003 forest taxation regime and social responsibility clauses of forest companies (cahiers de charges); enhancement of the system for awarding forest contracts with more transparency and more prominent use of financial criteria; improved control over illegal logging and poaching through the use of third party observers.

- The structural trigger pertains to the telecommunications sector, with the objective of ensuring that access to international telecommunications is no longer monopolized by a public or private operator, as is the case at the moment (the October 2004 - 466 Decree restored monopoly powers on international gateway and instituted bottlenecks in providing complete exclusivity on the WLL (Wireless Local Loop) market to Sotelco, the incumbent operator). The application of the decree 466 would constrain the Congolese telecommunication sector to take a major step back in contradiction with all current worldwide regulatory practices. First, constraining mobile operators to physically and/or financially transit all their international traffic through Sotelco would dramatically imperil their economic sustainability. Second, setting up exclusivity on the WLL would originate strong disincentives on investments in the sector.

- The social sector triggers address the most pressing problems in the education sector, where there is a crucial shortage of teachers, which must be relieved in order to expedite the improvement of educational outcomes. The objective in the health sector is to increase the availability of and access to low cost high quality generic drugs; and with respect to AIDS to ensure that those who wish to do so can know their serological status and be able to change their behavior so that they will not infect other people and be able to seek treatment in a timely manner.

- Finally, the debt management trigger is intended to improve the availability of debt related information and an improvement in external debt management.

  These triggers are considered essential to the success of the enhanced HIPC Initiative in Congo.

B. Monitoring the Floating Completion Point Triggers

55. IDA and IMF staffs will work together closely to monitor the completion point triggers, with each institution leading on issues where its staff has primary competence, while also incorporating contributions of the staff from the other institution. IMF staff will take the lead in monitoring macroeconomic stability and budget control and management. IDA staff will take the lead in monitoring progress in the preparation and implementation of the PRSP, as well as progress on sector-related triggers, including those pertaining to structural reforms, public expenditure management, and tracking of poverty-related expenditures. IMF and IDA staffs will jointly monitor those pertaining to transparency in the oil sector and the forestry sector, and progress in improving external debt management.

C. Use and Monitoring of Enhanced HIPC Initiative Debt Relief

56. The authorities are committed to ensuring that HIPC assistance is used to increase poverty-related spending. Securing the effective use of debt relief for pro-poor growth and spending, and the capacity to monitor a shift toward pro-poor expenditure, are key elements of the HIPC Initiative. These objectives will require continued efforts to strengthen the programming, management, and control of expenditures, and to improve service delivery in key sectors. Technical assistance on public expenditure management by IDA and the IMF will be essential to build adequate budget management capacity (Box 6).

57. Interim relief is discretionary on the part of all creditors, and conditional upon the maintenance of satisfactory performance under both Bank- and Fund-supervised programs. Prior to completion point, to provide assurance of the effective use of interim relief, spending of interim assistance will be controlled through the use of a special treasury account at the regional central bank (*Banque Centrale des Etats d'Afrique Centrale*) where the interim debt-service savings will be deposited. Expenditures from this account will be limited to agreed poverty-reducing categories, will be monitored by a committee comprising representatives in observer status from international donors and Congolese civil society, and subject to annual independent published audits. In this regard, Congo currently uses a budget classification by economic category, which will initially guide the definition and monitoring of pro-poor spending. This system would be improved once the government adopts a functional classification of budget expenditure with IDA and IMF technical assistance. Rapid introduction of this functional expenditure classification, and stronger public investment management and procurement, would help ensure that debt relief assistance is focused on the priorities identified in the I-PRSP and – once prepared – the PRSP.

Box 6. Expenditure Priorities

Governance

- Finance a results-based monitoring and evaluation system, as a management tool for efficient public resources utilization.
- Finance judicial system reform.

Social Protection

- Resettle and reintegrate ex-combatants and civil strife victims.
- Provide social safety nets linked to employment creation, especially for youth.

Infrastructure/Urban

- Rehabilitate roads, particularly rural access roads.
- Rehabilitate and expand coverage of water supply systems.
- Rehabilitate power grids.

Health

- Intervene to control the spread of HIV/AIDS.
- Promote immunization, good hygiene, the use of oral hydration salts, and good nutrition practices; the use of bed nets to prevent malaria, and condoms to prevent unwanted pregnancies and sexually transmitted diseases.
- Rehabilitate health infrastructure.

Education

- Raise significantly the share of expenditures on primary education in total public expenditure.
- Hire additional teaching staff (for primary schools).

Rural

- Improve rural roads.

D. Authorities' Views

58. The authorities have emphasized that Congo's external debt remains unsustainably high and could further delay Congo's economic and social reform programs. They have also noted that a significant share of the population lives in poverty, and lacks access to basic needs such as education, health, and safe water. A decade of civil war resulted in further economic decline and massive unemployment, fueling continued impoverishment.

59. The authorities have stressed that Congo has embarked since late 2002 on an irreversible course to reinforce the framework for peace and political stability and implement policy reforms in order to set the country on a sustainable path of growth and poverty reduction. While grateful for financial and technical assistance already obtained from the international community, the authorities now look forward to accessing debt relief under the enhanced HIPC Initiative as soon as feasible. The authorities plan to settle arrears to all external private creditors in a way consistent with the framework of the enhanced HIPC

Initiative. Debt relief available under the enhanced HIPC Initiative would help to finance critical social and infrastructure programs, and allow the government to accelerate and intensify reconstruction efforts, as well as improve access to primary education, preventive health care, and urban and rural infrastructure.

VI. Issues for Discussion

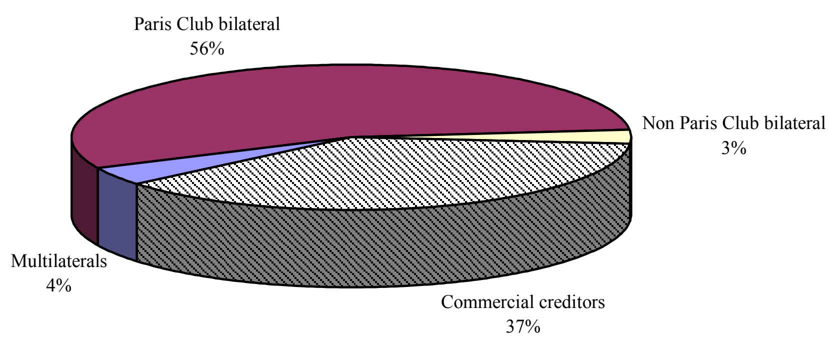
60. This paper presents a decision point assessment of Congo's eligibility for assistance under the enhanced HIPC Initiative, and seeks the Executive Boards' endorsement of this assessment. In addition, Executive Directors' views and guidance are sought on the following issues:

- **Eligibility and decision point**: Do Directors agree that Congo is eligible for relief under the enhanced HIPC Initiative, and do they recommend approval of a decision point?

- **Amount and delivery of assistance**: In order to reduce the NPV of debt to revenues ratio to 250 percent, the total amount of assistance under the enhanced HIPC Initiative is estimated to amount to US$1,679 million in NPV terms (Table 11). Of this amount, US$48.9 million in NPV terms is to be provided by IDA and US$8.08 million by the IMF. The staff and management recommend that IDA and IMF (as soon as the 70 percent financing assurance threshold is reached) consider providing interim assistance in line with existing guidelines. Do Directors agree?

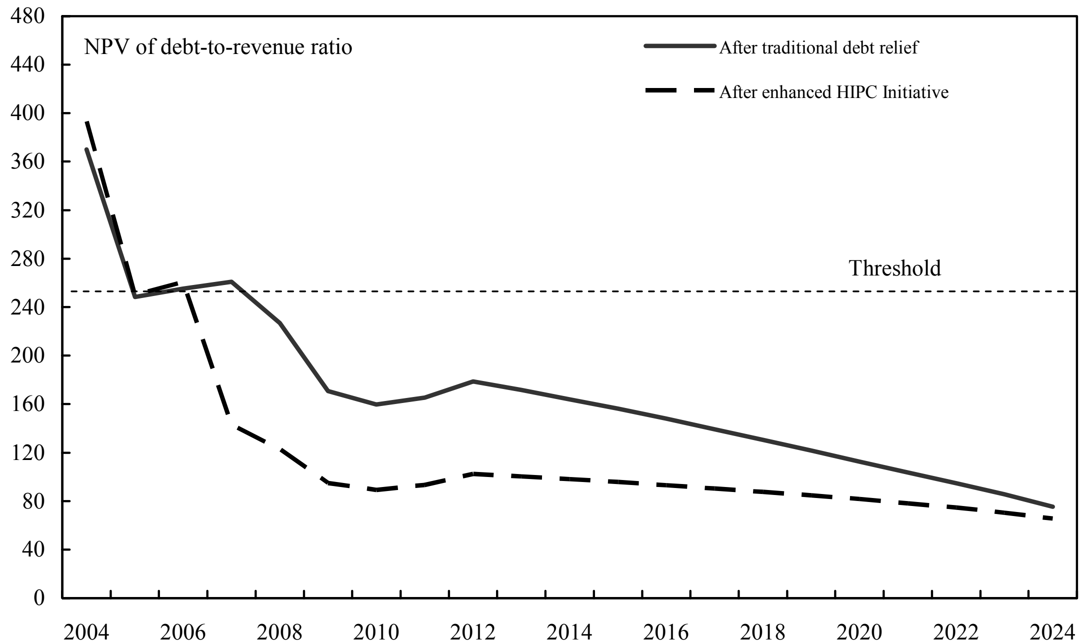
- **Floating completion point**: Do Directors agree that the floating completion point would be reached when the triggers in Box 5 have been met and satisfactory assurances of other creditors' participation under the enhanced HIPC Initiative have been received?

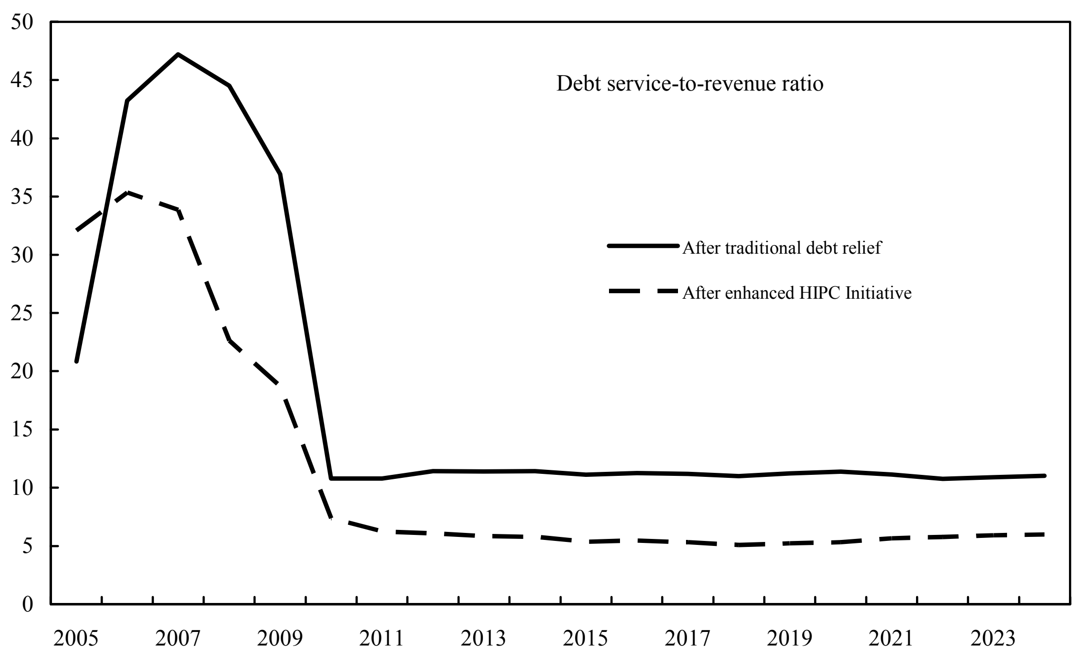
Figure 1. Republic of Congo: Net Present Value of Outstanding Debt at end-2004 by Creditor Group before Traditional Debt Relief Operations



Sources: Congolese authorities; and staff estimates.

Figure 2. Republic of Congo: External Debt and Debt-Service Indicators, 2004-24
(In percent)

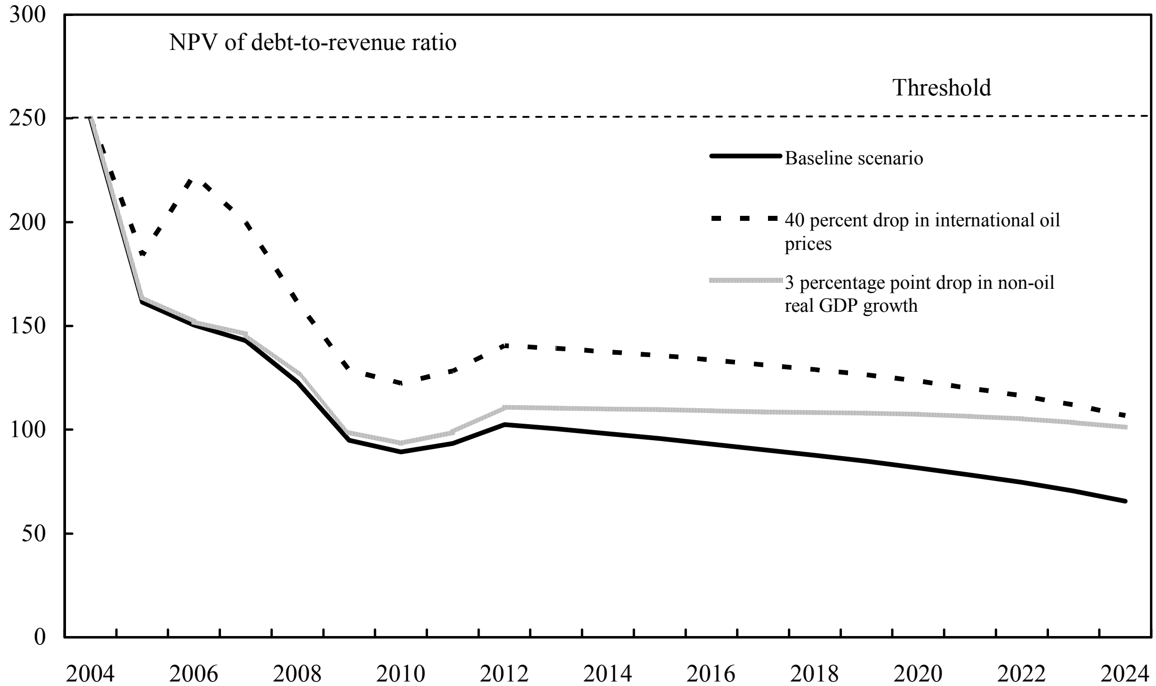


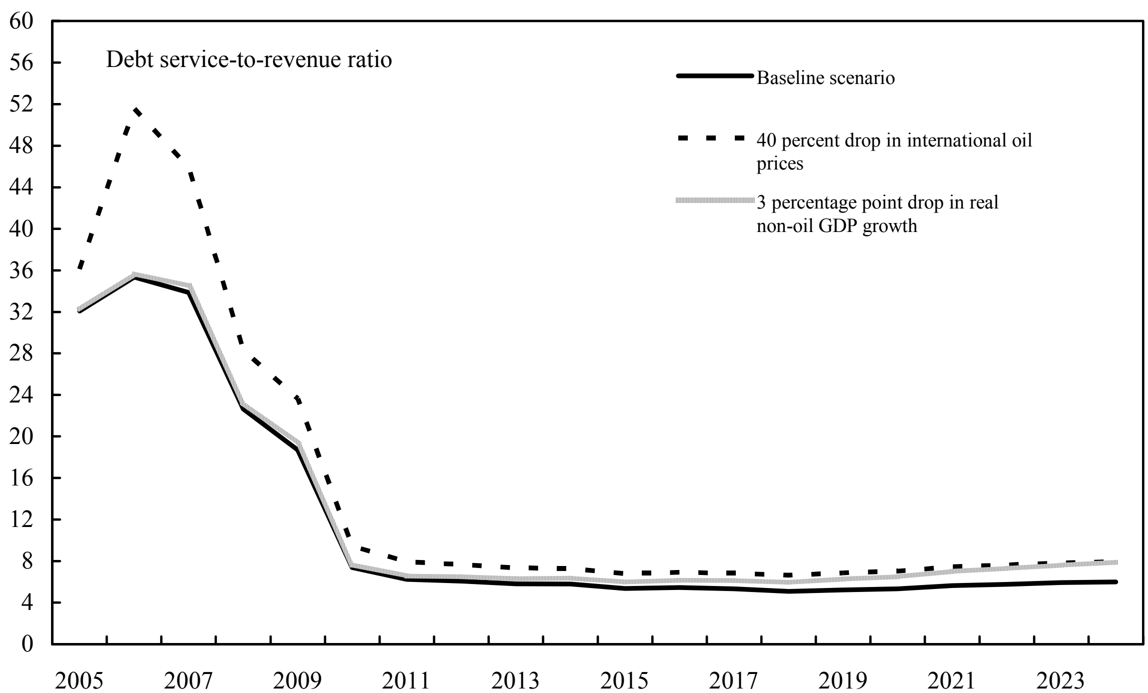


Sources: Congolese authorities; and staff estimates and projections.

1/ For 2005-07, it includes the arrears clearance of the Paris Club post cut-off debt as agreed in the December 2004 Naples flow agreement. Under this agreement the post cut-off arrears are repaid with less favorable terms than under the traditional relief mechanism. As a result, the debt service under traditional relief is lower than the one after enhanced HIPC for the period 2005-07.

Figure 3. Republic of Congo: Sensitivity Analysis after HIPC Initiative, 2004-24
(In percent)





Sources: Congolese authorities; and staff estimates and projections.

Table 4. Republic of Congo: Selected Economic and Financial Indicators, 2001–07

	2001	2002	2003	2004		2005		2006	2007
			Est.	Prog.	Est.	Prog.	Proj.	Projections	
	(Annual percentage change)								
Production and prices									
GDP at constant prices	3.8	4.6	0.8	4.0	3.6	9.2	9.2	4.8	1.5
Oil	-7.5	-1.5	-7.2	2.0	0.5	17.4	16.7	3.3	-6.3
Non-oil	12.5	8.5	5.4	5.0	5.2	5.1	5.5	5.6	5.6
GDP at current prices	-10.7	2.8	-1.6	11.8	10.8	8.1	17.0	-0.2	-2.8
GDP deflator	-13.9	-1.7	-2.4	7.5	6.9	-1.0	7.2	-4.8	-4.2
Consumer prices (period average)	0.8	3.1	1.5	2.0	3.6	2.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (CFA francs)	-16.5	9.0	-4.8	20.2	18.8	9.0	15.4	-4.2	-7.6
Imports, f.o.b. (CFA francs)	17.8	-1.5	-4.4	18.2	21.1	9.3	7.4	3.9	0.7
Export volume	-14.0	3.5	-5.5	8.3	8.6	15.2	14.9	3.1	-3.9
Import volume	-10.1	34.7	2.9	13.1	16.7	9.1	11.6	5.4	1.5
Terms of trade (deterioration -)	-10.7	-0.3	2.9	8.0	12.5	-4.5	4.7	-4.2	-4.0
Nominal effective exchange rate	1.0	2.1	4.6	...	1.8	...	...	...	...
Real effective exchange rate	-0.4	3.5	2.2	...	1.1	...	...	...	...
Central government finances									
Total revenue (including grants)	3.7	-8.9	6.6	17.7	21.6	19.3	37.2	-11.2	-12.4
of which : oil revenue	-7.6	-7.7	6.1	22.2	25.8	22.8	49.7	-17.6	-20.5
non-oil revenue	44.7	-11.7	4.4	11.1	14.1	8.5	5.7	9.0	8.7
Total expenditure	10.7	15.6	-18.8	0.3	8.3	8.7	-4.6	2.0	2.0
Current	30.4	27.8	-16.4	-1.4	5.3	4.2	-11.6	0.5	1.5
Capital	28.8	-10.7	-26.0	6.2	18.5	23.3	17.1	5.5	3.3
	(In percent of beginning-of-period broad money)								
Money and credit									
Net domestic assets	14.5	8.8	8.5	2.7	-2.4	-3.0	-8.8	-6.4	-0.6
Domestic credit	3.0	-6.8	5.2	7.0	1.8	-3.0	-8.8	-6.4	-0.6
Central government	21.0	9.0	0.4	4.0	0.3	-5.0	-10.8	-8.3	-2.6
Credit to the economy	-16.4	-16.5	5.3	1.9	1.2	2.0	1.9	2.0	2.0
Broad money	-22.8	13.1	-2.4	6.4	17.4	6.9	7.6	7.7	7.7
Velocity of broad money (non-oil)	3.0	3.6	3.6	3.6	3.5	3.6	3.3	3.3	3.3
	(In percent of GDP)								
Investment and saving									
Gross national saving	20.7	24.0	26.7	25.4	26.6	25.7	29.0	27.9	26.9
Gross investment	26.4	23.4	25.7	22.9	24.2	22.7	24.1	24.9	25.0
Of which : public (domestically financed)	9.8	7.6	5.4	5.6	5.3	5.7	5.7	5.9	6.1
Central government finances									
Revenue and grants	30.8	27.3	29.6	31.2	32.5	34.4	38.1	33.9	30.6
Total expenditure	31.5	35.5	29.3	26.2	28.6	26.4	23.3	23.8	25.0
Overall balance (deficit -, commitment) 1/	-0.7	-8.1	0.4	5.0	3.9	8.1	14.8	10.1	5.5
Primary balance (deficit -) 2/	6.8	1.2	6.7	10.1	10.5	13.2	17.7	12.6	8.1
Current account balance 3/	-5.6	0.6	1.0	2.5	2.3	3.0	4.9	3.0	2.0
External public debt (end of period)	195.8	180.3	200.5	...	197.2	...	...	...	...
	(In percent of exports of goods and services)								
External public debt service (before debt relief)	23.9	25.0	16.7	13.6	14.4	11.7	11.8	9.3	9.2
External public debt	252.9	221.2	252.9	...	233.4	...	...	...	...
	(In percent of total government revenue excluding grants)								
External public debt service (before debt relief)	60.4	75.0	45.4	36.7	37.8	28.8	25.7	22.3	23.4
External public debt	638.4	663.7	687.9	...	613.2	...	...	...	...
	(In billions of CFA francs, unless otherwise indicated)								
Gross official foreign reserves	53.6	22.2	20.5	24.2	60.4	39.8	101.3	149.9	182.2
In months of imports, c.i.f.	1.3	0.5	0.5	0.5	1.3	0.8	2.0	2.8	3.4
Nominal GDP	2,048	2,105	2,072	2,316	2,294	2,503	2,685	2,679	2,604
World oil price (in U.S. dollars per barrel) 4/	24.3	24.9	28.8	36.1	38.2	33.3	45.2	39.8	37.0
Oil production (in millions of barrels)	89.6	88.0	81.7	83.3	82.1	97.9	94.7	97.9	92.6
Potential windfall oil fiscal revenue 5/	0.0	0.0	0.0	9.8	0.0	144.3	82.8	121.8	106.5

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

1/ Including grants.
2/ Revenue (excluding grants) minus noninterest current expenditure minus domestically financed capital expenditure and net lending.
3/ Including public transfers.
4/ From 2005 onward, world oil price forecasts incorporate a prudence factor. As a result, *WEO* price forecasts are reduced by US$4 per barrel.
5/ Additional revenue that would be generated by using *WEO* forecasts for world oil prices, that is, without applying the price rule.

Table 5: Republic of Congo: Selected Indicators of Long-Term Macroeconomic Projections, 2004–24

	2004	2010	2015	2020	2024	Averages 2000-04	2005–14	2015-24	2005-24
	(In units indicated)								
Real GDP growth (percent change)	3.6	5.8	4.5	5.1	5.5	4.1	4.5	5.0	4.8
Oil	0.5	5.9	0.0	0.0	0.0	-3.3	2.1	0.0	1.0
Non-oil	5.2	5.7	6.0	6.3	6.5	9.4	5.7	6.3	6.0
Population (millions)	3.2	3.8	4.3	4.9	5.4	3.0	3.7	4.9	4.3
Percent change	2.9	2.9	2.8	2.6	2.5	2.9	2.9	2.6	2.7
CPI index (percent change)	3.6	2.0	2.0	2.0	2.0	1.9	2.0	2.0	2.0
	(In percent of GDP)								
Consumption	48.6	51.3	59.7	60.5	61.0	47.3	54.5	60.3	57.4
Government	16.0	15.0	16.7	16.7	16.3	15.4	15.6	16.6	16.1
Private	32.6	36.3	42.9	43.8	44.7	31.9	38.8	43.7	41.2
Gross investment	24.2	25.7	32.8	33.2	33.0	24.3	27.3	33.1	30.2
Government	7.0	7.5	9.2	9.1	9.1	7.8	8.1	9.1	8.6
Private	17.2	18.2	23.6	24.2	23.9	16.5	19.3	24.0	21.7
Net exports of goods and services	27.2	23.0	7.5	6.3	6.0	28.2	18.2	6.6	12.4
Exports	84.5	78.2	62.5	53.5	46.0	80.6	74.3	54.4	64.4
Of which : crude oil	65.5	60.1	41.0	31.8	24.8	65.4	55.6	32.8	44.2
Imports	57.3	55.1	55.0	47.2	40.0	52.4	56.1	47.8	52.0
Gross national saving	26.6	30.1	28.7	31.6	33.3	25.7	28.0	31.3	29.7
Total revenue, incl. grants	32.5	29.5	27.1	26.0	25.0	29.4	30.2	26.1	28.1
Fiscal revenue	32.2	28.9	26.5	25.4	24.4	29.1	29.6	25.5	27.6
Of which : oil	23.1	19.2	13.0	9.9	7.7	20.7	19.2	10.3	14.7
non-oil	9.0	9.7	13.4	15.5	16.7	8.3	10.4	15.2	12.8
Total expenditure	28.6	24.7	27.6	26.8	26.2	30.1	25.8	26.9	26.3
Of which : Domestically-financed primary expenditures	21.6	20.9	24.2	24.0	23.7	22.3	22.1	24.0	23.0
Overall fiscal balance, incl. grants (commitment basis)	3.9	4.7	-0.6	-0.8	-1.2	-0.7	4.4	-0.8	1.8
Primary fiscal balance	10.5	8.0	2.2	1.4	0.7	6.7	7.5	1.5	4.5
Financing gap	0.0	-3.4	0.7	1.4	2.2	-0.3	-0.7	1.2	0.2
External current account balance, incl. grants (before HIPC debt relief)	2.3	4.4	-4.1	-1.7	0.4	1.2	0.7	-1.8	-0.6
Of which : Trade balance	53.4	48.7	30.1	23.2	0.4	52.0	43.7	22.3	33.0
Exports f.o.b.	78.2	72.3	56.0	47.1	0.4	74.7	68.3	44.0	56.2
Of which : non-oil	12.7	12.2	15.0	15.3	15.0	9.3	12.8	15.2	14.0
Imports f.o.b.	24.8	23.6	25.9	23.8	0.4	22.8	24.6	21.8	23.2
Capital account balance	35.7	0.6	0.7	0.6	0.4	8.1	0.6	0.6	0.6
Financial account balance	-36.1	-0.5	4.2	1.2	0.4	-2.9	0.8	1.6	1.2
Overall external balance	1.9	4.5	0.7	0.1	0.4	0.2	2.1	0.4	1.2
Memorandum items:									
	(In percent of non-oil GDP)								
Non-oil revenue	19.1	19.4	20.3	20.9	20.9	18.8	19.3	20.7	20.0
Oil revenue	48.7	38.2	19.7	13.3	9.6	47.5	37.1	14.1	25.6
Non-oil primary fiscal balance	-25.3	-22.3	-16.3	-11.4	-8.7	-30.0	-21.6	-12.1	-16.9
	(In units indicated)								
World oil price (U.S. dollar per barrel)	38.2	34.8	34.8	34.8	34.8	28.9	36.6	34.8	35.7
Oil production (millions of barrels)	82.1	126.4	94.5	94.5	94.5	87.7	102.5	94.5	98.5
Export volume of goods (percent change)	8.6	5.9	2.8	4.2	5.3	-1.4	3.2	4.0	3.6
Import volume of goods (percent change)	16.7	7.4	4.2	3.9	4.0	11.1	6.0	3.9	5.0
Gross foreign reserves (in months of imports of goods and services)	0.6	1.8	3.0	4.3	5.7	0.7	1.8	4.2	3.0
	(In millions of U.S. dollars)								
Nominal GDP	4,349	6,779	7,483	9,862	12,669	3,391	6,176	9,779	7,977
Exports of goods and services	3,674	5,298	4,678	5,277	5,834	2,743	4,565	5,236	4,900
Imports of goods and services	2,492	3,736	4,116	4,656	5,069	1,786	3,467	4,596	4,032
Fiscal revenue, excluding grants	1,399	1,962	1,980	2,508	3,093	993	1,813	2,483	2,148

Sources: Congolese authorities; and staff estimates and projections.

Table 6. Republic of Congo: Nominal and Net Present Value of External Debt by Creditor Group at Decision Point, End-2004 1/

	Nominal Debt		NPV of Debt		After traditional debt relief mechanisms 2/ NPV of Debt	
	US$ million	Percent of total	US$ million	Percent of total	US$ million	Percent of total
Total	**9,248**	**100**	**9,007**	**100**	**5,176**	**100**
Multilateral	524	6	363	4	363	7
African Development Bank	138	1	121	1	121	2
African Development Fund	12	0	8	0	8	0
BADEA	21	0	16	0	16	0
European Union	40	0	29	0	29	1
IFAD	0.3	0	0.3	0	0	0
IDA	270	3	151	2	151	3
IMF	29	0	25	0	25	0
OPEC	13	0	13	0	13	0
Paris Club bilateral 3/	5,048	55	4,995	55	2,815	54
Belgium	81	1	85	1	36	1
Brazil	309	3	291	3	102	2
Canada	69	1	68	1	37	1
Denmark	2	0	1	0	0	0
France	2,942	32	3,002	33	1,729	33
Germany	301	3	308	3	138	3
Ireland	0	0	0	0	0	0
Italy	255	3	256	3	142	3
Luxembourg	1	0	1	0	0	0
Netherlands	0.4	0	0.2	0	0	0
Russia	159	2	104	1	104	2
Spain	494	5	464	5	315	6
Switzerland	25	0	24	0	9	0
United Kingdom	346	4	332	4	164	3
United States	65	1	59	1	38	1
Non Paris Club bilateral	289	3	280	3	178	3
Algeria	20	0	20	0	6	0
Angola	60	1	60	1	20	0
Bulgaria	2	0	2	0	1	0
China	47	1	39	0	34	1
Cuba	1	0	1	0	1	0
Saudi Arabia	64	1	64	1	51	1
Kuwait	49	1	49	1	41	1
Libya	28	0	28	0	9	0
Romania	1	0	1	0	1	0
United Arab Emirates	17	0	17	0	15	0
Commercial	3,388	37	3,370	37	1,819	35
of which : London Club	2,177	24	2,177	24	879	17

Sources: Congolese authorities; and staff estimates.

1/ Figures are based on data as of end December 2004, before signing of the bilateral agreement minutes from the December 2004 Paris Club agreement .
2/ After a stock of debt operation on Naples terms at end-2004 on official bilateral and commercial debt.
3/ European Economic Commission loans administered by IDA classified as multilateral loans in the preliminary document have been reclassified as Paris Club bilateral loans at decision point.

Table 7. Republic of Congo: Net Present Value of External Debt, 2004 - 24
(In millions of U.S. dollars; unless otherwise indicated)

	2004	2005	2006	2007	2010	2015	2020	2024	2005 - 14	2015 - 24
	Actuals	Projections							Averages	
I. After traditional debt-relief mechanisms 1/										
1. NPV of total debt (2+6) 2/	5176	5040	4565	4080	3132	3093	2823	2333	3748	2808
2. NPV of outstanding debt (3+4)	5176	5005	4475	3955	2871	2584	2036	1311	3527	2046
3. Official bilateral and commercial	4813	4668	4159	3655	2607	2388	1874	1185	3250	1882
Paris Club	2815	2780	2507	2234	1666	1522	1170	750	2007	1187
Other official bilateral and commercial	1998	1888	1652	1421	941	866	704	435	1242	696
4. Multilateral	363	337	317	301	265	196	162	127	277	164
IDA	151	151	151	151	151	139	113	84	149	114
IMF	25	13	10	10	9	0	0	0	9	0
African Development Bank Group	129	117	106	95	75	43	42	41	83	42
Others	58	55	50	45	31	13	8	2	0	0
5. Nominal stock of total debt (incl. new loans)	5501	5368	4925	4436	3540	3629	3481	3106	4150	3458
II. After conditional delivery of enhanced HIPC assistance										
1. NPV of total debt after conditional delivery (2+6) 2/	5500	5073	4662	2235	1750	1896	2048	2029	2743	2008
NPV of total debt after full delivery 3/	3497	3278	2692	2235	1750	1896	2048	2029	2218	2008
Multilateral	245	226	210	197	176	137	127	91	185	122
Paris Club	1902	1815	1476	1049	986	937	831	650	1191	825
Other official bilateral and commercial	1349	1201	917	798	328	313	303	266	615	299
New borrowing	0	36	90	125	261	509	787	1022		
2. NPV of outstanding debt (3+4)	5500	5037	4573	2110	1489	1387	1260	1007	2522	1246
3. Official bilateral and commercial	5188	4751	4301	1847	1314	1249	1134	916	2313	1124
Paris Club	3193	2872	2666	1049	986	937	831	650	1513	825
Other official bilateral and commercial	1995	1880	1635	798	328	313	303	266	800	299
4. Multilateral	313	286	272	263	176	137	127	91	209	122
IDA	144	144	147	151	112	118	113	84	125	108
IMF	25	13	10	10	1	0	0	0	6	0
African Development Bank Group	91	79	68	57	36	5	4	3	45	4
Others	53	50	48	45	27	15	10	4	33	10
Memorandum items (I and II):										
6. NPV of new borrowing	0	36	90	125	261	509	787	1022	243	762
Official bilateral	0	8	12	13	48	155	296	447	47	289
Multilateral	0	28	77	112	213	355	491	576	174	473
Grant element in new borrowing (in percent)	0	53	52	47	45	43	42	41	47	42
NPV of debt-to-revenues target (in percent) 5/	1,679									

Sources: Congolese authorities; and staff estimates and projections.

1/ Refers to public and publicly guaranteed external debt only and assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-2004, and at least comparable action by other bilateral and commercial creditors.

2/ Discounted on the basis of the average six-month commercial interest reference rate for the respective currency as of end-December 2004.
The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the base date exchange rate (December 2004).

3/ NPV of total debt assuming the entire HIPC Initiative assistance is fully delivered as of end-December 2004.

4/ After debt relief beyond HIPC offered by some of the Paris Club creditors on a voluntary basis.

5/ Total assistance level under a proportional burden-sharing approach as measured by end-2004

Table 8. Republic of Congo: External Debt Indicators, 2004-24 1/

(In percent, unless otherwise indicated)

	2004	2005	2006	2007	2010	2015	2020	2024	2005 - 14	2015 - 24
	Actuals	Projections							Averages	
After traditional debt relief mechanisms 2/										
NPV of debt-to-GDP ratio	119	94	85	78	46	41	29	18	60	30
NPV of debt-to-exports ratio 3/ 4/	173	138	111	96	65	67	55	41	83	55
NPV of debt-to-revenue ratio 5/	370	248	255	261	160	156	113	75	200	117
Debt service-to-exports ratio	…	10	18	19	4	5	5	6	10	5
Debt service-to-revenue ratio 5/	…	21	43	47	11	11	11	11	25	11
After conditional delivery of enhanced HIPC assistance										
NPV of debt-to-GDP ratio	126	94	87	43	26	25	21	16	42	21
NPV of debt-to-exports ratio 3/ 4/	184	139	113	53	36	41	40	36	58	39
NPV of debt-to-exports ratio (existing debt only)	184	138	111	50	31	30	24	18	53	25
NPV of debt-to-revenue ratio 5/	393	250	261	143	89	96	82	66	135	82
Debt service-to-exports ratio	…	15	15	13	3	2	3	3	7	3
Debt service-to-revenue ratio 5/	…	32	35	34	7	5	5	6	17	6
After unconditional delivery of enhanced HIPC assistance 6/										
NPV of debt-to-GDP ratio	80	61	50	43	26	25	21	16	35	21
NPV of debt-to-exports ratio 3/ 4/	117	90	65	53	36	41	40	36	48	39
NPV of debt-to-revenue ratio 5/	250	162	150	143	89	96	82	66	116	82
Memorandum items (in millions of U.S. dollars):										
NPV of debt after enhanced HIPC assistance	5500	5073	4662	2235	1750	1896	2048	2029	2467	2008
Of which: existing debt only	5500	5037	4573	2110	1489	1387	1260	1007	2224	1246
After traditional relief NPV of debt-to-revenue ratio 8/	571	338	262	227	174	163	118	80	208	122
Debt service after enhanced HIPC assistance 7/	…	651	632	529	145	106	134	185	310	138
GDP	4349	5379	5364	5217	6779	7483	9862	12669	6176	9779
Exports of goods and services 3/	3674	4428	4272	3985	5298	4678	5277	5834	4565	5236
Exports of goods and services (three-year avg.) 3/ 4/	2989	3644	4124	4228	4830	4586	5160	5686	4448	5113
Government revenue 5/	1399	2029	1789	1563	1962	1980	2508	3093	1813	2483
Government revenue (three-year avg.) 5/	906	1490	1739	1794	1797	1899	2390	2932	1754	2366

Sources: Congolese authorities; and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated.
2/ Reflect a hypothetical stock-of-debt operation on Naples terms at end-2004 for official bilateral and commercial creditors.
3/ Exports of goods and services as defined in IMF, *Balance of Payments Manual,* 5th edition, 1993.
4/ Based on a three-year average of exports on the previous year (e.g., export average over 2002-2004 for NPV of debt-to-exports ratio in 2004).
5/ Revenue is defined as central government revenue, excluding grants.
6/ Assuming full and unconditional delivery of HIPC assistance in end-December 2004.
7/ Assuming full delivery of HIPC assistance in end-December 2007.
8/ Based on a three-year average of revenues on the previous year (e.g., revenue average over 2002-2004 for NPV of debt-to-revenue ratio in 2004).

Table 9. The Republic of Congo: External Debt Service After Full Implementation of Debt-Relief Mechanisms, 2005-24
(In millions of U.S. dollars)

	2005	2006	2007	2010	2015	2020	2024	2005 - 14	2015 - 24
				Projections				Averages	
Total debt service (incl. new debt)	423	773	738	212	220	286	341	436	275
After traditional debt-relief mechanisms 1/	422	772	736	206	194	250	289	428	239
Multilateral	42	34	29	25	14	13	14	28	14
IDA	7	7	7	7	12	11	12	8	12
IMF	13	4	0	2	0	0	0	3	0
African Development Bank	16	15	14	9	0	0	0	11	0
Others	6	7	7	7	2	2	2	6	2
Official bilateral	380	738	707	180	180	237	275	400	225
Paris Club	174	410	396	105	119	156	167	227	145
Other official bilateral and commercial	206	328	311	75	60	81	108	173	81
Total debt service (incl. new debt)	651	632	529	145	106	134	185	310	138
After enhanced HIPC assistance 2/	650	630	527	139	80	98	134	302	102
Multilateral	42	27	22	30	8	7	15	22	10
IDA	7	4	4	3	6	5	12	4	8
IMF	13	4	0	13	0	0	0	3	0
African Development Bank	16	15	14	9	0	0	0	11	0
Others	6	4	5	5	2	1	2	4	2
Official bilateral	608	603	505	108	72	91	119	280	91
Paris Club 3/	408	318	238	67	58	72	91	141	72
Other official bilateral and commercial	200	285	267	42	14	19	27	138	19
Memorandum items:									
Debt service of new debt	1	2	2	6	26	35	52	8	36
Multilateral	1	1	2	5	23	27	36	7	28
IDA	0	0	0	1	1	3	3	1	2
IMF	0	0	0	0	12	0	0	3	3
Others	1	1	1	4	10	24	33	3	22
Official bilateral	0	0	0	1	3	9	16	1	9

Sources: Congolese authorities; and staff estimates and projections.

1/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-December 2004, and at least comparable action by other bilateral and commercial creditors.

2/ As the Republic of Congo is expected to reach decision point in 2006, 2005 figures only reflect the due debt service before delivery of the enhanced HIPC initiative assistance. From 2006 onward, figures reflect the debt service after delivery of the enhanced HIPC assistance.

3/ For 2005-07, includes the arrears clearance of the Paris Club post-cut-off debt as agreed in the December 2004 Naples flow agreement. Under this agreement, the post cut-off arrears are repaid with less favorable terms than under the traditional relief mechanism, as a result the debt service under traditional relief is lower than the one after enhanced HIPC for the period 2005-07.

Table 10. Republic of Congo: Sensitivity Analysis, 2004 - 24 1/
(In percent; unless otherwise indicated)

	2004	2005	2006	2007	2010	2015	2020	2024	2005 - 14	2015 - 24
					Projections				Averages	
Baseline scenario										
NPV of debt-to-exports ratio 2/	117	90	65	53	36	41	40	36	48	39
NPV of debt-to-revenue ratio 3/	250	162	150	143	89	96	82	66	116	82
Debt service-to-revenue ratio 3/	...	32	35	34	7	5	5	6	17	6
Memorandum items (in millions of U.S. dollars):										
NPV of debt	3,497	3,278	2,692	2,235	1,750	1,896	2,048	2,029	2,090	2,008
Of which: new debt	0	36	90	125	261	509	787	1,022	243	762
Debt service	...	651	632	529	145	106	134	185	310	138
Of which: new debt	...	1	2	2	6	26	35	52	8	36
Exports of goods and services, three-year average	2,989	3,644	4,124	4,228	4,830	4,586	5,160	5,686	4,448	5,113
Exports of goods and services, annual	3,674	4,428	4,272	3,985	5,298	4,678	5,277	5,834	4,565	5,236
Revenues	1,399	2,029	1,789	1,563	1,962	1,980	2,508	3,093	1,813	2,483
Sensitivity analysis										
Alternative scenario I 4/										
NPV of debt-to-exports ratio 2/	117	95	76	69	51	61	61	59	63	61
NPV of debt-to-revenue ratio 3/	250	182	223	200	122	136	123	107	156	123
Debt service-to-revenue ratio 3/	...	36	52	46	9	7	7	8	23	7
Memorandum items (in millions of U.S. dollars):										
NPV of debt	3,497	3,284	2,733	2,310	1,913	2,229	2,595	2,786	2,240	2,540
Of which: new debt	0	41	131	200	424	842	1,335	1,779	393	1,294
Debt service	...	651	633	531	147	111	148	207	313	151
Of which: new debt	...	1	2	3	9	31	50	73	11	49
Exports of goods and services, three-year average	2,989	3,447	3,579	3,372	3,732	3,681	4,236	4,760	3,572	4,193
Exports of goods and services, annual	3,674	3,836	3,227	3,052	4,093	3,773	4,353	4,907	3,598	4,314
Revenues	1,399	1,803	1,227	1,156	1,563	1,641	2,102	2,607	1,452	2,079
Alternative scenario II 5/										
NPV of debt to exports ratio 2/	117	90	66	54	38	47	51	51	50	50
NPV of debt-to-revenue ratio 3/	250	162	152	146	93	110	107	101	121	107
Debt service-to-revenue ratio 2/ 3/	...	32	36	34	8	6	6	8	18	7
Memorandum items (in millions of U.S. dollars):										
NPV of debt	3,497	3,278	2,692	2,240	1,767	1,974	2,283	2,492	2,110	2,244
Of which: new debt	0	36	90	131	277	587	1,022	1,485	263	998
Debt service	...	651	632	529	145	108	138	194	310	142
Of which: new debt	...	1	2	2	6	28	40	61	9	41
Exports of goods and services, three-year average	2,989	3,638	4,103	4,180	4,673	4,179	4,509	4,919	4,295	4,501
Exports of goods and services, annual	3,674	4,410	4,226	3,905	5,096	4,214	4,595	5,037	4,373	4,584
Revenues	1,399	2,021	1,771	1,535	1,893	1,799	2,125	2,463	1,745	2,107

Sources: Congolese authorities; and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated. Ratios are calculated assuming all HIPC assistance is delivered unconditionally at end-2004.

2/ Exports of goods and services as defined in IMF, *Balance of Payments Manual*, 5th edition, 1993. The NPV of debt-to-exports ratio is based on a three-year average of exports on the previous year; the debt-service ratio is based on current year exports.

3/ Revenues are defined as central government revenues, excluding grants.

4/ Scenario I assumes international oil prices will drop by 40 percent.

5/ Scenario II assumes a drop of 3 percentage points of real non-oil GDP growth.

Table 11. Republic of Congo: Enhanced HIPC Initiative: Assistance Levels Under a Proportional Burden-Sharing Approach 1/
(In millions of US dollars in end-December 2004 NPV terms; unless otherwise indicated) 2/

NPV of debt-to-revenues target (in percent)	Total	Multilaterals	Bilaterals	Commercial Creditors	Common Reduction Factor 3/ (Percent)
250	1679	118	971	590	32.4

Memorandum items:	
NPV of debt at end-2004 4/	5,176
Central government revenues at end-2004 5/	1,399
NPV of debt-to-revenue ratio (percent) 5/	370
NPV of debt-to-revenues target (in percent)	250
Multilateral Creditors	363
Paris Club Creditors	2,815
of which pre-cut of date non-ODA	1,673
Non-Paris Club Bilateral Creditors	178
of which pre-cut of date non-ODA	36
Commercial Creditors	1,819

Sources: Congolese authorities; and staff estimates and projections.

1/ Assumes proportional burden-sharing .
2/ Using six-month discount and end-of-period exchange rates as of end-December 2004.
3/ Each creditor's NPV reduction at the decision point after traditional debt relief in percent of its exposure at the decision point.
4/ After a hypothetical stock-of-debt operation on Naples terms at end-December 2004.
5/ Excluding grants.

Table 12. Paris Club Creditors' Delivery of Debt Relief Under Bilateral Initiatives Beyond the HIPC Initiative 1/
(In percent)

	ODA		Non-ODA		Provision of relief	
	Pre-cutoff date debt	Post-cutoff date debt	Pre-cutoff date debt	Post-cutoff date debt	Decision point	Completion point
	(1)	(2)	(3)	(4)	(5)	(6)
Australia	100	100	100	- 2/	flow	stock 2/
Austria	100	-	100	-	flow	stock
Belgium	100 3/	100 3/	100	-	flow	stock 3/
Canada	4/	4/	100 4/	100 4/	flow	stock 4/
Denmark	100 5/	100 5/	100 5/	100 5/	flow	stock 5/
France	100 6/	100 6/	100 6/	-	flow 6/	flow/stock 6/
Finland	100 7/	7/	100	7/	stock 7/	7/
Germany	100	100	100	- 8/	flow	stock 8/
Ireland	-	-	-	-	-	-
Italy	100 9/	100 9/	100 9/	100 9/	flow 9/	stock 9/
Japan	100	100	100	- 10/	-	stock 10/
Netherlands, the	100 11/	100 11/	100 11/	- 11/	90-100 flow/stock 11/	stock 11/
Norway	12/	12/	12/	-	-	stock 12/
Russia	13/	13/	- 13/	- 13/	- 13/	- 13/
Spain	100 14/	100 14/	100		flow	stock
Sweden	15/	15/	100 15/	-	-	Case-by case, stock 15/
Switzerland	15/	16/	16/	16/	Case-by-case, flow 16/	stock 16/
United Kingdom	100	100	100	100	stock 17/	17/
United States	100	100	100	100 18/	flow	stock 18/

Source: Paris Club Secretariat.

1/ Debt relief beyond HIPC is provided on a bilateral basis after the debtor country reaches the decision and completion point.
A "100 percent" mention in the table indicates that the debt relief provided under the enhanced-HIPC Initiative is topped up to 100 percent through a bilateral agreement.
2/ Australia will provide relief on post-cutoff date non-ODA claims incurred before a date to be finalized.
3/ Belgium cancels all ODA debt granted before December 31, 2000.
4/ Canada had already cancelled 100 percent of ODA claims on HIPCs prior to 1996. It has granted a moratorium of debt service on all non-ODA debt and commercial credits disbursed before end-March 1999 for 13 out of 17 HIPCs with debt due to Canada (Benin, Bolivia, Cameroon, Dem. Rep. Of Congo, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Rwanda, Senegal, Tanzania, and Zambia). Canada's debt moratorium is extended to countries meeting governance and human rights standards.
For the other HIPCs, debt relief is granted at decision and completion point.
5/ Denmark provides 100 percent cancellation of ODA loans and non-ODA credits contracted and disbursed before September 27, 1999.
6/ France cancels 100 percent of debt service on pre-cutoff date commercial claims on the government as they fall due starting at the decision point. Once countries have reached their completion point, debt relief on ODA claims on the government will go to a special account and will be used for specific development projects.
7/ Finland does not have post-COD claims. All ODA debt stock is canceled at decision point.
8/ Germany will cancel all debts incurred before June 20, 1999 depending on a consensus within Paris Club creditors.
9/ Italy cancels 100 percent of all debts (pre- and post-cutoff date, ODA and non-ODA) incurred before June 20, 1999 (date of the Cologne Summit).
Debt service falling due during the interim period is written-off. At completion point, Italy cancels the stock of remaining debt.
10/ Japan is ready to support expanding the coverage of debt to include claims on post-COD commercial debts contracted before June 20, 1999.
11/ At decision point, the Netherlands cancelled all ODA debts. For some countries it also cancelled non-ODA debt service due during the interim period (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia).
All other HIPCs will receive interim relief up to 90 percent reduction of the consolidated amounts. At completion point, all HIPCs will receive 100 percent cancellation of the remaining stock of the pre-cutoff date debt.
12/ Norway has already cancelled all ODA claims. Due to the current World Bank/IMF methodology for recalculating debt reduction needs at HIPC completion point, Norway has postponed the decisions on whether to grant 100% debt reduction until after the completion point. Only pre-COD commercial claims are cancelled.
13/ Russia provides debt relief within the scope of Paris Club Agreed Minutes. However, the Russian authorities are currently considering further steps to provide debt relief beyond HIPC (up to 100% debt relief on pre-COD commercial claims).
14/ Spain cancels 100 percent of all debts (pre- and post-cutoff date, ODA and non-ODA) incurred before June 20, 1999 (date of the Cologne Summit).
15/ Sweden has already cancelled all ODA claims. It provides 100 percent debt cancellation only after the completion point and on a case-by-case basis. Only pre-COD commercial claims are cancelled.
16/ Switzerland grants, in principle, 100 percent cancellation of pre-cutoff date non-ODA debt. However, Switzerland claims the right at the decision point to forgive only 90 percent in case of major political weaknesses. During the 1990s, 20 HIPCs were granted 100% debt relief and 4 countries were provided partial debt reduction.
17/ United Kingdom provides full write-off of all debts at decision point, and reimbursement at the decision point of any debt service paid before the decision point.
18/ United States cancels 100 percent of post-cutoff date non-ODA debt assumed prior to June 20, 1999.

Table 13. Republic of Congo: Possible Delivery of IMF Assistance under the Enhanced HIPC Initiative, 2005-15 1/

(In millions of U.S. dollars, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2015
(Based on the US$/SDR exchange rate as of October 26, 2005)							
Delivery schedule of IMF assistance (in percent of the total assistance)	-	-	1.4	1.4	1.4	3.0	3.8
Debt Service due on IMF obligations 2/	6.4	4.4	0.4	0.4	0.4	2.6	2.5
Principal	5.8	4.0	-	-	-	2.3	2.3
Interest and charges	0.5	0.4	0.4	0.4	0.4	0.4	0.3
IMF assistance--deposits into Republic of Congo's account							
Interim assistance 3/	-	0.1	-				
Completion point assistance			8.0				
IMF assistance--drawdown schedule 4/	-	-	0.1	0.1	0.1	1.4	0.4
IMF assistance without interest	-	-	0.1	0.1	0.1	0.2	0.3
Estimated interest earnings	-	-	0.0	-	-	1.2	0.1
Debt service due on current IMF obligations after IMF assistance 4/	6.4	4.4	0.3	0.3	0.3	1.2	2.2
Share of debt service due on IMF obligations covered by IMF assistance (in percent) 5/	-	-	30.6	30.5	30.5	54.5	15.1
Proportion (in percent) of each repayment falling due during the period to be paid by IMF Initiative assistance from the principal deposited in Rep. of Congo's account	-	-	-	-	-	10.6	13.4
Memorandum items: **(Based on debt service data and exchange rates as of end-2004)**							
Total debt service due (in millions of U.S. dollars)	445.7	343.3	290.6	270.3	254.5	119.1	68.2
Debt service due on IMF obligations (in millions of U.S. dollars)	12.7	4.4	0.1	0.1	0.1	2.5	-
Debt service due on current IMF obligations after IMF assistance	12.7	4.4	-	-	-	0.2	-
(in percent of current year exports of goods and nonfactor services)	0.3	0.1	-	-	-	0.0	-
Share of total debt service covered by IMF assistance (in percent)	-	-	0.0	0.0	0.0	1.2	0.6

Source: Fund staff estimates and projections.

1/ Total IMF assistance under the enhanced HIPC Initiative is US$ 8.08 million in NPV terms calculated on the basis of data available at the decision point, excluding interest earned on Republic of Congo's account and on committed but undisbursed amounts.
2/ Forthcoming obligations are as of end-September 2005 .
3/ Its is assumed that the first delivery of interim assistance will be deposited into the Republic of Congo's account at the end of December 2006, when it is assumed that the required 70 percent of creditor participation has been secured. The interim assistance will cover PRGF interest obligations falling due to the Fund over the next twelve months. Since there are no principal repayment obligations falling due to the Fund until 2010, HIPC assistance will be applied to cover PRGF interest obligations falling due between 2007 and end-2009.
4/ Includes estimated interest earnings on: (a) amounts held in the Republic of Congo's account; and (b) up to the completion point, amounts committed but not yet disbursed. It is assumed that these amounts earn a rate of return of 5.25 percent in U.S. dollar terms, but actual interest earnings may be higher or lower. Interest accrued during a calendar year will be used toward the first repayment obligations) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligations) falling due in that year. Interest accrued during the interim period will be used toward the repayment of obligations falling due during the three years after the completion point.
5/ Excludes charges in the SDR Department of the IMF.

Table 14. Republic of Congo: Estimated Delivery of IDA Assistance Under the Enhanced HIPC Initiative, 2005-21

(In millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010	2015	2020	2021	2006-15	2016-20
										Averages	
I. Debt service to IDA before HIPC Initiative assistance 1/	7.2	7.2	7.2	7.1	7.1	7.0	11.5	11.2	11.5	8.1	11.4
Principal	5.2	5.2	5.2	5.2	5.2	5.2	10.0	10.0	10.4	6.3	10.1
Interest	2.0	2.0	1.9	1.9	1.9	1.8	1.6	1.2	1.1	1.8	1.3
II. Debt service to IDA after HIPC Initiative assistance	7.2	4.5	3.5	3.5	3.5	3.5	5.7	5.5	9.7	4.4	6.3
Principal	5.2	2.8	2.0	2.0	2.0	2.0	4.7	4.9	8.8	3.0	5.5
Interest	2.0	1.7	1.6	1.5	1.5	1.5	1.0	0.6	0.9	1.4	0.8
III. Total IDA assistance under the HIPC Inititiative	0	2.7	3.6	3.6	3.6	3.5	5.8	5.6	1.8	3.7	5.1
IV. Percentage of debt service to IDA covered by HIPC Inititiative assistance	0	37.0	50.5	50.5	50.5	50.5	50.5	50.5	15.5	...	...
Memorandum item:											
Total Nominal Assistance	**70.7**										

Source: HIPC Unit staff estimates.

1/ Principal and interest payments due to IDA correspond to prorated projections based on the disbursed and outstanding debt as at end-2004, converted into U.S. dollars using the exchange rate as at end-the exchange rate as at end-2004.

Table 15. Discount Rate and Exchange Rate Assumptions at end-2004

	Discount Rates 1/ 2/ (In percent per annum)	Exchange Rates (Currency per U.S. dollar)
Currency		
United Arab Emirates Dirham	4.64	0.27
Belgian Franc	4.82	0.03
Canadian Dollar	5.36	0.83
CFA Franc	4.82	0.002
Swiss Franc	3.48	0.88
Chinese Yuan	4.64	0.12
Deutsche Mark	4.82	0.70
Danish Kronor	4.94	0.18
Spanish Peseta	4.82	0.01
Euro	4.82	1.36
French Franc	4.82	0.21
Great Britain Sterling	6.01	1.93
Irish Punt	4.82	1.73
Italian Lira	4.82	0.00
Japanese Yen	2.15	0.01
Kuwaiti Dinar	5.03	3.39
Luxembourg Franc	4.82	0.03
Netherlands Guilder	4.82	0.62
Saudi Arabian Riyal	4.64	0.27
United States Dollar	5.03	1.00
Special Drawing Rights	4.64	1.55
Norwegian Kronor	4.70	0.17
Swedish Kronor	5.38	0.15

Sources: OECD; and IMF, *International Financial Statistics.*

1/ The discount rates used are the average commercial interest reference rates (CIRRs) for the respective currencies over the six-month period ending in December 2004.

2/ For all Euro area currencies, the euro CIRR is used. For all other currencies for which the CIRRs are not available (except the Kuwaiti Dinar, for which the U.S. dollar discount rate is used), the SDR discount rate is used as a proxy.

Table 16. HIPC Initiative: Status of Country Cases Considered Under the Initiative, end-October, 2005

Country	Decision Point	Completion Point	Target NPV of Debt-to- Exports (in percent)	Target NPV of Debt-to- Gov. revenue (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral and commercial	Multi-lateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
Completion point reached under enhanced framework											
Benin	Jul. 00	Mar. 03	150		265	77	189	24	84	31	460
Bolivia					1,302	425	876	84	194		2,060
original framework	*Sep. 97*	*Sep. 98*	*225*		*448*	*157*	*291*	*29*	*54*	*14*	*760*
enhanced framework	*Feb. 00*	*Jun. 01*	*150*		*854*	*268*	*585*	*55*	*140*	*30*	*1,300*
Burkina Faso					553	83	469	57	231		930
original framework	*Sep. 97*	*Jul. 00*	*205*		*229*	*32*	*196*	*22*	*91*	*27*	*400*
enhanced framework	*Jul. 00*	*Apr. 02*	*150*		*195*	*35*	*161*	*22*	*79*	*30*	*300*
topping-up	...	*Apr. 02*	*150*		*129*	*16*	*112*	*14*	*61*	*24*	*230*
Ethiopia					1,982	637	1,315	60	832		3,275
enhanced framework	*Nov. 01*	*Apr. 04*	*150*		*1,275*	*482*	*763*	*34*	*463*	*47*	*1,941*
topping-up		*Apr. 04*	*150*		*707*	*155*	*552*	*26*	*369*	*31*	*1,334*
Ghana	Feb. 02	Jul. 04	144	250	2,186	1,084	1,102	112	781	56	3,500
Guyana					591	223	367	75	68		1,354
original framework	*Dec. 97*	*May 99*	*107*	*280*	*256*	*91*	*165*	*35*	*27*	*24*	*634*
enhanced framework	*Nov. 00*	*Dec-03*	*150*	*250*	*335*	*132*	*202*	*40*	*41*	*40*	*719*
Honduras	Jul. 00	Mar-05	110	250	556	215	340	30	98	18	1,000
Madagascar	Dec. 00	*Oct-04*	150		836	474	362	19	252	40	1,900
Mali					539	169	370	59	185		895
original framework	*Sep. 98*	*Sep. 00*	*200*		*121*	*37*	*84*	*14*	*43*	*9*	*220*
enhanced framework	*Sep. 00*	*Mar. 03*	*150*		*417*	*132*	*285*	*45*	*143*	*29*	*675*
Mauritania	Feb. 00	Jun. 02	137	250	622	261	361	47	100	50	1,100
Mozambique					2,023	1,270	753	143	443		4,300
original framework	*Apr. 98*	*Jun. 99*	*200*		*1,717*	*1,076*	*641*	*125*	*381*	*63*	*3,700*
enhanced framework	*Apr. 00*	*Sep. 01*	*150*		*306*	*194*	*112*	*18*	*62*	*27*	*600*
Nicaragua	Dec. 00	Jan. 04	150		3,308	2,175	1,134	82	191	73	4,500
Niger					663	235	428	42	240		1,190
enhanced framework	*Dec. 00*	*Apr. 04*	*150*		521	211	309	28	170	53	944
topping-up	...	*Apr. 04*	*150*		143	23	119	14	70	25	246
Rwanda					696	65	631	63	383		1,316
enhanced framework	*Dec. 00*	*Apr-05*	*150*		452	56	397	44	228	71	839
topping-up	...	*Apr-05*	*150*		243	9	235	20	154	53	477
Senegal	Jun. 00	Apr. 04	133	250	488	212	276	45	124	19	850
Tanzania	Apr. 00	Nov. 01	150		2,026	1,006	1,020	120	695	54	3,000
Uganda					1,003	183	820	160	517		1,950
original framework	*Apr. 97*	*Apr. 98*	*202*		*347*	*73*	*274*	*69*	*160*	*20*	*650*
enhanced framework	*Feb. 00*	*May 00*	*150*		*656*	*110*	*546*	*91*	*357*	*37*	*1,300*
Zambia	Dec. 00	Apr-05	150		2,499	1,168	1,331	602	493	63	3,900

Table 16. HIPC Initiative: Status of Country Cases Considered Under the Initiative, end-October, 2005 (concluded)

Country	Decision Point	Completion Point	Target NPV of Debt-to- Exports (in percent)	Target NPV of Debt-to- Gov. revenue (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral and commercial	Multi-lateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
Decision point reached under enhanced framework											
Burundi	Aug. 05	Floating	150		826	124	701	28	425	92	1,465
Cameroon	Oct. 00	Floating	150		1,260	874	324	37	179	27	2,800
Chad	May. 01	Floating	150		170	35	134	18	68	30	260
Congo, Democratic Rep. of	Jul. 03	Floating	150		6,311	3,837	2,474	472	831	80	10,389
Gambia, The	Dec. 00	Floating	150		67	17	49	2	22	27	90
Guinea	Dec. 00	Floating	150		545	215	328	31	152	32	800
Guinea-Bissau	Dec. 00	Floating	150		416	212	204	12	93	85	790
Malawi	Dec. 00	Floating	150		643	163	480	30	331	44	1,000
São Tomé and Príncipe	Dec. 00	Floating	150		97	29	68	-	24	83	200
Sierra Leone	Mar. 02	Floating	150		600	205	354	123	122	80	950
Decision point reached under original framework											
Côte d'Ivoire	Mar. 98 3/	...	141	280	345	163	182	23	91	6 4/	800
Total assistance provided/committed					**33,070**	**15,673**	**17,261**	**2,579** 5/	**8,156**		**56,223**
Preliminary HIPC document issued											
Côte d'Ivoire 6/	...	...	91	250	2,569	1,027	918	166	438	37	3,900

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.
2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.
3/ Côte d'Ivoire reached its decision point under the original framework in March 1998. The total amount of assistance committed thereunder was US$345 million in NPV terms.
4/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.
5/ Equivalent to SDR 1,767.0 million at an SDR/USD exchange rate of 0.6850, as of August 1, 2005.
6/ It is suggested that enhanced HIPC relief for Côte d'Ivoire overtake the commitments made under the original HIPC framework.

DEBT SUSTAINABILITY ANALYSIS WITH PRELIMINARY UPDATED MACROECONOMIC FRAMEWORK

1. Since the issuance of the preliminary document, world oil prices have increased significantly—by a projected average of US$16.30/barrel per year during 2005-24 (text table below). The staff held preliminary discussions[1] in October 2006 with the authorities on the impact of higher oil prices on the macroeconomic framework, including the 2006 budget. The authorities urged caution in updating the macroeconomic framework, and suggested that the oil prices used for the forecast should be set at US$10 per barrel below the WEO projections from 2006 onward (in contrast with US$4/barrel under the baseline scenario). In addition, the authorities have updated the projections for oil production, entailing an annual average production of about 3.8 percent lower than under the baseline during 2005-24.

2. In line with the priorities underlying the PRGF-supported program, use of additional resources would be on poverty-related spending, reduction of external and domestic payment arrears, and reduction of government net claims on the banking system. In addition, the authorities would seek assistance from the IMF and IDA to help with the establishment of a framework for sustainable public finance management in the presence of significant oil revenues.

Congo: Key Macroeconomic Indicators, 2000-24
(In units indicated)

	2000-04	Baseline Scenario			Updated Scenario		
	average	2005	2006	2005-24	2005	2006	2005-24
Real GDP growth (in percent)	4.1	9.2	4.8	4.8	9.2	5.2	5.5
Oil	-3.3	16.7	3.3	1.0	16.7	3.3	0.7
Nonoil	9.4	5.5	5.6	6.0	5.5	6.3	6.9
Oil sector parameters							
Oil price (WEO, U.S. dollars/barrel)	28.9	47.5	43.8	39.7	54.4	61.8	56.0
Price rule (U.S. dollars/barrel) 1/	28.9	45.2	39.8	35.7	52.4	51.8	46.0
Production (millions of barrels)	87.7	94.7	97.9	98.5	92.3	101.5	94.8
Fiscal aggregates (in percent of GDP)							
Domestic revenue	29.1	37.7	33.4	27.6	39.4	41.6	35.3
Primary expenditures	22.4	20.1	20.8	23.0	17.9	20.0	22.0
In percent of nonoil GDP	50.6	46.0	44.0	37.0	47.7	51.3	38.0
Primary fiscal balance 2/	6.7	17.6	12.6	4.5	21.4	21.6	13.2
Current account balance (incl. offical transfers)							
In percent of GDP	1.2	4.9	3.0	-0.6	12.5	13.0	2.7
Memorandum items:							
Nominal GDP							
Total (in millions of US dollars)	3391	5379	5364	7977	5960	6079	8786
Per capita (in US dollars)	1130	1630	1625	1855	1806	1842	2043

Sources: Congolese authorities, and Fund staff estimates and projections.

1/ The projections incorporate a prudence factor, so that the WEO price forecast is reduced a fixed dollar value per barrel.
2/ Revenue (excl. grants) minus noninterest current expenditure minus domestically-financed capital expenditure and net lending.

[1] These discussions—especially as regards their implications for the macroeconomic aggregates in 2006 and 2007—will be finalized at the time of the second review under the PRGF arrangement in early 2006. The staff will discuss MDG-related issues.

3. The higher oil revenue forecast creates room for higher spending. Nonetheless, in assessing the extent of the increase in spending, due consideration needs to be given to absorptive and institutional capacity constraints, coherence of a scaled-up investment budget with the priorities set out in the I-PRSP, and risks of inflationary pressures and "Dutch disease." A key concern for higher spending relates to capacity constraints—namely, shortage of trained personnel in health and education, shortage of adequate basic physical infrastructure, and lack of a functional classification for expenditure tracking. In addition, projects need to be rigorously selected and monitored. There are also risks of inflationary pressures and Dutch disease from higher spending. Thus, a preliminary revised macroeconomic framework takes account of the need for prudence in the use of additional oil revenues, while accommodating higher priority spending.

4. The authorities and staff reached preliminary understandings on broad budgetary targets for 2006. Domestically-financed capital and current spending in 2006 would increase by about 40 percent and 13 percent respectively, a level that is likely to exhaust the country's absorptive capacities. Preliminary macroeconomic long-term changes—on a cumulative basis during 2005-24 and relative to the baseline scenario—are as follows (text table above):

- Domestic revenues are projected to be higher by about 7.7 percentage points of GDP per year.[2]

- Domestically-financed primary spending would be higher by about 1 percentage point of non-oil GDP (but lower by 1 percentage point in relation to total GDP, reflecting the oil price-related sharp increase in nominal GDP).

- Primary fiscal surplus would be higher by about 8.7 percentage points of GDP.

- The current account surplus is projected to improve by some 3.3 percentage points of GDP.

- Non-oil real GDP growth would be expected to be higher by about 1 percentage point per year.

5. The DSA results using this preliminary updated macroeconomic framework confirm the assessment provided in Section IV.D (Figure 1, Table 1). With the higher oil prices, Congo's debt burden falls to significantly below the 250 percent threshold starting in 2005 after the application of the traditional debt relief mechanism. Debt relief under the enhanced HIPC Initiative would allow Congo's external debt burden to drop considerably; the NPV of debt-to-revenue ratio would fall to 140 percent in 2005. This ratio would subsequently fall steadily and remain significantly below the HIPC threshold over the entire projection period, reaching 44 percent by 2024.

---

[2] Government's oil tax receipts increase more-than-proportionately with rising international oil prices, and thus budgetary oil revenues grow at a higher rate than GDP.

Figure 1. Republic of Congo: External Debt Indicators, 2004-24
(In percent)

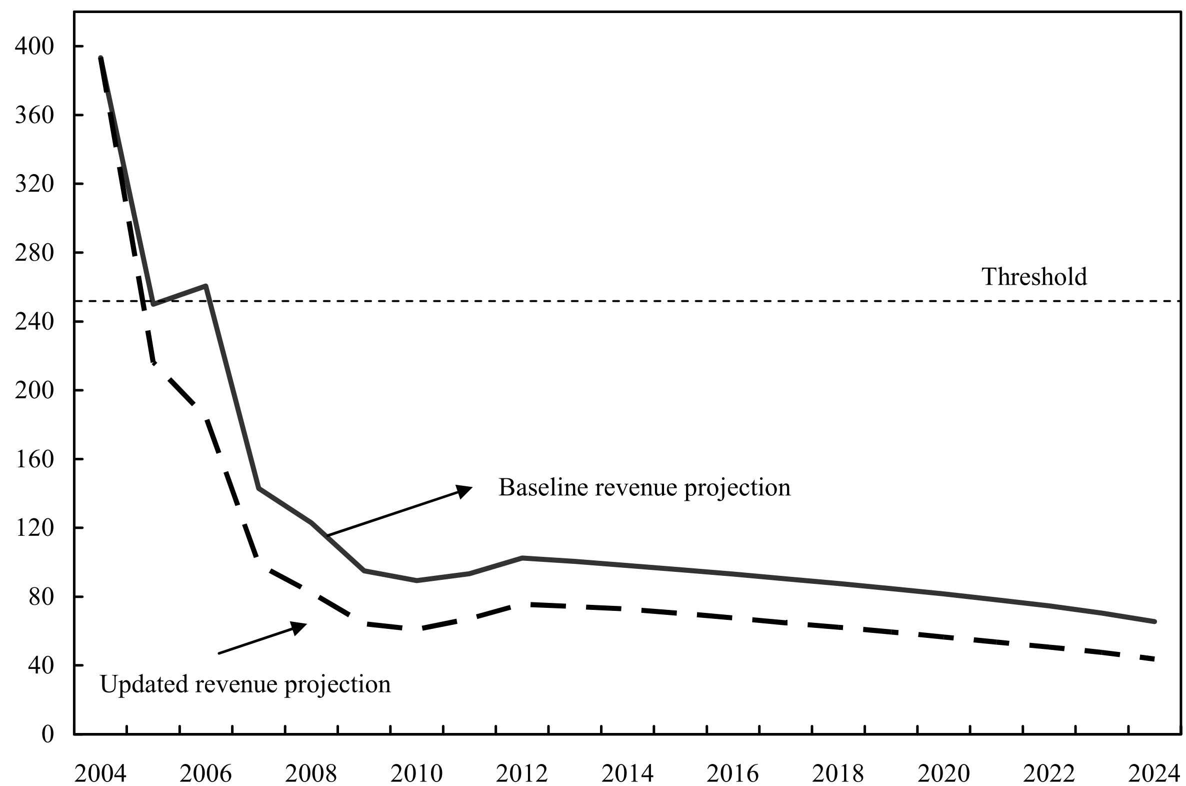


Table 1. Republic of Congo: External Debt Indicators under the Updated Macro Framework, 2004-24 1/
(In percent, unless otherwise indicated)

	2004	2005	2006	2007	2010	2015	2020	2024	2005 - 14	2015 - 24
	Actuals	Projections							Averages	
After traditional debt relief mechanisms 2/										
NPV of debt-to-GDP ratio	119	85	75	69	42	39	26	16	55	27
NPV of debt-to-exports ratio 3/ 4/	173	130	95	78	54	56	40	26	71	41
NPV of debt-to-revenue ratio 5/	370	215	181	180	109	115	78	50	145	82
Debt service-to-exports ratio	…	8	14	15	3	4	4	4	8	4
Debt service-to-revenue ratio 5/	…	18	31	33	7	8	8	7	18	8
After conditional delivery of enhanced HIPC assistance										
NPV of debt-to-GDP ratio	126	85	77	38	24	24	19	14	38	19
NPV of debt-to-exports ratio 3/ 4/	184	130	97	42	30	34	29	22	50	29
NPV of debt-to-exports ratio (existing debt only)	184	130	95	40	26	25	18	11	46	18
NPV of debt-to-revenue ratio 5/	393	216	184	99	61	70	57	44	100	58
Debt service-to-exports ratio	…	13	11	10	2	2	2	2	6	2
Debt service-to-revenue ratio 5/	…	28	25	23	5	4	4	4	13	4
After unconditional delivery of enhanced HIPC assistance 6/										
NPV of debt-to-GDP ratio	80	55	44	38	24	24	19	14	32	19
NPV of debt-to-exports ratio 3/ 4/	117	84	56	42	30	34	29	22	41	29
NPV of debt-to-revenue ratio 5/	250	140	106	99	61	70	57	44	84	58
Memorandum items (in millions of U.S. dollars):										
NPV of debt after enhanced HIPC assistance	5500	5073	4662	2235	1750	1896	2048	2029	2467	2008
Of which: existing debt only	5500	5037	4573	2110	1489	1387	1260	1007	2224	1246
After traditional relief NPV of debt-to-revenue ratio 8/	476	316	218	172	118	120	83	54	159	87
Debt service after enhanced HIPC assistance 7/	…	651	632	529	145	106	134	185	310	138
GDP	4349	5960	6079	5932	7410	8025	10923	14480	6726	10845
Exports of goods and services 3/	3674	5163	5552	5060	6282	5736	7490	9709	5478	7470
Exports of goods and services (three-year avg.) 3/ 4/	2989	3889	4796	5259	5783	5511	7062	9142	5274	7061
Government revenue 5/	1399	2346	2528	2261	2874	2695	3624	4637	2513	3573
Government revenue (three-year avg.) 5/	1086	1595	2091	2378	2657	2570	3413	4355	2389	3372

Sources: Congolese authorities; and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated.
2/ Reflect a hypothetical stock-of-debt operation on Naples terms at end-2004 for official bilateral and commercial creditors.
3/ Exports of goods and services as defined in IMF, *Balance of Payments Manual,* 5th edition, 1993.
4/ Based on a three-year average of exports on the previous year (e.g., export average over 2002-2004 for NPV of debt-to-exports ratio in 2004).
5/ Revenue is defined as central government revenue, excluding grants.
6/ Assuming full and unconditional delivery of HIPC assistance in end-December 2004.
7/ Assuming full delivery of HIPC assistance in end-December 2007.

NATIONAL OIL COMPANY FINANCIAL OBLIGATIONS

1. The debt sustainability analysis (DSA) covered Congolese public and publicly guaranteed external debt accumulated as of end-2004, including external liabilities transferred by the national oil company, Societé Nationale des Pétroles du Congo (SNPC) to the government (i.e., the Caisse Congolaise d'Amortissement). No other SNPC liabilities were included in the analysis because (i) SNPC reported no external liabilities as of end-2004, and (ii) advance accounts held by SNPC are not debt (discussed below).

2. The SNPC is the largest public enterprise in Congo. It has a special corporate governance structure that permits it to operate independently on a commercial basis. The SNPC has also been entrusted with important fiscal agency functions in the oil sector, notably the management of the state's oil assets and the marketing of the state's in-kind oil revenue deriving from the production sharing agreements (PSAs).

3. The SNPC's assets—estimated at about US$1.2 billion at end-2004—largely consist of its participations in oil exploration and development joint ventures with private oil companies, with shares ranging from 15 to 50 percent. Assets are offset by large liabilities including balances in advance accounts; these balances arise from the fact that the SNPC (and its predecessor HydroCongo) did not pay cash for its share in the various joint ventures in which it participates with private oil companies. Instead, the funds are "advanced" to SNPC by its private partners to cover its share of exploration and development costs. Until there is sufficient production, exploration, development and interest costs continue to be debited to the advance accounts. The so called "carried interest" construction, standard practice in the oil industry, is intended to facilitate the participation in oil joint ventures of governments facing liquidity constraints.

4. At its creation in 1998, the SNPC took over eight of such accounts—together with all other assets and liabilities—from the state-oil company it replaced, Hydro-Congo. These accounts are governed by four joint-venture agreements, signed in the early 1970s and late 1980s. The SNPC's advance accounts liabilities totaled US$941 million as of end-2004. The joint venture contracts stipulate that: (i) the advance accounts will be reimbursed from the SNPC's equity oil income once oil production starts, and (ii) reimbursement is bounded to a fraction of the oil income to ensure SNPC obtains a minimum cash flow.

5. Based on the available information IMF and IDA staffs obtained from authorities, advance account balances are not debt because:

- The joint-venture agreements that establish and regulate the advance accounts do not reflect the intention of the parties to establish a creditor/debtor relationship.
- SNPC has no obligation to make any payment to the joint venture participants based solely on the advance accounts. Any payment is fully linked to the existence of oil

revenues and no direct transfer from the government or state-owned enterprise takes place in the absence of oil revenues.[1]

- Advance accounts do not include current liabilities resulting from the provision of assets or services.
- Joint-venture participants keep the right to participate in the proceeds of any sale which would otherwise be paid to SNPC and reduce the advance accounts balances "advanced" on behalf of SNPC.
- The "credit" aspect is not present. Reimbursements are expected to take place immediately after the receipt of sale proceeds.

6. The government has issued a written statement to the staff confirming that the SNPC did not have external debt with maturities exceeding 12 months at end-2004, and had not provided any guarantees on external loans to third parties.

[1] As a general principle of contractual law, parties to legal agreements are presumed to have intended just what their agreements set forth.

DEBT SUSTAINABILITY ANALYSIS USING THE JOINT FRAMEWORK FOR LOW-INCOME COUNTRIES

1. This annex provides an assessment of Congo's debt dynamics based on the forward-looking approach of the debt sustainability framework for low-income countries (henceforth LIC DSA), using both the external and fiscal (including domestic) public debt templates.[1] The baseline macroeconomic scenario used for the analysis is that described in Section III.B.

2. Although the framework used differs from the HIPC framework, the LIC DSA results confirm the assessment using the enhanced HIPC Initiative DSA template (see Section IV.D). That is, in the absence of debt relief, Congo has debt ratios well above the thresholds indicative of a risk of debt distress: most notably an NPV of debt-to-GDP ratio in 2005 well above the 30 percent indicative threshold and a total debt service-to-revenue ratio above 30 percent (Figures 1-2, Tables 1-4). HIPC Debt relief would significantly improve Congo's debt dynamics.

3. External debt dynamics are portrayed in Figure 1. Under the baseline scenario, debt-to-GDP falls below the indicative threshold of 30 percent once the projected completion point is attained and full HIPC debt relief comes on line in 2008. The two debt-to-exports ratios are both comfortably below the thresholds taking into account HIPC debt relief.

4. Standard stress tests indicate some vulnerability of the debt-to-GDP ratio to exogenous and policy shocks.[2] The greatest vulnerabilities relate to lower export growth, lower GDP growth, and depreciation of the euro (to which the CFA franc is tied) against the US dollar. Under the "historical" scenario, which uses ten-year averages for macroeconomic parameters, debt-to-GDP goes below the indicative threshold only in 2017, after peaking in 2011 as oil production declines. Note, however, that such a historical scenario covers a wartime period in the case of Congo when the economy contracted.

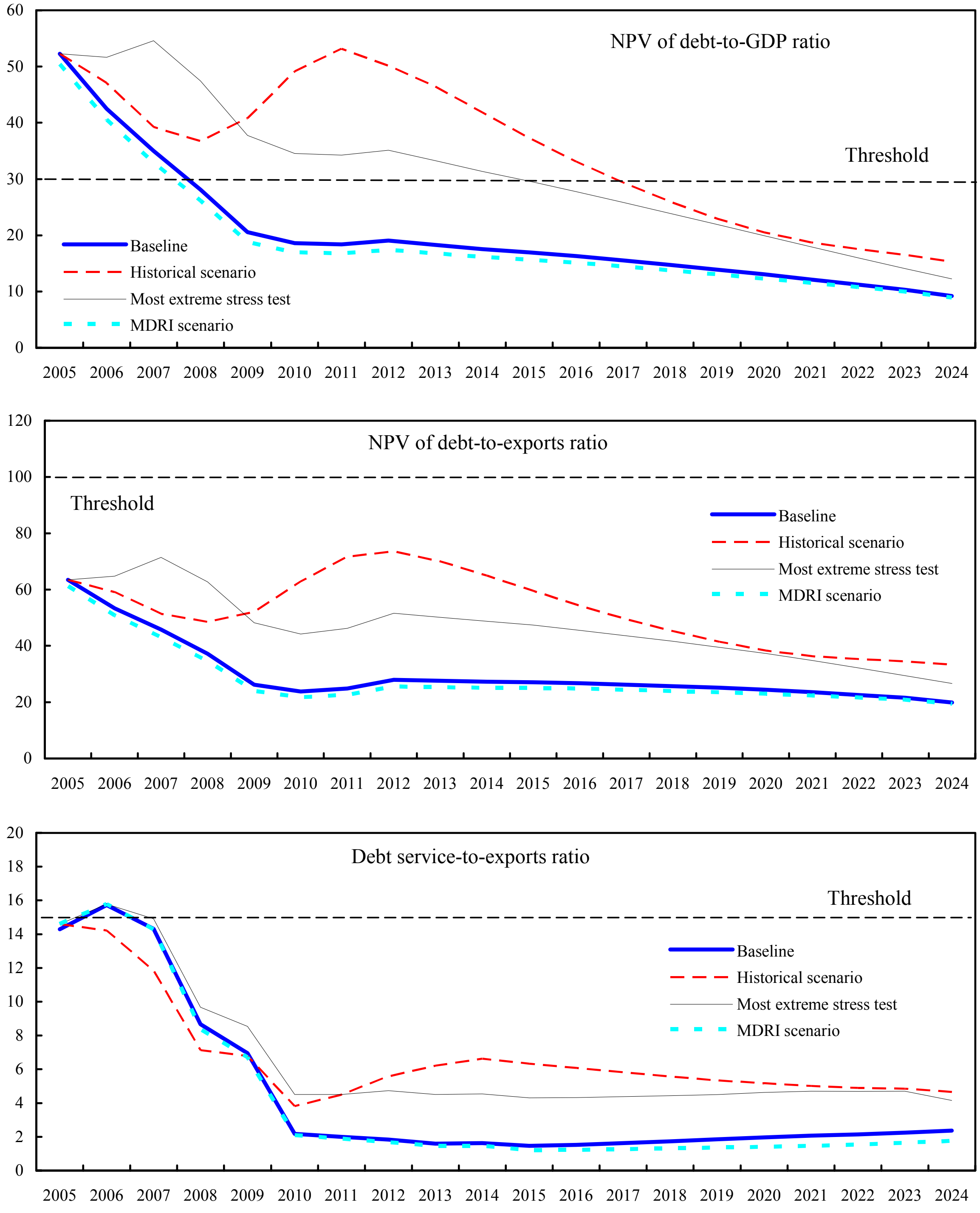
5. Figure 2 portrays debt dynamics including Congolese domestic debt and taking account of projected fiscal deficits. The story is broadly similar. HIPC debt relief brings all three debt ratios (in this case NPV debt to-GDP, NPV debt-to-revenue, debt service-to-revenue) sharply down to sustainable levels. Stress test show that the main sources of vulnerability are fiscal relapse (under a "no reform" historical scenario) and euro depreciation. However, even with these downside risks, the debt service-to-revenue ratio remains at modest levels over the simulation period.

---

[1] See "Interim Guidance on the Preparation of Joint Fund-World Bank Debt Sustainability Assessments for Low-Income Countries," May 17, 2005.

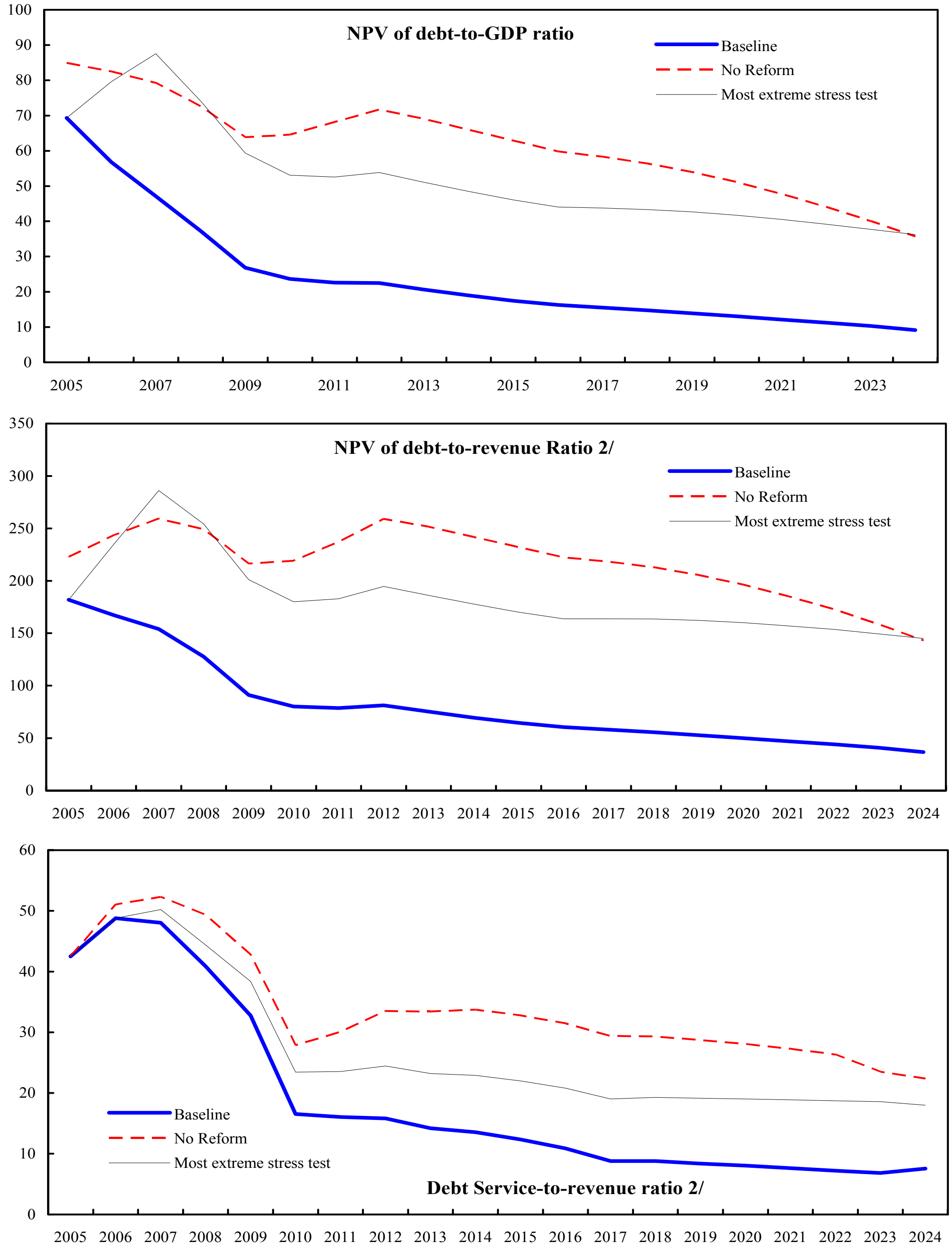
[2] Under the LIC DSA, (i) the "historical scenario" illustrates the dynamics of the Congolese debt under the assumption that key variables (e.g., real GDP growth, current account balance, and foreign direct investment (FDI) inflows) are set at their historical average over the projection period; and (ii) the "most severe" scenario captures the impact on debt of a negative shock to FDI inflows. Under the fiscal DSA, (i) the "most severe" scenario captures the impact of a one time 30 percent currency depreciation, and (ii) the "no reform" scenario illustrates the effects of maintaining the primary fiscal balance at its historical level.

Figure 1. Republic of Congo: Indicators of External Debt Under Alternative Scenarios, 2005-24
(In percent)



Source: Staff projections and simulations.

Figure 2: Republic of Congo: Indicators of Public Debt Under Alternative Scenarios, 2005-24 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2015
2/ Revenue including grants.

Table 1. Republic of Congo: External Debt Sustainability Framework, Baseline Scenario, 2004-24 1/
(In percent of GDP, unless otherwise indicated)

	Actual	Historical	Standard	Estimate	Projections									
		Average 6/	Deviation 6/							2005-10				2011-24
	2004			2005	2006	2007	2008	2009	2010	Average	2015	2020	2024	Average
External debt (nominal) 1/	**119.0**			**81.5**	**70.2**	**50.4**	**42.1**	**32.3**	**29.4**		**25.8**	**19.5**	**14.3**	
o/w public and publicly guaranteed (PPG)	119.0			81.5	70.2	50.4	42.1	32.3	29.4		25.8	19.5	14.3	
Change in external debt	-120.2			-37.5	-11.3	-19.8	-8.3	-9.8	-3.0		-1.2	-1.3	-1.5	
Identified net debt-creating flows	-58.1			-25.9	-19.4	-14.6	-13.5	-21.5	-20.0		-7.0	-7.8	-8.5	
Non-interest current account deficit	**-7.0**	**2.5**	**12.9**	**-8.2**	**-5.1**	**-2.4**	**-0.8**	**-7.8**	**-9.2**		**2.3**	**0.3**	**-1.4**	0.3
Deficit in balance of goods and services	-27.2			-27.5	-23.4	-20.4	-18.0	-22.7	-23.0		-7.5	-6.3	-6.0	
Exports	84.5			82.3	79.6	76.4	75.6	78.4	78.2		62.5	53.5	46.0	
Imports	57.3			54.9	56.2	56.0	57.6	55.7	55.1		55.0	47.2	40.0	
Net current transfers (negative = inflow)	-0.2	-0.4	0.7	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1		-0.1	-0.1	-0.2	-0.1
Other current account flows (negative = net inflow)	20.4			19.4	18.5	18.2	17.3	15.0	13.9		9.9	6.7	4.8	
Net FDI (negative = inflow)	**-12.9**	**-8.8**	**6.3**	**-10.8**	**-11.3**	**-11.8**	**-11.3**	**-10.2**	**-9.7**		**-8.8**	**-7.5**	**-6.6**	-8.2
Endogenous debt dynamics 2/	**-38.1**			**-6.9**	**-3.0**	**-0.4**	**-1.3**	**-3.5**	**-1.1**		**-0.6**	**-0.6**	**-0.5**	
Contribution from nominal interest rate	4.7			2.1	1.0	0.7	1.1	0.8	0.6		0.6	0.4	0.3	
Contribution from real GDP growth	-7.2			-9.0	-3.9	-1.1	-2.5	-4.3	-1.8		-1.2	-1.0	-0.8	
Contribution from price and exchange rate changes	-35.6			…	…	…	…	…	…		…	…	…	
Residual (3-4) 3/	**-62.1**			**-11.6**	**8.0**	**-5.2**	**5.2**	**11.7**	**17.1**		**5.8**	**6.5**	**7.1**	
o/w exceptional financing	-86.2			-4.7	-5.7	-45.5	-6.2	-5.2	-1.1		-1.2	-1.1	-0.8	
NPV of external debt 4/	76.5			52.3	42.5	35.0	28.1	20.5	18.6		16.9	13.0	9.2	
In percent of exports	90.6			63.5	53.3	45.8	37.2	26.2	23.8		27.1	24.4	19.9	
NPV of PPG external debt	**76.5**			**52.3**	**42.5**	**35.0**	**28.1**	**20.5**	**18.6**		**16.9**	**13.0**	**9.2**	
In percent of exports	90.6			63.5	53.3	45.8	37.2	26.2	23.8		27.1	24.4	19.9	
Debt service-to-exports ratio (in percent)	14.4			14.3	15.7	14.3	8.7	7.0	2.2		1.5	2.0	2.4	
PPG debt service-to-exports ratio (in percent)	14.4			14.3	15.7	14.3	8.7	7.0	2.2		1.5	2.0	2.4	
Total gross financing need (billions of U.S. dollars)	-0.3			-0.4	-0.2	-0.2	-0.3	-0.8	-1.2		-0.4	-0.6	-0.9	
Non-interest current account deficit that stabilizes debt ratio	113.1			29.3	6.2	17.4	7.5	1.9	-6.3		3.6	1.6	0.1	
Key macroeconomic assumptions														
Real GDP growth (in percent)	3.7	2.9	2.4	9.4	4.8	1.5	5.2	11.6	5.8	6.4	4.6	5.2	5.5	4.2
GDP deflator in US dollar terms (change in percent)	17.5	7.5	16.6	13.1	-4.9	-4.1	1.3	2.6	0.7	1.4	0.5	0.8	1.1	0.4
Effective interest rate (percent) 5/	2.4	4.4	1.1	2.2	1.2	1.0	2.4	2.2	2.1	1.8	2.2	2.2	2.2	2.2
Growth of exports of G&S (US dollar terms, in percent)	29.8	16.8	24.9	20.5	-3.5	-6.7	5.5	18.7	6.2	6.8	2.1	2.3	2.6	0.8
Growth of imports of G&S (US dollar terms, in percent)	30.0	21.8	53.2	18.4	2.2	-3.1	9.7	10.7	5.4	7.2	3.2	2.1	2.7	2.2
Grant element of new public sector borrowing (in percent)	...	...	...	49.3	47.6	46.1	46.8	48.0	48.0	47.6	39.5	46.7	45.3	43.4
Memorandym item:														
Nominal GDP (billions of US dollars)	4.3			5.4	5.4	5.2	5.6	6.4	6.8		7.5	9.9	12.7	

Source: Staff simulations.

1/ Includes both public and private sector external debt.
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 (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Republic of Congo: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-24
(In percent)

	Estimate	Projections					
	2005	2006	2007	2010	**2015**	2020	2024
NPV of debt-to-GDP ratio							
Baseline	52	42	35	19	**17**	13	9
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2006-25 1/	52	47	39	49	**37**	20	15
A2. New public sector loans on less favorable terms in 2006-25 2/	52	42	35	19	**17**	14	10
A3. MDRI scenario	50	41	33	17	**16**	12	9
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	52	44	37	20	**18**	14	10
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	52	46	44	26	**23**	16	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	52	44	39	21	**19**	14	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	52	52	55	35	**30**	20	12
B5. Combination of B1-B4 using one-half standard deviation shocks	52	36	12	0	**2**	5	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	52	62	51	27	**25**	19	13
NPV of debt-to-exports ratio							
Baseline	63	53	46	24	**27**	24	20
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2006-25 1/	63	59	51	63	**60**	38	33
A2. New public sector loans on less favorable terms in 2006-25 2/	63	53	46	24	**28**	26	22
A3. MDRI scenario	61	51	43	22	**25**	23	19
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	63	53	46	24	**27**	24	20
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	63	61	61	35	**39**	32	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	63	53	46	24	**27**	24	20
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	63	65	71	44	**47**	37	27
B5. Combination of B1-B4 using one-half standard deviation shocks	63	42	13	0	**3**	7	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	63	53	46	24	**27**	24	20
Debt service ratio							
Baseline	14	16	14	2	**1**	2	2
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2006-25 1/	15	14	12	4	**6**	5	5
A2. New public sector loans on less favorable terms in 2006-25 2/	15	16	14	2	**1**	2	3
A3. MDRI scenario	15	16	14	2	**1**	1	2
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	15	16	14	2	**1**	2	2
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	15	17	16	3	**3**	3	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	15	16	14	2	**1**	2	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	15	16	15	5	**4**	5	4
B5. Combination of B1-B4 using one-half standard deviation shocks	15	15	11	0	**-2**	-1	0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	15	16	14	2	**1**	2	2
Memorandum item:							
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	0	0	0	0	**0**	0	0

Source: Staff projections and simulations.

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

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming
an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Republic of Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-24.

(In percent of GDP, unless otherwise indicated)

	Actual			Estimate				Projections				
	2004	Historical Average 5/	Standard Deviation 5/	2005	2006	2007	2010	2005-10 Average	2015	2020	2024	2011-24 Average
Public sector debt 1/	144.6			98.5	87.1	39.5	24.5		18.0	11.8	6.9	
o/w foreign-currency denominated	119.0			81.5	72.8	27.4	19.5		17.5	11.8	6.9	
Change in public sector debt	-125.5			-46.1	-11.5	-47.6	0.3		-1.8	-1.1	-1.4	
Identified debt-creating flows	-136.3			-46.1	-15.5	-48.6	-7.3		-1.6	-2.2	-1.0	
Primary deficit	-9.5	-4.2	4.5	-18.8	-12.6	-7.6	-7.7	-10.2	-1.6	-0.7	0.0	-1.5
Revenue and grants	32.5			38.1	33.9	30.6	29.5		27.1	26.0	25.0	
of which : grants	0.3			0.4	0.6	0.6	0.5		0.6	0.6	0.6	
Primary (noninterest) expenditure	23.0			19.3	21.3	23.0	21.8		25.4	25.3	25.0	
Automatic debt dynamics	-40.6			-22.6	2.8	4.5	1.5		1.2	-0.3	-0.2	
Contribution from interest rate/growth differential	-11.5			-12.3	-2.8	-0.1	1.3		1.0	-0.4	-0.3	
of which : contribution from average real interest rate	-2.1			-0.2	1.7	1.2	2.6		1.8	0.2	0.2	
of which : contribution from real GDP growth	-9.4			-12.1	-4.5	-1.3	-1.3		-0.9	-0.6	-0.4	
Contribution from real exchange rate depreciation	-29.2			-10.3	5.6	4.6	0.2		...	...	...	
Other identified debt-creating flows	-86.2			-4.7	-5.7	-45.5	-1.1		-1.2	-1.1	-0.8	
Privatization receipts (negative)	0.0			0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Debt relief (HIPC and other)	-86.2			-4.7	-5.7	-45.5	-1.1		-1.2	-1.1	-0.8	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Residual, including asset changes	10.8			0.0	4.1	1.0	7.6		-0.2	1.0	-0.4	
NPV of public sector debt	102.1			69.3	56.8	47.1	23.7		17.5	13.0	9.2	
o/w foreign-currency denominated	76.5			52.3	42.5	35.0	18.6		16.9	13.0	9.2	
o/w external	76.5			52.3	42.5	35.0	18.6		16.9	13.0	9.2	
NPV of contingent liabilities (not included in public sector debt)	0.0			0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Gross financing need 2/	-1.6			-2.6	4.0	7.1	-2.8		1.7	1.4	1.9	
NPV of public sector debt-to-revenue ratio (in percent) 3/	314.2			181.9	167.5	154.0	80.2		64.6	50.1	36.7	
o/w external	235.5			137.2	125.3	114.4	63.1		62.6	50.1	36.7	
Debt service-to-revenue ratio (in percent) 3/ 4/	24.2			42.5	48.8	48.1	16.5		12.3	8.0	7.5	
Primary deficit that stabilizes the debt-to-GDP ratio	116.0			27.3	-1.1	40.0	-8.0		0.2	0.4	1.5	
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	3.6	2.9	2.9	9.2	4.8	1.5	5.8	6.3	4.5	5.1	5.5	-2.8
Average nominal interest rate on forex debt (in percent)	2.2	4.4	1.4	2.2	1.3	0.9	4.1	2.8	3.3	3.6	4.0	3.5
Average real interest rate on domestic currency debt (in percent)	-3.5	-2.3	17.1	0.6	13.9	14.1	37.3	20.3	118.5	...	...	105.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-12.7	-3.0	16.5	-9.5	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.9	7.3	19.7	7.2	-4.8	-4.2	0.7	0.5	0.6	0.9	1.2	0.4
Growth of real primary spending (deflated by GDP deflator, in percent)	1.2	4.7	24.1	-8.5	15.8	9.2	6.1	5.5	4.3	4.8	5.2	4.8
Grant element of new external borrowing (in percent)	0.0	0.0	0.0	52.8	51.7	47.4	45.4	48.8	43.0	41.5	41.4	...

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

1/ Central government net debt.

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

3/ Revenues including grants.

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

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

Table 4. Republic of Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2005-24

	Estimate	Projections					
	2005	2006	2007	2010	2015	2020	2024
NPV of debt-to-GDP ratio							
Baseline	69	57	47	24	17	13	9
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	69	66	60	51	41	29	13
A2. Primary balance is unchanged from 2004	85	83	79	65	63	51	36
A3. Permanently lower GDP growth 1/	69	57	48	27	29	41	50
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	69	61	54	34	37	45	48
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	69	70	69	43	40	39	36
B3. Combination of B1-B2 using one half standard deviation shocks	69	70	66	41	37	37	34
B4. One-time 30 percent real depreciation in 2006	69	80	88	53	46	42	36
B5. 10 percent of GDP increase in other debt-creating flows in 2006	69	67	58	33	29	28	26
NPV of debt-to-revenue ratio 2/							
Baseline	182	167	154	80	65	50	37
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	182	196	196	174	151	111	52
A2. Primary balance is unchanged from 2004	223	243	259	219	232	196	143
A3. Permanently lower GDP growth 1/	182	169	158	92	107	156	198
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	182	180	176	114	137	172	190
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	182	205	225	146	147	151	144
B3. Combination of B1-B2 using one half standard deviation shocks	182	205	217	139	138	142	136
B4. One-time 30 percent real depreciation in 2006	182	235	286	180	170	160	145
B5. 10 percent of GDP increase in other debt-creating flows in 2006	182	197	189	113	106	109	103
Debt service-to-revenue ratio 2/							
Baseline	42	49	48	17	12	8	8
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	42	50	50	24	25	18	13
A2. Primary balance is unchanged from 2004	42	51	52	28	33	28	22
A3. Permanently lower GDP growth 1/	42	49	49	17	16	16	20
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	42	51	51	19	19	19	21
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	42	49	50	23	22	19	18
B3. Combination of B1-B2 using one half standard deviation shocks	42	50	51	23	21	18	17
B4. One-time 30 percent real depreciation in 2006	42	49	49	18	14	10	10
B5. 10 percent of GDP increase in other debt-creating flows in 2006	42	49	50	20	17	14	12

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.